

Control in the Not-for-Profit Public and Private Sectors

Paragraph-by-Paragraph Analysis of AASB 10 *Consolidated Financial Statements*

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
Objective			
1 The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.	Paragraph 1 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.		
Meeting the objective			
2 To meet the objective in paragraph 1, this Standard: (a) requires an entity (the <i>parent</i>) that controls one or more other entities (<i>subsidiaries</i>) to present consolidated financial statements; (b) defines the principle of <i>control</i> , and establishes control as the basis for consolidation; (c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (d) sets out the accounting requirements for the preparation of consolidated financial statements.	Paragraph 2 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.		
3 This Standard does not deal with the accounting requirements for business combinations and their effect on consolidation, including goodwill arising on a business combination (see AASB 3 <i>Business Combinations</i>).	Paragraph 3 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.		
Application			
<p>Aus3.1 This Standard applies to:</p> <ul style="list-style-type: none"> (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity; (b) general purpose financial statements of each other reporting entity; and (c) financial statements that are, or are held out to be, general purpose financial statements. <p>Aus3.2 This Standard applies to annual reporting periods beginning on or after 1 January 2013.</p>	Paragraphs Aus3.1–Aus3.5 are currently in AASB 10 and have been included here for completeness. The only amendment that presumably would be needed would be to remove the prohibition on early application for NFP entities in paragraph Aus3.3.		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>Aus3.3 This Standard may be applied by for-profit entities, but not by not-for-profit entities, to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2013. If a for-profit entity applies this Standard to such an annual reporting period, it shall disclose that fact and apply AASB 11 <i>Joint Arrangements</i>, AASB 12 <i>Disclosure of Interests in Other Entities</i>, AASB 127 <i>Separate Financial Statements</i> (August 2011) and AASB 128 <i>Investments in Associates and Joint Ventures</i> (August 2011), at the same time.</p> <p>Aus3.4 The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 <i>Materiality</i>.</p> <p>Aus3.5 When applied or operative, this Standard supersedes:</p> <ul style="list-style-type: none"> (a) the requirements relating to consolidated financial statements in AASB 127 <i>Consolidated and Separate Financial Statements</i> (March 2008, as amended); and (b) Interpretation 112 <i>Consolidation – Special Purpose Entities</i> (December 2004, as amended). 			
Scope			
<p>4 An entity that is a parent shall present consolidated financial statements. This Standard applies to all entities, except as follows:</p> <ul style="list-style-type: none"> (a) a parent need not present consolidated financial statements if it meets all the following conditions: <ul style="list-style-type: none"> (i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements; (ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); (iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and 	<p>The first sentence of paragraph 4 is similar to paragraph 9 of the superseded AASB 127. Therefore, paragraph Aus9.1 of superseded AASB 127 remains appropriate and should be retained in AASB 10.</p> <p>The suggested paragraph Aus4.3 is based on paragraph Aus9.1 but without any reference to separate financial statements or to a parent as a reporting entity.</p>	<p>Aus9.1 In certain instances in the public sector a group of entities (e.g. a government and its controlled entities) is a reporting entity, but the parent may not be explicitly identified for financial reporting purposes. This Standard does not deem a parent in such a group to be a separate reporting entity. Furthermore, this Standard does not require the preparation of separate financial statements for the parent,</p>	

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>(iv) its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with International Financial Reporting Standards (IFRSs).</p> <p>(b) post-employment benefit plans or other long-term employee benefit plans to which AASB 119 <i>Employee Benefits</i> applies.</p>		but does require consolidated financial statements to be presented.	
<p>Aus4.1 Notwithstanding paragraph 4(a)(iv), a parent that meets the criteria in paragraphs 4(a)(i), 4(a)(ii) and 4(a)(iii) need not present consolidated financial statements if its ultimate or any intermediate parent produces consolidated financial statements available for public use and the parent and its ultimate or intermediate parent are both not-for-profit entities complying with Australian Accounting Standards.</p>	<p>Paragraphs Aus4.1 and Aus4.2 have been included for completeness. No amendments are required.</p>		
<p>Aus4.2 Notwithstanding paragraphs 4 and Aus4.1, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities.</p>			
<p>Additional Aus paragraph suggested by staff</p> <p>Aus4.3 In certain instances in the not-for-profit sector, a group of entities is a reporting entity but a parent entity might not be explicitly identified for financial reporting purposes. Nevertheless, consolidated financial statements are required to be presented for the group.</p>			
Control			
<p>5 An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.</p>	<p>As evident from the fundamental paragraphs 5 and 6 in AASB 10, many of the terms used in AASB 10 resonate more with the for-profit sector than the NFP sector – despite the fact that IFRS 10, unamended, applies to a for-profit entity in determining whether it controls a NFP entity. Those terms include:</p> <ul style="list-style-type: none"> • investor; • investee; 		
<p>6 An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.</p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
	<ul style="list-style-type: none"> • returns; • variable returns; and • franchise. <p>Therefore, an Aus paragraph based on paragraph 5 of AASB 101 is suggested, to acknowledge that the terms are most suitable for for-profit entities.</p> <p>Paragraph Aus4.4 also provides an explicit NFP context for the main terms affected.</p> <p>For example, paragraph Aus4.4(b) broadens the term ‘returns’ for the NFP sector, based on paragraph Aus17.8 of the superseded AASB 127, and IPSAS 6 paragraph 29 (see below).</p>		
<p>Aus paragraph suggested by staff</p> <p>Aus4.4 This Standard uses terminology that is suitable for profit-oriented entities. When not-for-profit entities apply this Standard, the following terms should be read as outlined below:</p> <ul style="list-style-type: none"> (a) an investor and an investee are entities that have some relationship with each other. An investor need not have a financial investment in the investee; (b) returns are financial or non-financial, direct or indirect benefits, whether positive or negative, including the achievement or furtherance of objectives; and (c) variable returns are financial or non-financial, direct or indirect benefits that can vary, whether positively or negatively, as a result of an entity’s performance. 	<p>One sub-committee member suggested the following paragraph:</p> <p><i>“Where this Standard uses the term ‘investor’, it includes a not-for-profit entity that controls another entity for the purposes of achieving the entity’s objectives. The returns of such an entity will be, or include, the benefits of having its objectives met.”</i></p> <p>However, AASB 10 uses the term ‘investor’ in a general way, to refer to entities that might or might not control an investee. Therefore, staff do not believe it is appropriate to highlight the investor as the controlling entity at this point in the Standard.</p> <p>Paragraph Aus4.4 would be within the scope section of the Standard, before a reader of the Standard reads paragraphs 5 and 6 etc. with the for-profit terminology.</p>	<p>Aus17.8 For a government to control an entity, it must have the power to require an entity’s assets to be deployed towards achieving government objectives ...</p>	<p>29. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity (a) may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend), and (b) is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a GBE may provide a controlling entity with a dividend, and also</p>

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
			enable it to achieve some of its social policy objectives.
<p>7 Thus, an investor controls an investee if and only if the investor has all the following:</p> <ul style="list-style-type: none"> (a) power over the investee (see paragraphs 10–14); (b) exposure, or rights, to variable returns from its involvement with the investee (see paragraphs 15 and 16); and (c) the ability to use its power over the investee to affect the amount of the investor’s returns (see paragraphs 17 and 18). <p>Aus paragraphs suggested by staff</p> <p>Aus7.1 In relation to not-for-profit entities, an investor controls an investee if the investor has the power to require the investee to deploy its assets or incur liabilities in a way that affects the returns to the investor, such as in the pursuit of the investor’s objectives (for example, in providing goods or services that are consistent with the investor’s objectives).</p>	<p>Paragraph Aus17.8 from the superseded AASB 127 addresses the key concepts of control identified in paragraph 7 of AASB 10: (1) power (2) achieve objectives (returns) and (3) require an entity’s assets to be deployed (ability to use its power). Therefore, staff suggest including an Aus paragraph following paragraph 7 based on the wording in para Aus17.8, to apply to both public sector and private sector NFP entities.</p> <p>This would be consistent with the references to objectives in paragraph 29 of IPSAS 6.</p> <p>Arguably, if a minimalist approach were taken to dealing with NFP issues, this Aus paragraph is not needed, given the last part of paragraph Aus4.4(b). However, on balance the paragraph is useful as an application of the requirements in paragraph 7 – and paragraph 7(c) in particular.</p> <p>Additional NFP guidance regarding the elements of control is best addressed following the specific paragraphs, e.g. any guidance regarding power should follow paragraphs 10–14.</p>	<p>Aus17.8 For a government to control an entity, it must have the power to require an entity’s assets to be deployed towards achieving government objectives. This may mean, but need not require, that the government can do, or require the entity to do, one or more of the following with the controlled entity’s assets:</p> <ul style="list-style-type: none"> (a) ... (b) use them to provide goods and services consistent with the government’s objectives; (c) ... 	
<p>Aus7.2 An investor might not have such power when there are restrictions on the allocation of funds between activities of the investee or if the investee is precluded from operating for the benefit of the investor through the existence of separate administrations.</p>	<p>Based on sub-committee feedback that groups in the public sector were not adequately covered in paragraph Aus7.1, an additional paragraph Aus7.2 has been added to incorporate relevant parts of paragraph Aus17.7 of superseded AASB 127, generalised beyond the public sector.</p>	<p>Aus17.7 In determining the existence of a group in the public sector, consideration should be given to the controlling entity’s ability to deploy the resources under its control and whether there are restrictions on the allocation of funds between activities under its authority. ... If an entity is precluded from operating for the benefit of the controlling entity,</p>	

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
		for example, through the existence of separate administrations, it is clear that the entity would not be included in the group. ...	
8 An investor shall consider all facts and circumstances when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7 (see paragraphs B80–B85).	Paragraph 8 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.		
9 Two or more investors collectively control an investee when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the co-operation of the others, no investor individually controls the investee. Each investor would account for its interest in the investee in accordance with the relevant Standards, such as AASB 11 <i>Joint Arrangements</i> , AASB 128 <i>Investments in Associates and Joint Ventures</i> or AASB 9 <i>Financial Instruments</i> .	Paragraph 9 is similar to paragraph 8 in IPSAS 6. Paragraph 9 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.		8. A controlling entity or its controlled entity may be an investor in an associate, or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Standard are also prepared so as to comply with IPSAS 7, “Investments in Associates,” and IPSAS 8, “Interests in Joint Ventures.”
Power			
10 An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, ie the activities that significantly affect the investee’s returns.	Paragraph 10 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.		
<p>11 Power arises from rights. Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements.</p> <p>Aus paragraph suggested by staff</p> <p>Aus11.1 In relation to not-for-profit entities, power over an investee may be obtained from statutory or other arrangements. However, depending on circumstances, statutory or other arrangements may be in the nature of protective rights – see paragraph AusB26.1.</p>	<p>In the absence of ownership interests, NFP entities may find it difficult to determine whether a NFP reporting entity has power over an entity.</p> <p>Paragraph 11 assists in addressing this issue, however clarification may be required through the addition of an Aus paragraph to provide NFP sector guidance in relation to statutory or other regulatory arrangements.</p> <p>Many NFP private sector entities, such as companies limited by guarantee, do not have share capital. However, members may hold voting rights based on the company’s constitution or other contracts between the members.</p>	<p>Aus17.2 In the public sector, a parent/subsidiary relationship could be established in the manner outlined in paragraph 13 or, as is more frequently the case, control of another entity by the government may be indicated by the following two factors:</p> <ul style="list-style-type: none"> (a) the other entity is accountable to Parliament, or to the Executive, or to a particular Minister; and (b) the government has the residual financial interest in the net assets of the other entity. 	

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
	<p>Paragraph 11 already refers to other factors, including contractual arrangements, so an additional Aus paragraph is not required in relation to contractual arrangements.</p> <p>Paragraph Aus17.2(a) from the superseded AASB 127 refers to accountability as a basis for control. Accountability under contractual, statutory or regulatory arrangements is an indicator to be considered in assessing an investor’s power over an investee, and is included in suggested paragraph AusB19.1.</p>		
<p>12 An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but such evidence is not, in itself, conclusive in determining whether the investor has power over an investee.</p>	<p>Paragraph 12 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p> <p>Paragraph 12 is consistent with paragraph 30 of IPSAS 6, which notes that the power to control need not have been exercised.</p> <p>Paragraph 31 of IPSAS 6 notes that an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between the controlled entity and its controlling entity.</p> <p>Paragraph 32 of IPSAS 6 gives an example of a government that has control over a railway authority GBE, but chooses not to exercise its power due to electoral sensitivities. This example is included in paragraph AusB23.1.</p>		<p>30. ... The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.</p>
<p>13 If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the</p>	<p>Paragraph 13 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
investee.			
<p>14 An investor can have power over an investee even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, for example when another entity has significant influence. However, an investor that holds only protective rights does not have power over an investee (see paragraphs B26–B28), and consequently does not control the investee.</p>	<p>When assessing this paragraph in relation to NFP entities, consideration should also be given to the issue of regulatory power highlighted during the research conducted by Bryan Howieson. The research identified the need to explicitly acknowledge the nature of, and distinction between, ownership forms of control and regulatory forms of control.</p> <p>Regulatory control is outlined in the research paper as a specific authority under regulation to impose a specified form of compliance on the regulated entity’s operations. It arises directly from legislation rather than through the power to dominate an entity’s operating and financing policies.</p> <p>This is similar to protective rights that can be exercised only in rare circumstances, e.g. when required to protect the rights and interests of other parties, such as when an entity breaches legislation. Aus paragraphs are proposed in relation to the application guidance in paragraphs B26–B28.</p>		
Returns			
<p>15 An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor’s returns from its involvement have the potential to vary as a result of the investee’s performance. The investor’s returns can be only positive, only negative or both positive and negative.</p> <p>Aus paragraph suggested by staff</p> <p>Aus15.1 In relation to not-for-profit entities, an investor is exposed, or has rights, to variable returns when, for example:</p>	<p>The concept of variable returns in paragraph 15 is relevant to the NFP sector. For example, paragraph Aus17.4 from the superseded AASB 127 describes a government’s residual financial interest in the net assets of another entity as either residual liabilities or residual assets. Similarly, paragraph 29 of IPSAS 6</p>	<p>Aus17.4 The existence of the following circumstances indicates whether the government has a residual financial interest in the net assets of the other entity:</p> <p>(a) the government is exposed to the</p>	<p>29. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity (a) may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend), and (b) is exposed to the risk</p>

