Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Post-Implementation Reviews**	**Meeting:**	M203
Topic:	**Income of Not-For-Profit Entities**	**Agenda Item:**	8.1
		Date:	21 May 2024
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Objective of this paper

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

(a) **consider** staff recommendations in response to feedback received on Invitation to Comment 50 *Post-implementation Review – Income of Not-for-Profit Entities* (ITC 50); and

(b) **decide** on the next steps.

Structure of this paper

2 This paper is structured as follows:

(a) Background and reasons for bringing this paper to the Board (paragraphs 3 to 4);

(b) Summary of staff recommendations (paragraphs 5 to 7);

(c) Next step(s) (paragraph 8);

(d) Summary of Board considerations, staff analyses and recommendations:

- Topic 1: Sufficiently specific criterion and the legal interpretation of agreements (paragraphs 10 to 12);
- Topic 2: Capital grants (paragraphs 13 to 14);
- Topic 3: Difference between management accounts and statutory accounts and alternative revenue recognition models (paragraphs 15 to 16);
- Topic 4: Principal v agent, including the appropriate recognition of financial liabilities (paragraphs 17 to 18);
- Topic 5: Grants received in arrears (paragraphs 19 to 20);

- Topic 6: Termination for convenience clauses (paragraphs 21 to 22);
- Topic 7: Accounting for research grants (paragraphs 23 to 24);
- Topic 8: Statutory receivables (paragraphs 25 to 26); and
- AASB General Matters for Comment (paragraphs 27 to 28).

Background and reasons for bringing this paper to the Board

3 The Board considered and deliberated on stakeholders' feedback, staff analysis and preliminary recommendations on the topics covered in ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities* (ITC 50) during the preceding meetings:

(a) October 2023 meeting:

(i) Topic 3: Difference between management accounts and statutory accounts and alternative revenue recognition models (See Agenda Paper 3.2.2 *Alternative Models*).

(ii) General Matters (See Agenda Paper 3.2.3 *General Matters*).

(b) November 2023 meeting:

(i) Topic 1: Sufficiently specific criterion and the legal interpretation of agreements (See Agenda Paper 7.2 *Sufficiently specific*).

(ii) Topic 2: Capital grants (See Agenda Paper 7.3 *Capital grants*).

(iii) Topic 6: Termination for convenience clauses (See Agenda Paper 7.4 *TFC Clauses*).

(c) March 2024 meeting:

(i) Topic 4: Principal v agent (See Agenda Paper 8.1 *Principal v agent*).

(ii) Topic 5: Grants received in arrears (See Agenda Paper 8.2 *Grants received in arrears*).

(iii) Topic 7: Accounting for research grants (See Agenda Paper 8.3 *Research grants*).

(iv) Topic 8: Statutory receivables (See Agenda Paper 8.4 *Statutory receivables*).

4 As the Board has already considered feedback and staff analysis, this paper builds on the discussions held in the previous meetings and focuses on staff recommendations for the next steps.

Summary of staff recommendations

5 Staff recommendations are based on the key matters raised by stakeholders and the Board's feedback and deliberations from the previous meetings. Staff also considered the following factors when developing recommendations:[1]

1 These factors are also aligned with those in the AASB PIR Decision-making Process Framework.

(a) **Interaction with other projects that may address concerns raised**:

(i) **Not-for-profit (NFP) Tier 3 Reporting Framework project**: Staff acknowledge the Board's comment that the NFP Tier 3 Reporting Framework project (hereafter "NFP Framework project") should not be considered as the solution to address NFP stakeholders' concerns related to AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. However, the outcome of the NFP Framework project may address many concerns related to AASB 15 and AASB 1058 raised by smaller NFPs.

(ii) **IFRS 18 *Presentation and Disclosure in Financial Statements***: The International Accounting Standards Board (IASB) recently issued IFRS 18. This standard introduces new requirements for entities to disclose management-defined performance measures (MPM)[2] within their financial statements. The standard could potentially provide guidance for NFP entities (NFPs) to disclose alternative performance measures (or non-GAAP performance measures) that reflect management's perspective of the entity's financial performance. However, the AASB Due Process Framework for Setting Standards and the AASB Not-for-Profit Entity Standard-Setting Framework require a separate due process for NFP amendments to adopt IFRS Accounting Standards.[3] Therefore, in future meetings, as staff recommended in Agenda Item 4 for this meeting, the Board will need to determine whether any NFP-specific amendments are necessary.

(iii) **Benchmarking AASB Standards and IPSAS project (AASB's IPSAS Benchmarking project)**: The AASB has a process of assessing whether the adoption of IPSAS is necessary for the public sector.[4] This project is part of the assessment. It will commence in H2 2024, building upon a previous staff report, AASB Staff Report: *Australian Accounting Standards Board and International Public Sector Accounting Standards Board Pronouncements – A Comparison* (May 2017), comparing AASB and IPSASB Standards. This project is expected to be completed in H2 2025. Following its completion, the findings will be presented to the Board for consideration on:

- whether principles from IPSAS 47 *Revenue* can be used to clarify or amend NFP income recognition requirements under AASB 1058 *Income of Not-for-Profit Entities* and AASB 15 *Revenue from Contracts with Customers* (the Standards); and
- whether principles from IPSAS 41 *Financial Instruments* can be used to clarify or amend AASB 9 *Financial Instruments* requirements for NFPs.

