AASB Invitation to Comment

ITC 51
November 2022

Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements

Comments to the AASB by 31 March 2023

Australian Government

Australian Accounting Standards Board

How to Comment on this AASB Invitation to Comment

The AASB is seeking comment by 31 March 2023.

Formal Submissions

Submissions should be lodged online via the "Current Projects – Open for Comment" page of the AASB website (www.aasb.gov.au/current-projects/open-for-comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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AASB REQUEST FOR COMMENTS

Introduction

The Australian Accounting Standards Board (AASB) is undertaking a post-implementation review (PIR) of certain requirements of Australian Accounting Standards that apply to not-for-profit (NFP) entities.

This Invitation to Comment (ITC) aims to seek feedback from stakeholders that enables the AASB to conclude on a pronouncement's overall effectiveness and efficiency in meeting its original objectives, including whether a pronouncement remains appropriate.

The *AASB Due Process Framework for Setting Standards* (paragraph 7.15.2) sets out that a PIR involves:

(a) review of research that is relevant to the subject matter under review, including research by AASB staff and academics;

(b) collation of issues received by the AASB prior to the commencement of the PIR;

(c) stakeholder consultation to seek feedback on implementation issues and other views on the pronouncement;

(d) consideration of the feedback received by the AASB;

(e) publication of the findings of the PIR; and

(f) consideration of any recommendations for changing the pronouncements, which would require the AASB to undertake a separate standard-setting consultation process.

A PIR is not intended to reconsider an underlying pronouncement in its entirety. Instead, it acknowledges that the consultation and due process during the development of a pronouncement are not a substitute for the practical application of the requirements in an issued pronouncement. For example, when the requirements in an issued pronouncement are applied in practice, unexpected issues may arise, such as a pronouncement being more difficult or costly to apply than what was expected. There might also be situations where a pronouncement unintentionally results in divergence in practice. This divergence could be due to differing judgements in applying the requirements, unclear requirements or new or emerging transactions that were not contemplated when a pronouncement was developed.

The PIR process comprises three broad phases: planning, outreach, and feedback and next steps.

Planning phase

The planning phase establishes the scope of matters to be considered by the PIR. These matters are identified through a review of project documentation published when the pronouncements were issued, a review of academic research and other literature, targeted outreach with selected stakeholders and consideration of matters raised by stakeholders during the implementation of the pronouncements and subsequently.

Outreach phase

Following the issue of an ITC, during the outreach phase, the AASB will actively engage with stakeholders to seek feedback on the matters identified. This outreach may include meetings with financial statement users, preparers, regulators, professional service firms, professional bodies and academics and formal written responses from stakeholders.

Feedback and next steps phase

The AASB considers all feedback received during the outreach phase and prepares a feedback statement after the formal PIR consultation process. After considering feedback received during the consultation process, the AASB will decide whether:

- no action is required;
- additional educational material is needed; or
- standard-setting is required.

Where additional educational material or standard-setting is warranted, this would be addressed under a separate AASB project.

We need your feedback

Comments are invited about your experience applying the pronouncements considered in this ITC in relation to NFP entities by 31 March 2023. Stakeholder feedback plays an important role in the AASB's standard-setting process. The AASB regards supportive and non-supportive comments as essential to a review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Comments are most useful if they indicate the specific paragraph of the pronouncement to which they relate, contain a clear rationale, are supported by evidence and, where applicable, provide a suggestion for an alternative approach or additional support the AASB could consider providing to stakeholders. Respondents need not answer all the questions. When answering the questions, respondents are asked to consider the effect of the requirements on:

(a) the quality and consistency of financial statements and whether they provide relevant and reliable information about an entity's financial position and performance;

(b) comparability, both from period to period for an entity and between entities; and

(c) the costs to users and preparers of financial information.

Structure of this Invitation to Comment

This ITC includes 22 questions for respondents and is structured as follows:

- Topic 1: Control and consolidation for NFP entities;
- Topic 2: The definition of a structured entity for NFP entities;

- Topic 3: Related party disclosures by NFP public sector entities;
- Topic 4: Basis of preparation of special purpose financial statements – disclosures about compliance with Australian Accounting Standards; and
- AASB General Matters for Comment.

