



Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

30 June 2013

Dear Kevin,

Invitation to comment on ED 238 Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities

We are responding to your invitation to comment on the above Exposure Draft (ED) on behalf of PwC.

We support the Board's conclusion that the principles in AASB 10 *Consolidated Financial Statements* can be applied in a not-for-profit context.

Our detailed responses to the specific questions in the ED are in Appendix A to this submission.

We would welcome the opportunity to elaborate on our views if you wish. Please contact me on (03) 8603 3574 if you would like to discuss our comments further.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Gordon Thomson', is written over a light grey circular stamp.

Gordon Thomson
Partner
Assurance

Appendix A: Comments on the specific questions in the ED

- a) **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**

We believe it is appropriate to add implementation guidance to AASB 10 and AASB 12 to demonstrate the applicability of the key principles in a not-for-profit context and to explain particular terminology for application in a not-for-profit context. We also believe the guidance should be authoritative, consistent with the status of the application guidance in AASB 10 (and IFRS 10).

- b) **whether the proposed implementation guidance appropriately explains the definition of ‘control’ in AASB 10 for application by NFP entities, including the following aspects:**

- i. **the broad nature of returns from a controlled NFP entity, including non-financial and indirect benefits (paragraphs IG16 and IG17)**

We believe the explanation of the returns criterion in a not-for-profit context is appropriate.

- ii. **the four detailed sets of implementation examples in the proposed Appendix E for AASB 10**

Examples IG1A&B

We believe these examples appropriately explain the control definition.

Example IG2

We note that consolidation of local governments by state or territory governments has been a controversial issue. We also note that the superseded guidance (i.e. the guidance in AASB 127 *Consolidated and Separate Financial Statements*) stated that under existing legislative arrangements state and territory governments do not control local governments.

We understand the Board’s decision to not include a blanket statement in the replacement guidance and instead to emphasise the need to apply the principles in the standard taking into account the relevant facts and circumstances. However, we wonder if the Board has undertaken sufficient research and analysis to establish whether control of a local government could in fact arise in any state or territory in Australia and the implications of this. If control of a local government in Australia is only a theoretical possibility, then we would be concerned about the burden that might be placed on state and territory governments in having to undertake what may be a very time consuming and expensive analysis for no apparent benefit. Moreover, we are concerned about the risk of misapplication of what is a challenging standard, and about the possible flow on effects in other areas through analogous applications.

We would be happy to discuss our concerns with you.

If the Board decides to retain a local government example we believe it would be helpful to provide an additional example where the state or territory government controls the local government.



Examples IG3A&B

We note that consolidation of tertiary institutions by federal, state or territory governments has been a controversial issue. As with local governments, the assessments would be heavily dependent on the particular facts and circumstances and may require the exercise of considerable judgment.

Given that the assessments will likely be less problematic than for local governments and the fact that two contrasting examples have been provided, on balance we think the examples may be helpful and could be retained.

Examples IG4A&B

We believe these examples appropriately explain the control definition.

Other possible examples

It may be helpful to include one or more examples of a not-for-profit entity such as a hospital or a university that establishes a separate entity to conduct specific activities, such as research and development activities. These entities may be structured to operate relatively autonomously and it can require careful analysis to establish whether or not control exists.

iii. Other comments

We believe it is important for the implementation guidance to highlight that the rights that convey power to investors in a not-for-profit context will normally be different to those that convey power to investors in a for-profit context. This distinction is addressed in a number of different locations in the exposure draft (both in relation to the discussion of 'control' in AASB 10 and 'structured entity' in AASB 12), however we think it might be helpful to emphasise the point early on in the implementation guidance for AASB 10. For example, IG5 could be amended as follows:

Paragraph 11 states that power arises from rights, and refers to voting rights granted by equity instruments and rights arising from contractual arrangements. **While these rights will often be the source of power for private sector entities, power will frequently arise through different sources for not-for-profit entities. For example, for many not-for-profit entities, rights arising from administrative arrangements or statutory provisions will often be the source of power.**

The example in IG5 could then be located in a separate paragraph.

c) whether the proposed implementation guidance appropriately explains the definition of 'structured entity' in AASB 12 for application by NFP entities

We believe the proposed implementation guidance appropriately explains the definition of 'structured entity' in AASB 12 for application by NFP entities

- d) 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)**

We believe it is appropriate to exclude all disclosure requirements in AASB 12 in respect of GGS financial statements.

- e) 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**

We are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

- f) whether, overall, the proposals would result in financial statements that would be useful to users**

Subject to the matters mentioned above, we believe that the current ED would result in financial statements that would be more useful to users.

- g) whether the proposals are in the best interests of the Australian economy**

We are not aware of anything that would suggest that the inclusion in the standards of implementation guidance for not-for-profit entities is not in the best interests of the Australian economy.

- h) 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**

We believe the proposals have the potential to improve the quality of financial reporting by not-for-profit entities and so enhance the decision making of the users of the financial statements. Subject to our comments in (b) (ii) above, we do not believe the proposals in themselves will impose significant costs on entities required to comply with the relevant standards. Indeed, the implementation guidance and disclosure relief may reduce the costs of compliance.