Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit (NFP) Entity Definition and Guidance**	**Meeting:**	AASB April 2021 (M180)
Topic:	**Further staff analysis and recommendations on responses to ED 291**	**Agenda Item:**	4.1
		Date	6 April 2021
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		Decision-Making:	High
		Project Status:	Consider comments on ED and determine next steps

OBJECTIVE OF THIS PAPER

1 The objective of this paper is for the Board to:

- **decide** to progress the *Not-for-Profit Entity Definition and Guidance project* as a matter of priority given its interaction with Not-for-profit Private Sector Financial Reporting Framework project;
- **decide** how to address the remaining issues identified from the constituents' feedback on Exposure Draft 291 *Not-for-Profit Entity Definition and Guidance* (ED 291) that the Board had not discussed to date;
- **decide** whether the working draft of the amending standard *Amendments to Australian Accounting Standards–Not-for-Profit Entity Definition and Guidance* reflects the tentative decisions made by the Board after considering feedback on ED 291 to date; and
- **decide** on the next steps.

REASONS FOR THE BOARD TO CONSIDER THIS PAPER AT THIS MEETING

2 As part of the consultation undertaken to revise the Board's standard-setting frameworks for for-profit (FP) and not-for-profit (NFP) entities in 2017 (ITC 37)[1], the Board asked for specific feedback regarding the definition of an NFP entity, and whether there was sufficient guidance on how to distinguish FP and NFP entities. The majority of respondents to ITC 37 supported

[1] Review of responses to ITC 37 *The AASB's Standard-Setting Frameworks for For-Profit Entities and Not-for-Profit Entities.*

retaining the term ‘not-for-profit’ but requested more guidance in determining whether an entity is an FP or NFP entity under the Australian Accounting Standards (AAS).

3 Informed by the feedback, the Board then decided at its February 2019 meeting to propose replacing the current NFP entity definition and AASB Exposure Draft ED 291 *Not-for-Profit Entity Definition and Guidance* (ED 291) was issued in June 2019.

4 Staff presented a summary of the feedback received on ED 291 to the Board at its November 2019 meeting. Subsequently, staff have performed further review and analysis of the comments including further consultations. Staff have identified fourteen issues (including four key matters) and several editorial comments raised by the sixteen respondents to ED 291 (Agenda paper 3.1, M173).

5 At its March 2020 (Agenda paper 13.1, M174) and April 2020 meetings (Agenda paper 7.1, M175), the Board discussed staff analysis and recommendations on some, but not all matters raised by stakeholders in response to ED 291. At the April 2020 meeting[2], the Board directed staff to provide analysis and recommendations on the remaining matters from the feedback on ED 291 (listed below as identified in Agenda paper 3.1, M173) and the draft of amending standard including any consequential amendments (such as revised implementation guidance and illustrative examples) to the Board at a future meeting:

- **Issue 8-SMC2**: *Suitability of implementation guidance and illustrative example for the public sector entities*
- **Issue 9-SMC3**: *Impact of classification of controlling entity on the classification of the* group
- **Issue 10-SMC4**: *Effective date of the proposals to be aligned with NFP reporting framework and interaction with proposals in ED 297* (issued as AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*)
- **Issue 11-SMC4**: *More guidance on differences in Australian accounting standards requirements for FP and NFP*
- **Issue 12-SMC4**: *Disclosure of the reasons for the classification as NFP/FP in the basis of preparation*
- **Issue 13-SMC5**: *Transitional relief*
- other editorial comments suggested by respondents (page 16, Agenda paper 3.1, M173).

6 Subsequent to the April 2020 meeting, staff resources were diverted to other urgent and priority projects (also as a result of the COVID-19). With the progression of the NFP Private Sector Financial Reporting Framework project (NFP FRF), staff consider it is important for the Board to consider whether and how to finalise the NFP Entity Definition and Guidance project, preferably prior to the NFP FRF discussion paper being finalised for public feedback to provide clarity for the constituents and entities in regard to their FP or NFP status for the financial reporting purposes.

ATTACHMENTS

Agenda paper 4.2	Working draft of the amending standard *Amendments to Australian Accounting Standards – Not-for-Profit Entity Definition and Guidance*

[2] AASB Action Alert - M175 (Issue no. 202)

7 Agenda paper 4.2 (working draft of the amending standard) reflects proposed changes in the draft pronouncement since ED 291 in the three categories:

- ***Questions to the Board*** which correspond with staff recommendations and questions in this agenda paper;
- ***Notes to the Board*** which reflect the Board's tentative decisions to date; and
- ***Other editorial comments*** which reflect staff proposals on suggested editorial changes by respondents to ED 291. Note that the Board is not required to decide at this meeting whether agrees or disagrees with staff recommendations on these editorial suggestions.

STRUCTURE

8 This staff paper is set out as follows:

(a) Summary of staff recommendations and questions to the Board (paragraph 9)

(b) Staff analysis and recommendations (paragraph 10-20)

(c) Summary of key changes to the revised guidance reflecting the Board's tentative decisions to date (paragraph 22); and

(d) Next steps (paragraph 23)

(e) Appendix A: Summary of the feedback on ED 291 and the Board's tentative decisions to date

SUMMARY OF STAFF RECOMMENDATIONS AND QUESTIONS TO THE BOARD

9 The overview of the staff recommendations and questions to the Board in this agenda item are summarised in the table below. Matters for the Board to consider include timing and direction of the NFP Definition and Guidance project and the outstanding issues identified from comments to ED 291 as listed in paragraph 5 with the exception of Issue 13-SMC 5 *Transitional Relief* where staff will bring further analysis and recommendation for Board's consideration at a future meeting and therefore Board is not asked to make a decision on this matter at this meeting. Detailed staff analysis and recommendations on the matters below follow in paragraphs 10 – 20.

