



Ms Kris Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West VIC 8007

11 September 2019

Dear Kris

### **ED 291 Not-for-Profit Entity Definition and Guidance**

We are pleased to have the opportunity to comment on Exposure Draft 291 *Not-for-Profit Entity Definition and Guidance* (ED 291).

Whilst we acknowledge the comments in ED 291 (BC2 – BC5) regarding the impetus for the proposals, we have not identified significant issues in practice in applying the current not-for-profit (NFP) entity definition. Feedback from our clients has confirmed this observation.

The same proposed definition – albeit without the same level of application guidance – was exposed in 2007<sup>1</sup>. We note the proposals were not adopted at that time as it was agreed such a project would be dealt with as part of the Not-for-Profit Entity Standard-Setting Framework project. Given their resource constraints, we are not convinced the cost of implementing the new definition would exceed the benefits for the entities in the NFP sector. The NFP sector is currently dealing with and is expected to in the near future, a number of other regulatory changes, including the adoption of AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*, and any changes that may flow from the ACNC Legislative Review Report.

Notwithstanding our views, should the AASB proceed with this project, we consider more guidance is needed to clarify the intended meaning of community or social benefit in the proposed definition to avoid diversity in how this proposed new definition is applied in practice.

Please refer to the Appendix for our detailed comments on the specific and general matters for which feedback was requested.

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<sup>1</sup> AASB Invitation to Comment 14 *Proposed Definition and Guidance for Not-for-Profit Entities* published in December 2007.



We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact myself on (02) 9455 9120 or Julie Locke on (02) 6248 1190.

Yours sincerely

A handwritten signature in black ink, appearing to read "Kim Heng".

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## Appendix

### Specific matters for comment

- 1 Do you agree that the current definition of not-for-profit entity in Australian Accounting Standards should be replaced with the proposed definition, which is based on the New Zealand definition of public benefit entity? Please indicate your reasons.**

We have not identified significant issues in practice in applying the current NFP entity definition. Feedback from our clients has confirmed this observation. Our concerns with replacing the current NFP entity definition are compounded by the current climate in which NFP entities are already dedicating their limited resources to implementing recent regulatory changes in their sector – including AASB 1058, AASB 15 and AASB 16.

The proposed definition could provide greater clarity and consistency – as it positively specifies what a NFP entity's primary objective must be. However, further guidance around what is meant by 'community or social benefit' is required should the change in the definition proceed.

We envisage difficulties in determining whether the community or social benefit criterion would be met by an entity's objective. We expect this assessment could be highly subjective as what is considered to be beneficial for community and/or society likely depends on the values held by the entity as well as those of its stakeholders and society at large. For example, shooters' associations would unlikely be perceived to transfer benefits to community or society by those opposed to the use of firearms. We recommend additional guidance to minimise the potential diversity that could arise from exercising the significant judgement required for this assessment.

- 2 Do you agree with the proposed implementation guidance and illustrative examples? Why, or why not? Please indicate any concerns about particular parts of the guidance, or particular examples.**

Overall, we consider the proposed indicators and the related illustrative examples are helpful but we recommend the AASB provide more guidance and illustrative examples for dealing with scenarios involving conflicting indicators. The illustrative examples provide limited practical assistance with making an overall assessment – the weighing up of all the indicators particularly where they might conflict. We recommend providing additional guidance to help entities in making that final

judgement call based on an overall basis, highlighting the indicators that were most relevant to that overall conclusion. Our specific comments are as below.

Stated objectives

ED 291 makes reference to the *Charities Act 2013* and the twelve charitable purposes listed in section 12 of that Act. For entities subject to such legislation, determining whether the entity provides goods or services for community or society benefit will be less judgemental. However, for entities with a stated objective that provide benefits outside general categories not in the scope of such legislation, assessing whether the flow-on benefits of the entity's objective reach the general public could be highly subjective even if the entity's constitution clearly makes that assertion. For example, agricultural co-operatives whose objectives include advocating the benefits of their industry to Government and the public.

