

9 September 2019

Australian Accounting Standards Board
PO Box 204, Collins Street West
Melbourne Victoria 8007
Sydney NSW 2001

Via email: standard@asb.gov.au

Dear Australian Accounting Standards Board (AASB)

AASB Accounting Standards – Revised definition of not-for-profit (NFP) entity

Thank you for the opportunity to provide feedback on the proposed definition of NFP entity and implementation guidance in the AASB accounting standards.

The Australian Institute of Company Directors (**AICD**) has a membership of more than 44,000 including directors and senior leaders from business, government and the NFP sectors. The mission of the AICD is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society.

In this submission, the AICD has limited its comments to questions 1 and 2 of the specific matters for comments, which asks for feedback on the proposed definition of NFP entity in Australian Accounting Standards and the corresponding implementation guidance and illustrative examples.

In summary, while the AICD considers the proposed AASB definition preferable to the current formulation, it would be worthwhile consulting with stakeholders on other options such as a definition that is more closely aligned with that used by the Australian Charities and Not-for-profits Commission (ACNC).

Benefits of clearer, harmonised Australian definitions

The AICD notes that the proposed new definition would provide a greater degree of certainty than the current definition. The more precise definition of NFP entities removes the unhelpful negative description which might lead to confusion where an NFP was generating a financial surplus. It allows a more sophisticated, multifactorial analysis of an entity's primary objective.

The AICD also supports the introduction of the guidelines that accompany the definition as they should help to truly capture those entities that are NFP and provide additional assistance where the distinction is somewhat unclear.

However, we are concerned that the AASB has missed the opportunity to more tightly align the definition of "not-for-profit" with concepts used by either the ACNC or the Australian Tax Office (ATO). In particular, we believe it may have been helpful to look to the wording used by the ACNC on their website to describe a not-for-profit which provides:

Generally, a not-for-profit is an organisation that does not operate for the profit, personal gain or other benefit of particular people (for example, its members, the

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people who run it or their friends or relatives). The definition of not-for-profit applies both while the organisation is operating and if it 'winds up' (closes down).¹

In our opinion, aligning the AASB definition with the wording used by the ACNC would simplify matters significantly for charities and the NFP sector as it would provide a consistent reporting and regulatory regime. This might also help to avoid unnecessary complexities by introducing a new definition into the Australian context, which may inadvertently exclude some charities and other entities that should be regarded as NFP and include some entities which should not.

We suggest that the AASB consider better aligning its definition with the ACNC wording and consult on that as an alternative. This will allow for more discussion of the merits of the proposed definition compared to the other well-understood definitions already in use.

Next steps

We hope our comments outlined above have been useful. If you would like to discuss any aspect of this letter further, please contact Christie McGrath, Senior Policy Adviser at cmcgrath@aicd.com.au or David McElrea, Senior Policy Adviser, at dmcelrea@aicd.com.au.

Yours sincerely



LOUISE PETSCHLER
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¹ ACNC. 2019. NOT-FOR-PROFIT. [ONLINE] Available at: <https://www.acnc.gov.au/for-charities/start-charity/not-profit>. [Accessed 9 September 2019].