

**AASB Project:
Disclosures by Private Sector Not-for-Profit Entities**
(August 2009)

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. In addition to the Senate Standing Committee on Economics Report, other reports have identified the need to consider financial reporting issues specific to private sector 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.
3. The topic ‘Disclosures by Charities’ was for some time included as a potential agenda item and the topic ‘Performance Indicators’ was included as a future active agenda item on the AASB’s Work Program.
4. In the past, 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). Issues relating to presentation are addressed in paragraphs 16-19 below and issues relating to recognition and measurement are being addressed in other AASB projects (see paragraph 11(e) below).
5. The AASB considered a project proposal at its 29-30 July 2009 meeting. This project outline is based on that project proposal, amended to reflect the AASB’s decisions.

The issues

6. Most existing Australian Accounting Standards that include 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*. Most of the AASB’s Standards are derived from International Financial Reporting Standards, which are not written specifically with private sector not-for-profit entities in mind. 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 sector not-for-profit entities and needed by users is not being disclosed, or is not being disclosed in a consistent manner.

Many existing disclosures focus on financial aspects, whereas the non-financial aspects of private sector not-for-profit entities are often important to users. This type of reporting includes what is often described as service performance reporting.

8. Although many private sector 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.

Benefits of addressing the issues

9. There is potential for the following benefits to flow from addressing the issues:
 - (a) Users of private sector not-for-profit entities' general purpose financial statements would be provided with more relevant and understandable information about the financial and non-financial aspects of private sector not-for-profit entities;
 - (b) There would be greater consistency of reporting by private sector not-for-profit entities, enhancing comparability and providing a basis for benchmarking;
 - (c) Private sector not-for-profit entities could better satisfy their accountability obligations;
 - (d) There would be a potential reduction in costs for private sector 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 11(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
 - (f) The AASB would be provided with a basis for going on to consider disclosures by public sector not-for-profit entities, to the extent the issues are common between the sectors.

Approach to dealing with the issues

10. This project will 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 disclosures by private sector not-for-profit entities in their general purpose financial statements.

Cross-cutting issues

11. The project will 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 (August 2009) shows Item 35 in Table 1 'Active Projects' as “NFP criteria/NZ convergence (incl NFP definition and guidance)”. Item 3.2(a) of the AASB's Approach to Public Sector Issues as at August 2009 describes the status of the not-for-profit 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* was released for comment by 30 June 2009 (jointly with New Zealand) and the Boards are currently dealing with revisions to the *Process* based on comments received.”

This Disclosures by Private Sector Not-for-Profit Entities project will have regard to any work on the definition of not-for-profit entity that the AASB may undertake.

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, it is not envisaged that the distinction will be 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 (August 2009) shows as a separate project Item 5 in Table 1 ‘Active projects’ “Control in the public sector ...” under the heading ‘Domestic not-for-profit and public sector’.

- (b) 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.

This Disclosures by Private Sector Not-for-Profit Entities project will 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 project, which particularly tests the scope of financial reporting.

- (c) The AASB’s Management Commentary project, which incorporates the IASB’s equivalent project. The project complements the phases in the IASB’s Conceptual Framework project (Phase A: Objectives and Qualitative Characteristics, and Phase E: Presentation and Disclosure – see paragraph 11(b) immediately above).

Management commentary provides a context within which to interpret the financial position, financial performance and cash flows of an entity. It also provides an opportunity to understand management’s objectives and its strategies for achieving those objectives. This encompasses reporting what is described in various jurisdictions as management’s discussion and analysis (MD&A), operating and financial review (OFR), or management’s report.

The AASB has published ED 183 *Management Commentary*, which incorporates the IASB’s ED/2009/6 *Management Commentary* issued in June 2009. It includes a

proposed non-mandatory framework intended to provide a basis to help entities prepare and present a narrative report. The ED is open for comment to the AASB until 31 December 2009 and to the IASB until 1 March 2010.

The ED was prepared on the basis that management commentary lies within the boundaries of general purpose external financial reporting. Consequently, this Disclosures by Private Sector Not-for-Profit Entities project will have regard to any relevant outcomes emerging from the Management Commentary project.

- (d) The AASB's Differential Reporting project, which is closely related to the IASB's IFRS for SMEs project. This Disclosures by Private Sector Not-for-Profit Entities project will 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 disclosures, this project will 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 and is currently being reviewed. AASB 1004 deals with matters such as the recognition of cash and in-kind grants and donations. The Standard is being reviewed by the AASB in response to concerns that in some instances it requires revenue to be recognised too early, which distorts the financial information contained in general purpose financial statements. 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.

This Disclosures by Private Sector Not-for-Profit Entities project will not address recognition and measurement issues (such as the accounting for revenue from non-exchange transactions). These issues will be addressed in separate projects. However, to the extent those projects contemplate disclosures to supplement recognition and measurement requirements (see for example the comment in paragraph 9(e) above), they should have regard to any outcomes emerging from this project.

