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the next solution

13 August 2015

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

By email: standard@aasb.gov.au

Dear Ms Peach,

Submission on Exposure Draft ED 260 *Income of Not-for-Profit Entities*

We welcome the opportunity to provide the Australian Accounting Standards Board with our comments on the Board's Exposure Draft (ED) 260 *Income of Not-for-Profit Entities*.

Nexia Australia represents the Nexia network firms in Australia and New Zealand comprising independent Chartered Accountancy firms located in Sydney, Melbourne, Canberra, Adelaide, Perth, Auckland and Christchurch with 75 partners and 600 staff.

Nexia Australia firms service clients from small to medium enterprises, large private company groups, not-for-profit entities and publicly listed entities and includes market leaders in many sectors of business.

All firms are members of Nexia International, a global accounting and consulting network ranking 10th in size by annual turnover and employing over 20,000 people in over 100 countries.

Our detailed comments on the Board's proposals are included in the attached Appendix.

Should you wish to discuss any aspects of our submission, please contact me at molde@nexiaaustralia.com.au or phone (02) 9251 4600.

Sincerely

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Appendix

AASB Request for Specific Comments

1 *In relation to the AASB's proposal to replace the reciprocal / non-reciprocal transfer distinction in AASB 1004 with income recognition requirements based on whether a not-for-profit entity needs to satisfy a performance obligation:*

   (a) *do you agree that this proposal would provide a faithful depiction of a not-for-profit entity's financial performance?*

   (b) *if not, what alternative approach to income recognition would you recommend for not-for-profit entities? Please provide your reasons.*

Subject to our comments noted in the following sections, we agree with the proposal to replace the concept of reciprocal / non-reciprocal transfers in AASB 1004 with income recognition requirements based on the identification and satisfaction of a performance obligation. However, there are likely to be significant practical implementation issues arising from applying a strict performance obligation approach. Given the expected deferral of AASB 15, we encourage the Board undertake further research and outreach activities to ensure that the final proposed standard is practical and meets the needs of users.

We are disappointed that the Board did not use the opportunity in ED 260 to more fully canvass the option of applying the approach described in AASB 120 to capital grants and other donations and gifts for capital purposes. We are not convinced that compelling reasons exist for for-profit entities and not-for-profit entities to account for capital grants within the scope of AASB 120 differently.

2 *In relation to the AASB's proposal that, to qualify as a performance obligation, a not-for-profit entity's promise to transfer a good or service to a counterparty in a contract must be 'sufficiently specific' to be able to determine when the obligation is satisfied (see paragraph IG13 of Part A):*

   (a) *do you agree with this proposal?*

   (b) *if not, what factors or criteria should apply to determine whether a not-for-entity has a performance obligation? Please provide your reasons.*

The major concern expressed by our NFP clients with AASB 1004 relates to distortions in their financial performance because of the timing of the receipt of conditional grants and gifts. Depending on the timing of receipt of grant funds, an entity may report a substantial operating profit in one financial year and a substantial operating loss in the following financial year. Respondents are concerned that this misalignment between the recognition of revenue and the associated expenses to which it relates does not faithfully depict, and may potentially misrepresent, the entity's financial performance.

In the absence of the Board further exploring the approach described in AASB 120, and subject to the comments below, we agree that aligning the recognition of revenue with the satisfaction of the entity's performance obligations, if any, more faithfully represents the not-for-profit entity's financial performance. The following comments and suggestions are made in that context.

We agree with the proposal that a promise to a counterparty in a contract should be 'sufficiently specific' to be able to determine when the obligation is satisfied.

Identification of performance obligations

i) We are concerned that the guidance in IG13 and IG 14 of Part A is too vague to be consistently applied in practice. We suggest that additional guidance is needed relating to the assessment of 'sufficiently specific' performance obligations contained in paragraph IG13. For example, it is unclear:

a) Whether a constructive obligation as defined in paragraph 10 of AASB 137 in which the entity has a present obligation as a result of a past event satisfies the conditions for a performance obligation. That is;

- Whether an agreement with a counterparty to use funds for a specific purpose and where the entity has a past practice, established policies or a sufficiently specific current statement, that it will accept certain responsibilities (regardless of whether a refund obligation exists) would represent a performance obligation under AASB 15, and/or
- is the existence of a constructive obligation meeting the conditions in AASB 137 sufficient to satisfy a 'liability' in paragraphs 10 and 12(a) of AASB 10XX?

b) How a stated policy or commitment to provide certain goods or services is differentiated from a 'statement of intent' described in IG7(b).