Topic 1: Control and consolidation for NFP entities

This section considers requirements relating to control and consolidation for NFP entities.

Background

The AASB first issued AASB 10 *Consolidated Financial Statements* in August 2011 to be effective for annual reporting periods beginning on or after 1 January 2013.

AASB 10 was one of a suite of new consolidation standards issued in Australia. The suite included AASB 10, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, a revised AASB 127 *Separate Financial Statements* and a revised AASB 128 *Investments in Associates and Joint Ventures*.

When AASB 10 was issued, the AASB prohibited NFP entities from early adopting the requirements for periods beginning before the 1 January 2013 mandatory application date. However, in December 2012, the AASB further deferred the mandatory application date of AASB 10 for NFP entities to periods beginning on or after 1 January 2014. This deferral provided time for the AASB to complete its consideration of NFP-specific issues associated with AASB 10 and the other newly issued Standards in the suite.

In October 2013, the AASB added Appendix E to AASB 10 (via AASB 2013-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities*). Appendix E explains various principles in AASB 10 from the perspective of NFP entities, including the criteria for determining whether one entity controls another entity, and illustrates the principles with examples.

AASB 10 paragraph 6 states that "An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee."

AASB 10 paragraph 7 states that for an investor to control an investee, the following three control criteria must be present: power over the investee, variable returns to the investor and a link between power and returns.

Appendix E does not seek to replace or revise the terminology used in AASB 10 but explains its application in the NFP private and public sectors. Appendix E also does not amend or deviate from the principles underlying AASB 10.

Key guidance included in the Standard

The objective of AASB 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Specifically, AASB 10:

(a) requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements;

(b) defines the principle of control and establishes control as the basis for consolidation;

(c) sets out how to apply the principle of control to identify whether an investor controls an investee and, therefore, must consolidate the investee;

(d) sets out the accounting requirements for the preparation of consolidated financial statements; and

(e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

As AASB 10 incorporates IFRS 10 *Consolidated Financial Statements*, it is drafted from a for-profit perspective. Therefore, at a high level, Appendix E sets out guidance that addresses the following for NFP entities:

(a) the circumstances when rights arising from statutory arrangements may give rise to power;

(b) what effect, if any, economic dependence and power over the composition of the board has on the assessment of control;

(c) guidance on substantive and protective rights and whether regulatory powers and statutory arrangements would be considered protective or substantive in nature;

(d) what constitutes a return and whether congruent objectives are sufficient to conclude whether an NFP investor controls an investee (assuming the other elements of the control model (i.e. power and the link between power and returns) are present);

(e) the concept of delegated power and the principles to apply when determining whether an NFP investor is a principal or an agent; and

(f) what effect the role of management or the board, together with the nature of returns received or a trust established by a charity, has on the control conclusion.

What we have heard so far

Application of the control model in the NFP sector

Feedback from stakeholders expressed concerns about the outcomes of applying the control model in the NFP sector. In particular, stakeholders were concerned about NFP entities being required to consolidate other entities they do not believe they have genuine control over (e.g. where an NFP entity has theoretical control through constitutional requirements rather than an in-practice exercise of control).

Stakeholders have provided feedback that many NFP entity organisational structures do not naturally fit into AASB 10's definition of control. This can cause conclusions on this matter to be inconsistent with the substance of some arrangements. For example, whilst some governance structures may imply that one entity controls another and there might be a relationship and shared objectives between one NFP entity and another, consolidation is not always appropriate. This is particularly considered to be the case where there are no shared financial liabilities or other financial consequences of the relationship (e.g.no economic dependence). Some stakeholders consider that consolidated financial statements might not be appropriate because if they are prepared, the parent's financial position and performance may be obscured by the subsidiary's financial position and performance, which the parent might not be able to access to meet its operational or day-to-day needs. Stakeholders suggested that this may place donations and grants at risk if the parent (or subsidiary) appears to be in a better financial position than is the case.

Some stakeholders also indicated that NFP entities might face difficulties identifying and consolidating a controlled entity because the information may be unavailable to the entity due to practices in the sector (e.g. secrecy and a lack of documentation).