The effective date of IPSAS 47 is 1 January 2026. Staff are of the view that it is also important to comprehend the implementation experience and challenges of IPSAS 47 for the Board's consideration.

(iv) **Upcoming AASB Agenda Consultation**: A formal agenda consultation process is held with stakeholders at least once every five years to identify accounting and reporting issues that need resolution. The recent agenda consultation was conducted in 2022 (i.e. 2022–2026 AASB Agenda Consultation). Therefore, the upcoming agenda consultation is expected to be

2 MPMs are subtotals of income and expenses other than those listed by IFRS 18 or specifically required by another IFRS, that an entity uses:
(a) in public communications outside financial statements; and/or
(b) to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole.

3 See paragraphs 7.6.1–7.6.5 of the AASB Due Process Framework for Setting Standards.

4 See paragraph 16 of the AASB's Approach to International Public Sector Accounting Standards.

conducted in 2026.[5] By early 2026, the projects listed above are anticipated to be either completed or at least reach a stage with significant progress. Staff are of the view that the upcoming agenda consultation will provide an opportunity to gather further feedback on whether the projects listed above have addressed concerns, particularly those regarding smaller NFP entities, or whether those concerns persist.

(b) **The overall costs and benefits**: Although many stakeholders have highlighted the significant costs incurred in implementing the Standards, along with the potential for ongoing substantial costs, they have also expressed concerns that any changes to the Standards could result in additional implementation costs outweighing the benefits. However, staff are mindful that ongoing costs could remain considerable if stakeholders continue to have challenges in applying the Standards. Therefore, staff recommend gathering feedback during the upcoming AASB Agenda Consultation to assess any ongoing concerns that are not addressed. The feedback received will inform the Board whether further action is necessary.

6 It is important to note that the conclusions made from a post-implementation review (PIR) do not preclude potential changes to the Standards in the future. As noted above, staff are currently overseeing and undertaking several related projects with the potential to address stakeholder concerns regarding NFP revenue recognition. Careful consideration is necessary before taking any actions to avoid imposing unnecessary additional costs on NFPs.

7 Overall, while there are concerns raised, stakeholders have not expressed that the Standards are fundamentally flawed or indicated an inability to apply them. Therefore, staff are of the view that there is no apparent urgency for immediate resolution, especially with the above projects already planned with the potential to address the concerns more holistically. Staff **recommend** the Board not immediately start a new standard-setting project aiming to make changes to the Standards at this stage but take the following actions:

(a) Staff to develop project proposals for the following topics for future Board consideration after the completion or at least at the stage of significant progress made on other cross-cutting projects listed in paragraph 5(a): [6]

(i) **Topic 1: Sufficiently specific criterion and the legal interpretation of agreements and Topic 3: Difference between management accounts and statutory accounts and alternative revenue recognition models**

- Review paragraph F20 of AASB 15, including the interactions and consistencies of the underlying principles in paragraphs F20–F27. (See paragraph 12(b))
- Assess IPSAS 47, including feedback from the implementation of IPSAS 47, to determine whether it could provide a basis for useful guidance. (See paragraph 12(c))
- Consider whether alternative approaches for revenue recognition models are warranted. (See paragraph 16(e))

(ii) **Topic 5: Grants received in arrears and Topic 8: Statutory receivables**

5 See paragraph 7.2.2 of the AASB Due Process Framework for Setting Standards.

6 This process is aligned with paragraphs 7.2.6–7.2.7 of the AASB Due Process Framework. Once a technical issue has been identified, the AASB develops a project proposal. A project proposal contains relevant evidence of the issue, including the extent of the issue, and an assessment of the potential benefits of undertaking the project, the costs of not undertaking it, the resources available and the likely timing. The AASB reviews the project proposal and decides whether the project should be placed on its work program.

- Assess IPSAS 41 and IPSAS 47 to determine whether there is any useful guidance to address the accounting treatment of financial assets and subsequent measurement of statutory receivables for Australian NFPs. (See paragraphs 20(c) and 26(c))

(iii) **Topic 5: Grants received in arrears and Topic 6: Termination for convenience clauses**

- Review and update AASB Staff FAQs. (See paragraphs 20(d)and 22(d))

(b) Seek feedback during the upcoming AASB Agenda Consultation to assess whether other concerns persist and whether further action is needed.

Question for Board members:

1. Do Board members agree with the staff recommendations?

Next step(s)

8 To conclude the PIR, a Feedback Statement summarising the feedback received and Board decisions and reasoning will be made publicly available on the AASB website. Subject to the Board’s decisions in this meeting, the Feedback Statement is expected to be published in Q3 2024.

Questions for Board members:

2. Are there any Board members who would like to volunteer to review the [Draft] Feedback Statement?

Summary of Board considerations, staff analyses and recommendations

9 This section provides a summary of the Board's considerations from previous meetings regarding the feedback received and staff analyses for each topic covered in the ITC. To avoid duplicated information provided to the Board in the previous meetings, this paper focuses only on the key matters raised by stakeholders.