Question 1 & 2 – *Timing and direction of the Project* **(para. 10-18)**
Staff recommendation Staff **recommend** expediting and finalising the NFP Entity Definition project, particularly with consideration of the NFP FRF project progress towards public consultation later this calendar year. The majority of stakeholders in their feedback to ED 291 agreed that the proposed new definition and guidance are more useful in assisting entities to determine their classification and agreed to replace the current definition. "Who" are NFPs is an important question for the development of NFP FRF as it determines which entities are within the scope of NFP FRF. It is also important for the stakeholders, for example, preparers, to know whether they will be impacted by the NFP FRF proposals or not.
Question 3 – *Suitability of implementation guidance and illustrative example for the public sector entities* **(Issue 8-SMC2)**
Staff recommendation

Staff **recommend not** to provide additional illustrative examples for public sector entities (pending on the Board's decision for the restructured illustrative examples with the overall assessment) as staff consider the benefit of developing any additional examples for public sector would be limited. Staff also **recommend not** amending the proposed NFP definition in respect of service capacity concept given the majority of ACAG and HoTARAC agree with the proposed new definition. Staff will consider the consistency issue in the *Fair Value Measurement for Not-for-Profit Entities* and *Conceptual Framework –Not-for-Profit and Public Sector Entities* projects**.** Staff noted public services may be subject to constraints depending on the sectors/industries that the entities operate in. Acknowledging these constraints, staff **recommend** amending paragraph 23 in ED 291, Appendix B *Implementation Guidance* as below: 23 The benefits provided by FP entities are primarily financial in nature. Most FP entities aim to generate a commercial or market return acceptable by the equity holders – that is, to maximise the financial benefit/return, certain entities may be subject to public service constraints, to equity holders commensurate with the relative risks of operating and to meet required return by those equity holders. Hence, the quantum of the expected financial benefits may indicate whether an entity is an FP entity or an NFP entity.
Question 4 – *Impact of classification of controlling entity on the classification of the group* **(Issue 9-SMC3)**
Staff recommendation Staff **recommend not** amending guidance in respect of the classification of the group as considers guidance in ED 291 (paragraph 11) sufficient to address concerns raised by the respondents. However, staff **recommend** amending the last sentence of paragraph 11 in ED 291, Appendix B *Implementation Guidance* as follows: "The classification of the controlling entity in the group would ~~most~~ likely determine the classification of the group". Given that relatively high proportion (three out of sixteen respondents) interpreted 'most likely' as a definitive statement as "classification of the controlling entity determines the classification of the group", staff consider amendment of the paragraph in question will help to avoid potential confusion or misinterpretation of the guidance in practice.
Question 5 – *Effective date of the proposals to be aligned with NFP financial reporting framework and interaction with proposals in ED 297 (AASB 2020-2)* **(Issue 10-SMC4)**
Staff recommendation Staff **recommend** setting the effective date of amended NFP Entity Definition and Guidance (with early adoption permitted) in a way to allow completion of the possible future proposals on NFP FRF and alignment of the mandatory effective dates of the two projects. If the Board decides to proceed with the amendments of NFP Entity Definition and Guidance, staff **recommend** an interim mandatory effective date that applies to annual periods beginning on or after 1 January 2024. To signal that the effective date of NFP definition is expected to be the same as the one of NFP FRF and the potential to defer the mandatory application date of the NFP definition if NFP FRF

has an effective date later than 1 January 2024 (pending on the NFP FRF project development and the Board decisions), staff **recommend** adding the following clarification accompanying the proposed interim effective date: "This effective date is an interim date that will be updated, if necessary, to reflect the effective date of amendments to Australian Accounting Standards to introduce a revised financial reporting framework for not-for-profit entities."
Question 6 – *More guidance on differences in Australian accounting standards requirements for FP and NFP* **(Issue 11-SMC4)**
Staff recommendation Staff **recommend not** providing additional guidance on differences in Australian Accounting Standards requirements for FP and NFP entities as part of the amendments introduced by the revised NFP Entity Definition and Guidance. AASB has developed guidance to assist with the transition for those first encountering the Australian Financial Reporting Framework for NFPs in the AASB Staff Paper: *Modifications to Australian Accounting Standards for Not-for-profit Entities* (Apr 2020). Stakeholders can also refer to the Staff FAQs Not-for-profit Entities (Oct 2020) for more guidance on a number of topics.
Question 7: *Disclosure of the reasons for the* classification *as NFP/FP in the basis of preparation* **(Issue 12-SMC4)**
Staff recommendation Staff **recommend not** to require entities to mandatorily disclose the reasons for their classifications in the basis of preparation, as there already are relevant requirements in the AAS for entities to disclose the most significant judgements made in applying the entity's accounting policies (e.g. paragraph 122 of AASB 101 *Presentation of Financial* Statements) AASB and change in accounting policies and its implication (e.g. paragraphs 28(c), 29(a) and 29(b) of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*) in addition to the requirement to disclose their FP/NFP status in AASB 1054 *Australian Additional Disclosures*.

STAFF ANALYSIS AND RECOMMENDATIONS

Timing and direction of the project

10 The majority of stakeholders who submitted a comment letter to ED 291, expressed general agreement with the proposed definition (eleven out of sixteen responses) and the implementation guidance (twelve out of sixteen responses) (Appendix C Summary of responses, Agenda paper 3.1, November 2019 (M173)). These respondents to ED 291 noted concerns and issues associated with the current definition and are of the view that the proposed new definition in ED 291 could address those existing issues.

11 The current definition is binary and focuses only on the factor whether an entity is generating profit or not, which may lead to form-over-substance assessments. The current definition is perceived by some stakeholders to mean that an NFP entity cannot generate a profit, while profit or surplus generation is important for entities, either FPs or NFPs, to remain sustainable to support their objectives. Also, stakeholders noted that the lack of detailed implementation guidance has presented challenges over the years in classifying an entity as an NFP or FP entity.

