AASB Standard

AASB 2021-X
XX 2021

Amendments to Australian Accounting Standards–Not-for-profit Entity Definition and Guidance

[AASB 102, AASB 116, AASB 136 & AASB 1057]

Australian Government
Australian Accounting Standards Board

Commented [A1]: Mark-ups in this document reflect proposed changes in the draft amending standard since ED 291 in three categories:
- "Questions to the Board" which correspond with staff recommendations and questions in agenda paper 4.1;
- "Notes to the Board" which reflect the Board's tentative decisions to date; and
- "Other editorial comments" which reflects suggested editorial suggestions by respondents to ED 291. Note that the Board is not required to decide at this meeting whether agrees or disagrees with staff analysis whether to incorporate or not these editorial suggestions.

Comments not fully displayed are listed at the end of the document.

Obtaining a copy of this Accounting Standard

This Standard is available on the AASB website: www.aasb.gov.au.

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PREFACE

[DRAFT] ACCOUNTING STANDARD
~~**AASB 2019-X *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – NOT-FOR-PROFIT ENTITY DEFINITION AND GUIDANCE***~~
AASB 2020-X *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – NOT-FOR-PROFIT ENTITY DEFINITION AND GUIDANCE*

[Draft] Australian Accounting Standard AASB ~~2019-X *Amendments to Australian Accounting Standards – Not-for-Profit Entity Definition and Guidance*~~2020-X *Amendments to Australian Accounting Standards - Not-for-profit Entity Definition and Guidance* is set out in paragraphs 1–11. All the paragraphs have equal authority.

Preface

Standards amended by AASB ~~2019-X~~2021-X

This [draft] Standard makes amendments to AASB 102 *Inventories* (July 2015), AASB 116 *Property, Plant and Equipment* (August 2015), AASB 136 *Impairment of Assets* (August 2015) and AASB 1057 *Application of Australian Accounting Standards* (July 2015).

Main features of this Standard

Main requirements

This [draft] Standard:

(a) deletes the current not-for-profit entity definition in AASB 102, AASB 116 and AASB 136;

(b) inserts a new definition of not-for-profit entity into AASB 1057, based on the New Zealand definition of public benefit entity in XRB Standard A1 *Application of the Accounting Standards Framework*; and

(c) adds implementation guidance to AASB 1057 to assist entities in applying the revised definition.

Application date

This [draft] Standard applies to annual periods beginning on or after ~~… [date], with earlier~~1 January 2024. Earlier application is permitted. This effective date is an interim date that will be updated, if necessary, to reflect the effective date of amendments to Australian Accounting Standards to introduce a revised financial reporting framework for not-for-profit entities.

Commented [A2]: Agenda Paper (AP) 4.1- Question to the Board #5

Issue 10, SMC 4 Effective Date
Please refer to the AP 4.1 for detailed staff analysis.

Staff recommendation:
Staff recommend aligning the effective date of amended NFP Entity Definition and Guidance with the revised NFP Financial Reporting Framework with early adoption permitted**.**
An interim effective date 1 January 2024 is proposed for the purpose of issuance of the NFP Entity Definition and Guidance amending standard. Staff recommend adding clarification to accompany the proposed interim effective date that "This effective date is an interim date that will be updated, if necessary, to reflect the effective date of amendments to Australian Accounting Standards to introduce a revised financial reporting framework for not-for-profit entities."

Question to the Board:

a) Does the Board agree with staff recommendation to align the effective date of amended NFP Entity Definition and Guidance (with early adoption permitted) with the effective date of amendments to AAS to introduce a revised FRF for NFP entities?

b) Does the Board agree with staff proposed interim effective date for the amended NFP Entity Definition and Guidance?

c) Does the Board agree with staff recommendation to add clarification on the Preface of the amending standard that "This effective date is an interim date that will be updated, if necessary, to reflect the effective date of amendments to Australian Accounting Standards to introduce a revised financial reporting framework for not-for-profit entities."?

Accounting Standard AASB ~~2019-X~~2020-X

The Australian Accounting Standards Board makes Accounting Standard AASB ~~2019-X *Amendments to Australian Accounting Standards – Not-for-Profit Entity Definition and Guidance*~~ 2020-X *Amendments to Australian Accounting Standards - Not-for-profit Entity Definition and Guidance* under section ~~-~~ 334 of the *Corporations Act 2001*.

Dated ~~…~~___ [date]

Keith Kendall
Chair – AASB

[Draft] Accounting Standard AASB ~~2019-X~~2020-X
Amendments to Australian Accounting Standards – Not-for-Profit Entity Definition and Guidance

Objective

1 This Standard amends:

(a) AASB 102 *Inventories* (July 2015);

(b) AASB 116 *Property, Plant and Equipment* (August 2015);

(c) AASB 136 *Impairment of Assets* (August 2015); and

(d) AASB 1057 *Application of Australian Accounting Standards* (July 2015);

to replace the definition of a not-for-profit entity and add implementation guidance.

Application

2 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards set out in AASB 1057 *Application of Australian Accounting Standards* (as amended).

3 This Standard applies to annual periods **beginning** on or after **~~… [date].~~ 1 January 2024. Earlier application of this Standard is permitted.** When an entity applies this Standard to such an **earlier** period, it shall disclose that fact.

Commented [A3]: Refer AP4.1, Question to the Board #5 (Issue 10, SMC 4 Effective Date)

4 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. **Amended paragraphs are shown with deleted text struck through and new text underlined.** Ellipses (…) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to AASB 102 *Inventories* (July 2015)

5 Paragraph Aus6.1 in Appendix A is amended.

Aus6.1 The following terms are also used in this Standard with the meanings specified.

~~**A *not-for-profit entity* is an entity whose principal 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 that it controls.**~~

…

Amendments to AASB 116 *Property, Plant and Equipment* (August 2015)

6 Paragraph Aus6.1 in Appendix A is deleted.

Aus6.1 [Deleted by the AASB] ~~**The following term is also used in this Standard with the meaning specified.**~~

~~**A *not-for-profit entity* is an entity whose principal 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 and each of the entities that it controls.**~~

Amendments to AASB 136 *Impairment of Assets* (August 2015)

7 Appendix D *Australian defined terms* is deleted. Appendix D included only the definition of a not-for-profit entity.

Amendments to AASB 1057 *Application of Australian Accounting Standards* (July 2015)

8 The appendix is relabelled as Appendix A and amended.

Appendix A

Defined terms

This appendix is an integral part of AASB 1057.

general purpose financial statements	…
not-for-profit entity	An entity 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.

…

9 Appendix B *Implementation guidance: When is an entity a not-for-profit entity?* is added as set out on pages 11–15 of this Standard.

10 *Illustrative examples*: *Determining whether an entity is a not-for-profit entity* are attached to accompany AASB 1057 as set out on pages 16–22 of this Standard.

Commencement of the legislative instrument

11 For legal purposes, this legislative instrument commences on ~~… [date].~~ 31 December 2023.

Commented [A4]: Subject to effective date
Refer AP4.1, Question to the Board #5
(Issue 10, SMC 4 Effective Date)

Appendix B

Implementation guidance: When is an entity a not-for-profit entity?

This appendix is an integral part of AASB 1057.

Purpose

~~1~~B1 The purpose of this implementation guidance is to assist an entity that prepares general purpose financial statements (GPFS) that comply with accounting standards issued by the Australian Accounting Standards Board (AASB) to determine whether it is a not-for-profit (NFP) entity.

~~2~~B2 The classification of an entity as a for-profit (FP) entity or a NFP entity is important because it determines which accounting standards and related accounting policies are applied by an entity. Inappropriate classification may result in the adoption of inappropriate accounting policies, and a failure to provide users with information appropriate to assessing the financial performance, financial position and cash flows of an entity.

Definition of a NFP entity

~~3~~B3 NFP entities are defined as "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." An entity is a NFP for financial reporting if it is NFP for taxation purposes, unless the entity primarily focuses on maximising the financial benefits to equity holders irrespective of the form of distribution. NFP entities may be public sector entities or private sector entities.

~~4~~B4 FP entities are not defined. Rather, the term 'for-profit entity' encompasses all entities other than NFP entities. An entity must assess whether it is a NFP or FP entity by considering whether it meets the definition of a NFP entity. Assessing whether an entity meets the definition of a NFP entity requires an entity to determine its primary objective.

~~5~~B5 In many cases it will be obvious whether an entity meets the definition of a NFP entity. For example, most charities registered under the *Australian Charities and Not-for-profits Commission Act 2012* (Cth) are likely to meet the definition of a NFP entity, although it is possible for a registered charity to be classified as a FP entity for financial reporting purposes. Similarly, some public sector entities may operate under legislation that specifically requires them as their primary objective to provide goods or services for the benefit of the public and not to generate a financial return to equity holders.

~~6~~B6 In other cases it will not be immediately obvious that an entity is a NFP entity. Determining the primary objective of the entity (ie why the entity exists and what it intends to achieve) can be difficult where an entity has multiple objectives and such objectives are not ranked, or where the objectives are not clearly stated~~.~~. In identifying the primary objective, it is necessary to assess the substance of the entity's purpose. Flowchart 1 (paragraph 9) and Flowchart 2 (paragraph 12) provide further assistance to simplify assessment process for certain NFP entities including the application of the implementation guidance and indicators in the illustrative examples as these entities will need to refer to the implementation guidance the assessment process.

~~7~~B7 In this regard, it should be noted that the definition of a NFP entity comprises two interdependent parts: (i) the primary objective to provide goods or services for community or social benefit, and (ii) the provision of any equity is to support that primary objective rather than for a financial return to equity holders. Both parts of the definition need to be assessed in combination in determining an entity's classification. Assessing one of the parts alone is unlikely to be sufficient in determining whether an entity is a NFP or FP entity.

~~8~~B8 The legal form of an entity is unlikely to be a conclusive factor in determining whether an entity is a NFP entity. NFP entities are constituted in many different forms, such as incorporated societies, trusts, statutory bodies and companies. NFP entities include a wide range of entity types, including charities, clubs, and non-commercial public sector entities. They exist in the private sector and in the public sector and may be small or large.

