

AASB Project Proposal: Presentation and Disclosures by Private Sector Not-for-Profit Entities (including Charities)

Introduction and background

1. The Senate Standing Committee on Economics Report *Disclosure regimes for charities and not-for-profit organisations* (December 2008) states as Recommendation 13:

“The committee recommends that a new disclosure regime contain elements of narrative and numeric reporting as well as financial, in acknowledgement that the stakeholders of the Sector want different information to that of shareholders in the Business Sector. The financial reporting should be transparent and facilitate comparison across charities.”
2. The topic ‘Disclosures by Charities’ has for some time been included as a potential agenda item on the AASB’s Work Program in Table 3 ‘Agenda Decisions to be Made’, Item 1 (under the heading ‘Domestic not-for-profit and public sector’):

“Financial reporting by charities (... The project proposal will include consideration of whether the project should focus on disclosure issues given that recognition and measurement issues will be addressed in other projects.)”
3. In addition, the topic ‘Performance indicators’ is included as a future active agenda item on the AASB’s Work Program in Table 2 ‘Non-active Projects (Subject to Resources)’, Item 6 (under the heading ‘Domestic not-for-profit and public sector’):

“Performance indicators (incl ... non-financial performance indicators, and consider NZ approach to Statement of Service Performance and IPSASB’s future proposals on reporting of service performance information)”
4. Work on these topics was not able to be progressed by the AASB without additional resources. Accordingly, the topic ‘disclosures by charities’ was the subject of an application for Companies and Unclaimed Monies Special Account (CUMA) funding. Specifically, the application was to fund the AASB developing an Invitation to Comment or Exposure Draft relating to disclosures by charities. The Minister for Superannuation and Corporate Law subsequently approved funding for “The AASB developing an exposure draft for disclosures by private not-for-profit entities” (Treasury Executive Minute No. 09/0803 dated 2 April 2009). Given the interrelationship between disclosure issues and presentation issues, and the concerns of not-for-profit entities about the presentation of financial statements because of existing recognition and measurement requirements, AASB staff think that there is merit in further broadening the scope of the project to include presentation.

The issues

5. In addition to the Senate Standing Committee on Economics Report referred to above, numerous other reports have identified the need to consider financial reporting issues specific to private not-for-profit entities. These include The Institute of Chartered Accountants in Australia’s document *Enhancing not-for-profit annual and financial reporting – Best practice reporting* (March 2009), and the PricewaterhouseCoopers Annual Transparency Awards. Issues relating to recognition and measurement are being addressed in other AASB projects (see paragraph 12(e) below), and therefore this project proposal focuses on issues relating to presentation and disclosure.

6. Most existing Australian Accounting Standards that include presentation and disclosure requirements apply to all reporting entities. Some of these Standards focus only on disclosure requirements, such as AASB 7 *Financial Instruments: Disclosures*, and others include disclosure requirements along with requirements on recognition and measurement, such as AASB 116 *Property, Plant and Equipment*. AASB 101 *Presentation of Financial Statements* specifies presentation requirements. Most of the AASB's Standards are derived from International Financial Reporting Standards, which are not written specifically with private not-for-profit entities in mind. Accordingly, for example, although AASB 7 requires the disclosure of useful information by both for-profit and not-for-profit entities, due to its for-profit entity focus, many constituents in the private not-for-profit sector have experienced difficulties in its use. Therefore, there is a risk that the costs incurred by these entities to comply with the existing disclosure requirements outweigh the benefits to users of the financial reports that contain the disclosures.
7. Even if the existing disclosure requirements provide useful information for users, there is a high risk that other information specific to private not-for-profit entities and needed by users is not being disclosed, or is not being disclosed in a consistent way. Many existing disclosures focus on financial aspects, whereas the non-financial aspects of private not-for-profit entities are often important to users.
8. Although many private not-for-profit entities have filled the void by making voluntary disclosures, there is a lack of comparability across entities. For example, of interest to many users is information about the efficiency with which charities have performed, such as the ratio of administration costs to donations, but there is not a consistent basis for calculating such a key performance indicator.
9. As noted in paragraph 4 above, issues relating to presentation are related to recognition and measurement. For example, often in the past when private not-for-profit entities have criticised recognition and measurement requirements our response has been that they should give consideration to how the information is presented to address their concerns. This type of response has often not been regarded as satisfactory given that presentation requirements in AASB 101 are written from a for-profit perspective.

