

**AASB Standard**

**AASB 2013-8**

October 2013

**Amendments to Australian  
Accounting Standards –  
Australian Implementation  
Guidance for Not-for-Profit  
Entities – Control and  
Structured Entities**

**[AASB 10, AASB 12 & AASB 1049]**



**Australian Government**

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**Australian Accounting  
Standards Board**

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Australian Accounting Standard AASB 2013-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities* is set out in paragraphs 1 – 15. All the paragraphs have equal authority.

## **PREFACE**

### **Introduction**

This Standard makes amendments to the Australian Accounting Standards AASB 10 *Consolidated Financial Statements*, AASB 12 *Disclosure of Interests in Other Entities* and AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

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

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

Similarly, the Standard adds an appendix to AASB 12, in relation to structured entities.

The appendices do not apply to for-profit entities or affect their application of AASB 10 and AASB 12.

In addition, related amendments are also included for AASB 1049.

The amendments in this Standard result from proposals issued in AASB Exposure Draft ED 238 *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities* (March 2013).

The Standard also makes editorial corrections to AASB 12 (paragraph C3) and AASB 1049 (paragraph 12).

### **Main Features of this Standard**

#### **Main Requirements**

The amendments to AASB 10 add Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* as an integral part of that Standard. The appendix explains various principles in AASB 10 regarding the criteria for determining whether one entity controls another entity from the perspective of not-for-profit entities, and illustrates the principles with examples.

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

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

The amendment to AASB 12 adds Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* as an integral part of that Standard. The appendix explains the application of the definition of 'structured entity' by not-for-profit entities.

This Standard also amends AASB 1049 to replace references to the superseded AASB 127 *Consolidated and Separate Financial Statements* with references to AASB 10 or AASB 12. In addition, AASB 1049 is amended so that General Government Sector financial statements are not required to comply with the disclosure requirements of AASB 12.

### **Application Date**

This Standard applies to annual reporting periods beginning on or after 1 January 2014. Early application is permitted for annual reporting periods beginning on or after 1 January 2013 but before 1 January 2014. These dates are the same as for the application of AASB 10 and AASB 12 to not-for-profit entities, as amended by AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*.

### **Reduced Disclosure Requirements**

This Standard provides implementation guidance to assist not-for-profit entities in applying AASB 10 and AASB 12. The amendments do not affect the reduced disclosure requirements set out in AASB 12.

## **ACCOUNTING STANDARD AASB 2013-8**

The Australian Accounting Standards Board makes Accounting Standard AASB 2013-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities* under section 334 of the *Corporations Act 2001*.

Dated 31 October 2013

Kevin M. Stevenson  
Chair – AASB

## **ACCOUNTING STANDARD AASB 2013-8**

### ***AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR- PROFIT ENTITIES – CONTROL AND STRUCTURED ENTITIES***

#### **Objective**

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

#### **Application**

- 2 **Subject to paragraph 3, this Standard applies to:**
- (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
  - (b) **general purpose financial statements of each other reporting entity; and**
  - (c) **financial statements that are, or are held out to be, general purpose financial statements.**

- 3 **In respect of AASB 1049, this Standard applies to each government's whole of government general purpose financial statements and General Government Sector financial statements.**
- 4 **This Standard applies to annual reporting periods beginning on or after 1 January 2014.**
- 5 **This Standard may be applied to annual reporting periods beginning on or after 1 January 2013 but before 1 January 2014, provided that AASB 10 and AASB 12 are also applied to the same period. If an entity applies this Standard to such an annual reporting period, it shall disclose that fact.**
- 6 **This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.**

## **Amendments to AASB 10**

- 7 Paragraph Aus3.6 is added as follows:  

Aus3.6 Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* explains and illustrates the principles in this Standard from the perspective of not-for-profit entities in the private and public sectors, particularly in circumstances where the for-profit perspective reflected in the body of the Standard and the other appendices does not readily translate to a not-for-profit perspective.
- 8 Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* is added as set out below (see pages 9–37).

## **Amendments to AASB 12**

- 9 Paragraph Aus5.1 is added as follows:  

Aus5.1 Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* explains and illustrates the definition of 'structured entity' from the perspective of not-for-profit entities in the private and public sectors, since the for-profit perspective reflected in the definition does not readily translate to a not-for-profit perspective.
- 10 In paragraph C3, 'this IFRS' is amended to 'this Standard'.

- 11 Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* is added as set out below (see pages 38–40).

## **Amendments to AASB 1049**

- 12 In paragraph 10 and the definition of ‘whole of government general purpose financial statements’ in Appendix A, and in the Illustrative Examples accompanying AASB 1049, the references to AASB 127 *Consolidated and Separate Financial Statements* are amended to AASB 10 *Consolidated Financial Statements*.
- 13 Paragraph 12 is amended as follows (new text is underlined and deleted text is struck through):
- 12 ~~Paragraph Aus15.4 of AASB 101~~ Paragraph 9 of AASB 1054 *Australian Additional Disclosures* applies to the whole of government. It does not apply to the GGS. Accordingly, the GGS is not required to disclose ~~that whether~~ its financial statements are general purpose financial statements or special purpose financial statements.
- 14 In paragraphs 19 and 42(b)(i), ‘AASB 127’ is amended to ‘AASB 10’.
- 15 Paragraph 45 is amended as follows (new text is underlined and deleted text is struck through):
- 45 The GGS is not subject to the disclosures required by ~~paragraphs 41, 42, 43 and Aus43.1 of AASB 127 relating to investments in subsidiaries, jointly controlled entities and associates~~ AASB 12 *Disclosure of Interests in Other Entities*. The requirements in ~~those paragraphs~~ AASB 12 are either addressed elsewhere in this Standard or are not significant for GGS financial reporting.

## **APPENDIX E [AASB 10]**

### **AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES**

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

- IG1 AASB 10 incorporates International Financial Reporting Standard IFRS 10 *Consolidated Financial Statements*, issued by the International Accounting Standards Board. Consequently, much of the text of the body of this Standard and Appendices A–C is expressed from the perspective of for-profit entities. The AASB has prepared this appendix to explain and illustrate the principles in the Standard for not-for-profit entities in the private and public sectors, particularly to address circumstances where a for-profit perspective does not readily translate to a not-for-profit perspective.
- IG2 This appendix addresses a range of matters affecting not-for-profit entities broadly in the order in which the related paragraphs appear in the body of the Standard and in Appendix B. The appendix paragraphs are arranged under the same headings as in the body of the Standard or Appendix B. Cross-references to the paragraphs in the body of the Standard and to the other appendices are included to assist in relating the paragraphs in this appendix to the requirements of the Standard.
- IG3 Illustrative examples are provided in the implementation guidance both within implementation guidance paragraphs and as discrete examples. The examples apply by analogy to types of not-for-profit entities other than those identified in the examples and similar circumstances. It is the facts and circumstances in any case, not simply the type of not-for-profit entity, that need to be assessed in determining whether one entity controls another entity.

#### **Control**

- IG4 Paragraph 5 of AASB 10 sets out the fundamental requirement that an investor shall determine whether it controls an investee. As indicated by the reference in paragraph 11 to assessing power arising from contractual arrangements, the investor need not have a financial investment in the investee. In general terms, an investor and an

investee are merely entities that have a relationship in which control of one entity (the investee) by the other (the investor) might arise.

