

AASB Exposure Draft

ED 238
March 2013

Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities

Comments to the AASB by 30 June 2013



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 30 June 2013. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@asb.gov.au

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

This Exposure Draft is available on the AASB website: www.asb.gov.au. Alternatively, printed copies of this Exposure Draft are available by contacting:

The Customer Service Officer	Phone: (03) 9617 7637
Australian Accounting Standards Board	Fax: (03) 9617 7608
Level 7	E-mail: publications@asb.gov.au
600 Bourke Street	Postal address:
Melbourne Victoria	PO Box 204
AUSTRALIA	Collins Street West Victoria 8007

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@asb.gov.au

COPYRIGHT

© Commonwealth of Australia 2013

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission. Requests and enquiries concerning reproduction and rights should be addressed to The Director of Finance and Administration, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

ISSN 1030-5882

CONTENTS

PREFACE

[DRAFT] ACCOUNTING STANDARD
AASB 2013-X CONSOLIDATED FINANCIAL STATEMENTS –
AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-
PROFIT ENTITIES

	<i>Paragraphs</i>
Objective	1
Application	2 – 6
Amendments to AASB 10	7 – 8
Amendments to AASB 12	9 – 10
Amendments to AASB 1049	11 – 13

[DRAFT] BASIS FOR CONCLUSIONS ON AASB 2013-X	<i>Page 37</i>
--	----------------

[Draft] Australian Accounting Standard AASB 2013-X *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities* is set out in paragraphs 1 – 13. All the paragraphs have equal authority.

PREFACE

Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition, measurement and presentation requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian

Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Reasons for Issuing this Exposure Draft

AASB 10 *Consolidated Financial Statements* incorporates International Financial Reporting Standard IFRS 10 *Consolidated Financial Statements*, issued by the International Accounting Standards Board. Consequently, the text of the body of AASB 10 and Appendices A–C is expressed from the perspective of for-profit entities in the private sector.

The AASB has issued this Exposure Draft to propose adding an appendix to AASB 10 to explain and illustrate how the principles in the Standard apply from the perspective of not-for-profit entities in the private and public sectors, particularly to address circumstances where a for-profit perspective does not readily translate to a not-for-profit perspective.

The proposed appendix would not apply to for-profit entities or affect their application of AASB 10.

Similarly, the Exposure Draft also proposes to add an Appendix to AASB 12 *Disclosure of Interests in Other Entities*, particularly in relation to 'structured entities'.

Consequential and related amendments are also proposed for AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Main Features of this Exposure Draft

This Exposure Draft proposes amendments to AASB 10, AASB 12 and AASB 1049 in the form of a draft amending Standard.

AASB 10

The amendments to AASB 10 would:

- (a) add Appendix E *Australian Implementation Guidance for Not-for-Profit Entities*, as an integral part of the Standard. The Appendix would explain various principles in the Standard regarding the criteria for determining whether one entity controls another entity from the perspective of not-for-profit entities, and illustrate the principles with a small number of detailed examples; and
- (b) add one Aus paragraph to the body of the Standard as a signpost to the Appendix.

The proposed Appendix E covers aspects of the three criteria set out in paragraph 7 of AASB 10 for control of an investee by an investor: power over the investee, returns to the investor, and the link between power and returns. The basic terms ‘investor’ and ‘investee’ in the Standard are explained in the Appendix as merely entities that have a relationship in which control of one entity (the investee) by the other (the investor) might arise.

As this explanation of the basic terms shows, the ED does not seek to replace or revise the terminology used in the Standard, but to explain its application in the not-for-profit private and public sectors. Nor does the ED amend or deviate from the principles underlying AASB 10.

AASB 12

The ED proposes amendment of AASB 12 to add Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* as an integral part of that Standard. This Appendix would seek to explain the application of the definition of ‘structured entity’ by not-for-profit entities.

AASB 1049

The proposed amending Standard would amend AASB 1049 to replace references to the superseded AASB 127 *Consolidated and Separate Financial Statements* with references to AASB 10 or AASB 12. In addition, AASB 1049 would be amended so that General Government Sector financial statements would not be required to comply with the disclosure requirements of AASB 12.

Application Date

It is proposed that the amendments would apply to annual reporting periods beginning on or after 1 January 2014, with early application permitted for not-for-profit entities for annual reporting periods beginning on or after 1 January 2013 but before 1 January 2014. These dates are the same as for the application of AASB 10 and AASB 12 to not-for-profit entities, as amended by AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*.

GAAP/GFS Implications

The application of AASB 10 may result in changes as to which entities are consolidated in whole of government and General Government Sector (GGS) financial statements. However, the proposed implementation guidance of itself would not be expected to affect the comparability of the scope of the public sector between financial statements and statistical reports prepared under the Australian Bureau of Statistics (ABS) publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods* (the ABS GFS Manual). For example, although GFS reporting excludes non-resident institutional units, this type of difference would not be affected by the proposed implementation guidance.

The definitions of control in AASB 10 and in the ABS GFS Manual are in general very similar, although there are some differences. The international GFS Manual is presently subject to revision through a due process, with the revised definition and indicators of control likely to be more consistent with the definition of control in AASB 10, although some differences of detail may remain. Changes to the international GFS Manual are likely to be reflected in the ABS GFS Manual in due course.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 30 June 2013. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the major issues. The AASB regards supportive and critical comments as essential to a balanced review of the issues and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on the following:

- 1 whether Australian implementation guidance for not-for-profit (NFP) entities should be added to AASB 10 and AASB 12 and, if so, whether it should, as proposed, be authoritative (ie “integral” to the Standard) or non-authoritative material;
- 2 whether the proposed implementation guidance appropriately explains the definition of ‘control’ in AASB 10 for application by NFP entities, including the following aspects:
 - (a) the broad nature of returns from a controlled NFP entity, including non-financial and indirect benefits (paragraphs IG16 and IG17); and
 - (b) the four detailed sets of implementation examples in the proposed Appendix E for AASB 10;
- 3 whether the proposed implementation guidance appropriately explains the definition of ‘structured entity’ in AASB 12 for application by NFP entities;
- 4 whether it is appropriate to exclude all disclosure requirements in AASB 12 in respect of GGS financial statements (see the proposed amendments to AASB 1049 set out in the ED);
- 5 whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including GFS harmonisation issues;
- 6 whether, overall, the proposals would result in financial statements that would be useful to users;
- 7 whether the proposals are in the best interests of the Australian economy; and
- 8 unless already provided in response to the above specific matters for comment, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

EXPOSURE DRAFT ED 238

ACCOUNTING STANDARD AASB 2013-X *CONSOLIDATED FINANCIAL STATEMENTS – AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES*

Objective

- 1 The objective of this Standard is to add authoritative implementation guidance to Accounting Standards AASB 10 *Consolidated Financial Statements* and AASB 12 *Disclosure of Interests in Other Entities* for application by not-for-profit private sector and public sector entities, and to make related amendments to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Application

- 2 Subject to paragraph 3, this Standard applies to:
 - (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* 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.
- 3 In respect of AASB 1049, this Standard applies to each government's whole of government general purpose financial statements and General Government Sector financial statements.
- 4 This Standard applies to annual reporting periods beginning on or after 1 January 2014.
- 5 This Standard may be applied by not-for-profit entities to annual reporting periods beginning on or after 1 January 2013 but before 1 January 2014, provided that AASB 10 and AASB 12 are also applied to the same period. If an entity applies this Standard to such an annual reporting period, it shall disclose that fact.

