



Australian Government

Australian Accounting Standards Board

AASB Staff FAQs

Co-operative and Mutual Enterprises (CMEs)

February 2019

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- Conceptual Framework & Financial Reporting Framework
 - Definition of NFP Entities
- AASB Staff FAQs – Co-operatives and Mutuals
 - Income of Not-for-Profit Entities
- Concessionary Leases
 - Recent amendment

Conceptual Framework & Financial Reporting Framework



The logo for ITC 39 is a white rectangular box with a folded bottom-right corner. It contains the text 'ITC 39' in a large, bold, black sans-serif font. Below the text is a small crest of the Australian Government and the text 'Australian Accounting Standards Board' in a smaller font.

ITC 39

ITC 39 Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems (May 2018)

Phase 1

- The forthcoming new Conceptual Framework will be limited to **for-profit private sector entities** that have **public accountability** and FP entities (including in the public sector) that elect to apply
- Public accountability (defined in AASB 1053)
 - traded debt or equity instruments; or
 - hold assets in a fiduciary capacity for a broad group of outsiders as a primary business
- Fatal-flaw review draft of consequential amendments to Standards open for comment to 22-3-19

ITC 39 Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems (May 2018)

Phase 2

- Originally all other entities
- However, focus now shifted to **for-profit private sector entities** only
- **Not-for-profit entities** to be addressed through separate projects in conjunction with relevant regulators:
 - NFP private sector – ACNC, consumer affairs regulators
 - NFP public sector – departments of treasury/ finance



ITC 39 – Phase 2 Exposure Draft – FP private sector entities

Statutory requirement to prepare financial statements that comply with Standards

- Apply revised Conceptual Framework – remove the “reporting entity” self-assessment and special purpose financial statements (SPFS)
- Require general purpose financial statements (GPFS)
- One Tier 2 approach
 - Full recognition and measurement requirements
 - Reduced Disclosure Requirements or *IFRS for SMEs* disclosures?
- Transition relief to move from SPFS to GPFS

Non-statutory requirement to prepare financial statements that comply with Standards – e.g. trusts

- Grandfathering to be researched



The options for GPFS – NFP entities

Tier 1 – Full recognition, measurement and disclosure

Tier 2 – Full recognition, measurement and reduced disclosure or specified disclosure requirements

Tier 3(i) – Simplified recognition, measurement and disclosure (include notes)

Tier 3(ii) – Service performance reporting, accrual-based balance sheet, profit & loss and cash flow with budget versus actual reporting for profit & loss and cash flow on accrual basis (exclude notes)

Tier 4 – Cash-based reporting



Exposure draft to propose a **substantive definition**, based on NZ definition of public benefit entities

- Current definition

“an entity whose principal objective is not the generation of profit”

- Proposed definition

“an entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders”



Co-operatives and mutuals

- seek to provide goods and services in a commercial manner to the benefit of their members and/or the community in general
- a governance framework of one member, one vote
- limited capital input from non-member investors

Are they for-profit or not-for-profit entities?

- Responses to the ED welcome!



AASB Staff FAQs – Co-operatives and Mutuals



Prepared by Tony Connon on behalf of the Business Council of Co-operatives and Mutuals (BCCM)

- Background questions – characteristics of CMEs
- Financial reporting questions – a range of relevant topics
- Illustrative examples – co-operative or mutual status; changes in member interests
- Bibliography

Section 1 of the FAQs (Q1 – Q8)

What are CMEs; how are they different; why does it matter?

- Benefitting members and/or the community as a whole rather than returns to external investors
 - Distributing or non-distributing co-ops
- Legal status and regulatory regimes
 - Bill introduced to define a mutual entity under the Corporations Act – implications?
- Taxation status
- Different objectives => different performance assessment



Section 2 of the FAQs (Q9 – Q15)

Accounting and reporting issues

- Legislative requirements
- Applicability of accounting standards
 - Reporting entity
 - Specific to CMEs
 - For-profit or not-for-profit entity
 - Most relevant to CMEs



Legislative requirements (Q9)