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>(a) the investor has the right to receive the residual net assets of the investee if the investee is dissolved; or</p> <p>(b) the investor is exposed to the residual net liabilities of the investee.</p>	<p>clarifies the elements of returns and benefits in the NFP sector and refers to distributions of surpluses and the risk of losses.</p> <p>Paragraph B57 of the application guidance provides examples of returns that are most relevant to for-profit private sector entities. In addition to paragraph Aus15.1, an Aus paragraph is suggested at B57 to provide examples of returns in the NFP sector.</p> <p>We think, in the context of our suggested paragraphs Aus4.4 and AusB57.1, that paragraph Aus15.1 is not necessary. However, in response to a sub-committee member’s comments that paragraph 15 regarding ‘variable returns’ is not clear enough for the public sector, staff have drafted a possible paragraph Aus15.1 to clarify the concept of variable returns in the NFP sector. The paragraph is based on paragraph Aus17.4 of superseded AASB 127, modified to expand the scope to include NFP private sector entities and to be consistent with AASB 10 terminology.</p>	<p>residual liabilities of the entity; or</p> <p>(b) the government has the right to receive the residual net assets of the entity if that entity is dissolved.</p>	<p>of a potential loss ...</p>
<p>16 Although only one investor can control an investee, more than one party can share in the returns of an investee. For example, holders of non-controlling interests can share in the profits or distributions of an investee.</p> <p>Aus paragraph suggested by staff</p> <p>Aus16.1 In relation to not-for-profit entities, an investor may receive returns from an investee indirectly rather than directly. For example, the provision of goods and services by the investee to its beneficiaries can provide indirect returns, whether positive or negative, to the investor by affecting the extent to which its social policy objectives may be satisfied.</p>	<p>Because it is common in the public sector for returns to be received indirectly, sub-committee comments suggest that an Aus paragraph be added to reflect that returns in the NFP sector need not be received by the investor directly. In response, we have drafted paragraph Aus16.1 – however, we have some concern that this could be seen as ‘interpreting’ IFRS 10, to the extent that IFRS 10 applies to for-profit entities that control NFP entities.</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
	The Aus paragraph follows paragraph 16 as staff believe that both paragraphs 15 and 16 are likely to be read in terms of direct returns to an investor.		
Link between power and returns			
17 An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.	Restates the requirements in paragraph 7. With the addition of the guidance in other Aus paragraphs, another Aus paragraph is not required here.		
18 Thus, an investor with decision-making rights shall determine whether it is a principal or an agent. An investor that is an agent in accordance with paragraphs B58–B72 does not control an investee when it exercises decision-making rights delegated to it.	Paragraph 18 is sector neutral and can be applied by a NFP entity. However, Aus paragraphs specific to the NFP sector may be helpful to address the principal/agent distinction. As paragraph 18 directs the reader to paragraphs B58–B72, Aus paragraphs could be placed in that application guidance. See paragraphs AusB60.1 and AusB61.1.		
Accounting requirements			
19 A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.	Paragraphs 19–21 are sector neutral and can be applied by a NFP entity. Aus paragraphs are not required.	Same requirements in paragraphs 24 and 26 of AASB 127.	Same requirements in paragraphs 49 and 51 of IPSAS 6.
20 Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.			
21 Paragraphs B86–B93 set out guidance for the preparation of consolidated financial statements.			
Non-controlling interests			
22 A parent shall present non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.	Paragraphs 22–24 can be applied by a NFP entity that has an investee with a non-controlling interest. Aus paragraphs are not required.	Same requirements in paragraphs 27 and 30 of AASB 127.	Same requirement in paragraph 54 of IPSAS 6 as in paragraph 22 of AASB 10.
23 Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
transactions (ie transactions with owners in their capacity as owners).			
24 Paragraphs B94–B96 set out guidance for the accounting for non-controlling interests in consolidated financial statements.			
Loss of control			
25 If a parent loses control of a subsidiary, the parent: <ul style="list-style-type: none"> (a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position. (b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant Standards. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with AASB 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest. 	Paragraphs 25 and 26 are sector neutral and can be applied by a NFP entity. Aus paragraphs are not required.	Same requirements in paragraphs 34–36 of AASB 127.	Paragraph 51 of IPSAS 6 addresses only the recognition of a gain or loss on disposal of a controlled entity.
26 Paragraphs B97–B99 set out guidance for the accounting for the loss of control.			

Appendix A: Defined Terms

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
Consolidated financial statements: The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.	This term and definition is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.		
Control of an investee: An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.	With the addition of paragraph Aus4.4 regarding terminology, Aus paragraphs are not required to redefine the terms in this definition for NFP entities.		
Decision maker: An entity with decision-making rights that is either a principal or an agent for other parties.	These terms and definitions are sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.		
Group: A parent and its subsidiaries .			
Non-controlling interest: Equity in a subsidiary not attributable, directly or indirectly, to a parent .			
Parent: An entity that controls one or more entities.			
Power: Existing rights that give the current ability to direct the relevant activities .			
Protective rights: Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.			
Relevant activities: For the purpose of this Standard, relevant activities are activities of the investee that significantly affect the investee’s returns.	The addition of paragraph Aus4.4 is sufficient in relation to “investee” and “returns”.		
Removal rights: Rights to deprive the decision maker of its decision-making authority.	These terms and definitions are sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.		
Subsidiary: An entity that is controlled by another entity.			

Appendix B: Application Guidance

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
Assessing control			
<p>B1 The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying AASB 10.</p>	<p>Sector neutral. We understand that HoTARAC have identified some material that would be suitable as a basis for NFP-specific examples – we intend discussing this with HoTARAC with a view to identifying whether to add further examples to AASB 10.</p>		
<p>B2 To determine whether it controls an investee an investor shall assess whether it has all the following:</p> <ul style="list-style-type: none"> (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. 	<p>Refer to comments at paragraph 7.</p>		
<p>B3 Consideration of the following factors may assist in making that determination:</p> <ul style="list-style-type: none"> (a) the purpose and design of the investee (see paragraphs B5–B8); (b) what the relevant activities are and how decisions about those activities are made (see paragraphs B11–B13); (c) whether the rights of the investor give it the current ability to direct the relevant activities (see paragraphs B14–B54); (d) whether the investor is exposed, or has rights, to variable returns from its involvement with the investee (see paragraphs B55–B57); and (e) whether the investor has the ability to use its power over the investee to affect the amount of the investor’s returns (see paragraphs B58–B72). 	<p>Refer to the specific paragraphs cross-referenced in paragraph B3 for comments.</p>		
<p>B4 When assessing control of an investee, an investor shall consider the nature of its relationship with other parties (see paragraphs B73–B75).</p>	<p>Refer to paragraphs B73–B75 for comments.</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
Purpose and design of an investee			
<p>B5 When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.</p>	<p>Paragraph B5 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p> <p>A sub-committee member has noted his concern that this section of the Standard replaces SIC-12 regarding consolidation of SPEs. The member has stated that SIC-12 is helpful given that in the public sector voting rights are not necessarily present or relevant and that the reference to ‘purpose and design’ may not be sufficient to replace SIC-12. The member has further noted:</p> <ul style="list-style-type: none"> • that under the Standard, the exposure to a majority of risks and returns is not sufficient; an entity must also demonstrate power and use of power to affect returns (therefore there is less emphasis on risks and rewards under AASB 10 compared to SIC-12) and as a result, it may be more difficult / problematic to apply in the public sector; and • although some of these issues also apply in the private sector, in the public sector the added issue is that auto-pilot arrangements may be put in place via legislation and some entities may be deliberately designed to ensure operating decision making is independent of government. <p>In response to these concerns, staff have noted that:</p> <ul style="list-style-type: none"> • the IASB has stated in paragraph BC32 that risks and rewards are only one indicator of power, and hence in the staff view greater emphasis is not warranted; and • paragraph B53 adequately addresses auto-pilot circumstances in the NFP sector. 		
<p>B6 When an investee’s purpose and design are considered, it may be clear that an investee is controlled by means of equity instruments that give the holder proportionate voting rights, such as ordinary shares in the investee. In this case, in the absence of any additional arrangements that alter decision-making, the assessment of control focuses on which party, if any, is able to exercise voting rights sufficient to determine the investee’s operating and financing policies (see paragraphs B34–B50). In the most straightforward case, the investor that holds a majority of those voting rights, in the</p>	<p>When a NFP entity’s investee has equity instruments with voting rights, paragraph B6 is sector neutral and can be applied by the NFP entity. An Aus paragraph is not required.</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
absence of any other factors, controls the investee.			
B7 To determine whether an investor controls an investee in more complex cases, it may be necessary to consider some or all of the other factors in paragraph B3.	Paragraph B7 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.		
B8 An investee may be designed so that voting rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. In such cases, an investor’s consideration of the purpose and design of the investee shall also include consideration of the risks to which the investee was designed to be exposed, the risks it was designed to pass on to the parties involved with the investee and whether the investor is exposed to some or all of those risks. Consideration of the risks includes not only the downside risk, but also the potential for upside.	Paragraph B8 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.		
Power			
<p>B9 To have power over an investee, an investor must have existing rights that give it the current ability to direct the relevant activities. For the purpose of assessing power, only substantive rights and rights that are not protective shall be considered (see paragraphs B22–B28).</p> <p>Aus paragraph suggested by staff</p> <p>AusB9.1 In relation to not-for-profit entities, an investor normally will have power over an entity that it has established when the constituting document specifies the operating and financing activities necessary to enable the entity to work with the investor in pursuing the investor’s objectives. However, the impact of the constituting document is evaluated in the light of other prevailing circumstances. For example, a government may not have power over a marketing board whose mandate is created, and limited, by legislation if that or other legislation assigns power to direct the relevant activities to other entities, such as commodity producers.</p>	<p>Paragraph B9 is sector neutral and can be applied by a NFP entity.</p> <p>Paragraph Aus17.6 from the superseded AASB 127 is similar to paragraph B9 in that an entity may hold rights that give it the current ability to direct the relevant activities by means of statutory requirements. Therefore, an Aus paragraph is suggested based on the wording in paragraph Aus17.6.</p> <p>However, as noted in paragraph Aus17.3(f) of superseded AASB 127, enabling legislation may not always provide the government with power over an investee. Our suggested paragraph AusB9.1 covers this point and provides an example of such a situation.</p> <p>Paragraph AusB9.1 has been drafted to apply to both public sector and private sector NFPs. For example, the paragraph would apply to religious</p>	<p>Aus17.6 A government will usually control the statutory authorities or corporations that it has established, because the legislation will normally address the financial and operating policies necessary to enable the entity to work with the government in achieving its objectives.</p> <p>Aus17.3(f)</p> <p>... However, the impact of enabling legislation also needs to be evaluated in the light of other prevailing circumstances. For example, a marketing board whose mandate is created, and limited, by legislation is not controlled by a government if the legislation unequivocally assigns power to govern financial and operating policies to other entities such as relevant commodity producers, and the government does not have the power to appoint or remove a majority of</p>	

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
	organisations establishing entities under ecclesiastical law.	members of the governing body.	
<p>B10 The determination about whether an investor has power depends on the relevant activities, the way decisions about the relevant activities are made and the rights the investor and other parties have in relation to the investee.</p> <p>Aus paragraph suggested by staff</p> <p>AusB10.1 In relation to not-for-profit entities, an investor might not have power over an investee due to the rights of other parties in relation to the investee. For example, a government will not have the current ability to direct the relevant activities of:</p> <ul style="list-style-type: none"> (a) entities (such as private schools, private hospitals, private aged-care providers and universities) that are financially dependent on government funding, where the governing bodies of those entities maintain discretion with respect to whether they will accept resources from the government, or the manner in which their resources are to be deployed. This is so even if the government grants require the entities to comply with specified conditions. While these organisations may receive government grants for capital construction and operating costs, subject to specified service standards or restrictions on user fees, their governing body may maintain ultimate discretion about whether assets are deployed to those services; and (b) local governments that determine, through an elected council or administrators appointed by a government, how to deploy their resources and are bound to deploy them in the interests of the local community (even though those interests might coincide with the interests of State or Territory governments). 	<p>Paragraph B10 is sector neutral and can be applied by a NFP entity. Paragraph AusB10.1 is suggested to provide guidance on situations in which an entity may not have power over an investee due to the rights of other parties. The paragraph is based on paragraphs Aus17.9(a) and (c) of the superseded AASB 127. Paragraph 37(b) of IPSAS 6 also states that economic dependence does not amount to control.</p> <p>Staff request the Board to consider whether it still supports the position presented regarding local governments in paragraph AusB10.1(b). See paragraph Aus17.9(e) of the superseded AASB 127.</p>	<p>Aus17.9 Accordingly, a government does not control another entity where:</p> <ul style="list-style-type: none"> (a) it cannot dominate the financial and operating policies of the entity that are necessary to enable the entity to operate towards achieving government objectives, notwithstanding that both entities have similar objectives. For example, a government and a charitable entity funded by that government may share common objectives with respect to care of the homeless. However, the charitable entity is not controlled by the government when its governing body maintains discretion as to how its resources are to be deployed and whether it will accept resources from the government; (b) it cannot benefit from the resources or residual resources of the entity, notwithstanding that it may have the power to govern the entity’s financial and operating policies. For example, where a government acts as a trustee for a trust and its relationship with the trust does not extend beyond the normal responsibilities of a trustee, the government does not control the trust as it cannot deploy the resources or residual resources of the trust for its own benefit; (c) it influences, rather than governs, the financial and operating policies required to enable the entity to operate towards achieving the government’s objectives. The wide ranging powers of governments mean that they can influence the financial and operating policies of many entities, particularly those which are financially 	<p>37. ... Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of public sector entities include only those resources that they control and can benefit from, the meaning of control for the purposes of this Standard does not extend to:</p> <ul style="list-style-type: none"> (a) ... (b) Entities that are economically dependent on a public sector entity. That is, where an entity retains discretion as to whether it will take funding from, or do business with, a public sector entity, that entity has the ultimate power to govern its own financial or operating policies, and accordingly is not controlled by