12 The proposed NFP definition and guidance address issues with the current definition using a substance-over-form assessment approach that requires assessment on both primary objectives and whether equity was provided to support those primary objectives rather than for financial returns to equity holder(s). The comprehensive guidance is also expected to ensure greater consistency in the classification across entities.

13 The proposed NFP definition also better aligns with definitions and guidance developed/adopted in other jurisdictions and internationally (in addition to New Zealand definition and guidance which served as a base for the proposals in ED 291), for example:

(a) Canadian GAAP incorporates a test of public benefit purpose but also focuses specifically on the not-for-profit characteristics of an entity and in particular financial returns, defining an NFP organisation (NFPO) as being: "an entity, normally without transferable ownership interests, organised and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. An NFPO's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization".[3]

(b) The Financial Reporting Council in the UK when developing FRS 102 *The Financial Reporting Standards Applicable in the UK and the Republic of Ireland* (which also applies to those entities that are not profit-oriented) noted that a public benefit entity is: "An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to providing a financial return to equity providers, shareholders or members."[4]

(c) IFR4NPO Consultation Paper (Chapter 1, paragraph 1.14) also proposed a broad characteristics approach to describe the types of organisations that are likely to benefit most from the IFR4NPO guidance being organisations that:

(i) Deliver services for public benefit and/or

(ii) Direct any profits/surpluses for public benefit and/or

(iii) May have significant voluntary funding and grant income and/or

(iv) Hold and use assets for social purposes

The characteristics proposed by IFR4NPO closely align with the key indicators in ED 291 (Appendix B: *Implementation Guidance*) that aim to focus on the substance of an entity's purpose and that should be considered in determining whether an entity is an NFP entity.

14 The proposed NFP definition also align with the description of "Not-for-profit organisations" available on the ATO website[5], which says:

> "Not-for-profit (NFP) organisations are organisations that provide services to the community and do not operate to make a profit for its members (or shareholders, if applicable). A few examples are childcare centres, art centres, neighbourhood associations, medical centres and sports clubs. All profits must go back into the services the organisation provides and must not be distributed to members, even if the organisation winds up."

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[3] Preface to the *CPA Canada Handbook – Accounting*, paragraph 3C- April 2019

[4] P.308, *FRS 102 The Financial Reporting Standard Applicable in the UK and the Republic of Ireland* – Financial Reporting Council – March 2018)

[5] Accessed 23rd March 2021.

Both the proposed NFP definition in ED 291 and the ATO descriptions highlight that NFP entities are providing community services and cannot distribute profits back to members/shareholders.

15 Overall, staff consider that the proposed new NFP definition and guidance improves the existing definition with its greater focus on the nature and purpose of an NFP entity.

16 Accordingly, staff consider that it is important to continue and finalise the *NFP Entity Definition and Guidance* project and to do that before the finalisation of the NFP FRF discussion paper as:

(a) The proposed definition and guidance addresses issues with the current NFP definition using a substance-over-form assessment with detailed implementation guidance to assist the assessment process. "Who" are NFPs is an important question for the development of NFP FRF as it determines which entities are within the scope of NFP FRF and helps staff develop the respective financial reporting requirements.

(b) It is also important for the stakeholders, for example preparers, to know whether they would be in the scope of the NFP FRF proposals in order to provide comments/feedback to the NFP FRF consultation. If the *NFP Entity Definition and Guidance* project is not finalised before the NFP FRF project, entities that may need potentially change their classification because of the proposed NFP definition would miss the opportunity to comment on the NFP FRF consultation documents and/or participate in the NFP FRF outreach events.

(c) If the *NFP Entity Definition and Guidance* project is suspended, the existing definition would be maintained for foreseeable future (to ensure certainty of the classification leading up to and after the NFP FRF project is finalised). Issues with the existing definition that the stakeholders have raised in ITC 37 and in their feedback to ED 291 will persist (e.g. a gap between the NFP definition being a negative statement focusing on profit generation and the broader characteristics of NFP entities) and the benefits of the adoption of the more comprehensive definition and guidance (similar to the ones listed in paragraph 12 above) would not materialise. Staff noted that some entities have used indicators similar to the proposals in ED 291 as the best practice in their assessment of NFP classification for financial reporting purposes. Suspension of the project is likely to create confusion for preparers and users as to which principle they should apply.

17 Staff acknowledge the potential transitional cost that may incur for entities changing classification as a result of amended NFP definition and guidance. However, staff do not expect many entities will change classifications for financial reporting. S7-ACNC estimated that around 300 charities may be impacted by the proposed NFP definition, which indicates relatively small proportion of the total number of entities that need to prepare financial statements and therefore have to assess their FP/NFP classification.

18 Subject to the Board's decision on the direction of the project and further deliberations on suggested amendments to the proposed NFP Entity Definition and Guidance, staff will analyse options for the next steps of due process and will bring back for Board to deliberate at future meetings. In line with AASB Due Process Framework (section 7) that would include consideration whether the proposals can be finalised or whether they should be re-exposed either fully through a new consultation process or partially through a 'fatal flaw' limited exposure.

Question 1 to the Board: Does the Board agree with the staff recommendation to continue with NFP Entity Definition and Guidance project? If not, does the Board want staff perform more research or outreach and if so, what are the particular areas that staff should focus on? **Question 2 to the Board:** If the Board agrees to continue with the project, does the Board agree to finalise the pronouncements as a matter of priority before the NFP FRF public consultation begins (subject to further Board's deliberations at future meeting including decisions whether to re-expose the proposals and in what form)?

