|  |  |  |  |
| --- | --- | --- | --- |
| FRD 117A |  |  | Contributions of existing non-financial assets to third parties (June 2016) |
|  |  |  |  |
| Purpose |  |  | To prescribe the accounting treatment of government decisions to transfer existing non-financial assets to third parties not controlled by the government for no or nominal consideration. |
| Summary of key requirements  |  |  | Where the government decides to contribute non-financial assets for no or nominal consideration to a third party, as outlined in paragraph 5.3, the transaction shall be treated as a general government expense. If the non-financial assets are not held by the department of the Minister making the contribution, the non-financial assets shall first be returned by the entity holding the assets to the administering department as a return of contributions by owners, and contributed by the latter as an administered expense. |
|  |  |  | Non-financial assets contributed by (and if necessary returned to) the administering department shall be measured at their carrying amount. |
|  |  |  | The decision to return non-financial assets to the administering department (that is, to government as owner) is not an indicator of impairment. |
|  |  |  | This FRD does not apply to transfers involving decisions made by the governance board of a public sector entity (herein referred to as an ‘entity’) in pursuit of its operating objectives. |
| Application |  |  | This FRD applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act 1994*. A public sector entity classified as a public financial corporation (PFC) or a public non-financial corporation (PNFC) within the latest *Financial Report for the State of Victoria* that does not meet the definition of a ‘public body’ is encouraged to refer to this FRD for guidance. |
|  |  |  | This FRD does not apply to transfers involving decisions made by the governance board of a public sector entity (herein referred to as an ‘entity’) in pursuit of its operating objectives. |
|  |  |  | This FRD does not apply to contributions to third parties that consist only of financial assets. For contributions of financial assets to third parties, the requirements of AASB 1004 *Contributions* and FRD 119A *Transfers through contributed capital* shall be followed. |
| Operative date |  |  | Annual reporting periods commencing on or after 1 July 2015. |
|  |  |  | FRD 117 *Contributions of existing non-financial assets to third parties* is withdrawn and superseded effective 1 July 2015. |
| Requirements |  |  | A department (on behalf of government) may administer the government’s decision to contribute its non-financial assets to third parties which it does not control (i.e. to parties external to government). For the purpose of this Direction, a government decision to contribute its non-financial assets to third parties shall be evidenced by a decision made by an appropriate Minister, which may also be approved by the Expenditure Review Sub-Committee of Cabinet or by Cabinet itself. A government decision may also be evidenced in legislation.  |
|  |  |  | The decision by government to contribute its non-financial assets to a third party may be effective:* at the date of the governmental decision; or
* at a future date.
 |
|  |  |  | When the non-financial asset being contributed to the third party which the government does not control is available for immediate transfer, and the non-financial asset which is to be contributed is held by: 1. a department which will administer the contribution –
	1. the non-financial asset shall be transferred from the administering department’s controlled accounts to its administered accounts as a transfer of contributions back to government as owners in accordance with FRD 119A; and
	2. the transfer of non-financial asset by the administering department on behalf of government to a third party shall be treated by the administering department as an administered expense; or
2. an entity which is not administering the contribution –
	1. the non-financial asset shall be returned by the entity to the administering department as a transfer of contributions to owners in accordance with FRD 119A; and
	2. the subsequent transfer of non-financial asset by the administering department on behalf of government to a third party shall be treated by the administering department as an administered expense.
 |
|  |  |  | When the non-financial assets are to be contributed at a future date, the requirements in 5.3 above shall be followed at the date of contribution. Entities shall consider the implications of a public announcement of the government decision to contribute non-financial assets to a third party in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. |
|  |  |  | Notwithstanding the requirements above, the requirements of AASB 1050 *Administered Items* shall be considered in determining whether a non-financial asset shall be recognised in a department’s controlled or administered accounts. |
|  |  |  | The non-financial asset shall be measured at its carrying amount immediately prior to the transfer. |
|  |  |  | The decision to transfer non-financial assets to the administering department (that is, government as owner) is not in itself an indicator of impairment for the entity concerned. The entity shall recover the non-financial asset’s carrying value either as a return of contributions by owners, or through both its return and continuing use (if the return is at a future date). |
| Definitions |  |  | **Administering department** refers to a department of government which is responsible for the implementation of a specific government decision to contribute an existing non-financial asset to a third party. |
|  |  |  | **Contributions** refers to non-reciprocal transfers of non-financial assets to an entity for no or nominal consideration. It excludes transfers that are made as consideration for the provision of goods and/or services by the transferee at fair value to the transferor. |
|  |  |  | **Contributions by owners** means the 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 net assets of the entity which: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/orcan be sold, transferred or redeemed [as per AASB 1004 *Contributions* Appendix A]. |
|  |  |  | **Government** refers to the Victorian State Government. |
|  |  |  | **Non-financial assets** are those assets that are not classified as a ‘financial asset’ in accordance with AASB 132.11 *Financial Instruments: Presentation*. |
