AASB Invitation to Comment

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Not-for-Profit Post-implementation Review of Control and consolidation, the definition of a structured entity, related party disclosures by public sector entities and special purpose financial statements basis of accounting – compliance with Australian Accounting Standards

Comments to the AASB by Date 2022

Australian Government

Australian Accounting Standards Board

How to Comment on this AASB Invitation to Comment

The AASB is seeking comment by DD MM 2022.

Formal Submissions

Submissions should be lodged online via the "Current Projects – Open for Comment" page of the AASB website (www.aasb.gov.au/current-projects/open-for-comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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AASB REQUEST FOR COMMENTS

Introduction

The Australian Accounting Standards Board (AASB) is undertaking a post-implementation review (PIR) of certain requirements of Australian Accounting Standards that apply to not-for-profit (NFP) entities.

This Invitation to Comment (ITC) aims to seek feedback from stakeholders that enables the AASB to conclude on a pronouncement's overall effectiveness and efficiency in meeting its original objectives, including whether a pronouncement remains appropriate.

The *AASB Due Process Framework for Setting Standards* sets out that a PIR involves:

(a) review of any relevant research including that by AASB staff and academics;

(b) collation of any issues notified to the AASB prior to the PIR commencing;

(c) consultation seeking implementation issues and views on the pronouncement;

(d) consideration of any feedback received;

(e) publication of the findings of the PIR; and

(f) any recommendations for changes to the pronouncement follow a separate consultation process.

A PIR is not intended to be a reconsideration of an entire underlying pronouncement. Instead, it acknowledges that consultation and due process during the development of a pronouncement are not a substitute for the practical application of new requirements. For example, when new requirements are applied in practice, unexpected issues may arise, such as a pronouncement being more difficult or costly to apply than what was expected. There might also be situations where a pronouncement unintentionally results in divergence in practice. This divergence could be either due to the judgement required to apply the requirements or because the requirements are not sufficiently clear. Finally, new or emerging transactions may be increasing in prevalence, and these types of transactions may not have been contemplated when a pronouncement was developed.

The PIR process comprises three broad phases: planning, outreach, and feedback and next steps.

Planning phase

The planning phase establishes the scope of matters to be considered by the PIR. These matters are identified through a review of project documentation published when the pronouncement was issued, a review of academic research and other literature, targeted outreach with selected stakeholders and consideration of matters raised by stakeholders during implementation.

Outreach phase

During the outreach phase, the AASB will actively engage with stakeholders to seek feedback on the matters in this ITC. This outreach may include meetings with users, preparers, regulators, professional service firms, professional bodies and academics, and formal written responses from stakeholders.

Feedback and next steps phase

The AASB considers all feedback received and prepares a feedback statement after the formal consultation process. After considering feedback received during the consultation process, the AASB may decide that no action is required, that additional educational material is needed, or that standard-setting is required. Where additional educational material or standard-setting is warranted, this would be addressed as part of a separate project of the AASB.

Structure of this Invitation to Comment

This document is structured as follows:

Topic 1: Control and consolidation for NFP entities

Topic 2: The definition of a structured entity for NFP entities

Topic 3: Related Party Disclosures for NFP public sector entities

Topic 4: Special Purpose Financial Statements (SPFS) basis of accounting – compliance with Australian Accounting Standards

This ITC sets out 26 questions:

(a) Questions 1–17 relate to Topic 1;

(b) Questions 18–19 relate to Topic 2;

(c) Question 20 relates to Topic 3;

(d) Question 21 relates to Topic 4; and

(e) Questions 22–26 allow respondents to comment on other topics not addressed in the Request for Information.

We need your feedback

Comments are invited about your experience applying the pronouncements considered in this ITC by DD MM 2022. Stakeholder feedback plays an important role in the AASB's Standard-Setting process. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue is specifically identified below or another issue).

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale, are supported by evidence and, where applicable, provide a suggestion for an alternative or additional support the AASB could consider providing to Stakeholders. Respondents need not answer all the questions. When answering the questions, respondents are asked to consider the effect of the requirements on:

(a) the quality and consistency of financial statements and whether they provide relevant and reliable information about an entity's financial position and performance;

(b) comparability, both from period to period for an entity and between entities; and

(c) the costs to users and preparers of financial information.

Control and consolidation

This section considers requirements relating to control and consolidation for NFP entities.