B9 Entities with NFP status for taxation purpose are likely to satisfy both parts of the definition of NFP entity for financial reporting purpose, ie for community and social benefit and not distributing financial returns to equity holders. Therefore, these entities likely do not need to assess the indicators listed below in paragraphs B14-B35 to determine whether they are NFP or FP, unless the entity primarily focuses on maximising the financial

Commented [A5]: Other editorial comments - #1:
The paragraphs in Appendix B are re-numbered from 1, 2, 3… to B1, B2, B3…to avoid confusion with paragraph number in the amending standards and to be consistent with other pronouncement.

Commented [A6]: Note to Board 1:
Staff have revised wording to reflect Board's tentative decision in April 2020 meeting (agenda paper 7.1, April 2020) to reconsider the wording of the additional guidance referring to "… maximises the financial benefits to equity holders…" to be replaced by Board's preferred reference to "… primarily focusing on maximising…"
(AASB Action Alert - M175 (Issue no. 202)

Commented [A7]: Other editorial comments - #2:
S11-EY suggested to add "or where there are equally competing objectives" after "or where the objectives are not clearly stated".

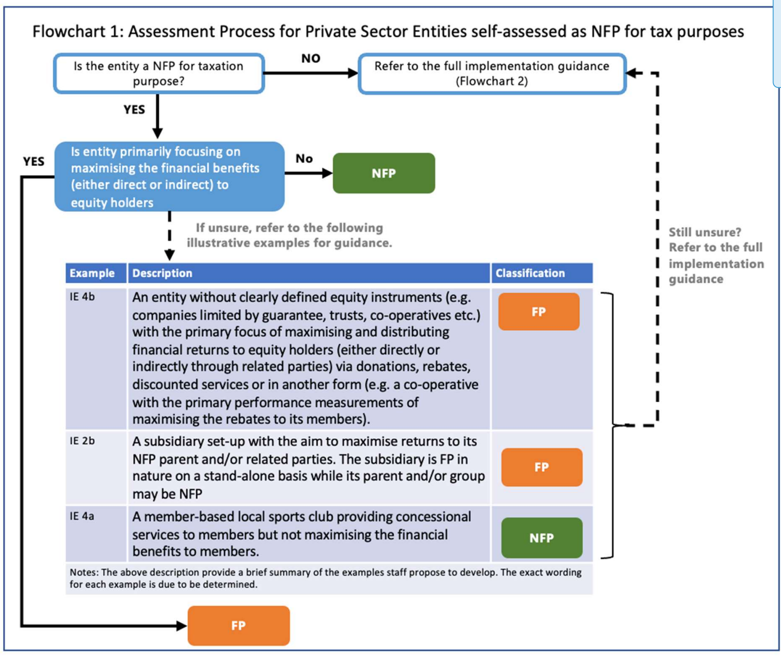
Staff analysis:
Staff consider that cases of where "there are equally competing objectives" to be an example of the scenario where objectives and such objectives are" not ranked" or "not clearly stated". Introducing the new term "equally competing" may lead to unintended consequences, for example request for clarification and guidance in determining "equally competing" and still will require professional judgement to be applied. Entities can refer to Flowchart 2 in paragraph B12 to assist their assessment if they multiple and not ranked objectives.

Commented [A8]: Note to the Board 2:
The added sentence reflects the Board tentative decision in its April 2020 meeting to include the flowcharts incorporating illustrative examples and providing further guidance on the assessment process for entities self-assessed as NFP for taxation purposes and for other entities.
Action Alert 202 – May 2020

Commented [A9]: Other editorial comments - #3:
S11-EY suggested removing this sentence as they considered it is not required and should be removed since both parts of the definition must be assessed (and met) for an entity to be classified as a NFP entity.

Staff Analysis
Staff do not agree with the suggested deletion. This sentence emphasizes that in determining the classification, entities need to consider both limbs to prevent undue focus on only one part of a single definition.

benefits financial benefits, either directly or indirectly (i.e. via means not violating the non-distribution clause), to equity holders. The entities can distribute financial benefits to equity holders in a number of ways, such as donations or provision of discounted services and rebates, which may indicate that the primary objective of these entities are focusing on maximising the financial benefits to equity holders. If an entity is primarily focusing on maximising the financial benefits (either direct or indirect) to its equity holders, the entity is a for-profit entity. The following flowcharts summarise some of the key decisions in determining how to apply the guidance in paragraph B8-B12 when assessing whether entity is a NFP entity.



B10 Flowchart 2 assists entities other than those with NFP status for taxation purpose, including private sector entities without non-distribution clause and public sector entities to assess and determine their classification.

~~9~~B11 Also, although in general terms NFP entities exist to provide goods and services for the community or social benefit, this does not necessarily imply that such entities exist for the benefit of the public as a whole. Many NFP entities exist for the direct benefit of a particular group of people, although it is also possible that society as a whole benefits indirectly. For example, a community football club exists to promote and encourage football for the direct benefit of its members~~. However,~~ and society as a whole may also benefit indirectly through a healthier population and through the provision of organised activities for its youth.

~~10~~B12 This guidance sets out several indicators to be considered in determining whether an entity meets the definition of a NFP entity. In many cases it will be unlikely that any one indicator will be conclusive in determining whether an entity meets the definition of a NFP entity and it may be necessary to consider several indicators together. Professional judgement is required when considering and balancing the assessment of each indicator.

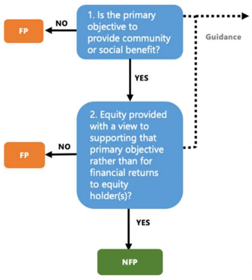
Commented [A10]: Note to the Board 3:
The added paragraphs B9-B10, Flowchart 1 and Flowchart 2 reflect the Board tentative decision is its April 2020 meeting to include the flowcharts incorporating illustrative examples and demonstrating the assessment process for entities self-assessed as NFP for taxation purposes and for other entities.
Action Alert 202 – May 2020

Commented [A11]: Other editorial comments - #4
S11-EY suggested to remove this sentence "However, society as a whole may also benefit indirectly through a healthier population and through the provision of organised activities for its youth." S11-EY is unclear of the relevance of the sentence to, as any entity, whether FP or NFP may provide indirect benefits to society as a whole.

Staff analysis:
Staff do not with the suggested changes. Staff consider that the last sentence of paragraph B11 is a continuation of the example provided in the previous sentence. The last two sentences provide illustrative example to the first two sentence of the paragraph. Staff interpret the intention of this paragraph as NFP can provide direct benefit to its members and also may but not necessarily need to exist for the benefit of the public as a whole to be an NFP.

Staff do not think the relationship between the last two sentences is one of contrast or opposition. A community football club can exist for the direct benefit of its members and for the society as a whole. The word "However" at the beginning of the last sentence therefore may cause confusion and its removal may mitigate this.

Flowchart 2: Assessment process for all other entities not covered in Flowchart 1



Indicators	Illustrative Examples			
	IE 2b	IE 4b	IE 2a	(more scenario may be developed following Board's decision)
i). **Stated Objective** Clearly stated objectives for community and/or social benefit in relevant docs?	yes	yes	yes	
ii) **the nature of benefit** (entity exist to generate financial surplus or provide financial benefit, including provision of goods and services, to equity holders?)	yes	yes	no	
iii). **The Primary beneficiaries of the benefits**	members of community	equity holders or members only (and high hurdle to become a member)	members of community	
iv). **Nature of equity -** for financial returns to equity holder(s)? (i.e. clear equity instrument?)	yes	no	no	
v). **Purpose and use of asset** for financial returns to equity holder(s)?	yes	yes	no	
vi). **Nature of funding** Are resource providers entitled to (or with the rights to control distribution of) financial returns?	yes	yes	yes	
Overall assessment for the classification of an entity:	FP	FP	NFP	

~~11~~B13 The assessment for classification as a NFP or FP entity is made at the entity level. As a result, the classification at the entity level may differ from the classification at the group level. Therefore, where an entity is a subsidiary of another entity and the subsidiary entity has its own reporting obligations, the subsidiary assesses its own primary objective for financial reporting purposes. In determining the classification of a group, it is necessary to consider the characteristics of the group. The classification of the controlling entity in the group would ~~most~~ likely determine the classification of the group.

Indicators

~~12~~B14 Paragraphs 13 to 37 discuss key indicators that aim to focus on the substance of an entity's purpose and that should be considered in determining whether an entity is a NFP entity. These indicators are:

- the stated objectives;
- the nature of the benefits, including the quantum of expected financial benefits;
- the primary beneficiaries of the benefits;
- the nature of any equity interest;
- the purpose and use of assets; and
- the nature of funding.

Stated objectives

~~13~~B15 In many cases the governing legislation, a constitution, a trust deed, or other founding documents will specify the objectives of an entity, including for whom the benefits generated by the entity are intended. For example, ~~the *State-Owned Corporations Act 1989* (NSW) states in section 20E that~~a legislation may state the principal objectives of ~~every~~a statutory ~~State~~state-owned corporation (SOC) are:

(a) to be a successful business and, to this end:

(i) to operate at least as efficiently as any comparable business; and

(ii) to maximise the net worth of the State's investment in the SOC; and

(b) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates; and

(c) where its activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6(2) of the *Protection of Environment Administration Act 1991*; and

(d) to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.

~~14~~B16 The founding documents and/or other relevant documents of similar nature of an entity may also specify the objective of an entity in terms of the nature of the benefits the entity provides.

Commented [A12]: AP4.1- Question to the Board #4

Issue 9-SMC3 Impact of classification of controlling entity on the classification of the group
Please refer to Agenda paper 4.1 for detailed staff analysis.

Staff Recommendation:
Staff recommend amending the last sentence of the paragraph B13 to "The classification of the controlling entity in the group would ~~most~~ likely determine the classification of the group."

Question to the Board:
Does the Board agree with the staff recommendation?

Commented [A13]: Other editorial comments - #5:
S8-ACAG suggested to generalise the example for state-owned enterprises, rather than provide specific requirements of statutory State-Owned Corporation in NSW. The objectives of statutory State-Owned Corporations (SOC) per the *State-Owned Corporations Act 1989* (NSW) does not conclude whether the SOC is FP or NFP. S11-EY suggested to move the example to 'Illustrative Examples".

