



Exposure Draft

Proposed Accounting Standards for Private Enterprises

Revenue – Upfront Non-refundable Fees or Payments

November 2023

This Exposure Draft closes for comments on January 31, 2024.

The Accounting Standards Board (AcSB) welcomes feedback from any interested party on any or all the questions posed in this Exposure Draft.

You can provide feedback to the AcSB on the proposals in a variety of ways:

- Connect directly with AcSB staff. Staff contact information is on the [Revenue – Upfront Non-refundable Fees or Payments](#) project page.
- Write a response letter and upload it via our [online form](#). Response letters can be addressed to:

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Note: Response letters will be posted online shortly after this Exposure Draft closes for comment. Confidentiality can be requested when uploading letters via the [online form](#).

Helpful tips when participating in a consultation:

- Comments are most helpful if they relate to a specific paragraph or group of paragraphs found in the Exposure Draft.
- If you identify a potential issue in this Exposure Draft's proposals, we encourage you to clearly explain the issue and include a suggested alternative, supported by specific reasoning.
- The AcSB does not expect you to respond to every single question posed – only those to which you feel you can or should respond.

This Exposure Draft reflects proposals made by the AcSB.

HIGHLIGHTS

The AcSB proposes, subject to comments received following exposure, to amend, REVENUE, [Section 3400](#) in Part II of the CPA Canada Handbook – Accounting (the Handbook).¹ This amendment would indefinitely defer the effective date of application guidance for upfront non-refundable fees or payments. The amendments also introduce a new disclosure requirement for upfront non-refundable fees or payments recognized in revenue when the enterprise recognizes the fee or payment in revenue upon entering into an arrangement. This amendment would also apply to not-for-profit organizations (NFPOs) applying the standards in Part III of the Handbook, as relevant.

Background

In December 2019, the AcSB issued amendments to [Section 3400](#). The amendments provided additional application guidance on the requirements in the standard related to various complex revenue topics, including determining when to recognize revenue from upfront non-refundable fees or payments. The effective date for the amendments was set for fiscal years beginning on or after January 1, 2022. The effective date of [paragraphs 3400.A45-.A48](#) was subsequently deferred to January 1, 2025, after the Board heard of application challenges from those applying the amendments. In particular, the Board heard that some member-benefit organizations were concerned about the decision usefulness of deferring upfront non-refundable fees over long member durations. They also expressed concerns about the associated cost of applying the amendments. Therefore, the Board decided that more time was needed to research the concerns raised.

Main features of the Exposure Draft

The AcSB proposes to:

- defer the effective date of the guidance on upfront non-refundable fees or payments until its [Evaluating the Preface](#) project is complete so the Board can propose solutions compatible with any updates to the Preface; and
- introduce a disclosure requirement for entities recognizing upfront non-refundable fees in revenue to meet users' information needs without affecting recognition and measurement requirements for such fees.

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consultation with the Board's [Private Enterprise Advisory Committee](#) and [Not-for-Profit Advisory Committee](#). The Private Enterprise Advisory Committee assists the Board in maintaining and improving accounting standards for private enterprises. The Not-for-Profit Advisory Committee provides input on circumstances that are unique to NFPOs when applying the potential changes to the standard.

The AcSB will provide updates about its deliberations in its decision summaries and on the project page.

Once the deliberation process is complete and the due process procedures for finalizing the amendments are carried out, the AcSB plans to issue the amendments in May 2024 if no significant changes are required to the proposals.¹

¹ Refer to the Due Process Specifically Related to Domestic Standards in the [AcSB's Standard-Setting Due Process Manual](#).

Comments requested

While the AcSB welcomes comments on all aspects of the proposal in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. Do you agree with the proposed change in effective date of amendments to [Section 3400](#) pertaining to upfront non-refundable fees or payments (see [proposed paragraph 3400.37A](#))? If not, why not?
2. Do you agree with the proposed disclosure requirement for entities recognizing upfront non-refundable fees in revenue upfront (see proposed [paragraph 3400.35A](#))? If not, why not?

The deadline for providing your comment letter to the AcSB is **January 31, 2024**. Comment on this document by uploading your response letter via this [online form](#).

PROPOSAL

The following Section would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

SPECIFIC ITEMS

SECTION 3400

revenue

DISCLOSURE

.35A An enterprise shall disclose the nature and amount of upfront non-refundable fees or payments recognized in revenue when the enterprise recognizes the fee or payment in revenue upon entering into the arrangement.