Topic 1 – Sufficiently specific criterion and the legal interpretation of agreements

Questions for respondents

Regarding the term sufficiently specific in AASB 15 Appendix F, do you have any comments about:

1 the application of the term in practice?

2 the extent of specificity needed to meet the sufficiently specific criterion for a contract (or part of a contract) to be within the scope of AASB 15?

3 whether differences in application exist?

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

4	*In addition to the existing guidance in AASB 15 Appendix F, is there any other guidance that would help you determine whether a contract (or part of a contract) is sufficiently specific? If so, please provide details of the guidance and explain why you think it would be useful.*

10 In relation to Questions 1 to 4, the Board considered feedback received, staff analysis and preliminary views at the November 2023 meeting: Agenda Paper 7.2 *Sufficiently specific*. In general, most stakeholders raised concerns about the "sufficiently specific" criterion summarised below. Similar concerns were also raised in other related topics.

11 To ensure the concerns of smaller NFPs were well-represented in the ITC 50 feedback, the Board directed staff to conduct additional targeted outreach in November 2023. This outreach confirmed that the feedback from smaller NFPs aligned with the issues raised in the broader ITC 50 feedback.[7]

12 The Board's considerations include the following key matters:

(a) **Significant judgement needed to determine "sufficiently specific"**: The "sufficiently specific" criterion is a key concern raised by most stakeholders as it requires significant judgement. Although some stakeholders noted that the assessment of the "sufficiently specific" criterion can be challenging and time-consuming, some are of the view that reasonable conclusions can be reached through its application that is aligned with the principle of identifying performance obligations in AASB 15 and the Conceptual Framework. Most stakeholders highlighted that the concerns are primarily because there is a lack of clarity in AASB 15 (see below).

(b) **Level of details to determine sufficiently specific**: Some stakeholders raised concerns about the clarity of paragraphs F20–F28 in AASB 15 Appendix F *Australian implementation guidance for not-for-profit entities*. They interpret paragraph F20 as suggesting that most, if not all, conditions must be present for a promise to be deemed "sufficiently specific". Some consider that this conflicts with paragraph F22, which states that no specific number or combination of conditions specified in an arrangement is necessary. Staff consider that the intention of paragraph F20 is not to impose a rigid requirement for all conditions to be present, noting the Board's rationale in AASB15.BC41. However, the current wording in paragraph F20 might inadvertently suggest otherwise:

> "Paragraphs 22 and 30 of AASB 15 require that to enable an entity to identify the performance obligations that it should account for separately, each promise to transfer goods or services needs to be distinct – individually, or if not individually, as a bundle combined with other promises. The specificity of the promise to transfer goods or services can be quite different in the for-profit and not-for-profit sectors. A necessary condition for identifying a performance obligation of a not-for-profit entity is that the promise is sufficiently specific to be able to determine when the obligation is satisfied. Judgement is necessary to assess whether a promise is sufficiently specific. Such judgement takes into account any conditions specified in the arrangement, whether explicit or implicit, regarding the promised goods or services, **including** conditions regarding the following aspects:
> (a) the nature or type of the goods or services;
> (b) the cost or value of the goods or services;
> (c) the quantity of the goods or services; **and**
> (d) the period over which the goods or services must be transferred." (emphasis added)

Staff **recommend** a careful review of paragraph F20, including the interactions and consistencies of the underlying principles in paragraphs F20–F27, without disrupting the practice unnecessarily, may address the concerns.

(c) **Consideration of IPSAS 47**: Feedback received, in particular from the public sector, expressed concerns that the "sufficiently specific" criterion is difficult to apply in some arrangements. For

7 See Agenda Paper 8.0 *Cover Memo* (February 2024).

example, ACAG shared in its submission that the reporting or acquittal provisions in assessing "sufficiently specific" has been challenging. While developing AASB 15 Appendix F, the Board noted it would consider undertaking a project to consider the guidance to AASB 15 following the completion of the IPSASB revenue project (AASB 2016-8.BC72). Further, at its meeting in June 2023 (see IPSASB update in [Agenda Paper 17.1 *Other business*]), the Board noted the principles in IPSAS 47 can be considered to determine whether there is any useful guidance for Australian NFPs. As such, as part of the AASB's IPSAS Benchmarking project, there will be a comparison of IPSAS 47, AASB 15 and AASB 1058. Staff are of the view that the project may help in contributing to the Board's further consideration of addressing the concern. In addition, the implementation experience and challenges of applying IPSAS 47 will be an important part of the considerations. Therefore, staff **recommend** assessing IPSAS 47, including feedback from the implementation of IPSAS 47, to determine whether it could provide a basis for useful guidance.

(d) **Illustrative Examples:** Most stakeholders pointed out a lack of clarity in the Australian Illustrative Examples. This included concerns about how the "sufficiently specific" criterion is applied and a desire for examples to cover arrangements involving multiple promises. This request mostly stems from the confusion surrounding the current wording in paragraph F20.

As applying the "sufficiently specific" criterion requires significant judgement based on the facts and circumstances of each arrangement, illustrative examples cannot possibly address every situation NFPs might encounter when applying the Standards. While staff acknowledge the value of additional examples, staff are of the view to first address the confusion of the "sufficiently specific" principle within AASB 15 before developing further examples. This approach may negate the need for extensive examples.