- 6 **This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.**

Amendments to AASB 10

- 7 Paragraph Aus3.6 is added as follows:

Aus3.6 Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* explains and illustrates the principles in the Standard from the perspective of not-for-profit entities in the private and public sectors, particularly in circumstances where the for-profit perspective reflected in the body of the Standard and the other appendices does not readily translate to a not-for-profit perspective.

- 8 Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* is added as set out below (see page 12).

Amendments to AASB 12

- 9 Paragraph Aus5.1 is added as follows:

Aus5.1 Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* explains and illustrates the definition of ‘structured entity’ from the perspective of not-for-profit entities in the private and public sectors, since the for-profit perspective reflected in the definition does not readily translate to a not-for-profit perspective.

- 10 Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* is added as set out below (see page 34).

Amendments to AASB 1049

- 11 In paragraph 10 and the definition of ‘whole of government general purpose financial statements’ in Appendix A, and in the Illustrative Examples accompanying AASB 1049, the references to AASB 127 *Consolidated and Separate Financial Statements* are amended to AASB 10 *Consolidated Financial Statements*.
- 12 In paragraphs 19 and 42(b)(i), ‘AASB 127’ is amended to ‘AASB 10’.

- 13 Paragraph 45 is amended as follows (new text is underlined and deleted text is struck through):
- 45 The GGS is not subject to the disclosures required by ~~paragraphs 41, 42, 43 and Aus43.1 of AASB 127 relating to investments in subsidiaries, jointly controlled entities and associates~~ AASB 12 *Disclosure of Interests in Other Entities*. The requirements in ~~those paragraphs~~ AASB 12 are either addressed elsewhere in this Standard or are not significant for GGS financial reporting.

APPENDIX E [for AASB 10]

AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES

This appendix is an integral part of AASB 10 and has the same authority as the other parts of the Standard. The appendix applies only to not-for-profit entities.

- IG1 AASB 10 incorporates International Financial Reporting Standard IFRS 10 *Consolidated Financial Statements*, issued by the International Accounting Standards Board. Consequently, much of the text of the body of this Standard and Appendices A–C is expressed from the perspective of for-profit entities in the private sector. The AASB has prepared this appendix to explain and illustrate the principles in the Standard from the perspective of not-for-profit entities in the private and public sectors, particularly to address circumstances where a for-profit perspective does not readily translate to a not-for-profit perspective. The appendix does not apply to for-profit entities or affect their application of AASB 10.
- IG2 This appendix addresses a range of matters affecting not-for-profit entities broadly in the order in which the related paragraphs appear in the body of the Standard and in Appendix B. The appendix paragraphs are arranged under the same headings as in the body of the Standard or Appendix B. Cross-references to the paragraphs in the body of the Standard and to the other appendices are included to assist in relating the paragraphs in this appendix to the requirements of the Standard. A number of illustrative examples are also provided.

Control

- IG3 Paragraph 5 of AASB 10 sets out the fundamental requirement that an investor shall determine whether it controls an investee. As indicated by the reference in paragraph 11 to assessing power arising from contractual arrangements, the investor need not have a financial investment in the investee. In general terms, an investor and an investee are merely entities that have a relationship in which control of one entity (the investee) by the other (the investor) might arise.

Power

- IG4 One of the criteria set out in paragraph 7 for control of an investee is that the investor has power over the investee. Paragraph 10 states that an investor has power over an investee when the investor has

existing rights that give it the current ability to direct the relevant activities, that is, the activities that significantly affect the investee's returns. As an example, a not-for-profit investor would have power over an investee when the investor can require the investee to deploy its assets or incur liabilities in a way that affects the returns to the investee (for example, in providing goods or services to the investor or other parties that assist in achieving or furthering the investee's objectives).

- IG5 Paragraph 11 states that power arises from rights, and refers to voting rights granted by equity instruments and rights arising from contractual arrangements. For many not-for-profit entities, rights may also arise from existing statutory arrangements. As an example of contractual or statutory arrangements, a not-for-profit investor often will have power over an investee that it has established when the constituting document or enabling legislation specifies the investor's rights to direct the operating and financing activities that may be carried out by the investee. However, the impact of the constituting document or legislation is evaluated in the context of other prevailing circumstances, as all facts and circumstances need to be considered in assessing whether an investor has power over an investee. For example, the purpose and design of an investee may point to the relevant activities of the investee and how decisions about the relevant activities are made. To illustrate, a government may not have power over a research and development corporation that operates under a mandate created, and limited, by legislation if that or other legislation means that the power to direct the relevant activities is held by other entities that are not controlled by the government, such as participants in the research and development activities.
- IG6 The research and development corporation example in the previous paragraph illustrates that an investor might not have power over an investee due to the rights of other parties in relation to the investee, as indicated in paragraph B10. As another example, subject to consideration of all the facts and circumstances, a State government normally would not have power to direct the relevant activities (ie the activities that significantly affect the returns) of a local government that determines through the council elected periodically by the local community how to deploy its resources in the interests of the local community (even though those interests might coincide with the interests of the State government).

Rights that give an investor power over an investee

- IG7 Paragraph B15 provides examples of rights that, either individually or in combination, can give an investor power over an investee. In

relation to not-for-profit investors, additional examples of such rights include:

- (a) rights to give policy directions to the governing body of an investee that give the holder the ability to direct the relevant activities of the investee; and
- (b) rights to approve or veto operating and capital budgets relating to the relevant activities of an investee.

IG8 As a further example, a not-for-profit 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 prescribed functions are performed by the investee. For example, legislation governing the establishment and operation of an independent statutory office (such as that of an auditor-general or the judiciary) sets out the broad parameters within which the office is required to operate, and results in the office operating in a manner consistent with the objectives set by parliament. The parliament, under current legislation, may hold rights to appoint, reassign or remove key management personnel and to modify the prescribed functions of the office, which would be likely to give the parliament the current ability to direct the relevant activities of the office (those that significantly affect the office's returns). Therefore, subject to other facts and circumstances, if the other control criteria are also satisfied, the independent statutory office would be consolidated into the whole of government general purpose financial statements.

Implementation examples
<p>Example IG1</p> <p>A religious organisation ABC establishes a community housing program that provides low-cost housing. The program is operated under an agreement with an incorporated association. The association's only activity is to manage the community housing facility. The association has no equity instruments.</p> <p>The board of governors of the association has 16 members, with eight appointed by (and subject to removal by) the religious organisation. By tradition, the chair is appointed by the board from amongst the appointees of the religious organisation, and has a casting vote that is rarely exercised.</p> <p>The religious organisation owns the land on which the housing facilities stand and has contributed capital and operating funds to</p>

the association over the life of the facilities. The association owns the housing facilities.

