



Project:	Not-for-Profit Entity Definition and Guidance	Meeting:	AASB November 2019 (M173)
Topic:	Initial summary responses to ED 291	Agenda Item:	3.1
		Date	6 November 2019
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		Decision-Making:	Low
		Project Status:	Consider comments on ED

OBJECTIVE OF THIS PAPER

- 1 The objective of this paper is to provide the Board with an initial summary of the feedback received on the Exposure Draft ED 291 *Not-for-Profit Entity Definition and Guidance*.
- 2 This paper does not contain Staff recommendations on how the Board should respond to the issues raised by the respondents identified by Staff to date. These recommendations will be provided to the Board at the next meeting after Staff have performed further review and analysis of the comments. Consequently, the Board will not be asked to make any decisions at this meeting, but rather consider the initial key issues identified in this paper and provide feedback to staff on the next steps and any further research and consultation needed.

ATTACHMENTS

- 3.2 Full written submissions received on ED 291 (comprises of sixteen documents) [included in the supplementary folder]
- 3.3 AASB Exposure Draft 291: *Not-for-Profit Entity Definition and Guidance* [included in the supplementary folder]

STRUCTURE

- 3 This Staff Paper is set out as follows:
 - (a) Background ([paragraphs 1-2](#));
 - (b) Initial summary of key issues identified by staff ([paragraph 3](#));
 - (c) Next steps ([paragraph 4](#));
 - (d) [Appendix A](#): Quantitative summary of responses;

- (e) [Appendix B](#): List of respondents;
- (f) [Appendix C](#): Summary of written responses for each question.

BACKGROUND

1. ED 291 proposes to:
 - a. retain the term ‘not-for-profit entity’ but replace the definition of not-for-profit entity as currently included in AASB 102 *Inventories*, AASB 116 *Property, Plant and Equipment* and AASB 136 *Impairment of Assets* with the definition of public benefit entity, adopted with amendments from XRB Standard 2019 *Amendments to XRB A1 Appendix A* (May 2019);
 - b. develop implementation guidance based on XRB A1 Appendix A (appropriately adapted for the Australian context) to assist entities applying the revised definition; and
 - c. remove the not-for-profit (NFP) entity definition from AASB 102, AASB 116 and AASB 136 and instead include both the revised definition and the guidance in AASB 1057 *Application of Australian Accounting Standards*.
2. The Board decided to issue an Exposure draft to replace the current NFP entity definition at its meeting in February 2019 and AASB Exposure Draft ED 291 *Not-for-Profit Entity Definition and Guidance* was issued in June 2019. Comment period on ED 291 closed on 9 September 2019.

INITIAL SUMMARY OF KEY ISSUES IDENTIFIED BY STAFF

3. Submissions have been received from the 16 respondents listed in [Appendix B](#) and to date staff have identified the items below to be the key issues raised. Note that the below summary is not exhaustive analysis of all comments received. Staff will finalise the review of the responses and analysis of the key issues identified after November 2019 Board meeting and expect to provide recommendations to the Board to address the issues identified at its next meeting in March 2020.

Key Issues Identified	Staff’s initial thoughts
<p>Interaction between proposed definition of NFP entity for financial reporting with already established concepts of NFP entity (Issue 1, SMC 1, Issue 5, SMC 1 and Issue 6, SMC 2)</p> <p>A number of respondents have raised concerns on the potential misalignment of the proposed definition with established concepts of not-for-profit (NFP) entity in Australia and potential flow-on impacts. In particular:</p> <ol style="list-style-type: none"> 1. some entities with NFP status recognised by ACNC or ATO could be classified as for-profit (FP) entities for financial reporting purposes under the proposed definition, such as entities recognised as charities carrying out commercial activities but distributing all gains/surplus to other NFP entities including charities; 2. some co-operative, mutual and membership-based entities (CMEs) with NFP status for taxation purposes could be classified as FP entities for financial reporting purposes under the proposed definition, including 	<p>Staff are liaising with ACNC and ATO staff to consider whether there is a need to align the definition of an NFP entity for financial reporting purposes with definitions in the Charities Act and for tax purposes. Staff would also need to consider whether legal advice needs to be sought to assess the implications of the proposed definition in ED 291 on relevant areas of Australian law and whether there is a need to ensure alignment of the definition with already established concepts in Australia.</p> <p>Staff would be considering the following options (separately or in combination) to address the concerns raised:</p> <ul style="list-style-type: none"> • have an explicit statement in Standard that the definition is solely for financial reporting purposes; • state in Standard that entities accepted by ATO and ACNC as NFP would be considered as NFP entity for financial reporting purposes; • revise the proposed definition to the guidance provided by ATO/ACNC/common law.

