



Treasury

Our Reference. TRX-04278

31 MAR 2008

Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Dear Mr Boymal

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

Queensland Treasury welcomes the opportunity to provide comments to the Australian Accounting Standards Board's (AASB) Invitation to Comment 14 *Proposed Definition and Guidance for Not-for-Profit Entities*.

In summary, Queensland Treasury supports the terminology 'public benefit entity', its proposed definition and the New Zealand guidance, subject to certain modifications. Queensland Treasury also takes the view that entities should be required to disclose whether they are 'for-profit' or 'not-for-profit'.

Queensland Treasury's detailed comments are provided in the Attachment.

Should you have any queries in relation to this submission, please contact Max Pleshkov from the Financial Management Branch on (07) 3224 6058.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John O'Connell', written in a cursive style.

John O'Connell
Assistant Under Treasurer

Encl.

Queensland Treasury Position on ITC 14
Proposed Definition and Guidance for Not-for-Profit Entities

Queensland Treasury provides below its comments on issues raised in ITC 14 in the order they are presented in the AASB invitation to comment.

(a) *The New Zealand FRSB's*

(a)(i) *terminology – use of the term “public benefit entity”.*

Queensland Treasury supports the terminology ‘public benefit entity’ as the term is more descriptive of the role played by the public sector in managing the economy of their jurisdiction on behalf of the constituents for the benefit of all constituents. The current terminology of ‘not-for-profit’ focuses purely on the financial goal of not generating a profit and does not adequately reflect the true nature of public sector and charity type entities.

Additionally, the term ‘not-for-profit’ infers that an entity should never generate a surplus when in reality a surplus is required for an entity to continue to operate effectively. This has been reinforced with feedback from charities where the definition has caused confusion in the community.

(a)(ii) *definition of public benefit entity*

Queensland Treasury supports the use of the public benefit entity definition as a substitution for the ‘Not-for-Profit’ definition.

Queensland Treasury feels that the ‘Public Benefit Entity’ definition better describes both the purpose and financial focus of most public sector and charity entities. It is also consistent with paragraphs of Aus 54.1 and Aus 54.2 of the Framework which defines the future economic benefit of assets held by ‘not-for-profit’ entities.

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

Queensland Treasury supports the New Zealand guidance subject to the following:

1. additional introductory information;
2. additional criteria; and
3. clarification of criteria guidance.

1. Additional introductory information

The guidance should state at the outset that each entity within a group and the consolidated group is assessed for its classification individually as both for-profit and public benefit entities can exist within a group structure. This negates the need to discuss it within “Nature of Benefits”.

2. Additional criteria

- The Australian Bureau of Statistic’s General Financial Statistics (GFS) classification of an entity should be an added guidance point. Providing guidance on the relationship between GFS classifications and the accounting definition would further the GFS/GAAP harmonisation process.
- A guidance statement with regard to those public sector entities that do not provide a direct service to the community but rather support the government structure (eg Reserve Bank and Queensland Treasury Corporation) should also be considered.

3. Clarification of criteria guidance

- Founding documents (NZ AG 18 -22):

Queensland Treasury believes that a letter stating the objective of an organisation is insufficient. The primary objective should be stated in the governing legislation (policy) or constitution of an entity.

- Nature of funding (NZ AG 32):

NZ AG 32 does not clarify whether the sales of goods and services are within the group or to external parties. Sales predominantly within the group would indicate that it is still a public benefit entity in a government situation.

- Quantum of expected Surplus (NZ AG 26 - 29)

This section is unclear and could have guidance added to clarify at what stage an entity would be considered to be a 'for-profit' entity and whether it is the intent of the organisation or the actual results that should be the deciding factor.

- Nature of equity (NZ AG 30 – 31)

Queensland Treasury is of the opinion that this section requires further discussion on the corporate governance structure including both private and public sector entities. Queensland Treasury believes that if the Corporations Act applies to an entity and it is not a company limited by guarantee, then it is more likely to be a 'for-profit' entity.

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

Queensland Treasury takes the view that an entity should be required to disclose whether it is for-profit or a public benefit entity. In addition an entity should also disclose the main basis for such determination.

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

Queensland Treasury believes that the best place for the term 'public benefit entity' and definition is in AASB 101 *Presentation of Financial Statements* with the basis for compliance disclosure included in the standard and the guidance criteria as an Australian Application Guidance in the appendix.