



Project:	Income of Not-for-Profit Entities	Meeting	AASB October 2015 (M148)
Topic:	Staff Summary of Comment Letters and Outreach	Agenda Item:	13.1
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		Decision-Making:	High
		Project Status:	Redeliberations

Introduction and objective of this paper

- 1 The objective of this paper is to provide the Board with a summary of the feedback received on the specific matters for comment 6 – 8 and 10 – 13 for ED 260 *Income of Not-for-Profit Entities*¹ with a view to seeking a Board decision on the issues to be considered for redeliberation at future Board meetings.
- 2 A summary of the feedback received on specific matters for comment 1 – 5 and 9 was provided to Members at the September 2015 Board meeting.²
- 3 The comment period on ED 260 closed 14 August 2015. The AASB received 33 comment letters.³ A listing of respondents is provided in Appendix A to this Agenda Paper.
- 4 In addition, roundtable discussions were conducted in Melbourne, Canberra, Brisbane and Sydney in June 2015. Further outreach and education sessions were also undertaken during the comment period.

Summary of Comments Received: Specific Matters for Comment 6 – 8 and 10 – 13

Questions 6

Australian Accounting Standards applicable to for-profit entities do not include a definition of ‘contributions by owners’. Further, concerns have been expressed by some that the definition of ‘contributions by owners’ in AASB 1004 is too narrow. Do you consider that a

¹ The link to ED 260 *Income of Not-for-Profit Entities* is http://www.aasb.gov.au/admin/file/content105/c9/ACCED260_04-15.pdf

² Agenda Paper 14.2 Staff Issues Paper: Staff Collation and Analysis of Comment Letters and Outreach ED 260 *Income of NFP Entities* is available at http://www.aasb.gov.au/admin/file/content102/c3/M147_14.2_Staff_Collation_and_Analysis_of_Comment_Letters_ED_260.pdf

³ Note that submission #17 was not assigned to any of the comment letters.

definition of ‘contributions by owners’ is still necessary, or appropriate, in Australian Accounting Standards? If so, would you prefer using:

- (a) the definition of ‘contributions by owners’ presently in AASB 1004; or*
- (b) the definition of ‘ownership contributions’ in the Public Sector Conceptual Framework issued by the International Public Sector Accounting Standards Board (IPSASB)? (See also paragraphs BC84-BC91 of the Basis for Conclusions.)*

5 Fourteen constituents commented on the proposal, including two constituents⁴ focusing on the issue from the perspective of not-for-profit sector entities in the private sector.

Support

6 The majority of constituents⁵ identified a need for a definition of contributions by owners and expressed their support for applying the IPSASB definition or using the IPSASB definition as the basis for an Australian definition.

7 The need to minimise diversity was cited by the majority of respondents as the reason a definition was necessary.

8 One constituent⁶ noted that the current definition may create challenges for some entities; however, the challenges of not having any guidance would be greater, with entities needing to create their own guidance which could result in divergent practice.

Other views

9 Some constituents rejected the need for the accounting standards to include a definition. One constituent⁷ noted that the current definition is not how equity is established and managed. Another constituent⁸ supported retaining the current definition. This constituent noted that governments make decisions about whether to inject equity into their controlled entities and thereby enable that entity to deliver public services to the community. The constituent further noted that governments also make decisions about what form that investment shall be; for example, cash, land, and infrastructure. A definition enables governments to appropriately classify the government's investment into a controlled entity as either revenue or equity and promotes consistent application between various governments and increases comparability of financial performance.

Concerns and suggestions

10 One constituent⁹ noted that equity in the public sector is generally only a residual, and any further disaggregation is of questionable value. In States/Territories, Treasuries

⁴ M.A Smallman and Seward Dawson

⁵ HoTARAC, IPA, KPMG, Local Government Finance Professionals Inc, Moore Stephens, Nexia, and PwC,

⁶ HoTARAC

⁷ Queensland Treasury

⁸ ACAG

⁹ Queensland Treasury

can develop/maintain their own guidance for their entities to ensure some discipline/consistency in accounting.

- 11 Two constituents¹⁰ supported the AASB taking on a separate project to address current application issues.
- 12 One constituent¹¹ recommended that the term ‘parties external to the entity’ as used in AASB 1004 *Contributions* be retained rather than the term ‘external parties’ in the IPSASB definition, to maintain consistency in terminology as entities within government would be related. The constituent considered there was a need for guidance on the treatment of net assets transfers between entities as a result of restructures of administrative arrangements, particularly in instances where there may be negative assets transfers, i.e., net liability, whether it would still qualify for a contribution by owners; or in cases when there is insufficient capital to facilitate a transfer of net assets.
- 13 One constituent¹² who commented on the issue from the perspective of not-for-profit sector entities in the private sector was of the view that practical guidance on circumstances where contributions should be recorded directly in equity or within the profit and loss would be of benefit to the sector. Typically issues arise in this area as many private sector not for profits do not have ‘owners’ in the traditional sense. In particular clarification in relation to contributions from:
 - (a) entities that are a parent or subsidiary based on the principles of control under AASB 10 *Consolidated Financial Statements* even though no equity ownership exists; and
 - (b) contributions from entities with similar purposes where assets are transferred on wind-up of one entity or on ‘merger’ of the entities.