|  |  |  | **Public sector entity** or **entity** for the purposes of this Direction includes public non-financial corporations, public financial corporations and general government entities including government departments, but excludes local government entities, universities, denominational hospitals and any other non-controlled entities such as certain companies and trusts.The latest annual *Financial Report for the State of Victoria* lists the ‘controlled entities’ that are considered to be public sector entities for the purposes of this FRD. This list is subject to update. Entities shall use the latest *Financial Report for the State of Victoria* to assist them in determining if they are a public sector entity which is required to apply this FRD. |
|  |  |  | **Third party** refers to an individual or organisation which is not controlled by government, that is, it is not consolidated into the latest *Financial Report for the State of Victoria*. |
| Guidance |  |  | Refer to FRD 119A for further guidance on the transfer of assets as contributions by owners. |
|  |  |  | The Government may make decisions regarding the contribution of its non-financial assets to third parties that it does not control. These contributions are generally made from non-financial assets held by entities within the general government sector. |
|  |  |  | The Government, through the Responsible Minister, may also direct a public financial corporation or public non-financial corporation to contribute its non-financial assets to a third party in order to achieve the government’s objectives.  |
|  |  |  | On behalf of the Crown, the government is owner of: * + - 1. entities within the general government or budget sector – this is what is often referred to as ‘government’, and it is this sector that directly develops and administers government policy. The transactions of these entities directly impact on the Net Result for the general government sector; and
			2. PFCs and PNFCs – although required to comply with general government policies, these entities are typically established for specific purposes and usually have an independent governance board whose responsibility is to use its assets to best meet its specific objectives. The government originally established these entities and acts in the role of owner. The net result of these entities does not affect the Net Result from Transactions of the general government sector and only indirectly affects the comprehensive result of the general government sector.
 |
|  |  |  | The government controls and is ultimately responsible to Parliament for all assets held by entities which are consolidated into the *Financial Report for the State of Victoria*. The government is effectively the owner, and is able to deploy these assets to best meet its objectives.  |
|  |  |  | The decision by government to contribute its non-financial assets to third parties that it does not control shall be recognised in a consistent manner. Paragraph 5.3 of this FRD outlines the relevant accounting treatment for such transactions. |
|  |  |  | If the contribution is to become effective at a future point in time, it may need to be determined if this decision has created a present obligation, and if so, whether any other associated conditions have been met. A public announcement of the government decision involving the contribution of non-financial assets to a third party may raise public expectations that the government is committed to the decision. While this may require the immediate recognition of a provision for the outflow of the resources (and the related expense) for the future contribution, this is uncommon. The intention of a government to make payments to other parties, whether advised in the form of a budget policy, election promise or statement of intent, does not of itself create a present obligation which is binding on the government. If there is not a present obligation, note disclosure may be required. |
|  |  |  | Transfers involving decisions made by the governance board of an entity in pursuit of its objectives are outside the scope of this Direction. An example includes a decision by the Transport Accident Commission to contribute funds for the upgrade of an accident black spot to reduce potential accident claims. |
|  |  |  | The decision to contribute non-financial assets to third parties shall be reflected in the administered accounts. |
|  |  |  | For further information regarding the designation requirements of contributions by owners, refer to FRD 119A. |
|  |  |  | Appendix A contains additional Guidance on non-financial asset contributions to third parties not controlled by government. |
| Relevant pronouncements |  |  | AASB 132 *Financial Instruments: Presentation* (December 2013);AASB 136 *Impairment of Assets* (December 2013); AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (June 2014);AASB 1004 *Contributions* (January 2015);AASB 1050 *Administered Items* (December 2013);Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* (December 2013); andFRD119A *Transfers through contributed capital* (July 2013). |
| Background |  |  | DTF issued FRD 117 to outline the appropriate accounting treatment of contributions of existing government non-financial assets to third parties not controlled by government.The requirements contained within this FRD are not a change in accounting policy, rather these requirements clarify the accounting treatment of a government decision to contribute its non-financial assets to a third party which is not controlled by government.FRD 117 mandates that non-financial assets contributed by government to third parties are treated as an administered transaction and are therefore reflected in the administered accounts. The accounting treatment of financial asset transfers is already well documented in AASB 1004 *Contributions* and FRD 119A *Transfers through contributed capital.*Although FRD 117 relates to FRD 119A *Transfers through contributed capital,* FRD 117 has not been combined into FRD 119A to ensure ease of use and readability. FRD 117A was issued in June 2016 to update the references from FRD 2A to FRD 119A. AASB 1004 *Contributions* and Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* outline the requirements for the classification and recognition of transfers as contributions by owners. |
| Appendices |  |  | *Appendix A* - Guidance on non-financial asset contributions to third parties not controlled by government |