Key Issues Identified	Staff's initial thoughts
<p>those entities not distributing surplus to their members;</p> <p>3. potential divergence of the proposed definition with the legal meaning of NFP entity as determined in common law.</p>	<p>Staff understand that the similar feedback in relation to charities and tax legislation has been raised when the Public Benefit Entity (PBE) definition was initially introduced in New Zealand in 2005 and noted that Financial Reporting Standards Board (FRSB) did not agree that trading entities controlled by charities should automatically be classified as PBEs and agreed that the tax status of an entity was not necessarily relevant to determining the nature of an entity for financial reporting purposes.</p>
<p>Impact of the terms used in proposed definition, implementation guidance and illustrative examples on certain type of entities or groups (Issue 2, SMC 1 and Issue, 4, SMC, 1)</p> <p>Numerous respondents were concerned with the impact of the terms used in the proposed definition, implementation guidance and illustrative examples on certain types of the entities or groups, in particular:</p> <ol style="list-style-type: none"> the term of 'equity' in the proposed new definition may be not suitable for some not-for-profit entities given the wide variety of structures that feature in this sector (e.g. membership-based entities funded via non-equity type of resources); use of the terms 'community or social benefit' and 'primary beneficiaries of the benefits' in the proposed definition and related guidance respectively may result in application diversity given the judgement involved in the assessment. 	<p>Staff will re-assess the impact of the terms used in the particular circumstances raised by the respondents and will consider following options to address the concerns if needed:</p> <ul style="list-style-type: none"> retain the term 'equity' in definition and to provide further guidance and illustrative examples replace the term 'equity' with alternative terms, such as 'owners' contribution' or 'equity and other funding resources'; further clarification of the term 'community or social benefit'; and further guidance on 'primary beneficiaries of the benefits' and distinction between direct and indirect beneficiaries of the benefits. <p>Staff understands that similar feedback on the term 'equity' has been received during the consultation process on the recent amendments to XRB A1 Appendix A and noted that no change has been made to the definition or guidance. Staff also noted comments in respect of the non-charitable not-for-profit entities and whether nature of the benefits is sound indicator of PBE status when the Public Benefit Entity definition was initially introduced in New Zealand in 2005. Staff noted that the definition remained as proposed, however, FRSB removed the distinction between the key and other indicators.</p>
<p>Effective date of the proposals (Issue 10, SMC 4)</p> <p>Number of respondents suggested to align the effective date of the proposals with AASBs' NFP Financial Reporting Framework (NFP FRF) project.</p> <p>In addition, several respondents raised concerns about the impact of the proposed definition and its interaction with the proposals in ED 297 (proposing to remove ability to prepare SPFS for certain FP entities) and the on-going NFP FRF, which may result in some entities changing their accounting policies multiple times in the near future depending on the timing of when the proposed NFP definition is brought into effect.</p>	<p>Staff will assess the number of entities that might be required to change their accounting policies multiple times under current proposals to determine whether the alignment of the effective date of the proposed definition with the NFP FRF project provides a better outcome for the constituents.</p>

Key Issues Identified	Staff's initial thoughts
<p>Transitional relief (Issue 13, SMC 5)</p> <p>Number of respondents suggested that transitional relief is needed for entities that would be required to change their classification from FP to NFP or vice versa under the proposed definition and therefore have to change their accounting policies for a number of transactions. These respondents wanted clarify on whether retrospective application would be required as per AASB 108 or whether some form of transitional relief would be provided including relief from restating comparative periods on transition.</p>	<p>Staff will consider the respondents' feedback in conjunction with the assessment of other issues raised to determine whether transitional relief is necessary (e.g. number of entities that would be impacted).</p>

NEXT STEPS

- Staff will provide detailed analysis and recommendations to the Board at its March 2020 meeting, subsequent to further outreach, research and possibly obtaining legal advice.

APPENDIX A: SUMMARY OF RESPONSES

- The table below provides quantitative summary of the responses to Specific and General matters for comment that were provided in the ED. For further details, see [Appendix C](#).

