



To:	AASB Members	Date:	29 November 2011
From:	Lisa Panetta and Clark Anstis	Agenda Item:	5.1
Subject:	Control in the Not-for-Profit Public and Private Sectors	File:	

Action

Determine the scope of Aus paragraphs to be proposed in an ED for inclusion in AASB 10. Also provide staff with comments regarding the issues raised and any significant drafting directions for Aus paragraphs.

Attachments

- 5.2 Paragraph-by-Paragraph Analysis of AASB 10;
- 5.3 Summary of the Suggested Aus Paragraphs for AASB 10;
- 5.4 Disposition of Substantive Aus Paragraphs in the Superseded AASB 127; and
- 5.5 Issues raised in Research and Technical Enquiries.

Overview

AASB 10 *Consolidated Financial Statements* was issued in August 2011, for application by for-profit and not-for-profit entities to reporting periods beginning on or after 1 January 2013. NFP entities are not permitted to apply the Standard early, pending the development of Aus paragraphs to assist them in applying the Standard. The AASB intends to issue an Exposure Draft to propose the Aus paragraphs for inclusion in AASB 10, and to finalise the NFP amendments to the Standard in time for NFP entities to prepare for the mandatory application of the Standard.

These agenda papers seek to identify appropriate Aus paragraphs for AASB 10, based on a review of the public sector-specific paragraphs in the superseded AASB 127 *Consolidated and Separate Financial Statements*, the requirements in IPSAS 6 (of the same name), and the significant issues concerning the notion of control under AASB 127 identified in research by Bryan Howieson and in technical issues raised with AASB staff.

An earlier version of these agenda papers was reviewed by the Board's sub-committee for this project. The four sub-committee members provided comments on the papers, however no consensus was evident in their comments. Agenda paper 5.2 incorporates comments from sub-committee members in the staff views column. Staff have attempted to address the concerns of the

sub-committee members by adding additional Aus paragraphs or amending the suggested Aus paragraphs.

The response of the Board to the suggested Aus paragraphs will determine the process for preparing the ED, including how this work might be addressed at the February 2012 Board meeting.

Background

Some of the material in the Aus paragraphs is based on the NFP public sector Aus paragraphs from the superseded AASB 127. However, the proposed Aus paragraphs have been generalised from NFP public sector entities to all NFP entities.

Staff initially prepared the Paragraph-by-Paragraph Analysis of AASB 10 taking a minimalist approach, minimising the number of Aus paragraphs included in the Standard, consistent with the approach taken in other Standards. In response to the initial suggested Aus paragraphs, the views of the subcommittee members ranged across the spectrum as follows:

- (a) one member provided general and drafting comments on the suggested Aus paragraphs;
- (b) two members provided drafting comments on the suggested Aus paragraphs but also proposed a significant number of additional Aus paragraphs to be added to AASB 10; and
- (c) one member did not think that adding Aus paragraphs to AASB 10 would satisfactorily address the issues.

Therefore, the Board will need to decide the extent to which Aus paragraphs should be proposed for addition to AASB 10. The spectrum ranges from minimal Aus paragraphs (staff initially drafted 13 Aus paragraphs) to extensive Aus paragraphs. Agenda paper 5.2 suggests 19 Aus paragraphs and two separate NFP examples. Additional separate examples may be preferable to additional Aus paragraphs. A factor relevant to this decision is that IFRS 10 applies to for-profit entities' assessments of whether they control NFP entities – therefore there is a risk that the Aus paragraphs may be seen as interpreting the Standard in respect of for-profit entities.

Issues

The paragraph-by-paragraph analysis of AASB 10 in agenda paper 5.2 is the principal document for review by the Board at this meeting. As well as the Aus paragraphs and examples suggested by staff, that analysis includes comments and questions from the sub-committee members.

Staff intend that the Board works through agenda paper 5.2, to give views on the suggested Aus paragraphs and on the need for additional Aus paragraphs.

Staff have identified several significant issues that the Board should consider before any further Aus paragraphs can be drafted, if necessary. The issues are outlined below:

- (a) Staff request the Board to consider whether it still supports the position presented regarding local governments in paragraph AusB10.1(b). See page 16 of agenda paper 5.2.
- (b) A sub-committee member queried whether the context in which “regulator” is being used in paragraph B37 is clear enough. The member noted that many NFP entities are “subject to direction by a government, court, administrator, receiver, liquidator or regulator” and that an Aus paragraph may be required to explain this. Staff seek the Board’s direction whether an

Aus paragraph is required, and if so, the approach to present in the Aus paragraph. See page 35 of agenda paper 5.2.

- (c) A subcommittee member has commented that they believe the whole section on delegated power (starting at paragraph B58) is problematic for the public sector. The member raised the question whether a department or a government agency is an “agent” of the government, and therefore does not control anything. The member stated that a complete set of Aus paragraphs is needed for public sector NFPs in this area. Staff have attempted to address this concern through paragraphs AusB60.1 and AusB61.1. However, staff seek the Board’s direction on the delegated power paragraphs.
- (d) A subcommittee member has questioned whether the paragraphs on relationships with other parties (paragraphs B73-B75) can be applied in the public sector. The main paragraph states an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor’s behalf (i.e. they are ‘de facto agents’). The determination of whether other parties are acting as de facto agents requires judgement, considering not only the nature of the relationship but also how those parties interact with each other and the investor. Staff seek the Board’s feedback on these paragraphs.

A subcommittee member also suggested that it may be useful to work through some case studies of contentious public sector control examples to ‘road test’ the proposals. Staff seek such examples from Board members and constituents.

Questions for the Board

- Q1 Does the Board agree to continue with the approach of adding Aus paragraphs to AASB 10?
- Q2 What comments does the Board have on the suggested Aus paragraphs and the issues raised for consideration?