EFFECTIVE DATE AND TRANSITION

- .37A Amendments to paragraphs 3400.A45-.A48, issued in December 2019, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2025~~a date to be determined by the AcSB. Earlier application is permitted.~~ An enterprise applies these amendments retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506. ~~Earlier application is permitted.~~
- .37B Amendments to 3400.35A, issued in [MONTH] 2024, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2025. An enterprise applies these amendments retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506. Earlier application is permitted.

BASIS FOR CONCLUSIONS

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Introduction

1. This document summarizes considerations that were deemed significant by members of the AcSB in reaching their conclusions to amend [Section 3400](#) in Part II of the Handbook. This document sets out the reasons the Board undertook to develop the amendments, the process of research and deliberation, the key decisions made and the principal reasons for adopting the positions taken and rejecting others.

Background

2. In July 2022, the AcSB issued the Exposure Draft, "[Revenue – Upfront Non-refundable Fees or Payments](#)," proposing to defer the effective date of amendments to [Section 3400](#) related to upfront non-refundable fees or payments. The proposed new effective date was for fiscal years beginning on or after January 1, 2025, with earlier application permitted. After receiving positive feedback on the Exposure Draft, the Board issued the amendments into the Handbook on November 15, 2022. The purpose of this deferral was to give the Board more time to research concerns raised around implementing the amendments.
3. In paragraph 21 of the [Exposure Draft](#), the AcSB proposed that its research and any potential standard setting should focus on entities that charge non-refundable initiation and life-membership fees. This includes for-profit entities applying Part II of the Handbook and not-for-profit organizations (NFPOs) applying Part III. The Board also noted that entities collecting certain types of upfront non-refundable fees, including fees related to the issuance of software licenses, have benefited from the added application guidance. The Board proposed that these types of arrangements should be excluded from its research, and that any amendments to the requirements or guidance should not impact these entities. Respondents to the Exposure Draft agreed with the Board's proposed scope of research and standard-setting activities.

Options considered

Exception for NFPOs based on the criteria in Emerging Issues Committee Abstract of Issues Discussed (EIC) 105

4. One solution that the AcSB considered is to provide an exception exclusively for NFPOs, allowing them to recognize certain non-refundable initiation and life-membership fees in revenue upfront. If the Board were to implement this solution, it noted that any exception would need to be clearly limited to NFPOs. One approach to this could be to include it in Part III of the Handbook instead of Part II.
5. The AcSB noted that this form of exception would not apply consistently to transactions with similar characteristics. For example, for-profit golf clubs operate similar to member-benefit golf clubs. However, their financial statements would be presented differently due to the exception being applicable only to member-benefit golf clubs. In addition, one challenge with this approach is that if member-benefit organizations were to be scoped into Part II instead of Part III in the future, the guidance would no longer apply to them.
6. Therefore, the AcSB is not proposing this solution because it would result in accounting for the same transaction differently purely based on which Section of the Handbook an entity is scoped into. This has the potential to change when the Board completes work on the [Evaluating the Preface](#) project.

Exception for all non-refundable initiation and life-membership fees based on the criteria in EIC-105

7. This solution is similar to the one in paragraphs 4-6, except that it would apply broadly to both for-profit and not-for-profit entities collecting non-refundable initiation and life-membership fees. The AcSB analyzed this potential solution because it heard that for-profit and not-for-profit clubs normally have similar operations to one another. Therefore, the AcSB considered whether they should arrive at similar accounting outcomes for similar transactions.
8. The AcSB received feedback that most for-profit clubs defer and amortize initiation fees into revenue over time. This is because EIC-105, when it was effective, never applied to for-profit entities. Therefore, for-profit entities used the core revenue recognition guidance to conclude that upfront fees should be deferred and amortized. As a result, if the Board provides an exception for all non-refundable initiation and life-membership fees, for-profit clubs will experience a change in practice. This will likely not result in information that is useful to their users given they have an established understanding of the deferred revenues.