## **Power**

- IG5 One of the criteria set out in paragraph 7 for control of an investee is that the investor has power over the investee. Paragraph 10 states that an investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, that is, the activities that significantly affect the investee's returns. As an example, a not-for-profit investor would have power over an investee when the investor can require the investee to deploy its assets or incur liabilities in a way that affects the investee's returns (for example, in providing goods or services to the investor or other parties that assist in achieving or furthering the investee's objectives).
- IG6 Paragraph 11 states that power arises from rights, and refers to voting rights granted by equity instruments and rights arising from contractual arrangements. While these rights will often be the source of power for for-profit entities, power will frequently arise through different sources for not-for-profit entities. For many not-for-profit entities, rights arising from administrative arrangements or statutory provisions will often be the source of power. Assessing the purpose and design of an investee will assist an investor to identify who has power over the investee, ie the current ability to direct the relevant activities (paragraph B5).
- IG7 As an example of contractual or statutory arrangements, a not-for-profit investor often will have power over an investee that it has established when the constituting document or enabling legislation for the investee specifies the investor's rights to direct the operating and financing activities that may be carried out by the investee. However, the impact of the constituting document or legislation is evaluated in the context of the prevailing circumstances, as all facts and circumstances need to be considered in assessing whether an investor has power over an investee. For example, the purpose and design of an investee may point to the relevant activities of the investee and how decisions about the relevant activities are made. To illustrate, a government may not have power over a research and development corporation that operates under a mandate created, and limited, by that government's legislation if that or other legislation means that the power to direct the relevant activities is held by other entities that are not controlled by the government, such as participants in the research and development activities.
- IG8 The research and development corporation example in the previous paragraph illustrates that an investor might not have power over an

investee due to the rights of other parties in relation to the investee, as indicated in paragraph B10. As another example, subject to consideration of all the facts and circumstances, a State or Territory government normally would not have power to direct the relevant activities (ie the activities that significantly affect the returns) of a local government that determines through the council elected periodically by the local community how to deploy the local government's resources in the interests of the local community (even though those interests might coincide with or overlap the interests of the State or Territory government).

#### **Rights that give an investor power over an investee**

IG9 Paragraph B15 provides examples of rights that, either individually or in combination, can give an investor power in respect of an investee. In relation to not-for-profit investors, additional examples of such rights include:

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

IG10 A not-for-profit investor can have power over an investee even if it does not have responsibility for the day-to-day operation of the investee or the specific manner in which prescribed functions are performed by the investee. For example, legislation governing the establishment and operation of an independent statutory office (such as an auditor-general or the judiciary) sets out the broad parameters within which the office holder is required to operate, and results in the office holder operating in a manner consistent with the objectives set by the legislation. Whilst the holders of an independent statutory office are to act independently in discharging their responsibilities, the government typically provides the organisations that assist the statutory office holders in fulfilling their responsibilities. In such cases, the resources of those organisations remain government resources albeit that they are placed at the disposal of the office holders, subject to the office holders acting in accordance with their enabling legislation. Furthermore, the relevant activities of the organisations, including providing technical services to the statutory office holders, are generally subject to the same financial management, employment and administrative frameworks and policies as would apply to government-controlled entities such as government departments. Therefore, subject to other facts and circumstances, assuming the other control criteria are also satisfied,

the organisations assisting the independent statutory office holders would be controlled by the government and would be consolidated into the whole of government general purpose financial statements.

- IG11 Paragraph B19 lists a range of indicators that suggest that an investor has more than a passive interest in an investee, but notes that the existence of such indicators does not necessarily mean that the power criterion is met. The indicators listed include the investee's operations being dependent on the investor, such as dependence on the investor to fund a significant portion of its operations, guarantee a significant portion of its obligations or provide critical goods or services. Paragraph B40 also states that, in the absence of other rights, the economic dependence of an investee on the investor does not lead to the investor having power over the investee.
- IG12 An example of the circumstances contemplated in paragraphs B19 and B40 is that a government may not have the current ability to direct the relevant activities of entities (such as private schools, private hospitals, private aged-care providers and universities) that are financially dependent on government funding, where the governing bodies of those entities have discretion with respect to whether they will accept resources from the government, or the manner in which their resources are to be deployed. This may be so even if government grants provided to such entities require them to comply with specified conditions. Although these entities might receive government grants for capital construction and operating costs subject to specified service standards or restrictions on user fees, their independent governing body may have ultimate discretion about how assets are deployed.

#### *Substantive rights*

- IG13 Barriers that prevent a holder of rights from exercising them are considered in determining whether the rights are substantive, that is, whether the holder has the practical ability to exercise the rights (paragraph B22). Paragraph B23 provides examples of such barriers. For some not-for-profit investors, political, cultural, social or similar types of barriers might make it difficult for the investor to exercise rights held in relation to an investee. However, the investor's rights would be substantive, despite such barriers, if the investor can still choose to exercise those rights. For example, a government may have the power to appoint and remove the majority of members of the governing body of a railway authority without cause but may be reluctant to remove members because of sensitivity in the electorate regarding the previous government's involvement in the operation of the rail network. In this case, the government has substantive rights, irrespective of whether it chooses to exercise them.

IG14 Paragraph B24 states that to be substantive, rights need to be exercisable when decisions about the direction of the relevant activities need to be made. Usually this means that the rights need to be currently exercisable. However, paragraph B24 also notes that sometimes rights can be substantive even though they are not currently exercisable. For many not-for-profit investors, power over an investee may be obtained from existing statutory arrangements. Rights specified in substantively enacted legislation would be substantive rights that need to be considered by the investor in assessing control of an investee if it is assessed that the rights will be exercisable when decisions about the direction of the relevant activities need to be made. However, the power to enact or change legislation does not give the investor the current ability to direct relevant activities of the investee. Depending on circumstances, statutory arrangements may be in the nature of protective rights rather than substantive rights – see paragraphs IG15–IG17.

***Protective rights***

IG15 Protective rights are defined in Appendix A as rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate. Applying this principle to not-for-profit entities, protective rights include rights held by a government or other entity in order to protect, as distinct from enhance, the interests of the government, the beneficiaries of an entity or the public at large. In accordance with paragraph B27, such rights do not result in the investor (the government or other entity) having power over an investee or restricting another entity from having power over the investee.

IG16 Not-for-profit entities might hold regulatory powers that restrict the way in which regulated entities operate. The regulatory powers may be exercisable through an established framework within which entities are required to operate, including the ability to impose conditions or sanctions on their operations. Regulatory powers may represent protective rights, which do not give power (as defined in the Standard) over an investee, or substantive rights that need to be considered in determining control. For example, regulatory powers may represent substantive rights when they would have the effect of giving the regulator the ability to direct the relevant activities of an investee in particular circumstances. Not-for-profit investors are required by paragraph B26 to assess whether their rights (and rights held by others) are protective or substantive rights.

IG17 In addition to the examples in paragraph B28, examples of protective rights in relation to not-for-profit entities include:

- (a) the right of a regulator to curtail or close the operations of entities that are not complying with regulations or other requirements. For example, a pollution control authority may be able to close down an entity's activities that breach environmental regulations.
- (b) the right to remove members of the governing body of another entity under certain restricted circumstances. For example, for reasons relating to a lack of probity, a State government may be able to remove or suspend the councillors of a local government and appoint an administrator who is not directed by the State government in carrying out the functions of the local government.
- (c) the right to appoint additional members to the governing body of another entity under certain restricted circumstances. For example, when the entity has failed to comply with performance standards, a regulator may be able to appoint appropriately qualified members who are in the same position as other members – they do not report to and are not directed by the regulator.
- (d) the right of the government to remove tax deductibility for contributions to a not-for-profit entity if the entity significantly changes its objectives or activities.
- (e) a philanthropic trust providing resources to a charity on condition that the net assets of the charity would be distributed to a similar organisation undertaking similar activities if the charity is liquidated.

## **Returns**

### **Exposure, or rights, to variable returns from an investee**

IG18 One of the criteria set out in paragraph 7 for control of an investee is that the investor has exposure, or rights, to variable returns from its involvement with the investee. The examples of returns in paragraph B57, particularly those in paragraph B57(c), indicate that the scope of the nature of returns is broad. In application to not-for-profit entities, the broad scope of the nature of returns encompasses financial, non-financial, direct and indirect benefits, whether positive or negative, including the achievement or furtherance of the investor's objectives.

IG19 An investor's exposure, or rights, to variable returns from its involvement with an investee may give rise to indirect, non-financial

returns, such as when achieving or furthering the objectives of the investee contributes to the objectives of the investor. For example, the provision of goods and services by the investee to its beneficiaries may affect the extent to which the investor's social policy objectives are furthered. These returns to the investor would reflect factors such as the efficiency and effectiveness of delivery of the goods and services and changes in the outcomes for the beneficiaries.