Staff analysis:
The quoted principal objectives of every statutory SOC from the *Stated-Owned Corporation Act 1989* (NSW) was included as an example to show that primary objective for public sector entities may be stated in the legislation. When assessing the classification of such entities, they could refer to the relevant legislation to determine whether they are FP or NFP, if primary objective is not clearly stated elsewhere.
Staff agree with the comment from S8-ACAG to generalise the example in this paragraph. The principal objectives quoted in this paragraph only applies to SOC in NSW and could potentially be misleading for SOCs in other states.

Commented [A14]: Other editorial comments - #6:
S11-EY suggested expanding the scope of documents which may specify the objective of an entity by add "financial statements and/or other relevant documents of similar nature".

Staff Analysis
Staff agree with the recommendation to expend the scope of documents but without referring to any specific type of such documents and adding "of similar nature" (to the founding document) to limit the scope of "other relevant documents" to such documents that have sufficient standing to provide relevant information about entity's objectives.

~~15~~B17 In the private sector, the meaning of charitable purpose is set out in the *Charities Act 2013* (Cth). In that Act, twelve charitable purposes are listed in section 12, including advancing health, advancing education, advancing social or public welfare, advancing religion, and advancing the natural environment, as well as a general category for other similar purposes 'beneficial to the general public'.

~~16~~B18 Many entities are established with multiple objectives. Where an entity's founding documents provide that an entity has multiple objectives, determining the primary objective will depend on an assessment of the substance of the purpose of the entity.

~~17~~B19 In assessing the substance of the purpose of the entity where there are multiple objectives, it may be helpful to consider how the entity assesses its performance, as this may indicate which of its stated objectives is its primary objective. For example, if the entity has performance targets for a rate of return on assets or a percentage of return to equity holders, this may indicate the entity is a FP entity. However, if the performance targets focus on the level/amount of benefits that have been delivered to achieve a community or social outcome, this may indicate that the entity is a NFP entity.

~~18~~B20 In addition, some public sector entities may focus on internal administration rather than a stated objective of directly providing goods and services for community or social benefit. In this case, such an entity may still be a NFP entity if, upon consideration of the stated objectives and other indicators in this guidance, the entity's primary purpose is to facilitate the provision of goods and services for community or social benefit.

~~19~~B21 The founding documents may require an entity to be financially viable or to generate an adequate rate of return. ~~However, being financially viable~~ However, being financially viable, that is to generate enough income for the purpose of being able to financially support its objective of providing goods or services to the community or members rather than for the objective of providing returns to equity holders, is not in itself conclusive in distinguishing a FP entity from a NFP entity. There is often a community expectation that NFP entities will be financially viable and operate to ensure that the limited resources at their disposal are used effectively and efficiently.

Nature of the benefits, including the quantum of expected financial benefits

~~20~~B22 The nature of the benefits provided by an entity, including the quantum of the expected financial benefits, may indicate whether an entity is a NFP entity.

~~21~~B23 Unlike FP entities, NFP entities do not exist to generate a financial surplus in order to provide a financial benefit/return to equity holders. Instead, they exist with the primary objective to provide goods or services for community or social benefit. Hence, if an entity provides goods or services to recipients at no cost or for nominal consideration, the entity is likely to be a NFP entity. This does not imply that NFP entities never generate, or aim to generate, a financial surplus on the net assets employed. However, where a NFP entity does generate a financial surplus, such surplus may be required or expected to be used to support the entity's primary objective of providing goods or services for community or social benefit, rather than for providing a financial benefit to equity holders.

~~22~~B24 NFP entities may establish controlled entities or discrete business units that operate to generate a financial surplus that can be used to support the primary activities of the controlling entity. Such entities or business units may be for-profit. This fact does not affect the classification of the controlling entity or group.[1]

~~23~~B25 ~~The~~On the other hand, the benefits provided by FP entities are primarily financial in nature. Most FP entities aim to generate a commercial or market return acceptable by equity holders – that is, to maximise the financial benefit/return~~ -~~, including entities that may be subject to various constraints on pricing of their outputs or inputs, to equity holders commensurate with the relative risks of operating and to meet required return by those equity holders. Hence, the quantum of the expected financial benefits may indicate whether an entity is a FP entity or a NFP entity.

~~24~~B26 When considering the quantum of the expected financial benefits and the nature of the benefits provided by an entity, it is important to recognise that the generation of profits and payment of ~~dividends~~ distributions is only one form of financial benefit that can be provided to equity holders. There are many other forms of financial benefit that can be returned to members or equity holders. For example, co-operatives may provide a financial benefit to members by paying a rebate based on the volume of transactions with the entity rather than through the payment of ~~dividends.~~ distributions. Another example of a financial benefit is the provision of discounted goods and services by an entity to its members.

1 If a controlled entity or business unit is required to prepare general purpose financial statements, its classification is determined by its own primary objective and not that of the controlling entity of the group.

Commented [A15]: Other editorial comments - #7
S-11 EY suggested to add the sentence "Similarly, NFP entities may be required to generate an adequate rate of return for the purpose of being able to financially support its objective of providing goods or services to the community or members rather than for the objective of providing returns to equity holders." to the end of the paragraph and add "or adequate return" after "being financially viable" in second paragraph.

Staff analysis:
Staff agree with the suggestion to further clarify that NFP entities are able to and not prohibited to generate adequate income for the purpose of being able to financially support its objective of providing goods or services to the community or members.

Commented [A16]: Other editorial comments - #8:
S11-EY suggested to amend "they exist to provide" to "they exist with the primary objective to provide"

Staff analysis:
Staff agree the suggested amendments highlight the primary objective of NFP entities is to provide community and social and benefit, which better aligns with the proposed definition.

Commented [A17]: Other editorial comments - #9:
S11-EY suggested to amend the first sentence of the paragraph from "or discrete business units that operate to generate a financial surplus that can be…" to "or discrete business units that operate to generate ~~a financial surplus that~~ commercial or market return can be…".

Staff analysis:
Staff does not agree with the suggested changes. This paragraph focuses on the fact that the discrete business units can be established with an FP purpose to generate financial surplus to support the NFP objective of the group. The discrete business unit itself may be FP in nature, but it would not affect the classification of the controlling entity or the group. The business may generate a below market return but their primary focus is to generate a financial surplus to support the primary objectives of controlling entity.

Commented [A18]: Other editorial comments-Q10:
S11-EY suggested to amend "The benefits provided by FP entities are financial in nature." to "On the other hand, the benefits provided by FP entities are primarily financial in nature".

Staff analysis:
Staff agree with the suggested amendments and consider it further clarifies that the primary objectives for FP entities are financial in nature.

Commented [A19]: AP4.1 – Question to the Board #3

SMC 8 – Issue 2: Suitability of implementation guidance and illustrative examples for the public sector entities
Please refer Agenda paper 4.1 for detailed staff analysis.

Staff Recommendation:
Staff recommend not to provide additional illustrative examples for public sector entities. Staff recommend amending paragraph 23 to reflect constraints on the returns for certain public sector entities.

Question to the Board:
Does the Board agree with the staff recommendation?

Commented [A20]: Other editorial comments - #11:
S11-EY suggested to replace 'dividends' with 'distributions' as financial returns to equity holders can be in a form other than dividends, e.g. trust distribution.

Staff analysis:
Staff agree with the suggested edit based on the consideration that "distribution" is broader in scope than "dividends", which better aligns with the proposed simplified assessment approach that "An entity is an NFP for financial reporting if it is NFP for taxation purposes, unless the entity primarily focuses on maximising the financial benefits to equity holders irrespective of the form of distribution."

Primary beneficiaries of the benefits

~~25~~B27 An understanding of the primary beneficiaries of the benefits provided by the entity (ie the people who primarily benefit from the activities of the entity) will assist in determining whether an entity is a NFP entity.

~~26~~B28 Typically, the primary beneficiaries of a FP entity are its equity holders (including its parent, where the entity is controlled by another entity)[2] or other providers of economic resources to the entity (such as debt holders). These parties provide economic resources to the entity in exchange for an entitlement to financial returns.

~~27~~B29 In contrast, as the primary objective of a NFP entity is to provide goods or services for community or social benefit, typically the primary beneficiaries of NFP entities are members of the community (or a particular section of the community), rather than resource providers.

~~28~~12 If the entity is membership based and the primary beneficiaries of the benefits provided by the entity are not members of the entity, the entity is likely to be a NFP entity. For example, a heritage trust where membership monies are used for maintaining and enhancing heritage assets for the benefit of the wider community. However, if the primary beneficiaries are members of the entity, it is necessary to consider other factors to determine whether the entity is a NFP entity (for example, the nature of the benefits and other indicators in this guidance).

Nature of equity interest

B30 For the purpose of assessing the classification of an entity for financial reporting as a NFP entity:

(a) equity is the residual interest in the assets of the entity after deduction of its liability as defined in paragraph 4.63 of the *Conceptual Framework for Financial Reporting* and paragraph 49(c) of the *Framework for the Preparation and Presentation of Financial Statements*;

(b) equity holders are the holders of any equity claims of an entity and in absence of clear equity instruments, equity holders are those who have the rights to direct the use of economic resources of the entity.

Where an entity is established to generate a financial return for the benefit of the equity holders, the ownership instrument is usually clearly defined. This is important for FP entities because it determines the level of financial benefits/returns such as dividends and rights to the residual net assets. If an entity does not have any clear equity holders or the nature of the equity instrument is unclear, the entity is likely to be a NFP entity.

~~29~~B31 The absence of clear equity holders may manifest itself in a number of ways, including:

- the absence of an individual or entity having a right to participate in any financial return or in the net assets of the entity were it to be wound up or otherwise cease to operate; or
- a requirement that in the event the entity ceases operating any residual net assets are to be applied to another entity with a similar purpose or to revert to a NFP entity. That is, the use of the assets is effectively restricted to providing goods or services for community or social benefit.

Purpose and use of assets

~~30~~13 The reasons an entity acquires and/or holds an asset may indicate whether it is a NFP entity. FP entities hold assets mainly for sale or for generating a financial benefit for equity holders. The primary reason NFP entities (particularly public sector NFP entities) hold property, plant and equipment and other assets (including infrastructure assets) is usually for their potential to provide future services for community or social benefit rather than their ability to generate a financial benefit for equity holders. If an entity holds assets primarily for delivering future services for community or social benefit, the entity is likely to be a NFP entity.