Summary of Responses						
	Agree	Agree with Comments	Disagree	Unclear	No Comments	Total
SMC 1 (Proposed definition)	4	7	5	-	-	16
SMC 2 (Implementation guidance and illustrative examples)	2	10	4	-	-	16
SMC 3 (Classification of a group)	8	-	3	1	4	16
SMC 4 (Proposed guidance for classification change)	5	1	5	-	5	16
SMC 5 (Transition requirements)	4	1	6	-	5	16
SMC 6 (Definition included in AASB 1057)	11	-	-	-	5	16
SMC 7 (implementation guidance integral part of AASB 1057)	10	-	1	-	5	16
GMC 8 (Appropriate application of NFP Standard-Setting Framework)	7	2	1	-	6	16
GMC 9 (Regulatory issues including GFS implications)	Non-binary question - 12 respondents did not have substantive comments for this GMC, 4 respondents commented on the relationship of the proposed definition of NFP for financial reporting with already established concepts of not-for-profit entity.					
GMC 10 (Usefulness to users)	6	-	3	6	-	16
GMC 11 (Best interest of economy)	7	-	2	7	-	16
GMC 12 (Cost and benefits of the proposals)	Non-binary question – 14 respondents did not have comments, 2 respondents provided comments					

APPENDIX B: LIST OF RESPONDENTS

6. The Board received sixteen written submission on ED 291:

List of written submissions

Submission no.	Respondent	Category
S1-PwC	PwC Australia	Accounting firm
S2-Pitcher Partners	Pitcher Partners	Accounting firm
S3-KPMG	KPMG Australia	Accounting firm
S4-CAANZ&CPA	CAANZ and CPA	Professional body
S5-DH	David Hardidge	Auditor
S6-AICD	Australian Institute of Company Directors	Professional body
S7-ACNC	Australian Charities and Not-for-profits Commission	Regulator
S8-ACAG	Australasian Council of Auditors-General	Auditor
S4-SD	Saward Dawson	Accounting firm
S10-GT	Grant Thornton	Accounting firm
S11-EY	Ernst & Young Australia	Accounting firm
S12-HoTARAC	Heads of Treasury Accounting and Reporting Advisory Committee	Preparer
S13-Deloitte	Deloitte Australia	Accounting firm
S14-BCCM	Business Council of Co-operatives and Mutuals	Professional body
S15-LCA	Law Council of Australia	Other
S16-QLS	Queensland Law Society	Other

APPENDIX C: SUMMARY OF WRITTEN RESPONSES FOR EACH QUESTION

SMC 1 Do you agree that the current definition of not-for-profit entity in Australian Accounting Standards should be replaced with the proposed definition, which is based on the New Zealand definition of public benefit entity? Please indicate your reasons.

Opinion	Agree	Agree with Comments	Disagree	Unclear	No comments	Total
Respondents	4 4 Accounting firms (S1-PwC; S2-Pitcher Partners; S10-GT; S11-EY)	7 2 Accounting firms (S9-SD; S13-Deloitte) 1 Auditor (S8-ACAG) 2 Professional bodies (S4-CAANZ&CPA; S6-AICD) 1 Preparer (S12-HoTARAC) 1 Regulator (S7-ACNC)	5 1 Accounting firm (S3-KPMG) 1 Auditor (S5-DH) 1 Professional body (S14-BCCM) 2 Others (S15-LCA; S16-QLS)	-	-	16

Issue 1: Potential conflict between the proposed not-for-profit (NFP) entity definition for financial reporting purposes and already established concepts of NFP entity

Five respondents (S4-CAANZ&CPA, S6-AICD, S7-ACNC, S8-ACAG, S9-SD) were concerned about the potential misalignment between the proposed new definition of NFP entity with the NFP entity concepts applied by either the ACNC or the ATO. This has also been reiterated by some respondents in their feedback on illustrative examples and implementation guidance (see [Issue 6, SMC 2](#)) and in some of the feedback requiring more guidance for membership-based entities (see [Issue 5, SMC 1](#)).

In particular, S4-CAANZ&CPA and S7-ACNC expressed concerns with paragraph 5 of the Appendix B in the ED stating that “... *it is possible for a registered charity to be classified as a FP entity for financial reporting purpose*”. The definition of ‘charity’ set out in the Charities Act 2013 stipulates that “... *charity means an entity: (a) that is a not-for-profit entity...*” and as a result, all charities registered with ACNC, including those that carry out commercial activities but distributing all of its gains/surplus to other NFP entities, (refer to [Issue 6, SMC 2](#)) are considered to be NFP entities. These respondents expressed concerns that a few hundred charities currently registered with the ACNC may have to prepare financial reports under FP framework as a result of the proposals, despite having a charity (and therefore NFP) status under law. Also, S15-LCA commented that the proposed definition is “*narrower than the traditional concept as accepted by the ACNC and ATO*”, for example, “*some charities provide money or benefits to their members as a means of carrying out their charitable purpose*”.