19 The following section includes staff analysis on the remaining matters (listed below) raised by the stakeholders in their feedback on ED 291 that the Board has not deliberated yet.[6]

- Issue 8-SMC2: *Suitability of implementation guidance and illustrative example for the public sector entities*
- Issue 9-SMC3: *Impact of classification of controlling entity on the classification of the group*
- Issue 10-SMC4: *Effective date of the proposals to be aligned with NFP reporting framework and interaction with proposals in ED 297 (AASB 2020-2)*
- Issue 11-SMC4: *More guidance on differences in Australian accounting standards requirements for FP and NFP*
- Issue 12-SMC4: *Disclosure of the reasons for the classification as NFP/FP in the basis of preparation*
- Issue 13-SMC5: *Transitional relief*

Issue 8-SMC2: 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. S8-ACAG also recommended "that the AASB develop a framework that incorporates concepts consistent with those in AAS to avoid interpretation and application issues e.g., considering the definition in light of the proposed concept of service capacity in AASB 13 *Fair Value Measurement*." S12-HoTARAC commented that the cost to perform impairment test for non-cash-generating assets would outweigh the benefit for any public sector entities that may change classification from NFP to FP as a result of the change in NFP definition. 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 paragraph 23 (paragraph B25 after re-numbering) of Appendix B *Implementation Guidance* 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 the financial return over the long-term period to avoid the possibility of frequent change in entities' classification.
Staff Analysis:

[6] Issues were summarised in Appendix C Summary of responses, Agenda paper 3.1, Nov 2019 (M173)

Request for additional illustrative example for public sector entities

ED 291 included illustrative examples with the intention to demonstrate the application of the Implementation Guidance. The examples are illustrative only and do not establish requirements. These examples illustrative assessment of indicators to be considered by constituents in reaching conclusion regarding whether an entity is an NFP or FP entity. Example 1 – *Wholly owned State entity* is set in a public sector context and would be relevant and could be applied in analogy to other types of public sector entities. Public sector entities may also refer to other illustrative examples included in ED 291 where relevant. Any public or private sector entity will need to apply the same approach to consider all indicators and make an overall assessment of whether it is an NFP entity or not. Additional example for public sector would be unlikely to provide a significantly different illustration of the assessment of the indicators and would require professional judgement in applying the implementation guidance. Staff therefore consider the benefit of developing any additional examples for public sector to be limited.

In addition, the Board directed staff to restructure the illustrative examples to include an overall assessment emphasising the involvement of judgement in the assessment process (AASB Action Alert - M175 (Issue no. 202)). Staff considers the restructured examples will provide further assistance to stakeholders (including public sector) when assessing FP/NFP classification.

Service capacity and non-cash generating assets:

Staff acknowledge S8-ACAG's recommendation for the Board to apply a consistent framework when developing the NFP definition and concept of "service capacity". Given that majority of ACAG agree with the proposed NFP definition, staff recommend to not amend the proposed NFP Entity Definition and Guidance in respect of the concept of "service capacity" further and staff will consider the consistency issue in the *Fair Value Measurement for Not-for-Profit Entities* and *Conceptual Framework –Not-for-Profit and Public Sector Entities* projects.

Staff noted S12-HoTARAC's comments on the additional cost for NFP public sector entities to perform impairment test as a result of transiting from NFP to FP where also accompanied with the assessment of transition cost as "modest" (particularly if stakeholder's suggestion not to require comparatives would be adopted). Staff are of the view that the primary use of assets may indicate an entity's classification. If an entity self-assessed to be FP, whether private or public sector, it is expected to hold assets with the primary objective of generating net cash inflows (including some assets held to generate services at a loss as a pre-requisite to operating in a profitable market, such as telecommunication companies obliged to cross-subsidise services to remote areas, or property developer obliged to provide subsidised social housing). On the other hand, an entity assessed as NFP would apply recognition and measurement requirements including impairment to cash-generating assets in the same way as an FP entity would.

For 'commercial' or 'market' returns

Staff noted public services may be subject to constraints depending on the sectors/industries that the entities operate in. For example, the Essential Service Commission Victoria reviews and determines the prices for certain water services. These prices constraints may apply to both public and private sector FP entities that supply water and related services. Acknowledging these constraints, staff recommend amending paragraph 23 in ED 291 as below:

23 The benefits provided by FP entities are primarily financial in nature. Most FP entities aim to generate a commercial or market return <u>acceptable by the equity holders</u> – that is, to maximise the financial benefit/return<u>, including entities that may be subject to various constraints on pricing of their outputs or inputs,</u> to equity holders commensurate with the relative risks of operating <u>and to meet required return by those equity holders</u>. Hence, the quantum of the expected financial benefits may indicate whether an entity is an FP entity or an NFP entity.

Staff recommendations:

Staff **recommend not** to provide additional illustrative examples for public sector entities (pending on the Board's decision for the restructured illustrative examples with the overall assessment) as staff consider the benefit of developing any additional examples for public sector would be limited.

Staff also **recommend not** amending the proposed NFP definition in respect of the service capacity concept given the majority of ACAG and HoTARAC agree with the proposed new definition. Staff will consider the consistency issue in the *Fair Value Measurement for Not-for-Profit Entities* and *Conceptual Framework –Not-for-Profit and Public Sector Entities* projects.

Staff noted public services may be subject to constraints depending on the sectors/industries that the entities operate in. Acknowledging these constraints, staff **recommend** amending paragraph 23 in ED 291, Appendix B *Implementation Guidance* as below:

23 The benefits provided by FP entities are primarily financial in nature. Most FP entities aim to generate a commercial or market return acceptable by the equity holders – that is, to maximise the financial benefit/return, including entities that may be subject to various constraints on pricing of their output or inputs, to equity holders commensurate with the relative risks of operating and to meet required return by those equity holders. Hence, the quantum of the expected financial benefits may indicate whether an entity is an FP entity or an NFP entity.

Question 3 to the Board:

Does the board agree with the staff recommendations above?

Issue 9-SMC3: Impact of classification of controlling entity on the classification of the group

Three respondents (S5-DH, S8-ACAG, S11-EY) disagreed that the classification of controlling entity would *most likely* (emphasis added) determine the classification of the group in all circumstances. S11-EY commented 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 the group may not be suitable for some of the groups where parent entity is not the trading or operating one. S8-ACAG illustrated an example situation where "an NFP entity's primary objective is to use cash dividends received from its FP subsidiary to make donations to various charitable causes. The assets and liabilities of the group would be mainly those of the FP subsidiary, plus cash held by the controlling entity. In this case, it does not seem to be appropriate to classify the group as an NFP entity and therefore potentially rework the carrying amounts of the FP subsidiary's assets to be in accordance with the NFP accounting policies of the group " S8-ACAG suggested to clarify in the implementation guidance that "determination about the classification of the group should be based on facts and circumstances, and the overall substance and significance of the commercial and charitable activities carried out by the group."