### **Link between power and returns**

IG20 The third criterion set out in paragraph 7 for control of an investee is that the investor has the ability to use its power over the investee to affect the amount of the investor's returns. As an example, the investor would have the ability to use its power over the investee when it can direct the investee to work with the investor to further the investor's objectives. However, the existence of congruent objectives alone is insufficient for a not-for-profit investor to conclude that it controls an investee.

### **Delegated power**

IG21 An investor with decision-making rights (a decision maker) is required by paragraph B58 to determine whether it is a principal or an agent. Paragraphs B60 and B61 summarise factors to be taken into account in making that determination, such as the scope of the decision-making authority and the rights of other parties. The following examples illustrate these paragraphs in relation to not-for-profit entities.

IG22 A charity establishes a trust to fund and construct village dams, bores and other water infrastructure in several provinces of a developing country. The trustee is appointed by the charity to oversee the work of the trust. The trustee receives remuneration from the trust commensurate with the services provided and the skills applied, plus a performance bonus upon the successful completion of individual projects. The charity can replace the trustee at its discretion. The trustee therefore is an agent of the charity and cannot control the trust in its own right. In this case, the charity then needs to assess whether it controls the trust through the trustee. For example:

- (a) the trustee may have power over the trust in having the current ability to direct its relevant activities, whether through a broad decision-making authority or as determined by the charity in respect of major aspects, such as project selection. Even if the trustee does not have exposure or rights to variable returns from the trust, the charity does so in terms of the extent to which its overseas aid objectives are achieved or furthered

through the activities of the trust. Since the trustee (as an agent of the charity) can use its powers to affect the trust's non-financial returns, the three control criteria are satisfied in respect of the charity and the charity would control the trust; or

- (b) the trustee may be permitted by development regulations of the provincial governments to provide only oversight of the trust's activities, which are carried out in general by management committees appointed by the relevant provincial government. In this case, the trustee does not have the power to direct the relevant activities of the trust, and accordingly the charity would not control the trust.

IG23 A government department acts in relation to an investee only as an agent of the responsible Minister when the department or an official of the department is merely authorised by the Minister to act on the Minister's behalf (in which case the department's activities in relation to the investee would be reflected in its reporting under AASB 1050 *Administered Items*).

IG24 Alternatively, a department acts as a principal under a delegation of powers from the Minister as the department or an official of the department exercises their own discretion, not subject to specific direction by the Minister. In this case, the department would report its activities in relation to the investee as its own transactions. The department would need to assess whether the delegated powers give it the current ability to direct the relevant activities of the investee and whether the other control criteria are satisfied in deciding whether the department controls the investee and should consolidate it.

### **Implementation Examples**

IG25 Examples IG1–IG5 illustrate the application of the three criteria for control (power over an investee, variable returns from involvement with the investee, and link between power and the investor's returns) in a range of circumstances. Example IG5 also illustrates the effect of delegated powers in the public sector.

IG26 Each example provides detailed information about the purpose and design of the investee, as a basis for assessing control of the investee. The sub-examples address the initial circumstances, and then vary the design of the investee, with the control assessment then reconsidered in each case. Examples IG3 and IG4 particularly distinguish substantive and protective rights held by an investor in relation to the investee. In any specific case, distinguishing substantive and protective rights requires analysis of the circumstances, including

considering the reasons for different investors holding various rights in relation to the investee.

<b>Implementation examples</b>
<p><b>Example IG1</b></p> <p>A religious organisation ABC established a community housing program that provides low-cost housing. The program is operated by an incorporated association. The association's constitution states that its objective is to manage the community housing facility to meet the need for low-cost housing. The association has not issued any equity instruments.</p> <p>The relevant activities of the association comprise:</p> <ul style="list-style-type: none"><li>• reviewing and selecting applicants for housing;</li><li>• the day-to-day operation of the housing program;</li><li>• maintaining the houses and common facilities; and</li><li>• improving and extending the housing facilities.</li></ul> <p>The board of governors of the association has 16 members, with eight appointed by (and subject to removal by) the religious organisation. The chair is appointed by the board from amongst the appointees of the religious organisation, and has a casting vote that is rarely exercised. The board meets regularly and reviews reports received from the association's management. Based on these reports, the board may confirm or override management decisions. In addition, the board makes decisions on major issues such as significant maintenance and investing further capital to build additional housing, after reviewing vacancy levels and the demand for housing.</p> <p>The religious organisation owns the land on which the housing facilities stand and has contributed capital and operating funds to the association since it was established. The association owns the housing facilities.</p> <p>The association retains any surplus resulting from the operation of the facilities and under its constitution is unable to provide a direct financial return to the religious organisation.</p> <p><b>Example IG1A</b></p> <p>Based on the facts and circumstances outlined above, the religious organisation controls the association.</p>

The religious organisation appoints eight members of the board of governors, one of whom will become the chair, who has a casting vote. As a result, the religious organisation has power over the association through substantive rights that give it the current ability to direct the relevant activities of the association, regardless of whether the religious organisation chooses to exercise those substantive rights.

The religious organisation also has exposure or rights to variable returns from its involvement with the association. The religious organisation obtains non-financial returns through the association furthering its social objective of meeting the need for low-cost community housing. Although not able to receive direct financial returns, the religious organisation obtains indirect returns through its ability to direct how the financial returns are to be employed in the community housing program.

The religious organisation also satisfies the final control criterion. Through its appointees on the board, the religious organisation has the ability to use its power to affect the nature and amount of its returns from the association.

The religious organisation satisfies all three criteria for control and therefore the religious organisation controls the association.

#### **Example IG1B**

In this example, the facts of Example IG1A apply, except that:

- the association's board of governors is elected through a public nomination and voting process that does not give rights to the religious organisation to appoint board members; and
- decisions made by the association's board are reviewed by the religious organisation, which may offer advice to the association.

Based on the revised facts and circumstances outlined above, the religious organisation does not have substantive rights relating to the association and therefore does not have power over the association.

The religious organisation's social objectives in relation to low-cost community housing are still being achieved and therefore it will still obtain indirect non-financial returns. However, congruence of objectives alone is insufficient to conclude that one entity controls another (see paragraph IG20).

The religious organisation does not have power and consequently does not have the ability to use power to affect the amount of the

organisation's returns. The religious organisation is unable to satisfy two of the three control criteria and therefore the religious organisation does not control the association.

**Example IG1C**

In this example, the facts of Example IG1B apply, except that the association's constitution allows the religious organisation to change the manner in which the board of governors is determined, as it sees fit.

For example, the religious organisation has the unilateral ability to amend the constitution of the association to enable the religious organisation to appoint a majority of the board of governors, thus giving the religious organisation substantive rights that give it the current ability to direct the relevant activities of the association. Therefore, the religious organisation has power over the association through those substantive rights, regardless of whether the religious organisation chooses to exercise those rights.

Since the religious organisation has the ability to determine the composition of the board of governors and thus direct the relevant activities of the association, the religious organisation has exposure or rights to the same variable returns from its involvement with the association as set out for Example IG1A.

The religious organisation also satisfies the final control criterion. Through its ability to determine the composition of the board of governors, the religious organisation can use its power to affect the amount of its returns from the activities of the association.

The religious organisation satisfies all three of the control criteria and therefore the religious organisation controls the association. In this example, the design of the association as set out in its constitution indicates that the religious organisation has the ability to direct the relevant activities of the association even though a publicly elected board of governors has been established. This design reflects the special relationship between the religious organisation and the association.

**Implementation examples**

**Example IG2**

FGH Charity is a private sector not-for-profit organisation. Its objectives are to protect and serve the community by providing

emergency first aid and increasing the first aid skills of the community. The charity provides first aid at sporting events and when natural disasters occur. The charity is funded via donations and the sale of first aid supplies (bandages, first aid kits, etc.). The board of the charity has 10 members.

The charity established TUV First Aid Training Ltd (TUV or the company) some years ago. The purpose of TUV is to provide first aid training courses to the general public for a fee. TUV has an eight-member board, with all members appointed by the board of FGH Charity.

The charity has the right to receive distributions of profits made by TUV.