Concerns about potential divergence of the proposed NFP definition with the legal meaning of NFP, as determined by its ordinary meaning and the common law, have also been raised by three respondents who did not agree with the ED’s proposal (S14-BCCM; S15-LCA; S16-QLS). In particular, S14-BCCM requested the Board consider the impact of the proposed definition on common law concepts of mutuality, profit and surplus. This respondent also noted that some co-operative and mutual enterprises (CMEs) were also concerned about their ability to claim compliance with International Financial Reporting Standards (IFRS) if considered as NFP entities under the proposed definition due to modifications introduced by “Aus” paragraphs in Australian Accounting Standards (AAS) applicable to NFP entities.

S16-QLS referred to the article *“The Non-Distribution Constraint and Social Enterprise – Can Share Capital Fund Nonprofit Organisations”* by Andrew Lind (unpublished), which states that *“... the common law meaning of not-for-profit is not-for-private-profit... as long as the profit is applied to the NFP purposes as opposed to private persons...”* and asserts that the private persons excluded from the profits is anyone other than another similar purpose NFP or the ultimate beneficiaries of the NFP purpose. The respondent suggested to adopt alternative definition linked to Commonwealth taxation laws and the regulatory guidance proposed by the ATO from time to time.

S8-ACAG recommended the AASB to consider the relevance of the ABS GFS manual definition for general government units (ABS GFS 2015, paragraph 2.36) and non-profit institutions (ABS GFS Manual 2015, 2.43) and was concerned that *“the current guidance does not address general government units which do not provide goods or services for community or social benefit.”*

Issue 2: Suitability of ‘equity’ concept for some NFP entities

Six respondents (S8-ACAG, S12-HoTARAC, S13-Deloitte, S14-BCCM, S15-LCA, S16-QLS) are concerned with the use of the term of ‘equity’ in the proposed definition that is not suitable for all not-for-profit entities given the wide variety of structures that feature in this sector.

For example, S13-Deloitte pointed out that *“...in cases of subscription-based or membership-based entities, the members or subscribers are the parties who provide the necessary funds for the operations or the entity via the fees it pays and are the parties who essentially obtain the benefits through the operations of the entity, but in essence, they are not considered to be equity holders as they do not contribute ‘equity’.”* S14-BCCM urged AASB to consider implications of the proposed definition for NFP mutual entities that elect to issue Mutual Capital instruments and may make distributions on these instruments.

Similarly, S12-HoTARAC suggested to replace the term ‘equity’ and ‘equity holders’ with ‘owners’ contribution’ and ‘owners’ respectively, or to add equity and equity holders to the list of defined terms and explicitly define this to include a broad range of arrangements. Minority of S12-HoTARAC also disagreed with the return of the surplus to owners being key leg of the definition as these criterion does not suit well the public sector.

Issue 3: Cost to implement the proposed definition exceeding its benefits

Two respondents (S3-KPMG, S5-DH) commented that the amendment of the current definition may not be needed as there is no evidence suggesting that there are issues with current definition and its application. These respondents were also concerned with the cost required to implement the new definition may exceed the benefits to the users of financial statements. This view has been also adopted by one jurisdiction with divergent view in S8-ACAG submission.

S12-HoTARAC minority also expressed the concerns (see [GMC 8](#)) that the AASB appears to have gone beyond the request of constituents for more guidance concerning determination of NFP status by also altering the definition itself.

Issue 4: Further clarification/guidance needed for key indicators, including ‘primary objective’, ‘community or social benefit’, ‘goods and services’ and ‘equity holder’

One respondent (S3-KPMG) was concerned about the potential difficulties in determining whether the community or social benefit criterion would be met by an entity’s objective, as the assessment could be highly subjective. The respondent recommended additional guidance to minimise the potential diversity that could arise from exercising the significant judgement required for this assessment. Three other respondents (S8-ACAG; S9-SD, S15-LCA) also requested further clarification of the term ‘community or social benefit’ used in the proposed definition, or to provide clear illustrative example for the term. S15-LCA also requested clarification of terms such ‘primary objective’, ‘goods & services’ and ‘equity holder’ and expressed the concerns that the proposed definition is not unclear as to *“whether it only applies to entities which provide goods or services, or whether it can be read to apply to entities which provide social benefit...”* For example, a grant-making foundation does not provide

'goods or services' according to the ordinary meaning of those terms. S7-ACNC recommended amendments to the guidance referring to the 'nature of equity interest' and 'purpose and use of assets' to clarify that ACNC registered charity generating a financial benefit solely for other registered charities or philanthropic trusts holding assets mainly for sale or to generate profit in order to make grants to other NFP organisations are NFP entities themselves.