Examples

Common examples of relationships in the NFP sector where an entity might need to consider whether it has control and should prepare consolidated financial statements include:

(a) an NFP entity establishing related entities to invest in real estate or undertake real estate management;
(b) a school establishing a foundation or a fund to raise funds for future projects; and
(c) a religious organisation establishing an auxiliary organisation to undertake activities that share common values with the religious organisation but are not related to the religious organisation's main activities.

Questions for respondents

Regarding AASB 10 Appendix E, do you have any comments about:

1. the outcomes of applying the control model and Appendix E in practice in the NFP sector?

2. difficulties that might be experienced in identifying and consolidating controlled entities, including difficulties accessing necessary information?

3. whether differences in application exist in practice in applying the control model and Appendix E in the NFP sector?

If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

4. In addition to the existing guidance in AASB 10 Appendix E, is there any other guidance that would help with applying the control model in the NFP sector? If so, please provide details of the guidance and explain why you think it would be useful.

Identifying variable returns in the NFP sector

Feedback indicated that there are challenges identifying variable returns in the NFP sector because the implementation guidance in AASB 10 Appendix E is too broad. Some stakeholders also noted that in the NFP sector most returns are non-financial returns.

Some stakeholders suggested that meeting the variable returns criteria is straightforward in most cases because demonstrating that a relationship is achieving or furthering the investor's objectives is easy. It was also suggested that meeting the variable returns criteria is often a default conclusion by NFP entities. This is particularly the case for religious organisations where they can rationalise that any activities of related entities (e.g. schools, aged care facilities or hospitals) are for advancing the mission of the religious organisation.

Conversely, some stakeholders noted that because the guidance in Appendix E is limited and broad, applying the requirements in practice can be challenging. They suggested clarity around what a variable return can be is needed. For example, is fulfilling a mission element of a religious congregation a variable return, notwithstanding that there are no rights to distributions or assets? Or should variable returns be interpreted more narrowly? It was suggested that once variable returns have been identified, it is less complex to understand whether there is control. However, the challenge remains of identifying variable returns in the first place.

Example

Note: This example focuses on variable returns only and does not consider whether power is present or whether the variability of returns can be affected.

Church A establishes Hospital B to provide health care services. Hospital B is a separate legal entity with an independent Board that comprises seven members. Church A has the right to appoint three directors to the Hospital B Board.

Due to the legal structure of Hospital B, Church A has no right to access the net assets of the hospital. However, Hospital B is advancing Church A's objectives by providing health care services and fulfilling the Church's mission by helping the sick and suffering.

In this example, it is complex to understand whether Church A has control over Hospital B. Hospital B is advancing Church A's objectives by providing health care services to the sick and suffering. This could be considered a variable return for Church A, albeit the Church has no exposure to financial returns.[1]

Questions for respondents

5. Do you have any comments about difficulties that might be experienced in identifying variable returns in the NFP sector? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

6. In addition to the existing guidance in AASB 10 Appendix E, is there any other guidance that would help with identifying variable returns in the NFP sector? If so, please provide details of the guidance and explain why you think it would be useful.

Customary business practices in the NFP sector

Stakeholders provided feedback that it was unclear what effect customary business practices have on assessing control in the NFP sector.

1 In assessing whether Church A controls Hospital B, it would be important to consider all facts and circumstances in totality, that is, to understand whether Church A also has power over Hospital B and whether the Church can affect the variability of the returns. In this limited fact pattern, it is unlikely that Church A has power as it can appoint only three of the seven directors of the Hospital – the right to appoint directors on its own is not necessarily a substantive right. It is also unclear whether Church A could affect the variability of returns and, therefore, it is also unclear whether Church A has control over Hospital B.

Example

Note: This example focuses on variable returns only and does not consider whether power is present or whether the variability of returns can be affected.

School EM establishes the Old School EM Association. Old School EM Association was established to promote the unity, welfare and advancement of past attendees of School EM through various services. Each year, the Association runs many events; however, the annual fundraising gala is the Association's major fundraising event.

The Association's independent Committee of Management comprises seven members, two of whom are appointed by School EM. The rules of the Association permit it to distribute the proceeds of fundraising activities to any entity they consider worthy.

Whilst the Association is permitted to distribute the proceeds of fundraising to any entity, historically they have always been distributed to School EM.