> Example 1 : Constructive obligations
>
> A charity launches an appeal to raise funds through fund raising activities, donations and gifts to be specifically used to bore wells in remote African villages. The arrangement is not considered to satisfy the conditions of a contract with a customer within the scope of AASB 15 because the satisfaction of its performance obligations is not legally enforceable through legal or equivalent means and the entity has no refund obligation.
>
> The entity considers that it satisfies the definition of a constructive obligation in paragraph 10 of AASB 137 to use the funds in accordance with its stated objectives and policies because it has:
>
> (a) by an established pattern of past practice and published policies on previous appeals and a sufficiently specific current statement, indicating to other parties that it will accept certain responsibilities; and
>
> (b) as a result, the entity has created a valid expectation on the part of those donors that it will discharge those responsibilities.
>
> The entity considers that the past event giving rise to the obligation is the receipt of the funds; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation.
>
> Consequently, as a result of the application of paragraphs 10(a) and 12(a)(iii) of [draft] AASB 10XX, the entity considers that income will be initially deferred and will only be recognised as and when those future activities occur.

Many arrangements could give rise to constructive obligations, especially in relation to single purpose charities and those undertaking fundraising appeals for a stated specific purpose. We suggest that the Board clarify when, or if, a constructive obligation should be considered in applying paragraphs 10(a) and 12(a)(iii) of [draft] AASB 10XX.

ii) For not-for-profit (NFP) entities, it may be difficult to identify a specific 'good or service' that is to transferred to a counterparty and, in many cases, determine when that obligation is satisfied. For example, a gift to a medical institution to fund research into a cure for a disease.

We therefore suggest that the not-for-profit guidance provide that the identification and satisfaction of performance obligations may be activities driven (ie, the entity has satisfied its performance obligations as the activities are performed), rather than outcomes driven (ie, delivery or transfer of a promised good or service).

Enforceability

We are concerned that the requirement regarding enforceability in IG4-IG6 sets too high a threshold. IG6 states that enforceability is assessed disregarding the history of enforcement or even the intention of the customer to enforce its rights.

We concede that assessing a customer's intention to make a donation or to enforce its rights may be difficult in some circumstances. Nevertheless, the recognition criteria of an asset in paragraph 89 of the *Framework*, and the recognition criteria of a provision in paragraph 14 of AASB 137, requires an entity to consider whether it is probable that an inflow (outflow) of resources embodying future economic benefits will occur. Given that entities presently need to consider the probability of an outflow in order to recognise a liability (refer AASB 137.23) it is not unreasonable for not-for-profit entities to apply a similar criteria to assess whether a customer will enforce their rights.

For example, some gifts and bequests contain characteristics of a Deed or are otherwise legally enforceable, such as testamentary trusts. The recipient may consider that these arrangements are legally enforceable and would satisfy the criteria in IG4 – IG6. However, the donor may either not have an intention to enforce its rights or, over time in the case of some long term testamentary arrangements, there may not be an identifiable party to enforce those rights.

Consequently, we suggest that the approach described in paragraph 22 of ED 180, which is identical to paragraph 21 of IPSAS 23 *Income from Non-exchange Transactions (Taxes and Transfers)* be applied in assessing enforceability.

Adopting the IPSAS 23 approach to enforceability, we propose that:

- in determining whether an agreement is enforceable, the entity considers whether it would be enforced by the transferor;
- If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits when breaches have occurred, then the recipient may conclude that the agreement has the form but not the substance of enforceability;
- If the entity has no experience with the transferor, or has not previously breached stipulations that would prompt the transferor to decide whether to enforce a return of the asset or other future economic benefits, and it has no evidence to the contrary, it would assume that the arrangement is enforceable.

Furthermore, for some forms of agreements between not-for-profit entities and donors it is not clearly apparent whether those documents detailing the use of gifts are legally enforceable. We are concerned that a case-by-case assessment of the legal status of such documents would represent a substantial burden to many entities. Whether or not those arrangements are *legally* enforceable, many not-for-profit entities would consider they have a constructive obligation to comply with the intended purpose of the gift, or at least have a moral obligation to do so.

