

AASB 4-5 May 2005 - Agenda paper 13.2 ITC Contributions sub 1




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Mr David Boymal 
Chairman
Australian Accounting Standards Board
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Dear David

Invitation to Comment: The Definition of "Contribution by Owners"

Thank you for the opportunity to comment on the definition of "contribution by owners" (the "definition"). In light of concerns regarding the potential conflict between the definition and the meaning ascribed to equity under the *Framework*, we support the proposal to remove the definition from AASB 3 *Business Combinations*.


We also support the proposal to retain an amended paragraph 56.1 in AASB 3 on the basis that for many reconstructions within a reporting entity the treatment of any 'excess over cost' (discount on acquisition) as a contribution by equity participants would be appropriate. In the absence of paragraph 56.1, such an excess would be required to be accounted for as an immediate gain (in accordance with paragraph 56), which may not necessarily reflect the substance of the transaction from the acquiring entity's viewpoint.

With regard to the proposed retention of the definition for the public sector and not-for-profit entities, the invitation to comment acknowledges that there is a potential risk for non-compliance with IFRSs by not-for-profit entities. Whilst we are not currently aware of any situations where this risk is apparent, we caution the AASB in retaining a definition that could potentially result in non-compliance. For this reason, we wonder whether the definition need be retained at all and that the meaning ascribed to equity within the *Framework* be applied by all entities, both for-profit and not-for-profit.

We would be please to discuss our views with the Board or its staff. Please contact Tony Donnelly on (03) 9288 8522.

Yours sincerely

Ernst & Young



Annette Kimmitt
Partner
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