AASB 10 paragraph	Issues related to NFP entities – staff view		Old AASB 127 Aus para	IPSAS 6 paragraph
		<p>dependent on government funding. However, where the governing bodies of those entities maintain discretion with respect to whether they will accept resources from the government, or the manner in which their resources are to be deployed, they are not controlled by the government. For example, this will normally be the case with religious organisations that provide aged-care services. While these organisations may receive government grants for capital construction and operating costs, and the government providing the grant may require them to comply with certain service standards and restrictions on user fees, they will not usually be controlled by the government because their governing body will maintain the ultimate discretion about whether assets are deployed to those services. Furthermore, while private schools, private hospitals, individual local governments and universities may be financially dependent, to a greater or lesser degree, on governments or agencies thereof, they would not be considered to be controlled by those governments or agencies for the purposes of this Standard. Therefore, this Standard does not require that the financial statements of such entities be consolidated with the financial statements of a government or government agency;</p> <p>(d) ... [quoted at para B26]; or</p> <p>(e) its ability to redeploy the assets of another entity for its own benefit is not presently exercisable. For example, under existing legislative arrangements, State and Territory governments do not control local governments because:</p> <p>(i) they cannot sell the assets of a local</p>	<p>the public sector entity. For example, a government department may be able to influence the financial and operating policies of an entity that is dependent on it for funding (such as a charity), or a profit-orientated entity that is economically dependent on business from it. Accordingly, the government department has some power as a purchaser but not to govern the entity's financial and operating policies.</p>	

AASB 10 paragraph	Issues related to NFP entities – staff view		Old AASB 127 Aus para	IPSAS 6 paragraph
		<p>government and redeploy the proceeds from the sale towards the State or Territory budget; and</p> <p>(ii) the governing body of the local government, whether an elected council or administrators appointed by a government, is bound to deploy its assets for the benefit of the local community (and not the State or Territory government).</p>		
Relevant activities and direction of relevant activities				
<p>B11 For many investees, a range of operating and financing activities significantly affect their returns. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:</p> <ul style="list-style-type: none"> (a) selling and purchasing of goods or services; (b) managing financial assets during their life (including upon default); (c) selecting, acquiring or disposing of assets; (d) researching and developing new products or processes; and (e) determining a funding structure or obtaining funding. 	<p>Paragraph B11 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p> <p>The list of activities in paragraph B11 appears to encompass the activities set out in paragraph Aus17.8 of the superseded AASB 127.</p>		<p>Aus17.8 For a government to control an entity, it must have the power to require an entity’s assets to be deployed towards achieving government objectives. This may mean, but need not require, that the government can do, or require the entity to do, one or more of the following with the controlled entity’s assets:</p> <ul style="list-style-type: none"> (a) exchange them; (b) use them to provide goods and services consistent with the government’s objectives; (c) charge for their use; (d) use them to settle liabilities; or (e) hold them. 	
<p>B12 Examples of decisions about relevant activities include but are not limited to:</p> <ul style="list-style-type: none"> (a) establishing operating and capital decisions of the investee, including budgets; and (b) appointing and remunerating an investee’s key management personnel or service providers and terminating their services or employment. 	<p>Paragraph B12 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p> <p>The examples provided in paragraph B12 are consistent with paragraphs Aus17.3(b)–(d) from the superseded AASB 127.</p>		<p>Aus17.3 The existence of one, or a combination of a number of the following circumstances, indicate that an entity is accountable to Parliament, or to the Executive, or to a particular Minister:</p> <ul style="list-style-type: none"> (a) ... (b) Ministerial approval is required for operating budgets; (c) the government has the ability to veto operating and capital budgets of that entity; 	

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph	
		(d) the government has broad discretion, under existing legislation, to appoint or remove a majority of members of the governing body of that entity. ...		
<p>B13 In some situations, activities both before and after a particular set of circumstances arises or event occurs may be relevant activities. When two or more investors have the current ability to direct relevant activities and those activities occur at different times, the investors shall determine which investor is able to direct the activities that most significantly affect those returns consistently with the treatment of concurrent decision-making rights (see paragraph 13). The investors shall reconsider this assessment over time if relevant facts or circumstances change.</p>	<p>Paragraph B13 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p>			
<p>Example 1</p> <p><i>Two investors form an investee to develop and market a medical product. One investor is responsible for developing and obtaining regulatory approval of the medical product—that responsibility includes having the unilateral ability to make all decisions relating to the development of the product and to obtaining regulatory approval. Once the regulator has approved the product, the other investor will manufacture and market it—this investor has the unilateral ability to make all decisions about the manufacture and marketing of the project. If all the activities—developing and obtaining regulatory approval as well as manufacturing and marketing of the medical product—are relevant activities, each investor needs to determine whether it is able to direct the activities that most significantly affect the investee’s returns. Accordingly, each investor needs to consider whether developing and obtaining regulatory approval or the manufacturing and marketing of the medical product is the activity that most significantly affects the investee’s returns and whether it is able to direct that activity. In determining which investor has power, the investors would consider:</i></p> <p>(a) <i>the purpose and design of the investee;</i></p> <p>(b) <i>the factors that determine the profit margin, revenue and value of the investee as well as the value of the medical product;</i></p> <p>(c) <i>the effect on the investee’s returns resulting from each investor’s decision-making authority with respect to the factors in (b); and</i></p> <p>(d) <i>the investors’ exposure to variability of returns.</i></p> <p><i>In this particular example, the investors would also consider:</i></p> <p>(e) <i>the uncertainty of, and effort required in, obtaining regulatory approval (considering the investor’s record of successfully developing and obtaining regulatory approval of medical products); and</i></p> <p>(f) <i>which investor controls the medical product once the development phase is successful.</i></p>				

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>Example Aus1.1 suggested by staff</p> <p><i>In relation to not-for-profit entities, two or more investors may have the current ability to direct relevant activities of an investee. For example, a Minister may direct particular activities of a statutory authority relating to one objective of the authority while a government department directs other activities relating to another objective of the authority. Each of the two investors (the Minister and the department) needs to determine whether it is able to direct the activities that most significantly affect the returns from the authority, such as the satisfaction of policy objectives. In determining which investor has power, the investors would consider:</i></p> <p>(a) <i>the purpose and design of the authority;</i></p> <p>(b) <i>the factors that affect the achievement of objectives of the authority and the significance of the various objectives;</i></p> <p>(c) <i>the effect on the authority achieving its objectives resulting from each investor’s decision-making authority; and</i></p> <p>(d) <i>the investors’ exposure to variability of returns.</i></p> <p><i>Determining which investor has power affects whether the authority might be consolidated by the department or consolidated directly in the whole of government consolidated financial statements.</i></p>		<p>A sub-committee member suggested including a NFP sector example of determining who controls an investee when a Minister and a department CEO both have the ability to direct relevant activities.</p> <p>Staff propose Example Aus1.1.</p>	
<p>Example 2</p> <p><i>An investment vehicle (the investee) is created and financed with a debt instrument held by an investor (the debt investor) and equity instruments held by a number of other investors. The equity tranche is designed to absorb the first losses and to receive any residual return from the investee. One of the equity investors who holds 30 per cent of the equity is also the asset manager. The investee uses its proceeds to purchase a portfolio of financial assets, exposing the investee to the credit risk associated with the possible default of principal and interest payments of the assets. The transaction is marketed to the debt investor as an investment with minimal exposure to the credit risk associated with the possible default of the assets in the portfolio because of the nature of these assets and because the equity tranche is designed to absorb the first losses of the investee. The returns of the investee are significantly affected by the management of the investee’s asset portfolio, which includes decisions about the selection, acquisition and disposal of the assets within portfolio guidelines and the management upon default of any portfolio assets. All those activities are managed by the asset manager until defaults reach a specified proportion of the portfolio value (ie when the value of the portfolio is such that the equity tranche of the investee has been consumed). From that time, a third-party trustee manages the assets according to the instructions of the debt investor. Managing the investee’s asset portfolio is the relevant activity of the investee. The asset manager has the ability to direct the relevant activities until defaulted assets reach the specified proportion of the portfolio value; the debt investor has the ability to direct the relevant activities when the value of defaulted assets surpasses that specified proportion of the portfolio value. The asset manager and the debt investor each need to determine whether they are able to direct the activities that most significantly affect the investee’s returns, including considering the purpose and design of the investee as well as each party’s exposure to variability of returns.</i></p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
Rights that give an investor power over an investee			
<p>B14 Power arises from rights. To have power over an investee, an investor must have existing rights that give the investor the current ability to direct the relevant activities. The rights that may give an investor power can differ between investees.</p>	<p>Paragraph B14 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p>		
<p>B15 Examples of rights that, either individually or in combination, can give an investor power include but are not limited to:</p> <ul style="list-style-type: none"> (a) rights in the form of voting rights (or potential voting rights) of an investee (see paragraphs B34–B50); (b) rights to appoint, reassign or remove members of an investee’s key management personnel who have the ability to direct the relevant activities; (c) rights to appoint or remove another entity that directs the relevant activities; (d) rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor; and (e) other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities. <p>Aus paragraphs suggested by staff</p> <p>AusB15.1 In relation to not-for-profit entities, examples of rights that, either individually or in combination, can give an investor power include but are not limited to:</p> <ul style="list-style-type: none"> (a) rights to give policy directions to the governing body of an investee; (b) rights to approve or veto operating and capital budgets of an investee; and (c) rights to appoint or remove a majority of members of the governing body of an investee (unless this requires an amendment to current legislation or the creation of new legislation or the rights apply only in restricted circumstances). 	<p>Paragraph B15 is sector neutral and can be applied by a NFP entity.</p> <p>However, an Aus paragraph could provide examples of rights in the NFP sector that can give an investor power. Paragraph AusB15.1 is based on indicators identified in paragraph Aus17.3 from the superseded AASB 127.</p> <p>One sub-committee member does not believe that reporting requirements (see for example paragraph Aus17.3(e) of superseded AASB 127) are adequately incorporated into paragraph AusB15.1.</p> <p>Staff do not think it would be appropriate to add those rights here, as they are more in the nature of indicators of power rather than rights that give power. Instead, we suggest referring to accountability and reporting requirements in paragraph AusB19.1, because paragraph B19 provides examples of indicators of power.</p>	<p>Aus17.3 The existence of one, or a combination of a number of the following circumstances, indicate that an entity is accountable to Parliament, or to the Executive, or to a particular Minister:</p> <ul style="list-style-type: none"> (a) the existence of a Ministerial or other government power that enables the government to give directions to the governing body of that entity so that the entity acts as an agent of the government to achieve government policy objectives; (b) Ministerial approval is required for operating budgets; (c) the government has the ability to veto operating and capital budgets of that entity; (d) the government has broad discretion, under existing legislation, to appoint or remove a majority of members of the governing body of that entity. This would include for example, the power of the Minister or a central authority to appoint and remove members of the board of management. The governing body of an entity cannot maintain financial and operating policies that do not have the support of a government if the government has the power under existing legislation to appoint or remove a majority of members of the governing body of the entity. In these circumstances, the government has the power to govern the financial and operating policies so as to meet its own objectives. For control to exist through the power to appoint or remove a majority of members of the governing body of another entity, a government must have broad discretion over their appointment and removal. For example, if the power to appoint or remove a majority of members of the governing body requires an amendment to the current 	

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
			<p>legislation or the creation of new legislation, then the government’s power is not presently exercisable and control does not exist. Also, where the power of the government to remove members of the governing body of another entity only arises under certain restricted circumstances (for example, for reasons relating to a lack of probity), the government would not have the power to govern the financial and operating policies of the entity by virtue of that power (although it may have the power in respect of the financial and operating policies through some other means);</p> <p>(e) the entity is required to submit to Parliament reports on operations that include audited financial statements; such requirements arising either under the general reporting requirements of legislation concerned with financial reporting and/or audit of public sector entities or under that entity’s enabling legislation; or</p> <p>(f) the mandate of the entity is established, or limited, by its enabling legislation. The definition of control requires only that the government’s power to govern the financial and operating policies of another entity is sufficient to enable the government to obtain benefits from the entity’s activities. Enabling legislation relating to the other entity which establishes the broad financial and operating policies of the entity is sufficient to ensure control by the government. However, the impact of enabling legislation also needs to be evaluated in the light of other prevailing circumstances. For example, a marketing board whose mandate is created, and limited, by legislation is not controlled by a government if the legislation unequivocally assigns power to govern financial and operating policies to other entities such as relevant commodity producers, and the government does not have the power to appoint or remove a majority of members of the governing body.</p>