The management of TUV is responsible for the day-to-day operations of the company. TUV's management is also responsible for developing the company's policies, including:

- the scope of the training courses, such as the type of courses and the maximum number of participants for each course;
- marketing plans for the courses, including the fee structure;
- the frequency and location of courses; and
- the use of in-house or off-the-shelf training materials.

These policies address the relevant activities of TUV, ie the activities that significantly affect the company's returns.

The board of TUV meets regularly to review reports from TUV management in order to assess the performance of the company. The board makes decisions about the company's activities and policies so as to optimise its outcomes. For example, the board might modify the scope or frequency of courses or revise the fee structure.

The TUV board also considers whether any profits should be distributed to the charity (FGH) as a financial return or used to improve or expand the company's activities.

#### **Example IG2A**

Based on the facts and circumstances outlined above, the charity controls TUV. The charity has power over TUV because its board appoints the board members of TUV, thus giving the charity the

current ability to direct the relevant activities of the company. The charity is exposed to variable returns from its involvement with TUV, both financial returns (the right to receive distributions of profits from TUV) and non-financial returns (the furtherance of its objective of improving community first aid skills). Finally, the charity can use its power over TUV (via the board) to affect the nature and amount of returns it obtains through TUV.

#### **Example IG2B**

In this example, the facts of Example IG2A apply, except that:

- the charity does not have the right to receive distributions of profits from TUV since the constitution of the company prohibits distributions to its members; and
- all profits of TUV are to be reinvested into first aid training programs.

Based on the revised facts and circumstances, the charity controls TUV. The charity has power over TUV because it appoints the board of the company. Although it does not receive any financial returns, the charity obtains non-financial returns because TUV is fulfilling one of its objectives by increasing the first aid skills of the community. The charity is able to use its power over TUV to affect the nature and amount of its returns. Therefore, the three control criteria are satisfied.

#### **Example IG2C**

This example has the same facts as Example IG2B, except that:

- the charity cannot appoint the board members of TUV, except for the Chair, who must be a board member of the charity; and
- the charity has the right to veto appointments to the board of TUV, but only in exceptional circumstances – that is, when a potential board member is deemed unsuitable. This right has only been enforced once, when a proposed board member was found to have a history of fraudulent activities.

Based on these facts and circumstances, the charity does not control TUV. This is because the charity does not have the requisite power to direct the relevant activities of TUV – it appoints only one of the eight members of the board of TUV. Even though the charity has the right of veto over TUV board appointments, this is only a protective right because it is a safeguard against having board

members who could potentially interfere with the operations of the company and adversely affect its outcomes.

The charity had the opportunity and incentive when establishing TUV to obtain rights that would give it the ability to direct the relevant activities of TUV, but it did not do so. Being involved in the design of an investee is not sufficient to give an investor control (see paragraph B51 of the Standard).

**Example IG2D**

In this example, the facts of Example IG2C apply, except that:

- TUV’s constitution permits its board to make financial distributions to other parties as decided by the board; and
- although the charity does not have any right to distributions of profits from TUV, to date TUV has always distributed its profits to the charity.

Based on these facts and circumstances, the charity does not control TUV because, as in Example IG2C, the charity does not have power over TUV to direct the relevant activities.

Even though TUV was established by the charity in order to further its objective regarding community first aid skills, and despite the charity historically receiving financial returns from TUV, the design of TUV does not give the charity power over TUV. The board of TUV is independent of the charity, there is no requirement for TUV to make distributions to the charity (or to any other party), and the charity has no right to demand financial returns.

**Implementation example**

**Example IG3**

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

### *Objectives of the Council*

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

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

### *Powers and Functions of the Council*

The Council is empowered by the Act to do all things necessary and convenient for the achievement of its objectives and the performance of its functions, subject to any limitations under the Act or any other legislation (see the sections on the State Government's protective and substantive rights later in this example).

The Council's functions include:

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

### *Activities of the Council*

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

### *State Government Involvement with the Council*

The State Government's objectives for the government of the municipal district are consistent with the objectives of the Council, since the State Government set out the Council's objectives in the State's Local Government Act.

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

The interest of the State Government in the activities of the Council is to ensure that the general objectives set out in the Act are being achieved or furthered. To that end, the State Government has an extensive range of rights (through its Ministers) to advise or guide the Council in its activities or, under particular circumstances, to intervene in the activities of the Council. The principal rights of the State Government are described in the following sections.

#### Protective rights of the State Government

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

- restructure the municipal district through boundary changes;
- abolish the existing Council and constitute a new Council or Councils, with the Minister able to direct the transfer of property, income, assets, rights, liabilities, expenses and staff among Councils as part of the process;
- suspend all the councillors of the Council if the Minister is satisfied that there has been a serious failure to provide good government or serious unlawful acts by the Council – in which case an administrator is appointed to act as the Council and to perform its functions, powers and duties;
- appoint inspectors of municipal administration to examine any particular Council matter and make recommendations to the Council, and enforce those recommendations if the Council

does not adopt them;

- revoke local laws passed by the Council where, in the Minister's opinion, the laws substantially restrict competition without appropriate justification;
- approve (or veto) Council entering into an entrepreneurial endeavour that exceeds 5% of the Council's revenue from rates and charges;
- approve (or veto) investment by the Council in types of financial instruments not already approved under the Act; and
- make guidelines concerning the Council's procurement policy or the provision of services by the Council so as to best meet the needs of the local community.

#### Substantive rights of the State Government

The State Government also has a range of rights that do not fall into the category of protective rights. For example, Ministers have the following rights that, for the purpose of this example, are classified as substantive rights:

- give directions concerning rates and charges to limit the rate of change in the Council's general income for a financial year;
- review the allowance category annually for the Council, including the limits and ranges of councillor allowances; and
- prepare a planning scheme for the district or authorise an amendment subject to any conditions that the Minister wishes to impose.

#### *Control of the Council*

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

#### Relevant activities

The State Government has numerous rights in relation to the Council. Whereas the State Government's protective rights cannot give power over the Council, the substantive rights do give the State Government the current ability to direct some activities of the Council.

However, paragraph 10 of the Standard states that an investor has

power over an investee when the investor has the current ability to direct the *relevant activities*, ie the activities that *significantly affect* the investee's returns. Therefore, it is necessary to identify the relevant activities of the Council, and then assess the State Government's substantive rights in respect of those activities relative to the rights of other parties.

Judgement is required in identifying the relevant activities, as this requires identifying both the Council's returns and the activities of the Council that significantly affect those returns. As a not-for-profit entity, the Council's non-financial returns for the community are considered to be of primary importance, even though its objectives also include financial aspects, such as the efficient use of resources and equitable rates and charges. The objectives do not include the raising of revenue per se.

All of the Council's activities and functions contribute (whether positively or negatively) to the Council achieving or furthering its objectives. Thus they are activities that affect the financial and non-financial returns of the Council. But which activities *significantly affect* the Council's returns? Given the significance of non-financial returns for the Council, it is considered that the provision of services and facilities for the community and regulating other parties' activities in the community (eg property development, health services and shopping centres) are the activities that most significantly affect the Council's returns. Consequently, these are likely to be the *relevant activities* of the Council.

#### Power

Paragraph B10 states that whether an investor has power over an investee depends on, for example, the rights the investor and other parties have in relation to the investee. When two or more parties each have existing rights that give them the unilateral ability to direct different relevant activities, the party that has the current ability to direct the activities that most significantly affect the investee's returns has power over the investee (paragraph 13 of the Standard). Does the State Government have the power, the current ability, to direct the relevant activities of the Council?

The substantive rights of the State Government do give it the current ability to direct *some* of the activities of the Council, such as amending or replacing planning schemes. However, the State Government is unable to direct the major part of the activities that *significantly affect* the Council's returns. Therefore, the State Government does not hold power over the Council as described in

the Standard.

The power to direct the relevant activities is held by the councillors of the Council, who direct, within the framework established by the State Government, the vast majority of the Council's activities that affect the returns from its operations.

The State Government's right to give directions to limit the rate of change in the Council's general income (rates and charges) is in the nature of price regulation rather than directing relevant activities. The raising of revenue itself is not a relevant activity, as identified above, because revenue by itself is not one of the Council's returns or objectives.