Background

The AASB first issued AASB 10 *Consolidated Financial Statements* in August 2011 to be effective for annual reporting periods beginning on or after 1 January 2013.

AASB 10 was one of a suite of new consolidation standards issued in Australia. The suite included AASB 10, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and revised AASB 128 *Investments in Associates and Joint Ventures*.

When AASB 10 was issued, the AASB prevented NFP entities from early adopting the requirements before the 1 January 2013 mandatory application date. In December 2012, the AASB further deferred the NFP mandatory application date of AASB 10 to 1 January 2014. This deferral provided time for the AASB to complete its consideration of NFP-specific issues associated with AASB 10 and the other newly issued Standards in the suite.

In October 2013, the AASB added Appendix E to AASB 10 (via AASB 2013-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities*). Appendix E explains various principles in AASB 10 from the perspective of NFP entities, including the criteria for determining whether one entity controls another entity, and illustrates the principles with examples.

AASB 10 paragraph 6 states that "An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee."

AASB 10 paragraph 7 states that for an investor to control an investee, the following three 'control' criteria must be present: power over the investee, returns to the investor, and the link between power and returns.

Appendix E does not seek to replace or revise the terminology used in AASB 10 but explains its application in the NFP private and public sectors. Appendix E also does not amend or deviate from the principles underlying AASB 10.

Key guidance included in the Standard

The objective of AASB 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Specifically, AASB 10:

(a) requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements;

(b) defines the principle of control, and establishes control as the basis for consolidation;

(c) sets out how to apply the principle of control to identify whether an investor controls an investee and, therefore, must consolidate the investee;

(d) sets out the accounting requirements for the preparation of consolidated financial statements; and

(e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

As AASB 10 is equivalent to IFRS 10 *Consolidated Financial Statements*, it is drafted from a for-profit perspective. Therefore, at a high-level Appendix E sets out guidance that addresses the following for NFP entities:

(a) the circumstances when rights arising from statutory arrangements may give rise to power;

(b) what affect, if any, economic dependence and power over the composition of the board has on the control assessment;

(c) guidance on substantive and protective rights and whether regulatory powers and statutory arrangements would be considered protective or substantive in nature;

(d) the requirement to apply the general control principles contained within AASB 10 when assessing whether State or Territory governments control local governments and whether governments control Universities;

(e) what effect the role of management/the board, together with the nature of returns received or a trust established by a for-profit charity, has on the control conclusion;

(f) what constitutes a return and whether congruent objectives are sufficient to conclude whether a NFP investor controls an investee (assuming the other elements of the control model (ie power and the link between power and returns) are present); and

(g) the concept of delegated power and the principles to apply when determining whether a NFP investor is a principal or an agent.

What we have heard so far

Application of the control model in the NFP sector

Feedback from stakeholders expressed concerns about the outcomes of applying the control model in the NFP sector. In particular, stakeholders were concerned about NFP entities being required to consolidate other entities they do not believe they have 'true' control over (for example, where a NFP entity has 'theoretical' control through constitutional requirements rather than an in-practice exercise of control).

Stakeholders have provided feedback that many NFP entity organisational structures do not naturally fit into AASB 10's 'control' definition. This can cause control conclusions to be inconsistent with the substance of some arrangements. For example, whilst some governance structures may imply that one entity controls another and there might be a relationship and shared objectives between one NFP entity and another, consolidation is not always appropriate. This is particularly the case where there are no shared financial liabilities or other financial impacts of the relationship (eg no economic dependence). Some stakeholders consider that consolidated financial statements might not be appropriate because if they are prepared, the 'parent's' financial position and performance may be obscured by the subsidiary's' financial position and performance, which the parent cannot access to meet its operational or day-to-day needs. Stakeholders suggest that this may place donations and grants at risk if the parent (or subsidiary) appears to be in a 'better' financial position than it is.

Some stakeholders also indicated that NFP entities might face difficulty in identifying and consolidating a controlled entity because the information is unavailable to the entity due to practices in the sector (eg secrecy and a lack of documentation).

Examples

Common examples of relationships in the NFP sector where an entity might need to consider whether they have control and prepare consolidated financial statements include:

(a) NFP A establishing related entities to undertake investing, real estate holding or real estate management;
(b) school B establishing a foundation or a fund to raise funds for certain projects; and
(c) religious organisation C establishing an auxiliary organisation to undertake activities that share common values with the religious organisation but are not related to the religious organisation's main activities.

