



ACT
Government

Chief Minister, Treasury and
Economic Development

ITC 37 Sub 5

Ms Kris Peach
The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Ms Peach ^{Kris}

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

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to ITC 37 *The AASB’s Standard-Setting Frameworks for For-Profit Entities and Not-For-Profit Entities*.

HoTARAC welcomes the development of the frameworks. These provide clear rationale for not-for-profit relevant amendments. HoTARAC generally agrees with the draft framework and suggests that the definition of not-for-profit be updated to encompass the principles of the public benefit entity definition.

The attachment to this letter sets out HoTARAC’s response to the specific matters for comment. If you have any queries regarding HoTARAC’s comments, please contact Sean Osborn from NSW Treasury on (02) 9228 5932 or by email to sean.osborn@treasury.nsw.gov.au.

Yours sincerely,

David Nicol

CHAIR

Heads of Treasuries Accounting and Reporting Advisory Committee

17 January 2018

The AASB Specific Matters for Comment

Question 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?

HoTARAC notes that the current guidance (*Process for Modifying IFRSs for PBE/NFP*) uses both the terminologies “not-for-profit entity (NFP)” and “public benefit entities (PBE)”. HoTARAC believes that the definition of PBE in the current guidance more appropriately describes the nature and purpose of public sector entities, while the definition of NFP which remains unchanged in ITC 37, is more financially focused.

HoTARAC acknowledges that the term PBE has rarely been referenced in Australia, and the term NFP has been largely used/understood to include both public sector not-for-profit entities (PBEs) and private sector not-for-profit entities.

While acknowledging that using a single term (i.e. NFP) is administratively efficient, HoTARAC suggests the definition of NFP be based on the existing PBE definition, broadened to encompass both public and private sectors.

Question 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?

HoTARAC believes that the guidance on identifying for-profit entities and not-for-profit entities is adequate. Nonetheless, HoTARAC agrees that the AASB work with NZASB in improving the guidance.

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

1. HoTARAC notes that there are circumstances where there may be reasons for differences between the for-profit entities (FPs) and NFPs in disclosure, but not recognition and measurement. Recognition and measurement rules might be the same or nearly the same for both FPs and NFPs, but the decisions made with the information and hence the disclosures required might be very different. For example, there is an argument that recognition and measurement of fair value should be substantially the same for NFPs. However, the required detailed disclosures would rarely be used by users of NFP public sector financial statements.
2. ITC 37 provides clarity on the scope for NFP-relevant standards, amendments, guidance or examples, while retaining parameters to ensure conceptual consistency with IFRS. HoTARAC welcomes this as there are opportunities for more NFP specific improvements.
3. HoTARAC considers that it is important to appreciate the key differences within the NFP sector itself, e.g. differences between charities and NFP public sector entities. These differences could be further addressed through the guidance section of the relevant standards (e.g. AASB 1058 *Income of Not-for-Profit Entities*) by providing more examples addressing both groups.