



Project:	AASB Work Plan 2017-2019	Meeting	AASB May 2017 (M157)
Topic:	Contributions by owners – project plan	Agenda Item:	3.3
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		Decision-Making:	High
		Project Status:	Project planning

Introduction

- 1 As part of the feedback on ITC 34 *AASB Agenda Consultation 2017-2019*, some constituents requested the Board to reconsider the existing definition of the term ‘contributions by owners’¹ as set out in AASB 1004 *Contributions* including the continuing need for any definition. The definition of ‘contributions by owners’ was also considered as part of the *Income of Not-for-Profit Entities* project. In the interests of finalising AASB 1058 *Income of Not-for-Profit Entities* in a timely manner, the Board decided to reconsider the definition as part of a separate future project.
- 2 At its August 2016 meeting, the Board considered the feedback received and directed staff to prepare a proposed project plan to address the practical application issues identified with the existing definition of ‘contributions by owners’. This agenda paper sets out the proposed project plan to assist the Board to form its views on whether to add this project to the AASB work programme for 2017-2019 (addressed in Agenda Paper 3.0).²

1 ‘Contributions by owners’ is defined in Appendix A of AASB 1004 as ‘Future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the assets of the entity which:

- (a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
- (b) can be sold, transferred or redeemed.

2 Staff recommendation as to whether the project should be added to the 2017-2019 work programme is included in Agenda Paper 3.0.

Project rationale, objective(s) and link to AASB strategy

Project rationale

(responds to RIS³ questions *What is the problem you are trying to solve?* and *Why is government action needed?*)

- 3 As part of the due process undertaken in issuing AASB 1058 *Income of Not-for-Profit Entities*, the AASB released Exposure Draft (ED) 260 *Income of Not-for-Profit Entities* in April 2015 for comment. In its scope, ED 260 considered the replacement of the income recognition requirements in AASB 1004 *Contributions* for not-for-profit entities, including the definition of ‘contributions by owners’. Although ED 260 did not specifically include a proposal for an alternative definition of ‘contributions by owners’, the ED illustrated what a replacement Standard for AASB 1004 would look like without that definition and posed related questions including whether a definition of ‘contributions by owners’ would be necessary.
- 4 The feedback received from constituents (both in the public and private not-for-profit sector) in response to the questions posed in ED 260 highlighted issues in the practical application of the existing definition due to its subjective and narrow nature. The feedback highlighted that some transfers of assets to not-for-profit entities which constituted equity contributions in substance could not be recognised as ‘contributions by owners’ due to the narrow nature of the recognition criteria and therefore introduced potential for divergent accounting practices to be adopted. In order to achieve clarity regarding the recognition of ‘contributions by owners’, constituents supported the need for a revised definition.
- 5 Staff have also received feedback from constituents that the definition of ‘contribution by owners’ is also an issue in the not-for-profit (NFP) private sector when considering business combinations in the NFP sector for no or nominal consideration. There appears to be divergence in practice as to whether contributions of businesses in this manner would be recognised as an equity/owner transaction or bargain purchase.
- 6 There is currently no definition of ‘contribution by owners’ in International Financial Reporting Standards (IFRS), and the IPSASB’s *Public Sector Conceptual Framework* (Framework) defines ‘contribution by owners’ differently to AASB 1004. The IPSASB framework defines the term ‘ownership contributions’ as:

“Inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity.”
- 7 ED 260 posed questions to constituents regarding the appropriateness of the IPSASB definition of ‘ownership contributions’ as a possible alternative to the existing AASB 1004. Constituents expressed support for applying the IPSASB definition, or the use the IPSASB definition, as a basis for an Australian definition on the premise that a broader definition may more appropriately capture the economic substance of the transaction.