Issue 5: Further guidance and clarification needed for co-operative, mutual and membership-based entities

Ten respondents (S4-CAANZ&CPA, S5-DH, S8-ACAG, S9-SD, S10-GT, S11-EY¹, S13-Deloitte, S14-BCCM, S15-LCA, S16-QLS) requested further guidance on the consideration of membership-based organisation and on the "nature of benefits" indicator in the implementation guidance and illustrative examples. These respondents found the statement in Appendix B, paragraph 28 of the ED "if the primary beneficiaries are members of the entity, it is necessary to consider other factors to determine whether the entity is a NFP entity (for example, the nature of the benefits and other indicators in this guidance" either unclear or confusing and requested further guidance, e.g. whether the benefits refer to the financial surplus generated by the entity or the services provided by the entity.

SMC 2 Do you agree with the proposed implementation guidance and illustrative examples? Why, or why not? Please indicate any concerns about particular parts of the guidance, or particular examples.

Opinion	Agree	Agree with Comments	Disagree	Unclear	No comments	Total
Respondents	2 2 Accounting firms (S1-PwC ² ; S2-Pitcher Partners ³)	10 5 Accounting firms (S3-KPMG; S9-SD; S10-GT; S11-EY; 13-Deloitte) 1 Auditor (S8-ACAG) 2 Professional bodies (S4-CAANZ&CPA; S6-AICD) 1 Preparer (S12-HoTARAC) 1 Regulator (S7-ACNC)	4 1 Auditor (S5-DH) 1 Professional body (S14-BCCM) 2 Others (S15-LCA; S16-QLS)	-	-	16

Issue 6: Classification of entities only carrying out commercial activities and distributing gains to other NFPs or reinvesting the surplus for community or social benefit

¹ S10-GT and S11-EY explicitly agree with the proposed definition in SMC 1 but required further clarification and guidance for membership-based entities in SMC 2.

² Response implied/extracted from other section of submission.

³ Response implied/extracted from other section of submission.

Three respondents (S4-CAANZ&CPA, S7-ACNC, S8-ACAG) expressed concerns with the illustrative example No. 2 (Bicycle shop) and the indication suggesting that entity providing services at market rates with a view to maximise the financial surplus returned to the parent that is a charitable organisation would be considered a FP entity. Similarly, S13-Deloitte was concerned that a private education organisation illustrated in example No. 3 in the ED could be considered as a FP entity despite its primary objective being to provide services for community or social benefits and reinvesting the surplus to support such primary objective.

S16-QLS referred the article by Andrew Lind which stated that *“the current Australian legal meaning of not-for-profit is determined by its ordinary meaning and the common law”*⁴, e.g. [Commissioner of Taxation of the Commonwealth of Australia v Word Investments Limited \[2008\] HCA 55](#). These cases determine that making of profit from trade by a NFP entity is permissible as long as the profit is applied to NFP purposes. In the case of Word Investments, an entity which only carried out commercial activities and distributed profits to a charitable religious entity, was ruled by the court to be charitable despite the fact that its only activities were commercial, on the basis that it had solely charitable purposes and donated its profits to another charity.

S7-ACNC also asserted that classification of the bicycle shop in the illustrative example No. 2 as a FP entity is in contrary to the current legal situation in Australia where a business operating to raise funds to solely put toward a charitable purpose, that business has a charitable purpose even if the business itself is not of a charitable nature. ACNC also questioned benefit to the users if a charity reports under a FP reporting framework and whether these benefits outweigh the cost for a charity to prepare such financial statements.

Issue 7: Weighting of multiple indicators in determining the classification

S8-ACAG requested guidance to demonstrate how to apply the weighting of the indicators referred to in paragraph 37 of the ED and suggested some indicators (e.g. stated objectives combined with nature of benefits) could have more weighting than others. S9-SD also commented that ‘stated objectives’ and ‘nature of equity’ should be primary indicators because of their objective nature which in turn would assist with the assessment of NFP classifications for members-based organisations or children education providers. S15-LCA commented that the guidance does not provide clear answers and the factors are different to those used in the context of the meaning of ‘not-for-profit’.

S5-DH also asserted that *“having a multitude of indicators, as proposed, likely to cause problems in the future as companies get more into corporate social responsibility and virtue signalling...aim to satisfy a multitude of stakeholders not just shareholders.”* The respondent also did not find the guidance particularly useful as they considered the examples and guidance inconclusive and as such, unlikely to reduce diversity of application.