The association retains any surplus resulting from the operation of the facilities and under its constitution is unable to provide a financial return to the religious organisation.

Example IG1A

Based on the facts and circumstances outlined above, the religious organisation controls the association. The religious organisation has rights that give it the current ability to direct the relevant activities of the association, regardless of whether the religious organisation chooses to exercise those rights.

The religious organisation also has rights to variable returns from its involvement with the association. Even though the religious organisation has never received (and cannot receive) a financial return, the religious organisation is obtaining returns through the association furthering its social objective of providing low-cost community housing. In addition, the religious organisation has the ability to use its powers over the composition of the board of governors of the association to affect the amount of its returns.

Example IG1B

In this example, the facts of Example IG1 apply, except that:

- the association's board of governors is elected through a public nomination and voting process that does not give power to the religious organisation to appoint board members; and
- decisions made by the association's board are reviewed by the religious organisation but it is unable to replace board members as a form of veto.

Based on the revised facts and circumstances outlined above, the religious organisation does not hold sufficient power over the association to direct its relevant activities and therefore does not control the association.

The religious organisation may still consider that it receives indirect, non-financial returns from the association in that the religious organisation's social objectives in relation to low-cost community housing are being furthered by the activities of the association. However, congruence of objectives alone is

insufficient to conclude that one entity controls another (see paragraph IG18).

- IG9 Paragraph B19 lists a range of indicators that an investor has more than a passive interest in an investee, but notes that the existence of such indicators does not necessarily mean that the power criterion is met. The indicators listed include the investee's operations being dependent on the investor, such as dependence on the investor to fund a significant portion of its operations, guarantee a significant portion of its obligations or provide critical goods or services. Paragraph B40 also states that, in the absence of other rights, the economic dependence of an investee on the investor does not lead to the investor having power over the investee.
- IG10 An example of the circumstances contemplated in paragraphs B19 and B40 is that a government may not have the current ability to direct the relevant activities of 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 have discretion with respect to whether they will accept resources from the government, or the manner in which their resources are to be deployed. This may be so even if government grants provided to such entities require them to comply with specified conditions. Although these entities might receive government grants for capital construction and operating costs subject to specified service standards or restrictions on user fees, their independent governing body may have ultimate discretion about how assets are deployed.

Substantive rights

- IG11 Barriers that prevent a holder of rights from exercising them are considered in determining whether the rights are substantive, that is, whether the holder has the practical ability to exercise the rights (paragraph B22). Paragraph B23 provides examples of barriers. For some not-for-profit investors, political, cultural, social or similar types of barriers might make it difficult for the investor to exercise rights held in relation to an investee. However, the investor's rights would be substantive, despite such barriers, if the investor can still choose to exercise those 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 but may be reluctant to remove members because of sensitivity in the electorate regarding the previous government's involvement in the operation of the rail

network. In this case, the government has substantive rights, irrespective of whether it chooses to exercise them.

- IG12 Paragraph B24 states that to be substantive, rights need to be exercisable when decisions about the direction of the relevant activities need to be made. Usually this means that the rights need to be currently exercisable, however paragraph B24 also notes that sometimes rights can be substantive even though they are not currently exercisable. For many not-for-profit investors, power over an investee may be obtained from existing statutory arrangements. Neither the power to enact or change legislation nor rights specified in merely substantively enacted legislation give the investor the current ability to direct relevant activities of the investee. Furthermore, depending on circumstances, statutory arrangements may be in the nature of protective rights rather than substantive rights – see the following paragraphs.

Protective rights

- IG13 Protective rights are defined in Appendix A as 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. Applying this principle to not-for-profit entities, protective rights include rights held by a government or other entity in order to protect, as distinct from enhance, the interests of the government, the beneficiaries of an entity or the public at large. In accordance with paragraph B27, such rights do not result in the investor (the government or other entity) having power over an investee or restricting another entity from having power over the investee.
- IG14 Not-for-profit entities might hold regulatory powers that restrict the way in which regulated entities operate. The regulatory powers may be exercisable through an established framework within which entities are required to operate, including the ability to impose conditions or sanctions on their operations. Regulatory powers may represent protective rights, which do not give power over an investee, or substantive rights that need to be considered in determining control. For example, regulatory powers may represent substantive rights when they would have the effect of giving the regulator the ability to direct the relevant activities of an investee in particular circumstances. Not-for-profit investors are required by paragraph B26 to assess whether their rights (and rights held by others) are protective or substantive rights.
- IG15 In addition to the examples in paragraph B28, examples of protective rights in relation to not-for-profit entities include:

- (a) the right of a regulator 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.
- (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.
- (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.
- (d) a philanthropic trust providing resources to a charity on condition that the net assets of the charity would be distributed to a similar organisation undertaking similar activities if the charity is liquidated. (However, if the trust had the power to determine specifically to where the charity's net assets would be distributed upon liquidation, the trust would have substantive rights in relation to the charity's activities in those circumstances – see paragraph B13.)

Returns

Exposure, or rights, to variable returns from an investee

- IG16 One of the criteria set out in paragraph 7 for control of an investee is that the investor has exposure, or rights, to variable returns from its involvement with the investee. The examples of returns in paragraph B57, particularly those in paragraph B57(c), indicate that the scope of the nature of returns is broad. In application to not-for-profit entities, the broad scope of the nature of returns encompasses financial, non-financial, direct and indirect benefits, whether positive or negative, including the achievement or furtherance of the investor's objectives.
- IG17 An investor's exposure, or rights, to variable returns from its involvement with an investee may give rise to indirect, non-financial returns, such as when achieving or furthering the objectives of the investee contributes to the objectives of the investor. For example, the provision of goods and services by the investee to its beneficiaries may affect the extent to which the investor's social policy objectives are furthered. These returns to the investor would also reflect factors

such as the efficiency and effectiveness of delivery of the goods and services and changes in the outcomes for the beneficiaries.

Link between power and returns

IG18 The third criterion set out in paragraph 7 for control of an investee is that the investor has the ability to use its power over the investee to affect the amount of the investor's returns. As an example, the investor would have the ability to use its power over the investee when it can direct the investee to work with the investor to further the investor's objectives. However, the existence of congruent objectives alone is insufficient for a not-for-profit investor to conclude that it controls an investee.

Implementation example

Example IG2

The LMN local government (the Council) is created under a State's Local Government Act to operate for the peace, order and good government of its municipal district. The Council is administered by the councillors, who are elected directly by the local community in periodic elections. General requirements for the elections are set out in the Act.

Objectives of the Council

The Act specifies that the Council's primary objective is to achieve the best outcomes for the local community over the long term. In working to achieve this objective, the Council must have regard to:

- promoting the social, economic and environmental viability and sustainability of the municipal district;
- ensuring that resources are used efficiently and effectively and that services provided are accessible and equitable;
- the equitable imposition of rates and charges; and
- transparency and accountability in Council decision making.