3 Australian Government Regulation Impact Statement

- 8 AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* extends the application of the definition of ‘contributions by owners’ to public sector entities, however, Interpretation 1038 is viewed by some as not IFRS compliant.
- 9 The Board noted the feedback received from constituents as part of its deliberations in respect of AASB 1058 and considered that the amendment to the definition of ‘contributions by owners’, including adequate due process, would delay the finalisation of AASB 1058. Accordingly, the Board decided to progress the consideration of the definition of ‘contributions by owners’ and the related requirements as part of a separate project. As an interim measure, the Board decided to retain the existing definition.
- 10 The need for the Board to reconsider the definition of ‘contributions by owners’ in respect of both public sector and not-for-profit entities was also highlighted by responses to ITC 34, where constituents requested the AASB undertake further work in this regard. At the August 2016 Board meeting, the Board requested a project plan be developed by staff.
- 11 Refer to Appendix 1 for a detailed description of the project background.

Project objective(s)

(responds in part to RIS question *Why is government action needed?* through clear identification of the objectives, outcomes or goals of this project)

- 12 The objective of this project is to:
- (a) address divergent accounting practices regarding the identification of ‘contributions by owners’;
 - (b) improve accounting for ‘contributions by owners’ to reflect more consistently transactions with economic substance; and
 - (c) remove risk of for-profit public sector entities not being compliant with IFRS.

Link to AASB strategy

- 13 The Board’s strategy for the period 2015-2019 identifies five strategic directions.⁴ This project is consistent with the following strategic directions:
- (a) strategic direction 1 ‘use IFRS and transaction-neutrality as a starting point, taking into account cost/benefit considerations and user needs’. Undertaking this project shows that the Board is proactive in making appropriate amendments to IFRS for the non-for-profit sector.
 - (b) strategic direction 4 ‘facilitate and encourage active stakeholder participation in developing standards’. Undertaking the project shows that the Board

4 The AASB Strategy 2015-2019 is available on the AASB website at:
http://www.aasb.gov.au/admin/file/content102/c3/AASB_Strategy_2015-2019.pdf.

responds to stakeholder feedback; thereby providing support to the Board’s strategy of encouraging active stakeholder participation.

Project scope

- 14 Having regard to the feedback on ITC 34 and the proposed project objective, staff recommend the scope of this project is to consider what amendments to Accounting Standards, if any, are necessary to address concerns about the accounting for contributions by owners by:
- (a) considering whether a definition of ‘contributions by owners’ is necessary and if so, drafting an amended definition;
 - (b) considering implications for restructure of administrative arrangements, business combinations with nil or nominal consideration, business combinations under common control and analyse implications of impact of changes on other arrangements;
 - (c) considering if examples are required in other Accounting Standards; and
 - (d) determining the implications for public sector entities, including whether AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* should be retained, amended or withdrawn.

Staff assessment

- 15 Having regard to the proposed project scope, and project path/milestones, overall staff assess the project as:
- (a) Priority Medium
 - (b) Timing Not urgent
 - (c) Resource commitment Moderate
 - (d) Project length 8 months
 - (e) Project scale Implementation project (narrow-scope)

Key stakeholders

(Identification of key stakeholders will assist in planning for the RIS question *Who will you consult and how will you consult them?*)

- 16 Staff have identified the following as key stakeholders of the project:

(a) Government departments	(d) Heads of Treasuries Accounting and Advisory Committee (HoTARAC)
(b) Local governments	(e) Private sector not-for-profit entities
(c) Whole of government	(f) Australian Charities and Not-for-profits Commission

(g) Auditors	(h) Credit unions
(i) Australian Council of Auditors-General	(j) Other regulators
(k) Accounting advisors	

Project milestones

- 17 Staff have identified the following as key milestones of the project. These will be reassessed periodically and revised/extended to ensure the project path remains appropriate and the project can be adequately resourced.