- Corporations Act
 - Reporting obligations distinguished by size
 - Proprietary companies
 - Companies limited by guarantee
 - Proposed mutual entity definition?
- Co-operatives National Law
 - Reporting obligations distinguished by size
- Other – e.g. incorporated associations

Applicability of accounting standards (Q10)

- Presently subject to self-assessment as a reporting entity, which the AASB considers should be removed
 - Special purpose financial statements of “non-reporting entities” of variable quality
 - Users want comparable, consistent, transparent financial statements
- AASB will propose Tier 1 or 2 GPFS for for-profit entities required by legislation to comply with standards
- Requirements for not-for-profit entities to be addressed with relevant regulators



Accounting standards specific to CMEs (Q11)

- Standards of general application, except:
 - Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*
 - AASB 1053 deems co-operatives that issue debentures to be publicly accountable and so required to prepare Tier 1 GPFS

Are CMEs for-profit or not-for-profit? (Q12)

- See slide 9



Standards most relevant to CMEs (Q13)

- General standards AASB 101 and AASB 108
- AASB 112 *Income Taxes*
 - special tax treatment of mutual entities
- AASB 124 *Related Party Disclosures*
 - special position of members
- AASB 132 *Financial Instruments: Presentation*
 - special view of members' interests
- AASB 1058 *Income of NFP Entities*
 - could be of particular relevance



AASB 124 *Related Party Disclosures*

- Definition of a 'related party' includes persons that control or significantly influence the entity and members of the key management personnel
- Members of a CME are not related parties of the entity solely due to that relationship
- But as membership is closely related to the objectives of a CME, disclosing transactions with members is often useful
 - Purchase/sale transactions – value and volume
 - Liability transactions – loans and shares
 - Equity transactions – shares and retained profits/ reserves



AASB 132 *Financial Instruments: Presentation* (Q14)

- Equity instrument = residual interest in net assets
- Liability = obligation to deliver cash or another fi. asset
 - e.g. member shares redeemable at member's option
- Equity classification as an exception to liabilities definition
 - Puttable instruments (para's 16A, 16B)
 - Pro rata share of net assets to another party on liquidation (16C, D)
- CME shares typically fail these exceptions
 - Redeemable for nominal amount, rather than reflecting the profit or loss / change in net assets over the life of the instrument

Financial Instruments: Presentation (cont.)