#### Returns

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

#### Ability to use power to affect returns

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

#### Control conclusion

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

In this case, the Council would not be consolidated by any other entity. The councillors of the Council as a group are not investors as contemplated by the Standard. They are akin to the board of directors of a company, that is, the councillors are a part of the Council itself.

*Alternative Outcome*

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

**Implementation examples**

**Example IG4**

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

*Objectives of the University*

The Act specifies that the University's objects include:

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

*Management of the University*

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

three official members (the Chancellor, the Vice-Chancellor and the President of the Academic Board) and five other (non-official) members.

The Act specifies that the number of Minister-appointed members (five members in this case) must be equal to or greater than the number of non-official Council-appointed members (also five).

The Act specifies that the University Council's responsibilities, powers and functions include:

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

#### *Activities of the University*

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

#### *State Government Involvement with the University*

The State Government's objectives for the University are consistent with, but not limited to, those specified in the Act for the University. For example, the State Government anticipates State economic development as a result of the University's activities, such as the provision of housing and tourism services to

international students.

The State Minister has the following powers and functions, which are classified in this example as substantive rights under the Standard:

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

The Minister also has the following powers, which are classified as protective rights for the purpose of this example:

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

#### *Australian Government Involvement with the University*

The Australian Government's objectives for the University are consistent with, but not limited to, those specified in the State Act for the University. For example, the Australian Government anticipates national economic development as a result of the University's activities and may seek to advance foreign policy

objectives through universities attracting international students.

The Australian Minister for Education also has the rights specified in Australian Government grants provided to the University. Some of these grants specify how they are to be applied to education or research activities (which are substantive rights for the purpose of this example) and some require their repayment if not applied as specified (protective rights for the purpose of this example).

The Minister can also request reports from the University.

*University Council-directed Activities*

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

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

#### **Example IG4A**

##### *Control of the University*

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

##### Economic dependence

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

##### Relevant activities

Judgement is required to identify the University's *relevant activities*, that is, the activities that *significantly affect* the University's returns. All of the University's activities and functions contribute in some way (positive or negative) to the University achieving or furthering its objectives. Thus they are activities that affect the financial and non-financial returns of the University. However, as the University has fairly limited commercial activities in this example, the activities that most significantly affect the University's returns are the education and research activities.

##### Power

Protective rights held by the State and Australian Governments cannot give them power over the University. Instead, their substantive rights concerning the University's education and research activities (the relevant activities) need to be weighed

against the rights of the University Council itself, in order to assess which party has the current ability to direct the activities that most significantly affect the University's returns (or outcomes).

It is the University Council that generally directs the education and research activities. For example, the Council decides the mix between education, research and commercial activities, the courses to be offered, the target student mix, the fee structure and how to use the University's infrastructure for the activities. Some grants from the State and Australian Governments direct how they are to be applied, but these affect only a relatively small proportion of the education and research activities overall. On balance, the University Council itself appears to have the current ability to direct the relevant activities of the University.

Since the State Minister is able to appoint members of the University Council, it is necessary to consider whether the State Minister has power over the University through substantive rights to appoint a majority of the members of the University Council. In this example, the State Minister can appoint only five of the 17 members of the University Council. Therefore, the State Government is unable to direct the relevant activities of the University through appointments to the University Council.

The State Government's substantive rights in relation to the University's commercial activities or business operations are not considered in this assessment of control, since they do not relate to the relevant activities.

Neither the State Government nor the Australian Government would have power (as described in the Standard) over the University.

#### Returns

The State and Australian Governments are exposed, or have rights, to variable returns from their involvement with the University since the activities of the University contribute to the achievement or furtherance of the State Government's and the Australian Government's objectives for higher education. The Governments have additional objectives regarding the activities of the University, but there is no need for a direct alignment between the Governments' objectives and the University's objectives.

#### Ability to use power to affect returns

Since it was concluded above that in the circumstances presented

neither the State Government nor the Australian Government has power (as described in the Standard) over the University, then the third control criterion linking power and returns is also not satisfied. The Governments are able to affect the returns of the University, and thus their own indirect returns, through exercising their substantive rights. However, the Governments are unable to direct the activities that most significantly affect the University's returns.

#### Control conclusion

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

In this case, the University would not be consolidated by any other entity. The University Council as a group is not an investor as contemplated by the Standard. It is akin to the board of directors of a company, that is, the Council is a part of the University itself.

#### **Example IG4B**

In this example, the facts are the same as in Example IG4A except that:

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

Based on these revised facts and circumstances, the State Government's substantive rights in respect of the University's commercial activities and its finance and property matters have a much more significant role in the operations of the University than in Example IG4A. The substantive rights may now be of such

effect that the State Government has the current ability to direct the activities that significantly affect the University's returns. In that case, the State Government would have power over the University as described in the Standard, satisfying the first control criterion.

As explained in Example IG4A, the State Government is exposed or has rights to variable returns from its involvement with the University, thus satisfying the second control criterion.

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

*Control Conclusion*

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

**Implementation examples**

**Example IG5**

A statutory authority SHS is established under State health services legislation to deliver services to the community. The statutory authority has a governing council that oversees the authority's operations and is responsible for its day-to-day operations. The State Health Minister appoints the authority's governing council and, subject to the Minister's approval, the authority's governing council appoints the chief executive of the authority.

The State Health Department acts as the 'system manager' for the State public health system. This role includes:

- strategic leadership, such as the development of State-wide health service plans;
- directions for the delivery of health services, such as entering into service agreements, capital works approval and management of State-wide industrial relations, including employment terms and conditions for the authority's employees; and
- monitoring of performance (eg quality of health services and

financial data) of the authority and taking remedial action when performance does not meet specified performance measures.

The Minister's approval is specifically required for the following major decisions:

- entering into service agreements with the authority;
- issuing binding health service directives;
- finalisation of State-wide health service plans and capital works planning; and
- employment and remuneration of the authority's executive staff.

#### **Example IG5A**

Based on the facts and circumstances outlined above, the Department generally acts as an agent of the State Health Minister in relation to the statutory authority. This is evident from the restricted decision-making authority held by the Department. The Department does not control the statutory authority.

As the State Health Minister appoints the statutory authority's governing council and approves the major decisions affecting the authority's activities, the Minister has the power to direct the relevant activities of the authority. Assuming that the other control criteria (variable returns and link between power and returns) are satisfied, as would be expected, then the Minister would control the statutory authority. As a result, the statutory authority would not be consolidated by the Department, but would be consolidated directly into the whole of government general purpose financial statements.

#### **Example IG5B**

The facts are the same as in Example IG5A except that:

- the Minister has delegated the power to appoint members of the statutory authority's governing council to the Department head;
- the appointment of the authority's chief executive by the governing council does not require Ministerial approval;
- the Minister has delegated the power to approve the major decisions to the Department head; and
- assessments of the Department's performance encompass the performance of the statutory authority.

In this example, the scope of the decision-making authority held by the Department has increased significantly as a result of the delegations by the Minister to the Department head. As the Department acts as a principal under the delegations, the Department has the current ability to direct the relevant activities of the authority so as to achieve the health service objectives of the Department. As the Department also has the ability to use its power over the authority to affect the nature and amount of the Department's returns, the Department controls the statutory authority.

The Department would consolidate the statutory authority into its consolidated financial statements. The Department's consolidated financial statements would then be consolidated into the whole of government financial statements.

## **APPENDIX E [AASB 12]**

### **AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES**

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

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

#### **Structured Entities**

- IG3 A structured entity is defined in Appendix A of AASB 12 as follows:

“An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.”

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

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

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

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

financial support would be particularly relevant, whether the partnership is a consolidated or an unconsolidated structured entity for the government. However, the mere fact that a government provides funding to another entity does not make that entity a structured entity.