(e) **Resource constraints**: Many NFPs have limited resources that may be required for applying accounting standards to complex transactions including accessing professional advice. Staff are of the view that the costs associated with implementing and transitioning to the Standards may initially be substantial. However, as practices evolve, the ongoing costs are expected to decrease over time. Staff also acknowledge that many smaller NFPs may find it challenging and costly to apply the Standards. The outcome of the NFP Framework project may address many concerns related to AASB 15 and AASB 1058 raised by smaller NFPs.

Topic 2 – Capital grants

Questions for respondents

Regarding the term identified specifications in AASB 1058 paragraph 15(a), do you have any comments about:

5. *the application of the term in practice?*

6. *the extent of specificity needed for a contract to meet the requirements of AASB 1058 paragraph 15(a)?*

7. *whether differences in application exist because of the use of the term identified specifications?*

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

8. *In addition to the existing illustrative examples in AASB 1058, is there any other guidance that would help you determine when to recognise revenue following the transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset to be controlled*

by the entity? If so, please provide details of the guidance and explain why you think it would be useful.

13 In relation to Questions 5 to 8, the Board considered feedback received at the November 2023 meeting: [Agenda Paper 7.3 *Capital grants*](). The issues related to capital grants are more commonly experienced by public sector entities and do not appear to be as pervasive as in other topics.

14 The Board's considerations include the following key matters:

(a) **Lack of definition of "identified specification":** Some stakeholders noted that the term "identified specification" is not defined, leading to interpretational challenges in determining whether the criterion is met. When developing AASB 1058, the Board's intent was for the capital grant accounting requirements to apply where there are clear requirements to build or construct an asset to specifications under the grant. That is, where the requirements are clearly outlined (i.e. the asset to be built or constructed can be identified to a sufficient level) in the grant agreement, the "identified specification" requirements will be met. However, where there is ambiguity, judgement will need to be applied.

(b) **Limited guidance:** Illustrative Examples 9 and 10 in AASB 1058, which specifically address capital grant accounting, are the only examples provided. The diverse interpretations of the ITC 50 example conclusions indicate the varying views among stakeholders. Feedback regarding the need for additional guidance is mixed. While some stakeholders have requested further guidance, including more examples, others have noted that additional guidance is unnecessary. Staff are of the view that Illustrative Examples 9 and 10 sufficiently demonstrate how the principles are applied. As entities are required to apply the principle based on facts and circumstances, developing more examples would provide little benefit.

(c) **Disclosures:** Feedback indicated that paragraph 37 of AASB 1058, which encourages entities to disclose information about externally imposed restrictions that limit or direct the purpose for which resources controlled by the entity may be used, is helpful. Where income is recognised upfront, but the asset will be built or acquired (and associated expenditure incurred) in the future, entities can make such disclosures.

(d) **The timing of income recognition:** Some stakeholders expressed a lack of understanding regarding income recognition principles related to capital grant accounting. As discussed in paragraph BC98 of AASB 1058, during the standard's development, the Board considered aligning the timing of income recognition with the receipt of the asset itself, rather than the cash used to construct or acquire it. Consequently, the Board determined that the accounting treatment for such transactions should mirror that of AASB 15 and decided to provide the requirements in AASB 1058 instead. Some stakeholders commented that Illustrative Examples 9 and 10 adequately illustrate the principles. Staff are of the view that the Standards provide adequate guidance. However, any changes to the Standard due to the work related to Topics 1 and 3 will require the Board to reconsider this topic. Therefore, staff are of the view not to take any action on this matter at this stage.

(e) **Splitting components:** Stakeholders noted that AASB 1058 lacks detailed guidance on splitting capital and non-capital amounts that are included in the same agreement. Staff noted that the clear distinctions between grants in the scope of AASB 15 and those in the scope of 1058 are the extent of the distinct promise to transfer goods and services to a beneficiary. Staff are of the view that the Standards provide sufficient guidance, acknowledging that the level of judgement and complexity of the assessment will depend on the particular facts and circumstances of the arrangement. While no illustrative examples specifically demonstrate a situation where an arrangement includes a capital grant component and an AASB 15 component, the underlying principle demonstrated in Illustrative Example 9 in AASB 1058 may be helpful.

Topic 3 – Difference between management accounts and statutory accounts and alternative revenue recognition models

Questions for respondents

9 *Do you have any comments regarding the timing of revenue recognition required by AASB 15 and AASB 1058 of NFP entities? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also helpful.*

10 *Do you have any views on alternative approaches to recognising revenue in the NFP sector? For example, should an NFP entity initially recognise a liability and recognise revenue:*

(a) based on a common understanding between the entity and the transfer provider of the manner in which the entity is expected to use the inflows of resources;[8]

(b) where there are terms in law or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity;[9]

(c) on a systematic basis over the periods in which the entity recognises as expenses the related costs for which a grant is intended to compensate;[10] *or*

(d) where the outflows of resources are incurred in accordance with the requirements set out in a binding agreement.[11]

If so, please provide your views on your preferred alternative(s) above or another alternative approach.

15 In relation to Questions 9 and 10, the Board considered feedback received at the October 2023 meeting: Agenda Paper 3.2.2 *Alternative Models*.