Powers and Functions of the Council

The Council is empowered by the Act to do all things necessary and convenient for the achievement of its objectives and the performance of its functions, subject to any limitations under the Act or any other legislation (see the sections on the State

Government's protective and substantive rights later in this example).

The Council's functions include:

- raising revenue to fund its functions and activities;
- planning for and providing services and facilities (including infrastructure) for the local community;
- strategic and land-use planning;
- making and enforcing local laws; and
- advocating proposals that are in the best interests of the district.

Activities and Returns of the Council

In carrying out its functions, the Council undertakes a wide range of activities, including the employment of staff, the imposition of rates and charges upon constituents, the establishment and implementation of policies and procedures, the purchase or sale of goods or services from or to constituents or other parties, the provision without charge of services such as parks and roads, transactions under financial contracts and prosecuting legal actions.

All of these activities contribute in some way (positive or negative) to the Council achieving or furthering its objectives. Thus they are activities that affect the returns of the Council, both in terms of financial and non-financial returns.

State Government Involvement with the Council

The State Government's objectives for the government of the municipal district are consistent with the objectives of the Council, having set those out in legislation that it has enacted.

Consequently, the Council is subject to a wide range of State Government regulatory powers, even though its day-to-day operations are carried out by the Council's staff under the direction of its elected councillors. The State Government's rights in respect of the Council are held primarily by the Minister for Local Government, but other Ministers also hold some additional powers, such as land-use planning powers held by the Minister for Planning.

The interest of the State Government in the activities of the Council is to ensure that the general objectives set out in the Act are being achieved or furthered. To that end, the State Government has an

extensive range of rights (through its Ministers) to advise or guide the Council in its activities or, under particular circumstances, to intervene in the activities of the Council. The principal rights of the State Government are described in the following sections.

Protective rights of the State Government

Some of the State Government's rights are protective rights, as described in paragraph B26: rights that relate to fundamental changes to the activities of the Council (the investee) or that apply in exceptional circumstances. For example, the Minister has the following rights:

- restructure the Council through boundary changes or the abolition of the Council and the constitution of a new Council or Councils, with the Minister able to direct the transfer of property, income, assets, rights, liabilities, expenses and staff among Councils as part of the process;
- appoint inspectors of municipal administration or other inquiries to examine any Council matter and make recommendations to the Council, and enforce those recommendations if the Council does not adopt them;
- veto local laws passed by the Council where the laws substantially restrict competition without appropriate justification in the Minister's opinion; and
- suspend all the councillors of the Council if the Minister is satisfied that there has been a serious failure to provide good government or serious unlawful acts by the Council – in which case an administrator is appointed to act as the Council and to perform its functions, powers and duties.

Substantive rights of the State Government

The State Government also has many rights that do not or may not fall into the category of protective rights, depending on their significance. They are substantive rights if they do not relate to fundamental changes or exceptional circumstances. For example, Ministers have the following rights that, for the purpose of this example, are classified as substantive rights:

- make guidelines concerning the Council's procurement policy or the provision of services by the Council so as to best meet the needs of the local community;
- review the allowance category annually for the Council,

including the limits and ranges of councillor allowances;

- approve (or veto) investment by the Council in types of financial instruments not already approved under the Act;
- approve (or veto) Council entering into an entrepreneurial endeavour that exceeds 5% of the Council's revenue from rates and charges;
- give directions concerning rates and charges so as to limit the Council's general income for a financial year; and
- prepare a planning scheme for the district or authorise an amendment subject to any conditions that the Minister wishes to impose.

Control of the Council

Based on the facts and circumstances outlined above, does the State Government control the Council in accordance with the definition of control in the Standard? If not, who controls the Council?

Power

The State Government has numerous rights in relation to the Council. Whereas the protective rights do not provide power that could give the State Government control over the Council, the substantive rights do give the State Government the current ability to direct certain activities of the Council.

However, paragraph 10 of the Standard states that an investor has power over an investee when the investor has the current ability to direct the *relevant activities*, ie the activities that *significantly affect* the investee's returns (both financial and non-financial, such as services to constituents). Paragraph B10 also states that whether an investor has power depends on, for example, the rights the investor and other parties have in relation to the investee.

Although the State Government can direct certain activities of the Council, it is unable to direct the activities that *significantly affect* the Council's returns. Therefore, the State Government does not hold power over the Council as described in the Standard. The power to direct the relevant activities is held by the councillors of the Council, who direct, within the framework established by the State Government, the preponderance of the Council's activities that affect the returns from its operations.

To illustrate, if the Minister had approved the Council entering into

an entrepreneurial endeavour that provides revenue equal to 15% of the revenue from rates and charges, that means that the Council has itself directed activities that provide over 85% of the Council's total revenue. Even if the Minister gives directions to limit the Council's rates and charges, in this example those directions are assumed not to have a major effect – the Minister does not direct the raising of all of the rates and charges. Furthermore, the Council determines how the total rates and charges are to be divided across different categories of constituents, such as residential, industrial and farming ratepayers, or across different areas of the district. That allocation can contribute significantly to the Council's objectives, which are a key part of the returns of the Council.

Returns

The State Government is exposed, or has rights, to variable returns from its involvement with the Council since the activities of the Council contribute to the achievement or furtherance of the State Government's objectives for the good government and appropriate development of the municipal district.

Ability to use power to affect returns

Since it was concluded above that in the circumstances presented the State Government does not have power (as described in the Standard) over the Council, then the third control criterion linking power and returns is also not satisfied. The State Government is able to affect the returns of the Council, and thus its own indirect returns, through exercising its substantive rights. For example, the Minister can issue guidelines to improve the responsiveness of the Council's services to the needs of the community or can approve Council investment in different types of financial instruments. However, the State Government is unable to direct the relevant activities, that is, the activities that significantly affect the Council's returns.

Control conclusion

The conclusion from the above assessment is that the State Government does not have power over the Council and therefore does not control the Council.

Indeed, there is no investor that controls the Council. The councillors as a group are not investors as contemplated by the Standard. They are akin to the board of directors of a company, that is, the councillors are a part of the Council itself. In this case,

the Council would not be consolidated by any other entity.

Alternative Outcome

The distinction between protective and substantive rights and the significance of the substantive rights to the returns of the Council are matters for judgement in view of all the facts and circumstances in any particular situation. A different list or classification of substantive rights to that presented in this example might change the conclusion on control of the Council.

Implementation examples

Example IG3

XYZ University was established under an Act of the State. The University receives approximately 40% of its total revenue in the form of grants for various purposes, comprising 30% from the Australian Government and 10% from the State Government. The University is required by the Act to submit an annual report to the State Minister for Education.