Staff Analysis

Staff noted that ED 291 (Appendix B *Implementation Guidance,* paragraph 11) states: "*The classification of the group controlling entity in the group would most likely determine the classification of the group*" which allows for some situations where the classification of the group would not be the same as the parent/controlling entity.

Staff considered that the Board acknowledged the possibility that the group classification can be different from the individual entity and agreed that "*the assessment for classification as a NFP or FP entity is made at the entity level. As a result, the classification at the entity may differ from the classification at the group level…in determining the classification of a group, it is necessary to consider the characteristics of the group*" (Appendix B *Implementation Guidance*, paragraph 11). Further, paragraph 22 of Appendix B *Implementation Guidance* also noted: "*NFP entities may establish controlled entities or discrete business units that operate to generate a financial surplus that can be used to support the primary activities of the controlling entity. Such entities or business units may be for-profit. This fact does not affect the classification of the controlling entity or group."* Staff consider the implementation guidance does not conflict with the stakeholders' comments that the classification of the group should be based on the characteristics of the group. Also, the group's NFP classification does not preclude to recognise and measure cash-generating assets under FP accounting requirements if that is the appropriate accounting treatment, such as property, plant and equipment held exclusively to generate profit and not for service potential.

As discussed in the *AASB Research Report 13 Parent, Subsidiary and Group Financial Reporting* (paragraph B20-B28), consolidated financial statements could be prepared from an entity perspective, the owners' (proprietary) perspective, or as an amalgamation of the two perspectives. AASB adopted the 'entity perspective' in its *Conceptual Framework for Financial Reporting* (RCF) (para. BC3.10, IASB revised Conceptual Framework).[7] Under the entity perspective, full consolidation is required with liabilities and equities classified as separate elements of financial statements, and separate presentation and disclosure of controlling and non-controlling ownership interests (both categories of which are included in equity) [the current treatment in AASB 10 and AASB 101].

Paragraph 3.8 in RCF states that "*Financial statements provide information about transactions and other events viewed from the perspective of the reporting entity as a whole, not from the perspective of any particular group the entity's existing or potential investors, lenders or other creditors.*" Similarly, as per paragraph 1.12 in RCF, "*General purpose financial reports provide information about the financial position of a reporting entity, which is information about the entity's economic resources and the claims against the reporting entity*". Thus, such information is not limited to economic resources and claims attributable to the reporting entity's parent. The approach adopted in RCF is consistent with the view that the characteristics of the group, as the reporting entity, are to be considered when determining the classification of the group, which could be different from the classification of the parent entity.

Staff also considered that the second leg of the proposed definition in ED 291 is related to the parent entity's equity characteristics, based on the fact that the group is determined based on the control concept in accordance with AASB 10 and the fact that the shareholders' equity of the group represents the shareholders' equity of the parent. As for the first part of the proposed definition (i.e., primary objective), the control exercised by the parent would be a significant factor influencing the primary objective of the group. While subsidiaries may have characteristics of FP entity and generate majority of group revenue and profits, if the profits are used for the community benefit (e.g., through distribution of profits from FP subsidiary to parent being NFP entity), the fact that subsidiary performs commercial activity is no different to a stand-alone NFP (the parent entity) raising funds through commercial activities for community benefit. However, if the FP activities run by an NFP group become pervasive enough that providing community and social benefits is no longer the primary objective of the group, the group should reassess its classification. Therefore, and also given that relatively high proportion (three out of sixteen respondents) interpreted 'most likely' as a definitive statement as "classification of the controlling entity determines the classification of the group", staff considered the following option to amend paragraph 11 of the Appendix B *Implementation Guidance* in ED 291 to avoid potential confusion or misinterpretation in practice:

"The classification of the controlling entity in the group would ~~most~~ likely determine the classification of the group."

Staff Recommendation:

Staff **recommend** amending the last sentence of paragraph 11 of Appendix B *Implementation Guidance* to "The classification of the controlling entity in the group would ~~most~~ likely determine the classification of the group."

Question 4 to the Boad:

Does the Board agree with the staff recommendation to amend the last sentence of paragraph 11 of Appendix B *Implementation Guidance* to "The classification of the controlling entity in the group would ~~most~~ likely determine the classification of the group."?

[7] The AASB's Conceptual Framework for Financial Reporting (CF 2019), which is applicable to for-profit entities. The Board is currently undertaking a project to modify this Conceptual Framework where necessary for not-for-profit considerations. Staff to date has not identified any particular need to amend the 'entity perspective' for NFP entities, refer Agenda paper 10.1 (M177, September 2020).

Issue 10–SMC4: Effective date of the proposals to be aligned with NFP financial reporting framework (NFP FRF) and interaction with proposals in ED 297 (AASB 2020-2)

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 an 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 (later adopted through AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*) are implemented. Similarly, S11-EY also suggested the Board consider the consequences of AASB 2020-2 in conjunction with the impact of the proposed NFP definition.

Staff Analysis

Staff agree that the distinction between an FP and an NFP entity would become even more significant if the AASB develops a separate NFP financial reporting framework with a further reporting tier (Tier 3) in addition to the existing two tiers of reporting requirements (Tier 1 and Tier 2) for NFP entities. The proposed definition in ED 291 determines whether an entity should apply NFP-specific requirements in AAS or not. The revised NFP financial reporting framework will potentially change financial reporting requirements for some NFP entities, similarly to how AASB 2020-2 changed financial reporting requirements for certain FP entities. Certainty of understanding for entities whether they classify as FP or NFP entities would assist them with the assessment of changes in reporting requirements. Therefore, staff consider that it would be beneficial to have same effective date for the new NFP definition with the revised NFP financial reporting framework, however, to enable certainty of NFP classification as soon as possible.