Finally, some stakeholders have suggested that the phrase "or equivalent means" referred to in IG4 – IG7 of Appendix E requires clarification. BC 22 includes an example of a Ministerial directive. However in most cases the relevant Minister has a legal right under the relevant legislation to direct the activities of a public sector entity. We suggest that it would assist preparers if the Board clarified the circumstances under which rights were enforced by 'equivalent means' as some have interpreted this to include constructive obligations.

The following scenarios are based on actual arrangements and illustrate the practical difficulties that may arise from the application of the current proposals in ED 260:

Example 2A: Perpetual endowment

A donor grants a research institution $10 million. The donation is paid to the recipient and banked in the recipient's bank account. The research institution has DGR status and donor receives a tax deduction for the gift. The donor and recipient sign a Deed which sets out the conditions of the endowment, which includes:

- The recipient agreeing to invest the gift on a perpetually endowed basis and set aside the income earned to fund research into a specific form of cancer;
- The Deed sets out other conditions relating to the endowment, including:
  - The establishment of an advisory committee to oversee the planned activities and to report annually on those activities and plans for the forthcoming year;
  - The research activities will be conducted by the recipient on its premises and using its own resources;
  - The income from the endowment will be used to support the salary, research, fellowships and other activities approved by the institution that are consistent with the research objectives.
- The Deed is silent on both any refund obligation and consequences arising from the recipient failing to use the endowment or income derived thereon as stipulated.

It is considered that failure to comply with the gift conditions would adversely affect the recipient's ability to obtain significant gifts from future donors.

Example 2B: Perpetual endowment

Assume the same facts as Example 1A, except that the Deed specifies that:

- If at any time the research institution determines that it is impossible or inexpedient to carry out, in whole, or in part, the Purpose of the Gift; or
- The Purpose of the Gift no longer provides a suitable or effective method of using the Gift, then the research institution may apply any unexpended Gift for such purpose as the institution determines most closely accord with the purpose of the Gift.

Example 2C: Perpetual endowment

Assume the same facts as Example 1A, except that:

- The principal sum of $10 million is placed in trust with the Public Trustee rather than under the direct control of the research institution with funds to be disbursed to the research institution in accordance with the conditions stated in the Example 1A.
- The research institution is the sole beneficiary of the trust.

If we accept that:

i) the Deed between the donor and recipient gives rise to enforceable rights and obligations (including the right to enforce specific performance (refer IG4(a) of Part A); and

ii) the conditions attaching to the gift represent sufficiently specific performance obligations on the recipient (ie, the conditions in IG 13 of Part A are met),

then possible interpretations of the proposals in ED 260 could result in the principal sum of $10 million **not** being recognised as revenue:

a) at inception, because the satisfaction of those performance obligations do not occur at that point in time; or

b) over time, because there is no identifiable time period over which the satisfaction of those performance obligations are satisfied (refer AASB 15.39-.45) and neither input or output measures discussed in AASB 15.B14-B19 provide sufficient guidance in this circumstance.

Furthermore, a possible interpretation could be that the recipient never recognises the corpus of $10 million as income, but may only recognises the annual interest received and the costs associated with the delivery of the research activities.

Under this view, neither the donor nor recipient would recognise the principal sum. An argument could be made that the recipient has received a financial asset, being a contractual right to receive cash under AASB 139/AASB 9, rather than actual cash. However, this does not resolve the issue that the recipient could be required to recognise a contract liability in perpetuity which, in our view, does not faithfully depict the substance of the arrangement.

A potential solution may be to acknowledge that perpetual endowments are unique arrangements. Given that enforceability is unlikely ever to be perpetual, we suggest that the receipt of a perpetual endowment for which the entity has no specific refund obligation is, in substance, income that is recognised when the entity obtains control of the asset (consistent with the approach in [draft] AASB 10XX).

Refund obligations

Illustrative Examples 1, 3 and 5 of Appendix E of the Exposure Draft contains scenarios where funds received by a charity are refundable if certain conditions are not met. In those examples, the existence of performance obligations to be accounted for in accordance with AASB 15 appears to be linked to the existence of refund obligations. However, as discussed elsewhere in our submission, we believe that it is possible for performance obligations to exist irrespective of the existence of refund obligations.