Project plan

- 12. Given the broad scope of the project, it is broken down into a preliminary research stage and then the following Phases:
 - (a) Phase 1: New financial and non-financial disclosures (including service performance reporting); and
 - (b) Phase 2: Assessment of existing disclosure requirements.
- 13. The plan is to issue consultative documents, whether in the form of Discussion Paper, Invitation to Comment, Exposure Draft, and conduct Roundtables or undertake other forms of consultation at appropriate times throughout the project. To keep the project manageable, the Phases will be undertaken in sequence rather than concurrently. Allowance will need to be made for the fact that the later Phase may affect preliminary outcomes of the earlier Phase.
- 14. The steps and potential timing for progressing the preliminary research and the Phases of the project include:

AASB 23-24 September 2009
Agenda paper 7.5

Step	Target items	AASB meeting
<i>Preliminary research</i>		
R1. Agree on the scope and approach of the project	Board approval	July 2009
R2. Establish a Project Advisory Panel (to be consulted on a range of issues including user needs throughout the project)	Panel established	October 2009
R3. Without pre-empting whether different types of private sector not-for-profit entities should be subject to different disclosure requirements, consider the need to sub-classify private sector 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	Develop Issues Papers consisting of: - analysis of existing international and domestic reporting requirements	October 2009
R4. Undertake a review of international requirements/current practice by existing not-for-profit entities (including the UK Statement of Recommended Practice Accounting And Reporting By Charities, the FASB's approach to private sector not-for-profit entities and NZ FRSB's approach to not-for-profit entities [e.g. TPA 9 <i>Service Performance Reporting</i>]), domestic initiatives (including the PwC Annual Transparency Awards and work undertaken by the professional accounting bodies and each State/Territory jurisdiction) and the findings of academic research	- analysis of international and domestic disclosures in practice - identified issues.	
<i>Phase 1: New financial and non-financial disclosures (including service performance reporting)</i>		
<i>Part 1: Service performance reporting</i>		
1.1.1 Consider issues relating to, and the form and content of, service performance reporting. This will include a review of current practice and international requirements (see R4 above). The scope of this part may be limited by the AASB's level of expertise in non-financial matters.	Analysis of international and domestic service performance reporting requirements and in practice Consultation via project advisory panel and roundtables Issue consultative document	October 2009 - February 2010
1.1.2 Consider submissions on the consultative document(s)	Collation of comments	June 2010
1.1.3 Issue a Standard	Standard	July - August 2010
<i>Parts 2-X: Other additional disclosures</i>		
1.2.1 Consider whether there are other disclosures, not within the scope of service performance reporting or currently required, that should be prescribed, for different types of private not-for-profit entities, for example: (a) segment/disaggregated information; (b) financial outcomes against ex post financial targets; (c) explanations of variances from budgets; (d) ex ante financial targets; (e) financial or non-financial information about volunteers; and (f) environmental sustainability reporting. This will include a review of current practice and international	Analysis of international and domestic requirements and practice Consultation via project advisory panel and roundtables Issue consultative documents as required	To be determined, pending the outcome of Part 1

and domestic requirements (see R4 above). As implied in paragraph 11(b) above, the scope of this Phase would depend on the view taken of the scope of financial reporting more generally. Each topic identified would be progressed separately.		
1.2.2 Consider submissions on the consultative document(s)	Collation(s) of comments	To be determined, pending the outcome of Part 1
1.2.3 Issue a Standard(s) [possibly in the form of an Amending Standard(s)]	Standard(s)	To be determined, pending the outcome of Part 1
<i>Phase 2: Assessment of existing disclosure requirements</i>		
2.1 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 sector not-for-profit entities identified in R3. 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.	Analysis/Matrix of existing disclosure requirements Conclusion on disclosures that are not applicable or require modification Issue consultative documents	To be determined, depending on timing of Phase 1
2.2 Consider submissions on the consultative document(s)	Collation(s) of comments	To be determined, depending on timing of Phase 1
2.3 Issue a Standard(s) [possibly in the form of an Amending Standard(s)]	Standard(s)	To be determined, depending on timing of Phase 1

15. The estimated timing noted in the above table is 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 Part 1 of Phase 1 might take. The timing of Phase 2 is dependent on the timing of Phase 1.

A Possible Phase 3: Presentation of private sector not-for-profit entity general purpose financial statements

Issues

16. AASB 101 *Presentation of Financial Statements* specifies presentation requirements applicable to both for-profit and not-for-profit entities. Often in the past when private sector not-for-profit entities have criticised recognition and measurement requirements in accounting standards a response has been that they should give consideration to how the information is presented under AASB 101 to address their concerns. This type of response has often not been regarded as satisfactory given that presentation requirements in AASB 101 are primarily written from a for-profit perspective.

17. 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, there may be merit in considering

whether to undertake further work on presentation issues, once the disclosure issues have been addressed. This could be undertaken as an adjunct to this project, or as part of the AASB's separate Presentation of Financial Statements project, which incorporates the IASB's work on its corresponding project (see paragraph 19 below). Irrespective of how presentation issues are progressed, it would be necessary to consider the impact of the IASB's work on the AASB's Financial Statement Presentation project. Initially, depending on the IASB's progress, the AASB might consider issues relevant to 're-writing', or at least writing a private sector not-for-profit perspective at a principles level on, the IASB's Discussion Paper on financial statement presentation.

Benefits of addressing this issue

18. In addition to the types of benefits noted in paragraphs 9(a)-(d) above, 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 11(e) above) and presentation requirements on the other, as alluded to in paragraph 16 above.

Cross-cutting issues

19. If the AASB were to undertake this possible Phase 3 of this project, the project would need to have regard to cross-cutting issues being addressed in other projects, including:
- (a) The AASB's Financial Statement Presentation project, which as noted in paragraph 17 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.

If this Disclosures by Private Sector Not-for-Profit Entities project leads to work on presentation, that work would need to 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 possible Phase 3 could address them.

- (b) The AASB's Income from Non-exchange Transactions project – see paragraph 11(e) above.