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>AusB15.2 In relation to not-for-profit entities, an investor can have power over an investee even if it does not have responsibility for the day-to-day operation of the investee, or the manner in which professional functions are performed by the investee. For example, the legislation governing the establishment and operation of an independent statutory office (such as that of the Auditor-General or the judiciary) sets out the broad parameters within which the office is required to operate, and enables the office to operate in a manner consistent with the objectives set by parliament.</p>	<p>Based on one sub-committee member’s feedback regarding control versus day to day management (see paragraph Aus17.10 of the superseded AASB 127), staff have added paragraph AusB15.2.</p>	<p>Aus17.10 The existence of control for the purpose of this Standard does not require that the government has responsibility over the day-to-day operations of an entity, or the manner in which professional functions are performed by the entity. For example, the legislation governing the establishment and operation of an independent statutory office (such as that of the Auditor-General) sets out the broad parameters within which the office is required to operate, and enables the office to operate in a manner consistent with the objectives set by Parliament for the operation of government. Similarly, notwithstanding the operational independence of the judiciary from the Parliament, the legislative framework within which the judiciary operates is established in a manner consistent with the objectives set by Parliament for the administration of justice. In addition, the government retains the right to the residual assets of statutory offices and judicial entities. Notwithstanding the absence of responsibility for the day-to-day operations of such entities, or the manner in which professional functions are performed in those entities, their assets, liabilities, revenues and expenses are included in the financial statements of the relevant government.</p>	
<p>B16 Generally, when an investee has a range of operating and financing activities that significantly affect the investee’s returns and when substantive decision-making with respect to these activities is required continuously, it will be voting or similar rights that give an investor power, either individually or in combination with other arrangements.</p>	<p>Paragraph B16 is sector neutral and although the paragraph refers to voting rights, it also refers to ‘similar rights’, which a NFP entity can apply. An Aus paragraph is not required.</p>		
<p>B17 When voting rights cannot have a significant effect on an investee’s returns, such as when voting rights relate to administrative tasks only and contractual arrangements determine the direction of the relevant activities, the investor needs to assess those contractual arrangements in order to determine whether it has rights sufficient to give it power over the investee. To determine whether an investor has rights sufficient to give it power, the investor shall consider the purpose and design of the investee (see paragraphs B5–B8) and the requirements in paragraphs B51–B54 together with paragraphs B18–B20.</p>	<p>Paragraph B17 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p> <p>Our suggested paragraph Aus11.1 already refers to statutory arrangements re NFP public sector entities.</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>B18 In some circumstances it may be difficult to determine whether an investor’s rights are sufficient to give it power over an investee. In such cases, to enable the assessment of power to be made, the investor shall consider evidence of whether it has the practical ability to direct the relevant activities unilaterally. Consideration is given, but is not limited, to the following, which, when considered together with its rights and the indicators in paragraphs B19 and B20, may provide evidence that the investor’s rights are sufficient to give it power over the investee:</p> <ul style="list-style-type: none"> (a) The investor can, without having the contractual right to do so, appoint or approve the investee’s key management personnel who have the ability to direct the relevant activities. (b) The investor can, without having the contractual right to do so, direct the investee to enter into, or can veto any changes to, significant transactions for the benefit of the investor. (c) The investor can dominate either the nominations process for electing members of the investee’s governing body or the obtaining of proxies from other holders of voting rights. (d) The investee’s key management personnel are related parties of the investor (for example, the chief executive officer of the investee and the chief executive officer of the investor are the same person). (e) The majority of the members of the investee’s governing body are related parties of the investor. 	<p>Paragraphs B18 and B19 are sector neutral. The indicators of power in those paragraphs are similar to the factors outlined in Aus paragraphs in the superseded AASB 127 and to the indicators of control outlined in paragraphs 39 and 40 of IPSAS 6.</p> <p>A brief Aus paragraph is suggested at paragraph AusB19.1 to add a few additional indicators of power in the NFP sector, based on paragraphs Aus17.2(a) and Aus17.3(e) of the superseded AASB 127.</p>	<p>Aus17.2 In the public sector ..., control of another entity by the government may be indicated by the following two factors:</p> <ul style="list-style-type: none"> (a) the other entity is accountable to Parliament, or to the Executive, or to a particular Minister; ... <p>Aus17.3 The existence of one, or a combination of a number of the following circumstances, indicate that an entity is accountable to Parliament, or to the Executive, or to a particular Minister:</p> <ul style="list-style-type: none"> (a) ... (e) the entity is required to submit to Parliament reports on operations that include audited financial statements; such requirements arising either under the general reporting requirements of legislation concerned with financial reporting and/or audit of public sector 	<p>39. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.</p> <p><i>Power Conditions</i></p> <ul style="list-style-type: none"> (a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity. (b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the board of directors or equivalent governing body, and control of the other entity is by that board or by that body. (c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity. (d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body, and control of the other entity is by that board or by that body. <p><i>Benefit Conditions</i></p> <ul style="list-style-type: none"> (a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example the benefit condition may be met if an entity had responsibility for the residual
<p>B19 Sometimes there will be indications that the investor has a special relationship with the investee, which suggests that the investor has more than a passive interest in the investee. The existence of any individual indicator, or a particular combination of indicators, does not necessarily mean that the power criterion is met. However, having more than a passive interest in the investee may indicate that the investor has other related rights sufficient to give it power or provide evidence of existing power over an investee. For example, the following suggests that the investor has more than a passive interest in the investee and, in combination with other rights, may indicate power:</p> <ul style="list-style-type: none"> (a) The investee’s key management personnel who have the ability to direct the relevant activities are current or previous employees of the investor. 			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>(b) The investee’s operations are dependent on the investor, such as in the following situations:</p> <p>(i) The investee depends on the investor to fund a significant portion of its operations.</p> <p>(ii) The investor guarantees a significant portion of the investee’s obligations.</p> <p>(iii) The investee depends on the investor for critical services, technology, supplies or raw materials.</p> <p>(iv) The investor controls assets such as licences or trademarks that are critical to the investee’s operations.</p> <p>(v) The investee depends on the investor for key management personnel, such as when the investor’s personnel have specialised knowledge of the investee’s operations.</p> <p>(c) A significant portion of the investee’s activities either involve or are conducted on behalf of the investor.</p> <p>(d) The investor’s exposure, or rights, to returns from its involvement with the investee is disproportionately greater than its voting or other similar rights. For example, there may be a situation in which an investor is entitled, or exposed, to more than half of the returns of the investee but holds less than half of the voting rights of the investee.</p> <p>Aus paragraph suggested by staff</p> <p>AusB19.1 In relation to not-for-profit entities, other indicators of power include an investee being accountable to an investor for the conduct and outcomes of its activities. For example, the investee might be required to submit reports to the investor on the operations of the investee, such as financial statements.</p>	<p>As noted above, paragraph AusB19.1 is based on paragraphs Aus17.2(a) and Aus17.3(e) of the superseded AASB 127.</p>	<p>entities or under that entity’s enabling legislation; ...</p>	<p>liabilities of another entity.</p> <p>(b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.</p> <p>40. When one or more of the circumstances listed in paragraph 39 does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.</p> <p><i>Power Indicators</i></p> <p>(a) The entity has the ability to veto operating and capital budgets of the other entity.</p> <p>(b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.</p> <p>(c) The entity has the ability to approve the hiring, reassignment, and removal of key personnel of the other entity.</p> <p>(d) The mandate of the other entity is established and limited by legislation.</p> <p>(e) The entity holds a golden share (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.</p> <p><i>Benefit Indicators</i></p> <p>(a) The entity holds direct or indirect title to the net assets/equity of the other entity, with an ongoing right to access these.</p> <p>(b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation, or in a distribution other than a liquidation.</p>

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
			<p>(c) The entity is able to direct the other entity to cooperate with it in achieving its objectives.</p> <p>(d) The entity is exposed to the residual liabilities of the other entity.</p>
<p>B20 The greater an investor’s exposure, or rights, to variability of returns from its involvement with an investee, the greater is the incentive for the investor to obtain rights sufficient to give it power. Therefore, having a large exposure to variability of returns is an indicator that the investor may have power. However, the extent of the investor’s exposure does not, in itself, determine whether an investor has power over the investee.</p>	<p>Paragraph B20 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p>		
<p>B21 When the factors set out in paragraph B18 and the indicators set out in paragraphs B19 and B20 are considered together with an investor’s rights, greater weight shall be given to the evidence of power described in paragraph B18.</p>	<p>Paragraph B21 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p>		
<p>Substantive rights</p>			
<p>B22 An investor, in assessing whether it has power, considers only substantive rights relating to an investee (held by the investor and others). For a right to be substantive, the holder must have the practical ability to exercise that right.</p>	<p>Paragraph B22 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p> <p>Paragraph B22 is consistent with the “presently exercisable” requirements in paragraph 30 of IPSAS 6.</p>		<p>30. For the purposes of financial reporting, control stems from an entity’s power to govern the financial and operating policies of another entity, and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. ...</p>
<p>B23 Determining whether rights are substantive requires judgement, taking into account all facts and circumstances. Factors to consider in making that determination include but are not limited to:</p> <p>(a) Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights. Examples of such barriers include but are not limited to:</p> <p>(i) financial penalties and incentives that would prevent (or deter) the holder from exercising its rights.</p> <p>(ii) an exercise or conversion price that creates a financial</p>	<p>Paragraph B23 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p> <p>However, based on a sub-committee member’s feedback regarding political barriers that may affect the ability to exercise rights, staff have included paragraph AusB23.1 and provided an example based on IPSAS 6</p>		<p>32. For example, a government department may have an ownership interest in a rail authority, which operates as a GBE. The rail authority is allowed to operate autonomously and does not rely on the government for funding, but has raised capital through significant borrowings that are guaranteed by the government. The rail authority has not returned a dividend to government for several years. The government has the power to appoint</p>

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>barrier that would prevent (or deter) the holder from exercising its rights.</p> <p>(iii) terms and conditions that make it unlikely that the rights would be exercised, for example, conditions that narrowly limit the timing of their exercise.</p> <p>(iv) the absence of an explicit, reasonable mechanism in the founding documents of an investee or in applicable laws or regulations that would allow the holder to exercise its rights.</p> <p>(v) the inability of the holder of the rights to obtain the information necessary to exercise its rights.</p> <p>(vi) operational barriers or incentives that would prevent (or deter) the holder from exercising its rights (eg the absence of other managers willing or able to provide specialised services or provide the services and take on other interests held by the incumbent manager).</p> <p>(vii) legal or regulatory requirements that prevent the holder from exercising its rights (eg where a foreign investor is prohibited from exercising its rights).</p> <p>(b) When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so. The lack of such a mechanism is an indicator that the rights may not be substantive. The more parties that are required to agree to exercise the rights, the less likely it is that those rights are substantive. However, a board of directors whose members are independent of the decision maker may serve as a mechanism for numerous investors to act collectively in exercising their rights. Therefore, removal rights exercisable by an independent board of directors are more likely to be substantive than if the same rights were exercisable individually by a large number of investors.</p> <p>(c) Whether the party or parties that hold the rights would benefit from the exercise of those rights. For example, the holder of potential voting rights in an investee (see paragraphs B47–B50) shall consider the exercise or conversion price of the</p>	<p>paragraph 32.</p>		<p>and remove a majority of the members of the governing body of the rail authority. The government has never exercised the power to remove members of the governing body, and would be reluctant to do so because of sensitivity in the electorate regarding the previous government’s involvement in the operation of the rail network. In this case, the power to control is presently exercisable but under the existing relationship between the controlled entity and controlling entity, an event has not occurred to warrant the controlling entity exercising its powers over the controlled entity. Accordingly, control exists because the power to control is sufficient, even though the controlling entity may choose not to exercise that power.</p>

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>instrument. The terms and conditions of potential voting rights are more likely to be substantive when the instrument is in the money or the investor would benefit for other reasons (eg by realising synergies between the investor and the investee) from the exercise or conversion of the instrument.</p> <p>Aus paragraph suggested by staff</p> <p>AusB23.1 In relation to not-for-profit entities, factors to consider in determining whether rights are substantive include whether there are any political barriers that might prevent the holder from exercising their rights. For example, a government may have the power to appoint and remove the majority of members of the governing body of a railway authority. However, the government may be reluctant to remove members of the governing body because of sensitivity in the electorate regarding the previous government’s involvement in the operation of the rail network.</p>			
<p>B24 To be substantive, rights also need to be exercisable when decisions about the direction of the relevant activities need to be made. Usually, to be substantive, the rights need to be currently exercisable. However, sometimes rights can be substantive, even though the rights are not currently exercisable.</p>	<p>Paragraph B24 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p>		
<p>Example 3</p> <p><i>The investee has annual shareholder meetings at which decisions to direct the relevant activities are made. The next scheduled shareholders’ meeting is in eight months. However, shareholders that individually or collectively hold at least 5 per cent of the voting rights can call a special meeting to change the existing policies over the relevant activities, but a requirement to give notice to the other shareholders means that such a meeting cannot be held for at least 30 days. Policies over the relevant activities can be changed only at special or scheduled shareholders’ meetings. This includes the approval of material sales of assets as well as the making or disposing of significant investments.</i></p> <p><i>The above fact pattern applies to examples 3A–3D described below. Each example is considered in isolation.</i></p> <p>Example 3A</p> <p><i>An investor holds a majority of the voting rights in the investee. The investor’s voting rights are substantive because the investor is able to make decisions about the direction of the relevant activities when they need to be made. The fact that it takes 30 days before the investor can exercise its voting rights does not stop the investor from having the current ability to direct the relevant activities from the moment the investor acquires the shareholding.</i></p> <p>Example 3B</p> <p><i>An investor is party to a forward contract to acquire the majority of shares in the investee. The forward</i></p>	<p>Examples 3 to 3D address a range of potential voting right cases and so are specific to investees with voting shares.</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p><i>contract's settlement date is in 25 days. The existing shareholders are unable to change the existing policies over the relevant activities because a special meeting cannot be held for at least 30 days, at which point the forward contract will have been settled. Thus, the investor has rights that are essentially equivalent to the majority shareholder in example 3A above (ie the investor holding the forward contract can make decisions about the direction of the relevant activities when they need to be made). The investor's forward contract is a substantive right that gives the investor the current ability to direct the relevant activities even before the forward contract is settled.</i></p> <p>Example 3C</p> <p><i>An investor holds a substantive option to acquire the majority of shares in the investee that is exercisable in 25 days and is deeply in the money. The same conclusion would be reached as in example 3B.</i></p> <p>Example 3D</p> <p><i>An investor is party to a forward contract to acquire the majority of shares in the investee, with no other related rights over the investee. The forward contract's settlement date is in six months. In contrast to the examples above, the investor does not have the current ability to direct the relevant activities. The existing shareholders have the current ability to direct the relevant activities because they can change the existing policies over the relevant activities before the forward contract is settled.</i></p>			
<p>Example Aus3.1 suggested by staff</p> <p><i>A not-for-profit entity may have rights under legislation that has not yet commenced or that has passed parliament but has not yet been assented to. Provided that the commencement or assent and commencement will occur prior to the time when decisions about the relevant activities are required to be made by the investee, the rights are considered substantive even though not currently exercisable.</i></p>	<p>Based on a sub-committee member's comments, staff have included Example Aus3.1.</p>		
<p>B25 Substantive rights exercisable by other parties can prevent an investor from controlling the investee to which those rights relate. Such substantive rights do not require the holders to have the ability to initiate decisions. As long as the rights are not merely protective (see paragraphs B26–B28), substantive rights held by other parties may prevent the investor from controlling the investee even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities.</p>	<p>Paragraph B25 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p> <p>One sub-committee member asked how paragraph B25 could be applied when the Secretary of a Department has the right to appoint the Board/CEO of a statutory body, on approval of the Minister. Is the Minister's right a substantive or protective right? Who controls the statutory body: the department or the Minister?</p> <p>The staff response is the Minister would appear to have the substantive rights as their approval does not appear</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
	<p>to be limited to exceptional circumstances. The Minister’s power is a limitation on the Secretary’s rights to appoint the Board or CEO.</p> <p>The sub-committee member also asked whether it is possible to have a right which is not substantive under B25 (e.g. because of a barrier which deters it being exercised) but which is not a protective right (i.e. the right does not relate to fundamental changes in activities and / or the right is not restricted to exceptional circumstances).</p> <p>Staff consider that it is possible to have rights that are neither substantive nor protective. Substantive rights are merely rights for which the holder has the practical ability to exercise. In the example described above, there may be different views whether the Secretary’s appointment rights are substantive rights. However, under either view, the Secretary’s rights do not provide any power to control the statutory body.</p>		
Protective rights			
<p>B26 In evaluating whether rights give an investor power over an investee, the investor shall assess whether its rights, and rights held by others, are protective rights. Protective rights relate to fundamental changes to the activities of an investee or apply in exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective (see paragraphs B13 and B53).</p> <p>Aus paragraph suggested by staff</p> <p>AusB26.1 Not-for-profit entities may hold protective rights in the form of regulatory powers, which do not constitute control but which restrict the way in which regulated entities operate. Regulatory powers may be evident through the power of the</p>	<p>Protective rights are an important concept in the NFP sector, particularly in relation to regulatory power vs. ownership power, which was an issue raised by constituents during the research phase of the project.</p> <p>Regulatory control is a form of protective rights in which the government or another NFP entity holds powers to regulate the behaviour of entities, e.g. enforcing legislation or rules and applying sanctions for breaches.</p>	<p>Aus17.3 The existence of one, or a combination of a number of the following circumstances, indicate that an entity is accountable to Parliament, or to the Executive, or to a particular Minister:</p> <p>(a) ...</p> <p>(d) ... Also, where the power of the government to</p>	<p>Regulatory and Purchase Power</p> <p>37. Governments and their agencies have the power to regulate the behaviour of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of public sector entities include only</p>