Issue 8: Suitability of implementation guidance and illustrative examples for the public sector entities

S8-ACAG commented that the guidance and examples lack a public sector perspective and may not be sufficient to assist users in the public sector make the appropriate judgements to conclude whether an entity is FP or NFP. This respondent also recommended to consider the definition in light of the proposed concept of ‘service capacity of assets’ in AASB 13 *Fair Value Measurement*, with S12-HoTARAC expressing similar concern if the assets held for service potential are to be reported under FP framework. S12-HoTARAC also raised concerns that the term ‘commercial or market returns’ may not be fit for public sector entities.

S12-HoTARAC majority suggests amending the paragraph 23 of Appendix B and remove reference to ‘commercial’ or ‘market’ returns and instead to refer to ‘maximising returns, subject to the public service constraints the entity operates under’ or simply to refer to ‘positive’ returns. The respondent also recommended to assess the object of achieving of the financial return over the long-term period to avoid possibility of frequent change in entities’ classification.

⁴ Andrew Lind, “The Non-distribution Constraint and Social Enterprise – Can Share Capital Fund Nonprofit Organisations” (unpublished). QLS quoted with permission from the author.

SMC 3 Do you agree that in determining the classification of a group that it is necessary to consider the characteristics of the group and the controlling entity? Do you agree that the classification of the controlling entity of the group would most likely determine the classification of the group? Why and why not?

Opinion	Agree	Agree with Comments	Disagree	Unclear	No comments	Total
Respondents	8 5 Accounting firms (S1-PwC, S2-Pitcher Partners, S3-KPMG, S10-GT, S13-Deloitte) 1 Professional body (S4-CAANZ&CPA) 1 Preparer (S12-HoTARAC) 1 Regulator (S7-ACNC)	-	3 1 Accounting firm (S11-EY) 2 Auditors (S5-DH, S8-ACAG)	1 1 Professional Body (S14-BCCM)	4 1 Accounting firm (S9-SD) 1 Professional Body (S6-AICD) 2 Others (S15-LCA, S16-QLS)	16

Issue 9: Impact of classification of the controlling entity on the classification of the group

Three respondents (S5-DH, S8-ACAG, S11-EY) disagreed that classification of controlling entity would most likely determine the classification of the group in all circumstances, with one of the reason put forward that it is the characteristics of the group determining the classification of the group and the assumption of parent's entity classification being the predominant factor of the classification of group may not be suitable for some of the groups where parent entity is not the trading or operating one.

SMC 4 Do you agree with the proposed guidance on the accounting consequences for an entity that changes, its classification as a for-profit entity or not-for-profit entity? Is this guidance sufficient? Why, or why not?

Opinion	Agree	Agree with Comments	Disagree	Unclear	No comments	Total
Respondents	5 4 Accounting firms (S1-PwC, S2-Pitcher Partners, S3-KPMG, S13-Deloitte) 1 Preparer (S12-HoTARAC)	1 1 Accounting firm (S10-GT)	5 1 Accounting firm (S11-EY) 2 Auditors (S5-DH, S8-ACAG) 1 Professional body (S4-CAANZ&CPA) 1 Regulator (S7-ACNC)	-	5 1 Accounting firm (S9-SD) 2 Professional bodies (S6-AICD, S14-BCCM), 2 Others (S15-LCA, S16-QLS)	16

Issue 10: Effective date of the proposals to be aligned with NFP financial reporting framework and interaction with proposals in ED 297

Two respondents (S4-CAANZ&CPA, S8-ACAG) suggested delaying the finalisation of the proposed NFP definition and guidance until the AASB’s NFP financial reporting framework project is concluded “... so that entities need to transition to revised requirements only once ...” (S8-ACAG) and that “...it would be beneficial to ensure both “who” should report, and “what” should be reported are determined concurrently, in order to facilitate the identification of any further implementation issues” (S4-CAANZ&CPA).

S7-ACNC expressed concerns that if any registered charities are classified as a FP entity under the new proposed definition, they will be unable to apply NFP specific accounting requirements and at the same time, may have to prepare general purpose financial statements (GPFS) – provided they meet the reporting threshold – if the AASB’s proposals to remove special purpose financial statements for FP private sector entities (ED 297) are implemented. Similarly, S11-EY also suggested the Board to consider the consequences of ED 297 in conjunction with the impact of the proposed NFP definition.

