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Mr David Boymal
The Chairman
Australian Accounting Standards Board
PO Box 204
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31 March 2008

Our Ref: dr

Dear David

Invitation to Comment ITC 14 *Proposed Definition and Guidance for Not-for-Profit Entities*

Thank you for the opportunity to comment on the Australian Accounting Standards Board (AASB) Invitation to Comment ITC 14 *Proposed Definition and Guidance for Not-for-Profit Entities* (ITC 14).

We agree with the AASB's assertion that the distinction between for-profit and not-for-profit entities is a significant aspect of financial reporting in Australia. However, we believe it is premature of the AASB to seek comment on the 'public benefit entity' material issued by the New Zealand Financial Reporting Standards Board (FRSB) and of its suitability for adoption in Australia.

In our opinion, before embarking on a project focused on the determination of appropriate terminology, definitions and guidance for not-for-profit entities, we believe that the AASB needs to more fully develop and articulate its policy for standard-setting in relation to not-for-profit entities. For example, the significance of the distinction between 'for-profit' and 'not-for-profit' may be substantially reduced if the AASB was to fully apply its *sector-neutral* or *transaction neutral* approach to standard-setting (subject to one's interpretation of 'neutrality'). Further observations and comments regarding the AASB's policy direction are contained in Appendix A to this letter.

It is also interesting to note that prior to Australia's convergence with International Financial Reporting Standards (IFRS), the requirements of Australian Accounting Standards applied equally to for-profit entities and not-for-profit entities, with the exception of the following Standards and Interpretations:

- AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*
- AASB 1005 *Segment Reporting*
- AASB 1010 *Recoverable Amount of Non-Current Assets*
- UIG Abstract 17 *Developer and Customer Contributions in Price Regulated Industries*.

Member of
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Given the very limited differences between the accounting requirements applicable to for-profit entities and those applicable to not-for-profit entities, the classification of an entity as either 'for-profit' or 'not-for-profit' was arguably not a significant aspect of financial reporting in Australia. Accordingly, the simplistic definition of a 'not-for-profit entity' (and limited related guidance) contained in Australian Accounting Standards was not of concern.

Following Australia's convergence with IFRS, Australian equivalents to IFRS (A-IFRS) retained the concept of differential reporting between for-profit entities and not-for-profit entities. In this regard, the definition of a 'not-for-profit entity' did not change on convergence with IFRS other than expanding the definition to clarify that a 'not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls'.

However, it is important to note that the AASB made numerous and significant modifications to IFRSs, at the time of convergence, in relation to not-for-profit entities. This resulted in the following Accounting Standards containing recognition and measurement requirements applicable to not-for-profit entities that differ from those applicable to for-profit entities:

- AASB 102 *Inventories*
- AASB 112 *Income Taxes*
- AASB 116 *Property, Plant and Equipment*
- AASB 119 *Employee Benefits*
- AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* (not-for-profit entities are required to apply AASB 1004 *Contributions*)
- AASB 136 *Impairment of Assets*
- AASB 138 *Intangible Assets*
- AASB 140 *Investment Property*
- AASB 141 *Agriculture*

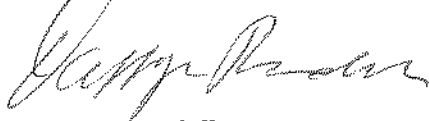
In our opinion, the differences that currently exist between the accounting requirements applicable to for-profit entities and those applicable to not-for-profit entities are significant and, in many cases, are unnecessary. This being the case, the classification of an entity as either 'for-profit' or 'not-for-profit' has unnecessarily become a significant aspect of financial reporting in Australia.

A fully developed and articulated policy by the AASB for standard-setting in relation to not-for-profit entities and the resultant elimination of the unnecessary differences in accounting requirements between for-profit entities and not-for-profit entities would have a far greater positive impact on financial reporting in Australia than would the proposed amendment to the definition of 'not-for-profit entity'.

Given our concerns regarding the issuance of ITC 14, we have not provided comments on the terminology, definition or guidance contained in the New Zealand Application Guidance. We have however provided responses to the other requested matters, which are contained in Appendix B to this letter.

If you have any questions concerning our comments, please contact Darryn Rundell on (03) 9208 7916.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Darryn Rundell', written in a cursive style.

Darryn Rundell
Partner
Deloitte Touche Tohmatsu

APPENDIX A – AASB NOT-FOR-PROFIT POLICY DIRECTION

1. *Criteria for modifying from IFRSs*

We understand that the AASB's current position is to modify IFRSs in relation to not-for-profit entities only when there is a specific not-for-profit reason for doing so. Such approach may be said to be consistent with the AASB's *sector-neutral* or *transaction neutral* approach to standard-setting in Australia.