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>legislature or other entities to establish the framework within which entities are required to operate, and to impose conditions or sanctions on their operations.</p>	<p>Paragraph Aus17.9(d) in the superseded AASB 127 and paragraph 37 in IPSAS 6 state that regulatory powers do not amount to control. However, they do not describe them as a form of protective rights. The regulatory powers are respectively illustrated by reference to the gaming industry and pollution control.</p> <p>In addition, paragraph Aus17.3(d) of the superseded AASB 127 illustrates rights to remove governing body members in restricted cases, e.g. lack of probity.</p> <p>Our suggested paragraph AusB26.1 is primarily based on paragraph 37 of IPSAS 6 but would apply to both the NFP public and private sectors.</p> <p>Examples of protective rights in the NFP sector are suggested in paragraph AusB28.1, following the examples in paragraph B28. The suggested NFP examples include the pollution control and the lack of probity examples.</p> <p>One sub-committee member raised a concern about the relationship between regulation and control, given the requirements in IPSAS 32 that a grantor under a service concession arrangement recognises the SCA assets depending on control or regulation by the grantor or regulator. The member suggested that the context needed to be clear in AASB 10 and that an example would help.</p> <p>In response to this concern, paragraph AusB26.1 has been amended to clarify the effect of regulatory powers.</p> <p>However, staff note that this concern</p>	<p>remove members of the governing body of another entity only arises under certain restricted circumstances (for example, for reasons relating to a lack of probity), the government would not have the power to govern the financial and operating policies of the entity by virtue of that power (although it may have the power in respect of the financial and operating policies through some other means);</p> <p>(e) ...</p> <p>Aus17.9 Accordingly, a government does not control another entity where:</p> <p>(a) ...</p> <p>(d) it merely has the power to regulate the behaviour of the entity by use of its legislative powers. The power of government to establish the regulatory environment within</p>	<p>those resources that they control and can benefit from, the meaning of control for the purposes of this Standard does not extend to:</p> <p>(a) The power of the legislature to establish the regulatory framework within which entities operate, and to impose conditions or sanctions on their operations. Such power does not constitute control by a public sector entity of the assets deployed by these entities. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or</p> <p>(b) Entities that are economically dependent on a public sector entity. ... [relevant to paragraph B10]</p>

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
	will need to be considered in the service concessions (grantor) project.	<p>which entities operate and to impose conditions or sanctions on their operations does not of itself constitute control of the assets deployed by those entities. For example, governments regulate the operations of entities operating in the gaming industry, but those entities are not controlled by government unless the assets or residual assets of those entities can be deployed for the benefit of government;</p> <p>(e) ...</p>	
<p>B27 Because protective rights are designed to protect the interests of their holder without giving that party power over the investee to which those rights relate, an investor that holds only protective rights cannot have power or prevent another party from having power over an investee (see paragraph 14).</p> <p>Aus paragraph suggested by staff</p> <p>AusB27.1 In relation to not-for-profit entities, protective rights are held by a government or other entity in order to protect, as distinct from enhance, the interests of the public or the beneficiaries of a not-for-profit entity.</p>	<p>Although the general statement in paragraph B27 is sector neutral, the reference to protective rights being designed to protect the holder’s interests may not necessarily apply to NFP entities.</p> <p>Paragraph AusB27.1 is suggested.</p>		
<p>B28 Examples of protective rights include but are not limited to:</p> <p>(a) a lender’s right to restrict a borrower from undertaking</p>	<p>As noted above (comments to paragraph B26), an Aus paragraph that</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>activities that could significantly change the credit risk of the borrower to the detriment of the lender.</p> <p>(b) the right of a party holding a non-controlling interest in an investee to approve capital expenditure greater than that required in the ordinary course of business, or to approve the issue of equity or debt instruments.</p> <p>(c) the right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.</p> <p>Aus paragraph suggested by staff</p> <p>AusB28.1 In addition to the examples in paragraph B28, examples of protective rights in relation to not-for-profit entities include, but are not limited to:</p> <p>(a) the right to curtail or close the operations of entities that are not complying with regulations or other requirements. For example, a pollution control authority may be able to close down activities of an entity that breach environmental regulations.</p> <p>(b) the right to remove members of the governing body of another entity under certain restricted circumstances. For example, a state government may be able to remove or suspend the councillors of a local government and appoint an administrator for reasons relating to a lack of probity.</p> <p>(c) the right of the government to remove tax deductibility for contributions to a not-for-profit entity if the entity significantly changes its objectives or activities.</p> <p>(d) a philanthropic trust allocating resources to a charity on condition that the assets of the charity are passed to a similar organisation undertaking similar activities if the charity is liquidated.</p>	<p>provides NFP sector examples of protective rights is suggested.</p> <p>The examples in paragraphs AusB28.1(a) and (b) are based on examples in superseded AASB 127 and IPSAS 6. Example (c) is a new example. Example (d) is based on a suggestion from a sub-committee member.</p>		
Franchises			
<p>B29 A franchise agreement for which the investee is the franchisee often gives the franchisor rights that are designed to protect the franchise brand. Franchise agreements typically give franchisors some decision-making rights with respect to the operations of the franchisee.</p>	<p>Paragraphs B29–B33 are sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p> <p>Franchise relationships may exist in the NFP private sector. For example, the relationship between the global headquarters of a NFP organisation and</p>		
<p>B30 Generally, franchisors’ rights do not restrict the ability of parties other than the franchisor to make decisions that have a significant</p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
effect on the franchisee’s returns. Nor do the rights of the franchisor in franchise agreements necessarily give the franchisor the current ability to direct the activities that significantly affect the franchisee’s returns.	the Australian organisation operating under the same name may amount to a franchise arrangement. The control issues concerning franchises appear to be the same in the for-profit and NFP private sectors.		
B31 It is necessary to distinguish between having the current ability to make decisions that significantly affect the franchisee’s returns and having the ability to make decisions that protect the franchise brand. The franchisor does not have power over the franchisee if other parties have existing rights that give them the current ability to direct the relevant activities of the franchisee.			
B32 By entering into the franchise agreement the franchisee has made a unilateral decision to operate its business in accordance with the terms of the franchise agreement, but for its own account.			
B33 Control over such fundamental decisions as the legal form of the franchisee and its funding structure may be determined by parties other than the franchisor and may significantly affect the returns of the franchisee. The lower the level of financial support provided by the franchisor and the lower the franchisor’s exposure to variability of returns from the franchisee the more likely it is that the franchisor has only protective rights.			
Voting rights			
B34 Often an investor has the current ability, through voting or similar rights, to direct the relevant activities. An investor considers the requirements in this section (paragraphs B35–B50) if the relevant activities of an investee are directed through voting rights.	Paragraphs B34–B50 on voting rights are sector neutral and can be applied by a NFP entity in relation to investees that are directed through voting rights. Aus paragraphs are not required. NFP entities are already subject to the similar requirements in paragraph 13 of the superseded AASB 127.	13 Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is:	
Power with a majority of the voting rights			
B35 An investor that holds more than half of the voting rights of an investee has power in the following situations, unless paragraph B36 or paragraph B37 applies: <ul style="list-style-type: none"> (a) the relevant activities are directed by a vote of the holder of the majority of the voting rights, or (b) a majority of the members of the governing body that directs the relevant activities are appointed by a vote of the holder of the majority of the voting rights. 			
Majority of the voting rights but no power			
B36 For an investor that holds more than half of the voting rights of an investee, to have power over an investee, the investor’s voting			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>rights must be substantive, in accordance with paragraphs B22–B25, and must provide the investor with the current ability to direct the relevant activities, which often will be through determining operating and financing policies. If another entity has existing rights that provide that entity with the right to direct the relevant activities and that entity is not an agent of the investor, the investor does not have power over the investee.</p>			<p>the entity is by that board or body; or (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.</p>
<p>B37 An investor does not have power over an investee, even though the investor holds the majority of the voting rights in the investee, when those voting rights are not substantive. For example, an investor that has more than half of the voting rights in an investee cannot have power if the relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator.</p>	<p>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 ... or regulator” and that an Aus paragraph may be required to explain this.</p> <p>Staff seek the Board’s direction whether an Aus paragraph is required, and if so, the approach to present in the Aus paragraph.</p>		<p>36. The power of one entity to govern decision making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision making so as to be able to benefit from its activities, for example by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a “controlling entity” and “controlled entity” relationships that do not extend beyond, for instance, that of a liquidator and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.</p>
<p>Power without a majority of the voting rights</p>			
<p>B38 An investor can have power even if it holds less than a majority of the voting rights of an investee. An investor can have power with less than a majority of the voting rights of an investee, for example, through:</p> <ul style="list-style-type: none"> (a) a contractual arrangement between the investor and other vote holders (see paragraph B39); (b) rights arising from other contractual arrangements (see paragraph B40); (c) the investor’s voting rights (see paragraphs B41-B45) (d) potential voting rights (see paragraphs B47–B50); or 		<p>See paragraph 13 above [at paragraph B34].</p>	