Staff also agree that aligning the mandatory effective date for the revised NFP definition with the revised NFP FRF, if the Board decides to proceed with the amendments of NFP Entity Definition and Guidance and the certainty for the entities in regard to their status for the financial reporting purposes will inform NFP FRF project on the population of the NFP entities that are expected to be in the scope of the NFP FRF project. It could also help to mitigate unnecessary transition cost for the affected preparers, particularly for those entities that potentially need to change their classifications as well as to apply new requirements of NFP FRF.

As for ACNC's concerns for the removal of SPFS for certain FP entities,[8] staff will bring the analysis and recommendation for transitional relief to facilitate of the amended definition and guidance at a future meeting (see discussion in Issue 13-SMC 5 below).

Staff recommendation

Based on the analysis above, staff recommend setting the effective date of amended NFP Entity Definition and Guidance (with early adoption permitted) to allow completion of the future proposals on NFP FRF and alignment of the mandatory effective dates of these pronouncements.

If the Board decides to proceed with the amendments of NFP Entity Definition and Guidance, staff recommends an interim mandatory application for annual periods beginning on or after 1 January 2024.

[8] S7-ACAC estimated that around 300 charities may be impacted by the proposed NFP definition.

To signal that the effective date of NFP definition is expected to be the same as NFP FRF and the possibility to defer the mandatory application date of the NFP definition if NFP FRF has an effective date later than 1 January 2024 (depending on the NFP FRF project progress and the Board decisions), staff recommend to note in the amending pronouncement: "This effective date is an interim date that will be updated, if necessary, to reflect the effective date of amendments to Australian Accounting Standards to introduce a revised financial reporting framework for not-for-profit entities."
Question 5 to the Board: a) Does the Board agree with the staff recommendation to align the effective date of amended NFP Entity Definition and Guidance (with early adoption permitted) with the effective date of amendments to AAS to introduce a revised FRF for NFP entities? b) Does the Board agree with the staff proposed interim effective date for the amended NFP Entity Definition and Guidance? c) Does the Board agree with the staff recommendation to add the following clarification in the Preface of the amending standard: "This effective date is an interim date that will be updated, if necessary, to reflect the effective date of amendments to Australian Accounting Standards to introduce a revised financial reporting framework for not-for-profit entities."?
Issue 11–SMC4: 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 that 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. based on classes of assets for NFP vs. individual assets for FP).
Staff analysis AASB published and recently updated the AASB Staff Paper: *Modifications to Australian Accounting Standards for Not-for-profit Entities* (Apr 2020) which details the existing modifications to IFRS standards for NFP entities and the AASB's rationale for the modifications and enables preparers and auditors of NFP financial statements to understand these modifications and their rationale and to assist entities transitioning between NFP and FP financial reporting requirements. In additiona, AASB has also released the Staff FAQs for NFP entities (Oct 2020) to assist NFP entities to apply AASB 15 *Revenue from Contracts with Customers,* AASB 1058 *Income of Not-for-Profit Entities,* and AASB 16 *Leases* and these FAQs have been updated to reflect implementation matters raised by stakeholders.
Staff recommendation Staff **recommend not** providing additional guidance on differences in Australian accounting standards requirements for FP and NFP . Stakeholders potentially impacted can refer to already available resources such as the AASB Staff Paper: *Modifications to Australian Accounting Standards for Not-for-profit Entities* (Apr 2020) and the Staff FAQs (Oct 2020) for AASB 15 *Revenue from Contracts with Customers,* AASB 1058 *Income of Not for-Profit Entities* and AASB 16 *Leases* for more guidance. Staff will also consider education materials and activity, potentially being part of the broader ein the proposed NPF Entity Definition and Guidanceducation initiative in relation to NFP FRF project to further assist entities with assessment and potential transition.
Question 6 to the Board:

Does the Board agree with the staff recommendation to not provide additional guidance on differences in Australian accounting standards requirement for FP and NFP in the in the proposed NPF Entity Definition and Guidance?

Issue 12-SMC4: Disclosure of the reasons for the change in 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.

Staff Analysis:

Staff agree that disclosure of the underlying reasons for entities to change classification at initial application of the proposed NFP entity definition could be beneficial to users of the financial reports. AAS currently have requirements for entities to disclose their classification, for financial reporting purposes, and judgements made in applying and changing the entity's accounting policies.

Paragraph 8 of AASB 1054 requires an entity to disclose whether, for the purposes of preparing the financial statements, it is a for-profit or not-for-profit entity.

Paragraph 122 in AASB 101 *Presentation of Financial Statements* requires disclosure of the judgements made in applying the entity's accounting policies:

- "An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apartment from those involving estimations (see paragraph 125 [of AASB 101], that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements."

Also, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires entities to disclose the change in accounting policies and its implication:

- paragraph 28(c) of AASB 108 requires an entity to disclose the nature of change in accounting policy when the initial application of an Australian Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods;
- paragraph 29(a) of AASB 108 requires an entity to disclose the nature of change in accounting policy; and
- paragraph 29(b) of AASB 108 requires an entity to disclose the reasons why applying the new accounting policy provides reliable and more relevant information when a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods.

Paragraph IG5 in AASB 1054 also summarises the related disclosure requirements of accounting policies for NFP private sector entities required to apply AASB 1054 in their special purpose financial statements (SPFS) including requirements of AASB 101.

Overall, staff consider that AAS already have requirements sufficient information to enable users of financial statements to understand the underlying reasons for judgement in determining the classification and for change in classifications, both at the initial application of the amended NFP definition and on an ongoing basis.

Also, staff consider that the classification of an entity is unlikely to change frequently unless there is significant change in its operation/strategy/structure of the entity. The initial assessment and applied judgements are therefore likely to be applicable for subsequent years in most cases.

