



31 March 2008

The Chairman  
Australian Accounting Standards Board  
E Mail: [standard@aasb.com.au](mailto:standard@aasb.com.au)

Dear David

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

The Institute of Chartered Accountants in Australia welcomes the opportunity to comment on and is generally supportive of ITC 14 'Proposed Definition and Guidance for Not-for-Profit Entities'. In summary, we prefer the existing terminology, but support the issuance of indicator guidance to help practitioners determine whether an entity is for-profit or not-for-profit.

We have long been aware from conversations with constituents that differentiating between for-profit and not-for-profit entities has been difficult as many entities show features of both. The decision is vital as it determines the entity's selection of accounting policies. At the end of the day, the evaluation of the features of the entity requires professional judgement and an accounting standard or guidance cannot give all the answers. However, we welcome this initiative and believe that the guidance, once it has been Australianised, will be useful to practitioners in making these judgements.

In making this submission, we have conducted a survey of our members using questions based on those in the ITC. We received 51 responses, an indication of the high level of interest in the topic. The survey revealed strong overall support for a project to clarify the definition of not-for-profit (or whatever term is adopted in the future) -78% of respondents - but ambivalence regarding adoption of the New Zealand terminology. The results are attached as Appendix 2.

We have also reviewed the guidance on determining whether or not a government entity is a not-for-profit put out by the Heads of Treasuries Accounting and Reporting Advisory Committee and the Australian Council of Auditors General Advisory Committee. Their guidance discusses similar indicators to those nominated in the ITC, but also adds classification in Government Finance Statistics as a relevant indicator.

Our detailed comments on the AASB's questions are in Appendix 1 attached.

Please contact Kerry Hicks at [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au) or 02 9290 5703 if you require any further information.

Yours sincerely

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## **Appendix 1**

### **Detailed Answers to AASB Questions**

#### **The New Zealand FRSB's terminology – use of the term 'public benefit entity'**

Views from the respondents to our survey were mixed on the proposed change in terminology. The number who agreed with the proposed change (41%) was less than the number who disagreed (47%) but a significant minority stated that they were unsure (12%).

A number of members raised issues with the New Zealand terminology, such as

- whether the term 'public benefit entity' will lead to confusion with the ATO's term 'public benevolent institution'
- whether the terminology could lead to the exclusion of some not-for-profits as currently defined, such as professional bodies.

On balance, respondents showed a preference for retaining the terminology they are familiar with and in the absence of a strong mandate for change, we suggest that the Australian not-for-profit terminology be retained.

An article in February 2008's Charter by Gina Anderson of Philanthropy Australia suggests the term 'community benefit organisation'. This term might go some way to alleviating the concerns of those who dislike 'public benefit entity' as the community concerned may be the public at large or a smaller subgroup. The Board may wish to suggest this to constituents as an option in the next draft of the proposals.

#### **The New Zealand FRSB's definition of public benefit entity**

Members were generally supportive (65%) of the proposed definition, but this answer must be read in the context of the ambivalence displayed by respondents towards adopting the New Zealand terminology. Our members appear to support the definition and guidance, but wish to retain the traditional terminology.

The advantage of the New Zealand definition is that it is positive, in that it focuses on the positive features the entity exhibits (providing goods or services for community or social benefit) rather than focusing on what it is not, as in the current Australian definition. However the element of the definition that those surveyed seemed most comfortable with was "where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders", which focuses on the financial aspects of the entity like the current Australian not-for-profit definition, rather than what the entity actually does.

Some members raised the question of whether some entities now classified as not for profit would fail the definition of public benefit entity. For example, whether professional services organizations like the Institute would fall within the definition is unclear. While it is clear that the Institute is not-for-profit, it is unclear whether we "provide goods or services for community or social benefit".

One member suggested that the word 'spiritual' should be inserted into the definition so that it reads 'community, social or spiritual benefit' to avoid disputes as to the status of religious organizations.