We agree that IFRSs should only be modified where considered absolutely necessary in order to accommodate the needs of not-for-profit entities.

We have two principal observations/comments with respect to the AASB's current policy position:

- (a) Firstly, this position does not appear to be reflected in existing Australian Accounting Standards. For example:
 - accounting for government grants
 - accounting for revaluation increments and revaluation decrements of property, plant and equipment and intangible assets relating to individual assets within a class of assets
 - accounting for impairment losses on revalued assets.
- (b) Secondly, it is unclear whether such policy position extends to specifying the accounting treatment of transactions and events that are not dealt with in existing IFRSs and, if it does, it is unclear what criteria the AASB applies when determining whether or not to develop Australian specific requirements. For example, what criteria did the AASB apply when determining that IFRSs (as adopted in Australia) should be extended to apply to the following transactions and events of not-for-profit entities:
 - inventory, property, plant and equipment, intangible assets and investment property acquired at cost or for nominal consideration
 - contributed assets [non-exchange transactions], other than the receipt of government grants?

We recommend that the AASB more fully develop and articulate its policy with respect to modifying IFRSs for application to not-for-profit entities as a matter of urgency and, once completed, reconsider existing modifications and proposed future modifications in light of such policy.

2. *Public sector versus private sector not-for-profit entities*

In our opinion, the AASB's policy with respect to modifying IFRSs for not-for-profit entities should give consideration to the needs of public sector not-for-profit entities and private sector not-for-profit entities as two distinct groups of not-for-profit entities.

We believe this is an important distinction because, for example, instances may arise where there is a specific public sector not-for-profit reason for modifying IFRSs but not a specific private sector not-for-profit reason (and vice versa).

In this regard, we note that almost all of the not-for-profit modifications contained in A-IFRS (i.e., excluding AASB 1004 *Contributions*, AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* which are Australian specific Accounting Standards) are sourced from International Public Sector Accounting Standards (IPSAS). Such modifications to IFRSs may be regarded by many to be appropriate for public sector not-for-profit entities; however, what criteria did the AASB apply when determining that they were also appropriate for private sector not-for-profit entities?

We further note that AASB Public Sector Policy Paper (as at February 2008), although titled 'public sector', appears to also deal with matters that are relevant to private sector not-for-profit entities. Accordingly, it is unclear which matters apply to public sector not-for-profit entities only, private sector not-for-profit entities only or both groups of entities (notwithstanding that the paper is titled 'public sector').

We recommend that the AASB more fully develop and articulate its policy with respect to modifying IFRSs for public sector not-for-profit entities and private sector not-for-profit entities as two distinct groups of not-for-profit entities as a matter of urgency and, once completed, reconsider existing modifications and proposed future modifications in light of such policy.

3. *IPSAS Convergence*

As outlined above, almost all of the not-for-profit modifications contained in A-IFRS are sourced from IPSASs, and we further note that the AASB work program as at February 2008 makes reference to IPSAS convergence.

Has the AASB formally adopted a policy of convergence with IPSASs? If so, does such convergence only apply to the development of Accounting Standards for public sector entities (for-profit and not-for-profit), or to both public sector entities and private sector not-for-profit entities?

We further note that the AASB is considering the adoption of an Australian equivalent to IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* (IPSAS 23). What criteria did the AASB apply when tentatively determining that it is appropriate to adopt IPSAS 23 as the basis for an Australian Accounting Standard applicable to public sector not-for-profit entities and, more particularly, private sector not-for-profit entities?

It is unclear where convergence with IPSAS fits into the AASB's current policy position with respect to modifying IFRSs for public sector entities (for-profit and not-for-profit) and private sector not-for-profit entities.

We recommend that the AASB more fully develop and articulate its policy with respect to Australia's convergence with IPSASs, as a matter of urgency and, once completed, reconsider existing modifications and proposed future modifications in light of such policy.

APPENDIX B – SPECIFIC MATTERS FOR COMMENT

(a) *the New Zealand FRSB's:*

- (i) *terminology – use of the term 'public benefit entity'*
- (ii) *definition of public benefit entity*
- (ii) *guidance for identifying a public benefit entity*
- (iii) *requirement to disclose that an entity is a profit orientated entity or public benefit entity*

Terminology – use of the term 'public benefit entity'

No comment.

Definition of public benefit entity

No comment.

Guidance for identifying a public benefit entity

No comment.

Requirement to disclose that an entity is a profit orientated entity or public benefit entity

We support the inclusion of a requirement to disclose whether the reporting entity is classified as a 'profit oriented' or 'public benefit entity' (or other adopted terminology) for the purpose of complying with Accounting Standards.

(b) *the status of guidance as an integral part of an Accounting Standard*

We support the inclusion of application guidance for the definition of a not-for-profit entity as an integral part of Australian Accounting Standards.