Question 7 *The AASB also seeks views on the following issues related to contributions by owners:*

- (a) *whether, in view of concerns expressed by some that using AASB 1004’s definition of ‘contributions by owners’ in AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities (which includes for-profit public sector entities in its scope) might prevent a for-profit entity in the public sector from making an unreserved statement of compliance with IFRSs, AASB Interpretation 1038 should be:*
 - (i) *withdrawn;*
 - (ii) *retained but with narrower application [that is, limited to not-for-profit entities in the public sector, and possibly also confined to identifying which not-for-profit public sector entities should account for transfers between them when they are controlled by the same parent (government)]; or*

¹⁰ ACAG and KPMG

¹¹ HoTARAC

¹² Seward Dawson

- (iii) *retained without amendment? (See also paragraphs BC84-BC94 of the Basis for Conclusions.)*
- (b) *whether requirements for restructures of administrative arrangements (presently set out as paragraphs 54-59 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraph BC90(b) of the Basis for Conclusions);*
- (c) *whether requirements for distributions to owners (presently set out as paragraphs 49 and 53 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC94-BC96 of the Basis for Conclusions);*
- (d) *whether requirements for liabilities of government departments assumed by other entities (presently set out as paragraphs 39-43 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC97-BC98 of the Basis for Conclusions); and*
- (e) *the practical implications if the definition of ‘contributions by owners’ and AASB Interpretation 1038 were to be withdrawn?*

Support

Eight constituents commented on the proposal with the majority¹³ supporting the withdrawal of the Interpretation. One constituent¹⁴ noted it did not expect that withdrawal of the Interpretation would result in any significant change in practice in this area, as that constituent considered that the relevant existing State Treasury requirements provide adequate guidance.

Other views

- 14 Some constituents¹⁵ supported retaining the Interpretation. They noted that the Interpretation provides direction and consistency in the accounting for transactions between wholly owned public sector entities. Consequently, the Interpretation is regularly considered by preparers and auditors and should be retained.

Concerns and suggestions

- 15 One constituent¹⁶ expressed a strong preference for the removal of the requirements for the reason that ‘restructures of administrative arrangements’ as per the AASB 1004 definition only apply to transfers of businesses as defined by AASB 3 *Business Combinations*, and the AASB 1004 scope of entities to which those paragraphs apply is too arbitrary with many preparers interpreting the paragraphs in AASB 1004 as having a broader scope than intended.

Question 8 In relation to disclosure requirements regarding compliance by government departments with appropriations, do you agree with:

¹³ EY, IPA, PwC, William Buck and Queensland Treasury

¹⁴ EY

¹⁵ ACAG, HoTARAC, and KPMG

¹⁶ Queensland Treasury

- (a) *omitting the requirement in paragraph 64(e) of AASB 1004 to disclose the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the period, other than any non-compliance reflected in material variances between amounts appropriated and amounts expended? (See paragraphs BC99-BC103 of the Basis for Conclusions.)*
- (b) *extending the scope of the retained disclosure requirements for government departments (ie those regarding any non-compliance reflected in material variances between amounts appropriated and amounts expended) to also apply to any other public sector entities that obtain part or all of their spending authority from parliamentary appropriations? (See also paragraphs BC99-BC103 of the Basis for Conclusions.)*

Support

- 16 Five constituents commented on proposal (a) and all expressed their support for the proposal. Six constituents commented on proposal (b) and some expressed their support.

Concerns and suggestions

- 17 One constituent¹⁷ noted the issue demonstrates that differentiation on the basis of whether a public sector entity is a government department has less conceptual meaning than in the past. This constituent encouraged the AASB to expedite their consideration of whether it is appropriate to continue to differentiate accounting requirements on this basis.
- 18 Two constituents¹⁸ did not expect the disclosures to have much application due to funding arrangements. One constituent¹⁹ recommended that the AASB provide more specific guidance as to how this would apply to other public sector entities.