~~31~~14 For example, NFP entities may hold assets that contribute to the historical and cultural character of a nation or region, such as art treasures, historical buildings and other artefacts. Other NFP entities may be responsible for national parks and other areas of natural significance with native flora and fauna. Such historical items and land are generally not held for sale, even if a market exists. Rather, the respective NFP entities have a responsibility to preserve and maintain them for current and future generations.

2 As noted in paragraph 11, the assessment of the classification of an entity as a NFP or FP entity is made at the entity level. Where the entity is controlled by a NFP entity, how the NFP parent uses the financial returns provided by the entity to its parent is not relevant to the assessment of whether the entity should be classified as a FP or NFP entity.

Commented [A21]: Note to the Board 4:
Paragraph B31 is amended to reflect the Board tentative decision in its April 2020 meeting to retain the terms of "equity" and "equity holder" and to clarify that:
- equity is the residual interest in the assets of the entity after deduction of its liabilities;
- equity holders are the holders of any equity claims of an entity and in the absence of clear equity instruments, the equity holders are those who have the rights to direct the use of the economic resources of the entity (e.g. members of clubs).

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Nature of funding

~~32~~B32 If an entity relies wholly or primarily on donations or other contributions whereby the resource provider does not receive an entitlement to financial returns (or other economic resources) from the entity in return, the entity is likely to be a NFP entity.

~~33~~B33 Many NFP entities are dependent on grants and donations. In addition, the sources of funding are usually from third parties (ie a source other than the beneficiaries of their services). For example, public sector NFP entities receive appropriations and other public funds to carry out their services. Private sector NFP entities may rely on government grants, donations from philanthropic organisations and donations and bequests from the public. There may also be restrictions imposed by the provider of the funding on how the funds may be spent.

~~34~~B34 NFP entities also receive funding through the provision of donated services. For example, many NFP entities rely heavily on volunteers (rather than paid employees) to deliver their services to the community.

~~35~~B35 In contrast, FP entities are funded primarily by equity holders, debt holders and other providers of economic resources, in exchange for an entitlement to dividends, interest and other forms of financial returns (or other economic resources).

Conflicting indicators

~~36~~B36 When considering the classification of an entity, in some cases the above indicators may conflict with each other and the primary objective or purpose of the entity may not be obvious. Some indicators may indicate that an entity should be classified as a FP entity and others may indicate the entity should be classified as a NFP entity. In this situation professional judgement is required to evaluate the indicators overall and in combination with each other, including the significance of particular indicators to the overall assessment, to determine whether, in substance, the entity meets the definition of a NFP entity. For example, if the entity has only a small amount of equity, considering the nature of its equity interest may be less helpful than the other indicators when determining whether, in substance, the entity meets the definition of a NFP entity.

Changing classification

~~37~~B37 Although not expected to be common, changing circumstances may lead to a change in an entity's classification from a NFP to a FP entity and vice versa. For example, the constitution of an entity may be amended to change an entity's primary objective from one that is FP focused to one that is NFP focused.

~~38~~B38 Accounting for a change in classification depends on the applicable accounting requirements of the new classification and whether the entity already applies Australian Accounting Standards. For example, if an entity changes classification but will continue to apply Australian Accounting Standards, any necessary accounting policy changes are subject to AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and any specific transitional requirements in other Standards. If an entity changes classification and its most recent previous financial statements did not contain an explicit and unreserved statement that they complied with Australian Accounting Standards (whether Tier 1 or Tier 2) or IFRS Standards, the entity would need to apply the requirements in AASB 1053 *Application of Tiers of Australian Accounting Standards*.

Illustrative examples
Determining whether an entity is a not-for-profit entity

These illustrative examples accompany, but are not part of, AASB 1057. They are not intended to provide interpretative advice.

IE1 The following examples portray hypothetical situations. They are intended to illustrate application of the implementation guidance in Appendix B of AASB 1057 regarding when an entity is a not-for-profit entity. The examples are illustrative only and do not establish requirements. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying the guidance.

IE2 While specific types of entity are referred to in the examples, the circumstances in relation to individual entities may vary significantly, and therefore the examples do not conclude as to whether the entity in question is a NFP entity. Rather, the examples illustrate indicators to be considered by preparers in reaching a conclusion regarding whether an entity is a NFP or FP entity. In assessing this classification, an appropriate weighting needs to be given to each individual indicator. Depending on the circumstances, some indicators will provide a stronger indication than others about whether an entity should be classified as a NFP entity. The entity will need to consider each indicator against the other indicators and make an overall assessment of whether it is a NFP entity.

Example 1: Wholly owned State entity

Entity A is a water and wastewater service provider for certain regional communities, and is a wholly owned State company.

Stated objectives

Entity A is subject to State legislation applying to State-owned companies. The general objectives stated in the legislation are that each State-owned company is to perform its functions for the public benefit by:

- operating its business or pursuing its undertaking as efficiently as possible;
- maximising its contribution to the economy and well-being of the State;
- exhibiting a sense of social responsibility;
- operating in accordance with the principles of ecologically sustainable development where its activities affect the environment; and
- exhibiting a sense of responsibility towards regional development and decentralisation in the way in which it operates.

Any more specific objectives stated in other sources would need to be considered in determining whether this indicator points to Entity A being a FP or NFP entity. This could include stated objectives under:

- any other specific legislation relevant to Entity A;
- any Ministerial direction applicable to Entity A;
- any government policy framework or model under which Entity A is required to operate (including any performance targets); and
- any founding documents or constitution, including any Statement of Corporate Intent relating to Entity A.

Nature of the benefits, including the quantum of expected financial benefits

The provision of water and wastewater services would result in community and social benefit for the particular regional communities receiving such services.

However, Entity A may operate under a government business model or policy framework requiring it to charge customers at commercial rates with the intention of generating a financial return for its equity holder (the State Government) or meeting financial and efficiency performance targets. This may indicate that Entity A is a FP entity.

Alternatively, Entity A may be required to charge customers at discounted rates, or to reinvest its surplus to facilitate regional development and infrastructure or otherwise in the public interest, and meet non-financial performance targets

Commented [A22]: Other editorial comments - #12
S11-EY suggested to replace all reference of 'company' in IE1 to 'corporation'.

Staff analysis:
Each state may use different terminologies when refer to legal entities created by a government to partake in commercial activities on the government's behalf. For example, Victoria uses the term state-owned enterprise, and the corresponding legislation is *State Owned Enterprises Act 1992.* In New South Wales, the state-owned enterprises is referred to as state owned corporations and legislated by the *State Owned Corporation Act 1989.* In Queensland, these entities are referred as Government Owned Corporations. On the other hand, the examples provided are hypothetical situations for illustration only and therefore staff does not believe it is necessary to amend the proposed example.

(such as the level of service to customers) rather than targeting a financial return to its equity holder. These factors may indicate that Entity A is a NFP entity.

Primary beneficiaries of the benefits

Although Entity A is a company, the primary beneficiaries may not be the State government.

If Entity A operates on a commercial basis for the purpose of providing a financial return to the State Government (ie the equity holder), then the primary beneficiary would be the entity's equity holder, which may indicate that Entity A is a FP entity.

However, if Entity A is required to reinvest any surplus to facilitate regional development and infrastructure or otherwise in the public interest, the primary beneficiaries would be the broader regional communities receiving the services, which may indicate that Entity A is a NFP entity.

Nature of equity interest

Entity A is a company. The equity interest is in the form of shares owned by the State Government. In the case of Entity A, the nature of the equity interest is clear. In addition, there may not be any restriction on the use of assets in the event Entity A is sold, wound up or ceases to operate. This may indicate that Entity A is a FP entity.

Conversely, if the company constitution (or other governing framework) provides that in the event Entity A is wound up, or otherwise ceases to operate, its net assets are required to be transferred to another entity with a similar purpose, this may indicate that Entity A is a NFP entity.

Purpose and use of assets

Entity A owns property, plant and equipment that it uses to provide water and wastewater services.

If Entity A holds those assets primarily to operate or sell in order to generate a commercial financial return for the State government, this may indicate that Entity A is a FP entity.

However, if the property, plant and equipment is used primarily for providing water and wastewater services or enhancing infrastructure for the benefit of the regional communities it services, this may indicate that Entity A is a NFP entity.

Nature of funding

Entity A competes for funding from government and private sources.

If Entity A funds its activities primarily through charging commercial fees to customers for services rendered, this may indicate that Entity A is a FP entity.

Conversely, if funding is derived through a mix of government grants and discounted or subsidised fees, this may indicate that Entity A is a NFP entity.

Example 2: Bicycle shop

A charitable trust is established with the objective of providing health services to the homeless. The Trust receives an annual grant from the Government. The grant is sufficient to cover operating costs necessary to provide basic health care services to a limited number of people. To meet the increasing demand for its services and to fund an expanded range of services, the Trust establishes a bicycle shop through a separate entity (Company 1).

Company 1 sells second-hand bicycles and runs a successful bicycle hire service. All surpluses from Company 1 are returned to the Trust to support the primary objective of providing health services to the homeless.

Stated objectives

Company 1's constitution specifies that its objective is to raise funds to support the charitable trust. Therefore, as its stated objective is to generate financial returns for its equity holder, this may indicate that the company is a FP entity.

Conversely, if the company's stated objective was to provide some form of community or social benefit (eg to provide employment for the homeless), this may indicate that it is a NFP entity.

Commented [A23]: Other editorial comments - #13:
S11-EY suggested to amend the sentence to "However, if Entity A is required to provide goods and services at discounted rate and reinvest…"

Staff analysis:
Staff do not agree with the suggest changes as adding "provide goods and services at discounted rate" would be too restrictive for wholly owned State entity to be a NFP for financial reporting purposes and noted that this part of the illustrative example focuses on the primary beneficiaries of the benefits, not on the quantum of the expected financial benefits.

Commented [A24]: Other editorial comments - #14
Suggested insert by S8-ACAG.

Staff analysis:
Staff agree to add "primarily" to highlight on the primary use of asset.

Commented [A25]: Other editorial comments - #15
S11-EY suggested to add "or through equity funding from the State government" after "for services rendered".