Despite the Association's ability to distribute to any entity, School EM is unsure whether the Association has established a customary business practice by distributing only to School EM, potentially providing the School with rights to variable returns.[2]

Question for respondents

7. Do you have any comments regarding customary business practices in the NFP sector? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

Assessing control without an equity interest

Stakeholder feedback indicates that assessing whether an NFP entity has rights that give rise to power over another entity can be challenging due to the legal structure of some entities. For example, companies limited by guarantee are often prohibited by their constitution from distributing any surplus to their members. Instead, the constitution commonly requires any surplus assets to be distributed to an entity with similar objectives.

Stakeholder feedback questioned whether the ability to direct distributions on winding up of a company limited by guarantee gives rise to power and an exposure to variable returns. It was noted that assessing control without an ownership interest is equally relevant to associations and other types of NFP entities.

Example

Entity ZA establishes Company XC, which is a company limited by guarantee. Company XC is governed by an independent Board of Directors. The Board of the company has six

2 In assessing whether School EM controls the Old School EM Association, it would be important to consider all facts and circumstances in totality, that is, to understand whether School EM also has power over the Association and whether the School can affect the variability of the returns. In this limited fact pattern, it is unlikely that School EM has power as it can appoint only two of the seven committee members of the Association – the right to appoint committee members on its own is not necessarily a substantive right. It is also unclear whether School EM could affect the variability of returns and, therefore, it is also unclear whether School EM has control over Old School EM Association.

members, one of whom is appointed by Entity ZA. Entity ZA also provided an initial investment to enable the company to undertake a particular activity.

Company XC is prohibited from distributing profits to its members and, on winding up, must distribute any surplus net assets to another NFP entity with similar objectives. Entity ZA can direct Company XC as to which entity should receive any surplus assets on winding up.

When assessing whether Entity ZA controls Company XC, Entity ZA considers whether its ability to control how Company XC distributes any surplus assets on winding up is a substantive right or a protective right. This is an important consideration even if Entity ZA itself is not entitled to the distribution. Whether the right is substantive or protective may also be affected by how many members Company XC has.

Entity ZA must also consider whether its ability to direct the distribution of surplus assets also gives it an exposure to or rights to variable returns.

Appendix E paragraph IG17(e) suggests that the right to direct distributions on winding up to a specific entity might be considered a protective right rather than a substantive right. This indicates that Entity ZA may not have power over Company XC in the example above.

In practice, the AASB understands that when surplus assets are to be distributed to the investor, investors often conclude they have control. Conversely, when surplus assets are to be distributed to an unrelated entity, determining whether or not the investor has control is less clear and divergence in practice has emerged. In some cases, investors conclude they have control, whereas in other cases they do not.

Questions for respondents

Regarding assessing control without an equity interest, do you have any comments about:

8. the application of the requirements in practice?

9. whether differences in application exist in practice?

If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

10. In addition to the existing guidance in AASB 10 Appendix E, is there any guidance that would help with assessing control without an equity interest? If so, please provide details of the guidance and explain why you think it would be useful.

Principal v agent – public sector entities

Stakeholders have sought clarification of when an entity in the public sector might be acting as a principal or as an agent. In the public sector, investments are often not financial and returns are often in the form of policy outcomes rather than financial outcomes.

Stakeholder feedback has indicated that there can be inconsistent conclusions in similar situations. It has been suggested that the existing guidance in AASB 10 Appendix E is generally useful as it clarifies how to analogise the requirements for the public sector.

However, in some cases, it was considered necessary to apply the for-profit guidance that applies to managed funds.

Questions for respondents

Regarding assessing whether an NFP entity in the public sector is acting as principal or an agent do you have any comments about:

11. distinguishing the role of an entity in practice?

12. whether differences in application exist in practice when applying the control model and Appendix E?

If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

13. In addition to the existing guidance in AASB 10 Appendix E, is there any guidance that would help you determine whether an NFP entity is a principal or an agent? If so, please provide details of the guidance and explain why you think it would be useful.

Topic 2: The definition of a structured entity for NFP entities

This section considers requirements relating to the definition of a structured entity for NFP entities, which is included in AASB 12 *Disclosure of Interests in Other Entities*.