When the control criteria in AASB 10 are met, the financial position and performance of all entities must be aggregated, and consolidated financial statements must be prepared.

Questions for respondents

Regarding AASB 10 Appendix E, do you have any comments about:

1 The outcomes of applying the control model and Appendix E in practice in the NFP sector?

2 Difficulties that might be experienced in identifying and consolidating controlled entities, including difficulties accessing necessary information?

3 Whether divergence in practice exists when applying the control model and Appendix E in the NFP sector?

4 Any other matters the AASB should be aware of as it performs this PIR?

If so, please provide your views on those requirements, relevant circumstances, and their significance. Examples to illustrate your responses are also most helpful.

5 In addition to the existing guidance in AASB 10 Appendix E, is there any other guidance that would help with applying the control model in the NFP sector? If so, please provide details of the guidance and explain why you think it would be useful.

Identifying variable returns in the NFP sector

Feedback indicated that there are challenges identifying variable returns in the NFP sector because the implementation guidance in AASB 10 Appendix E is too broad. Some stakeholders also noted that in the NFP sector, most returns are non-financial returns.

Some stakeholders suggested that meeting the variable returns criteria is straightforward in most cases because demonstrating that a relationship is "achieving or furthering the investors' objectives" is easy. It was also suggested that meeting the variable returns criteria is often a default conclusion by NFP entities. This is particularly the case for religious organisations where they can rationalise that any activities of related entities (eg schools, aged care facilities or hospitals) are furthering the mission of the religious organisation.

Conversely, some stakeholders noted that because the guidance in Appendix E is limited and broad, applying the requirements in practice can be challenging. They suggested clarity around what a variable return can be is needed. For example, is a variable return fulfilling a mission element of a congregation, notwithstanding that there are no rights to distributions or assets? Or should variable returns be interpreted more narrowly? It was suggested that once variable returns have been identified, it is less complex to understand whether there is control. However, the challenge is identifying variable returns initially.

> ***Example***
>
> *Note: This example focuses on variable returns only and does not consider whether power is present or whether the variability of returns can be affected.*
>
> Church A establishes Hospital B to provide health care services. Hospital B is a separate legal entity with an independent Board that comprises seven members. Church A has the right to appoint three directors to the Hospital B Board.
>
> Due to the legal structure of Hospital B, Church A has no right to access the net assets of the hospital. However, Hospital B is furthering the objectives of Church A by providing health care services and fulfilling the Church's mission by helping the sick and suffering.
>
> In this example, it is complex to understand if Church A has control over Hospital B. Hospital B is furthering the objectives of Church A by providing health care services to the sick and suffering, and furthering the objectives of the Church could be considered a variable return for Church A albeit that the Church has no exposure to financial return.[1]

> **Questions for respondents**
>
> Regarding identifying variable returns in the NFP sector, do you have any comments about:
>
> 6 Difficulties that might be experienced in identifying variable returns?
>
> 7 Any other matters the AASB should be aware of as it performs this PIR?
>
> If so, please provide your views on those requirements, relevant circumstances, and their significance. Examples to illustrate your responses are also most helpful.
>
> 8 In addition to the existing guidance in AASB 10 Appendix E, is there any other guidance that would help with identifying variable returns in the NFP sector? If so, please provide details of the guidance and explain why you think it would be useful.

Customary business practices in the NFP sector

Stakeholders provided feedback that it was unclear what effect customary business practices have on assessing control in the NFP sector.

> ***Example***
>
> *Note: This example focuses on variable returns only and does not consider whether power is present or whether the variability of returns can be affected.*
>
> School B establishes the Old School B Association. Old School B Association was established to promote the unity, welfare and advancement of past attendees of School B through various services. Each year, Old School B run many events; however, the annual fundraising gala is the Association's major fundraising event.
>
> The Association's Independent Committee of Management comprises seven members, two of

1 When assessing whether control is present, staff note that it is important to consider all facts and circumstances in totality, that is, to understand whether Church A also has power over Hospital B and whether they can affect the variability of the returns that they receive. In this limited fact pattern, it is unlikely that Church A has power as they can only appoint three of the seven directors and the right to appoint directors on its own is not necessarily a substantive right. It is also unclear whether Church A could affect the variability of returns and therefore it is also unclear whether Church A has control over Hospital B.

which are appointed by School B. The rules of the Association permit Old School B Association to distribute the proceeds of fundraising activities to any entity they consider worthy.