Staff analysis
Staff do not agree with the suggestion as "or through equity funding from the State government" as such consideration would be taken into account when assessing "Nature of equity interest" and/or "Nature of the benefits, including the quantum of expected financial benefits".

Commented [A26]: Other editorial comments - #16:
S11-EY suggested to add "through a separate entity" at the end of the paragraph.

Staff Analysis
Staff agree with the suggested changes and consider that the adding "through a separate entity" clarifies that the classification of entity for financial reporting purposes shall consider characteristics of the entity on a stand-alone basis.

Nature of the benefits, including the quantum of expected financial benefits

Company 1 returns financial surpluses generated through the sale and hire of bicycles to the Trust.

If bicycles are sold and hired out at market rates with a view to maximising the financial surplus returned to the Trust, then the nature of the benefits would be financial, which may indicate that Company 1 is a FP entity.

However, if the shop is used primarily to provide employment to the homeless, and/or the bikes are sold at below-market rates or hired out at a nominal/low rate to enable the disadvantaged to benefit from exercise (with any incidental financial surplus returned to the Trust), then it would be providing community or social benefits, which may indicate that Company 1 is a NFP entity.

Primary beneficiaries of the benefits

If bicycles are sold and hired out at market rates and the primary beneficiary of the financial surpluses derived is the Trust (ie the equity holder), then this may indicate that Company 1 is a FP entity.

However, if any financial surplus derived by Company 1 is incidental to employing the homeless and/or providing affordable access to bicycles for the disadvantaged, then this may indicate that Company 1 is a NFP entity. In this case, the primary beneficiaries of the benefits (employment and bicycle affordability) provided by Company 1 are the homeless and the disadvantaged.

Nature of equity interest

Company 1 is 100% owned and controlled by the Trust. As such the ownership arrangement and equity holder is clear.

If in the event Company 1 ceases trading the trustees are able to determine how to use any residual assets of Company 1, then this may indicate that Company 1 is a FP entity.

However, if the trust deed provides that in the event Company 1 ceases trading any residual assets must be donated to a charity that fulfils the same or a very similar charitable purpose to that of the Trust, then this may indicate that Company 1 is a NFP entity.

Commented [A27]: Other editorial comments - #17:
S11-EY suggested to add "transferred to the Trust or" in between "must be" and "donated".

Staff analysis:
Staff consider that suggested edit would increase uncertainty of the assessment of the indicator as it will be not necessarily clear whether the residual assets would be transferred to the Trust because it is a charity or because it is a controlling entity (and both of these scenarios are already including in the example).

Purpose and use of assets

If the directors of Company 1 aim to ensure that the return on the net assets invested in the shop is at least equivalent to a market return, they may recommend that the Trust invest its funds in another activity if a market return is not achieved. This may indicate that Company 1 is a FP entity.

However, if Company 1 is operated with the objective of generating a sufficient return on the net assets for it to continue to be a viable organisation, with no reference to a market return on the net assets invested, and instead its assets are used to provide goods or services for community or social benefit (eg enabling the disadvantaged to benefit from exercise), this may indicate that Company 1 is a NFP entity.

Nature of funding

Company 1 funds its activities through the sale and hire of bicycles. The Trust provided a small capital contribution to ensure the shop could purchase bicycles in addition to any that were donated. Company 1 pays a small rental to the Trust. Other outgoings are minimal and there are no borrowings.

If a significant number of the bicycles for sale and for hire were donated by members of the community, this may indicate that Company 1 is a NFP entity. Similarly, if most of the employees of Company 1 are volunteers, this may indicate that Company 1 is a NFP entity.

If, however, the funding is derived primarily from the sale and hire of bicycles at normal commercial rates and the Trust expects a return on its investment, this may indicate that Company 1 is a FP entity.

Example 3: Private education organisation

Entity B is a private organisation dedicated to providing low-cost high-quality education to children who migrated to Australia from poverty-stricken countries. Entity B was established as a Trust with an initial endowment of $5m from the estate of a wealthy business person.

In order to supplement its income, Entity B accepts a limited number of fee-paying students. The fees for such students were determined after market research into the pricing of such services. All fee revenue is applied by Entity B to its objective of providing high-quality education to children who migrated to Australia from poverty-stricken countries. The revenue from fee-paying students has enabled Entity B to expand the range of services it offers and to expand its roll of immigrant children.

The trustees carefully manage the resources of Entity B in order to maximise the number of immigrant children it can accept and to maintain a high-quality educational service. The trustees have a clear operational plan and have established clear financial targets in order to achieve the trust's objectives.

Stated objectives

The trust deed establishing Entity B states that the purpose of Entity B is to provide high-quality education to children who migrated to Australia from poverty-stricken countries.

As Entity B's objective is to provide high-quality education to immigrant children from poverty-stricken countries (ie to provide a community or social benefit), this may indicate that Entity B is a NFP entity.

If the trust deed states that Entity B's purpose is to maximise its financial surplus from fee-paying students while also providing high-quality education to immigrant children, this may indicate that Entity B is a FP entity.

Nature of the benefits, including the quantum of expected financial benefits

The nature of the benefits provided by Entity B are the educational services delivered to children from poverty-stricken countries. The trust funds have been provided to Entity B for the benefit of immigrant children and not for the generation of a financial return to the trust beneficiaries. The nature of the benefits provided is primarily community/social, which may indicate that Entity B is a NFP entity.

If the financial targets established by the trustees are expressed in terms of meeting the development targets set out in the operational plan rather than being expressed in terms of a return on equity, this may indicate that Entity B is a NFP entity.

However, if the financial targets are expressed in terms of a return on equity, this may indicate that Entity B is a FP entity.

If Entity B established a subsidiary entity through which it ran its commercial education operations to maximise profits to be paid back to the Trust, then that subsidiary may be a FP entity. In this case it would also be necessary to consider whether the group is a NFP entity by considering the characteristics of the controlling entity in the group (which would ~~most~~ likely determine the classification of the group) and the characteristics of the group.

Commented [A28]: **AP4.1-Question to the Board #4**

Issue 9-SMC3: ***Impact of classification of controlling entity on the classification of the group***
Please refer Agenda paper 4.1 for detailed staff analysis and related amendments on paragraph B13 on page 9 of this Agenda paper.

Primary beneficiaries of the benefits

If the objective of Entity B is to provide high-quality education to immigrant children, with any surplus generated used to expand the number of immigrant children who are provided with high-quality education, the primary beneficiaries are the immigrant children. This may indicate that Entity B is a NFP entity.

If the trust deed identifies specific parties as beneficiaries of the trust (ie not the immigrant children) and Entity B limits the amount of surplus used to expand the education programme to immigrant children in order to generate a financial return for the specified beneficiaries, this may indicate that Entity B is a FP entity.

Nature of equity interest

Entity B is a trust, so there are no clearly defined ownership instruments.

The trust deed requires that in the event Entity B ceases operating any residual assets are to be distributed to another entity with a similar purpose. The use of the assets is restricted, and there are no clear equity holders that have an entitlement to those assets. This may indicate that Entity B is a NFP entity.

If the trust deed provides that in the event Entity B ceases operating any residual assets are to be distributed to other specified parties (eg the specified beneficiaries), this may indicate that Entity B is a FP entity.

Purpose and use of assets

Entity B provides education to both immigrant children and to fee-paying students. The trustees have a clear operational plan and have established clear financial targets to achieve the trust's objectives.

If Entity B uses its assets primarily to provide high-quality education to immigrant children from poverty-stricken countries, rather than to generate a financial return on its equity, then this may indicate that Entity B is a NFP entity.

If the trustees of Entity B require a commercial financial return on those assets, this may indicate that Entity B is a FP entity.

Nature of funding

Entity B receives funding from several sources: investment income from the initial endowment, income from fee-paying students, and donations from the public and fundraising activities.

If this funding is derived predominantly from third parties who do not benefit from Entity B's services, and the resource provider does not receive an entitlement to financial returns (or other economic resources), this may indicate that Entity B is a NFP entity.

If Entity B derives its funding predominantly from fee-paying students and other resource providers in exchange for an entitlement to financial returns (or other economic resources), this may indicate that Entity B is a FP entity.

Example 4: Sports club

Club AFC is a football club established in a suburb of a large city. Club AFC organises competitions and provides coaching and training for a wide range of age groups, from five-year-olds through to senior grade, and representative grades.

Stated objectives

Club AFC may be established as a charitable trust with its constitution stating that it is a non-profit entity established to foster participation and to promote amateur football in its suburb. This indicates that Club AFC may be a NFP entity.

If, however, Club AFC is established as an association and the constitution stated that Club AFC's objective is to maximise profits for the club or its members, then this may indicate that Club AFC is a FP entity.

Nature of the benefits, including the quantum of expected financial benefits

The benefits provided by Club AFC arise from the co-ordination of football competitions and the provision of football coaching and training to club members. This may indicate that Club AFC is a NFP entity.

If Club AFC were to sell a significant amount of its coaching and training services (eg to schools, other football clubs, or individuals) at normal market rates, with the aim of generating financial returns for the club or its members, this may indicate that Club AFC is a FP entity.

If Club AFC uses the surpluses from selling its services to ensure the Club remains financially viable, with any surplus used to develop the services it offers to club members and the wider amateur football community, this may indicate that Club AFC is a NFP entity.

If the financial targets are set with the objective of generating a commercial rate of return for the club or its members, this may indicate that Club AFC is a FP entity.

Primary beneficiaries of the benefits

Club AFC provides coaching and training for all age groups and grades of players who are members of the club. The Club also organises football competitions in which other amateur football clubs participate.

If the Club's activities primarily benefit the wider community (for example, by promoting football as part of a keeping-active programme, providing some coaching at no cost for schools or providing free memberships for disadvantaged children in the community), this may indicate that Club AFC is a NFP entity.

If, however, the primary beneficiaries of the Club's activities are the members of Club AFC, it is necessary to consider other factors (for example, the nature of the benefits and the other indicators) to determine whether the entity is a NFP entity.

Commented [A29]: Other editorial comments - #18:
Suggested edit by S8-ACAG. See related amendments on page 14 of this Agenda paper, Other editorial comments-Q14.

