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2 April 2008

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

Dear Chairman

ITC 14: *Proposed Definition and Guidance for Not-for-Profit Entities*

We are pleased to submit our comments on ITC 14: *Proposed Definition and Guidance for Not-for-Profit Entities*.

Our comments on the specific matters outlined in the Invitation to Comment are addressed in Appendix A. Our comments in relation to matters not specifically requested are included as Appendix B. Subject to these comments, we believe that ITC 14 is a positive step for public sector and other not-for-profit entities. ITC 14 will provide greater clarity and consistency across the Australian environment.

We also support the overall objective of the Australian Accounting Standards Board (AASB) to converge with New Zealand Financial Reporting Standards Board (FRSB) in respect to the joint development of not-for-profit guidance.

We would be pleased to discuss our comments further with you. Please contact Georgina Deliportas on (03) 9288 8621 if you wish to discuss any of the matters raised in this response.

Yours sincerely

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

Appendix A

SPECIFIC MATTERS FOR COMMENT

(a) the New Zealand FRSB's:

(i) *terminology - use of the term 'public benefit entity'*

We do not support the proposal to replace the 'not-for-profit' term with 'public benefit entity' as the current AASB term is more appropriate. The use of public benefit entity may imply a benefit to be received by the public as a whole as stated in paragraph NZ AG 15. This is not necessarily true, especially for associations and other entities which are established for the benefit of their members rather than the public as a whole and can be misinterpreted if this term is adopted.

We acknowledge that whilst retaining the current terminology may result in less compatibility with New Zealand and other jurisdictions, this terminology will be consistent with that used by the International Accounting Standards Board (IASB). We therefore recommend that the Board retain the current not-for-profit terminology.

(ii) *definition of public benefit entity*

We support the proposal to use the public benefit entity definition on the basis that it is a more comprehensive definition in comparison to the current AASB definition.

(iii) *guidance for identifying a public benefit entity*

We strongly support the proposal to provide guidance for identifying a public benefit entity and commend the Board and its staff for a timely response to public sector constituents' concerns as highlighted in the 2007 issues paper to the AASB.

However, we recommend that the Board in consultation with the New Zealand FRSB consider a review of existing Australian guidance issued by the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) and Australasian Council of Auditors General (ACAG) to consolidate the requirements with ITC 14 for completeness.

A review of the ACAG guidance paper *Guidance on determining whether a government entity is not-for-profit or for-profit* highlights that new indicators or supporting paragraphs to existing indicators may be incorporated to enhance the guidance in ITC 14.

Items that may be considered by the Board include whether:

- an entity pays tax or is it subject to tax equivalent reporting to the Government;
- it is self-funding in the longer-term;
- it can meet ongoing maintenance expenditures for all its assets and to fund the replacement of the existing service potential of these assets; and
- dividend payments are greater than the long-term bond rate.

(iv) *requirement to disclose that an entity is a profit oriented entity or public benefit entity*

We support the proposal to identify in the financial report whether an entity is a profit oriented entity or a public benefit entity. This information when read in conjunction with the basis of preparation of the financial report will enhance users' understanding of the accounting policies adopted and information presented on the financial statements which is consistent with the overall objective of the AASB *Framework*.

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

We support the proposal to locate any guidance arising from ITC 14 in an Appendix to AASB 101 *Presentation of Financial Statements*.

Appendix B

OTHER COMMENTS ON ITC 14

Multiple objectives

Whilst ITC 14 identifies five indicators to consider in determining whether an entity is a public benefit entity, it only goes as far as exercising professional judgment where indicators are in conflict with each other. In this regard, many public sector entities engaged in for-profit activities and auditors alike have difficulty agreeing on which indicators to emphasize.

We believe that the nature of equity interest is a key indicator in the determination of whether an entity is a not-for-profit as it attempts to identify who ultimately has the right to residual net assets. We therefore recommend that the Board relocate NZ AG 30 and 31 as the first indicator to be considered and insert an additional paragraph emphasizing the weighting of this indicator relative to other indicators.

It is in our view that the Board should consider this as a high priority area to be addressed in consultation with constituents and the New Zealand FRSB in light of their experience.

Differences in accounting requirements for profit-oriented entities and PBEs

In relation to paragraph NZ AG 13, we believe the statement that there is “relatively few differences in accounting requirements for profit-oriented entities and PBEs” is not applicable to the Australian environment due to the growing number of Aus paragraph insertions such as from ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*. We therefore recommend that the Board remove this statement to read as follows:

“Whilst there are relatively few differences in accounting requirements for profit-oriented entities and PBEs, a Application by an entity of a single accounting requirement that is not in accordance with IFRSs will mean that entity is not in compliance with IFRSs. In certain cases, depending on the nature of the activities of the entity, designation as a PBE or as a profit-oriented entity will not have a material impact on the selection of accounting policies, or on the ability of an entity to assert compliance with IFRSs.”