Major project milestones	Staff comment
Present a project plan	Completed (this agenda paper)
Identification of the specific issues to be addressed by the project (refining project scope), and developing a proposal as to how remaining known concerns could be addressed	Staff think that identifying the key issues to be addressed and refining the project scope is likely to require a moderate level of staff effort
Develop communications strategy, including: <ul style="list-style-type: none"> consideration of potential education (including webinars) after public issue of implementation requirements/guidance; and consideration of events to host (e.g., roundtables) during consultation period). 	Staff think this would require moderate effort with respect to outreach activities and communication deliverables
Research – accounting in other jurisdictions, and identifying relevant academic research done in this area	Staff think this research activity is likely to require a moderate level of staff effort
Outreach – engagement with stakeholders and consideration of different existing approaches to accounting for contributions by owners in respect of public sector entities	Staff think this research activity is likely to require a moderate staff effort
Analysis of information collected through outreach and research, development of proposals to address issues identified	Involve stakeholders and Project Advisory Panel as necessary to obtain feedback on the approaches. Extent of staff effort required will depend on the issues to be addressed as part of this project
Review of proposals for consistency with the Conceptual Framework, including identifying whether there is a case for departure.	Extent of staff effort required will depend on the proposals under consideration
<i>Indicative milestones</i>	
Develop an Exposure Draft (ED)	Involve stakeholders to develop guidance that is useful for decision making and cost beneficial.
Board approves the ED	Board to determine an appropriate comment period; this may be 90

Major project milestones	Staff comment
	days
Review of stakeholder feedback on the ED	Extent of staff effort will depend in part on the communications strategy
Redeliberations on the ED completed	Depending on the feedback received, this may take between 1 - 2 Board meetings unless changes for stakeholder feedback are extensive
Pre-ballot draft of Amending Standard circulated for Board comment ⁵	Staff effort will be dependent on Board decisions from redeliberations
Ballot draft of Amending Standard issued for voting	Staff effort will be dependent on Board feedback
Amending Standard approved and issued	Minimal additional staff effort involved
Education (if any) completed	Extent of staff effort is dependent on Board decisions on the communications strategy

Resources required

18 The following resources will be required:

Resources	Expected contribution
(a) Staffing – standard-setting	Technical director – Moderate Senior Project Manager - Moderate Project manager/Assistant/Intern – High
(b) Staffing – research	Research required for this project could be undertaken by standard-setting staff with some support from research staff (in identifying relevant academic research done in this area).
(c) Project advisory panel	Staff recommend a project advisory panel be involved in the project. This could be the NFP Conceptual Framework panel when it is set up.

Factors that might add to complexity and length of the project

19 The following factors may add to the complexity and length of the project:

- (a) A broadened project scope based on feedback from stakeholders and the Board;

⁵ Staff do not consider a fatal-flaw draft of the Amending Standard would be required.

- (b) A wider suite of deliverables than anticipated by this project plan (e.g. preparation of extensive guidance materials); and
- (c) Change in staff managing the project.

Related AASB, IASB and IPSASB projects

20 Staff have identified the following current projects, the outcomes of which may affect, or could be affected by, this project:

Source	Project
AASB	<ul style="list-style-type: none"> • AASB would be undertaking a project on amendments needed to the Australian Conceptual Framework resulting from IASB’s revised Conceptual Framework in relation to NFP entities. This project would be linked to work done on the Australian Conceptual Framework for NFP entities.
IASB	<ul style="list-style-type: none"> • None identified
IPSASB	<ul style="list-style-type: none"> • No current projects identified, however, staff should continue to monitor IPSASB’s position with respect to public sector accounting for revenue. • IPSAS 40 <i>Public Sector Combinations</i> (issued in January 2017) should also be considered in view of contribution by owners in a business combination.

Questions for Board members

- Q1 Do Board members agree with the proposed project objective and project scope set out in paragraph 12 and paragraph 14?
- Q2 Do Board members have any other comments about the proposed project plan?