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
(e) a combination of (a)–(d).			
Contractual arrangement with other vote holders			
<p>B39 A contractual arrangement between an investor and other vote holders can give the investor the right to exercise voting rights sufficient to give the investor power, even if the investor does not have voting rights sufficient to give it power without the contractual arrangement. However, a contractual arrangement might ensure that the investor can direct enough other vote holders on how to vote to enable the investor to make decisions about the relevant activities.</p>			
Rights from other contractual arrangements			
<p>B40 Other decision-making rights, in combination with voting rights, can give an investor the current ability to direct the relevant activities. For example, the rights specified in a contractual arrangement in combination with voting rights may be sufficient to give an investor the current ability to direct the manufacturing processes of an investee or to direct other operating or financing activities of an investee that significantly affect the investee’s returns. However, in the absence of any other rights, economic dependence of an investee on the investor (such as relations of a supplier with its main customer) does not lead to the investor having power over the investee.</p>			
The investor’s voting rights			
<p>B41 An investor with less than a majority of the voting rights has rights that are sufficient to give it power when the investor has the practical ability to direct the relevant activities unilaterally.</p>			
<p>B42 When assessing whether an investor’s voting rights are sufficient to give it power, an investor considers all facts and circumstances, including:</p> <ul style="list-style-type: none"> (a) the size of the investor’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders, noting that: <ul style="list-style-type: none"> (i) the more voting rights an investor holds, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities; (ii) the more voting rights an investor holds relative to other vote holders, the more likely the investor is to have 			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>existing rights that give it the current ability to direct the relevant activities;</p> <p>(iii) the more parties that would need to act together to outvote the investor, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;</p> <p>(b) potential voting rights held by the investor, other vote holders or other parties (see paragraphs B47–B50);</p> <p>(c) rights arising from other contractual arrangements (see paragraph B40); and</p> <p>(d) any additional facts and circumstances that indicate the investor has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.</p>			
<p>B43 When the direction of relevant activities is determined by majority vote and an investor holds significantly more voting rights than any other vote holder or organised group of vote holders, and the other shareholdings are widely dispersed, it may be clear, after considering the factors listed in paragraph 42(a)–(c) alone, that the investor has power over the investee.</p>			
<p>Example 4</p> <p><i>An investor acquires 48 per cent of the voting rights of an investee. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the investor determined that a 48 per cent interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the investor concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.</i></p>			
<p>Example 5</p> <p><i>Investor A holds 40 per cent of the voting rights of an investee and twelve other investors each hold 5 per cent of the voting rights of the investee. A shareholder agreement grants investor A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. In this case, investor A concludes that the absolute size of the investor’s holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power. However, investor A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the investee. The fact that investor A might not have exercised this right or the likelihood of investor A exercising its right to select, appoint or remove</i></p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<i>management shall not be considered when assessing whether investor A has power.</i>			
B44 In other situations, it may be clear after considering the factors listed in paragraph B42(a)–(c) alone that an investor does not have power.			
<p>Example 6 <i>Investor A holds 45 per cent of the voting rights of an investee. Two other investors each hold 26 per cent of the voting rights of the investee. The remaining voting rights are held by three other shareholders, each holding 1 per cent. There are no other arrangements that affect decision-making. In this case, the size of investor A’s voting interest and its size relative to the other shareholdings are sufficient to conclude that investor A does not have power. Only two other investors would need to co-operate to be able to prevent investor A from directing the relevant activities of the investee.</i></p>			
<p>B45 However, the factors listed in paragraph B42(a)–(c) alone may not be conclusive. If an investor, having considered those factors, is unclear whether it has power, it shall consider additional facts and circumstances, such as whether other shareholders are passive in nature as demonstrated by voting patterns at previous shareholders’ meetings. This includes the assessment of the factors set out in paragraph B18 and the indicators in paragraphs B19 and B20. The fewer voting rights the investor holds, and the fewer parties that would need to act together to outvote the investor, the more reliance would be placed on the additional facts and circumstances to assess whether the investor’s rights are sufficient to give it power. When the facts and circumstances in paragraphs B18–B20 are considered together with the investor’s rights, greater weight shall be given to the evidence of power in paragraph B18 than to the indicators of power in paragraphs B19 and B20.</p>			
<p>Example 7 <i>An investor holds 45 per cent of the voting rights of an investee. Eleven other shareholders each hold 5 per cent of the voting rights of the investee. None of the shareholders has contractual arrangements to consult any of the others or make collective decisions. In this case, the absolute size of the investor’s holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power over the investee. Additional facts and circumstances that may provide evidence that the investor has, or does not have, power shall be considered.</i></p> <p>Example 8 <i>An investor holds 35 per cent of the voting rights of an investee. Three other shareholders each hold 5 per cent of the voting rights of the investee. The remaining voting rights are held by numerous other shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has arrangements to consult any of the others or make collective decisions. Decisions about the relevant activities of the investee require the approval of a majority of votes cast at relevant shareholders’ meetings—75 per cent of the voting rights of the investee have been cast at recent relevant shareholders’</i></p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p><i>meetings. In this case, the active participation of the other shareholders at recent shareholders' meetings indicates that the investor would not have the practical ability to direct the relevant activities unilaterally, regardless of whether the investor has directed the relevant activities because a sufficient number of other shareholders voted in the same way as the investor.</i></p>			
<p>B46 If it is not clear, having considered the factors listed in paragraph B42(a)–(d), that the investor has power, the investor does not control the investee.</p>			
<p>Potential voting rights</p>			
<p>B47 When assessing control, an investor considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power. Potential voting rights are rights to obtain voting rights of an investee, such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the rights are substantive (see paragraphs B22–B25).</p>			
<p>B48 When considering potential voting rights, an investor shall consider the purpose and design of the instrument, as well as the purpose and design of any other involvement the investor has with the investee. This includes an assessment of the various terms and conditions of the instrument as well as the investor's apparent expectations, motives and reasons for agreeing to those terms and conditions.</p>			
<p>B49 If the investor also has voting or other decision-making rights relating to the investee's activities, the investor assesses whether those rights, in combination with potential voting rights, give the investor power.</p>			
<p>B50 Substantive potential voting rights alone, or in combination with other rights, can give an investor the current ability to direct the relevant activities. For example, this is likely to be the case when an investor holds 40 per cent of the voting rights of an investee and, in accordance with paragraph B23, holds substantive rights arising from options to acquire a further 20 per cent of the voting rights.</p>			
<p>Example 9 <i>Investor A holds 70 per cent of the voting rights of an investee. Investor B has 30 per cent of the voting rights of the investee as well as an option to acquire half of investor A's voting rights. The option is exercisable for the next two years at a fixed price that is deeply out of the money (and is expected to remain so for that two-year period). Investor A has been exercising its votes and is actively directing the relevant</i></p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p><i>activities of the investee. In such a case, investor A is likely to meet the power criterion because it appears to have the current ability to direct the relevant activities. Although investor B has currently exercisable options to purchase additional voting rights (that, if exercised, would give it a majority of the voting rights in the investee), the terms and conditions associated with those options are such that the options are not considered substantive.</i></p> <p>Example 10</p> <p><i>Investor A and two other investors each hold a third of the voting rights of an investee. The investee's business activity is closely related to investor A. In addition to its equity instruments, investor A also holds debt instruments that are convertible into ordinary shares of the investee at any time for a fixed price that is out of the money (but not deeply out of the money). If the debt were converted, investor A would hold 60 per cent of the voting rights of the investee. Investor A would benefit from realising synergies if the debt instruments were converted into ordinary shares. Investor A has power over the investee because it holds voting rights of the investee together with substantive potential voting rights that give it the current ability to direct the relevant activities.</i></p>			
<p>Power when voting or similar rights do not have a significant effect on the investee's returns</p>			
<p>B51 In assessing the purpose and design of an investee (see paragraphs B5–B8), an investor shall consider the involvement and decisions made at the investee's inception as part of its design and evaluate whether the transaction terms and features of the involvement provide the investor with rights that are sufficient to give it power. Being involved in the design of an investee alone is not sufficient to give an investor control. However, involvement in the design may indicate that the investor had the opportunity to obtain rights that are sufficient to give it power over the investee.</p>	<p>Consistent with the comments made at paragraphs B5 and B8, paragraph B51 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p>		
<p>B52 In addition, an investor shall consider contractual arrangements such as call rights, put rights and liquidation rights established at the investee's inception. When these contractual arrangements involve activities that are closely related to the investee, then these activities are, in substance, an integral part of the investee's overall activities, even though they may occur outside the legal boundaries of the investee. Therefore, explicit or implicit decision-making rights embedded in contractual arrangements that are closely related to the investee need to be considered as relevant activities when determining power over the investee.</p>	<p>Paragraph B52 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p>		
<p>B53 For some investees, relevant activities occur only when particular circumstances arise or events occur. The investee may be designed so that the direction of its activities and its returns are predetermined unless and until those particular circumstances arise or events occur. In this case, only the decisions about the</p>	<p>Consistent with the comments made at paragraphs B5 and B8, paragraph B53 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>investee’s activities when those circumstances or events occur can significantly affect its returns and thus be relevant activities. The circumstances or events need not have occurred for an investor with the ability to make those decisions to have power. The fact that the right to make decisions is contingent on circumstances arising or an event occurring does not, in itself, make those rights protective.</p>	<p>Auto-pilot entities may not be common in the NFP sector, but the requirements would apply when relevant.</p>		
<p>Example 11 <i>An investee’s only business activity, as specified in its founding documents, is to purchase receivables and service them on a day-to-day basis for its investors. The servicing on a day-to-day basis includes the collection and passing on of principal and interest payments as they fall due. Upon default of a receivable the investee automatically puts the receivable to an investor as agreed separately in a put agreement between the investor and the investee. The only relevant activity is managing the receivables upon default because it is the only activity that can significantly affect the investee’s returns. Managing the receivables before default is not a relevant activity because it does not require substantive decisions to be made that could significantly affect the investee’s returns – the activities before default are predetermined and amount only to collecting cash flows as they fall due and passing them on to investors. Therefore, only the investor’s right to manage the assets upon default should be considered when assessing the overall activities of the investee that significantly affect the investee’s returns. In this example, the design of the investee ensures that the investor has decision-making authority over the activities that significantly affect the returns at the only time that such decision-making authority is required. The terms of the put agreement are integral to the overall transaction and the establishment of the investee. Therefore, the terms of the put agreement together with the founding documents of the investee lead to the conclusion that the investor has power over the investee even though the investor takes ownership of the receivables only upon default and manages the defaulted receivables outside the legal boundaries of the investee.</i></p> <p>Example 12 <i>The only assets of an investee are receivables. When the purpose and design of the investee are considered, it is determined that the only relevant activity is managing the receivables upon default. The party that has the ability to manage the defaulting receivables has power over the investee, irrespective of whether any of the borrowers have defaulted.</i></p>			
<p>B54 An investor may have an explicit or implicit commitment to ensure that an investee continues to operate as designed. Such a commitment may increase the investor’s exposure to variability of returns and thus increase the incentive for the investor to obtain rights sufficient to give it power. Therefore a commitment to ensure that an investee operates as designed may be an indicator that the investor has power, but does not, by itself, give an investor power, nor does it prevent another party from having power.</p>	<p>Paragraph B54 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.</p> <p>However, one sub-committee member has raised a concern that Governments often have an “explicit or implicit commitment to ensure that an investee operates in a certain way” and that this is integral to many funding arrangements. The sub-committee member recommended that an Aus</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
	<p>paragraph be included to explain why this is not control.</p> <p>Staff consider there are enough caveats in paragraph B54 so that an Aus paragraph is not required.</p>		
Exposure, or rights, to variable returns from an investee			
<p>B55 When assessing whether an investor has control of an investee, the investor determines whether it is exposed, or has rights, to variable returns from its involvement with the investee.</p>	<p>The reference to variable returns could be read too narrowly by NFP entities. Accordingly, as an adjunct to suggested paragraph Aus4.4, an Aus paragraph is suggested following the examples of returns in paragraph B57.</p>		
<p>B56 Variable returns are returns that are not fixed and have the potential to vary as a result of the performance of an investee. Variable returns can be only positive, only negative or both positive and negative (see paragraph 15). An investor assesses whether returns from an investee are variable and how variable those returns are on the basis of the substance of the arrangement and regardless of the legal form of the returns. For example, an investor can hold a bond with fixed interest payments. The fixed interest payments are variable returns for the purpose of this Standard because they are subject to default risk and they expose the investor to the credit risk of the issuer of the bond. The amount of variability (ie how variable those returns are) depends on the credit risk of the bond. Similarly, fixed performance fees for managing an investee’s assets are variable returns because they expose the investor to the performance risk of the investee. The amount of variability depends on the investee’s ability to generate sufficient income to pay the fee.</p>	<p>Otherwise, paragraphs B55 and B56 are sector neutral and can be applied by a NFP entity.</p>		
<p>B57 Examples of returns include:</p> <ul style="list-style-type: none"> (a) dividends, other distributions of economic benefits from an investee (eg interest from debt securities issued by the investee) and changes in the value of the investor’s investment in that investee. (b) remuneration for servicing an investee’s assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee’s assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee. (c) returns that are not available to other interest holders. For 	<p>As noted at paragraphs 15 and B55 and B56, an Aus paragraph is suggested to provide examples of returns in the NFP sector. Paragraph AusB57.1 is based on paragraph 29 from IPSAS 6 and clarifies that returns in the NFP sector can be financial or non-financial returns.</p> <p>Paragraph 29 of IPSAS 6 refers to distributions of surpluses (e.g. a dividend) as a possible benefit. This would be covered by paragraph B57(a), and hence is not repeated in the Aus paragraph.</p> <p>The application guidance appears to be the most appropriate location for this paragraph (rather than following paragraph 15) as it follows the examples of returns in paragraph B57.</p>		<p>29. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity (a) may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend), and (b) is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may</p>