Issue 11: More guidance on differences in Australian accounting standards requirements for FP and NFP

Three respondents (S5-DH, S10-GT, S11-EY) requested more guidance on the differences between accounting requirements for FP and NFP entities, given that some entities may change their classification under the proposed new definition. Areas need further guidance include valuation of assets not held primarily to generate cash flows, capital grants and revaluation model for property, plant & equipment (i.e. on the basis of classes of assets for NFP vs. individual assets for FP).

Issue 12: Disclosure of the reasons for the classification as NFP/FP in the basis of preparation

One respondent (S8-ACAG) recommended that the AASB consider “additional disclosure requirements regarding the underlying reasons for change in classification, to be disclosed preferably within the ‘basis for preparation disclosure’ as this significant change would be relevant to understanding the financial statements and may affect measurement basis” on initial application of the amending standard and recommends the AASB to consider amending the disclosure requirements under AASB 101 *Presentation of Financial Statements* to require entities to disclose the reasons why they are classified as FP or NFP given its impact on recognition, measurement, presentation and disclosure requirements.

SMC 5 No transition requirements have been proposed for the initial adoption of the guidance. Are initial transition provisions required, and if so, what should they state?

Opinion	Agree	Agree with Comments	Disagree	Unclear	No comments	Total
Respondents	4 4 Accounting firms (S1-PwC; S2-Pitcher Partners; S3-KPMG; S13-Deloitte)	1 1 Auditor (S5-DH)	6 2 Accounting firms (S10-GT; S11-EY) 1 Auditor (S8-ACAG) 1 Preparer (S12-HoTARAC) 1 Professional Body (S4-CAANZ&CPA) 1 Regulator (S7-ACNC)	-	5 1 Accounting firm (S9-SD) 2 Professional bodies (S6-AICD, S14-BCCM), 2 Others (S15-LCA, S16-QLS)	16

Issue 13: Transitional relief

Six respondents (S4-CAANZ&CPA, S7-ACNC, S8-ACAG, S10-GT, S11-EY, S12-HoTARAC) disagreed with the ED and required specific transitional requirements, in particular transitional relief for the restatement of the comparative periods and application of the amending standard prospectively rather than retrospectively, with some (S10-GT, S11-EY) recommending to the Board to consider modified retrospective approach similar to the one available in AASB 15. S12-HoTARAC also recommended the AASB to review the link between the proposed definition and the capital management provisions of AASB 101 (paragraphs 134-Aus 136.2).

The main areas that need transitional relief identified by the respondents (S5-DH, S8-ACAG, S10-GT) is property, plant and equipment revaluation model and impairment.

SMC 6 Do you agree that the definition and associated guidance should be included in AASB 1057 *Application of Australian Accounting Standards*? Why or why not? If not, please indicate your preferred approach.

Opinion	Agree	Agree with Comments	Disagree	Unclear	No comments	Total
Respondents	11 6 Accounting firms (S1-PwC; S2-Pitcher Partners; S3-KPMG; S10-GT; S11-EY; S13-Deloitte) 2 Auditors (S5-DH; S8-ACAG) 1 Professional body (S4-CAANZ&CPA) 1 Preparer (S12-HoTARAC) 1 Regulator (S7-ACNC)	-	-	-	5 1 Accounting firm (S9-SD) 2 Professional bodies (S6-AICD, S14-BCCM), 2 Others (S15-LCA, S16-QLS)	16
No substantive comments provided by the respondents.						

SMC 7 Do you agree that the implementation guidance should form an integral part of AASB 1057, ie have mandatory status? Please indicate your reason.

Opinion	Agree	Agree with Comments	Disagree	Unclear	No comments	Total
Respondents	10 6 Accounting firms (S1-PwC; S2-Pitcher Partners; S3-KPMG; S10-GT; S11-EY; S13-Deloitte) 1 Auditors (S8-ACAG) 1 Professional body (S4-CAANZ&CPA) 1 Preparer (S12-HoTARAC) 1 Regulator (S7-ACNC)	-	1 1 Auditors (S5-DH)	-	5 1 Accounting firm (S9-SD) 2 Professional bodies (S6-AICD, S14-BCCM), 2 Others (S15-LCA, S16-QLS)	16
<p>Issue 14: Implementation guidance inconclusive</p> <p>One respondent (S5-DH) commented that the proposed guidance is confusing and inconclusive and examples are not particularly useful (see Issue 5, SMC 1) and therefore they should not be mandatory.</p>						