Transition relief

9. The application guidance on upfront fees introduced into [Section 3400](#) applies fully retrospectively. Therefore, entities that did not previously defer revenues could now have large, deferred revenue balances, which will require explanation to their users if the entities are required to apply the existing guidance. Instead, the AcSB considered whether providing transition relief in the form of prospective application of the guidance could be an alternative.
10. The AcSB heard that deferring and amortizing revenues for initiation fees and other similar transactions is a better representation of the pattern in which these revenues are earned. However, the sudden change in recognition policy and added cost of calculating the deferred revenues from many years prior may not meet the cost/benefit threshold. Therefore, by allowing for prospective application, entities could slowly introduce the deferred revenue balance onto their balance sheet instead of immediately presenting a large liability to represent the unearned revenue from their entire active member base. If the Board were to implement this solution, it would need to consider whether prospective application would be a requirement or a choice upon transition.
11. The AcSB noted that allowing for prospective application of the guidance might result in a lack of comparability between balance sheets of for-profit and NFPOs until most of their membership bases

turn over (i.e., when revenue from upfront fees is deferred and amortized for most of the clubs' members). In the case of a private golf club, this might take multiple decades. However, the income statement would be more comparable from one year to the next as all entities would be consistently deferring initiation fees from new members.

12. The AcSB thought this was a viable option that would result in consistency in practice for similar transactions. However, given that it would result in a lack of balance sheet comparability for an extended period, the Board decided not to proceed with this option.

Defer effective date until completion of the Evaluating the Preface project

13. Since the AcSB is currently contemplating changes to the [Preface](#) of the Handbook, one possible solution is to indefinitely defer the effective date of the guidance on upfront non-refundable fees or payments until this strategic research project is complete. This way the Board can propose solutions that will be compatible with the updated version of the Preface. There is precedent for this type of indefinite deferral in other standards.
14. The benefit of this option is that no immediate change in practice would be required for any entities. Therefore, entities that were previously deferring and amortizing will continue to do so while those that recognized revenues upfront for initiation fees could also continue this practice. In addition, any entities that early adopted the amendments can continue to apply those amendments as the application guidance will remain in the Handbook.

Withdraw the guidance on accounting for upfront non-refundable fees or payments

15. The AcSB considered withdrawing the guidance completely instead of delaying the effective date. Both options would allow the Board to propose solutions compatible with an updated version of the [Preface](#).
16. In determining whether to delay the effective date or withdraw the guidance, the AcSB considered why the amendments were issued in the first place. Before the Board issued the amendments in December 2019, many entities were asking for more guidance on how to account for upfront non-refundable fees or payments. This fee structure is typical for entities issuing software-licensing agreements. With the lack of guidance in [Section 3400](#), entities referred to the superseded guidance in EIC-141 on how to account for these types of arrangements. By adding this guidance from EIC-141 to the Handbook, it was formalized as authoritative. For these types of entities, the amendments were beneficial and supported their accounting policy for upfront non-refundable fees or payments. By keeping the guidance in the standard, it will continue to support the accounting policies of entities who initially asked for it. Therefore, the Board decided not to proceed with this option.

Disclosure requirement for entities recognizing upfront non-refundable fees in revenue upfront

17. The AcSB also considered whether a disclosure that disaggregates revenue from upfront non-refundable fees versus annual membership fees would provide decision useful information without requiring entities to change practice. The Board's [Private Enterprise Advisory Committee](#) and [Not-for-Profit Advisory Committee](#) indicated that this disclosure would not be onerous to prepare since information on initiation fees recognized in revenue upfront is readily available.
18. The AcSB noted that the amendments to [paragraphs 3400.A45-.A48](#) were issued to reduce diversity in the accounting for upfront non-refundable fees or payments. If the Board were to indefinitely defer the effective date of these amendments, diversity in practice might continue. The Board thinks that this disclosure requirement will provide useful information to financial statement users while there is still diversity in practice.

Proposed solution

19. The AcSB proposes to indefinitely defer the effective date of the amendments, with early application permitted, until the [Evaluating the Preface](#) project is complete. The Board also proposes a new disclosure requirement for upfront non-refundable fees or payments recognized in revenue where the enterprise recognizes the fee or payment in revenue upon entering into an arrangement.
20. Since it proposes to defer the effective date, while still providing entities with the option to early adopt, the AcSB thinks that no entities will be required to change practice in the near term. Entities that were previously deferring and amortizing can continue to do so while those that recognized revenues upfront for initiation fees will also continue this practice with additional disclosure. In addition, any entities that early adopted the amendments can continue to apply those amendments as the application guidance will remain in the standard. The Board thinks that the proposed new disclosure requirement will provide useful information to financial statement users while there is still diversity in practice.

Effective date and transition

21. The AcSB plans to issue the proposed amendments into Part II of the Handbook in May 2024, while continuing to allow early adoption of the added application guidance on accounting for upfront non-refundable fees or payments. Since it heard that the proposed disclosure requirement should not be onerous for entities to prepare, the Board proposes that this amendment be effective for fiscal years beginning on or after January 1, 2025.

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