

Reporting Service Performance Information

AASB Staff Issues Paper

Introduction

- 1 This paper addresses two issues related to the Reporting Service Performance Information project:
 - (a) whether the definition of a not-for-profit entity currently used in Australian Accounting Standard needs amending; and
 - (b) the questions to be included in [draft] ED 2XX *Reporting Service Performance Information*.

Definition of Not-for-profit entity

- 2 The current definition of a not-for-profit (NFP) entity used in Australian Accounting Standards is:

A not-for-profit entity is an entity whose principle objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities it controls.

- 3 Staff consider that this definition could be better articulated to provide an active definition that states what the objectives of NFP entities *are* rather than what they are *not*.
- 4 Staff have reviewed a number of other definitions of NFP or public benefit entity (PBE) (which is often the same concept as a NFP), these definitions are provided in the attached appendix.

Staff recommendation

- 5 Staff are of the view that the two key attributes of a NFP entity that should be included in a definition are:
 - a positive assertion of what the objectives of a NFP entity are; and
 - that there is a restriction on how funds are reinvested.
- 6 Staff note that the NZASB and the UK FRC definitions both contain these two elements, whereas the AASB NFP definition does not.
- 7 Therefore, staff recommend that a limited scope project be added to the AASB agenda to review whether the definition of a NFP entity for use in Australian Accounting Standards should be revised. This project would be conducted as part of the transaction neutrality policy update as noted in the AASB's Strategy for 2015-2017.

Question 1 for the Board

Does the Board agree with the staff recommendation that the AASB should add a limited scope project to its agenda to review whether the definition of a NFP entity should be revised?

Specific Matters for Comment (SMC) to include in ED 2XX

Reporting Service Performance Information

- 8 Following is a list of specific questions that staff consider should be included for comment by constituents:
- Application – is it appropriate that the Standard will only apply to not-for-profit entities in both the private and public sectors?
 - Application date – is an application date of 1 July 2017 appropriate and if not why not?
 - Expansion of applications – should the application of this Standard be expanded to private sector for-profit entities at a later date and if not why not?
 - Status - whether the standard should be mandatory or voluntary – the default is mandatory and if it should not be mandatory why not?
 - Reporting - whether to use a single report to present service performance information or whether each entity should determine a presentation method that best suits their users?

Question 2 for the Board

- (a) Does the Board agree with the issues identified by staff to be included as SMCs for constituents?
- (b) Are there any additional issues/questions Board Members think should be included as SMCs?

Definitions of not-for-profit entity/public-benefit entity

Australian Taxation Office

Non-profit - An organisation is non-profit if it is not carried on for the profit or gain of its individual members. This applies for direct and indirect gains, both while the organisation is being carried on and on its winding up. We accept an organisation as non-profit if its constitution or governing documents prohibit distribution of profits or gains to individual members and its actions are consistent with the prohibition.

Non-profit company - A non-profit company for determining rates of income tax and whether to lodge income tax returns is either of the following:

- a company that is run for the purposes of profit or gain to its individual members and is, by the terms of the company's constituent documents, prohibited from making any distribution, whether in money, property or otherwise, to its members;
- a friendly society dispensary.

NZASB

Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

Public sector public benefit entities (Public Sector PBEs) are public benefit entities that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

Not-for-profit public benefit entities (NFP PBEs) are reporting entities that are public benefit entities but that are not public sector public benefit entities.

UK FRC

Public Benefit Entity

An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.

AcSB (Canada)

Not-for-profit organizations are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-

for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

ACNC

Although not defined in the ACNC Act the ACNC website provides the following definition of a NFP:

An organisation that has rules that do not allow it to distribute profits or assets to its members, the people who run it or their friends or relatives while it is operating or on winding up. An organisation is a not-for-profit if it does not carry out activities for private benefit of its members or distribute profits or assets to its members.