#### **The New Zealand FRSB's guidance for identifying a public benefit entity**

A large majority of our respondents supported the inclusion of indicator guidance in the final document, (76%) subject, of course to Australianisation of the guidance. 82% supported the use of examples in the guidance. The practical guidance is the key to interpreting the definition, regardless of whether the final pronouncement is drafted in terms of 'public benefit entity' or 'not-for-profit'. One member suggested issuing the indicator guidance to support the current definition of not-for-profit.

We suggest that the material be re-exposed as an ED after the terminology has been decided and after Australianisation of the guidance so that users can evaluate whether the end product is useful.

One respondent also suggested that the entity's tax status be used as an indicator.

We suggest that paras NZ 26 onwards on the quantum of the expected financial surplus need to be clarified to take into account the effects of AASB 1004. Entities applying this standard often find that they have some years which show excessive revenue as a result of receiving a grant for a project that will take several years to complete. The existence of a substantial surplus in the year when a grant has been received should not be interpreted as a for-profit motive. The HOTARAC guidance is helpful here in that it stresses that it is the entity's intentions, rather than its actual returns, that are important.

An example clarifying the status of professional organizations such as the Institute would be useful, as discussed above.

#### **Requirement to disclose that an entity is a profit oriented entity or public benefit entity**

All respondents supported this proposed disclosure, as the entity's status is crucial to the selection of accounting policies. We suggest that this disclosure should be made in Note 1, the Statement of Accounting Policies.

It is only necessary to mandate the disclosure for not-for-profits, as, in the absence of any such disclosure, it is reasonable to assume that the entity is following the main text of the standards, rather than the Aus paragraphs.

#### **The status of the guidance as an integral part of an Accounting Standard**

Respondents to our survey showed a preference for guidance to be incorporated into an Appendix that is an integral part of AASB 101. 48% of respondents supported this approach. 32% suggested that it should be in a separate standard and 20% that it should be as implementation guidance that is not part of the standard.

Some members did, however, comment that AASB 101 only applies to reporting entities and to entities that are required to prepare financial reports under Chapter 2M and requested that the statement be generally applicable rather than tied to the applicability of AASB 101. It is hard to see how this could be achieved without creating another type of accounting pronouncement, unless perhaps it was issued as a concept statement (SAC). It was clear from responses that members would like the document to apply to all entities, whether reporting or non-reporting and however constituted.

When we were preparing our response to ITC 12, member feedback indicated that members would like a separate not-for-profit standard based on the IFRS for SMEs or other simplified accounting guidance when it is issued. At this point, in our view, the indicator guidance should be included in the not-for-profit standard.

#### **Harmonisation with New Zealand**

Generally respondents supported a harmonised approach with New Zealand (74%), but added the proviso that harmonisation should only be pursued if it is consistent with the needs of the Australian community. Given the lack of strong support for the New Zealand terminology, complete harmonisation is unlikely.

**Appendix 2**  
**Results of NFP Survey (22 February 2008)**

Total number of respondents: 51

**Question 1**

Do you consider the current AASB not-for-profit definition is unclear and requires further clarification or guidance?

<b>Yes</b>	<b>40</b>	<b>78%</b>
<b>No</b>	<b>10</b>	<b>20%</b>
<b>Unsure</b>	<b>1</b>	<b>2%</b>
<b>Total</b>	<b>51</b>	<b>100%</b>

Comments:

- Yes must consider 2 Tier system
- Most not for profits do not have trained accountants on staff or those trained staff cannot maintain full currency with standards within the resources of their organisations
- not for profit is a linguistic term as all entities need a surplus or breakeven to continue. Need to clarify to show the difference between the for profit or not for profit
- More guidance should be provided, as some parts of not-for-profit entities are indeed to generate profit to help "subsidise" other areas of the business
- Not for profit is as it implies, "not the generation of profit" these not for profit entities generally have a public benefit goal as their mission statement
- It is too broad to promote a universal understanding
- There is a desperate to distinguish between 'for profit', 'not-for-profit' and 'non-profit' entities. NFP's can have valid profit motives and indeed need to, in order to satisfy the 'going concern' concept when reporting to members and third party
- Some further elaboration & guidance may be useful
- definition is too brief & open to varied interpretation and as a result the inconsistent application
- Recognition of grants should follow international standards and match income with expenditure
- "Non Dividend Paying entities for the Public Benefit"
- Only if there is a perceived need to make a distinction between reporting and non-reporting NFP entities - the PBE definition specifically mentions reporting entities, but the NFP definition encompasses reporting and non-reporting entities.
- Definitions and explanations in NZ standard assist in properly identifying NFP/PBE

