



Australian Government

**Australian Accounting
Standards Board**

Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600

21 November 2016

Mr Peter Saunders
Executive Director
Office of Best Practice Regulation
Department of the Prime Minister and Cabinet
1 National Circuit
BARTON ACT 2600

Dear Mr Saunders

Forthcoming Australian Accounting Standard
AASB 10XX *Income of Not-for-Profit Entities*

This letter certifies that the process undertaken by the Australian Accounting Standards Board (AASB) to issue Australian Accounting Standard AASB 10XX *Income of Not-for-Profit Entities* represents a process and analysis equivalent to a Regulatory Impact Statement as set out in *The Australian Government Guide to Regulation*.

Background to the Standard

Cash and other assets received from grants, bequests, donations and other contributions often dominate the income streams of Australian not-for-profit entities. Despite the significance of these inflows, current Standards do not comprehensively address the associated recognition and measurement issues. Consequently, constituents have expressed concern over the lack of guidance and the outcome of applying the minimal guidance that is currently available.

Existing accounting requirements would generally require not-for-profit entities to immediately recognise as income the resources received, even when restrictions or conditions are imposed. AASB 1004 *Contributions* distinguishes transactions based on whether they are reciprocal or non-reciprocal (i.e. whether there is an equal exchange of value). Entities find it challenging to determine whether approximately equal value has been exchanged in a transaction, and this has resulted, in many instances, the immediate recognition of income in a transaction that does not faithfully represent the underlying financial performance of the entity.

AASB 10XX responds to constituent concerns and aims to improve the income recognition requirements and guidance that apply to not-for-profit entities, in conjunction with the implementation guidance to AASB 15 *Revenue from Contracts with Customers* (which will be issued at the same time as AASB 10XX), which will supersede AASB 118 from 1 January 2019. AASB 10XX and AASB 15 will be applicable at the same time to ease the transition process.

The requirements of AASB 10XX and AASB 15 will more closely reflect the economic reality of not-for-profit entity transactions (such as donations, grants and contributions received) and best respond to constituent concerns about the operation of the income

recognition requirements set out in AASB 1004, compared to the other alternatives the Board considered. Under the final requirements there will be more opportunity for deferral of income. Any immediate income recognition will depend on whether there is any liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to the cash or grant received.

AASB 10XX is also informed by other existing accounting standards issued by the International Public Sector Accounting Standards Board (IPSASB). Utilising IPSASB and other existing Australian Accounting Standards for the conceptual basis to AASB 10XX means entities may benefit from accounting requirements that are familiar and consistent with recent developments.

Involvement of the AASB

All accounting standards apply to reporting entities preparing financial statements in accordance with Part 2M.3 of the *Corporations Act 2001*, general purpose financial statements of other reporting entities and any other set of financial statements that are, or are held out to be, general purpose financial statements.

The development of domestic accounting standards follows a thorough, open, participatory and transparent due process. As part of that due process, the AASB engaged with the not-for-profit community, regulators, and the local accountancy profession at every stage.

To capture domestic concerns the AASB releases consultative documents, conducts roundtables and receives informal feedback throughout the development of the domestic Standard. This allows the AASB to consider and incorporate, where feasible, stakeholder suggestions, comments or concerns.

The final step in developing a domestic Standard is for the AASB to formally make the Standard under section 334 of the *Corporations Act*, giving legal enforceability to the Standard. The AASB is expected to decide on the making of the forthcoming AASB 10XX in December 2016.

Estimation of the regulatory burden

The table below sets out the additional regulatory burden that would arise from the issuance of AASB 10XX that was agreed with OBPR on 3 November 2016.

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	\$-	\$13.2	\$-	\$13.2

Using the Regulatory Burden Measurement framework, it has been agreed that the package will increase compliance costs by \$13.2 million. For all reporting periods, the Treasury portfolio has delivered net compliance costs reductions and there is no reason why the portfolio will not continue to deliver on its red tape reduction target in this period, in line with the Government's regulatory reform agenda.

Should you have any queries in relation to this matter please contact Mark Shying on 03 9617 7645 (mshying@asb.gov.au) or Kala Kandiah 03 9617 7626 (kkandiah@asb.gov.au).

Yours sincerely,

A handwritten signature in blue ink that reads "K. E. Peach". The signature is written in a cursive style with a long horizontal stroke at the end.

Kris Peach
Chair and CEO