Benefits of addressing the issues

10. There is the potential for the following benefits to flow from addressing the issues:
 - (a) Users of private not-for-profit entities' financial reports would be provided with more relevant and understandable information about the financial and non-financial aspects of charities;
 - (b) There would be greater consistency of reporting by private not-for-profit entities, enhancing comparability and providing a basis for benchmarking;
 - (c) Private not-for-profit entities could better satisfy their accountability obligations;
 - (d) There would be a potential reduction in costs for private not-for-profit entities in complying with Australian Accounting Standards;
 - (e) There would be greater cohesiveness of Australian Accounting Standards between recognition and measurement requirements on the one hand (some aspects of which are being undertaken as separate projects – see for example paragraph 12(e) below) and presentation requirements on the other, as alluded to in paragraph 9 above;
 - (f) There would be greater cohesiveness of Australian Accounting Standards between recognition and measurement requirements on the one hand (some aspects of which are being undertaken as separate projects – see for example paragraph 12(e) below) and disclosure requirements on the other. This might be achieved, for example, by reviewing as part of this project the disclosure requirements relating to services in-

- kind proposed in the AASB's Exposure Draft ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)* in light of the optional recognition proposals; and
- (g) The AASB would be provided with a basis for going on to consider presentation and disclosures by public sector not-for-profit entities, to the extent the issues are common between the sectors.

Approach to dealing with the issues

11. Staff suggest that a project be undertaken following the AASB's usual process of progressing similar work, with the objective of ultimately issuing an Australian Accounting Standard, Standards or Amending Standards on presentation and disclosures by private sector not-for-profit entities in their general purpose financial statements.

Cross-cutting issues

12. The project would need to have regard to cross-cutting issues being addressed in other projects, including:

- (a) The AASB's Definition of Not-for-Profit Entity project. Currently, the definition in paragraph Aus6.1 of AASB 102 *Inventories* is:

"An entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls"

The AASB's Work Program shows Item 30 in Table 1 'Active Projects' as "NFP criteria/NZ convergence (incl NFP definition and guidance)". Item 3.2(a) of the AASB's Public Sector Policy Paper as at April 2009 describes the status of the definition aspect of the project as follows:

"The AASB has considered comments on ITC 14 *Not-for-Profit Entity Definition and Guidance*, which sought input on using the definition and guidance on public benefit entities in NZ IAS 1 *Presentation of Financial Statements* in Australia, and has also considered the outcome of the roundtable discussions on the proposals in ITC 14. The AASB is also articulating its process for modifying IFRSs (*Process for Modifying IFRSs*) for application by not-for-profit entities (jointly with New Zealand), which raises issues entwined with those concerning the definition. The AASB has agreed that it is appropriate to suspend its work on the definition until the development of the *Process* is further advanced. An Invitation to Comment on a draft *Process* has been released for comment by 30 June 2009 (jointly with New Zealand)."

The AASB is scheduled to consider responses to the draft *Process for Modifying IFRSs* at its July 2009 meeting, and jointly with the NZ FRSB in October 2009. The project that is the subject of this proposal should have regard to any work on the definition of not-for-profit entity that the AASB may undertake in light of those responses.

Although the distinction between private and public is also pertinent to this project, it is not explicitly defined in Australian Accounting Standards and is generally not controversial. Therefore, staff do not envisage the distinction being a matter that needs to be considered as part of the project. The issues that do arise in this context tend to relate to the question of control in the public sector. The AASB's Work Program shows as a separate project Item 1 in Table 2 'Non-active projects (subject to resources)' as "Control of an entity" under the heading 'Domestic not-for-profit and public sector'.

- (b) The AASB's Financial Statement Presentation project, which is closely related to the IASB's project of the same name. In October 2008 the IASB issued a Discussion Paper *Preliminary Views on Financial Statement Presentation*, which was included in AASB Invitation to Comment ITC 19 in January 2009. Although the Discussion

Paper was written from a for-profit perspective, ITC 19 requested comments on whether the proposals are suitable for not-for-profit entities and, if not, asked for ideas for an alternative approach. Agenda paper 4.4 of the 22 April 2009 AASB meeting provides an AASB staff collation of comments by constituents on public sector/not-for-profit specific issues in relation to the Discussion Paper. The AASB's submission to the IASB suggested the IASB progress the project from a more general sector neutral perspective having regard to both for-profit and not-for-profit issues, to help develop more robust universal principles. The IASB's Work Program contemplates an Exposure Draft in the first half of 2010 and an IFRS in 2011.