Whilst Old School B Association is permitted to distribute the proceeds of fundraising to any entity; historically, they have always been distributed to School B.

Despite having the ability to distribute to any entity, School B is unsure whether the Association has established a customary business practice by only distributing to them, potentially exposing them to variable returns.[2]

Questions for respondents

9 Do you have any comments regarding customary business practices in the NFP sector? If so, please provide your views on those requirements, relevant circumstances, and their significance. Examples to illustrate your responses are also most helpful.

Assessing control without an ownership interest

Stakeholder feedback indicates that assessing whether a NFP entity has rights that give rise to power can be challenging due to the legal structure of some entities. For example, companies limited by guarantee (CLBG) are often prohibited by their constitution from distributing to their members. Instead, the constitution commonly requires any surplus assets to be distributed to a like-minded entity.

Stakeholder feedback questioned whether the ability to direct distributions on winding up of a CLBG gives rise to power and an exposure to variable returns. It was noted that assessing control without an ownership interest is equally relevant to Associations and other types of NFP entities.

Example

Entity A establishes CLBG B. CLBG B is governed by an independent Board of Directors. The Board of CLBG B has six members, one of whom is appointed by Entity A. Entity A also provided an initial investment to enable CLBG B to undertake a particular activity.

CLBG B is prohibited from distributing profits to its members, and on winding up, CLBG B must distribute any surplus net assets to another like-minded NFP entity. As Entity A provided an initial investment to CLBG B, it can specify which like-minded entity should receive the surplus assets on winding up.

When assessing whether Entity A controls CLBG B, Entity A must consider whether its ability to control how CLBG B distributes any surplus assets on winding up is a substantive right or a protective right. This is an important consideration even if Entity A itself is not entitled to the distribution. Whether the right is substantive or protective is also affected by how many members CLBG B has (eg the more members CLBG B has, the more important the distribution right becomes).

Entity A must also consider whether its ability to direct the distribution of surplus assets also gives rise to an exposure to variable returns.

2 As above, when assessing whether control is present, staff note that it is important to consider all facts and circumstances in totality, that is, to understand whether School B also has power over the association and whether they can affect the variability of the returns that they receive. In this limited fact pattern, it is unlikely that School B A has power as they can only appoint two of the seven committee members and the right to appoint committee members on its own is not necessarily a substantive right. It is also unclear whether School B could affect the variability of returns and therefore it is also unclear whether School B has control over Old School B Association.

Appendix E paragraph IG17(e) suggests that the right to direct distributions on winding up may be considered a protective right rather than a substantive right. This indicates that the in the example above, Entity A may not have power over the CLBG B.

In practice, the AASB understand that when surplus assets are distributed back to the investor, investors often conclude they have control. Conversely, when surplus assets are distributed to an unrelated entity, determining whether or not the investor has control is less clear, and divergence in practice has emerged. In some cases, investors conclude they have control, whereas, in others, they do not.

Questions for respondents

Regarding assessing control without an ownership interest, do you have any comments about:

10 The application of the requirements in practice?

11 Whether divergence in practice exists?

12 Any other matters the AASB should be aware of as it performs this PIR?

If so, please provide your views on those requirements, relevant circumstances, and their significance. Examples to illustrate your responses are also most helpful.

13 In addition to the existing guidance in AASB 10 Appendix E, is there any guidance that would help with assessing control without an ownership interest? If so, please provide details of the guidance and explain why you think it would be useful.

Principal v agent – Public Sector

Stakeholders have sought clarification of when an entity might be acting as a principal versus as an agent in the public sector. In the public sector, investments are often not financial, and returns are often in the form of policy outcomes rather than financial outcomes.

Stakeholder feedback has indicated that there can be inconsistent conclusions in similar situations. It has been suggested that the existing guidance in AASB 10 Appendix E is generally useful as it clarifies/ confirms how to analogise the requirements for the public sector. However, in some cases, it was necessary to apply the for-profit guidance that applies to managed funds.