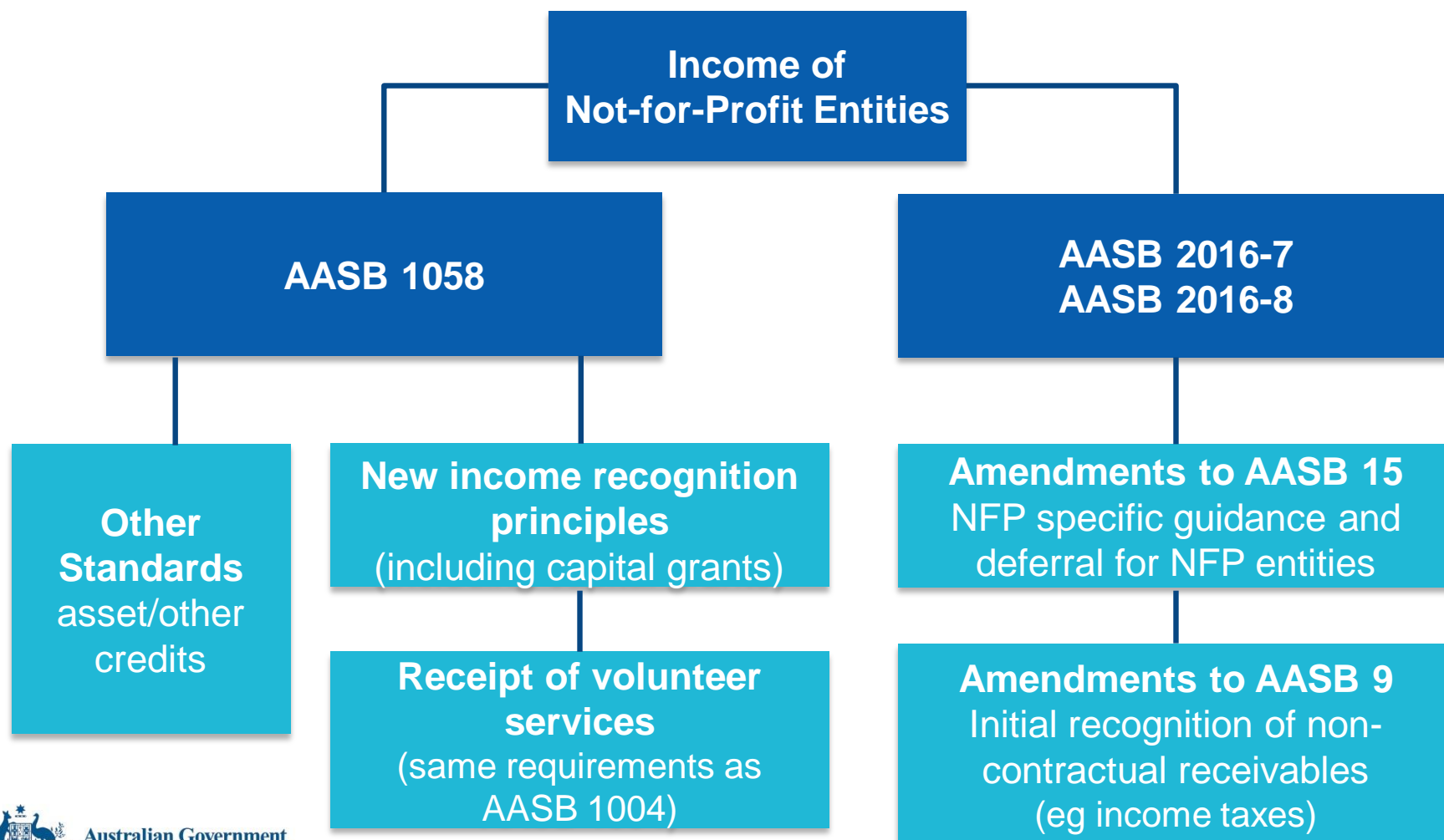
- IASB project on financial instruments with characteristics of equity (FICE) seeking to improve the principles underlying IAS 32, but would not affect CME share classification
- Mutual capital instrument proposed in current Corporations Act amendments – liability or equity classification?
- AASB 132 illustrative examples 7 and 8 for entities such as CMEs whose share capital is not equity as defined
- Staff FAQs Appendix A illustrates statement of changes in member interests – aggregating member shares as liabilities and equity components