Therefore, the staff is of the view that no additional disclosure requirements specifically for the reasons of the change of NFP/FP classification in the basis of preparation are needed.

Staff Recommendation:

Staff **recommend not** requiring entities to mandatorily disclose the reasons for their classifications in the basis of preparation, as there already are relevant requirements in the AAS requiring entities to disclose the most significant judgements made in applying the entity's accounting policies and change in accounting policies and its implication.

Question 7 to the Boad:

Does the Board agree with the staff recommendation to not require entities to mandatorily disclose the reasons for the change in their classifications in the basis of preparation?

Issue 13-SMC5: 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 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.

S4-CAANZ&CPA commented that transitional requirements are warranted if the proposed NFP definition and guidance would become effective concurrently with the amended NFP financial reporting framework.

Staff analysis

ED 291 considered transitional relief and referred to AASB 108 *Accounting Policies* for entities that may change classification but will continue to apply AAS and AASB 1053 *Application of Tiers of Australian Accounting Standards* for entities that either the first-time adopt of the Standards or the reapply of the Standards.

Para 27 of AASB 108 allows application of new policy prospectively if it is impracticable[9] for retrospective application*:*

"27 When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity applies the new policy prospectively from the start of the earliest period practicable."

[9] Impracticable is defined in Para 5 of AASB 108:

"Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct and error if:

(a) the effects of the retrospective application or retrospective restatement are not determinable;
(b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
(c) the retrospective application or retrospective statement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
    (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
    (ii) would have been available when the financial statements for that prior period were authorised for issue from other information."

If an entity cannot apply the new standard retrospectively to all prior period due to limited information access, AASB 108 gives they the option to apply new policies prospectively.

Staff acknowledge the respondent's comments that the above relief in AASB 108 might not be available to entities in all circumstances and the cost to apply new accounting policies retrospectively can be non-trivial for some entities. Therefore additional transitional relief could be potentially justified. However, respondents to ED 291 have not expressed clear views on how many entities are likely to need transitional relief and what additional transitional relief is needed. Staff will perform further research and analysis to better understand the nature of additional relief and the benefit it would bring to preparers.

Subject to the Board's decision on the direction of the NFP Definition and Guidance project and further deliberations including effective date and due process, staff will bring the analysis and recommendation for transitional relief for Board's consideration at a future meeting. Staff will consider whether there is a need to provide transition relief in case the proposals are in 2022 and would be applicable for annual reporting periods starting 1 January 2024 and whether there is specific need for a specific relief for those entity that would adopt proposals early also considering interaction with NFP FRF proposals and possible transitional relief.

Staff will consider the following scenarios when analysing whether to provide additional transitional relief (and if yes, what would be the nature of transitional relief).

Compliance with R&M		Types of financial statements		Preliminary impact assessment		Possible additional transitional relief	
Current status	***Transit to***	***Current***	***Transit to***	***R&M***	***Disclosure***	***R&M***	***Disclosure***
Not complying with R&M	Complying with R&M (either NFP or FP)	SPFS	GPFS Tier 1 (either NFP or FP)	Need to adopt and comply with R&M requirements	GPFS Tier 1 disclosure requirements	Similar to the relief added to Appendix E of AASB 1053 (by AASB 2020-2) and the amendments to paragraph 18A, 18B and 18D for entities adopting AASB 2020-2 and AASB 1060 early. Such relief would include: - relief from distinguishing between changes in accounting policies and errors; - relief from providing comparative information not previously disclosed in the notes; - relief from restating comparative information; and - changing the date of transition to the beginning of the reporting period, rather than the beginning of the earliest comparative period.	
		SPFS	GPFS Tier 2 (either NFP or FP)	Need to adopt and comply with R&M requirements	GPFS Tier 2-Simplified Disclosures (SDS)		
Complying with R&M – NFP	Complying with R&M- FP	Tier 1-NFP	Tier 1-FP	Adopt FP/NFP accounting policies and relevant R&M requirements, for example:[10] • Assets acquired at significantly less than fair value is initially recognised at fair value (AASB 140 and AASB 116) • Recognise revaluation increases and decreases on a class of assets basis (AASB 116) • Inventories held for distribution (AASB 102) • Revenue/income - AASB 15 and AASB 1058	None	Modified retrospective approach (no restatement of comparatives and adjustment through opening balance of retained earnings)	None
		Tier 1-NFP	Tier 2-FP		Need to prepare the Tier 2 additional disclosure		Comparative information relief [11]
		Tier 2-NFP	Tier 1-FP		Need to comply with Tier 1 disclosure requirements		None
		Tier 2-NFP	Tier-2-FP		None		None
		SPFS	Tier 1 or Tier 2 - FP		Need to prepare additional Tier 1 or Tier 2 disclosures		Similar to Appendix E of AASB 1053 Comparative information relief
Complying with R&M – FP	Complying with R&M – NFP	Tier 1-FP	Tier 1-NFP		None		None
		Tier 1-FP	Tier 2-NFP		Need to prepare the Tier 2 additional disclosure		Comparative information relief
		Tier 2-FP	Tier 1-NFP		Need to comply with Tier 1 disclosure requirements		None
		Tier 2-FP	Tier-2-NFP		None		None
		Tier 1 or Tier 2 -FP	Tier 3-NFP	Subject to the proposals in NFP FRF			

[10] Refer to AASB Staff Paper: *Modifications to Australian Accounting Standards for Not-for-profit Entities* (Apr 2020) for other examples of differences between FP and NFP entities for recognition and measurement requirements that potentially need to be considered when developing the transitional relief.