Commented [A30]: Other editorial comments - #19:

S11-EY suggested the amendments that: "…Club AFC, ~~it is necessary to consider other factors (for example, the nature of the benefits and the other indicators) to determine whether the entity,~~ this may indicate that the Club AFC is a ~~N~~FP entity."

Staff analysis:
Staff do not agree with the suggested changes as primary beneficiaries of the benefits alone does not conclude whether an entity is a FP or NFP. Other indicators also need to consider, for example whether the equity are provided with the view to provide financial returns to equity holders and the form of the benefit (i.e. financial or non-financial).

Nature of equity interest

Club AFC is a member-based entity and there are no specific equity holders. This may indicate that the Club is a NFP entity. If, however, the Club was owned by shareholders expecting a financial return on their investment in the Club, this may indicate that the Club is a FP entity.

If the constitution states that, in the event the Club is wound up or ceases operating, any residual assets are to be applied to an organisation with a similar purpose as Club AFC, this may indicate that the Club is a NFP entity.

However, if the constitution states that in the event the Club is wound up or ceases to operate any residual assets are to be distributed to the members (or shareholders), this may indicate that the Club is a FP entity.

Purpose and use of assets

Club AFC's assets comprise primarily football equipment (nets, balls, uniforms etc), as well as equipment used to record and analyse matches for the purpose of coaching and training. A small shed is leased at the local community centre to store the equipment.

If the Club's assets are used primarily to provide coaching, training and competitions for amateur players in the community, then this may indicate that Club AFC is a NFP entity.

However, if Club AFC sells a significant amount of its coaching and training services and charges commercial market rates to other individuals or entities for using its equipment, then its assets may be generating a financial return for its members. This may indicate that the Club is a FP entity.

Nature of funding

Club AFC receives funding from membership fees, donations, sponsorship and community grants.

If this funding does not establish a financial interest in the Club, this may indicate that Club AFC is a NFP entity.

If Club AFC receives funding primarily from members and other resource providers who are expecting either a financial return on their investment or other economic resources in return for providing funds, this may indicate that Club AFC is a FP entity.

Example 5: Social enterprise

The social enterprise model is becoming a more prevalent way for entities to operate. It is important to note that an entity that identifies itself as a social enterprise may not necessarily be a NFP entity. It is possible for an entity that identifies itself as a social enterprise to be a FP entity that also has a social objective.

Entity C is a company which donates one lunch for a hungry school child at a low socio-economic status (LSES) school for every lunch that it sells to the public, that is, the cost of the donated lunch is built into the cost of the lunch that is sold.

Stated objectives

Entity C's constitution states that its objective is to provide healthy food, including lunches, to patrons and to children at LSES schools.

If Entity C's constitution states that its primary objective is to help children at LSES schools by providing healthy lunches, this may indicate that Entity C is a NFP entity.

Commented [A31]: Other editorial comments - #20
Suggested insert by S8-ACAG to highlight "primary" objective.

Staff analysis:
While staff acknowledge that entity may have only one state objective, for illustration purposes staff agree with the suggestions in order to highlight the alignment with the first leg of the proposed definition.

If Entity C's objective is to maximise profits while also achieving a social objective of providing healthy lunches to children at LSES schools, this may indicate that Entity C is a FP entity.

Nature of the benefits, including the quantum of expected financial benefits

If Entity C generates substantial surpluses after covering the costs of free lunches, with those surpluses distributed to its shareholders or retained for additional business investments, the nature of the benefits provided are primarily financial. This may indicate that Entity C is a FP entity.

If Entity C uses the surpluses from the sale of lunches primarily to fund the costs of the free lunches and other operating costs, with any surplus used to expand the number of free lunches provided to school children, the nature of the benefits provided are primarily community/social. This may indicate that Entity C is a NFP entity.

Primary beneficiaries of the benefits

Entity C has three shareholders.

If Entity C limits the amount of its surplus from the sale of lunches that can be used to provide free lunches, to ensure that it generates an adequate financial return for its shareholders, the primary beneficiaries are the shareholders, which may indicate that Entity C is a FP entity.

Conversely, if Entity C uses most of the surpluses from the sale of lunches to provide free lunches to children in LSES schools rather than distributing the profits to its shareholders, the primary beneficiaries are the children at LSES schools. This may indicate that Entity C is a NFP entity.

Nature of the equity interest

Entity C has two founding shareholders. To enable expansion plans to be completed, additional shares were issued to a shareholder who has a prominent business in the food distribution sector. The equity holders are clearly identifiable by the equity instruments they hold.

If:

(a) there are no entitlements to dividends;

(b) all profits are reinvested in Entity C; and

(c) on Entity C ceasing to operate, any residual assets are to be donated to an entity with a similar charitable objective;

this may indicate that Entity C is a NFP entity.

If Entity C's shareholders have an entitlement to dividends and to a share of the residual net assets of the entity if it is wound up, this may indicate that Entity C is a FP entity.

Purpose and use of assets

Entity C acquires or holds its assets to provide healthy lunches for children in LSES schools and to make lunches and healthy food that are sold to the public.

If the assets are used primarily to provide healthy lunches for children in LSES schools, this may indicate that Entity C is a NFP entity.

If Entity C acquires or holds its assets primarily to operate or sell the assets in order to generate financial benefits for its equity holders, this may indicate that Entity C is a FP entity.

Nature of funding

Entity C's equity was initially provided by shareholders.

If Entity C relies primarily on donations and grants from the general public and funding organisations, and has a predominantly volunteer workforce, this may indicate that Entity C is a NFP entity.

If Entity C's funding is provided primarily by shareholders and other resource providers in exchange for an entitlement to financial returns (eg dividends) or other economic resources, this may indicate that Entity C is a FP entity.

Illustrative examples
Determining whether an entity is a not-for-profit entity

These illustrative examples accompany, but are not part of, AASB 1057. They are not intended to provide interpretative advice.

IE1 The following examples portray hypothetical situations. They are intended to illustrate application of the implementation guidance in Appendix B of AASB 1057 regarding when an entity is a not-for-profit entity. The examples are illustrative only and do not establish requirements. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying the guidance.

IE2 While specific types of entity are referred to in the examples, the circumstances in relation to individual entities may vary significantly. The examples illustrate indicators to be considered by preparers in reaching a conclusion regarding whether an entity is a NFP or FP entity. In assessing this classification, an appropriate weighting needs to be given to each individual indicator. Depending on the circumstances, some indicators will provide a stronger indication than others about whether an entity should be classified as a NFP entity. The entity will need to consider each indicator against the other indicators and make an overall assessment of whether it is a NFP entity.

Commented [A32]: Note to the Board 5:
This section is included to show the alternative presentation of the Illustrative examples section of the draft pronouncement to reflect the Board's tentative decision to restructure the Illustrative examples to include an overall assessment, emphasising the involvement of judgement in the assessment process.

The content and wording of the examples are mostly the same as the original Illustrative examples included in ED 291, presented on pages 13-19 of this document. Editorial changes made to fit for the table format.

Paragraph IE2 is amended accordingly as overall conclusion is provided in the revised examples.

AASB Action Alert - M175 (Issue no. 202)

Example 1: Wholly owned State entity

Entity A is a water and wastewater service provider for certain regional communities and is a wholly owned State company.		
	1a	**1b**
Stated objectives	Entity A is subject to State legislation applying to State-owned companies. The general objectives stated in the legislation are that each State-owned company is to perform its functions for the public benefit by: • operating its business or pursuing its undertaking as efficiently as possible; • maximising its contribution to the economy and well-being of the State; • exhibiting a sense of social responsibility; • operating in accordance with the principles of ecologically sustainable development where its activities affect the environment; and • exhibiting a sense of responsibility towards regional development and decentralisation in the way in which it operates.	
Nature of the benefits, including the quantum of expected financial benefits	The provision of water and wastewater services would result in community and social benefit for the particular regional communities receiving such services. Entity A may be required to charge customers at discounted rates, or to reinvest its surplus to facilitate regional development and infrastructure or otherwise in the public interest, and meet non-financial performance targets (such as the level of service to customers) rather than targeting a financial return to its equity holder.	Entity A may operate under a government business model or policy framework requiring it to charge customers at commercial rates with the intention of generating a financial return for its equity holder (the State Government) or meeting financial and efficiency performance targets. This may indicate that Entity A is a FP entity.
Primary beneficiaries of the benefits	Although Entity A is a company, the primary beneficiaries may not be the State government. If Entity A is required to reinvest any surplus to facilitate regional development and infrastructure or otherwise in the public interest, the primary beneficiaries would be the broader regional communities receiving the services, which may indicate that Entity A is a NFP entity.	If Entity A operates on a commercial basis for the purpose of providing a financial return to the State Government (ie the equity holder), then the primary beneficiary would be the entity's equity holder, which may indicate that Entity A is a FP entity.

Nature of equity interest	Conversely, if the company constitution (or other governing framework) provides that in the event Entity A is wound up, or otherwise ceases to operate, its net assets are required to be transferred to another entity with a similar purpose, this may indicate that Entity A is a NFP entity.	Entity A is a company. The equity interest is in the form of shares owned by the State Government. In the case of Entity A, the nature of the equity interest is clear. In addition, there may not be any restriction on the use of assets in the event Entity A is sold, wound up or ceases to operate. This may indicate that Entity A is a FP entity.
Purpose and use of assets	However, if the property, plant and equipment is used primarily for providing water and wastewater services or enhancing infrastructure for the benefit of the regional communities it services, this may indicate that Entity A is a NFP entity.	Entity A owns property, plant and equipment that it uses to provide water and wastewater services. If Entity A holds those assets to operate or sell in order to generate a commercial financial return for the State government, this may indicate that Entity A is a FP entity.
Nature of funding	Conversely, if funding is derived through a mix of government grants and discounted or subsidised fees, this may indicate that Entity A is a NFP entity.	Entity A competes for funding from government and private sources. If Entity A funds its activities primarily through charging commercial fees to customers for services rendered, this may indicate that Entity A is a FP entity.
Conclusion:	The above factors may indicate that Entity A is a NFP entity.	The above factors may indicate that Entity A is a FP entity.

