



15 January 2018

Kris Peach
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Dear Kris

Invitation to Comment – ITC 37 The AASB’s Standard-Setting Frameworks for For-Profit Entities and Not-for-Profit Entities

CPA Australia represents the diverse interests of more than 160,000 members in 118 countries. We make this submission on behalf of our members and in the broader public interest.

CPA Australia has been unable to ascertain clear reason(s) why the AASB is undertaking a project to develop two separate standard-setting frameworks for For-profit (FP) entities and Not-for-profit (NFP) entities respectively. The Consultation states that the AASB’s draft *Standard-Setting Framework for Not-for-Profit Entities* will replace *The Process for Modifying IFRSs for NFP/PBE*, a framework document jointly developed with the New Zealand standard-setter. Since NFP financial reporting in New Zealand is no longer based on International Financial Reporting Standards (IFRS), whilst this remains the case in Australia, we can understand the justification for a standalone NFP standard-setting framework as proposed. However, we are unable to identify any justification for a separate FP standard-setting framework.

CPA Australia also notes that the AASB is currently leading the Australian Financial Reporting Framework project, the outcomes of which could have an impact on standard-setting by the AASB. We suggest the AASB defers the project to develop a FP entities standard-setting framework until there are clear outcomes from the Australian Financial Reporting Framework project.

Please find attached responses to the questions raised in the Consultation. If you require further information on our views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Stuart Dignam', written over a horizontal line.

Stuart Dignam
General Manager, Policy & Corporate Affairs

Attachment

1. Is the term “not-for-profit” helpful to understand the nature of the entities in that sector? If not, what other term do you consider is more appropriate?

We agree that the term “not-for-profit” does not necessarily reflect accurately the nature of the entities within that sector. However, we believe the term remains a well understood and widely accepted descriptor for entities in that sector and we highlight below two reasons why we believe the term “not-for-profit” should continue to be used to refer to entities in the sector:

- In addition to general usage of the term “not-for-profit” to refer to entities in the sector, the term is also used in various laws and regulations to refer to entities in the sector. The cost of changing the term is likely to exceed any potential benefits arising from such change.
- Although attempts have been made to find an alternative term, we are not aware of any suitable alternative that is acceptable to all stakeholders in the sector.

The current definition of a NFP refers to an entity “whose principal objective is not the generation of profit”. In our view, this definition does not adequately describe the nature of NFP entities. Many NFP entities do generate a profit or surplus which is utilised to fund their activities. Rather than seeking an alternative term to “Not-for-profit”, we suggest the AASB seeks to develop a more robust definition to describe NFP entities.

2. Irrespective of your response to question one, is there enough guidance about which entities are, for-profit entities and not-for-profit entities? The NZASB is commencing a project to improve its guidance. Should the AASB work with NZASB on this?

We believe the development of more guidance will assist stakeholders better understand the attributes that distinguish FP entities from NFP entities. Any such guidance should also seek to address the emergence of business models such as Social Enterprises, which possess both FP and NFP features.

Yes, we agree that the AASB should work with the NZASB to develop improved guidance.

3. Do you have any other comments on the AASB’s draft Standard-Setting Frameworks?

We do not agree with the claim that the AASB sets standards only for general purpose financial statements (GPFS). For instance, AASB 1057 *Application of Australian Accounting Standards* is applicable to all entities required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act, regardless of whether such financial reports are GPFS or special purpose financial statements (SPFS). In addition, AASB literature includes Statement of Accounting Concept 1 *Definition of the Reporting Entity* (SAC 1) which is used to determine whether an entity is a reporting entity (required to prepare GPFS) or not (may be eligible to prepare SPFS).

It is our view that the function of the AASB is to set accounting standards for all financial reporting in Australia, regardless of whether such financial reports are GPFS or SPFS. We suggest the AASB considers this issue as part of the Australian Financial Reporting Framework project.