16 The Board's considerations include the following key matters:

(a) **Significant judgement**: Most stakeholders highlighted that significant judgement is required when applying the Standards, which can be particularly burdensome for smaller NFPs with limited resources. However, some stakeholders also noted that applying principles-based accounting standards often requires significant judgement. The Board noted that, while the NFP Framework project may address concerns regarding income recognition for smaller NFPs, it should not be considered the ultimate solution for NFP entities. Staff acknowledge the Board's comment that the NFP Framework project should not be considered as the solution to address this concern. However, the outcome of the NFP Framework project may address many concerns related to the Standards raised by smaller NFPs.

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8 AASB Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* paragraph 5.182.

9 International Public Sector Accounting Standard IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* paragraph 7: definitions of stipulations on transferred assets and conditions on transferred assets.

10 See paragraph 2 of AASB 120.

11 IPSASB Exposure Draft ED 71 *Revenue without Performance Obligations* paragraph 10: definition of eligible expenditure.

(b) **Unclear "sufficiently specific" concept**: Many stakeholders raised concerns about the lack of clarity on the "sufficiently specific" concept. They find it difficult to interpret and apply, leading to inconsistencies and confusion in practice. This lack of clarity poses significant challenges for NFPs during implementation and potentially on an ongoing basis. The discussion of "sufficiently specific" and staff analysis with recommendations is provided in Topic 1 above.

(c) **Income reporting**: Some NFPs have raised concerns that the income recognition, such as upfront recognition or recognition upon receipt, may not accurately reflect their perspectives on financial performance. This prompted some NFPs to maintain separate management accounts and/or reports for internal reporting, aligning with their board's needs and/or the information that their funders request. The Board noted that it is common for entities, including for-profit entities, to prepare different sets of reports for various purposes, including internal decision making. Providing a separate management report that is not aligned with AASB 1058 for internal use should not be necessarily regarded on its own as a compelling reason to indicate problems with AASB 1058. Additionally, NFPs could use additional disclosures to clarify their specific circumstances (which is encouraged in AASB 1058 paragraph 37), particularly if there are concerns that the income recognised in the period does not accurately reflect their financial situation. It is important to note that the International Accounting Standards Board (IASB) recently issued IFRS 18. This standard introduces new requirements for entities to disclose MPMs within their financial statements. The standard could potentially provide guidance for the NFPs to disclose alternative performance measures (or non-GAAP performance measures) that reflect management's perspective of the entity's financial performance. This might address stakeholder concerns that reported income under AASB 1058 may not adequately reflect their perspective on the entity's financial performance. However, the AASB Due Process Framework for Setting Standards and the AASB Not-for-Profit Entity Standard-Setting Framework require a separate due process to consider potential NFP amendments to IFRS Accounting Standards.[12] Therefore, in future meetings, as recommended in Agenda Item 4 for this meeting, the Board will need to determine whether any NFP-specific amendments to IFRS 18 are necessary.

(d) **Matching income and expenses**: Some stakeholders suggested the matching concept for income recognition would provide more useful information and would be consistent with the requirements of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. However, some stakeholders raised concerns that AASB 120, developed decades ago, is not fully aligned with the current Conceptual Framework, and a comprehensive review of AASB 120 is warranted.

(e) **Possible alternative approaches**: Stakeholders provided mixed feedback on alternative approaches to NFP revenue recognition, highlighting the limitations of each example in Question 10 provided in the ITC. Many stakeholders indicated that significant costs have already been incurred implementing the Standards and any changes to the Standards might outweigh the benefits. The Board noted that, in line with the Board's considerations during the development of AASB 1058,[13] it is important for NFP accounting to closely adhere to the principles outlined in AASB 15 (i.e. IFRS Accounting Standards) and the Conceptual Framework unless there is a compelling reason to deviate from them. However, staff are also mindful of the potential significant ongoing costs if NFPs continue to face challenges applying the Standards. While developing AASB 15 Appendix F, the Board noted it would consider undertaking a project to consider the guidance to AASB 15 following the completion of the IPSASB revenue project (paragraph BC72 of AASB 2016-8). Further, at its meeting in June 2023 (see IPSASB update in Agenda Paper 17.1 *Other business*), the Board noted

12 See paragraphs 7.6.1–7.6.5 of the AASB Due Process Framework for Setting Standards.
13 See paragraph BC15–BC17 of AASB 1058.

the principles in IPSAS 47 can be considered to determine whether there is any useful guidance for Australian NFPs, such as revenue arising from a non-binding arrangement or binding arrangement.

As such, as part of the AASB's IPSAS Benchmarking project, there will be a comparison of IPSAS 47, AASB 15 and AASB 1058. As the effective date of IPSAS 47 is 1 January 2026, staff also consider the importance of understanding the implementation experience and challenges of applying IPSAS 47. Given this topic is closely related to Topic 1, staff are of the view to address the concern with Topic 1 concurrently. Staff **recommend** considering whether alternative approaches for revenue recognition models are warranted, while undertaking work on matters related to Topic 1.

Topic 4: Principal v 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.

17 In relation to Questions 11 to 14, the Board considered feedback received at the March 2024 meeting: Agenda paper 8.1 *Principal v agent*.