Example 2: Bicycle shop

A charitable trust is established with the objective of providing health services to the homeless. The Trust receives an annual grant from the Government. The grant is sufficient to cover operating costs necessary to provide basic health care services to a limited number of people. To meet the increasing demand for its services and to fund an expanded range of services, the Trust establishes a bicycle shop (Company 1).

Company 1 sells second-hand bicycles and runs a successful bicycle hire service. All surpluses from Company 1 are returned to the Trust to support the primary objective of providing health services to the homeless.

	2a	2b
Stated objectives	If the company's stated objective was to provide some form of community or social benefit (eg to provide employment for the homeless), this may indicate that it is a NFP entity.	Company 1's constitution specifies that its objective is to raise funds to support the charitable trust.
Nature of the benefits, including the quantum of expected financial benefits	Company 1 returns financial surpluses generated through the sale and hire of bicycles to the Trust. If the shop is used primarily to provide employment to the homeless, and/or the bikes are sold at below-market rates or hired out at a nominal/low rate to enable the disadvantaged to benefit from exercise (with any incidental financial surplus returned to the Trust), then it would be providing community or social benefits, which may indicate that Company 1 is a NFP entity.	If bicycles are sold and hired out at market rates with a view to maximising the financial surplus returned to the Trust, then the nature of the benefits would be financial, which may indicate that Company 1 is a FP entity.
Primary beneficiaries	If any financial surplus derived by Company 1 is incidental to employing the homeless and/or	If bicycles are sold and hired out at market rates and the primary beneficiary of the

of the benefits	providing affordable access to bicycles for the disadvantaged, then this may indicate that Company 1 is a NFP entity. In this case, the primary beneficiaries of the benefits (employment and bicycle affordability) provided by Company 1 are the homeless and the disadvantaged.	financial surpluses derived is the Trust (ie the equity holder), then this may indicate that Company 1 is a FP entity.
Nature of equity interest	If the trust deed provides that in the event Company 1 ceases trading any residual assets must be donated to a charity that fulfils the same or a very similar charitable purpose to that of the Trust, then this may indicate that Company 1 is a NFP entity.	Company 1 is 100% owned and controlled by the Trust. As such the ownership arrangement and equity holder is clear. If in the event Company 1 ceases trading the trustees are able to determine how to use any residual assets of Company 1, then this may indicate that Company 1 is a FP entity.
Purpose and use of assets	If Company 1 is operated with the objective of generating a sufficient return on the net assets for it to continue to be a viable organisation, with no reference to a market return on the net assets invested, and instead its assets are used to provide goods or services for community or social benefit (eg enabling the disadvantaged to benefit from exercise), this may indicate that Company 1 is a NFP entity.	If the directors of Company 1 aim to ensure that the return on the net assets invested in the shop is at least equivalent to a market return, they may recommend that the Trust invest its funds in another activity if a market return is not achieved. This may indicate that Company 1 is a FP entity.
Nature of funding	If a significant number of the bicycles for sale and for hire were donated by members of the community, this may indicate that Company 1 is a NFP entity. Similarly, if most of the employees of Company 1 are volunteers, this may indicate that Company 1 is a NFP entity.	Company 1 funds its activities through the sale and hire of bicycles. The Trust provided a small capital contribution to ensure the shop could purchase bicycles in addition to any that were donated. Company 1 pays a small rental to the Trust. Other outgoings are minimal and there are no borrowings. If the funding is derived primarily from the sale and hire of bicycles at normal commercial rates and the Trust expects a return on its investment, this may indicate that Company 1 is a FP entity.
Conclusion:	The above factors may indicate that Company 1 is a NFP entity.	The above factors may indicate that Company 1 is a FP entity.

Example 3: Private education organisation

Entity B is a private organisation dedicated to providing low-cost high-quality education to children who migrated to Australia from poverty-stricken countries. Entity B was established as a Trust with an initial endowment of $5m from the estate of a wealthy business person. In order to supplement its income, Entity B accepts a limited number of fee-paying students. The fees for such students were determined after market research into the pricing of such services. All fee revenue is applied by Entity B to its objective of providing high-quality education to children who migrated to Australia from poverty-stricken countries. The revenue from fee-paying students has enabled Entity B to expand the range of services it offers and to expand its roll of immigrant children. The trustees carefully manage the resources of Entity B in order to maximise the number of immigrant children it can accept and to maintain a high-quality educational service. The trustees have a clear operational plan and have established clear financial targets in order to achieve the trust's objectives.

	3a	3b
Stated objectives	The trust deed establishing Entity B states that the purpose of Entity B is to provide high-quality education to children who migrated to Australia from poverty-stricken countries. As Entity B's objective is to provide high-quality education to immigrant children from poverty-stricken countries (ie to provide a community or social benefit), this may indicate that Entity B is a NFP entity.	If the trust deed states that Entity B's purpose is to maximise its financial surplus from fee-paying students while also providing high-quality education to immigrant children, this may indicate that Entity B is a FP entity.
Nature of the benefits, including the quantum of expected financial benefits	The nature of the benefits provided by Entity B are the educational services delivered to children from poverty-stricken countries. The trust funds have been provided to Entity B for the benefit of immigrant children and not for the generation of a financial return to the trust beneficiaries. The nature of the benefits provided is primarily community/social, which may indicate that Entity B is a NFP entity. If the financial targets established by the trustees are expressed in terms of meeting the development targets set out in the operational plan rather than being expressed in terms of a return on equity, this may indicate that Entity B is a NFP entity.	If the financial targets are expressed in terms of a return on equity, this may indicate that Entity B is a FP entity. If Entity B established a subsidiary entity through which it ran its commercial education operations to maximise profits to be paid back to the Trust, then that subsidiary may be a FP entity. In this case it would also be necessary to consider whether the group is a NFP entity by considering the characteristics of the controlling entity in the group (which would most likely determine the classification of the group) and the characteristics of the group.
Primary beneficiaries of the benefits	If the objective of Entity B is to provide high-quality education to immigrant children, with any surplus generated used to expand the number of immigrant children who are provided with high-quality education, the primary beneficiaries are the immigrant children. This may indicate that Entity B is a NFP entity.	If the trust deed identifies specific parties as beneficiaries of the trust (ie not the immigrant children) and Entity B limits the amount of surplus used to expand the education programme to immigrant children in order to generate a financial return for the specified beneficiaries, this may indicate that Entity B is a FP entity.
Nature of equity interest	Entity B is a trust, so there are no clearly defined ownership instruments. The trust deed requires that in the event Entity B ceases operating any residual assets are to be distributed to another entity with a similar purpose. The use of the assets is restricted, and there are no clear equity holders that have an entitlement to those assets. This may indicate that Entity B is a NFP entity.	If the trust deed provides that in the event Entity B ceases operating any residual assets are to be distributed to other specified parties (eg the specified beneficiaries), this may indicate that Entity B is a FP entity.
Purpose and use of assets	Entity B provides education to both immigrant children and to fee-paying students. The trustees have a clear operational plan and have established clear financial targets to achieve the trust's objectives. If Entity B uses its assets to provide high-quality education to immigrant children from poverty-stricken countries, rather than to generate a financial return on its equity, then this may indicate that Entity B is a NFP entity.	If the trustees of Entity B require a commercial financial return on those assets, this may indicate that Entity B is a FP entity.

Nature of funding	Entity B receives funding from several sources: investment income from the initial endowment, income from fee-paying students, and donations from the public and fundraising activities. If this funding is derived predominantly from third parties who do not benefit from Entity B's services, and the resource provider does not receive an entitlement to financial returns (or other economic resources), this may indicate that Entity B is a NFP entity.	If Entity B derives its funding predominantly from fee-paying students and other resource providers in exchange for an entitlement to financial returns (or other economic resources), this may indicate that Entity B is a FP entity.
Conclusion:	The above factors may indicate that Entity B is a NFP entity.	The above factors may indicate that Entity B is a FP entity.

Example 4: Sports club

Club AFC is a football club established in a suburb of a large city. Club AFC organises competitions and provides coaching and training for a wide range of age groups, from five-year-olds through to senior grade, and representative grades.		
	4a	**4b**
Stated objectives	Club AFC may be established as a charitable trust with its constitution stating that it is a non-profit entity established to foster participation and to promote amateur football in its suburb. This indicates that Club AFC may be a NFP entity.	If, however, Club AFC is established as an association and the constitution stated that Club AFC's objective is ~~to~~ to foster participation, promote football in its suburb and to maximise profits for the club or its members, then this may indicate that Club AFC is a FP entity.
Nature of the benefits, including the quantum of expected financial benefits	The benefits provided by Club AFC arise from the co-ordination of football competitions and the provision of football coaching and training to club members. This may indicate that Club AFC is a NFP entity. If the Club's activities primarily benefit the wider community (for example, by promoting football as part of a keeping-active programme, providing some coaching at no cost for schools or providing free memberships for disadvantaged children in the community), this may indicate that Club AFC is a NFP entity.	If Club AFC were to sell a significant amount of its coaching and training services (eg to schools, other football clubs, or individuals) at normal market rates, with the aim of generating financial returns for the club or its members, this may indicate that Club AFC is a FP entity. If the financial targets are set with the objective of generating a commercial rate of return for the club or its members, this may indicate that Club AFC is a FP entity.
Primary beneficiaries of the benefits	Club AFC provides coaching and training for all age groups and grades of players who are members of the club. The Club also organises football competitions in which other amateur football clubs participate.	If the primary beneficiaries of the Club's activities are the members of Club AFC, it is necessary to consider other factors (for example, the nature of the benefits and the other indicators) to determine whether the entity is a NFP entity.
Nature of equity interest	If the Club's assets are used primarily to provide coaching, training and competitions for amateur players in the community, then this may indicate that Club AFC is a NFP entity.	If the Club was owned by shareholders expecting a financial return on their investment in the Club, this may indicate that the Club is a FP entity. If the constitution states that in the event the Club is wound up or ceases to operate any

		residual assets are to be distributed to the members (or shareholders), this may indicate that the Club is a FP entity.
Purpose and use of assets	Club AFC's assets comprise primarily football equipment (nets, balls, uniforms etc), as well as equipment used to record and analyse matches for the purpose of coaching and training. A small shed is leased at the local community centre to store the equipment.	If Club AFC sells a significant amount of its coaching and training services and charges commercial market rates to other individuals or entities for using its equipment, then its assets may be generating a financial return for its members. This may indicate that the Club is a FP entity.
Nature of funding	Club AFC receives funding from membership fees, donations, sponsorship and community grants. If this funding does not establish a financial interest in the Club, this may indicate that Club AFC is a NFP entity.	If Club AFC receives funding primarily from members and other resource providers who are expecting either a financial return on their investment or other economic resources in return for providing funds, this may indicate that Club AFC is a FP entity.
Conclusion:	The above factors may indicate that Club AFC is a NFP entity.	The above factors may indicate that Club AFC is a FP entity.