Questions for respondents

Regarding assessing whether a NFP entity is acting as principal or an agent in an investment scenario, do you have any comments about:

14 The application of the requirements in practice?

15 Whether divergence in practice exists when applying the control model and Appendix E?

16 Any other matters the AASB should be aware of as it performs this PIR?

If so, please provide your views on those requirements, relevant circumstances, and their significance. Examples to illustrate your responses are also most helpful.

17 In addition to the existing guidance in AASB 10 Appendix E, is there any guidance that

would help determine whether a NFP entity is a principal or an agent? If so, please provide details of the guidance and explain why you think it would be useful.

Structured entities

This section considers requirements relating to the definition of a structured entity for NFP entities included in AASB 12.

Background

AASB 12 was first issued by the AASB in August 2011, to be effective for annual reporting periods beginning on or after 1 January 2013.

However, when AASB 12 was issued, the AASB also prevented NFP entities from early adopting the requirements before the 1 January 2013 mandatory application date.

In October 2013, the AASB further deferred the NFP mandatory application date to 1 January 2014, as it did with AASB 10, so the AASB could consider NFP-specific issues associated with the other newly issued Standards in the suite.

In October 2013, the AASB added Appendix E to AASB 12 (via AASB 2013-8). Appendix E explains the application of the definition of 'structured entity' by NFP entities.

Key guidance included in AASB12 Appendix E

AASB 12 contains specific disclosure requirements for consolidated and unconsolidated structured entities.

A structured entity is defined in AASB 12 Appendix A as "an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements."

For many NFP entities, voting rights may not be the dominant factor in deciding who controls an entity. Accordingly, applying the structured entity definition would result in many NFP entities being classified as structured entities due to the absence of voting or similar rights.

AASB 12 Appendix E provides guidance that explains that the principle underlying the definition of a structured entity is intended to capture entities where less conventional means are the dominant factors in determining who controls the entity and that structured entities are intended to be a limited class of entities.

The guidance in Appendix E stipulates that the reference in the definition of a structured entity to 'similar rights' includes administrative arrangements and statutory provisions, as these are often the dominant factor in determining control of NFP entities. Therefore, NFP entities designed so that voting rights, including administrative arrangements or statutory provisions, are not the dominant factor in determining control of an entity would not be captured by the definition of a structured entity in AASB 12.

What we have heard so far

The AASB is not aware of any implementation issues with applying AASB 12 Appendix E by NFP entities.

Question for respondents

Regarding applying the definition of a structured entity in the NFP sector, do you have any comments about:

18 The application of the requirements in practice?

19 Any other matters the AASB should be aware of as it performs this PIR?

If so, please provide your views on those requirements, relevant circumstances, and their significance. Examples to illustrate your responses are also most helpful.

Related party disclosures in the public sector

This section considers requirements relating to the disclosure of related party transactions by NFP public sector entities

Background

The NFP profit requirements for related party disclosures are set out in AASB 124 *Related Party Disclosures*, as amended by AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* which applied to annual periods beginning on or after 1 July 2016.

AASB 124 has applied to NFP private sector entities since its issue. However, mainly because of concerns about the practicability of its former version, given its breadth of application in the public sector, when transitioning to IFRS Standards, the AASB initially did not require a NFP public sector entity to comply with the Standard.

When IAS 24 *Related Party Disclosures* was revised in 2009 to partially exempt transactions between government-related entities of the same jurisdiction from disclosure, the AASB considered the Standard to provide a more appropriate basis for application by NFP public sector entities. As a result, in furtherance of its policy of promulgating transaction-neutral Standards to the extent feasible, the AASB undertook a project to amend AASB 124 to require NFP public sector entities to apply the Standard. This effort was finalised through the issue of AASB 2015-6.

AASB 2015-6 filled the perceived disclosure gap for public sector entities. It was the first time Australian Accounting Standards specified that information about a NFP public sector entity's related parties should be included in its general purpose financial statements.

Key requirements

AASB 124 requires the disclosure of related party relationships, transactions and outstanding balances, including commitments, in the financial statements of an entity. Its purpose is to provide users of financial statements with information that may affect assessments of the entity's operations, including assessments of the risks and opportunities facing the entity.

In general, AASB 124 does not require disclosure:
(a) to be made at a level that identifies the related party transactions and outstanding balances of any specified entity or person; or
(b) of the names of related persons or their controlled entities.