18 The Board's considerations include the following key matters:

(a) **Principal versus agent determination**: Many NFP entities are required to determine the size of their entities based on their income recognised and, as such, the principal versus agent determination is relevant to all entities. Not surprisingly, many stakeholders across sectors commented that the principle can be difficult to apply as it requires significant judgement.

Similar feedback from the for-profit (FP) sector was received as part of the IFRS 15 *Revenue from Contracts with Customers* PIR. In the February 2024 IASB meeting, IASB members reiterated that by nature, the principal versus agent requirements in IFRS 15 are complicated, and entities are required to apply judgements based on the indicators mentioned in IFRS 15. All IASB members decided not to take further action on application matters in relation to:

- the relationship between the concept of control and the indicators in paragraph B37 of IFRS 15;
- identifying a customer of a supplier that sells its goods or services through an intermediary; and
- identifying performance obligations in a multi-party arrangement.

However, the IASB decided to discuss in a future meeting whether principles mentioned in the Basis for Conclusions should be moved to the main body of the Standard with care to cause no disruption, and whether more guidance and indicators related to the determination of control for intangible assets should be added in IFRS 15, and to explore the matter in the next IASB agenda consultation. Staff are of the view to wait for the IASB decision on this topic before taking further action. As the AASB agenda consultation timeline is closely aligned with the IASB's, staff are of the view to seek feedback on related matters from stakeholders while conducting its agenda consultation.

(b) **Amendments for the NFPs:** At the March 2024 meeting, some of the Board members questioned whether NFP-specific guidance should be provided and, depending on the extent, the AASB 15 principal versus agent guidance would need to be tailored to reflect the variety of NFP entity arrangements. However, staff are of the view that there is no sufficient justification for the principle to differ between the NFP and the FP sectors. Staff consider the comparison of the agent and principal guidance in IPSAS 47 and AASB 15 may be helpful for the Board's consideration in a future meeting.

(c) **Pass-through arrangements:** It is not uncommon for NFPs to receive funding that must be passed through to other parties. As AASB 1058 only permits recognition of income for the residual amount, entities generally need to first consider other accounting standards, such as AASB 9 and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* for such arrangements. Some stakeholders commented on the need for Example 3A of the Illustrative Examples accompanying AASB 1058 (hereafter IE 3A) to be reviewed and updated. In particular, there is confusion on the recognition of the financial liability in the fact pattern provided. It is important to note that the Board has considered this feedback previously. In January 2022, while the Board considered the conclusions in IE 3A were appropriate, the Board issued ED 318 *Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases* to propose amending the example to clarify the conclusion further and to add an additional example to illustrate a contrasting scenario. However, most respondents did not support the proposed amendments. After considering the feedback received, the Board decided to retain IE 3A unamended. Further, a majority of respondents preferred the Board consider any changes to the example only as part of the PIR.[14] The underlying principles demonstrated in IE 3A are consistent with the Standards. Staff are of the view that changes to the examples, such as improving clarification, may only provide marginal benefits, and therefore further work is not needed at this stage.

(d) **AASB 1050:** Some stakeholders raised concerns about the principal versus agent concept and its interaction with AASB 1050 *Administered Items*. They highlighted the lack of guidance and the extent of judgement required in applying AASB 1050, which poses challenges in its consistent application by government entities. Staff noted that 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 concern will be considered as part of the AASB 1050 PIR.

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[14] See Minutes for AASB M186, 7 April 2022.

Topic 5: Grants received in arrears

Questions for respondents

Do you have any comments regarding:

15 the accounting for grants received in arrears, particularly where some of the work to be funded by the grant is performed before the funding is received? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful;

16 whether differences in application exist in the accounting for grants received in arrears? If so, please provide examples that illustrate the relevant circumstances, their significance and the prevalence of any differences in practice.

19 In relation to Questions 15 and 16, the Board considered feedback received at the March 2024 meeting: Agenda Paper 8.2 *Grants received in arrears*.

20 The Board's considerations include the following key matters:

(a) **Contract assets recognition**: Some stakeholders requested clarification on whether a contract asset could be recognised relating to the accounting for grants received in arrears for agreements under AASB 1058 (i.e. agreement not meeting the "sufficiently specific" criterion). Staff observed that IPSAS 47 included the concept of "contract asset" (or "binding arrangement asset"). Staff are of the view that the AASB's IPSAS Benchmarking project might provide further insights.

(b) **Diversity in practice:** Feedback on diversity in applying AASB 1058 was mixed. Some stakeholders observed no significant differences; however, some stakeholders commented there are variations. It is important to note that the Board received similar feedback before the PIR, which led to the development and publishing of the AASB Staff FAQs.

(c) **Recognition of receivables**: While some stakeholders requested clarity on recognising receivables, some stakeholders commented that AASB 9 provides adequate guidance for entities to determine when and how to recognise financial assets as receivables. The IPSASB in recent years completed its *Public Sector Specific Financial Instruments* project, which addresses receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature. Staff are of the view that the comparison between AASB 9 and IPSAS 41 as part of the AASB's IPSAS Benchmarking project will provide the Board insights for further consideration. Considering a standard-setting project to address the subsequent measurement of statutory receivables may be warranted (see Topic 8 below) after the completion of the comparison, staff are of the view to also consider this issue alongside work related to addressing concerns about the subsequent measurement of statutory receivables. Therefore, staff **recommend** assessing IPSAS 41 and IPSAS 47 to determine whether there is any useful guidance to address the accounting treatment of financial assets and subsequent measurement of statutory receivables for Australian NFPs.