Objectives of the University

The Act specifies that the University's objects include:

- to provide higher education at an international standard;
- to undertake scholarship and research to the advancement of knowledge and the benefit of the well-being of the State, Australian and international communities;
- to equip graduates to excel in their careers and contribute to the life of the community; and
- to serve the State, Australian and international communities and the public interest by enriching cultural and community life and promoting critical and free inquiry and public debate.

Management of the University

The governing body of the University is the Council of the University. The Council consists of 17 members, five of whom were appointed directly or indirectly by the State Minister. Four members were elected by the staff and students of the University.

The remaining eight members were appointed by the Council itself, comprising the three official members (the Chancellor, the Vice-Chancellor and the President of the Academic Board) and five other (non-official) members.

The Act specifies that the number of Minister-appointed members must be equal to or greater than the number of non-official Council-appointed members.

The Council's responsibilities, powers and functions include:

- approving the mission, strategic direction and annual budget and business plan of the University;
- establishing policies ("university statutes and regulations") relating to the governance and operation of the University, including trusts and endowments, and research, development, consultancy, commercial activities and other services undertaken for commercial organisations or public bodies;
- developing guidelines (if any) concerning the carrying out of commercial activities, finance and property matters, or any other related matter;
- overseeing the management of the property, finances and business affairs of the University, such as risk management across the University, including its commercial activities;
- any other powers and functions conferred on it by or under legislation or any university statute or regulation; and
- the power to do anything else necessary or convenient to be done for or in connection with its powers and functions.

Activities and Returns of the University

In carrying out its functions, the University undertakes a wide range of activities, including employing academic, teaching and administrative staff, determining fees and charges for courses provided to students and for commercial activities, entering into contracts, and forming or becoming a member of other entities.

All of these activities contribute in some way (positive or negative) to the University achieving or furthering its objectives. Thus they are activities that affect the returns of the University, in terms of both financial and non-financial returns.

State Government Involvement with the University

The State Government's objectives for the activities of the University are consistent with those specified in the Act for the University. The Minister has the following powers and functions, which are classified in this example as substantive rights under the Standard, since they do not relate to fundamental changes to the activities of the University (the investee) nor apply in exceptional circumstances:

- fix the remuneration and fees to be paid to Council members who are not full-time staff of the University or holders of statutory office;
- approve (or veto) University statutes and guidelines made by the Council;
- declare an activity to be a university commercial activity;
- make interim guidelines concerning university commercial activities and finance and property matters – these apply unless replaced by University-submitted guidelines approved by the Minister;
- in conjunction with the State Treasurer, approve the limits and conditions (eg security) for University borrowings; and
- approve (or veto) the disposal of land that was previously Crown land granted to the University.

The Minister also has the following powers, which are classified as protective rights:

- request commercial and financial reports from the University;
- refer a university commercial activity or any aspect thereof to the auditor-general for investigation and report to the Minister; and
- the rights specified in State Government grants provided to the University – some of the grants specify how the grants are to be applied and require their repayment if not applied as specified.

Australian Government Involvement with the University

The Australian Government's objectives for the activities of the University are consistent with those specified in the State Act for the University.

The Australian Minister for Education also has the rights specified

in Australian Government grants provided to the University. Some of these grants specify how they are to be applied and require their repayment if not applied as specified. The Minister can also request reports from the University.

University Council-directed Activities

As indicated above, the University's commercial activities and finance and property matters are subject to various State Government Ministerial powers, and government grants may be conditional. However, the University Council also has a range of powers and functions that it can exercise directly, such as the following:

- appoint the Vice-Chancellor, who is the chief executive officer of the University and responsible for the conduct of the University's affairs in all matters;
- determine the composition of borrowings within the parameters set by the State Government;
- approve the University's budget for a financial year, incorporating total revenue and the planned revenue sources, including planning the mix between teaching, research and commercial activities, the fees and charges to apply to those activities, and the type and value of government grants desired;
- determine the course mix and target student mix, such as vocational, undergraduate, graduate and executive courses, on-campus or distance learning, and local and international students;
- appoint staff and determine their terms and conditions;
- decide whether to operate through multiple campuses and how to utilise the University's infrastructure; and
- make university regulations with respect to any matter relating to the University.

Example IG3A

Control of the University

Based on the facts and circumstances outlined above, does the State Government or the Australian Government control the University in accordance with the definition of control in the Standard? If not, who controls the University?

Power

The State and Australian Governments each have a range of rights in relation to the University. The University may be economically dependent on the grants from those Governments in order to carry out its activities at its present scope and scale, but paragraphs B19 and B40 of the Standard make clear that economic dependence alone does not lead to the investor having power (as that term is used in AASB 10) over the investee. The State Government and Australian Government rights under some of their grants to the University to recover misapplied funds amount to protective rights. The repayment of such grants, potentially coupled with a reduction of Government grants in the future given the lack of compliance with grant conditions, may require the University to curtail its activities due to the reduction in funding. However, such a curtailment does not involve either Government in directing activities of the University, since it is the University that would determine which activities would be curtailed.

As the Australian Government holds only protective rights in relation to the University, it cannot have power over the University (see paragraph B27 of the Standard). Similarly, the State Government's protective rights do not give it power over the University either.

The State Government also has a range of substantive rights in relation to the operation of the University – principally in relation to its commercial activities or business operations rather than its teaching and research activities.

Judgement is required to conclude whether the State Government has the current ability to direct the University's *relevant activities*, that is, the activities that most significantly affect the University's returns. As the returns are both financial and non-financial, current ability to direct the commercial activities and the education/research activities are both important. It is the University Council that directs the latter activities and generally the commercial activities as well, within the constraints established through the State Minister's rights. On balance, the Council would appear to have the current ability to direct the relevant activities, and thus the State Government also would not have power (per AASB 10) over the University.

Returns

The State and Australian Governments are exposed, or have rights, to variable returns from their involvement with the University since

the activities of the University contribute to the achievement or furtherance of the State Government's and the Australian Government's objectives for higher education.

Ability to use power to affect returns

Since it was concluded above that in the circumstances presented the State Government does not have power (as described in the Standard) over the University, then the third control criterion linking power and returns is also not satisfied. The State Government is able to affect the returns of the University, and thus its own indirect returns, through exercising its substantive rights. However, the State Government is unable to direct the relevant activities, ie the activities that significantly affect the University's returns.

This criterion is also not satisfied in respect of the Australian Government as it does not have power over the University.

Control conclusion

The conclusion from the above assessment is that neither the State Government nor the Australian Government has power over the University and therefore neither Government controls the University.

Indeed, there is no investor that controls the University. The University Council as a group is not an investor as contemplated by the Standard. It is akin to the board of directors of a company, that is, the Council is a part of the University itself. In this case, the University would not be consolidated by any other entity.

Alternative Outcome

The significance of the State Government's substantive rights to the financial (and non-financial) returns of the University are matters for judgement in view of all the facts and circumstances in any particular situation. A different list or classification of substantive rights or weighting of financial and non-financial returns to that presented in Example IG3A might change the conclusion on control of the University.

