

28 June 2013

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

**Request for comments on Exposure Draft 238: *Consolidated Financial Statements - Australian Implementation Guidance for Not-for-Profit Entities***

Dear Mr Stevenson

Ernst & Young Australia is pleased to provide our comments on the AASB's Exposure Draft 238 *Consolidated Financial Statements - Australian Implementation Guidance for Not-for-Profit Entities* (the 'Exposure Draft').

The application of the concept of 'control' to the not-for-profit (NFP) sector has long proven a significant point of contention among NFP entities and practitioners. The NFP sector is characterized by its complexity of comprising entities with differing institutional structures and the varying arrangements and agreements underpinning NFP operations. As such, it has faced numerous challenges in consistently applying the concepts under AASB 127 *Consolidated and Separate Financial Statements*.

Although we note that the clarification of the definition of control under AASB 10 *Consolidated Financial Statements* will alleviate some of the historic issues encountered by the NFP sector in making an assessment of control, we welcome the recognition by the AASB that complexities remain and that the perspectives of NFP entities differ to those of the for-profit sector. We therefore support the inclusion of Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* as an integral part of AASB 10 *Consolidated Financial Statements*.

We support the proposal to amend AASB 12 *Disclosure of Interests in Other Entities* to explain the application of the definition of a structured entity by NFP entities.

We also support the proposed amendments to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

We provide additional comments for the Board's consideration below.

**Matters for comment:**

- 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.**

Our view is the NFP sector is diverse and whilst there will exist for some entities, elements of similarity in perspective with for-profit entities when applying the criteria within AASB 10 to determine control, we concur with the AASB's viewpoint that circumstances exist where a for-profit perspective does not readily translate to a not-for-profit perspective. We believe that without the additional application guidance, there exists the potential for mis-understanding and mis-application of the principles of AASB 10 which will only hinder goals towards improved transparency and accountability within the NFP sector and the ability of users to easily compare financial reports of NFP entities. To support robust, consistent financial reporting within the NFP sector, the guidance must be authoritative.

- 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,**
  - b. The four detailed sets of implementation examples in the proposed Appendix E**

We are supportive of the approach the AASB has taken to the Appendix in addressing matters impacting the NFP sector broadly in the order in which the related paragraphs appear in the body of AASB 10 and in Appendix B. As we note above, there will exist some common for-profit and not-for-profit perspectives in applying the requirements of AASB 10 and the cross referencing to relevant paragraphs of Appendix B serves the interests of the NFP sector in providing further examples of items for consideration in the control assessment.

However, we suggest that the AASB consider the structure of example IG1. We note the conclusions set out in IG1A discuss rights to variable returns from the religious organisation's involvement with the association, but this is presented before the concept of returns is discussed within the Exposure Draft. Our recommendation would be for this example to focus on the assessment of power to illustrate the concepts in paragraphs IG4 - IG8 and to either conclude the example at this point or to expand on it at a later point in the Exposure Draft when the concept of returns is discussed.

We believe IG14 would benefit from clarifying how an entity assesses whether the regulatory powers are substantive or protective. The example given in this paragraph merely repeats the first half of the paragraph rather than being an example of how the assessment is made. Instead an example of the 'particular circumstances' referred to that would make it substantive would be more useful.

**Returns:**

We note examples IG1A, IG2 and IG3A discuss the concept of returns for the relevant scenario. However, in each example, the nature of returns are essentially the same - the contribution to the achievement or furtherance of the 'investor's' goals and objectives. We would recommend the AASB to either supplement the scope and nature of returns with a list of examples or provide additional application examples where the returns are those other than including or furthering the investor's objectives. In particular we note that it is often difficult to assess returns for Companies Limited by Guarantee, and recommend that these are included in the examples.

**Examples:**

We welcome the inclusion of the examples within the proposed Appendix. Our concern with the examples however is the predominant focus on public sector NFP application compared to examples within the private NFP sector. The NFP private sector has previously voiced this as an issue with the application guidance present with AASB 127, so we urge the AASB to include additional examples such as companies limited by guarantee. These entities are prohibited from paying dividends to their shareholders but may provide financial benefits by other means such as loans and by furthering common goals and objectives.

In regards to example IG2, we do not believe the principles of AASB 10 are being appropriately applied and could lead to potential mis-interpretation and application of the control assessment. The relevant activities of the Council are not clearly defined in order to understand how the activities significantly affect returns and therefore how the actions of the State Government really impact those activities. For many of the activities noted as substantive, they appear to be protective in nature rather than substantive. For example, the statement that the ability to direct the rates and charges is substantive does not appear to be supported in the assessment, where it is concluded they do not have a major effect. This would therefore lead us to conclude they are not substantive powers over the relevant activities. Alternatively, some of the examples given as protective rights appear more substantive in nature - for example the 'ability to enforce recommendations on the council' - without more information about why this was assessed as protective.

In almost all of the examples, there is a statement that: 'They are substantive rights if they do not relate to fundamental changes or exceptional circumstances.' While such a statement is true, it can lead to confusion, as this is not the basic concept used in AASB 10. Rather the approach is to consider whether the rights are in relation to relevant activities and only then consider if they need to be further assessed. That is, if they don't relate to relevant activities they don't need to be further considered. By concluding in these examples that certain rights are substantive, it has the potential to mislead the readers.

**Other comments:**

We believe the scope of the proposed guidance is limited and should be revised. IG1 states 'The appendix does not apply to for-profit entities or affect their application of AASB10'. However it is common for a for-profit entity to have a relationship with a NFP entity. In this scenario, the proposed application guidance would be of benefit to the for-profit entity in assessing whether it has control over the NFP entity.

We propose the Board consider either expanding the scope of the proposed Appendix to include all public sector entities, whether for or not-for profit, or include in the preface to the guidance a statement that it may be applied by for-profit public sector entities with an interest in a NFP entity.

Paragraph IG4 states '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 returns to the investee...' We believe this should state '...the returns of the investee...'

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

We believe the guidance appropriately explains the definition of a structured entity.

**4. Whether it is appropriate to exclude all disclosure requirements in AASB 12 in respect of GGS financial statements.**

We concur with the Basis of Conclusions paragraph, BC 24 that 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 the AASB 12 disclosures for the whole of government 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.**

The GAAP/GFS implications noted in the introduction to this Exposure Draft appears adequately assessed and considered as part of the process in issuing this Exposure Draft. We draw the Board's attention however, to possible implications that may affect the implementation of the proposals in the proposed financial reporting regulations of the Australian Charities and Not-for-Profit Commission, specifically the concept of joint and collective reporting.

Draft proposals stated that, depending on the circumstances, joint and collective reporting may diverge from the requirements in particular Australian Accounting Standards (AAS), including AASB 10. We strongly urge the AASB to engage with the ACNC in regards to the proposals of joint and collective reporting so as to avoid any potential for inconsistent application of AAS across the NFP sector.

Finally, we believe the proposals would result in financial statements that would be useful to users, the proposals are in the best interest of the Australian economy and we do not envisage that this application guidance would have any significant cost/benefit implications to the NFP sector.

Please contact Lynda Tomkins ([lynda.tomkins@au.ey.com](mailto:lynda.tomkins@au.ey.com)), direct (02) 9276 9605 or Suzanne Maris ([suzanne.maris@au.ey.com](mailto:suzanne.maris@au.ey.com)), direct (02) 9248 4818 if you wish to discuss any of the matters raised in this response.

Yours sincerely



Ernst and Young