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

## BASIS FOR CONCLUSIONS

*This Basis for Conclusions accompanies, but is not part of, AASB 2013-8.*

### Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Standard. Individual Board members gave greater weight to some factors than to others.
- BC2 Before finalising the implementation guidance set out in this Standard, the Board issued Exposure Draft ED 238 *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities* in March 2013. ED 238 proposed for public comment implementation guidance for not-for-profit entities in respect of both AASB 10 *Consolidated Financial Statements* and AASB 12 *Disclosure of Interests in Other Entities*. The Board considered the submissions received in response to ED 238 in deciding the implementation guidance to be added to those Standards.
- BC3 In the process of developing the proposals in ED 238, the Board commissioned research into the implementation issues that had been encountered by not-for-profit entities in applying the notion of control (and related public sector guidance) in the superseded Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*. Discussions were also held with constituents experienced in not-for-profit public sector and private sector financial reporting, to ascertain implementation issues that might be encountered in applying AASB 10 (which replaces AASB 127, in part) in a not-for-profit context. Based on the research findings and the nature of many of the issues identified, the Board concluded that the principles in AASB 10 could be applied in a not-for-profit context, albeit using professional judgement, and that certain aspects of those principles and the terminology adopted warranted specific implementation guidance for not-for-profit entities.
- BC4 In addition, the Board noted that some of the issues identified through the research are fundamental to the notion of control and therefore beyond the scope of AASB 10. These issues include:
- (a) the nature of government departments as reporting entities;
  - (b) the role that disclosure of disaggregated information in whole of government financial reports might play in providing relevant information to users; and

(c) control of assets.

- BC5 The Board concluded that, because they are beyond the scope of AASB 10 and would not impede the application of AASB 10 by not-for-profit entities, these issues do not need to be addressed prior to clarifying for not-for-profit entities the application of the notion of control in AASB 10. The Board noted that this approach is consistent with its policy of transaction neutrality. Accordingly, the Board decided to progress its Control in the Not-for-Profit Public and Private Sectors project in stages. The first stage, completed by the issue of this Standard, is intended to clarify the application of AASB 10 (and AASB 12) in a not-for-profit context. It is expected that later stages will address the associated fundamental issues noted above.
- BC6 The Board also noted the current project of the International Public Sector Accounting Standards Board (IPSASB) to update its consolidation, joint ventures and associates Standards for the issuance of IFRS 10 *Consolidated Financial Statements* and its related IFRSs. The IPSASB published its Exposure Drafts in October 2013, but the AASB decided to finalise the implementation guidance for AASB 10 and AASB 12, having considered the decisions of the IPSASB as it developed its Exposure Drafts.
- BC7 Since the implementation guidance does not change or depart from the principles in AASB 10, the types of harmonisation differences between AASB 10 and the ABS GFS Manual are not affected by the guidance. Accordingly, pre-existing GAAP/GFS differences were not addressed in ED 238.
- BC8 The remainder of this Basis for Conclusions outlines the basis for the Board's decisions relating to the first stage of the project.

## **Significant Issues**

### **Nature and location of guidance relating to AASB 10**

- BC9 The Board considered whether the implementation guidance to be added to AASB 10 should be integrated into the body of that Standard as Aus paragraphs. The Board decided that, in general, consistent with a principles-based approach to drafting Standards, Aus paragraphs in the body of the Standard should be limited to those that either amend the requirements in AASB 10 or add new requirements. As the implementation guidance neither amends the requirements nor adds new requirements for not-for-profit entities, the Board decided that the guidance should not be presented as Aus

paragraphs within the body of AASB 10. However, the Board decided to include one Aus paragraph in the body of the Standard as a signpost to the implementation guidance.

- BC10 The Board then considered whether the guidance should be presented as Aus paragraphs located throughout the existing Application Guidance (Appendix B to AASB 10) or as a separate attachment to AASB 10. As Appendix B is integral to AASB 10 and therefore has the same authority as the other parts of the Standard, Aus paragraphs in Appendix B should also be limited to those that either amend the requirements in AASB 10 or add new requirements. Accordingly, the Board applied the same approach as stated in paragraph BC9 and decided to add the not-for-profit entity implementation guidance to AASB 10 as an attachment rather than as Aus paragraphs within Appendix B.
- BC11 The implementation guidance is attached to AASB 10 as Appendix E. The Appendix is integral to the Standard and thus has the same authority as the body and other appendices of the Standard. The Board considered whether the guidance should merely accompany, and not be part of, AASB 10. To facilitate the guidance being applied consistently by not-for-profit entities, the Board decided to make the guidance integral to AASB 10.
- BC12 The Appendix added to AASB 10 is labelled as Appendix E, to be consistent with the labelling of the appendices to IFRS 10 *Consolidated Financial Statements*. In IFRS 10, Appendix D consists of the consequential amendments to other Standards and Interpretations arising from the issuance of IFRS 10. AASB 10 does not have any Appendix D since those consequential amendments were made in *AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (August 2011), following the Board's practice of making amendments via separate Standards rather than through appendices to Standards.

### **Terminology in AASB 10**

- BC13 As AASB 10 incorporates IFRS 10, issued by the International Accounting Standards Board (IASB), the text of the body of AASB 10 and Appendices A–C is expressed from the perspective of for-profit entities in the private sector. The Board considered that some of the terminology in the Standard does not readily translate to a not-for-profit perspective and decided that it would be useful to explain that terminology for application in a not-for-profit context, rather than revise the terminology in some way for not-for-profit entities. The terms 'investor' and 'investee', for example, figure

prominently in AASB 10, including in the definition of control, and are described in general terms in paragraph IG3 of Appendix E for AASB 10. The nature of ‘returns’, as another example, is also addressed in the implementation guidance. The Board believes the explanations provided will assist a not-for-profit entity to better relate to and apply the requirements of AASB 10.

### **Implementation Guidance on Control**

- BC14 In developing the implementation guidance, including some comprehensive examples, the Board sought to address the implementation issues that were identified in the research referred to in paragraph BC3 on the application of the notion of control by not-for-profit entities in the private and public sectors. For example, the guidance addresses rights arising from statutory arrangements (paragraphs IG6–IG7), economic dependence (paragraphs IG11–IG12), regulatory powers (paragraphs IG16–IG17), indirect returns (or benefits) to not-for-profit entities and congruent objectives (paragraphs IG18–IG20), and delegated power (paragraphs IG21–IG24).
- BC15 The Board did not include implementation guidance in respect of some topics covered by AASB 10 due to the Board’s assessment that the issues arise similarly for both for-profit entities and not-for-profit entities. For example, the requirements regarding de facto agents and control of specified assets raise issues in practice for any entity, not just not-for-profit entities.

### **Examples**

- BC16 To illustrate the requirements of AASB 10, the implementation guidance includes examples within guidance paragraphs as well as five discrete, comprehensive examples. The examples refer to particular types of not-for-profit entities, some in the private sector and others in the public sector. However, the Board intended that the examples apply by analogy to other types of not-for-profit entities and similar circumstances as relevant, rather than being limited to the specific cases presented.
- BC17 The comprehensive examples emphasise a principles-based approach, which requires an analysis of the relevant activities of the investee and of the substantive rights of various investors in considering whether the investor has power (as that term is used in AASB 10) over the investee. The Board noted that it could be difficult to distinguish substantive rights from protective rights held by an investor in relation to an investee. Therefore, the Board decided to note in the introduction to the comprehensive examples that

distinguishing substantive and protective rights requires analysis of the circumstances, including considering the reasons for different investors holding various rights in relation to the investee. The Board also decided to include a range of scenarios in most of the comprehensive examples to illustrate that alternative outcomes for the assessment of control by the investor reflect the facts and circumstances in any particular case.

- BC18 The Board included specific comprehensive examples in respect of a local government (Example IG3) and a university (Example IG4), given the anticipated uncertainty in respect of how AASB 10 might apply in determining whether such entities are controlled by another entity. Two scenarios under which different control conclusions might be drawn are presented in the university example, whereas the local government example includes only one case, in which it is concluded that the local government is not controlled by another government. The Board took the view that this would be the normal outcome in relation to local governments under current arrangements in Australia, but noted in paragraph IG8 and at the end of Example IG3 that the assessment of whether a local government is controlled by another government would depend on the particular facts and circumstances.
- BC19 Given the types of arrangements often found in the public sector, the Board also decided that an example concerning delegated powers and agency relationships affecting public sector entities would be useful guidance. Example IG5 presents two scenarios regarding whether a government department controls a statutory authority. The example might be relevant in some jurisdictions but not in others.

