

## Basis for Conclusions on AASB 2013-8

*This Basis for Conclusions accompanies, but is not part of, AASB 10. The Basis for Conclusions was originally published with AASB 2013-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities.*

### Background

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- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Standard. Individual Board members gave greater weight to some factors than to others.
- BC2 Before finalising the implementation guidance set out in this Standard, the Board issued Exposure Draft ED 238 *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities* in March 2013. ED 238 proposed for public comment implementation guidance for not-for-profit entities in respect of both AASB 10 *Consolidated Financial Statements* and AASB 12 *Disclosure of Interests in Other Entities*. The Board considered the submissions received in response to ED 238 in deciding the implementation guidance to be added to those Standards.
- BC3 In the process of developing the proposals in ED 238, the Board commissioned research into the implementation issues that had been encountered by not-for-profit entities in applying the notion of control (and related public sector guidance) in the superseded Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*. Discussions were also held with constituents experienced in not-for-profit public sector and private sector financial reporting, to ascertain implementation issues that might be encountered in applying AASB 10 (which replaces AASB 127, in part) in a not-for-profit context. Based on the research findings and the nature of many of the issues identified, the Board concluded that the principles in AASB 10 could be applied in a not-for-profit context, albeit using professional judgement, and that certain aspects of those principles and the terminology adopted warranted specific implementation guidance for not-for-profit entities.
- BC4 In addition, the Board noted that some of the issues identified through the research are fundamental to the notion of control and therefore beyond the scope of AASB 10. These issues include:
- (a) the nature of government departments as reporting entities;
  - (b) the role that disclosure of disaggregated information in whole of government financial reports might play in providing relevant information to users; and
  - (c) control of assets.
- BC5 The Board concluded that, because they are beyond the scope of AASB 10 and would not impede the application of AASB 10 by not-for-profit entities, these issues do not need to be addressed prior to clarifying for not-for-profit entities the application of the notion of control in AASB 10. The Board noted that this approach is consistent with its policy of transaction neutrality. Accordingly, the Board decided to progress its Control in the Not-for-Profit Public and Private Sectors project in stages. The first stage, completed by the issue of this Standard, is intended to clarify the application of AASB 10 (and AASB 12) in a not-for-profit context. It is expected that later stages will address the associated fundamental issues noted above.
- BC6 The Board also noted the current project of the International Public Sector Accounting Standards Board (IPSASB) to update its consolidation, joint ventures and associates Standards for the issuance of IFRS 10 *Consolidated Financial Statements* and its related IFRSs. The IPSASB published its Exposure Drafts in October 2013, but the AASB decided to finalise the implementation guidance for AASB 10 and AASB 12, having considered the decisions of the IPSASB as it developed its Exposure Drafts.
- BC7 Since the implementation guidance does not change or depart from the principles in AASB 10, the types of harmonisation differences between AASB 10 and the ABS GFS Manual are not affected by the guidance. Accordingly, pre-existing GAAP/GFS differences were not addressed in ED 238.
- BC8 The remainder of this Basis for Conclusions outlines the basis for the Board’s decisions relating to the first stage of the project.

## Significant issues

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### Nature and location of guidance relating to AASB 10

- BC9 The Board considered whether the implementation guidance to be added to AASB 10 should be integrated into the body of that Standard as Aus paragraphs. The Board decided that, in general, consistent with a principles-based approach to drafting Standards, Aus paragraphs in the body of the Standard should be limited to those that either amend the requirements in AASB 10 or add new requirements. As the implementation guidance neither amends the requirements nor adds new requirements for not-for-profit entities, the Board decided that the guidance should not be presented as Aus paragraphs within the body of AASB 10. However, the Board decided to include one Aus paragraph in the body of the Standard as a signpost to the implementation guidance.
- BC10 The Board then considered whether the guidance should be presented as Aus paragraphs located throughout the existing Application Guidance (Appendix B to AASB 10) or as a separate attachment to AASB 10. As Appendix B is integral to AASB 10 and therefore has the same authority as the other parts of the Standard, Aus paragraphs in Appendix B should also be limited to those that either amend the requirements in AASB 10 or add new requirements. Accordingly, the Board applied the same approach as stated in paragraph BC9 and decided to add the not-for-profit entity implementation guidance to AASB 10 as an attachment rather than as Aus paragraphs within Appendix B.
- BC11 The implementation guidance is attached to AASB 10 as Appendix E. The Appendix is integral to the Standard and thus has the same authority as the body and other appendices of the Standard. The Board considered whether the guidance should merely accompany, and not be part of, AASB 10. To facilitate the guidance being applied consistently by not-for-profit entities, the Board decided to make the guidance integral to AASB 10.
- BC12 The Appendix added to AASB 10 is labelled as Appendix E, to be consistent with the labelling of the appendices to IFRS 10 *Consolidated Financial Statements*. In IFRS 10, Appendix D consists of the consequential amendments to other Standards and Interpretations arising from the issuance of IFRS 10. AASB 10 does not have any Appendix D since those consequential amendments were made in AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (August 2011), following the Board's practice of making amendments via separate Standards rather than through appendices to Standards.

### Terminology in AASB 10

- BC13 As AASB 10 incorporates IFRS 10, issued by the International Accounting Standards Board (IASB), the text of the body of AASB 10 and Appendices A–C is expressed from the perspective of for-profit entities in the private sector. The Board considered that some of the terminology in the Standard does not readily translate to a not-for-profit perspective and decided that it would be useful to explain that terminology for application in a not-for-profit context, rather than revise the terminology in some way for not-for-profit entities. The terms 'investor' and 'investee', for example, figure prominently in AASB 10, including in the definition of control, and are described in general terms in paragraph IG3 of Appendix E for AASB 10. The nature of 'returns', as another example, is also addressed in the implementation guidance. The Board believes the explanations provided will assist a not-for-profit entity to better relate to and apply the requirements of AASB 10.

