

Mr David Boymal
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By email: standard@asb.com.au

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Dear David

Invitation to Comment” Proposed Definition and Guidance for Not-for-Profit Entities (ITC 14)

Grant Thornton Association Inc (“Grant Thornton Australia”) is pleased to comment on the Australian Accounting Standard Board's (AASB's) ITC 14. Our response reflects our position as auditors and business advisers to For Profit and Not-for-Profit entities.

This submission has benefited with input from our clients and discussions with key constituents including those that attended the AASB hosted roundtable held in Sydney on 13 March 2008.

Whilst Grant Thornton Australia supports providing additional guidance and clarification on the definition of Not-for-Profit entities (NFP), we do not support replacing this definition with the New Zealand term ‘Public Benefit Entities’ (PBE).

We do believe that the AASB should as a matter of urgency commence work on a separate accounting standard for NFPs as there remains a pressing need to provide guidance on how to account for revenues and in particular grants, donations and bequests, as well as how impairment should apply to assets.

Our detailed comments are attached as an Appendix.

If you require any further information or explanations, please contact me.

Yours sincerely
GRANT THORNTON ASSOCIATION INC



KEITH REILLY
National Head of Professional Standards

APPENDIX

Question (a) (i) – Adoption of the New Zealand Financial Reporting Standards Board’s (FSRB) terminology – use of the term ‘public benefit entity’ (PBE)

We do not see that adopting the PBE terminology will provide any advantage over the not-for-profit entity (NFP) terminology currently used in Australian accounting standards. In our view it would be a retrograde step to replace what is the generally well understood NFP term with one that we believe is likely to be more confusing to apply in practice. This is further explored in our comments on Question (a) (ii).

Whilst we support harmonisation of the Australian and New Zealand accounting standards we believe this can only really be achieved by merging the two boards. As detailed in ITC 14 the International Accounting Standards Board uses the NFP term, as indeed does the US and given our need to adopt IASB standards and the convergence program of the IASB with the US FASB, we question why the AASB would want to move further away from our current adoption of IASB standards.

Question (a) (ii) – Adoption of the New Zealand Financial Reporting Standards Board’s (FSRB) definition of public benefit entity (PBE)

We are concerned that the PBE definition could be seen as being far broader than the current Australian NFP term. This is on the basis that even For Profit Entities (FPE) generally have a clear objective of both providing goods and services for community and social benefit (ie a food company provides food for the community’s benefit, a bank provides banking services etc). A dual test within the PBE definition of providing goods/services and any equity provided being for the purpose of providing goods/services rather than a financial return to equity holders, lacks clarity of purpose.

We believe that the current distinction between a NFP and an FPE should continue to be whether the activity is one that has as its objective the generation of a market expected profit with consequent dividend or distribution to its equity owner(s). The use of the term ‘market expected’ is designed to distinguish those entities that only have a rate of return needed for on-going funding.

Question (a) (iii) – Adoption of the New Zealand Financial Reporting Standards Board’s (FSRB) guidance for identifying a public benefit entity (PBE)

Given our opposition to replacing the NFP terminology with a PBE, we see no reason for providing guidance on the PBE terminology. However, we do support providing further guidance on what is an NFP and the examples in ITC 14 are a good start.

Question (a) (iv) – Adoption of the New Zealand Financial Reporting Standards Board’s (FSRB) requirement to disclose that an entity is a profit oriented entity or public benefit entity (PBE)

We support disclosure where an entity is an NFP and linked to that disclosure whether it has made use of any exemptions from IFRS (e.g. impairment).

Question (b) – The status of the guidance as an integral part of an Accounting Standard. Constituents are asked to address whether the above are appropriate in the Australian environment; and the basis for that view.

We remain of the view that the NFP industry requires its own specific accounting standard given the unique nature of its activities, some of which are on commercial terms and others not, but in all cases having specific dividend distribution restrictions.

There is still a degree of confusion on the appropriate accounting for revenues and in particular grants whether specified or open ended. In addition, the NFP industry needs specific disclosures on:

- a revenues received either specified or not;
- b the quantum of grant revenues received and spent on the particular project for which the grant was received; and
- c revenues received in one period and not spent till a later period for accountability purposes.

Given the lack of resources spent on the NFP industry compared to say the Government sector, and the mandate of the AASB to include the For Profit, Government and Not-for-Profit sectors, we believe an NFP standard should be given the highest priority on the AASB’s work program.