Nature of the benefits, including the quantum of the expected financial benefits

The quantum of expected financial benefits is an appropriate indicator and the guidance provided is helpful. However, in our view, this indicator should focus more on what is meant by community and social benefit, as that is the key to determining whether the entity meets the first part of the proposed definition. The focus of the proposed guidance as written appears to be on the financial nature of the benefits.

Primary beneficiaries of the benefits

We broadly agree with the guidance proposed for this indicator.

Nature of equity interest

We broadly agree with the guidance proposed for this indicator.

Purpose and use of assets

We broadly agree with the guidance proposed for this indicator.

The nature of funding

We broadly agree with the guidance proposed for this indicator.

- 3 Do you agree that in determining the classification of a group that it is necessary to consider the characteristics of the group and the controlling entity? Do you agree that the classification of the controlling entity of the group would most likely determine the classification of the group? Why, or why not?**

We agree that in determining the classification of a group it is necessary to consider the characteristics of the group and the controlling entity. We agree that the classification of the controlling entity of the group would most likely determine the classification of the group.

We consider that this assessment may, however, be complex for many entities and require significant judgement. As highlighted in ED 291, the use of for-profit subsidiaries to support the NFP objective of a group is prevalent, which results in the need to determine the classification of the group. In these circumstances we believe it would typical for the controlling entity's characteristics to determine the classification of the group.

- 4 Do you agree with the proposed guidance on the accounting consequences for an entity that changes its classification as a for-profit entity or a not-for-profit entity? Is this guidance sufficient? Why, or why not?**

We agree with the proposed guidance on the accounting consequences for an entity that changes its classification as a for-profit entity or a NFP entity. We believe that the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB 1053 *Application of Tiers of Australian Accounting Standards* provide adequate guidance for such a change.

- 5 No transition requirements have been proposed for the initial adoption of the guidance. Are initial transition provisions required, and if so, what should they state?**

We agree with comments in BC11 that no initial transition provisions are required for the initial adoption from a change in classification, and that such adoption should be dealt with in accordance with the guidance as contained in AASB 108 and AASB 1053.

- 6 Do you agree that the definition and associated guidance should be included in AASB 1057 Application of Australian Accounting Standards? Why, or why not? If not, please indicate your preferred approach.**

Should the proposals proceed, we agree that the definition and associated guidance should be included in AASB 1057. This is the Australian Accounting Standard (AAS) that provides requirements relating to the application of AAS and is therefore the logical location for the NFP definition. We would recommend considering relocating the definition of NFP entity to AASB 1057 regardless of the change in definition going ahead.

**7 *Do you agree that the implementation guidance should form an integral part of AASB 1057, ie have mandatory status? Please indicate your reasons.***

Should the proposals proceed then we agree the implementation guidance should be made an integral part of AASB 1057. This is consistent with the status afforded to other NFP implementation guidance. In addition, forming an integral part of AASB 1057 will require entities to assess the indicators and, on balance, result in a more consistent application of the definition.

**General matters for comment**

**8 *Whether The AASB's For-Profit Entity Standard-Setting Framework and The AASB's Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?***

We agree the process in issuing the exposure draft is consistent with both Frameworks.

**9 *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?***

We are not aware of any regulatory issues or any other issues described above. During our consultations on these proposals with stakeholders, questions arose regarding the interactions of the proposed definition with those included in tax legislation, and whether there will be consequences, for example a loss of tax exempt status from applying the proposed definition. From our preliminary discussions we are not aware of any consequences, however, recommend the AASB explore this with the Australian Taxation Office and include the outcome of such outreach in the Basis for Conclusions.

**10 Whether, overall, the proposals would result in financial statements that would be useful to users?**

As our experience has been that the current NFP definition has not identified significant issues in practice, we are not persuaded that the proposed changes will beneficially impact the financial statements.

**11 Whether the proposals are in the best interests of the Australian economy?**

As outlined in our response to question 1, we have concerns around the cost of implementing the new definition exceeding the benefits for users of financial statements.

**12 Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.**

We do not have any specific comments on the costs and benefits of the proposals.