(d) **AASB Staff FAQs:** Many stakeholders from the public sector suggested reviewing and updating the FAQs. They are of the view that some accounting treatments in the examples lack justification or clarification, particularly regarding financial asset recognition. Some stakeholders also commented that they disagreed with some of the examples. On the other hand, some feedback notes that the guidance in the FAQ was helpful and reduced diversity in practice. It is important to note that the FAQs are a tool to help entities understand the principles of the Standards, not an interpretive instrument. Entities should use judgement and apply the Standards accordingly based on their specific facts and circumstances. However, given the significant requests for a review, staff **recommend** reviewing and updating AASB Staff FAQs to consider whether amendments to the FAQs are necessary.

Topic 6: Termination for convenience clauses

Questions for respondents
Regarding accounting for termination for convenience clauses:
17 do you support view (a) or view (b) regarding recognising a liability in relation to unspent funds? Please explain your rationale, including references to Australian Accounting Standards. Examples to illustrate your responses are also most helpful;
18 do you have any other comments? If so, please provide your views, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

21 In relation to Questions 17 and 18, the Board considered feedback received at the November 2023 meeting: Agenda Paper 7.4 *TFC clauses*.

22 The Board's considerations include the following key matters:

(a) **Diversity in practice**: Some stakeholders highlighted that there is diversity in how termination for convenience (TFC) clauses are accounted for. This diversity mainly arises due to the need for judgement in determining the nature and substance of these clauses. That is, some stakeholders are of the view that TFC clauses in an agreement can be substantive clauses (i.e. the TFC clause is considered substantive and requires repayment of funds if exercised, resulting in recognition of financial liability for any unspent funds) or protective clauses (i.e. the TFC clause is rarely exercised and considered to be protective in nature, therefore a financial liability would not be recognised unless the clause is exercised).

(b) **Board's decision in the November 2020 meeting**: The Board addressed this concern in the November 2020 meeting, referencing relevant guidance and accounting standards such as an IFRS Interpretation Committee (IC) agenda decision from January 2014 regarding a submission related to AASB 132 *Financial Instruments: Presentation*.[15] The Committee noted that the definitions of financial asset, financial liability and equity instrument in IAS 32 *Financial Instruments: Presentation* (and therefore AASB 132) are based on the financial instrument's contractual rights and contractual obligations. However, paragraph 15 of AASB 132 requires the issuer of a financial instrument to classify the instrument based on the substance of the contractual arrangement. Consequently, if a contractual term of a financial instrument lacks substance, it would be excluded from the classification assessment of the instrument.

The agenda decision states that, to determine whether the clause is substantive, the issuer will need to understand whether there are actual economic or other business reasons under which the clause would be exercised and that judgement will be required. The Board acknowledged that, while the IFRS IC agenda decision addressed contractual clauses other than TFC clauses, it may provide further guidance when assessing the substance of a contractual clause. Entities are to consider the facts and circumstances and apply professional judgement.

(c) **Request to the IFRS IC**: At the November 2020 meeting, the Board also decided that, in accordance with the AASB Due Process Framework for Setting Standards, the matter would need to be referred

15 See https://www.aasb.gov.au/admin/file/content102/c3/ApprovedAASBMinutesM178.pdf.

to the IFRS IC if authoritative guidance is necessary to address diversity in practice, given the issue is relevant to both FP and NFP entities. The Board directed staff to engage further with the stakeholders who raised the issue to assist them if they intended to submit a request to the IFRS IC. While staff offered assistance, staff are not aware of any submissions made. Staff are of the view to continue providing assistance to stakeholders if they intend to submit a request to the IFRS IC. Staff also note that, in response to the feedback received on its PIR of IFRS 15, the IASB tentatively decided to take no further action on the matters related to the accounting for liabilities arising from IFRS 15 and other aspects of applying IFRS 15 with IFRS 9 *Financial Instruments,* and the IASB proposals contained in ED 327 *Financial Instruments with Characteristics of Equity* contain clarification of 'not genuine' with some drafting changes. Staff do not expect any of these IASB projects to address the issue, especially in cases when the agreements are within the scope of AASB 1058.

(d) **AASB Staff FAQs**: A few stakeholders commented that the Board has already considered and made decisions on this issue; however, there may be a need to incorporate some of the analysis from the November 2020 staff paper into the FAQs to raise awareness. Staff agree that this suggestion may address the concern. Staff **recommend** reviewing and updating the AASB Staff FAQs noting the fact that the FAQs are educational in nature and cannot interpret or add to requirements in the accounting standards.

Topic 7: Accounting for research grants

Question for respondents
19 Do you have any comments regarding the accounting for research grants (other than termination for convenience clauses, which are covered in Topic 6)?
If so, please provide your views on the requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

23 In relation to Question 19, the Board considered feedback received at the March 2024 meeting: Agenda Paper 8.3 *Research grants*.