	Agree	Agree with Comments	Disagree	No Comments	Total
GMC8 (Appropriate application of NFP Standard-Setting Framework)	7 5 Accounting firms (S1-PwC, S2-Pitcher Partners, S3-KPMG, S11-EY, S13-Deloitte) 1 Professional body (S4-CAANZ&CPA ⁵) 1 Regulator (S7-ACNC)	2 1 Auditor (S8-ACAG): Majority agrees, however, required to elaborate on evidence in Basis for Conclusions Minority view: lack of evidence-based support (detail discussion in Issue 3, SMC1) 1 Preparer (S12-HoTARAC minority) asserted that proposed definition for NFP have gone beyond the request by constituents (detail discussion in Issue 3, SMC1)	1 1 Auditor (S5-DH) suggested lack of evidence-based support (detail discussion in Issue 3, SMC1)	6 2 Accounting firm (S9-SD; S10-GT) 2 Professional bodies (S6-AICD, S14-BCCM), 2 Others (S15-LCA, S16-QLS)	16
GMC9 (Regulatory issues including GFS implications)	Twelve respondents did not have substantive comments for this GMC, including (6 Accounting firms (S1-PwC, S2-Pitcher Partners, S3-KPMG, S9-SD, S11-EY, S13- Deloitte); 1 Auditor (S5-DH), 2 Professional bodies (S6-AICD, S14-BCCM), 1 Preparer (S12-HoTARAC), 2 Others (S15-LCA, S16-QLS)). Four respondents (1 Accounting firm (S10-GT), 1 Professional body (S4-CAANZ&CPA), 1 Regulator (S7-ACNC), 1 Auditor (S8-ACAG)) commented on the link between the proposed new definition and the concepts of NFP purposes other than financial reporting (detail discussion in Issue 1, SMC1).				

⁵ The concerns raised by S4-CAANZ&CPA that the development of a fit-for-purpose NFP financial reporting framework which the new NFP definition will underpin or cause divergence from the transaction neutral approach to standard-setting by the AASB will be considered in the NFP financial reporting framework project.

GMC10 (Usefulness to users)	6 4 Accounting firms (S1-PwC, S2-Pitcher Partners, S11-EY, S13-Deloitte) 1 Auditor (S8-ACAG ⁶) 1 Preparer (S12-HoTRAC)	1 1 Accounting firm (S10-GT) commented that proposed changes are more beneficial for preparers than users	3 1 Accounting firm (S3-KPMG) and 1 Auditor (S5-DH) asserted there is no issue with current definition (detailed discussion in Issue 3, SMC1) 1 Regulator (S7-ACNC) commented on classification for ACNC registered charities (detailed discussion in Issue 1, SMC1)	6 1 Accounting firm (S9-SD) 3 Professional bodies (S4-CAANZ&CPA, S6-AICD, S14-BCCM) 2 Others (S15-LCA, S16-QLS)	16
GMC11 (Best interest of economy)	7 4 Accounting firms (S1-PwC, S2-Pitcher Partners, S11-EY, S13-Deloitte) 1 Professional body (S4-CAANZ&CPA) 1 Preparer (S12-HoTARAC) 1 Regulator (S7-ACNC)	-	2 1 Accounting firm (S3-KPMG) and 1 Auditor (S5-DH): Cost vs. benefit (detailed discussion in Issue 3, SMC1)	7 2 Accounting firm (S9-SD; S10-GT) 1 Auditor (S8-ACAG) 2 Professional bodies (S6-AICD, S14-BCCM) 2 Others (S15-LCA, S16-QLS)	16
GMC12 (Cost and benefits of the proposals)	<p>Fourteen respondents did not provide any substantive comments, including 7 Accounting firms (S1-PwC, S2-Pitcher Partners, S3-KPMG, S9-SD, S10-GT, S11-EY, S13-Deloitte), 2 Auditors (S5-DH, S8-ACAG), 3 Professional bodies (S4-CAANZ&CPA, S6-AICD, S14-BCCM), 2 Others (S15-LCA, S16-QLS)</p> <p>Two respondents provided following feedback:</p> <ol style="list-style-type: none"> 1 Preparer (S12-HoTARAC) regards the costs of moving from ‘for-profit’ to ‘not-for-profit’ reporting as modest with a minority that suggested benefit of the change in the public sector does not appear to justify the efforts. 1 Regulator (S7-ACNC) estimates that over 300 charities will be impacted by proposals and believe it will impose reporting impost and administrative burden for those affected charities. 				

Other comments

Three respondents (S8-ACAG, S11-EY and S12-HoTARAC) have provided number of additional and editorial comments on the implementation guidance and illustrative examples that staff will consider when finalising the analysis of the response

⁶ Minority disagrees and asserts that the changes are not needed and would not be useful for users compared to the costs to be imposed.