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>example, an investor might use its assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the investor’s other assets.</p> <p>Aus paragraph suggested by staff</p> <p>AusB57.1 In relation to not-for-profit entities, examples of returns include:</p> <ul style="list-style-type: none"> (a) financial benefits, such as those listed in paragraph B57. (b) non-financial benefits, such as those arising from the ability to direct an investee to work with the investor to achieve the investor’s objectives, including furthering its social policy objectives. 	<p>Those examples are most relevant to for-profit private sector entities, but could still apply to NFP entities.</p> <p>The addition of paragraph AusB57.1 makes clear that returns can include non-financial benefits. Perhaps the IASB did not consider the possibility of for-profit entities having NFP subsidiaries and that the returns from those subsidiaries could be financial and/or non-financial in nature.</p>		<p>also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a GBE may provide a controlling entity with a dividend, and also enable it to achieve some of its social policy objectives.</p>
Link between power and returns			
Delegated power			
<p>B58 When an investor with decision-making rights (a decision maker) assesses whether it controls an investee, it shall determine whether it is a principal or an agent. An investor shall also determine whether another entity with decision-making rights is acting as an agent for the investor. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority (see paragraphs 17 and 18). Thus, sometimes a principal’s power may be held and exercisable by an agent, but on behalf of the principal. A decision maker is not an agent simply because other parties can benefit from the decisions that it makes.</p>	<p>As noted at paragraph 18, Aus paragraphs in relation to the delegated power requirements may be helpful. Staff expanded paragraph AusB61.1 and added paragraph AusB60.1 based on sub-committee comments. These Aus paragraphs are located within the general paragraphs in AASB 10 on delegated power.</p> <p>One sub-committee member commented that the whole section on delegated power is a huge problem for the public sector. The member queried whether a department or a government agency is an “agent” of the government, and therefore does not control anything. The member stated that they believe we need to have a complete set of Aus paragraphs for public sector NFPs in this area. Staff consider that paragraphs</p>	<p>Aus17.3 The existence of one, or a combination of a number of the following circumstances, indicate that an entity is accountable to Parliament, or to the Executive, or to a particular Minister:</p> <ul style="list-style-type: none"> (a) the existence of a Ministerial or other government power that enables the government to give directions to the governing body of that entity so that the <u>entity acts as an agent</u> of the government to achieve government policy objectives; [emphasis added] (b) ... 	
<p>B59 An investor may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls an investee, the investor shall treat the decision-making rights delegated to its agent as held by the investor directly. In situations where there is more than one principal, each of the principals shall assess whether it has power</p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>over the investee by considering the requirements in paragraphs B5–B54. Paragraphs B60–B72 provide guidance on determining whether a decision maker is an agent or a principal.</p>	<p>AusB60.1 and AusB61.1 remove two perceived impediments to applying the delegated power paragraphs to NFP entities.</p> <p>Paragraphs B62–B72 address detailed aspects of the delegated power requirements. No further Aus paragraphs are suggested in those paragraphs.</p> <p>The superseded version of AASB 127 included paragraph Aus17.3(a), which referred to an entity acting as an agent of the government to achieve government objectives. However, that reference to agent does not appear to be based on any general consideration of principal and agent relationships. Accordingly, it is not considered a useful precedent, and so it is not included in any Aus paragraphs for AASB 10.</p> <p>Staff seek the Board’s direction on the delegated power paragraphs.</p>		
<p>B60 A decision maker shall consider the overall relationship between itself, the investee being managed and other parties involved with the investee, in particular all the factors below, in determining whether it is an agent:</p> <ul style="list-style-type: none"> (a) the scope of its decision-making authority over the investee (paragraphs B62 and B63). (b) the rights held by other parties (paragraphs B64–B67). (c) the remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs B68–B70). (d) the decision maker’s exposure to variability of returns from other interests that it holds in the investee (paragraphs B71 and B72). <p>Different weightings shall be applied to each of the factors on the basis of particular facts and circumstances.</p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>Aus paragraph suggested by staff</p> <p>AusB60.1 A decision maker in relation to an investee might determine that it is an agent of an investor in accordance with paragraph B60. In relation to not-for-profit entities, an investee is not an agent of the investor merely because the decision maker is an agent of the investor. For example:</p> <ul style="list-style-type: none"> (a) the secretary of a government department might act as an agent for the responsible Minister, if the Minister can remove the secretary with or without cause. However, the Minister’s relationship with the department needs to be assessed in its own right to determine whether the department is controlled by the Minister; and (b) a charity establishes a trust to fund the construction of dams in a developing country. The trustee’s relationship with the trust does not extend beyond the normal responsibilities of a trustee, including making decisions about the financing and operating activities of the trust. The charity may be able to replace the trustee at its discretion. In this case, the trustee is an agent of the charity and the charity needs to assess whether it controls the trust given that, for example, the charity would be exposed to variable returns in terms of the degree to which its overseas aid objectives are satisfied. 	<p>Staff initially drafted paragraph AusB60.1 to address a decision maker that is internal to an investee, e.g. the Secretary of a department. One sub-committee member had queried whether a department can be only an agent of a Minister if the Minister can remove the Secretary. However, AASB 10 does not require decision makers to be internal to an investee, and so paragraph AusB60.1 does not include that limitation.</p>		
<p>B61 Determining whether a decision maker is an agent requires an evaluation of all the factors listed in paragraph B60 unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause (see paragraph B65).</p> <p>Aus paragraph suggested by staff</p> <p>AusB61.1 Notwithstanding paragraphs B61 and B65, in relation to not-for-profit entities, an investor shall not be identified as an agent of another entity under this Standard merely because the investor is controlled by that other entity. For example, a government department might manage government interests in investees as a principal and thus might be an investor that controls the investees. An investor has control over its own assets, including any interests in an investee, and thus would be able to deal with those assets in ways that an agent could not. In contrast,</p>	<p>Staff emailed IASB staff to clarify whether paragraph B61 means that intermediate parent entities are only agents of their ultimate parent entity and thus not permitted to consolidate their subsidiaries.</p> <p>IASB staff replied that the IASB had no intention of changing when intermediate parent entities are required to prepare consolidated financial statements, and referred to paragraphs BC96 and BC97 of the Basis for Conclusions to IASB ED10. IASB staff acknowledged that this clarification was not included in IFRS 10 in any form.</p>	<p><u>Extract from IASB ED 10 Basis for Conclusions</u></p> <p>BC96 The Board [IASB] considered an example in which parent A has a subsidiary B and B has two subsidiaries C and D. The Board noted that the guidance relating to agency relationships might be interpreted to imply that B acts as an agent for A and therefore does not control C and D. The Board does not believe that the guidance on agency relationships in the exposure draft would prevent an intermediate parent from preparing consolidated financial statements, and the Board has no intentions of doing so in proposing the guidance.</p> <p>BC97 The Board also observed that this issue exists in IAS 27 and SIC-12 because both,</p>	

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>an investor’s decision-making rights in respect of an investee and the investor’s exposure to variability of returns from its interests in the investee are likely to be specifically limited through agreement if the investor is an agent rather than a principal.</p>	<p>The meaning of paragraph B61 is not clear. Both for-profit and NFP entities might read paragraph B61 as indicating that intermediate parent entities do not control any subsidiaries and thus cannot prepare consolidated financial statements.</p> <p>Therefore, we are suggesting paragraph AusB61.1 as a way of clarifying the position for NFP entities. For-profit entities might follow the Aus paragraph by analogy. The alternative is not to provide clarification for NFP entities at all, thus leaving the requirements uncertain for all entities. We think that the IASB should also be requested to amend IFRS 10.</p>	<p>although not stated explicitly, require that only one party controls another party. Therefore, any intermediate parent could be considered not to control its subsidiaries because those subsidiaries are controlled ultimately by the intermediate parent’s parent.</p>	
<i>The scope of the decision-making authority</i>			
<p>B62 The scope of a decision maker’s decision-making authority is evaluated by considering:</p> <ul style="list-style-type: none"> (a) the activities that are permitted according to the decision-making agreement(s) and specified by law, and (b) the discretion that the decision maker has when making decisions about those activities. 	<p>Paragraphs B62 and B63 are sector neutral and can be applied by a NFP entity. The staff view is that an Aus paragraph is not required.</p> <p>One sub-committee member questioned whether these scope paragraphs will work for NFP public sector entities.</p>		
<p>B63 A decision maker shall consider the purpose and design of the investee, the risks to which the investee was designed to be exposed, the risks it was designed to pass on to the parties involved and the level of involvement the decision maker had in the design of an investee. For example, if a decision maker is significantly involved in the design of the investee (including in determining the scope of decision-making authority), that involvement may indicate that the decision maker had the opportunity and incentive to obtain rights that result in the decision maker having the ability to direct the relevant activities.</p>			
<i>Rights held by other parties</i>			
<p>B64 Substantive rights held by other parties may affect the decision</p>	<p>Paragraphs B64–B67 are sector neutral</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>maker’s ability to direct the relevant activities of an investee. Substantive removal or other rights may indicate that the decision maker is an agent.</p>	<p>and can be applied by a NFP entity. Aus paragraphs are not required.</p>		
<p>B65 When a single party holds substantive removal rights and can remove the decision maker without cause, this, in isolation, is sufficient to conclude that the decision maker is an agent. If more than one party holds such rights (and no individual party can remove the decision maker without the agreement of other parties) those rights are not, in isolation, conclusive in determining that a decision maker acts primarily on behalf and for the benefit of others. In addition, the greater the number of parties required to act together to exercise rights to remove a decision maker and the greater the magnitude of, and variability associated with, the decision maker’s other economic interests (ie remuneration and other interests), the less the weighting that shall be placed on this factor.</p>			
<p>B66 Substantive rights held by other parties that restrict a decision maker’s discretion shall be considered in a similar manner to removal rights when evaluating whether the decision maker is an agent. For example, a decision maker that is required to obtain approval from a small number of other parties for its actions is generally an agent. (See paragraphs B22–B25 for additional guidance on rights and whether they are substantive.</p>			
<p>B67 Consideration of the rights held by other parties shall include an assessment of any rights exercisable by an investee’s board of directors (or other governing body) and their effect on the decision-making authority (see paragraph B23(b)).</p>			
<p>Remuneration</p>			
<p>B68 The greater the magnitude of, and variability associated with, the decision maker’s remuneration relative to the returns expected from the activities of the investee, the more likely the decision maker is a principal.</p>	<p>Paragraphs B68–B70 are sector neutral and can be applied by a NFP entity. Aus paragraphs are not required.</p>		
<p>B69 In determining whether it is a principal or an agent the decision maker shall also consider whether the following conditions exist:</p> <ul style="list-style-type: none"> (a) The remuneration of the decision maker is commensurate with the services provided. (b) The remuneration agreement includes only terms, conditions or amounts that are customarily present in arrangements for 	<p>However, some might argue that in the NFP public sector an agency relationship does not involve remuneration, on the basis that appropriations are not considered to be remuneration, or else that appropriations as remuneration are not</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
similar services and level of skills negotiated on an arm’s length basis.	necessarily commensurate with the services provided.		
B70 A decision maker cannot be an agent unless the conditions set out in paragraph B69(a) and (b) are present. However, meeting those conditions in isolation is not sufficient to conclude that a decision maker is an agent.			
Exposure to variability in returns from other interests			
B71 A decision maker that holds other interests in an investee (eg investments in the investee or provides guarantees with respect to the performance of the investee), shall consider its exposure to variability of returns from those interests in assessing whether it is an agent. Holding other interests in an investee indicates that the decision maker may be a principal.	Paragraphs B71 and B72 are sector neutral and can be applied by a NFP entity. Aus paragraphs are not required.		
<p>B72 In evaluating its exposure to variability of returns from other interests in the investee a decision maker shall consider the following:</p> <ul style="list-style-type: none"> (a) the greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the decision maker is a principal. (b) whether its exposure to variability of returns is different from that of the other investors and, if so, whether this might influence its actions. For example, this might be the case when a decision maker holds subordinated interests in, or provides other forms of credit enhancement to, an investee. <p>The decision maker shall evaluate its exposure relative to the total variability of returns of the investee. This evaluation is made primarily on the basis of returns expected from the activities of the investee but shall not ignore the decision maker’s maximum exposure to variability of returns of the investee through other interests that the decision maker holds.</p>			
<p>Example 13</p> <p><i>A decision maker (fund manager) establishes, markets and manages a publicly traded, regulated fund according to narrowly defined parameters set out in the investment mandate as required by its local laws and regulations. The fund was marketed to investors as an investment in a diversified portfolio of equity securities of publicly traded entities. Within the defined parameters, the fund manager has discretion about the assets in which to invest. The fund manager has made a 10 per cent pro rata investment in the fund and receives a market-based fee for its services equal to 1 per cent of the net asset value of the fund. The fees</i></p>	<p>Staff acknowledge that Examples 13 to 16 are highly for-profit oriented. Staff will</p>		