24 As stated in paragraph BC7 of AASB 2019-6 *Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities*, the Board noted that there are different forms of research grant contracts and significant judgement is required in applying the Standards. Besides the concern raised about the "sufficiently specific" criterion discussed in Topic 1 above, the Board also considered following key matters:

(a) **AASB Staff FAQs and additional guidance:** Many stakeholders expressed that the FAQs are adequate and do not think further examples or implementation guidance are needed. Additionally, they suggested that the FAQs be incorporated into the Standards. However, staff are of the view that adding FAQs to the Standards is unnecessary, as they primarily serve as a tool to help preparers understand the underlying principles of the Standards. It is important to note that, while Illustrative Examples accompany the Standards, they are not an integral part of them and do not provide interpretative guidance. Considering that the FAQs are readily accessible to stakeholders, staff are of the view that incorporating them into the Standards would provide little incremental benefit.

(b) **Matching income and expenses**: Some stakeholders suggested that they prefer the matching principle consistent with AASB 120 requirements. However, some stakeholders raised concerns about AASB 120's alignment with the Conceptual Framework. Further, some stakeholders are of the view that transaction neutrality should be considered between research grants and other funding arrangements.

(c) **Illustrative Examples:** Some stakeholders disagreed with the Australian Illustrative Examples 4A and 4B for NFP entities in AASB 15, concluding that the performance of the research activities results in the accumulation of knowledge, which is an asset (whether recognisable or unrecognisable) developed by the research but not immediately consumed does not satisfy paragraph 35(a) of AASB 15. It is important to note that the Illustrative Examples were amended in AASB 2019-6, to enhance clarity. Staff are of the view that the Illustrative Examples already provide an adequate basis to explain the accounting treatment, reflecting the principles of identifying performance obligations under AASB 15. As such, no action is needed.

Topic 8: Statutory receivables

Questions for respondents
Do you have any comments regarding:
20 the subsequent accounting treatment of statutory receivables? If so, please provide your views, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful;
21 whether the initial measurement of statutory receivables in accordance with AASB 9 added considerably to the workload of preparers and auditors – either on implementation of Appendix C to AASB 9 or subsequently? If so, please provide your views on the initial measurement requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

25 In relation to Questions 20 and 21, the Board considered feedback received at the March 2024 meeting: Agenda Paper 8.4 *Statutory receivables*.

26 Most concerns raised are surrounding the subsequent measurement requirements of recognised statutory receivables as there is a lack of guidance. The Board's considerations include the following key matters:

(a) **Diversity in practices:** Some stakeholders highlighted that entities are applying the requirements of AASB 9 (expected credit loss (ECL) model), AASB 136 *Impairment of Assets* or AASB 137 for subsequent measurement of recognised statutory receivables.

(b) **Practical expedients**: Some stakeholders suggested the Board consider the simplified approach under AASB 9 to measure ECLs of statutory receivables when developing guidance on this matter.

(c) **IPSASB's project**: The Board previously decided (paragraph BC 12 of AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*), not to require entities to apply the subsequent measurements of AASB 9 to statutory receivables. The Board however decided to consider the subsequent measurement of statutory receivables in a future project and monitor the IPSASB's *Public Sector Specific Financial Instruments* project, which addresses receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature. The IPSASB has completed the project and amendments have been made to IPSAS 41 (i.e. Non-authoritative Amendments to IPSAS 41).[16] Further, IPSAS 47 also addresses statutory receivables. Therefore, staff **recommend** assessing IPSAS 41 and IPSAS 47 to determine whether there is any useful guidance to address the accounting treatment of financial assets and subsequent measurement of statutory receivables for Australian NFPs.

AASB General Matters for Comment

Questions for respondents

22. Does the application of AASB 1058 and AASB 15 by NFP entities adversely affect any regulatory requirements for NFP entities?

23. Does the application of AASB 1058 and AASB 15 by NFP entities result in major auditing or assurance challenges?

24. Overall, do AASB 1058 and AASB 15 result in financial statements that are more useful to users of NFP entity financial statements?

25. In your view, do the benefits of applying the requirements of AASB 1058 and AASB 15 exceed the implementation and ongoing application costs for NFP entities?

26. Are there any other matters that should be brought to the attention of the AASB as it undertakes this PIR on the accounting for income of NFP entities?

27 In relation to Questions 22 to 26, the Board considered feedback received at the October 2023 meeting: Agenda Paper 3.2.3 *General Matters*. Most feedback received on the general matters for comment is in line with the feedback received as part of each ITC 50 topic.

28 Amongst feedback received, a few public sector stakeholders provided feedback relating to volunteer services and requested more clarification or guidance; in particular, how to determine whether services would have been purchased if they had not been donated. The Board acknowledged that, when developing AASB 1058, the Board considered the accounting requirements for volunteer services as part of a separate future project (paragraph BC 112 of AASB 1058). At the March 2024 meeting, the Board also noted that the significance of volunteer services in the private sector.[17] Staff consider the disclosure of volunteer services may be considered as part of the *Service Performance Reporting* project currently underway and may result in relevant disclosures about volunteers being made.

16 https://www.ipsasb.org/publications/non-authoritative-amendments-ipsas-41-financial-instruments.

17 See paragraphs 15 and 16 of Agenda Paper 8.0: *Cover memo* (March 2024).