Appendix 1: Detailed project background

- 21 In December 2016, the AASB issued AASB 1058 *Income of Not-for-Profit Entities*, which broadly aims to recognise income of not-for-profit entities in conjunction with the entity's underlying performance obligations.
- 22 As part of the due process adopted in the drafting of this AASB 1058, the AASB released Exposure Draft (ED) 260 *Income of Not-for-Profit Entities* in April 2015 for comment. Broadly, this ED considered the possible re-draft of AASB 15 *Revenue from Contracts with Customers*, and the replacement of the income recognition requirements in AASB 1004 *Contributions* for not-for-profit entities.
- 23 Broadly, AASB 1004 outlines the income recognition requirements for not-for-profit and government entities and requires contributions to be immediately recognised as revenue when certain recognition criteria are met. The Standard explicitly states that where contributions constitute 'contributions by owners' as defined by the Standard, such amounts are to be recognised as a direct adjustment against equity at the time the contributed asset qualifies for recognition.
- 24 AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* was issued in December 2007 extends the application of the definition of 'contributions by owners' to public sector entities.
- 25 Appendix A to AASB 1004 defines contributions to owners as:
- “Future economic benefits that have been contributed to the entity by parties external to the entity during its life, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which:*
- a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or*
 - b) Can be sold, transferred or redeemed.”*
- 26 The term 'contributions' is further defined by AASB 1004 as:
- “Non-reciprocal transfers to the entity.”*
- 27 In the context of ED 260 and the proposed changes to the treatment of income for not-for-profit entities, constituents were asked to comment on the definition of 'contributions by owners', in response to previous feedback that the practical application of the definition was problematic. Whilst ED 260 did not specifically include a proposal for an alternative definition of 'contributions by owners', the ED illustrated what a replacement Standard for AASB 1004 would like without that definition and posed related questions including whether a definition of 'contributions by owners' is still necessary and appropriate.
- 28 The feedback received from constituents highlighted that some transfers of assets to not-for-profit entities which constituted equity contributions in substance could not be

recognised as ‘contributions by owners’ and therefore introduced potential for divergent accounting practices to be adopted.

- 29 Some comments expressed concerns that the definition adopted the viewpoint of the contributor in determining whether the assets transferred should be classified as ‘contributions by owners’, rather than the recipient entity, particularly in situations where the non-reciprocal transfer does not result in the receipt of an equity instrument or formal agreement establishing the equity nature of the transfer. In such situations, the classification of the asset transfer is dependent on the whether the contributor designates the transfer as a ‘contribution by owners’.
- 30 There is currently no definition of the term ‘contribution by owners’ in IFRS, and accordingly, Interpretation 1038 may be viewed by some as non-compliant with IFRS.
- 31 In light of the concerns expressed and no corresponding definition of the term in IFRS, some constituents responding to ED 260 expressed support for the adoption of the IPSASB definition of ‘ownership contributions’ as defined in its Public Sector Conceptual Framework:

“Inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity.”

- 32 Constituents expressed support for applying the IPSASB definition, or the use the IPSASB definition, as a basis for an Australian definition on the premise that a broader definition may more appropriately capture the substance of the transaction.
- 33 Constituents also supported the withdrawal of Interpretation 1038.
- 34 The Board considered the following proposed alternatives, as part of the broader *Income of Not-for-Profit Entities* project, in dealing with the term ‘contribution by owners’:
- (a) withdraw and not replace the current definition in AASB 1004 and Interpretation 1038;
 - (b) replace the current definition in AASB 1004 with the definition of ownership contributions adopted by the IPSASB, and separately consider whether to retain an amended Interpretation 1038; or
 - (c) address the accounting for contributions by owners as part of a separate project.
- 35 Per AASB 1058.BC173, the Board was conscious of the need to finalise its proposals on other aspects of the broader project pertaining to AASB 1058 in a timely manner, and therefore considered that developing an amendment to the definition, including the necessary due process, would delay the finalisation of the project. Accordingly, the Board decided that the consideration of ‘contributions by owners’ should be considered as part of a separate project. In the interim, the Board decided to retain:
- (a) the terms ‘contributions’ and ‘contributions by owners’ as presently defined in the Australian Accounting Standards;

- (b) the requirements specified in AASB 1004 and AASB Interpretation 1038 with respect to contributions by owners and distributions to owners; and
- (c) the requirements specified in AASB 1004 with respect to contributions by owners and distributions to owners, including those arising in relation to restructures of administrative arrangements.

36 The need for the AASB to consider a project pertaining to the definition of 'contributions by owners' is further highlighted by responses to the AASB's Invitation to Comment 34 under the Agenda Consultation Project for 2017-2019. Australian constituents requested that the AASB conduct a separate project focussed on defining the accounting for contributions by owners. AASB staff supported this view.

37 At the August 2016 Board meeting, the Board requested that AASB staff present proposed project plans for consideration by the Board at future Board meetings.