Background

AASB 12 was first issued by the AASB in August 2011, to be effective for annual reporting periods beginning on or after 1 January 2013. However, the AASB prohibited NFP entities from early adopting the requirements for periods beginning before the 1 January 2013 mandatory application date.

In December 2012, the AASB further deferred the mandatory application date of AASB 12 for NFP entities to periods beginning on or after 1 January 2014, as it did with AASB 10, so the AASB could consider NFP-specific issues associated with the other newly issued Standards in the suite.

In October 2013, the AASB added Appendix E to AASB 12 (via AASB 2013-8). Appendix E explains the application of the definition of structured entity by NFP entities.

Key guidance included in AASB 12 Appendix E

AASB 12 contains specific disclosure requirements for both consolidated and unconsolidated structured entities.

A structured entity is defined in AASB 12 Appendix A as “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.”

For many NFP entities, voting rights may not be the dominant factor in deciding who controls an entity. Accordingly, applying the structured entity definition would result in many NFP entities being classified as structured entities due to the absence of voting or similar rights.

AASB 12 Appendix E provides guidance that explains that the principle underlying the definition of a structured entity is intended to capture entities where less conventional means – in the context of NFP entities – are the dominant factors in determining who controls the entity. Structured entities are intended to be a limited class of entities.

The guidance in Appendix E stipulates that the reference in the definition of a structured entity to similar rights includes administrative arrangements and statutory provisions, as these are often the dominant factor in determining control of NFP entities. Therefore, NFP entities designed so that voting or similar rights, including administrative arrangements or statutory provisions, are not the dominant factor in determining control of an entity would be captured by the definition of a structured entity in AASB 12.

What we have heard so far

The AASB is not aware of any implementation issues for NFP entities in applying AASB 12 Appendix E.

Questions for respondents

Regarding the definition of a structured entity in the NFP sector and the guidance in Appendix E, do you have any comments about:

14. the application of the requirements in practice?

15. any other matters of which the AASB should be aware as it undertakes this PIR?

If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

Topic 3: Related party disclosures by NFP public sector entities

This section considers requirements relating to the disclosure of related party transactions by NFP public sector entities.

Background

The NFP public sector requirements for related party disclosures are set out in AASB 124 *Related Party Disclosures*, as amended by AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*. These apply to annual periods beginning on or after 1 July 2016.

AASB 124 has applied to NFP private sector entities since 2005. However, mainly because of concerns about the practicability of the Standard, given the breadth of application if applied in the public sector, the AASB initially did not require an NFP public sector entity to comply with the Standard.

When IAS 24 *Related Party Disclosures* was revised by the IASB in 2009 to partially exempt transactions between government-related entities of the same jurisdiction from disclosure, the AASB considered the revised Standard would provide a more appropriate basis for application by NFP public sector entities. As a result, in furtherance of its policy of promulgating transaction-neutral Standards to the extent feasible, the AASB undertook a project to amend AASB 124 to require NFP public sector entities to apply the Standard. This effort was finalised through the issue of AASB 2015-6.

AASB 2015-6 filled the perceived disclosure gap for NFP public sector entities. It was the first time Australian Accounting Standards specified that information about an NFP public sector entity's related parties should be included in its general purpose financial statements (GPFS).

Key requirements

AASB 124 requires the disclosure of related party relationships, transactions and outstanding balances, including commitments, in the financial statements of an entity. Its purpose is to provide users of financial statements with information that may affect assessments of the entity's operations, including assessments of the risks and opportunities facing the entity.

In general, AASB 124 does not require disclosure:

(a) to be made at a level that identifies the related party transactions and outstanding balances of any specified entity or person; or

(b) of the names of related persons or their controlled entities.

What we have heard so far

Following the issue of AASB 2015-6, stakeholder feedback was received relating to an entity's ability to obtain the information necessary to prepare the disclosures required by AASB 124, including:

(a) challenges in identifying a complete set of related parties;

(b) difficulties in ensuring the completeness of representations made by related parties completing documentation about their engagements with the entity and requiring the completion and return of such forms; and

(c) the extent of information related parties were required to provide could be challenging partly because of the close family member provisions of the Standard.

In addition, feedback was received about concerns relating to:

(a) data privacy; and

(b) the auditability of the related party disclosures.

