

27 June 2013

Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
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Via e-mail: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Kevin

**Exposure Draft (ED) 238, Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities**

Thank you for the opportunity to comment on the Exposure Draft 238, *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities*. CPA Australia and the Institute of Chartered Accountants Australia (the Institute) have considered the ED and our comments are set out below.

CPA Australia and the Institute represent over 200,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We agree with explaining and illustrating the principles in AASBs 10 and 12 from the perspective of not-for-profit entities when those explanations and illustrations are limited to addressing circumstances where those principles do not readily translate into a not-for-profit context. We also agree with the inclusion of comprehensive examples to illustrate the principles. Nevertheless, we believe the implementation guidance can be further improved through the inclusion of further discussion on a number of topics including the relationship of government and parliament in the context of control and the inclusion of more illustrative examples relevant to a broader constituency of not-for-profit entities.

More detail on our views and answers to the questions in the ED follow in the Appendix.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at [mark.shying@cpaaustralia.com.au](mailto:mark.shying@cpaaustralia.com.au) or Kerry Hicks (the Institute) at [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au)

Yours sincerely



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## APPENDIX – Comments on specific questions

- 1. Whether Australian implementation guidance for NFP entities should be added to AASB 10 and AASB 12 and, if so, whether it should, as proposed, be authoritative (ie “integral” to the Standard) or non-authoritative material.**

Yes, we support the addition of authoritative material in the form of Australian implementation guidance to AASBs 10 and 12.

- 2. Whether the proposed implementation guidance appropriately explains the definition of ‘control’ in AASB 10 for application by NFP entities, including the following aspects:**

- a. the broad nature of returns from a controlled NFP entity, including non-financial and indirect benefits (paragraphs IG16 and IG17); and**
- b. the four detailed sets of implementation examples in the proposed Appendix E for AASB 10.**

The AASB 10 definition of control requires evidence of ‘power’, ‘returns’ and a ‘link between power and returns’. Generally, we believe the proposed implementation guidance including the implementation examples provide a useful explanation. However, we think further improvements can be made in the areas that follow.

### *Relationship of government and parliament*

Paragraph IG8 illustrates an example of the power of a parliament to appoint and paragraph IG11 illustrates an example of the power of a government to appoint. As we understand it, and subject to other facts and circumstances, the outcomes in both examples would be consolidation into the whole of government general purpose financial statements. It is not clear to us why the power of a parliament to appoint would result in the government having control. We think the inclusion of an explanation would be helpful.

### *Example IG1A*

We understood the purpose of Example IG1A was to illustrate ‘power’, however, on reading the example we believe it illustrates ‘returns’ and not ‘power’. A new example for ‘power’ would be useful, and the current example could be used to demonstrate ‘returns’ and/or expanded into a comprehensive example.

### *Paragraph IG12*

The paragraph IG12 reference to paragraph B24 notes “sometimes rights can be substantive even though they are not currently exercisable”. Despite this, paragraph IG12 concludes that rights in substantively enacted legislation do not give the not-for-profit investor the current ability to direct the relevant activities of the investee. We find this conclusion difficult to understand and suggest the inclusion of an explanation would be useful.

### *Example IG2*

Example IG2 is restricted to illustrating a scenario where the State Government does not control the Council and does not illustrate the opposite scenario. There is a risk that this example will be relied upon in all facts and circumstances, unless a contrary example is presented. We believe it would be useful if Example IG2 contained both scenarios as in the University example (IG3). This is particularly needed given the superseded guidance which stated that local government could not be controlled by State or Territory government. We understand and appreciate the use of a principles based approach rather than a rules based approach but in the absence of examination of a scenario where control of local government does exist, the rule in the superseded guidance is more likely to be applied.

### *Example IG3*

We support the inclusion of the University example as we understand control of Universities by government has been a difficult area for practitioners to determine. However, we would suggest including further complications. A situation where there are returns to the investor which are not directly aligned with the objectives of the University could be included, such as state government returns from universities attracting international students. It is argued that this improves the State's economy and can improve the State's image as a tourist destination which would not be the primary aims of the University. Also it is not clear in the example whether the University Council's responsibilities, powers and functions are established by the University's enabling legislation or by the Council itself. We understand this is an important factor to consider because if the enabling legislation sets the powers and functions, then this is evidence of the State Government's rights to direct the relevant activities of the University.

### *Further examples*

While we support the inclusion of comprehensive examples we would recommend the inclusion of several more examples relevant to a broader constituency of not-for-profit entities. More 'structured entity' examples should be included to explain how the control of these entities in the NFP sector operates through 'less conventional means' (IG6 of Appendix E in AASB 12).

Therefore, we recommend the inclusion of at least one example specifically addressing Foundations. Foundations are very common in both the public and private sectors. They are usually established for a variety of reasons, in many cases to raise funds generally directed towards the purpose of the NFP body that has created them. However, generally the governing body of such foundations is independent from the creating NFP body. The NFP body would often appoint the 'initial board' of the Foundation but has no removal powers. The board may contain high profile business or sporting persons. In the absence of voting rights or other contractual arrangements that give the NFP power over the Foundation, the example needs to indicate the factors that may give rise to control versus no control in such situations. Organisations that establish foundations could be varied, but often include schools, sporting organisations, arts and cultural organisations.

### **3. Whether the proposed implementation guidance appropriately explains the definition of 'structured entity' in AASB 12 for application by NFP entities.**

Yes, we believe the draft implementation guidance appropriately explains the definition of "structured entity" in AASB 12 for application by NFP entities.

### **4. Whether it is appropriate to exclude all disclosure requirements in AASB 12 in respect of GGS financial statements (see the proposed amendments to AASB 1049 set out in the ED).**

Yes, we support the exclusion of all disclosure requirements in AASB 12 in respect of GGS financial statements.

### **5. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including GFS harmonisation issues.**

We are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

### **6. Whether, overall, the proposals would result in financial statements that would be useful to users.**

Subject to the above comments, overall, we believe the proposals would result in financial statements that would be useful to users.

**7. Whether the proposals are in the best interests of the Australian economy.**

Yes, we believe the proposals are in the best interests of the Australian economy.

**8. Unless already provided in response to the above specific matters for comment, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.**

As Australian Accounting Standards cover sectors not addressed by IFRS, we believe the proposals will deliver benefits to users, preparers and auditors in excess of any cost.