**Question 2**

Do you consider the following parts of the Invitation to Comment as appropriate to the Australian environment (noting that the AASB intends to change any specific NZ legislation references to Australian legislation references) and preferable to the current AASB material:

- a) Terminology – use of the term 'public benefit entity'?

<b>Yes</b>	<b>21</b>	<b>41%</b>
<b>No</b>	<b>24</b>	<b>47%</b>
<b>Unsure</b>	<b>6</b>	<b>12%</b>
<b>Total</b>	<b>51</b>	<b>100%</b>

Comments:

- Instead it may have unintended consequences and could lead to the inclusion of for-profit entities.
- Two very different approaches. Not for profit is not always for "public benefit" and visa versa
- I believe that the current view of not for profit
- The current view of not for profit entities in Aust is much wider than just whether they provide a public benefit. The ITC shows that some entities we now see as NFP would be classified as for profit and have to use the standards BHP uses. I feel
- A Lions Club may operate an Opportunity Shop for profit this is for public benefit & therefore should be specifically recognised
- I am concerned it will be confused with the Public Benevolent Institution status given by the ATO. Otherwise it is fine to change as long as it is consistent.
- semantics of terminology should not really be a major issue
- The term 'public benefit' is too narrow. Representative organisation (eg ICAA) would be better represented by 'not-for-profit'
- Better describes nature of entities. Not for Profit has negative flavour, & is not strictly correct (make profit, but perhaps not full commercial ROR).
- Prefer not-for profit terminology
- Smaller entities do not understand or plan for CAPEX and economic volatility.
- "Public benefit entity" will likely imply a broader public focus intent than many NFPs have - e.g. sports clubs, while they may benefit the public incidentally, are about arranging and playing sport games - and as a result may be misleading to non-expert
- We have already had significant change to many, many terms in our profession. The public at large are only just coming to grips with not for profit. Then there will be another series of explanations and exceptions as to what constitutes a public benefit, fu
- It is not clear from the term PBE that it is in fact an NFP
- Not-for-profit is unanimously known throughout Australia so why change for the sake of change?

b) Definition of public benefit entity

<b>Yes</b>	<b>31</b>	<b>65%</b>
<b>No</b>	<b>14</b>	<b>29%</b>
<b>Unsure</b>	<b>3</b>	<b>6%</b>
<b>Total</b>	<b>48</b>	<b>100%</b>

Comments:

- The main determinant should be whether the profit(surplus) is used within the entity or for distribution to other NFPs. By nature a NFP must generate a surplus from some activities in order to carry out its main objectives.
- However I would add the word "spiritual" into the definition so that it says "community, social or spiritual benefit" to avoid later arguments.
- NZ definition is very appropriate
- in particular, the reference to financial return to equity holders as a key part of the definition
- The definition mentions community and social activities. Again, professional/representative bodies are not represented well by this definition.
- Amendments as appropriate to the Australian environment
- Compliance with ATO guidelines. States should adopt single reporting framework.

- Goes beyond simple statement of current intent, and specifically refers to reporting entities, despite guidance and examples indicating that this could apply to all sized entities.

c) Indicator guidance for identifying a public benefit entity

<b>Yes</b>	37	76%
<b>No</b>	8	16%
<b>Unsure</b>	4	8%
<b>Total</b>	<b>49</b>	<b>100%</b>

Comments:

- subject to Australianisation of examples; a useful additional guide may be the income tax status of the organisation
- I agree with the guidance
- Refer 2(b) above
- The guidance is of more use than the definition and could apply in large measure to the existing NFP definition with corresponding terminology.
- I see difficulty with the issue of the quantum of the financial surplus. A charity may run a shop on commercial grounds to provide a return, which goes to the charity.

d) Incorporation of examples into the guidance

<b>Yes</b>	40	82%
<b>No</b>	6	12%
<b>Unsure</b>	3	6%
<b>Total</b>	<b>49</b>	<b>100%</b>

Comments:

- However I do not agree with some of the comments in the NZ guidance.
- The IASB approach is to remove illustrative examples, which instead should be incorporated into AASB Interpretations.
- Helpful, but tailor to Australian examples
- Perhaps not as a formal part of the guidance.