Example IG3B

In this example, the facts are the same as in Example IG3 except that:

- XYZ University is a research university with extensive commercial activities, and teaching activities that are limited to a small range of graduate and executive courses;
- the University receives approximately 30% of its total revenue in the form of grants for various purposes, comprising 10% from the Australian Government and 20% from the State Government;
- 50% of the total revenue is derived from commercial activities, and the balance of 20% from industry funding and course fees; and
- the State Government requires all significant commercial activities and finance and property decisions of the University to be carried out in accordance with detailed guidelines approved by the Minister.

Based on these revised facts and circumstances, the State Government's substantive rights in respect of the University's commercial activities and its finance and property matters have a much more significant role in the operations of the University than in Example IG3A. The substantive rights may now be of such prominence that the State Government has the current ability to direct the activities that significantly affect the University's returns. In that case, the State Government has power over the University as described in the Standard, satisfying the first control criterion.

As explained in Example IG3A, the State Government is exposed or has rights to variable returns from its involvement with the University, thus satisfying the second control criterion.

Finally, the State Government is able to use its power over the University to affect its returns from the University, thus meeting the third control criterion.

Control Conclusion

The conclusion from the above assessment is that in this case the State Government controls the University, assuming that the State Government's substantive rights give it the ability to direct the relevant activities of the University.

Delegated power

- IG19 An investor with decision-making rights (a decision maker) is required by paragraph B58 to determine whether it is a principal or an agent. Paragraphs B60 and B61 summarise factors to be taken into account in making that determination, such as the scope of the decision-making authority and the rights of other parties. The following examples illustrate these paragraphs in relation to not-for-profit entities.
- IG20 A charity establishes a trust to fund and construct village dams, bores and other water infrastructure in several provinces of a developing country. The trustee is appointed by the charity to oversee the work of the trust. The trustee receives remuneration from the trust commensurate with the services provided and the skills applied, plus a performance bonus upon the successful completion of individual projects. The charity can replace the trustee at its discretion. The trustee therefore is an agent of the charity and cannot control the trust in its own right. In this case, the charity then needs to assess whether it controls the trust through the trustee. For example:
- (a) the trustee may have power over the trust in having the current ability to direct its relevant activities, whether through a broad decision-making authority or as determined by the charity in respect of major aspects, such as project selection. Even if the trustee does not have exposure or rights to variable returns from the trust, the charity does so in terms of the extent to which its overseas aid objectives are achieved or furthered through the activities of the trust. Since the trustee (as an agent of the charity) can use its powers to affect the non-financial returns of the trust, the three control criteria are satisfied in respect of the charity and the charity would control the trust; or
 - (b) the trustee may be permitted by development regulations of the provincial governments to provide only oversight of the trust's activities, which are carried out in general by management committees appointed by the relevant provincial government. In this case, the trustee does not have the power to direct the relevant activities of the trust, and accordingly the charity would not control the trust.
- IG21 A government department acts in relation to an investee only as an agent of the responsible Minister when it is merely authorised by the Minister to act on the Minister's behalf (in which case the department's activities in relation to the investee would be reflected in its reporting under AASB 1050 *Administered Items*).

Alternatively, a department acts as a principal in its own right even under a delegation of power from the Minister if it is acting with its own discretion, not subject to specific direction by the Minister. In the latter case, the department would report its activities in relation to the investee as its own transactions, and the investee would be consolidated by the department, if the department controls the investee. The scope of the department's decision-making authority is a significant factor in distinguishing whether it is acting as an agent or as a principal.

Implementation examples
<p>Example IG4</p> <p>A statutory authority SHS is established under State health services legislation to deliver services to the community. The statutory authority has a governing council that oversees the authority's operations and is responsible for its day-to-day operations.</p> <p>The State Health Minister appoints the authority's governing council and, subject to the Minister's approval, the authority's governing council appoints the chief executive of the authority.</p> <p>The State Health Department acts as the "system manager" for the State public health system on behalf of the Minister. This role includes:</p> <ul style="list-style-type: none"> • strategic leadership, such as the development of State-wide health service plans; • directions for the delivery of health services, such as entering into service agreements, capital works approval and management of State-wide industrial relations, including employment terms and conditions for the authority's employees; and • monitoring of performance (eg quality of health services and financial data) of the authority and taking remedial action when performance does not meet specified performance measures. <p>Although the Department holds decision-making authority in regard to the statutory authority, it requires the Minister's approval for the following decisions:</p> <ul style="list-style-type: none"> • entering into service agreements with the authority; • issuing binding health service directives;

- development of State-wide health service plans and capital works management and planning; and
- employment and remuneration of executive staff.

In this role the Department is remunerated either explicitly for the services provided or through appropriations.

Example IG4A

Based on the facts and circumstances outlined above, the Department has delegated power over the statutory authority and is acting as an agent on behalf of the Minister. This is evident through the restricted decision-making authority held by the Department and the nature of the remuneration received by the Department for its role as a system manager. As a result, the statutory authority would not be consolidated by the Department, but would be consolidated directly into the whole of government general purpose financial statements.

Example IG4B

The facts are the same as in Example IG4 except that:

- the Department appoints the authority's governing council, which appoints the chief executive of the authority;
- the Department does not require the Minister's approval for a range of significant decisions as system manager; and
- assessments of the Department's performance encompass the performance of the statutory authority.

In this example, the scope of the decision-making authority held by the Department has increased significantly to the extent that the Department has the current ability to direct the relevant activities of the authority so as to achieve the health service objectives of the Department. Therefore, based on the new facts and circumstances, the Department controls the statutory authority. The control held is considered delegated control from the Minister. The statutory authority would be consolidated into the whole of government financial statements as part of the Department's consolidated financial statements.

APPENDIX E [for AASB 12]

AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES

This appendix is an integral part of AASB 12 and has the same authority as the other parts of the Standard. The appendix applies only to not-for-profit entities.

- IG1 AASB 12 incorporates International Financial Reporting Standard IFRS 12 *Disclosure of Interests in Other Entities*, issued by the International Accounting Standards Board. Consequently, some of the text of this Standard particularly reflects the perspective of for-profit entities in the private sector. The AASB has prepared this appendix to explain and illustrate the definition of ‘structured entity’ in the Standard from the perspective of not-for-profit entities in the private and public sectors, to address circumstances where the for-profit perspective does not readily translate to a not-for-profit perspective. The appendix does not apply to for-profit entities or affect their application of AASB 12.
- IG2 AASB 12 includes specific disclosure requirements regarding both consolidated and unconsolidated structured entities. Some of those disclosures are not required of entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.

Structured Entities

- IG3 A structured entity is defined in Appendix A of AASB 12 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.”

Relevant activities are defined in AASB 10 as the activities of an entity that significantly affect the entity’s returns. The current ability to direct the relevant activities is necessary in order for one entity to control another.