What we have heard so far

Following the issue of AASB 2015-6, stakeholder feedback was received relating to the entity's ability to obtain the information necessary to prepare the disclosures required by AASB 124, including:

(a) challenges in identifying a complete set of related parties;

(b) the completeness of representations made by related parties completing documentation about their engagements with the entity and the entity's ability to compel completion and return of such forms; and

(c) the extent of information related parties were required to provide was partly because of the 'close family member' provisions of the Standard.

In addition, feedback was received about concerns relating to:

(a) data privacy; and

(b) the auditability of the related party disclosures.

In addition, some constituents queried the appropriateness and value of the requirements in relation to Indigenous Australian-focused or located public sector entities in relation to the apparent capture of a wide net of peoples and entities when considering the definition of a related party. Some stakeholders also questioned how the concept of materiality applied to transactions with related party key management personnel.[3]

Question for respondents

20 Do you have any comments regarding the disclosure of related party information by NFP public sector entities? If so, please provide your views on those requirements, relevant circumstances, and their significance. Examples to illustrate your responses are also most helpful.

Disclosures about compliance with Australian Accounting Standards

This section considers disclosure requirements in Special Purpose Financial Statements (SPFS) that were added to AASB 1054 *Australian Additional Disclosures* by AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements*.

Background

The disclosures require not-for-profit private sector entities that are required to apply AASB 1054 and that are preparing SPFS to disclose information about those financial statements, including information about the extent of compliance or otherwise with the recognition and measurement requirements of Australian Accounting Standards. These disclosures were intended to improve the transparency and comparability of SPFS because SPFS do not always comply with the recognition and measurement requirements in Australian Accounting Standards, including consolidation and equity accounting requirements and it is not always clear to users that this is the case.

The Standard applies to annual periods ending on or after 30 June 2020.

3 Following the issue of AASB 2015-6, stakeholders raised concerns about the operationalisation of the Standard in the public sector. The concerns primarily relate to assessment of the materiality of transactions with a key management personnel related party (e.g. whether a transaction with a KMP related party that did not occur as part of a public services provider/taxpayer relationship is always material for disclosure in general purpose financial statements). The Board decided that it was not necessary to add the issue to the AASB's agenda because existing guidance in Australian Accounting Standards is sufficient to address the issue of whether a transaction with a KMP related party that did not occur as part of a public services provider/taxpayer relationship is always material for disclosure in general purpose financial statements.

Key requirements

AASB 2019-4 added requirements to AASB 1054 *Australian Additional Disclosures* to require not-for-profit private sector entities that are required to apply AASB 1054 and that are preparing special purpose financial statements to disclose information about those financial statements, including information about:

(a) the basis on which the decision to prepare special purpose financial statements was made;
(b) whether the entity has assessed whether its interests in other entities give rise to interests in subsidiaries, associates or joint ventures, and its reason for not consolidating or equity accounting such entities;
(c) the extent to which the entity's material accounting policies comply with the recognition and measurement requirements specified in Australian Accounting Standards; and
(d) whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards.

What we have heard so far

The AASB is not aware of any implementation issues with NFP entities disclosing information about their extent of compliance or otherwise with the recognition and measurement requirements, including consolidation and equity accounting requirements, in Australian Accounting Standards. However, stakeholders acknowledge that the disclosures were only required to be made by part of the NFP population.

Generally, feedback revealed that entities either:

(a) stated compliance because they knew they complied;
(b) stated non-compliance because entities were aware that they have not complied with the recognition and measurement requirements of one or more Standards (eg not correctly accounting for long service leave); or
(c) disclosed that they have not made such an assessment.

Feedback also indicated that these disclosures provide important information from a user perspective.

Question for respondents

21 Do you have any comments regarding the disclosure of related party information by NFP public sector entities? If so, please provide your views on those requirements, relevant circumstances, and their significance. Examples to illustrate your responses are also most helpful.

AASB General Matters for Comment

In addition to the specific matters for comment on each topic, the AASB would also particularly value comments on the following:

22 Whether there are any regulatory issues or other issues arising in the Australian environment that affected the implementation of the pronouncements;

23 Whether the pronouncements created any auditing or assurance challenges;

24 Whether, overall, the pronouncements resulted in financial statements that were useful to users;

25 Whether the proposals are still in the best interests of the Australian economy; and

26 Unless already provided in response to general matters for comment above, whether in your view the benefits of the requirements exceeded any implementation costs, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of incremental costs, or cost savings.