#### **Former Guidance in Superseded AASB 127**

- BC20 The Board reviewed the specific public sector guidance in the superseded AASB 127 *Consolidated and Separate Financial Statements* (paragraphs Aus17.1–Aus17.10) in the context of the three criteria for control set out in AASB 10: power, returns, and a link between power and returns. Some of the guidance in the superseded AASB 127 was not incorporated into Appendix E, on the grounds that the Board considered that it was either inconsistent with or beyond the scope of the requirements of AASB 10 or no longer necessary. The following paragraphs address the major aspects of the guidance in the superseded AASB 127.
- BC21 Paragraph Aus17.1 stated that AASB 127 did not attempt to identify all groups and reporting entities in the public sector. Nevertheless, paragraph Aus17.5 described the nature of some reporting entities in the public sector. Paragraph Aus17.7 also discussed identifying

economic entities in relation to Ministerial portfolios and functions with separate objectives. The Board decided that it was not appropriate to include these general statements in the implementation guidance since the nature of reporting entities in the public sector is a fundamental issue beyond the scope of AASB 10 (see paragraph BC4).

- BC22 The statement in paragraph Aus17.2 that control of an entity by the government may be indicated by the accountability of the entity to the Parliament (or the Executive or a Minister) and by the government holding the residual financial interest in the net assets of the entity has not been incorporated into the implementation guidance. Accountability to the Parliament, the Executive or a Minister might or might not indicate that the government has substantive rights in relation to the entity, so the power criterion might not be satisfied. Holding the residual financial interest in the entity shows that the government has exposure or rights to variable returns from the entity, but does not indicate whether the government has the ability to use power over the entity to affect the government's returns. Consequently, these two factors are insufficient to conclude whether an entity is controlled by the government.
- BC23 Paragraph Aus17.3 listed circumstances that, individually or in combination, indicate that an entity is accountable to Parliament, the Executive or a Minister. The circumstances listed in paragraphs Aus17.3(a)–(d) are addressed in paragraphs B15 and IG9 in terms of rights that can give an investor power in relation to an investee. However, paragraph Aus17.3(e) has not been included in the implementation guidance because a requirement to submit reports to Parliament might reflect either protective or substantive rights, and hence is not useful as an indicator of power. Paragraph Aus17.3(f) regarding an entity established through legislation has been updated and included in paragraph IG7.
- BC24 Paragraph Aus17.4 listed circumstances that indicate whether a government has a residual financial interest in the net assets of another entity. These circumstances (exposure to residual liabilities and the right to receive residual net assets on dissolution of the entity) indicate that the government would be exposed to variable returns from the entity. These returns are covered by the investment returns noted in paragraph B57(a).
- BC25 Paragraph Aus17.6 stated that a government will usually control statutory authorities that it has established through legislation. This circumstance has been addressed through paragraph IG7 in respect of whether the government has power over an entity established through legislation. Power is just one of the control criteria.

- BC26 Restrictions on the allocation of funds between activities and the existence of separate administrations are listed in paragraph Aus17.7 as factors that may affect the ability of an entity to deploy resources and should be considered in determining the existence of a group in the public sector. The ability to deploy resources is relevant to assessing whether an investor has power over an investee (see paragraph IG5). Restrictions on the ability to deploy resources may reflect barriers that prevent the holder of rights from exercising them. Examples of barriers are listed in paragraph B23, including operational barriers and legal or regulatory requirements.
- BC27 Paragraph Aus17.8 noted that for a government to control an entity, it must have the power to require the entity's assets to be deployed towards achieving the government's objectives, and listed various actions that the government might be able to direct in respect of the controlled entity's assets. Whether these circumstances result in the government controlling the entity under AASB 10 would depend on whether the government has power to direct the relevant activities of the entity. The actions listed are broadly consistent with the activities listed in paragraph B11 that can be relevant activities of an investee, depending on the circumstances of the investee.
- BC28 Paragraph Aus17.9 outlined a range of circumstances in which a government does not control another entity, such as an entity dependent on government funding but able to decide whether to accept resources from the government and how to use the resources (paragraphs Aus17.9(a) and (c)). These examples are no longer needed as paragraphs IG11 and IG12 concerning economic dependence and paragraph IG20 in respect of congruent objectives adequately address the issues.
- BC29 Paragraph Aus17.9(b) stated that a government acting as the trustee of a trust would not control the trust as it would not be able to deploy the resources of the trust for its own benefit. In contrast, the implementation guidance includes an example of a trust that is controlled through the trustee (paragraph IG22). Under AASB 10, the investor's returns from a trust may be indirect non-financial returns, which the former guidance did not acknowledge.
- BC30 Regulatory powers were addressed in paragraph Aus17.9(d) as not giving rise to control of regulated entities. Paragraph IG16 states that regulatory powers may represent either substantive rights (which could result in control of regulated entities) or protective rights (which would not result in control). Examples of protective rights are included in paragraph IG17.

- BC31 Paragraph Aus17.9(e) stated that under existing legislative arrangements, State and Territory governments do not control local governments. The Board reconsidered the question of control of local governments but did not reach a categorical view. As noted in paragraph BC18, the Board concluded that although a local government normally would not be controlled by another government under current arrangements, the assessment of whether a local government is controlled by another government would depend on the particular facts and circumstances (paragraph IG8). Example IG3 illustrates how a decision as to whether a local government is controlled by another government could be addressed.
- BC32 The final paragraph in the former public sector guidance, paragraph Aus17.10, addressed government control of independent statutory offices such as auditors-general and the judiciary. The same examples have been incorporated into the implementation guidance in paragraph IG10, which addresses more particularly the organisations assisting the independent statutory office holders.

## **AASB 12 and Structured Entities**

- BC33 While considering issues regarding AASB 10, the Board noted that the definition of 'structured entity' in AASB 12 *Disclosure of Interests in Other Entities* does not readily translate to a not-for-profit perspective as it focusses on voting or similar rights, which have less significance in general for many not-for-profit entities. The Board decided to propose implementation guidance to assist not-for-profit entities in applying this definition. As AASB 12 applies to not-for-profit entities in conjunction with AASB 10, the Board included the proposals in the same Exposure Draft (ED 238).
- BC34 After considering the submissions received on the ED, the Board decided to add implementation guidance as Appendix E to AASB 12, integral to the Standard and thus with the same authority as the body and other appendices of the Standard. These decisions reflect the decisions on the nature and location of guidance as set out in paragraphs BC9–BC12 in respect of the AASB 10 guidance.
- BC35 The Board decided that the implementation guidance for AASB 12 should be based on the principle underlying the definition of structured entity, and identified that principle as limiting the scope of structured entities to entities that are controlled through less conventional means. This is based on the definition emphasising that voting or similar rights are not the dominant factor in deciding who controls a structured entity – and for for-profit entities, voting rights are a common or conventional means of determining control.

BC36 The Board identified administrative arrangements and statutory provisions (legislation) as common means by which control may be determined for many not-for-profit entities, particularly those in the public sector. Accordingly, the Board took the view that the reference to ‘similar rights’ in the definition of structured entity encompasses, for not-for-profit entities, administrative arrangements and statutory provisions. Thus, not-for-profit entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity are not regarded as structured entities. Appendix E for AASB 12 includes a range of examples to illustrate this approach.

### **AASB 1049 Amendments**

BC37 AASB 1049 *Whole of Government and General Government Sector Financial Reporting* was not addressed in the consequential amendments arising from AASB 10 (and related Standards) that were included in AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (August 2011), given that the Board intended to address the application of AASB 10 to not-for-profit entities through its Control in the Not-for-Profit Public and Private Sectors project. This Standard (AASB 2013-8) sets out the consequential amendments to AASB 1049 arising from AASB 10 and the related Standards. Most of these amendments are editorial.

