



<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	12 April 2011
<b>From:</b>	<b>Project team<sup>1</sup></b>	<b>Agenda Item:</b>	10.1
<b>Subject:</b>	<b>Control in the NFP public and private sector</b>	<b>File:</b>	

## Action

Receive a progress report on:

- (a) the AASB/FRSB joint project on Control in the NFP Public and Private Sectors; and
- (b) the IASB's projects on consolidation and joint arrangements, with a view to the AASB being in a position to approve AASB Standards that incorporate the IASB Standards as quickly as possible after the IASB issues its Standards.

## Overview

The Control in the Not-for-Profit Public and Private Sectors project is comprised of 3 phases:

- identifying the issues arising from the application of control;
- implementing IFRS 10 *Consolidated Financial Statements* in the short term (i.e. before its mandatory operative date); and
- evaluating further application issues unable to be addressed in the short term (if any).

The research on control and potential Aus additions to IFRS 10 is continuing. The IASB is now expected to issue IFRS 10 (and related IFRSs) later in April.

## Background

At its March 2011 meeting, the AASB received an update on the progress on the Control in the Not-for-Profit Public and Private Sectors project.

The AASB noted that staff are continuing work on the paragraph-by-paragraph review of the IASB Staff Draft of IFRS 10 to identify potential areas for domestic NFP paragraphs. In addition, the Board was updated on the work on a report identifying application issues relating to control in the public sector and on a literature review of issues relating to control in the NFP private sector.

The AASB agreed on the revised plan for the project that anticipates the issue by October 2011 of an exposure draft proposing not-for-profit specific modifications to AASB 10 *Consolidated*

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*Financial Statements* (incorporating IFRS 10). In doing so, the Board affirmed its decision to issue AASB 10 (incorporating IFRS 10) as soon as possible after IFRS 10 is issued, but with early adoption by NFP entities not permitted until the Board has addressed relevant NFP sector issues. At the meeting, the Board noted that its work on NFP sector issues will provide the Board with an opportunity to consider the suitability of IFRS 10 in a NFP context and address concerns that NFPs might otherwise be required to change their accounting practices twice in relatively quick succession.

In regard to the IASB's projects on consolidation and joint arrangements, the AASB was advised that:

- (a) all five Standards (being IFRS 10, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*) are expected to include an effective date of 1 January 2013;
- (b) the IASB is expected to permit early application of all five IFRSs only if all five are applied at the same time, however entities will be permitted to provide some of the disclosures specified in IFRS 12 without being compelled to comply with all of IFRS 12 or adopt the other four Standards; and
- (c) the IASB is due to release shortly the ballot drafts of all five Standards.

## **Progress Report**

### Australia/New Zealand

Since March, the project team has continued Part 2 of Phase 1 of the project to identify current issues arising from the application of control in the NFP private sector. Further interviews have been conducted and, compared with the issues that we have already identified from our research into the public sector, no fundamentally new issues have so far been identified in the NFP/PBE private sector.

Staff have continued reviewing the IASB Staff Draft of IFRS 10 to identify potential areas for domestic NFP paragraphs. As part of this process staff have commenced the following analyses:

- (a) reviewing the Australian and New Zealand submissions (particularly those relating to NFP sector entities) received in response to AASB ED 171 (IASB ED 10) to identify issues raised and to determine if and how those issues were addressed in IFRS 10 (Staff Draft);
- (b) reviewing IPSAS 6 *Consolidated and Separate Financial Statements*, IAS 27 *Consolidated and Separate Financial Statements* and NZ FRS-37 *Consolidating Investments in Subsidiaries* to analyse the approach adopted previously by both the IPSASB and the FRSB in an endeavour to identify supplementary guidance paragraphs that could be added to IFRS 10 to assist the not-for-profit public and private sector in applying IFRS 10; and
- (c) reviewing the existing Aus paragraphs in AASB 127 to determine whether, in light of the analysis carried out in points (a) and (b) immediately above, they can be carried forward into AASB 10 with minor modifications.

Staff are approximately 25% of the way through the paragraph-by-paragraph analysis. Based on the work conducted to date, staff believe AASB 10 (based on IFRS 10 Staff Draft) could be applied to the NFP sector with Aus paragraphs to clarify terminology used in IFRS 10 and the application of IFRS 10 in the NFP sector. For example, the reference to the term 'returns' in IFRS 10 Staff Draft would most likely need to be explicitly broadened to encompass 'benefits' for a NFP entity. The

Staff Draft is unclear whether the reference to the term 'returns' also encompasses non-financial returns and indirect returns.

## International Accounting Standards Board

### *Sweep Issue: IFRS 12 Disclosure of Interests in Other Entities*

In March 2011, the IASB discussed a sweep issue that was raised by an IASB member in regard to the risk disclosures in IFRS 12. The Board member was concerned that IFRS 12 did not adequately address situations in which an entity 'stepped in' to provide financial support to structured entities with which it had previously been involved, but in which it did not have any interest before providing the financial support. The IASB agreed that the final disclosure Standard would clarify that, to meet the disclosure objective for risks associated with interests in unconsolidated structured entities, an entity should provide information about its exposure to risk from involvement that it had with unconsolidated structured entities in previous periods (e.g. sponsoring the structured entity), even if the entity no longer has any contractual involvement with the structured entity at the end of the reporting period.

Changes to the existing disclosure requirements are likely to require the AASB to consider the potential for reduced disclosure requirements for Tier 2 entities.

### *Release of Standards*

Based on the IASB work plan timetable (as updated on 28 March 2011), the five Standards (IFRSs 10, 11, 12 and IASs 27, 28) are expected to be issued in April 2011. At the time of preparing this memorandum, no Standards had been released either as ballot drafts or as final Standards. The IASB had previously anticipated the release of the final Standards in Q1, 2011.

At this stage, based on the review of IFRS 10 Staff Draft and the review of IFRS 11 and IAS 28 pre-ballot drafts, we are aware of what IFRS 10, IFRS 11 and IAS 28 are expected to include. Due to neither a Staff Draft nor a pre-ballot draft of IFRS 12 and IAS 27 being released, we are not yet in a position to say whether there are any issues that will affect the capacity of the AASB to approve IFRS 12 and IAS 27 in Australia for both the for-profit and not-for-profit sectors.

In addition, given the five Standards are interrelated, consideration will need to be given as to whether the AASB should prohibit early adoption by not-for-profit entities of IFRS 11, IFRS 12, IAS 27 and IAS 28 as was previously decided in respect of IFRS 10.

Staff will provide the Board with a verbal update of the new Standards at the Board meeting if the Standards are issued prior to the meeting.

### *Investment Entities*

Initially, as part of the consolidation project, the IASB was looking at investment entities and determining whether they should be excluded from the consolidation requirements. However, the review of investment entities was separated from the main project and is being addressed separately. The IASB work plan timetable (dated 28 March 2011) shows that the IASB plans on issuing an Investment Entities exposure draft in May 2011.