Question 10 Whether, there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- (a) *not-for-profit entities; and*
- (b) *public sector entities, including GAAP/GFS implications (discussed above).*

Views

- 19 A number of constituents²⁰ noted that reporting obligations for charities are currently determined by reference to revenue thresholds. These constituents noted that the ED proposals could have unintended consequences with respect to reporting burden. Some constituents²¹ questioned the merits of some part or all of Illustrative Example

¹⁷ ACAG

¹⁸ HoTARAC and Queensland Treasury

¹⁹ HoTARAC

²⁰ ACNC, EY, Moore Stephens, Seward Dawson, and William Buck

²¹ Nexia and Peter Batten

3C of Appendix E. Some constituents²² noted the work of the Australian Bureau of Statistics in revising its Government Finance Statistics (GFS). One constituent²³ expressed the view that the ED proposals would increase harmonisation in revenue measurement between GFS and Generally Accepted Accounting Principles. The same constituent expressed support for a similar recognition and valuation treatment from the grantor's perspective to ensure consistent treatment through all economic agents.

Question 11 Whether overall, the proposals would result in financial statements that would be useful to users.

Support

- 20 The majority of constituents²⁴ who answered this question considered that the proposals would result in financial statements that would be helpful to users although some of these constituents²⁵ noted that their support was less than total support. For example, some of these constituents identified an expectation gap being that not all their dissatisfaction with the outcomes that come from applying AASB 1004 will be addressed by the ED proposals.

Other views

- 21 A minority of constituents²⁶ did not consider that the proposals would necessarily result in a faithful representation of the entity's financial activities.

Question 12 Whether the proposals are in the best interests of the Australian economy.

Support

- 22 Less than half of all respondents answered this question. However, the majority of responding constituents²⁷ supported the proposals as in the best interest of the Australian economy.

Other views

- 23 One constituent²⁸ did not support the proposals.

Question 13 Unless already provided in response to specific matters for comment 1 – 9 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of

²² ABS, HoTARAC, KPMG and Queensland Treasury

²³ ABS

²⁴ Australian Government Department of Education & Training, ACAG, ACNC, AUSFOG, Family Planning NSW, Go8 University CFOs, Grant Thornton, HoTARAC, IPA, KPMG, Local Government Finance Professional Inc, MA Smallman, Peter Batten, PwC, Saward Dawson and Queensland Treasury

²⁵ Australian Government Department of Education & Training, AUSFOG, Family Planning NSW, Go8 University CFOs, Local Government Finance Professional Inc, MA Smallman, Peter Batten and Queensland Treasury

²⁶ Moore Stephens, South Australian Local Government Financial Management Group and William Buck

²⁷ ACAG, Grant Thornton, HoTARAC, IPA, KPMG, MA Smallman, Moore Stephens, NT Local Government Accounting Advisory Committee, PwC and Saward Dawson

²⁸ William Buck

any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Views

- 24 Some constituents²⁹ noted that there will be costs involved in implementing the proposals in the ED; however, these costs cannot be quantified as yet.
- 25 Some constituents³⁰ asked for additional guidance on a number of matters including taxation revenue, a complex government grant with requirements to provide multiple goods and services to various beneficiaries over a period of time and the accounting for operating leases.
- 26 Many constituents called for a delay to the effective date to coincide with any change by the IASB to the effective date of IFRS 15.

Appendix A

Comment letters to ED 260 were received from:

- (a) Australian Government, Department of Education & Training;
- (b) Australian Bureau of Statistics;
- (c) Australasian Council of Auditors-General;
- (d) Australian Charities and Not-for-Profit Commission;
- (e) Association of Independent Schools of NSW;
- (f) Australian University Senior Finance Officers Group;
- (g) BDO;
- (h) CPA Australia and CA ANZ;
- (i) Deloitte;
- (j) EY;
- (k) Family Planning NSW;
- (l) Go8 University CFOs;
- (m) Grant Thornton;
- (n) Heads of Treasuries Accounting and Reporting Advisory Committee;
- (o) Independent Living Centre Tasmania;

²⁹ HoTARAC and World Vision

³⁰ HoTARAC and EY

- (p) The Institute of Public Accountants;
- (q) KPMG;
- (r) Local Government Finance Professional (Qld);
- (s) M.A Smallsman;
- (t) Moore Stephens;
- (u) Nexia Australia;
- (v) NSW Local Government Finance Professionals Network;
- (w) NT Local Government Accounting Advisory Committee;
- (x) Peter Batten;
- (y) PwC;
- (z) Queensland Treasury;
- (aa) South Australian Local Government Financial Management Group;
- (bb) Saward Dawson;
- (cc) South African Accounting Standards Board;
- (dd) The University of Melbourne;
- (ee) The University of New South Wales;
- (ff) William Buck; and
- (gg) World Vision Australia.