**Question 3**

Would you agree that the above guidance on public benefit entities/not-for-profit entities should be located?

- in a separate standard

<b>Yes</b>	16	44%
<b>No</b>	20	56%
<b>Unsure</b>	0	0%
<b>Total</b>	<b>36</b>	<b>100%</b>

- as an Appendix that is an integral part of AASB 101 *Presentation of Financial Statements* in common with its status in New Zealand

<b>Yes</b>	24	60%
<b>No</b>	16	40%

<b>Unsure</b>	<b>0</b>	<b>0%</b>
<b>Total</b>	<b>40</b>	<b>100%</b>

- as implementation guidance that is not incorporated as part of the standard

<b>Yes</b>	<b>10</b>	<b>31%</b>
<b>No</b>	<b>22</b>	<b>69%</b>
<b>Unsure</b>	<b>0</b>	<b>0%</b>
<b>Total</b>	<b>32</b>	<b>100%</b>

Comments:

- AASB101 does not apply to all entities.
- There is no standard that applies to all entities. This type of definition transcends whether an entity is a reporting entity or not. An entity should determine whether it is NFP first then whether it is a reporting entity.
- Am not familiar enough with the AASB system workings to offer an opinion
- Either a or b. Definitely not c. Let's not make up a whole new set of separate guidelines that have to be found and understood. Please make it as easy as possible to be found and updated.
- Tie this in with the upcoming SME standard
- it is important that the definition and guidance is given appropriate authority if it is to impact the implementation of accounting policies from other standards
- given there could be significant judgment required in determining the status of an entity, its inclusion as implementation guidance would be more appropriate
- Most work by Professionals is done on a Pro Bono or discounted basis. Therefore, I suggest no legal enforcement through standards

To express the results slightly differently:

As a separate standard	16	32%
As an appendix to AASB 101	24	48%
As implementation guidance	10	20%
<b>Total</b>	<b>50</b>	<b>100%</b>

#### Question 4

Do you agree that Australian entities should disclose whether an entity is a profit oriented entity or a public benefit entity (currently a not-for-profit entity)?

<b>Yes</b>	<b>48</b>	<b>100%</b>
<b>No</b>	<b>0</b>	<b>0%</b>
<b>Unsure</b>	<b>0</b>	<b>0%</b>
<b>Total</b>	<b>48</b>	<b>100%</b>

Comments:

- Definitely.
- Very important in order to understand accounts. Balance Sheet & P&L can be significantly different.
- Stake holders may make decisions that have an economic impact.
- Whether PBE or NFP this is useful, relevant financial information for users of that information.

#### Question 5

Do you support the convergence objective of both Australia and New Zealand in respect of not-for-profit entities?

<b>Yes</b>	<b>37</b>	<b>74%</b>
<b>No</b>	<b>6</b>	<b>12%</b>
<b>Unsure</b>	<b>7</b>	<b>14%</b>
<b>Total</b>	<b>50</b>	<b>100%</b>

Comments:

- if it makes sense overall, then yes.
- There are a number of NZ not for profit entities operating in Aust, as there Aust not for profit in NZ, uniformity in reporting will provide constituent reporting of these entities irregardless where the parent is resident.
- As long as this does not create another bureaucracy that make changes impossible like IFRS.
- Only if the definition is consistent with our needs
- In line with adoption of IASB standards.
- Yes, although it may be misleading to use the same terms if we end up differing on the details beyond terms.
- Unless definitions and more importantly understanding by the clients of accounting firms and more broadly public at large is IDENTICAL then no convergence
- Agree in respect of definition and examples of NFP/PBE. However, unsure of other NZ requirements for NFP/PBE.