



To:	Board Members	Date:	23 August 2011
From:	Shu In Oei	Agenda Item:	14.1
Subject:	AASB NFP Symposiums Report	File:	

Action

To receive a report on the Not-for-profit Symposiums held in Melbourne and Sydney on 15 and 19 August 2011 respectively, to note issues raised by the attendees during the events, and to particularly consider the staff suggestions in relation to the Service Performance Reporting project and the new Australian Charities and Not-for-profit Commission (ACNC).

Attachments

- 14.2 The NFP Symposiums Program (for information).
- 14.3 Email from Mr John Church dated 20 August 2011 expressing his view on the Board's role in relation to charities.

Background

The AASB held two Symposiums providing up-to-date information on the AASB's progress and direction on projects that are particularly relevant to public sector and private sector not-for-profit entities. Attendees were provided with opportunities to provide feedback and comments to AASB members and staff present on each day.

One attendee sent a follow-up email expressing a view that the AASB should not set standards for charities, with supporting reasons (please refer to Agenda Paper 14.3).

Some other significant issues raised by the attendees are provided in this memorandum. Please note that not all sessions generated significant debate.

Significant issues raised by attendees of the AASB NFP Symposiums

XBRL/IFRS Taxonomy

General comments were received on the benefits of an agreed taxonomy, and the benefits of using XBRL to facilitate having one portal for communicating information to government or regulators. It was noted that the AASB liaises with the custodian of the XBRL financial reporting taxonomy in Australia.

On a related matter, some attendees expressed support for the *IFRS for SMEs* and its taxonomy, rather than RDR.

Service Performance Reporting

Significant issues raised in relation to the Service Performance Reporting project included:

- (a) concern that this project would add to the reporting burden. Particular concern was expressed about imposing possible principles of service performance reporting on charities, especially those that are small and would find such requirements complex and burdensome; and
- (b) there was debate over whether service performance reporting should use a ‘through the eyes of management’ approach. Some attendees think that it is the only approach that should be taken, while others think this approach would lead to auditability issues.

Control in the NFP Public and Private Sector

In relation to the Control in the NFP Public and Private Sector project, the short timeframe for issuing AASB 10 *Consolidated Financial Statements*, including the Aus paragraphs that provide guidance for NFP entities, was noted. Some attendees noted the need to allow sufficient time for NFP entities to consider the new requirements prior to the mandatory application date of 1 January 2013.

Income of NFP Entities

Significant issues in relation to the Income of NFP Entities project included:

- (a) whether the specificity requirement for a performance obligation would lead to increased ‘tagging’ of transfers as being for particular purposes, driven by a desire for liability recognition;
- (b) the difficulty in understanding how probability affects the amount of return obligations recognised but not whether a performance obligation exists;
- (c) the amount of judgement that may be involved in assessing whether a promise to provide goods or services is enforceable, and the need for guidance on that issue;
- (d) the inadvisability of emphasising that the IASB is moving away from a ‘risks and rewards approach’ to revenue recognition when risks and rewards will be an indicator of when control of goods passes to a customer; and
- (e) a preference for recognising income in respect of a grant to construct a building when the building is depreciated (consistent with IAS 20), rather than when construction occurs.

Other AASB Projects

The presentation on Other AASB Projects included snapshots on leases, fair value measurement, Emission Trading Schemes (ETS), related party disclosures by NFP public sector entities, financial instruments and borrowing costs. Significant issues in relation to Other AASB Projects included:

- (a) the amendments necessary to facilitate applying AASB 124 *Related Party Disclosures* by the NFP public sector may not be as straight-forward as simply removing the current NFP public sector exemption;
- (b) removing the option to expense borrowing costs from AASB 123 *Borrowing Costs* would result in a GAAP/GFS convergence difference, as borrowing costs are expensed under GFS;
- (c) ETS is not a high priority on the IASB agenda (and is just one of many projects that the IASB is considering in its current agenda consultation). If the Australian government continues with its

timeline for the introduction of an ETS, the AASB potentially would need to determine the accounting for ETS without any guidance from IASB; and
(d) the issue of accounting for ‘peppercorn rent’ leases is relevant to some NFPs.

Conceptual Framework

Significant issues in relation to the Conceptual Framework project included:

- (a) if the IASB and IPSASB develop divergent Frameworks, would the reasonably strong similarity between IFRSs and IPSASs be eroded? and
- (b) the AASB’s rejection of identifying accountability as a separate objective of financial reporting by NFP entities is based on an unjustified presumption that GPFs are prepared only to help resource allocation decisions.

General Comments

The AASB should endeavour to use simpler English in its drafting of Accounting Standards. Suggestions were made to avoid using sentences in negative form, and not to continuously change the terminology used in existing accounting standards (e.g. the titles of financial statements), even when the IASB decided to change.

Concerns were expressed about the overall level of complexity of Accounting Standards, and comments were made about the need for a third tier of reporting requirements – particularly for charities.

AASB Staff Suggestions

All of the above comments should be considered as each project is progressed.

Based on the reaction of some attendees to Service Performance Reporting (we note that they were mainly from a preparer rather than user perspective), the project team suggests that a strategic plan for the project is prepared for the Board to consider at a future meeting. The strategic plan would aim to:

- (a) remind the Board of the history of the project; and
- (b) highlight the events that have taken and are taking place since the project was commenced [e.g. amendments to the Corporations Law with regards to KPI reporting by companies limited by guarantee; the recent establishment of ACNC and its possible role in service performance reporting; and the IPSASB project on Service Performance Reporting] and whether they impact on the future direction the Board takes on this project.

In addition, staff suggest that the Board consider at a future meeting, the role it could play in helping the ACNC on issues such as a third tier of reporting requirements.