[11] The comparable information relief could be similar to that available in the forthcoming amending Standard AASB 2021-1 *Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities*, which amends AASB 1060 to provide not-for-profit entities with optional relief from presenting comparative information in the notes to the financial statements where the entity did not disclose the comparable information in its most recent previous general purpose financial statements. This relief is available for NFP entities transitioning from either Tier 1 or Tier 2-Reduced disclosure requirement (RDR) to Tier 2-SDS for a reporting period prior to the entity's mandatory application AASB 1060. The Board has approved the amending standard which reflects the Board's decision at its February 2021 meeting and the proposals in AASB Exposure Draft ED 306 *Transition Between Tier 2 Frameworks for Not-for-Profit Entities*.

20 Analysis of other editorial comments received in the feedback on ED 291 are included directly in in Agenda paper 4.2 Working draft of the amending standard Amendments to Australian Accounting Standards – *Not-for-Profit Entity Definition and Guidance annotated as* 'Other editorial comments'.

21 Staff have also renumbered paragraphs in *Appendix B Implementation guidance: When is an entity a not-for-profit entity?* from "1,2,3…" to "B1, B2, B3…" to distinguish from paragraph numbering in the *Amendments to Australian Accounting Standards* section and to be consistent with other AASB pronouncements.

KEY CHANGES PROPOSED TO THE REVISED GUIDANCE

22 Following the Board's direction from its April 2020 meeting (Action Alert No. 202), staff have prepared the working draft of the amending standard (Agenda Paper 4.2) for the Board's consideration with the following key changes compared to the proposals in ED 271 (annotated as "Notes to the Board" in Agenda item 4.2):

- added following text to paragraph B3 to reflect the Board's tentative decision in its April meeting to simplify the application process of assessment requirements for entities with NFP status for taxation purpose:

  "An entity is an NFP for financial reporting if it is NFP for taxation purposes, unless the entity primarily focuses on maximising the financial benefits to equity holders irrespective of the form of distribution."

- added following text to paragraph B31 to reflect the Board's tentative decision in its April meeting:

  "For the purpose of assessing the classification of an entity for financial reporting as an NFP entity:

  (a) equity is the residual interest in the assets of the entity after deduction of its liability as defined in paragraph 4.63 of the *Conceptual Framework for Financial Reporting* and paragraph 49(c) of the *Framework for the Preparation and Presentation of Financial Statements*;

  (b) equity holders are the holders of any equity claims of an entity and in absence of clear equity instruments, equity holders are those who have the rights to direct the use of economic resources of the entity."

- include the flowcharts incorporating illustrative examples and demonstrating the assessment process for entities self-assessed as NFP for taxation purposes and other entities (see paragraphs B9-B12, Flowchart 1 and Flowchart 2. Agenda paper 4.2);

- restructure the illustrative examples to include an overall assessment, emphasising the involvement of judgement in the assessment process (see page 20, Agenda paper 4.2).

- Include an additional example to clarify the term "providing goods or services for community and social benefit" with the intention to address stakeholder's question whether provision of funding is provision of "goods and services" – Example 6: Providing goods or services for community and social benefit (see page 28, Agenda paper 4.2)

Question 8 to the Boad:

Does the Board agree that the amended initial drafting (subject to further editorial refinements) reflects the Board’s tentative decisions made at its March and April 2020 meetings?

NEXT STEPS

23 Subject to the Board decisions at April 2021 meeting, staff will bring back for Board’s consideration at its June meeting:

- analysis and recommendations on the transitional relief;
- updated draft of the amending standard reflecting Board decisions at April 2021 meeting including updated Basis for Conclusion to reflect Board’s tentative decisions when deliberating feedback on ED 291 to date;
- analysis of the options and recommendations on the next steps to finalise the amending standard, including consideration of Due Process Framework requirements (e.g. whether to re-expose the proposals and in what form).

APPENDIX A: SUMMARY OF ED 291 PROPOSALS AND BOARD'S TENTATIVE DECISIONS

Summary of proposals in ED 291

A1. 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.

A2. ED 291 proposed 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*.

Summary of the Board deliberations on the feedback from ED 291 and tentative decisions to date

Nov meeting 2019 (M173)	Agenda Paper 3.1 Initial Summary responses to ED 291 This paper provides the Board with an initial summary of the feedback received on the Exposure Draft ED 291 *Not-for-Profit Definition and Guidance.* The Board was not asked to make any decision in this meeting.
March Meeting 2020 (M174)	Agenda Paper 13.1 Staff analysis and recommendation on certain responses to ED 291 The Board decided to proceed with the not-for-profit (NFP) entity definition proposed in ED 291 with the amendments to the implementation guidance clarifying that an entity is an NFP entity for financial reporting purposes if it is NFP for taxation purposes, unless its primary purpose is for the financial benefit of its equity holder(s) (subject to further clarification of the terms used in the implementation guidance and illustrative examples). The Board did not agree that an entity should be able to elect to be a for-profit (FP) entity due to concerns with possible abuse of the election.
April Meeting 2020 (M175)	Agenda Paper 7.1 Further staff analysis and recommendations on certain responses to ED 291 The Board decided in respect of the implementation guidance proposed in ED 291 to: ○ retain the terms of "equity" and "equity holder" and to clarify that: ▪ equity is the residual interest in the assets of the entity after deduction of its liabilities; ▪ equity holders are the holders of any equity claims of an entity and in the absence of clear equity instruments, the equity

	holders are those who have the rights to direct the use of the economic resources of the entity (e.g. members of clubs); ○ not provide further clarification on “primary objective” and “community or social benefit”, acknowledging that judgement is required to perform the assessment; ○ include instances when the presumption that an entity is a not-for-profit (NFP) entity for financial reporting if it is an NFP entity for taxation purposes is rebutted and directed staff to reconsider the drafting of the rebuttal of the presumption to better reflect the implementation guidance; ○ include the flowcharts incorporating illustrative examples and demonstrating the assessment process for entities self-assessed as NFP for taxation purposes and for other entities; ○ include an illustrative example to clarify the term “providing goods or services for community and social benefit”; and ○ restructure the illustrative examples to include an overall assessment, emphasising the involvement of judgement in the assessment process.