# Appendix A

## Guidance on non-financial asset contributions to third parties not controlled by government

The following decision tree may be used in determining the appropriate accounting treatment of the contribution of non-financial assets to third parties not controlled by government:

Is the non-financial asset held by the administering department that shall
contribute the asset to the third party?

Refer to FRD 119A *Transfers
through contributed capital* for transfers between public sector entities

Yes

The non-financial asset is
transferred from the entity holding
the asset to the administering department and is treated as a transfer of contributions by owners
in accordance with FRD 119A\*

The non-financial asset is transferred from the controlled to administered accounts as contributions by owners in accordance with FRD 119A *Transfers through contributed capital* \*

The transaction is treated by the administering department as a
contribution of non-financial assets by the government as owner
and is expensed in the departmental administered accounts
(recorded as an administered transaction)

Are the non-financial assets ready for immediate contribution to the third party
not controlled by Government?

Has the decision by government
created a present obligation under
AASB 137 *Provisions, Contingent Liabilities and Contingent Assets?* (Refer to FRD 117 para 7.7 for guidance)

Recognise a provision in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (refer to FRD 117 para 7.7 for additional guidance)

Recognise the government decision at the time of the contribution

Yes

Yes

Yes

No

No

No

No

Will the non-financial asset be contributed to a third party not controlled by government?

\* Recorded as an administered transaction and is treated as a transfer from the controlled accounts to the administered accounts.

The following table may be used in determining the financial impact of the contribution of non-financial assets to third parties not controlled by government:

|  |  |
| --- | --- |
| Transaction | Impact |
| **Administering department** | **General government sector** | **Public financial corporations and public non‑financial corporations** |
| **Transfers to the administering department (i.e. to government as owner)** |
| Non-financial asset is held by the department which shall administer the contribution | Transfer back to government (from controlled to administered) is recognised as a contribution by owners in accordance with FRD 119A *Transfers through contributed capital*No impact on the net result from transactions | The transaction does not impact on the net result from transactions of this sector of government | The transaction does not involve this sector of government |
| Non-financial asset is held by an entity within the general government sector and is returned to the administering department (i.e. to government as owner) | Transfer to the administering department is recognised as a contribution by owners in accordance with FRD 119A *Transfers through contributed capital*No impact on the net result from transactions | The transaction does not impact on the net result from transactions of this sector of government | The transaction does not involve this sector of government |
| Non-financial asset is held by a PFC or PNFC and is returned to the administering department (i.e. to government as owner) | Transfer to the administering department is recognised as a contribution by owners in accordance with FRD 119A *Transfers through contributed capital*No impact on the net result from transactions | The transfer to the administering department results in a decrease in the investment in the other sector, and an increase in other assets | Transfer to the administering department is recognised as a contribution by owners in accordance with FRD 119A *Transfers through contributed capital*No impact on the net result from transactions |
| **Contributions** |
| The administering department (i.e. government) contributes the non-financial asset to a third party not consolidated into the *Financial Report for the State of Victoria* | Treated as an administered expense of the administering department | Treated as an expense of the general government sector Impacts on the net result from transactions (administered) | The transaction does not impact this sector of government |