As illustrated in Illustrative Example 5B, if a donation or grant agreement contains specified outcomes or activities that the entity has to perform, those activities or outcomes represent performance obligations, even if the entity has, in good faith, been unable to perform them. Applying the approach to the scenarios described in Illustrative Example 1 and Illustrative Example 5B would result in those transactions representing contracts with a customer and accounted for under AASB 15, irrespective of a refund obligation, which would be our preferred interpretation.

Alternative approach

In an attempt to address the above concerns, we propose the following alternatives for the Board's further consideration:

Current accounting literature

AASB 15 defines a performance obligation as "a promise in a contract with a customer to transfer to the customer either:

a) a good or service (or a bundle of goods or services) that is distinct; or

b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer." (AASB 15, Appendix A)

Paragraph 24 of AASB 15 states, "a contract with a customer generally explicitly states the goods or services that an entity promises to transfer to a customer. However, the performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract. This is because a contract with a customer may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer."

Paragraph 26 states, in part, "depending on the contract, promised goods or services may include, but are not limited to, the following:

(a) ....

(d) performing a contractually agreed-upon task (or tasks) for a customer;

(e) providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides;

(f) providing a service of arranging for another party to transfer goods or services to a customer (for example, acting as an agent of another party,

(g) ...."

Furthermore, in the case of non-refundable upfront fees, B48-B51 of AASB 15 requires that an entity "assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer (see paragraph 25). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognised as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial contractual period if the entity grants the customer the option to renew the contract and that option provides the customer with a material right as described in paragraph B40." (emphases added)

Application of proposed alternatives

Consequently, we believe that a case could be made, consistent with the above principles presently existing in AASB 15, for the following proposed alternatives:

	Characteristics
Identification of performance obligations	▪ An identifiable ***promise*** to transfer goods or services. Promises could be implicit, or by way of customary business practices, published policies or specific statement (whether legal or ***constructive***)
Enforceability	Determined by reference to: ▪ The existence of refund obligation or a severe penalty for non-performance; ▪ Subject to the entity's assessment of whether the agreement will be enforced (as set out in paragraph 21 of IPSAS 23).

Expanding the interpretation of performance obligations in this manner could have the following effects:

Revenue type	Outcome
Gifts and bequests - no identifiable performance obligations	Recognised as revenue on control of the asset (consistent with [draft] AASB 10XX).
Gifts and bequests - Performance obligation(s) satisfied at a point in time	Recognised as revenue at the point in time the performance obligation is satisfied.
Gifts and bequests - Performance obligation(s) satisfied at over time	Recognised as revenue over the time to which the performance obligations are satisfied.
Gifts and bequests - Performance obligation(s) identified but the time over which they are satisfied is indefinite or not readily determinable by reference to input or output measures (eg, perpetual endowments)	Recognised as revenue on control of the asset.
Gifts and bequests - Capital (asset construction or acquisition)	Recognised as construction (or acquisition) of the asset to which the grant relates (subject to further discussion in section 8.1 of this submission).

Grants - Capital (asset construction or acquisition)	Recognised as construction (or acquisition) of the asset to which the grant relates (subject to further discussion in section 8.1 of this submission).
Grants – Provision of services (performance obligations satisfied over time)	Recognised as revenue over the time to which the performance obligations are satisfied.

Applying the above:

1. The substance of the arrangement rather than its legal form is the key determinate of whether a performance obligation exists.
2. It is not necessary to identify a 'customer' that has enforceable rights.

   This is often an issue for bequests where the donor has no identifiable next of kin and would overcome perceived difficulties in applying IG4-IG6 of Part A of the ED which requires an assessment of enforceability (through legal or equivalent means) even if there is no history or intention to enforce (and presumably, even if the entity could not identify a party that *could* enforce those rights).
3. Performance obligations would include a promise, including constructive obligations, to deliver goods or services.

   Performance obligations would be assessed by reference to the entity's obligation to undertake specified activities or deliver identifiable goods or services. An entity that is obliged, legally or constructively, to undertake identifiable activities, not just deliver outcomes, would not recognise revenue until such activities occurred. Revenue would then be recognised consistent with paragraph 31 of AASB 15.
4. In identifying performance obligations, or whether another liability exists, an entity would apply the IPSAS 23 approach to enforceability. That is, the entity considers whether it would be enforced by the transferor. This is similar to the 'probability of outflow' approach to recognising a provision under AASB 137.
5. Subject to point 4, above, the existence of a refund obligation would be conclusive of the existence of a performance obligation. However, a lack of a refund obligation would not be conclusive that a performance obligation did not exist.
6. Applying a substance over form approach, gifts or bequests that have an indefinite or indeterminable time period over which the entity is to satisfy performance obligations in the contract, eg, perpetual endowments, are recognised as income when the entity obtains control of the asset.