The project that is the subject of this proposal should monitor and integrate with any decisions emerging from the Financial Statement Presentation project. To the extent the Financial Statement Presentation project does not resolve issues relating to presentation of financial statements of private not-for-profit sector entities, this project should address them.

- (c) Particular phases of the AASB's Conceptual Framework project, which are closely related to phases of the IASB's and IPSASB's Conceptual Framework projects.

- (i) The IASB's Conceptual Framework project summary states:

“An objective of Phase E, Presentation and Disclosure, including Financial Reporting Boundaries, is to determine the concepts underlying display and disclosure of financial information, including the boundaries of such information, that will achieve the objective of general purpose financial reporting.”

This Phase of the IASB's Conceptual Framework project is currently described as inactive.

- (ii) The IPSASB issued a Consultation Paper in September 2008 seeking, among other things, comments on issues relating to the scope of financial reporting. It considers in detail the types of information that may be included within the scope of financial reporting, and presented in general purpose financial reports to achieve the objectives of financial reporting.

The project that is the subject of this proposal should have regard to any relevant developments in the Conceptual Framework projects. This will be important in relation to consideration of the non-financial disclosures aspect of this proposal, which particularly tests the scope of financial reporting.

- (d) The AASB's Differential Reporting project, which is closely related to the IASB's IFRS for SMEs project. The project that is the subject of this proposal should monitor and integrate with any decisions emerging from the Differential Reporting project. To the extent the Differential Reporting project does not resolve issues relating to differential reporting in the private not-for-profit sector in relation to presentation and disclosures, this project should address them.
- (e) Various projects of the AASB addressing recognition and measurement issues. For example, existing Australian Accounting Standards include AASB 1004 *Contributions*, which addresses recognition and measurement issues specific to not-for-profit entities. AASB 1004 deals with matters such as the recognition of cash and in-kind grants and donations. The Standard is currently being reviewed by the AASB in response to concerns that in some instances revenue is required to be recognised too early, which distorts the financial information contained in financial reports. This work is high priority, being progressed jointly with New Zealand and, in the first instance, having regard to the requirements specified by the IPSASB in IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The AASB's Exposure Draft on this topic, ED 180, is open for comment by 30 November 2009.

The project that is the subject of this proposal would not address recognition and measurement issues (such as the accounting for revenue from non-exchange transactions). These issues should be addressed in separate projects. However, to the extent those projects contemplate disclosures to supplement recognition and measurement requirements (see for example our comment in paragraph 10(f) above), they should have regard to any outcomes emerging from this project.

Project plan

13. Given the broad scope of the proposed project, it should be broken down into the following Phases:
 - (a) Phase 1: Preliminary research work
 - (b) Phase 2: Presentation of financial statements
 - (c) Phase 3: Assessment of existing disclosure requirements
 - (d) Phase 4: New financial disclosures
 - (e) Phase 5: New non-financial disclosures
 - (f) Phase 6: Consolidation of Phases 1-5
14. At the end of each of Phases 2-5, a decision should be made as to whether a consultative document should be issued, and if so the nature of the document (Discussion Paper, Invitation to Comment, Exposure Draft) and whether Roundtables or other forms of consultation should be undertaken. To keep the project manageable, the following project plan anticipates progressing the Phases in sequence rather than concurrently. Allowance should be made for the fact that later Phases may affect preliminary outcomes of earlier Phases.
15. The steps and potential timing for progressing the Phases of the project would include:

Step	AASB meeting
<i>Phase 1: Preliminary research work</i>	
1.1 Agree on the scope and approach of the project	September 2009
1.2 Establish a Project Advisory Panel (to be consulted on a range of issues including user needs throughout the project)	October 2009
1.3 Without pre-empting whether different types of private not-for-profit entities should be subject to different presentation and disclosure requirements, consider the need to sub-classify private not-for-profit entities (for example, distinguish between charities and member-based organisations; and/or distinguish between large and small organisations) and develop working definitions of those categories	December 2009
1.4 Undertake a review of international requirements/practices (including the UK Statement of Recommended Practice Accounting And Reporting By Charities, the FASB's approach to private not-for-profit entities and NZ FRSB's approach to private not-for-profit entities), domestic initiatives (including the PwC Annual Transparency Awards and work undertaken by the professional accounting bodies) and the findings of academic research	March 2010
<i>Phase 2: Presentation of financial statements</i>	
2.1 Consider issues relating to presentation of financial statements having regard to existing recognition and measurement requirements, and proposed requirements in AASB ED 180. Initially, depending on the IASB's progress, this would entail a 're-write' of, or at least the writing of a private sector not-for-profit perspective at a principles level on, the IASB's Discussion Paper on financial statement presentation.	August 2010
2.2 Possibly issue a Consultation Paper	

<i>Phase 3: Assessment of existing disclosure requirements</i>	
3.1 Undertake a critical review of each disclosure requirement currently prescribed in Australian Accounting Standards, and form a view on its suitability for the different types of private not-for-profit entities identified in Step 1.3. Without pre-empting the outcome of this Phase, there should be an aspiration to identify a principle that can be used as a basis for identifying what disclosures should be required. It is conceivable that the Phase will conclude that there is no private sector not-for-profit specific reason to relieve entities within that sector from particular existing disclosure requirements, although there may be a basis for modifying/orienting those requirements to a private sector not-for-profit perspective.	January 2011
3.2 Possibly issue a Consultation Paper	
<i>Phase 4: New financial disclosures</i>	
4.1 Consider whether there are financial disclosures not currently required that should be prescribed, for different types of private not-for-profit entities, for example: (a) financial outcomes against ex post financial targets; (b) ex ante financial targets; (c) financial information about volunteers; and (d) costs incurred in raising funds and the definition adopted for fundraising costs, and/or costs of fundraising efforts as a percentage of funds raised. This would include a review of current practice and international requirements (see Step 1.4).	June 2011
4.2 Possibly issue a Consultation Paper	
<i>Phase 5: New non-financial disclosures</i>	
5.1 Consider whether there are non-financial disclosures, not currently required that should be prescribed, for different types of private not-for-profit entities, for example: (a) non-financial performance indicators; (b) explanations of variances from budgets; (c) non-financial information about volunteers; and (d) environmental sustainability reporting. This would include a review of current practice and international requirements (see Step 1.4). As implied in paragraph 12(c) above, the scope of this Phase would depend on the view taken of the scope of financial reporting more generally. The scope of this Phase may also be limited by the AASB's level of expertise in non-financial matters.	January 2012
5.2 Possibly issue a Consultation Paper	
<i>Phase 6: Consolidation of Phases 1-5</i>	
6.1 Issue an Invitation to Comment (if appropriate, and depending on whether and what type of Consultation Paper is issued at the end of each Phase) and ultimately an Exposure Draft for a three-month comment period.	July 2012
6.2 Consider submissions on the consultative document(s)	December 2012
6.3 Issue a Standard(s) [possibly in the form of an Amending Standard(s)]	May 2013

16. The estimated timing of the above Phases/steps are subject to a range of factors that are beyond the control of the project team. They are provided above to give a broad sense of the sequence and an indication of the period of time each Phase/step might take. Depending on developments in other projects (see paragraph 12 above), it may be appropriate to reorder some of the Phases. For example, depending on the progress being made by the IASB on its Financial Statement Presentation project, it may be preferable to delay Phase 2 and accelerate Phase 3.

Resource implications

Staffing

17. A project manager (50%) for about 3 years and the time of other staff supporting the project manager and senior staff reviewing the work.

Other costs

18. Consultation with constituents, comprising travel costs (expected to be primarily domestic), and conduct of roundtables within Australia – say Melbourne, Sydney and Canberra – including hire of venues and catering.

Questions for the AASB

Question 1: Should a project based on this project proposal be included on the AASB's Work Program under Active Projects?

Question 2: What should be included within the scope of the project?

- (a) Presentation
- (b) Disclosures – financial and non-financial
- (c) Differential reporting issues

Question 3: What sequence for the Phases should be followed?

Question 4: What would you anticipate in relation to the consultative document(s)?

- (a) Issue something at the end of each Phase, or only after all Phases
- (b) Discussion Paper, Invitation to Comment, Exposure Draft

Question 5: Do you have any other comments on the project proposal?