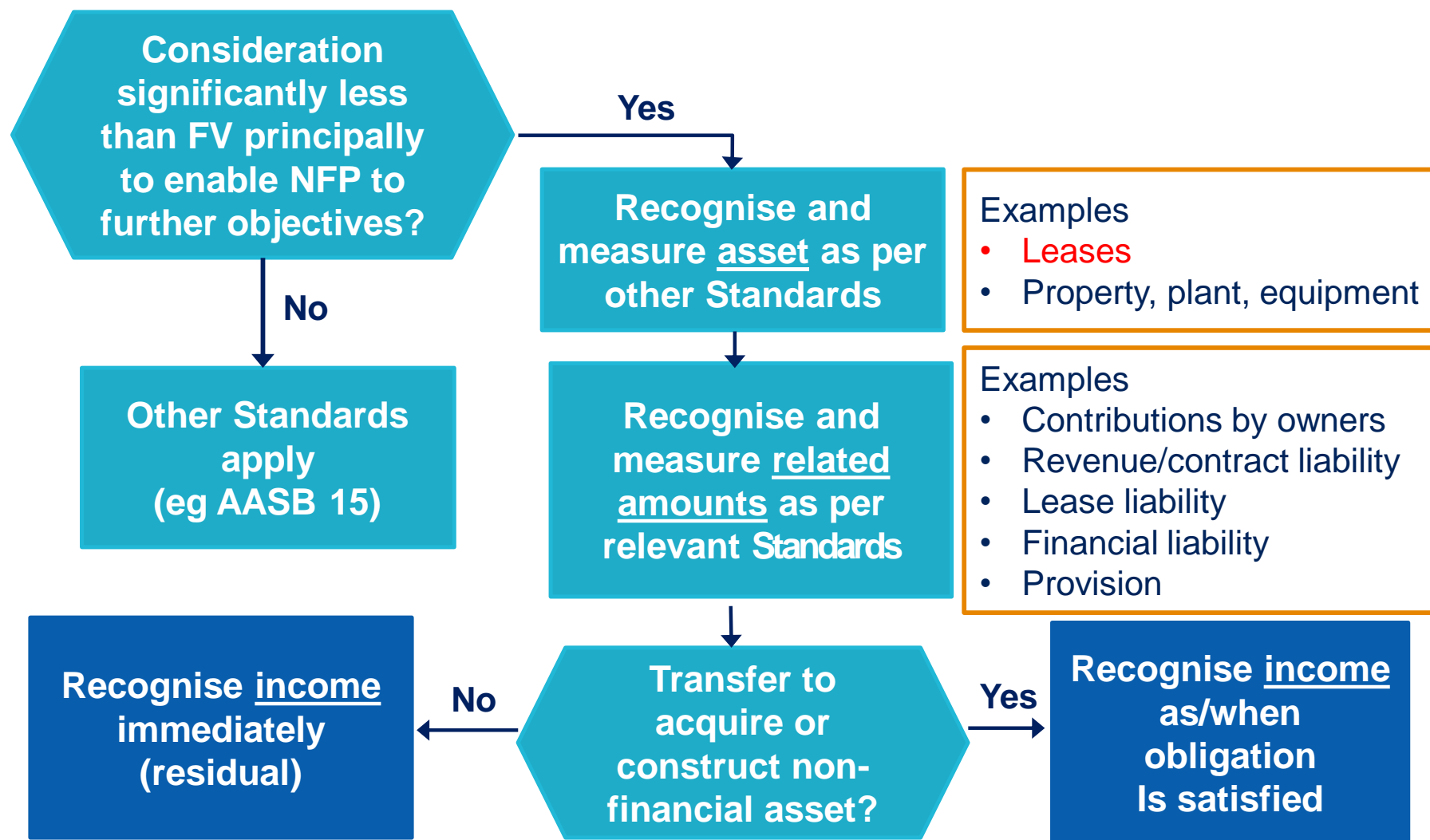


AASB 1058 *Income of Not-for-Profit Entities*

- Applies to periods beginning on or after 1-1-19
 - 2019/20 first mandatory financial year
- Replaces much of AASB 1004 *Contributions*
 - Premature income recognition does not reflect substance of transactions?
 - Distinguishing reciprocal / non-reciprocal transactions difficult
 - Interaction with AASB 15 *Revenue from Contracts with Customers*?
- Remainder of AASB 1004 applies to public sector entities

AASB 1058, AASB 2016-7 and AASB 2016-8





Concessionary Leases



Refresher: AASB 16 model for lessees

Lessee

Single Model

B/S & P&L

- effective 1 January 2019
- supersedes AASB 117
- changes lessee accounting
- on initial recognition, lease asset = lease liability

Concessionary leases – leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives

- AASB 1058 NFP modifications to AASB 16
- Lease asset (right-of-use) measured at fair value
- Lease asset \neq lease liability
- Difference recognised in accordance with AASB 1058





AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities (Dec. 2018)

What's changed?

- Provides a temporary option for NFP lessees to elect to measure a class (or classes) of right-of-use assets arising under concessionary leases at initial recognition either:
 - at cost (under AASB 16 *Leases* para's 23–25); or
 - at fair value
- Requires additional disclosures for NFP entities that elect the cost option

- Additional disclosures about the concessionary leases under the cost option include:
 - dependence on such leases
 - the lease payments
 - the lease term
 - a description of the underlying assets
 - restrictions on the use of the underlying assets specific to the entity
- The option will be reassessed when further guidance has been developed to assist NFP entities in fair valuing right-of-use assets and the financial reporting requirements for private sector NFP entities have been finalised

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