   The substance of the arrangement needs to be assessed where the perpetual endowment is controlled:
   a) directly by the entity, or
   b) by a third party trustee, but the terms of the endowment provides that the entity is the sole beneficiary of the income or the corpus of the endowment.

Accepting that the lack of a refund obligation is not, of itself, sufficient to determine that a performance obligation does not exist, we would then agree with the conclusions in Illustrative Examples 1 and 5A and 5B.

3 Do you agree with the proposal in paragraphs IG19-IG30 of Part A that a not-for-profit entity would recognise a donation component in a contract with a customer as immediate income only if:

(a) a qualitative assessment of available evidence indicates that the customer intended to make a donation to the not-for-profit entity; and

(b) the donation component is separately identifiable from the goods or services promised in the contract?

We are concerned that the requirement to identify donation components in a contract may impose a significant burden on some NFPs in time, cost and effort, without a clear understanding of whether the benefits outweigh those costs.

We are also concerned that a NFP entity may find it difficult to determine and document a customer's "intention" to make a donation as described in IG21 and IG22 of Part A.

We agree with the presumption referred to in paragraph 28 of [draft] AASB 10XX that the consideration paid in a contract represents fair value.

Rather than reference to customer intent, we suggest that a donation component is presumed not to exist within a contract (that is, the fair value of the acquired asset equals the transaction price) unless the fair value of the acquired asset:

i) can be readily determined by reference to an active market or an observable market for the same or similar asset;

ii) can be measured reliably; and

iii) the difference between the fair value assessed above and the transaction price is material (where the assessment of whether the difference is material is made on the same basis as that described in paragraph 31 of Part B, ie, an individual transaction basis).

4 In relation to the AASB's proposals to:

(a) whether the requirements (if any) for the recognition of volunteer services should be the same for all not-for-profit entities, regardless of whether they operate in the public or private sector; and

(b) if your answer to (a) is 'yes', whether the recognition of volunteer services should be:

(i) optional, provided that the fair value of those services can be measured reliably; or

(ii) required if those services would also have been purchased if they had not been donated.

Although we are aware of legislative requirements requiring some not-for-profit public sector entities to recognise volunteer services, we see no conceptual reason why the requirements relating to volunteer services should not be consistently applied to all not-for-profit entities.

Such a sector neutral approach by the Board would not prevent individual state sectors mandating the selection of certain accounting policies in order to achieve consistent accounting policies at the total state sector. For example, NSW Treasury mandates certain accounting policy choices to be applied in the preparation of the financial statements of NSW public sector entities.

In our opinion, the recognition of volunteer services should be optional for all entities, provided that the fair value of those services can be measured reliably.

5 Do you agree with the proposal in paragraph 38 [sic] of [draft] AASB 10XX that, when inventories are donated to a not-for-profit entity other than as part of a contract with a customer, assessments of whether the donations are material should be made on an individual transaction basis without reassessment at a portfolio or other aggregate level?

Due to the nature of goods commonly donated to a not for profit entity for resale (that is, second hand goods and clothing donated to charity shops for resale to the public) the cost and effort required to measure fair value of those goods on receipt (and subsequent impairment testing) would outweigh the benefits of doing so.

We agree with the proposal in paragraph 31 of [draft] AASB 10XX that materiality should be assessed for the initial measurement of inventories donated to a not-for-profit entity on an individual transaction basis without reassessment at a portfolio or other aggregate level.

6 Australian Accounting Standards applicable to for-profit entities do not include a definition of 'contributions by owners'. Further, concerns have been expressed by some that the definition of 'contributions by owners' in AASB 1004 is too narrow. Do you consider that a definition of 'contributions by owners' is still necessary, or appropriate, in Australian Accounting Standards? If so, would you prefer using:

(a) the definition of 'contributions by owners' presently in AASB 1004; or

(b) the definition of 'ownership contributions' in the Public Sector Conceptual Framework issued by the International Public Sector Accounting Standards Board (IPSASB)?

