

ISSUES PAPER

IMPLEMENTATION GUIDANCE FOR NFP ENTITIES RE AASB 10

This Issues Paper has been prepared by AASB staff to identify sweep issues that should be addressed by the AASB prior to finalising its planned Exposure Draft of Australian implementation guidance to assist not-for-profit (NFP) entities to apply Accounting Standard AASB 10 *Consolidated Financial Statements*.

Issue 1 Economic Dependence

Paragraph B40 of AASB 10 states that the economic dependence of the investee upon the investor is insufficient to give the investor power over the investee, in the absence of other rights. This is illustrated in paragraph IG10 in the draft implementation guidance ED, in terms of private sector entities that are financially dependent on government funding but which retain discretion over accepting resources from the government or the manner in which the resources are to be deployed.

It might be useful to add a further example here, to address circumstances where the government holds the position that it would either continue to fund the private sector entity to prevent its failure (perhaps with greater conditions on its future funding) or alternatively would aim to carry on the activities funded were the private sector entity to fail. On the surface this might appear to represent a case of control by the government. However, in the absence of specific rights to direct the entity when it is in a dire financial position or to take over and operate the funded activities, the government would still appear not to control the entity. The government's voluntary assumption of residual risks that give it no ability to direct the relevant activities of the entity does not amount to power over the entity, and thus the control definition would not be satisfied.

Question for the Board

Q1 Do members support including a further example on economic dependence in the ED? If so, do members agree with this example?

Issue 2 Nature of Returns

Paragraphs IG16 and IG17 in the draft implementation guidance ED note the broad nature of returns as specified in paragraph B57 of AASB 10. They illustrate non-financial and indirect benefits by reference to the achievement or furtherance of the investor's objectives, which may be affected by the provision of goods and services to by the investee to its beneficiaries.

The IPSASB draft ED proposes a new definition of "benefits", given its proposal to replace the term 'returns' with 'benefits'. The draft definition incorporates reference to non-financial benefits including advantages arising from scarce resources that are not measured in financial terms and economic benefits received directly by service recipients of the entity.

The IPSASB draft ED also includes a more explicit list of potential non-financial returns: (a) improved outcomes, (b) more efficient delivery of outcomes, (c) more efficient or effective production of and delivery of goods and services, (d) having an asset and related services available earlier than would otherwise be the case, and (e) having a higher level of service quality than otherwise.

The draft implementation guidance ED is fairly limited in its description of non-financial and indirect benefits, and staff suggest that the examples in the IPSASB draft ED could be included in paragraph IG17.

Question for the Board

- Q2 Do members agree that the examples of non-financial and indirect benefits should be extended along the lines noted in the draft IPSASB ED?

Issue 3 Potential IPSASB Departures from IFRS 10

The draft IPSASB ED is likely to (or may) incorporate the following departures from the requirements in IFRS 10:

- (a) a more limited exclusion from the requirement to prepare consolidated financial statements for wholly owned and partly owned subsidiaries – the information needs of users of their financial statements would be met by the controlling entity's consolidated financial statements;
- (b) temporarily controlled entities (presently excluded from consolidation under IPSAS 6) might be equity accounted in the consolidated financial statements rather than consolidated;
- (c) the paragraphs on franchises would be deleted; and
- (d) the three-month limit on differences between the reporting dates of the parent and subsidiaries would be deleted, so that no limit was specified.

Staff do not recommend these amendments for application of AASB 10 to the NFP sector.

Question for the Board

- Q3 Do members agree that these departures should not be introduced to AASB 10?

Issue 4 Comment Period and Deadline for Submissions on the Exposure Draft

The proposed timetable included in the memorandum to Board members (agenda paper 16.1) specifies a closing date of 30 June 2013 for submissions on the ED. Assuming that the ED is issued by the end of March, this allows a comment period of three months. The Board will then need to consider the submissions received to address the comments and decide on any amendments to the proposed Australian implementation guidance.

NFP entities are required to apply AASB 10 for reporting periods beginning on or after 1 January 2014, so the implementation guidance should be completed as early as possible prior to that date.

Question for the Board

- Q4 Do members agree that the comment period for the ED should be at least three months, with a comment deadline of 30 June 2013?

Issue 5 Other Issues concerning AASB 10?

Do Board members have any other issues arising from their review of the draft ED that in their view should be discussed at the Board meeting?

Question for the Board

Q5 Are there any other issues that members consider should be addressed?

Issue 6 Structured Entities (AASB 12)

In developing an ED concerning IFRS 12 *Disclosure of Interests in Other Entities*, the IPSASB has made a tentative decision that the concept of a structured entity, as defined in IFRS 12, is not appropriate for the public sector. The definition, from AASB 12, is as follows:

“An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.”

The IPSASB’s concern appears to be that this definition may cover many entities in the public sector, and not only the “special purpose” type entities for which information about the nature of risks associated with interests in them might be particularly useful. Paragraphs B22-B24 of AASB 12 provide further information, including identifying securitisation vehicles, asset-backed financings and “some investment funds” as examples of structured entities. The IPSASB is likely to consider whether to propose in its ED re IFRS 12 that the definition of structured entities should be limited in some way for application in the public sector.

The term “structured entity” does not appear in AASB 10, so this is not an issue concerning the draft implementation guidance for AASB 10. However, AASB 12 also applies to NFP entities for reporting periods beginning on or after 1 January 2014. Any amendment of AASB 12 in respect of this matter could be the subject of another ED, rather than trying to include the matter in the present ED. The IPSASB is planning to approve its ED in June this year.

Question for the Board

Q6 Do members have views on the appropriateness of the definition of structured entities for the public sector? Is this an issue for further consideration in respect of another ED?