BC38 The Board noted that paragraph 45 of AASB 1049 does not require the General Government Sector (GGS) financial statements to comply with any of the disclosure requirements of the superseded AASB 127 *Consolidated and Separate Financial Statements*. The Board reconsidered this position in respect of the disclosure requirements set out in AASB 12, and concluded that the GGS financial statements should not be required to comply with those requirements. This is effected through the amendments in this Standard to paragraph 45 of AASB 1049.

BC39 The Board took the view that the GGS financial statements need not be required to comply with the disclosure requirements of AASB 12 on the grounds that such disclosures would essentially duplicate AASB 12 disclosures in the whole of government financial statements. As entities included in the GGS financial statements are also included in the whole of government financial statements, the entities’ association with structured entities could be addressed in either set of financial statements. The nature of the risks associated with interests in structured entities is unlikely to change between the GGS level and the whole of government level.

## **Main Changes from the Exposure Draft**

- BC40 The main changes made by the Board to the implementation guidance proposed in ED 238 following consideration of respondents' comments are noted in the following paragraphs.
- BC41 Some respondents considered that the major examples emphasised substantive and protective rights of various investors without adequately identifying the relevant activities of the investee and in some cases did not clearly apply the three criteria for control in coming to their conclusions. The Board agreed that the relevant activities of the investee should be addressed clearly, since an investor can have power over an investee only when it has substantive rights that give it the current ability to direct the relevant activities of the investee. The examples were amended accordingly, including addressing the control criteria more directly. Nevertheless, the Board retained the substantive and protective rights details in the examples, albeit with some reclassification, as part of the background information for the examples.
- BC42 Of the four major examples proposed in the ED, three related specifically to public sector entities (local governments, universities, and government departments and authorities) and one to not-for-profit private sector entities (a religious organisation and an association). Some respondents requested additional not-for-profit private sector examples. The Board added a further major example (Example IG2) based on not-for-profit private sector entities (a charity and a company) and illustrating four scenarios. As stated in paragraph BC16, the Board also decided to note in the implementation guidance that the illustrative examples apply by analogy to types of not-for-profit entities other than those specifically identified in the examples and similar circumstances, as relevant (see paragraph IG3).
- BC43 The ED proposed that rights specified in substantively enacted legislation could not give an investor the current ability to direct the relevant activities of an investee. This was questioned by some respondents, who compared substantive enactment of substantive rights with substantive rights that were exercisable only in the future. The Board reconsidered the issue and decided to change the guidance to acknowledge that in limited circumstances rights under substantively enacted legislation could become exercisable in time for making decisions about an investee's relevant activities. For example, the progression from substantively enacted legislation to enacted legislation may be merely a matter of the formal approval of

the legislation by the Governor in Council within a limited timeframe.

- BC44 Several respondents questioned whether the notion of delegation in the not-for-profit public sector was adequately reflected in the proposed example illustrating whether a government department controlled a statutory authority. The Board revised the example and paragraph IG24 to clarify that a delegate in the not-for-profit public sector is not an agent of the delegator. The Board also deleted references to 'delegated control' as it was not necessary to introduce a new term. The Board noted that the term 'delegation' has a narrower meaning in the not-for-profit public sector than its general usage in the Standard to denote an agent/principal relationship.

### **Issues Raised but Guidance not Revised**

- BC45 The Board discussed a range of issues raised by respondents to ED 238 that did not lead to changes to the implementation guidance that had been proposed in the ED. The more significant such issues included requests for guidance concerning assessing the relative significance of the rights of different parties, a controlled local government scenario, collective control in the public sector, and the effect of removal rights in the public sector, and comments on the power to enact or change legislation.
- BC46 Respondents noted the difficulty in many cases of identifying which investor has power over an investee when more than one investor is able to direct different relevant activities of the investee. The Board was asked to provide further guidance on how to identify which investor was able to direct the activities that most significantly affected the investee's returns. The Board concluded that it was not feasible to provide guidance for weighing the relative significance of different relevant activities since this would be subject to judgement in the context of the facts and circumstances in any particular case.
- BC47 Some respondents to ED 238 noted that, unlike the other comprehensive examples, the local government example did not include an alternative scenario. The only scenario illustrated concluded that in the circumstances presented the local government was not controlled by the State government. Some respondents suggested that if it was not possible for a local government to be controlled by another government, then the guidance should state that. Other respondents suggested the addition of an alternative scenario so that the alternative control outcome would not be overlooked when the guidance was being applied. The Board decided that an alternative scenario was not required, since the proposed example already referred to the possibility of an alternative

outcome (ie the local government being controlled by another government) in different circumstances or based on different judgements. The proposed implementation guidance also indicated that the assessment of whether a local government is controlled by another government would depend on the particular facts and circumstances. As noted in paragraph BC18, this approach has been retained in the implementation guidance.

- BC48 The Board considered whether to extend the proposed example concerning whether a department controlled a statutory authority to address so-called collective rights at a whole of government level, under which a particular entity would be consolidated in the whole of government financial statements despite no individual entity or Minister in the jurisdiction being considered to control the particular entity. The Board decided not to extend the example on the basis that judgement would be required to determine in the circumstances whether the collective rights amounted to control at the whole of government level, with or without joint control by entities in the jurisdiction, or some other outcome.
- BC49 The Board was asked to provide guidance regarding the implications of removal rights since, in the public sector, a government or a Minister will often have the right to dismiss key executives of public sector entities, such as the head of a department. The Board noted that the AASB 10 requirements relating to agency relationships and removal rights might be interpreted to imply that the key executives or their organisations act only as an agent of the government or Minister and therefore would be unable to control other entities. However, the Board considers that the requirements do not prevent intermediate parent entities from controlling other entities or preparing consolidated financial statements. For example, a department head is a part of the department, and a Minister's ability to remove the department head does not prevent the department from being able to control other entities. The Board concluded that specific implementation guidance was not required.
- BC50 Some respondents questioned the position proposed in the ED that the power to enact or change legislation could not give an investor the current ability to direct the relevant activities of an investee. The Board affirmed this view for the implementation guidance (paragraph IG14). If the power to legislate were relevant to determining whether a government controlled other entities, then, subject to the constitutional reach of its powers, the government might be considered to control all of the entities in its jurisdiction (including private sector entities) since it could conceivably cause Parliament to pass legislation to enable it to direct the activities of any or all of those entities so as to achieve its economic and social

objectives. However, the political and social barriers (see paragraph IG13) to passing such legislation mean that the government realistically would not have the ability to exercise such power, and thus the power would not represent substantive rights.

### **ACNC Requirements**

- BC51 Some respondents to ED 238 commented that, in determining the application of AASB 10 to not-for-profit entities, the Board should have regard to the financial reporting requirements of the Australian Charities and Not-for-profits Commission (ACNC).
- BC52 The Board considered the requirements for annual financial reports under the *Australian Charities and Not-for-profits Commission Act 2012* (ACNC Act) and the *Australian Charities and Not-for-profits Commission Regulation 2013* (ACNC Regulation), in particular Subdivisions 60-C ‘Annual financial reports’ and 60-G ‘Collective and joint reporting’ of the ACNC Act and Subdivisions 60-B ‘Requirements for annual financial reports (core rules)’ and 60-C ‘Requirements for annual financial reports (special rules)’ of the ACNC Regulation. For example, under joint reporting, two or more registered entities may be permitted to prepare and lodge a single financial report, which might or might not be consistent with the AASB 10 requirements for consolidated financial statements. Collective reporting would not be consistent with AASB 10.
- BC53 The Board also noted that section 60.30 of the ACNC Regulation requires a registered entity to prepare a special purpose financial statement, if it is not required to and does not propose to prepare a general purpose financial statement. The Board’s focus in setting accounting standards is on general purpose financial statements rather than special purpose financial statements.
- BC54 The Board acknowledges that regulators might impose financial reporting requirements that differ from AASB Standards for their own regulatory purposes. The Board noted that the ACNC requirements would be expected to coincide with AASB Accounting Standards in most cases. However, the ACNC may permit registered entities to depart from AASB 10 in limited circumstances. The Board decided that it would not be appropriate for its requirements for general purpose financial statements to reflect those limited circumstances.