We believe that the inclusion of a definition of contributions by owners within Australian Accounting Standards is still relevant and appropriate.

We prefer the definition of ownership contributions as contained in International Public Sector Accounting Standards Board's Public Sector Conceptual Framework. This is because we believe the definition of contributions by owners in AASB 1004 is too restrictive in so far as it requires the ownership interest to "convey entitlements to both distributions of future economic benefits by the entity during its life", and which "can be sold, transferred or redeemed".

Many not-for-profit entities are incorporated as companies limited by guarantee, associations or other bodied with no share capital or equity rights that can be "sold or transferred or entitle a member to distributions".

Some stakeholders have suggested therefore, that the AASB 1004 definition, if read narrowly, could result in no member transactions being recognised as a contribution of owners.

7 Do you agree with the proposed transitional provisions in Appendix C of [draft] AASB 10XX? In particular:

(a) do you agree with the transitional provisions for non-financial assets and finance lease assets and liabilities, the cost of which was not measured at fair value on initial recognition; and

(b) do any other issues warrant additional transitional provisions and, if so, which transitional provisions do you suggest?

We disagree with the lack of proposed transition relief contained in Appendix C of [draft] AASB 10XX.

In many cases it will be impractical to establish the fair value of assets donated or granted to the entity many years before.

Therefore, we suggest that the transitional provisions contain the option of measuring those assets either:

a) Retrospectively, as described in paragraph C2 of Appendix C of [draft] AASB 10XX; or

b) Using the previous carrying value of that asset as its 'deemed cost', in a manner referred to in paragraphs D5-D8B and D14-D15, and B20 of AASB 1 First-time Adoption of Australian Accounting Standards.

8 Other comments

8.1 AASB 120 Accounting for Government Grants and Disclosure of Government Assistance

We note that IAS 20 is not intended to be withdrawn upon the introduction of IFRS 15 and, so, for-profit entities will be required by apply AASB 15 and AASB 120, as appropriate. We believe that not-for-profit entities should have the option to present capital grants in the same manner as for-profit entities in so far as those entities have an accounting policy choice referred to in paragraph 24 of AASB 120.

We disagree with the Board's rationale to exclude not-for-profit entities from the scope of AASB 120, because "application of the recognition and presentation requirements in that Standard could result in an entity's assets being materially understated". If the Board is concerned that application of AASB 120 does not faithfully depict an entity's financial position, then it should withdraw AASB 120 for use by for-profit entities. If the Board's overriding principal is to ensure consistency with IFRS, then we do not believe that not-for-profit entities should be prohibited for adopting AASB 120. That is, in the absence of compelling reasons otherwise, we support sector neutrality in accounting standards.

We also suggest that the requirement in paragraph 12 of AASB 120, namely:

> "Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate",

could be used as the basis to recognise revenue of not-for-profit entities. This would overcome many of the practical implementation issues identified during the AASB Roundtables regarding identifying performance obligations.

The Board's concerns regarding the scope of AASB 120 could be addressed by continuing to apply AASB 120 for government grants and government assistance, and [draft] AASB 10XX for other taxes and other forms of transfers.

8.2 Retention of interest earned on funds received

Illustrative Example 3 of Appendix E of the Exposure Draft contains three scenarios where a charity receives a government grant of $2million, which is refundable to the extent that the grant money is expended outside a specified period.

The outcomes of those three scenarios appear to be dependent upon whether the charity is entitled to retain any interest earned on the unexpended grant money. An entity's entitlement to interest does not appear to be discussed within the body of the draft standard and it is unclear why this is viewed as a key determinant of the accounting treatment of the grant.

Depending on the specific terms of the grant, any interest earned by the entity on unexpended funds may be either:

a) Used by the entity without restriction or reference to the purpose of the grant; or

b) Added to, or form part of the corpus of the grant to be used for the intended purpose of the grant; or

c) A combination of (a) and (b).

We suggest that whether or not the recipient is entitled to retain interest on unexpended funds should not be the determinant of whether the entity has control over the grant itself or the accounting for that grant. Consequently, we suggest that Illustrative Examples 3 be amended and clarified.

8.3 Application date

We believe that the application date of the proposals in ED 260 should be deferred until reporting periods beginning on or after 1 January 2018, for consistency with the proposed deferral of AASB 15.

We believe that early adoption should be permitted.