- IG4 Paragraph B22 of AASB 12 states that structured entities often have some or all of the following features or attributes: restricted activities, a narrow and well-defined objective, insufficient equity to finance its

activities without subordinated financial support, and financing tranches in the form of multiple contractually linked instruments. Paragraph B23 gives examples of structured entities: securitisation vehicles, asset-backed financings and some investment funds.

- IG5 The definition of a structured entity depends on voting or similar rights not being the dominant factor in deciding who controls an entity. Voting rights are a common feature in many for-profit entities, having a dominant role in determining who controls an entity. Accordingly, the principle underlying the definition limits the scope of structured entities to entities that are controlled through less conventional means. The features listed in paragraph B22 and the examples in paragraph B23 also suggest that structured entities constitute a limited class of entity.
- IG6 Applying the principle underlying the definition of a structured entity indicates that, for not-for-profit entities, structured entities have been designed so that less conventional means – in the context of not-for-profit entities – are the dominant factor in determining who controls the entity. Therefore, in the not-for-profit context, the reference in the definition to “similar rights” encompasses administrative arrangements and statutory provisions, as these often are the dominant factor in determining control of not-for-profit entities. This approach limits, for not-for-profit entities, the scope of structured entities to entities that have been designed so that voting or similar rights, including administrative arrangements or statutory provisions, are not the dominant factor in determining control of the entity.
- IG7 Many not-for-profit entities are established by administrative arrangements or legislation, especially in the public sector. If the administrative arrangements or legislation are dominant factors in determining control of such an entity, the entity is not a structured entity. The AASB 12 disclosures regarding structured entities, such as the provision of financial support without a contractual obligation, are not particularly relevant to such entities, given the expectation of ongoing government funding through appropriations to supplement any other revenue sources.
- IG8 As the definition of a structured entity illustrates, an entity for which contractual arrangements are significant to determining control of the entity is a structured entity. This would include entities for which most of the activities are predetermined, with the relevant activities limited in scope but directed through contractual arrangements. Examples of such entities are included in paragraph B23. Another example would be a partnership between a government and a private sector entity, being a partnership established and directed by contractual arrangements. On that basis, the partnership is a

structured entity, regardless of the rights (if any) that the government and the entity have in relation to the partnership. If the government guarantees a certain level of revenue for its private sector partner, for example, the AASB 12 disclosures concerning the provision of financial support would be particularly relevant, whether the partnership is a consolidated or an unconsolidated structured entity for the government. However, the mere fact that a government provides funding to another entity does not make that entity a structured entity.

- IG9 Not-for-profit private sector entities will also need to identify any structured entities with which they are associated. For example, a not-for-profit private sector entity may have established or sponsored a community service organisation whose relevant activities are directed by means of contractual arrangements. Those arrangements might require the entity to provide financial support in specified circumstances, or alternatively the entity might choose to provide financial or other support to the organisation without the contractual obligation to do so (eg due to the economic dependency of the organisation upon the entity). The AASB 12 disclosure requirements would be relevant in both circumstances as the community service organisation is a structured entity. Paragraph 31, for example, would require the entity to disclose any current intentions to provide support to an unconsolidated structured entity.

BASIS FOR CONCLUSIONS ON AASB 2013-X

This Basis for Conclusions accompanies, but is not part of, AASB 2013-X. The AASB has prepared this Basis for Conclusions to explain the proposals in this Exposure Draft.

Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in the Exposure Draft. Individual Board members gave greater weight to some factors than to others.
- BC2 In the process of developing the proposals in this Exposure Draft, the Board commissioned research into the implementation issues that had been encountered by not-for-profit entities in applying the notion of control (and related public sector guidance) in the superseded Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*. Discussions were also held with constituents experienced in not-for-profit public sector and private sector financial reporting, to ascertain implementation issues that might be encountered in applying AASB 10 *Consolidated Financial Statements* (which replaces AASB 127, in part) in a not-for-profit context. Based on the research findings and the nature of many of the issues identified, the Board concluded that the principles in AASB 10 could be applied in a not-for-profit context, albeit using professional judgement, and that certain aspects of those principles and the terminology adopted warranted specific implementation guidance for not-for-profit entities.
- BC3 In addition, the Board noted that some of the issues identified through the research are fundamental to the notion of control and therefore beyond the scope of AASB 10. These issues include:
- (a) the nature of government departments as reporting entities;
 - (b) the role that disclosure of disaggregated information in whole of government financial reports might play in providing relevant information to users; and
 - (c) control of assets.
- BC4 The Board concluded that, because they are beyond the scope of AASB 10 and would not impede the application of AASB 10 by not-for-profit entities, these issues do not need to be addressed prior to clarifying for not-for-profit entities the application of the notion of

control in AASB 10. The Board noted that this approach is consistent with its policy of transaction neutrality. Accordingly, the Board decided to progress its Control in the Not-for-Profit Public and Private Sectors project in stages. The first stage, of which this Exposure Draft is a part, is intended to clarify the application of AASB 10 in a not-for-profit context. It is expected that later stages will address the associated fundamental issues noted above.

- BC5 The Board also noted the current project of the International Public Sector Accounting Standards Board (IPSASB) to update its consolidation, joint ventures and associates Standards for the issuance of IFRS 10 *Consolidated Financial Statements* and its related IFRSs. The IPSASB is expected to finalise its Exposure Drafts mid-year, but the AASB decided to continue with the publication of its ED, having considered the decisions of the IPSASB to date and its discussions on various issues that are still in progress.
- BC6 The types of harmonisation differences between AASB 10 and the ABS GFS Manual are not affected by the proposals in this ED since the proposed implementation guidance does not change or depart from the principles in AASB 10. Accordingly, existing GAAP/GFS differences are not addressed in the ED.
- BC7 The remainder of this Basis for Conclusions outlines the basis for the Board's proposals relating to the first stage of the project.

Significant Issues

Nature and location of guidance relating to AASB 10

- BC8 The Board considered whether the implementation guidance to be added to AASB 10 should be integrated into the body of that Standard as Aus paragraphs. The Board decided that, in general, consistent with a principles-based approach to drafting Standards, Aus paragraphs in the body of the Standard should be limited to those that either amend the requirements in AASB 10 or add new requirements. As the proposed implementation guidance would neither amend the requirements nor add new requirements for not-for-profit entities, the Board decided that the proposed guidance should not be presented as Aus paragraphs within the body of AASB 10. However, the Board decided to include one Aus paragraph in the body of the Standard as a signpost to the existence of the Appendix.
- BC9 The Board then considered whether the guidance should be presented as Aus paragraphs integrated within the existing Application

Guidance (Appendix B to AASB 10) or as a separate attachment to AASB 10. As Appendix B is integral to AASB 10 and therefore has the same authority, Aus paragraphs in either the body of the Standard or Appendix B would have no difference in status. Accordingly, the Board applied the same approach as stated in the previous paragraph. The Board therefore decided to propose the addition of the not-for-profit implementation guidance to AASB 10 as a separate attachment.