Some stakeholders queried the appropriateness and value of the requirements in relation to indigenous Australian-focused or located public sector entities and the apparent capture of a wide net of people and entities when considering the definition of a related party.

Some stakeholders also questioned how the concept of materiality applied to transactions with related-party key management personnel (KMP).[3] Although the AASB did not see a need to amend AASB 124 in respect of this issue, when the AASB issued Practice Statement 2 *Making Materiality Judgements* in 2017, it added Appendix A *Materiality of key management personnel related party transactions of not-for-profit public sector entities* to the Practice Statement.

Question for respondents

16. Do you have any comments regarding the disclosure of related party information by NFP public sector entities? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

3 Following the issue of AASB 2015-6, some stakeholders raised concerns about the operationalisation of the Standard in the public sector. The concerns primarily related to the assessment of the materiality of transactions with a KMP related party (e.g. whether a transaction with a KMP related party that did not occur as part of a public service provider/taxpayer relationship is always material for disclosure in GPFS). The AASB decided that it was not necessary to add the issue to the AASB's agenda because existing guidance in Australian Accounting Standards was sufficient to address the issue.

Topic 4: Basis of preparation of special purpose financial statements – disclosures about compliance with Australian Accounting Standards

This section considers disclosure requirements for Special Purpose Financial Statements (SPFS) that were added to AASB 1054 *Australian Additional Disclosures* by AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements.*

Background

The disclosures require NFP private sector entities that are required to apply AASB 1054 and that are preparing SPFS to disclose information about those financial statements, including information about the extent of compliance or otherwise with the recognition and measurement requirements of Australian Accounting Standards. These disclosures are intended to improve the transparency and comparability of SPFS because SPFS do not always comply with the recognition and measurement requirements in Australian Accounting Standards, which is not always clear to users of SPFS. Entities are also required to disclose the extent of their compliance with the consolidation and equity accounting requirements in Australian Accounting Standards where they have identified interests in subsidiaries, associates and joint ventures.

The disclosure requirements apply to annual reporting periods ending on or after 30 June 2020.

Key requirements

AASB 2019-4 added requirements to AASB 1054 to require NFP private sector entities that are required to apply AASB 1054 and that are preparing SPFS to disclose information about those financial statements. The disclosures cover:

(a) the basis on which the decision to prepare SPFS was made;

(b) whether the entity has assessed whether its interests in other entities give rise to interests in subsidiaries, associates or joint ventures and, if so, whether those interests have been consolidated or equity accounted consistently with the requirements of AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* – disclosing any non-compliance and its reasons why;

(c) the extent to which each of the entity’s material accounting policies complies with the recognition and measurement requirements specified in Australian Accounting Standards, by disclosing an indication of how it does not comply, or else that such an assessment has not been made; and

(d) whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards or that such an assessment has not been made.

What we have heard so far

The AASB is not aware of any implementation issues with NFP entities disclosing information about their extent of compliance or otherwise with the recognition and measurement requirements, including the consolidation and equity accounting requirements, in Australian Accounting Standards. However, stakeholders have noted that the disclosures are required to be made by only part of the NFP population.

Generally, feedback revealed that entities responded to the overall compliance disclosure requirement in the following ways:

(a) stated compliance because they knew they complied;

(b) stated non-compliance because entities were aware that they have not complied with the recognition and measurement requirements of one or more Standards (e.g. not correctly accounting for long service leave); or

(c) disclosed that they have not made such an assessment.

Feedback also indicated that these disclosures provide important information from the perspective of users of SPFS.

Question for respondents

17. Do you have any comments regarding the SPFS disclosures regarding compliance with Australian Accounting Standards by NFP private sector entities? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

AASB General Matters for Comment

In addition to the specific matters for comment on each topic, the AASB would also particularly value comments on the following:

18. Does the application of the requirements considered in this ITC adversely affect any regulatory requirements for NFP entities?

19. Does the application of the requirements considered in this ITC result in major auditing or assurance challenges?

20. Overall, do the requirements considered in this ITC result in financial statements that are more useful to users of NFP entity financial statements?

21. In your view, do the benefits of applying the requirements considered in this ITC exceed the implementation and ongoing application costs for NFP entities?

22. Are there any other matters that should be brought to the attention of the AASB as it undertakes this PIR?