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p><i>are commensurate with the services provided. The fund manager does not have any obligation to fund losses beyond its 10 per cent investment. The fund is not required to establish, and has not established, an independent board of directors. The investors do not hold any substantive rights that would affect the decision-making authority of the fund manager, but can redeem their interests within particular limits set by the fund. Although operating within the parameters set out in the investment mandate and in accordance with the regulatory requirements, the fund manager has decision-making rights that give it the current ability to direct the relevant activities of the fund—the investors do not hold substantive rights that could affect the fund manager’s decision-making authority.</i></p> <p><i>The fund manager receives a market-based fee for its services that is commensurate with the services provided and has also made a pro rata investment in the fund. The remuneration and its investment expose the fund manager to variability of returns from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal.</i></p> <p><i>In this example, consideration of the fund manager’s exposure to variability of returns from the fund together with its decision-making authority within restricted parameters indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.</i></p>	<p>liaise with HoTARAC to identify suitable examples that might be included in AASB 10.</p>		
<p>Example 14</p> <p><i>A decision maker establishes, markets and manages a fund that provides investment opportunities to a number of investors. The decision maker (fund manager) must make decisions in the best interests of all investors and in accordance with the fund’s governing agreements. Nonetheless, the fund manager has wide decision-making discretion. The fund manager receives a market-based fee for its services equal to 1 per cent of assets under management and 20 per cent of all the fund’s profits if a specified profit level is achieved. The fees are commensurate with the services provided.</i></p> <p><i>Although it must make decisions in the best interests of all investors, the fund manager has extensive decision-making authority to direct the relevant activities of the fund. The fund manager is paid fixed and performance-related fees that are commensurate with the services provided. In addition, the remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund, without creating exposure to variability of returns from the activities of the fund that is of such significance that the remuneration, when considered in isolation, indicates that the fund manager is a principal.</i></p> <p><i>The above fact pattern and analysis applies to examples 14A–14C described below. Each example is considered in isolation.</i></p>			
<p>Example 14A</p> <p><i>The fund manager also has a 2 per cent investment in the fund that aligns its interests with those of the other investors. The fund manager does not have any obligation to fund losses beyond its 2 per cent investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.</i></p> <p><i>The fund manager’s 2 per cent investment increases its exposure to variability of returns from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal. The other investors’ rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. In this example, although the fund manager has extensive decision-making authority and is exposed to variability of returns from its interest and remuneration, the fund manager’s exposure indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.</i></p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>Example 14B</p> <p><i>The fund manager has a more substantial pro rata investment in the fund, but does not have any obligation to fund losses beyond that investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.</i></p> <p><i>In this example, the other investors’ rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager’s investment together with its remuneration could create exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. The greater the magnitude of, and variability associated with, the fund manager’s economic interests (considering its remuneration and other interests in aggregate), the more emphasis the fund manager would place on those economic interests in the analysis, and the more likely the fund manager is a principal.</i></p> <p><i>For example, having considered its remuneration and the other factors, the fund manager might consider a 20 per cent investment to be sufficient to conclude that it controls the fund. However, in different circumstances (ie if the remuneration or other factors are different), control may arise when the level of investment is different.</i></p>			
<p>Example 14C</p> <p><i>The fund manager has a 20 per cent pro rata investment in the fund, but does not have any obligation to fund losses beyond its 20 per cent investment. The fund has a board of directors, all of whose members are independent of the fund manager and are appointed by the other investors. The board appoints the fund manager annually. If the board decided not to renew the fund manager’s contract, the services performed by the fund manager could be performed by other managers in the industry.</i></p> <p><i>Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager’s 20 per cent investment together with its remuneration creates exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. However, the investors have substantive rights to remove the fund manager—the board of directors provides a mechanism to ensure that the investors can remove the fund manager if they decide to do so.</i></p> <p><i>In this example, the fund manager places greater emphasis on the substantive removal rights in the analysis. Thus, although the fund manager has extensive decision-making authority and is exposed to variability of returns of the fund from its remuneration and investment, the substantive rights held by the other investors indicate that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.</i></p>			
<p>Example 15</p> <p><i>An investee is created to purchase a portfolio of fixed rate asset-backed securities, funded by fixed rate debt instruments and equity instruments. The equity instruments are designed to provide first loss protection to the debt investors and receive any residual returns of the investee. The transaction was marketed to potential debt investors as an investment in a portfolio of asset-backed securities with exposure to the credit risk associated with the possible default of the issuers of the asset-backed securities in the portfolio and to the interest rate risk associated with the management of the portfolio. On formation, the equity instruments represent 10 per cent of the value of the assets purchased. A decision maker (the asset manager) manages</i></p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p><i>the active asset portfolio by making investment decisions within the parameters set out in the investee’s prospectus. For those services, the asset manager receives a market-based fixed fee (ie 1 per cent of assets under management) and performance-related fees (ie 10 per cent of profits) if the investee’s profits exceed a specified level. The fees are commensurate with the services provided. The asset manager holds 35 per cent of the equity in the investee.</i></p> <p><i>The remaining 65 per cent of the equity, and all the debt instruments, are held by a large number of widely dispersed unrelated third party investors. The asset manager can be removed, without cause, by a simple majority decision of the other investors.</i></p> <p><i>The asset manager is paid fixed and performance-related fees that are commensurate with the services provided. The remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund. The asset manager has exposure to variability of returns from the activities of the fund because it holds 35 per cent of the equity and from its remuneration. Although operating within the parameters set out in the investee’s prospectus, the asset manager has the current ability to make investment decisions that significantly affect the investee’s returns—the removal rights held by the other investors receive little weighting in the analysis because those rights are held by a large number of widely dispersed investors. In this example, the asset manager places greater emphasis on its exposure to variability of returns of the fund from its equity interest, which is subordinate to the debt instruments. Holding 35 per cent of the equity creates subordinated exposure to losses and rights to returns of the investee, which are of such significance that it indicates that the asset manager is a principal. Thus, the asset manager concludes that it controls the investee.</i></p>			
<p>Example 16</p> <p><i>A decision maker (the sponsor) sponsors a multi-seller conduit, which issues short-term debt instruments to unrelated third party investors. The transaction was marketed to potential investors as an investment in a portfolio of highly rated medium-term assets with minimal exposure to the credit risk associated with the possible default by the issuers of the assets in the portfolio. Various transferors sell high quality medium-term asset portfolios to the conduit. Each transferor services the portfolio of assets that it sells to the conduit and manages receivables on default for a market-based servicing fee. Each transferor also provides first loss protection against credit losses from its asset portfolio through over-collateralisation of the assets transferred to the conduit. The sponsor establishes the terms of the conduit and manages the operations of the conduit for a market-based fee. The fee is commensurate with the services provided. The sponsor approves the sellers permitted to sell to the conduit, approves the assets to be purchased by the conduit and makes decisions about the funding of the conduit. The sponsor must act in the best interests of all investors.</i></p> <p><i>The sponsor is entitled to any residual return of the conduit and also provides credit enhancement and liquidity facilities to the conduit. The credit enhancement provided by the sponsor absorbs losses of up to 5 per cent of all of the conduit’s assets, after losses are absorbed by the transferors. The liquidity facilities are not advanced against defaulted assets. The investors do not hold substantive rights that could affect the decision-making authority of the sponsor.</i></p> <p><i>Even though the sponsor is paid a market-based fee for its services that is commensurate with the services provided, the sponsor has exposure to variability of returns from the activities of the conduit because of its rights to any residual returns of the conduit and the provision of credit enhancement and liquidity facilities (ie the conduit is exposed to liquidity risk by using short-term debt instruments to fund medium-term assets).</i></p> <p><i>Even though each of the transferors has decision-making rights that affect the value of the assets of the</i></p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p><i>conduit, the sponsor has extensive decision-making authority that gives it the current ability to direct the activities that most significantly affect the conduit's returns (ie the sponsor established the terms of the conduit, has the right to make decisions about the assets (approving the assets purchased and the transferors of those assets) and the funding of the conduit (for which new investment must be found on a regular basis)). The right to residual returns of the conduit and the provision of credit enhancement and liquidity facilities expose the sponsor to variability of returns from the activities of the conduit that is different from that of the other investors. Accordingly, that exposure indicates that the sponsor is a principal and thus the sponsor concludes that it controls the conduit. The sponsor's obligation to act in the best interest of all investors does not prevent the sponsor from being a principal.</i></p>			
Relationship with other parties			
<p>B73 When assessing control, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf (ie 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.</p>	<p>Paragraphs B73–B75 are sector neutral and can be applied by a NFP entity – probably with as much difficulty as for-profit entities. Aus paragraphs are not required.</p> <p>One sub-committee member has questioned whether the paragraphs on relationships with other parties can be applied in the public sector.</p> <p>Staff seek the Board's feedback on these paragraphs.</p>		
<p>B74 Such a relationship need not involve a contractual arrangement. A party is a de facto agent when the investor has, or those that direct the activities of the investor have, the ability to direct that party to act on the investor's behalf. In these circumstances, the investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee.</p>			
<p>B75 The following are examples of such other parties that, by the nature of their relationship, might act as de facto agents for the investor:</p> <ul style="list-style-type: none"> (a) the investor's related parties. (b) a party that received its interest in the investee as a contribution or loan from the investor. (c) a party that has agreed not to sell, transfer or encumber its interests in the investee without the investor's prior approval (except for situations in which the investor and the other party have the right of prior approval and the rights are based on mutually agreed terms by willing independent parties). 			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>(d) a party that cannot finance its operations without subordinated financial support from the investor.</p> <p>(e) an investee for which the majority of the members of its governing body or for which its key management personnel are the same as those of the investor.</p> <p>(f) a party that has a close business relationship with the investor, such as the relationship between a professional service provider and one of its significant clients.</p>			
Control of specified assets			
<p>B76 An investor shall consider whether it treats a portion of an investee as a deemed separate entity and, if so, whether it controls the deemed separate entity.</p>	<p>Paragraphs B76–B79 are sector neutral and can be applied by a NFP entity. Aus paragraphs are not required.</p>		
<p>B77 An investor shall treat a portion of an investee as a deemed separate entity if and only if the following condition is satisfied:</p> <p style="padding-left: 40px;">Specified assets of the investee (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the investee. Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets. In substance, none of the returns from the specified assets can be used by the remaining investee and none of the liabilities of the deemed separate entity are payable from the assets of the remaining investee. Thus, in substance, all the assets, liabilities and equity of that deemed separate entity are ring-fenced from the overall investee. Such a deemed separate entity is often called a ‘silo’.</p>	<p>One sub-committee member questioned how these paragraphs might apply to trust fund structures in the NFP sector. Staff will consider this further.</p>		
<p>B78 When the condition in paragraph B77 is satisfied, an investor shall identify the activities that significantly affect the returns of the deemed separate entity and how those activities are directed in order to assess whether it has power over that portion of the investee. When assessing control of the deemed separate entity, the investor shall also consider whether it has exposure or rights to variable returns from its involvement with that deemed separate entity and the ability to use its power over that portion of the investee to affect the amount of the investor’s returns.</p>			
<p>B79 If the investor controls the deemed separate entity, the investor shall consolidate that portion of the investee. In that case, other</p>			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
parties exclude that portion of the investee when assessing control of, and in consolidating, the investee.			
Continuous assessment			
B80 An investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7.	Paragraphs B80–B85 are sector neutral and can be applied by a NFP entity. Aus paragraphs are not required.		
B81 If there is a change in how power over an investee can be exercised, that change must be reflected in how an investor assesses its power over an investee. For example, changes to decision-making rights can mean that the relevant activities are no longer directed through voting rights, but instead other agreements, such as contracts, give another party or parties the current ability to direct the relevant activities.			
B82 An event can cause an investor to gain or lose power over an investee without the investor being involved in that event. For example, an investor can gain power over an investee because decision-making rights held by another party or parties that previously prevented the investor from controlling an investee have elapsed.			
B83 An investor also considers changes affecting its exposure, or rights, to variable returns from its involvement with an investee. For example, an investor that has power over an investee can lose control of an investee if the investor ceases to be entitled to receive returns or to be exposed to obligations, because the investor would fail to satisfy paragraph 7(b) (eg if a contract to receive performance-related fees is terminated).			
B84 An investor shall consider whether its assessment that it acts as an agent or a principal has changed. Changes in the overall relationship between the investor and other parties can mean that an investor no longer acts as an agent, even though it has previously acted as an agent, and vice versa. For example, if changes to the rights of the investor, or of other parties, occur, the investor shall reconsider its status as a principal or an agent.			
B85 An investor’s initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (eg a change in the investee’s returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed in			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
paragraph 7 or changes the overall relationship between a principal and an agent.			
Accounting requirements			
Consolidation procedures			
<p>B86 Consolidated financial statements:</p> <ul style="list-style-type: none"> (a) combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries. (b) offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary (AASB 3 explains how to account for any related goodwill). (c) eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. AASB 112 <i>Income Taxes</i> applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions. 	Paragraph B86 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.	Same requirements in paragraphs 18, 20 and 21 of AASB 127.	Same requirements in paragraphs 43, 45 and 46 of IPSAS 6.
Uniform accounting policies			
B87 If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.	Paragraph B87 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.	Same requirements in paragraph 25 of AASB 127.	Same requirements in paragraph 50 of IPSAS 6.
Measurement			
B88 An entity includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary. Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of comprehensive	Paragraph B88 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.	Same requirements in paragraph 26 of AASB 127.	Paragraph 51 of IPSAS 6 includes the timing requirements for the inclusion of a subsidiary's revenues and expenses, but not the measurement requirements.

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
income after the acquisition date is based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date.			
Potential voting rights			
B89 When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of profit or loss and changes in equity allocated to the parent and non-controlling interests in preparing consolidated financial statements is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivatives, unless paragraph B90 applies.	Paragraphs B89–B91 are sector neutral and can be applied by a NFP entity. Aus paragraphs are not required.	Paragraph 19 of AASB 127 includes the basic requirement in paragraph B89.	Paragraph 44 of IPSAS 6 includes the basic requirement in paragraph B89.
B90 In some circumstances an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives the entity access to the returns associated with an ownership interest. In such circumstances, the proportion allocated to the parent and non-controlling interests in preparing consolidated financial statements is determined by taking into account the eventual exercise of those potential voting rights and other derivatives that currently give the entity access to the returns.			
B91 AASB 9 does not apply to interests in subsidiaries that are consolidated. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in a subsidiary, the instruments are not subject to the requirements of AASB 9. In all other cases, instruments containing potential voting rights in a subsidiary are accounted for in accordance with AASB 9.			
Reporting date			
B92 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.	Paragraphs B92 and B93 are sector neutral and can be applied by a NFP entity. Aus paragraphs are not required.	Same requirements in paragraphs 22 and 23 of AASB 127.	Same requirements in paragraphs 47 and 48 of IPSAS 6.
B93 If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.			
Non-controlling interests			
B94 An entity shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The entity shall also attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.	Paragraphs B94 and B95 are sector neutral and can be applied by a NFP entity. Aus paragraphs are not required.	Same requirements in paragraphs 28 and 29 of AASB 127.	Same requirements in paragraphs 55–57 of IPSAS 6, except that the minority interest could be negative only if it has a binding obligation.
B95 If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the entity shall compute its share of profit or loss after adjusting for the dividends on such shares, whether or not such dividends have been declared.			
Changes in the proportion held by non-controlling interests			
B96 When the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.	Paragraph B96 is sector neutral and can be applied by a NFP entity. An Aus paragraph is not required.	Same requirements in paragraph 31 of AASB 127.	Not addressed in IPSAS 6.
Loss of control			
B97 A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the parent should account for the multiple arrangements as a single	Paragraphs B97–B99 are sector neutral and can be applied by a NFP entity. Aus paragraphs are not required.	Same requirements in paragraphs 33–35 of AASB 127.	Not addressed in IPSAS 6. Paragraph 51 of IPSAS 6 addresses only the recognition of a gain or loss on disposal of a controlled entity.

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
<p>transaction:</p> <ul style="list-style-type: none"> (a) They are entered into at the same time or in contemplation of each other. (b) They form a single transaction designed to achieve an overall commercial effect. (c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement. (d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when a disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market. 			
<p>B98 If a parent loses control of a subsidiary, it shall:</p> <ul style="list-style-type: none"> (a) derecognise: <ul style="list-style-type: none"> (i) the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost; and (ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them). (b) recognise: <ul style="list-style-type: none"> (i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; (ii) if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution; and (iii) any investment retained in the former subsidiary at its fair value at the date when control is lost. (c) reclassify to profit or loss, or transfer directly to retained earnings if required by other Standards, the amounts recognised in other comprehensive income in relation to the subsidiary on the basis described in paragraph B99. (d) recognise any resulting difference as a gain or loss in profit or 			

AASB 10 paragraph	Issues related to NFP entities – staff view	Old AASB 127 Aus para	IPSAS 6 paragraph
loss attributable to the parent.			
<p>B99 If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.</p>			