

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

Summary of the Suggested Aus Paragraphs for AASB 10

Objective

This agenda paper should be read in conjunction with Agenda Paper 5.2 – Paragraph-by-paragraph analysis of AASB 10. It provides a summary of the nineteen Aus paragraphs and two Aus examples suggested by staff – to help readers locate the detailed paragraphs in Agenda Paper 5.2 and also to give an overview of the suggested Aus paragraphs.

All of the suggested Aus paragraphs apply to all NFP entities, whether in the public sector or the private sector. The source of the suggested Aus paragraphs is also indicated – some paragraphs are new, rather than being drawn from the superseded AASB 127 or from IPSAS 6.

Aus Paragraphs in the Standard

Scope

Paragraph Aus4.3 (see page 3 of Agenda Paper 5.2) – the parent in a group that is a reporting entity may not be explicitly identified, however consolidated financial statements are required to be presented.

[source – paragraph Aus9.1 of the superseded AASB 127]

Paragraph Aus4.4 (page 4) – the terms used in AASB 10 are suitable for profit-oriented entities. When a NFP entity applies AASB 10, the terms investor, investee, returns and variable returns are to be read as outlined in subparagraphs (a) to (c).

[source – new paragraph]

Control

Paragraph Aus7.1 (page 5) – investor's power to require investee's assets (or liabilities) to be deployed towards achieving the investor's objectives = control. An example is provided.

[source – paragraph Aus17.8, first sentence, and Aus17.8(b) of AASB 127]

Paragraph Aus7.2 (page 5) – an investor may not have the power outlined in paragraph Aus7.1 if there are restrictions on the investee's actions.

[source – paragraph Aus17.7 of AASB 127]

Power

Paragraph Aus11.1 (page 6) – power may be obtained by an investor from statutory or other arrangements. However, those arrangements could be in the nature of protective rights.

[source – new paragraph]

Returns

Paragraph Aus15.1 (page 8) – exposure or rights to variable returns are evident when an investor has the right to residual assets or exposure to the residual liabilities of the investee.

[source – paragraph Aus17.4 of AASB 127]

Paragraph Aus16.1 (page 9) – an investor may receive returns from an investee indirectly, such as the provision of goods and services by the investee to its beneficiaries.
[source – new paragraph]

Aus Paragraphs in Appendix B – Application Guidance

Control

Power

Paragraph AusB9.1 (page 15) – an investor will usually have power over an entity that it establishes when the constituting document specifies the operating and financing activities necessary to enable the entity to work with the investor in achieving the investor’s objectives. However, the constituting document or other circumstances may assign the power to other entities, e.g. a marketing board.
[source – paragraphs Aus17.6 and Aus17.3(f) of AASB 127]

Paragraph AusB10.1 (page 16) – an investor may not hold power over an investee due to the rights of other parties. Examples of entities financially dependent on government funding and local governments – not controlled by the government if the entities maintain discretion over their deployment of assets.
[source – paragraph Aus17.9 of AASB 127]

Relevant activities and direction of relevant activities

Example Aus1.1 (page 20) – provides an example of determining who controls an investee when two investors (a Minister and a department) have the ability to direct the relevant activities of an investee (a statutory authority).
[source – new paragraph]

Rights that give an investor power over an investee

Paragraph AusB15.1 (page 21) – examples of rights giving power to a NFP entity: (a) rights to give policy directions; (b) rights to approve budgets of investee; (c) rights to appoint the governing body (unless legislative action would be required or restricted rights).
[source – (a) new; (b) and (c) paragraph Aus17.3 of AASB 127]

Paragraph AusB15.2 (page 23) – power over an investee may exist even in the absence of being responsible for the day-to-day management of the operations of the investee.
[source – paragraph Aus17.10 of AASB 127]

Paragraph AusB19.1 (page 25) – an indicator of power includes the investee being accountable to the investor. An example is provided of the requirement to submit reports to the investor, such as financial statements.
[source – paragraphs Aus17.2(a) and Aus17.3(e) of AASB 127]

Substantive rights

Paragraph AusB23.1 (page 28) – political barriers are a factor to consider in determining whether rights are substantive. An example is provided.
[source – paragraph 32 from IPSAS 6]

Example Aus3.1 (page 29) – provides a public sector example of the determination of whether rights are substantive rights although not currently exercisable.
[source – new paragraph]

Protective rights

Paragraph AusB26.1 (page 30) – protective rights may be in the form of regulatory powers, which don't constitute control.
[source – paragraph Aus17.9(d) of AASB 127 and paragraph 37 of IPSAS 6]

Paragraph AusB27.1 (page 32) – protective rights may be held to protect the interests of the public or the beneficiaries of the entity, rather than of the entity itself.
[source – new paragraph]

Paragraph AusB28.1 (page 33) – examples of protective rights: (a) right to close activities of an entity for environmental breaches; (b) right to remove governing body in restricted circumstances (e.g. lack of probity); (c) right to remove deductible gift recipient status; (d) grantor requiring restriction on asset distribution if recipient liquidated.
[sources – (a) paragraph 37 of IPSAS 6; (b) paragraph Aus17.3(d) of AASB 127; (c) new; (d) new]

Exposure, or rights, to variable returns from an investee

Paragraph AusB57.1 (page 43) – examples of returns to NFP entities: (a) financial benefits as in paragraph B57; (b) non-financial benefits, e.g. ability to direct investee to work to achieve the investor's objectives.
[source – paragraph 29 of IPSAS 6]

Link between power and returns

Delegated power

Paragraph AusB60.1 (page 45) – addresses the distinction between agents, investors and investees and provides two NFP examples: a government department, and a charitable trust.
[source – new paragraph]

Paragraph AusB61.1 (page 45) – an investor shall not be identified as an agent of its parent entity merely because the investor is controlled by the parent entity. An agent's decision-making rights are likely to be limited through agreement. Example: a government department may manage government interests in investees as a principal, and therefore may control the investees.
[source – new paragraph]