Example 5: Social enterprise

The social enterprise model is becoming a more prevalent way for entities to operate. It is important to note that an entity that identifies itself as a social enterprise may not necessarily be a NFP entity. It is possible for an entity that identifies itself as a social enterprise to be a FP entity that also has a social objective. Entity C is a company which donates one lunch for a hungry school child at a low socio-economic status (LSES) school for every lunch that it sells to the public, that is, the cost of the donated lunch is built into the cost of the lunch that is sold.		
	5a	**5b**
Stated objectives	Entity C's constitution states that its objective is to provide healthy food, including lunches, to patrons and to children at LSES schools. If Entity C's constitution states that its objective is to help children at LSES schools by providing healthy lunches, this may indicate that Entity C is a NFP entity.	If Entity C's objective is to maximise profits while also achieving a social objective of providing healthy lunches to children at LSES schools, this may indicate that Entity C is a FP entity.
Nature of the benefits, including the quantum of expected financial benefits	If Entity C uses the surpluses from the sale of lunches primarily to fund the costs of the free lunches and other operating costs, with any surplus used to expand the number of free lunches provided to school children, the nature of the benefits provided are primarily community/social. This may indicate that Entity C is a NFP entity.	If Entity C generates substantial surpluses after covering the costs of free lunches, with those surpluses distributed to its shareholders or retained for additional business investments, the nature of the benefits provided are primarily financial. This may indicate that Entity C is a FP entity.
Primary beneficiaries of the benefits	If Entity C uses most of the surpluses from the sale of lunches to provide free lunches to children in LSES schools rather than distributing the profits to its shareholders, the primary beneficiaries are the children at LSES	Entity C has three shareholders. If Entity C limits the amount of its surplus from the sale of lunches that can be used to provide free lunches, to ensure that it generates an adequate financial return for its

	schools. This may indicate that Entity C is a NFP entity.	shareholders, the primary beneficiaries are the shareholders, which may indicate that Entity C is a FP entity.
Nature of equity interest	Entity C has two founding shareholders. To enable expansion plans to be completed, additional shares were issued to a shareholder who has a prominent business in the food distribution sector. The equity holders are clearly identifiable by the equity instruments they hold. If: (a) there are no entitlements to dividends; (b) all profits are reinvested in Entity C; and (c) on Entity C ceasing to operate, any residual assets are to be donated to an entity with a similar charitable objective; this may indicate that Entity C is a NFP entity.	If Entity C's shareholders have an entitlement to dividends and to a share of the residual net assets of the entity if it is wound up, this may indicate that Entity C is a FP entity.
Purpose and use of assets	Entity C acquires or holds its assets to provide healthy lunches for children in LSES schools and to make lunches and healthy food that are sold to the public. If the assets are used primarily to provide healthy lunches for children in LSES schools, this may indicate that Entity C is a NFP entity.	If Entity C acquires or holds its assets primarily to operate or sell the assets in order to generate financial benefits for its equity holders, this may indicate that Entity C is a FP entity.
Nature of funding	Entity C's equity was initially provided by shareholders. If Entity C relies primarily on donations and grants from the general public and funding organisations, and has a predominantly volunteer workforce, this may indicate that Entity C is a NFP entity.	If Entity C's funding is provided primarily by shareholders and other resource providers in exchange for an entitlement to financial returns (eg dividends) or other economic resources, this may indicate that Entity C is a FP entity.
Conclusion:	The above factors may indicate that Entity C is a NFP entity.	The above factors may indicate that Entity C is a FP entity.

Example 6: Providing goods or services for community and social benefit

Entity D is a fund-raising organisation.

	6a	6b
Stated objectives	Entity D (a trust) is an ancillary fund which provides a link between people who want to give ('donors') and an organisations that can receive tax deductible donations as deductible gift recipients. Ancillary funds are set up for the purpose of providing money, property or benefits to deductible gift recipients (DGR). Entity D's stated objective is to supports structured charitable giving. Entity D's has the vision to activate a nation of givers to create fairer and more sustainable Australia.	Entity D is an angel investor sourcing funds from individuals with excess funds on hand to provide financial backing for small start-ups or entrepreneurs in exchange for ownership equity in the investee. The stated objective of entity D is to help the business get off the ground and carry through its difficult early stages.
Nature of the benefits, including the quantum of expected financial benefits	Donors provide funds to Entity D for the purpose of providing money, property or benefits (and for the establishment of) deductible gift recipients that are not ancillary funds. No financial benefits are expected to be provided back to the donors or the controlling entity of the fund.	Entity D invest in start-ups with the potential for higher rate of return than those provided by traditional investment opportunities.
Primary beneficiaries of the benefits	Organisations that can receive tax deductible donations as deductible gift recipients are the primary beneficiaries of the benefits.	The equity holders of the entity D are the primary beneficiaries of the benefits.
Nature of equity interest	Entity D is 100% owned and controlled by the Trustee. Trustee has the ultimate responsibility for the governance of Entity D. The donors may give opinion on which DRG organisations to donate but the Trustee is the ultimate decision-maker.	Entity D has clear equity holders and the nature of the equity instrument is clear.
Purpose and use of assets	Entity D holds assets for the ultimate benefit of eligible DGRs.	Entity D hold assets mainly for generating financial benefit for its equity holders.
Nature of funding	Entity D's funding is provided by the individuals, families, organisations that want to donate for charitable works.	Entity D's funding is provided primarily by investors for an entitlement to financial returns (eg dividends) or other economic resources.
Conclusion:	The above factors may indicate that Entity C is a NFP entity.	The above factors may indicate that Entity C is a FP entity.

Commented [A33]: Note to the Board 6:
Staff developed new illustrative example to reflect the tentative decision the Board made in April 2020 meeting to include an illustrative example to clarify the term "providing goods or services for community and social benefit", with the intention to address question whether provision of funding is provision of "goods and services".
AASB Action Alert - M175 (Issue no. 202)

Basis for Conclusions

Commented [A34]: The Basis for Conclusions section were not updated in this working draft to reflect Board's deliberations on the feedback received on ED 291.

This Basis for Conclusions accompanies, but is not part of, AASB 2019-X Amendments to Australian Accounting Standards – Not-for-Profit Entity Definition and Guidance.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for issuing this Standard

BC2 A not-for-profit (NFP) entity is currently defined in Australian Accounting Standards as an entity whose principal objective is not the generation of profit. The classification of an entity as a for-profit (FP) entity or a NFP entity is important because the application of the Standards can differ depending on whether an entity is classified as a FP or NFP entity. Different recognition, measurement, presentation and disclosure requirements can apply to an entity depending on whether it is a FP or NFP entity.

BC3 The distinction between a FP entity and a NFP entity would become even more significant if the Board develops a separate NFP entity financial reporting framework with simplified recognition and measurement requirements and different reporting tiers for NFP entities.

BC4 As part of the consultation undertaken in relation to revising the Board's standard-setting frameworks for FP and NFP entities in 2017, the Board asked for specific feedback regarding the definition of a NFP entity, and whether there was sufficient guidance on how to distinguish entities as FP entities and NFP entities.

BC5 The majority of respondents supported retaining the term 'not-for-profit entity', but requested more guidance in determining whether an entity is a FP or NFP entity under the Standards.

The implementation guidance

BC6 A majority of respondents supported the Board monitoring and working with the New Zealand Accounting Standards Board on its project to update the definition of a public benefit entity (PBE), which is the New Zealand term for a not-for-profit entity. Several respondents noted the potential usefulness of the definition of a PBE as having a greater focus on the nature and purpose of a NFP entity. Contrary to the current definition of a NFP entity in Australian Accounting Standards, it would provide a positive statement of what a NFP entity is, rather than what it is not.

BC7 In December 2018, the New Zealand External Reporting Board (XRB) issued the XRB Exposure Draft *2018 Amendments to XRB A1 Appendix A*, which proposed amendments to Appendix A of XRB Standard A1 *Application of the Accounting Standards Framework.* Appendix A provides guidance to assist an entity in determining whether it is a PBE or FP entity. The New Zealand amendments have now been finalised as proposed in the XRB ED through the issue of the XRB Standard *2019 Amendments to XRB A1 Appendix A* (May 2019).

BC8 The Board decided in February 2019 that the XRB definition of PBE and the associated draft revised guidance would generally be appropriate for use under the Australian standard-setting framework, subject to certain amendments to adapt it for the Australian context. This Exposure Draft is based on that New Zealand work.

BC9 In adapting the XRB material for this ED, the Board decided to replace the NZ example 1 of Crown Research Institutes with an Australian hypothetical example of a wholly owned State entity. In addition, the Board added a paragraph (paragraph 18) to the main guidance to address the classification of public sector entities that are focussed on internal administration, given the likelihood of differing views.

Changing classification

BC10 The guidance addresses the potential accounting consequences for an entity changing its classification from a NFP entity to a FP entity, or vice versa. Where an entity has complied previously with Australian Accounting

Standards, accounting policies will need to change where there are differences between the requirements for FP and NFP entities, as relevant to the entity. Changes in accounting policies are required to be accounted for in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, if an entity has not fully complied with the Standards in its most recent previous financial statements, the entity should apply the requirements set out in AASB 1053 *Application of Tiers of Australian Accounting Standards* for either the first-time adoption of the Standards or the reapplication of the Standards, as relevant. This approach will ensure that the change in accounting policies is made appropriately.

BC11 No specific requirements are considered necessary for the first-time application of this guidance, when this results in a change in the classification of an entity. The approach to a classification change under the ongoing application of this guidance is equally applicable to the first-time case.

~~BC11~~