- BC10 The separate attachment is proposed in this ED as Appendix E to AASB 10, integral to the Standard and thus with the same authority as the body of the Standard. The Board considered whether to propose the attachment as guidance that accompanies, but would not be part of, AASB 10. To facilitate the guidance being applied consistently by not-for-profit entities, the Board decided that the ED should propose the addition of an appendix integral to AASB 10.
- BC11 The Appendix is proposed as Appendix E to be consistent with the labelling of the appendices to IFRS 10 *Consolidated Financial Statements*. In IFRS 10, Appendix D consists of the consequential amendments to other Standards and Interpretations arising from the issuance of IFRS 10. There is no Appendix D for AASB 10 since those consequential amendments were made in AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (August 2011), following the Board's practice of making amendments via separate Standards rather than through appendices to Standards.

Terminology

- BC12 As AASB 10 incorporates IFRS 10, issued by the International Accounting Standards Board (IASB), the text of the body of AASB 10 and Appendices A–C is expressed from the perspective of for-profit entities in the private sector. The Board considered that some of the terminology in the Standard does not readily translate to a not-for-profit perspective and decided that it would be useful to explain that terminology for application in a not-for-profit context, rather than revise the terminology in some way for not-for-profit entities. The terms 'investor' and 'investee', for example, figure prominently in AASB 10, including in the definition of control, and are described in general terms in paragraph IG3. The nature of 'returns', for example, is also addressed in the proposed implementation guidance. The Board believes the explanations provided will assist a not-for-profit entity to better relate to and apply the requirements of AASB 10.

Implementation Guidance on Control

- BC13 In developing the proposed implementation guidance and the examples, the Board has sought to address the implementation issues that were identified in the research referred to in paragraph BC2 on the application of the notion of control by not-for-profit entities in the private and public sectors. For example, the proposed guidance addresses rights arising from statutory arrangements (paragraph IG5), economic dependence (paragraphs IG9–IG10), regulatory powers (paragraphs IG14–IG15), indirect returns (or benefits) to not-for-profit entities and congruent objectives (paragraphs IG16–IG18), and delegated power (paragraphs IG19–IG20).
- BC14 The Board also reviewed the specific public sector guidance in the superseded AASB 127 *Consolidated and Separate Financial Statements* (paragraphs Aus17.1–Aus17.10) in the light of the three criteria for control set out in AASB 10: power, returns and a link between power and returns. As a result, some parts of the superseded guidance were not incorporated into this ED, on the grounds that the Board considered that it was not consistent with the requirements of AASB 10 or no longer necessary. For example, the statement in paragraph Aus17.2 that control of an entity by the government may be indicated by the accountability of the entity to the government or by the government holding the residual financial interest in the net assets of the entity has not been incorporated into the proposed implementation guidance.
- BC15 Paragraph Aus17.9(e) of the superseded guidance stated that under existing legislative arrangements, State and Territory governments do not control local governments. The Board reconsidered the question of control of local governments, and rather than coming to a categorical view, proposed that a conclusion on such an issue depends on facts and circumstances (paragraph IG6) and also decided to include a detailed example (Example IG2) illustrating how a decision as to whether a local government is controlled by another government might be addressed. Similarly, the Board has included a detailed example (Example IG3) addressing the question of control of a university, with two scenarios under which different control conclusions might be drawn. These examples emphasise a principles-based approach, which entails an analysis of substantive and protective rights in considering whether a government has power (as that term is used in AASB 10) over another entity.
- BC16 Given the types of arrangements often found in the public sector, the Board decided that an example concerning the significance of delegated powers and agency relationships to public sector entities would be useful guidance. Example IG4 presents two scenarios for

assessing whether a government department controls a statutory authority. Example IG1 illustrates a more general case of assessing whether the rights held by a not-for-profit entity give it power over an associated organisation, again with two scenarios under which different control conclusions might be drawn.

Other AASB 10 issues

- BC17 The Board has not proposed implementation guidance in respect of some topics due to its assessment that the issues arise for both for-profit entities and not-for-profit entities. For example, the requirements regarding de facto agents and control of specified assets raise issues in practice for any entity, not just not-for-profit entities.

AASB 12 and Structured Entities

- BC18 While considering issues regarding AASB 10, the Board noted that the definition of ‘structured entity’ in AASB 12 *Disclosure of Interests in Other Entities* does not readily translate to a not-for-profit perspective as it focusses on voting or similar rights, which have less significance in general for not-for-profit entities. The Board decided to propose implementation guidance to assist not-for-profit entities in applying this definition. As AASB 12 applies to not-for-profit entities in conjunction with AASB 10, the Board decided to include the proposals in the same Exposure Draft.
- BC19 Consequently, this ED proposes to add implementation guidance as Appendix E to AASB 12, integral to the Standard and thus with the same authority as the body of the Standard. These decisions reflect the decisions on the nature and location of guidance as set out in paragraphs BC8–BC11 in respect of the AASB 10 proposals.
- BC20 The Board decided that the proposed implementation guidance for AASB 12 should be based on the principle underlying the definition of structured entity, and identified that principle as limiting the scope of structured entities to entities that are controlled through less conventional means. This is based on the definition emphasising that voting or similar rights are not the dominant factor in deciding who controls a structured entity – and for for-profit entities, voting rights are a common or conventional means of determining control.
- BC21 The Board identified administrative arrangements and statutory provisions (legislation) as common means by which control may be determined for many not-for-profit entities, particularly those in the public sector. Accordingly, the Board took the view that the reference to “similar rights” in the definition of structured entity

encompasses, for not-for-profit entities, administrative arrangements and statutory provisions. Thus, the ED proposes that not-for-profit entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity would not be structured entities. The proposed Appendix includes a range of examples to illustrate the approach.

AASB 1049 Amendments

- BC22 AASB 1049 *Whole of Government and General Government Sector Financial Reporting* was not addressed in the consequential amendments arising from AASB 10 (and related Standards) that were included in AASB 2011-7, given that the Board would address the application of AASB 10 to not-for-profit entities through its Control in the Not-for-Profit Public and Private Sectors project. Accordingly, this ED proposes the consequential amendments to AASB 1049 arising from AASB 10 and the related Standards. Most of these amendments are editorial.
- BC23 The Board noted that paragraph 45 of the existing AASB 1049 does not require the General Government Sector (GGS) financial statements to comply with any of the disclosure requirements of the superseded AASB 127 *Consolidated and Separate Financial Statements*. The Board reconsidered this position in respect of the disclosure requirements set out in AASB 12, and concluded that the GGS financial statements should not be required to comply with those requirements. This is proposed in the ED through the amendments to paragraph 45 of AASB 1049.
- BC24 The Board took the view that the GGS financial statements need not be required to comply with the disclosure requirements of AASB 12 on the grounds that such disclosures would essentially duplicate the AASB 12 disclosures for the whole of government financial statements. As entities included in the GGS financial statements are also included in the whole of government financial statements, the entities' association with structured entities could be addressed in either set of financial statements. The nature of the risks associated with interests in structured entities is unlikely to change between the GGS level and the whole of government level.