

Ms Kris Peach
Chairperson
Australian Accounting Standards Board
PO Box 204
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17 January 2018

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

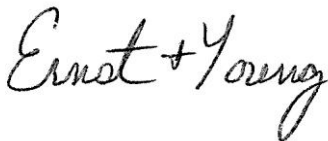
Dear Ms Peach

Ernst & Young is pleased to submit its comments on AASB Invitation to Comment ITC 37 *The AASB's Standard-Setting Frameworks for For-Profit Entities and Not-for-Profit Entities* ('ITC 37'). Our detailed responses to the Specific Matters for Comment are contained in Appendix A to this letter.

With the exception of those matters identified in this letter in our responses to specific matters for comment on the exposure draft, we are supportive of the AASB's Standard-Setting Frameworks for For-Profit Entities and Not-for-Profit Entities as set out in the ITC.

Should you wish to discuss this letter with us, please contact Frank Palmer on (02) 8295 6264 or Anne-Marie Johnson on (02) 9248 5537.

Yours faithfully



Ernst & Young

Appendix A: Specific Matters for Comment

- 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.**

This question presumes there is justification for having different reporting frameworks and determining those boundaries (e.g., one for for-profits and not-for-profits). The distinction matters only if one considers there is justification for different accounting concepts of recognition and measurement to be applied. Unless the objectives of financial reporting (economic decision-making vs stewardship) are fundamentally different between sectors, we are not convinced that there is a sound conceptual basis for the distinction.

If there is the need for a distinction based on user needs, we think there is merit in considering whether the distinction might be better described for for-profit and not-for-profit *activities* (as opposed to for-profit and not-for-profit *entities*). There are examples of groups (both in the private and public sectors) that consist of both activities, and it could seem inappropriate for the same activity to be reported differently depending on whether it is the only activity in an entity, or contained in an entity conducting other activities. We acknowledge that a risk of focussing on accounting for activities rather than on the type of entity that conducts those activities is that for-profit entities that undertake not-for-profit activities may be at risk of losing the ability to claim IFRS compliance. We would not support this outcome. However, we believe that, to further the objective of transaction neutrality, accounting standard setting should focus on the nature of the activity irrespective of the type of entity that is engaged in that activity.

Activities that are determined to have a NFP character therefore would be different from other activities, which may mean that different accounting principles need to be developed to provide a faithful depiction of those NFP activities. We recommend that the AASB consider undertaking research to, firstly, identify the appropriate characteristics of a NFP activity and, secondly, identify possible improvements to suggest to the International Accounting Standards Board.

Notwithstanding the differences in interpretation of the definition of not-for-profit, given that the term has been widely used in Australia for a long period of time, we consider that the label “not-for-profit” should continue to be used.

- 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?**

While we support retaining the current label of “not-for-profit”, we note that the definition principally focuses on whether the objective is making a profit. There are many charities that derive significant amounts of money from activities such as selling books / CDs of speeches and increasingly need to do so to be financially viable for meeting their financial commitments, and yet also heavily rely on members volunteering significant time and money and therefore would not consider themselves a for-profit entity. As the definition taken on its own is very limited, we consider that expanded/further guidance through examples would assist in making such judgements.

Determining whether an entity's *principal* objective is the generation of profit requires a high level of professional judgement especially when entities perform many activities, some for the purpose of generating profit and others for philanthropic purposes. Directors in these circumstances need to balance the relative weight of how the various operations are run, compared with the purpose of the entity stated in, for example, its constitution or its public announcements.

In addition, to the extent that the AASB is considering a tiered reporting framework for differences in complexity, scale of activities or extent of external users for not-for profit or for-profit entities, additional guidance to describe those differences will be more important going forward.

As part of the consideration of responses to ITC 14, in May 2008, the AASB decided that "...draft guidance should be developed using a range of sources, including the guidance prepared by the New Zealand FRSB, the Heads of Treasuries Accounting and Reporting Advisory Committee and the Australasian Council of Auditors-General..." and that such a "...project should be dealt with as part of the criteria being developed for determining when it might be appropriate to permit or require a departure from IFRSs in respect of not-for-profit entities".

As such, we consider that developing further guidance to assist entities determine whether they are for-profit or not-for-profit entities as part of the development of the AASB's draft Standard-Setting Frameworks is appropriate.

We also support the AASB working with NZASB on this issue given that NZASB already has significant guidance in this area and any trans-Tasman convergence will improve comparability with entities in New Zealand.

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

We consider that the document needs to better set out an objective. Without a clear objective, it is difficult to determine if its content meets the objective.

In addition, the paper is not a framework document as it currently stands because it contains both frameworks and operational processes for the AASB follow. It would be beneficial to have a document that is focussed for a broader audience to better understand the Standard-Setting Frameworks.