### Implementation guidance on control

- BC14 In developing the implementation guidance, including some comprehensive examples, the Board sought to address the implementation issues that were identified in the research referred to in paragraph BC3 on the application of the notion of control by not-for-profit entities in the private and public sectors. For example, the guidance addresses rights arising from statutory arrangements (paragraphs IG6–IG7), economic dependence (paragraphs IG11–IG12), regulatory powers (paragraphs IG16–IG17), indirect returns (or benefits) to not-for-profit entities and congruent objectives (paragraphs IG18–IG20), and delegated power (paragraphs IG21–IG24).
- BC15 The Board did not include implementation guidance in respect of some topics covered by AASB 10 due to the Board's assessment that the issues arise similarly for both for-profit entities and not-for-profit entities. For example, the requirements regarding de facto agents and control of specified assets raise issues in practice for any entity, not just not-for-profit entities.

## Examples

- BC16 To illustrate the requirements of AASB 10, the implementation guidance includes examples within guidance paragraphs as well as five discrete, comprehensive examples. The examples refer to particular types of not-for-profit entities, some in the private sector and others in the public sector. However, the Board intended that the examples apply by analogy to other types of not-for-profit entities and similar circumstances as relevant, rather than being limited to the specific cases presented.
- BC17 The comprehensive examples emphasise a principles-based approach, which requires an analysis of the relevant activities of the investee and of the substantive rights of various investors in considering whether the investor has power (as that term is used in AASB 10) over the investee. The Board noted that it could be difficult to distinguish substantive rights from protective rights held by an investor in relation to an investee. Therefore, the Board decided to note in the introduction to the comprehensive examples that distinguishing substantive and protective rights requires analysis of the circumstances, including considering the reasons for different investors holding various rights in relation to the investee. The Board also decided to include a range of scenarios in most of the comprehensive examples to illustrate that alternative outcomes for the assessment of control by the investor reflect the facts and circumstances in any particular case.
- BC18 The Board included specific comprehensive examples in respect of a local government (Example IG3) and a university (Example IG4), given the anticipated uncertainty in respect of how AASB 10 might apply in determining whether such entities are controlled by another entity. Two scenarios under which different control conclusions might be drawn are presented in the university example, whereas the local government example includes only one case, in which it is concluded that the local government is not controlled by another government. The Board took the view that this would be the normal outcome in relation to local governments under current arrangements in Australia, but noted in paragraph IG8 and at the end of Example IG3 that the assessment of whether a local government is controlled by another government would depend on the particular facts and circumstances.
- BC19 Given the types of arrangements often found in the public sector, the Board also decided that an example concerning delegated powers and agency relationships affecting public sector entities would be useful guidance. Example IG5 presents two scenarios regarding whether a government department controls a statutory authority. The example might be relevant in some jurisdictions but not in others.

## Former guidance in superseded AASB 127

- BC20 The Board reviewed the specific public sector guidance in the superseded AASB 127 *Consolidated and Separate Financial Statements* (paragraphs Aus17.1–Aus17.10) in the context of the three criteria for control set out in AASB 10: power, returns, and a link between power and returns. Some of the guidance in the superseded AASB 127 was not incorporated into Appendix E, on the grounds that the Board considered that it was either inconsistent with or beyond the scope of the requirements of AASB 10 or no longer necessary. The following paragraphs address the major aspects of the guidance in the superseded AASB 127.
- BC21 Paragraph Aus17.1 stated that AASB 127 did not attempt to identify all groups and reporting entities in the public sector. Nevertheless, paragraph Aus17.5 described the nature of some reporting entities in the public sector. Paragraph Aus17.7 also discussed identifying economic entities in relation to Ministerial portfolios and functions with separate objectives. The Board decided that it was not appropriate to include these general statements in the implementation guidance since the nature of reporting entities in the public sector is a fundamental issue beyond the scope of AASB 10 (see paragraph BC4).
- BC22 The statement in paragraph Aus17.2 that control of an entity by the government may be indicated by the accountability of the entity to the Parliament (or the Executive or a Minister) and by the government holding the residual financial interest in the net assets of the entity has not been incorporated into the implementation guidance. Accountability to the Parliament, the Executive or a Minister might or might not indicate that the government has substantive rights in relation to the entity, so the power criterion might not be satisfied. Holding the residual financial interest in the entity shows that the government has exposure or rights to variable returns from the entity, but does not indicate whether the government has the ability to use power over the entity to affect the government's returns. Consequently, these two factors are insufficient to conclude whether an entity is controlled by the government.
- BC23 Paragraph Aus17.3 listed circumstances that, individually or in combination, indicate that an entity is accountable to Parliament, the Executive or a Minister. The circumstances listed in paragraphs Aus17.3(a)–(d) are addressed in paragraphs B15 and IG9 in terms of rights that can give an investor power in relation to an investee. However, paragraph Aus17.3(e) has not been included in the implementation guidance because a requirement to submit reports to Parliament might reflect either protective or substantive rights, and hence is not useful as an indicator of power. Paragraph Aus17.3(f) regarding an entity established through legislation has been updated and included in paragraph IG7.

- BC24 Paragraph Aus17.4 listed circumstances that indicate whether a government has a residual financial interest in the net assets of another entity. These circumstances (exposure to residual liabilities and the right to receive residual net assets on dissolution of the entity) indicate that the government would be exposed to variable returns from the entity. These returns are covered by the investment returns noted in paragraph B57(a).
- BC25 Paragraph Aus17.6 stated that a government will usually control statutory authorities that it has established through legislation. This circumstance has been addressed through paragraph IG7 in respect of whether the government has power over an entity established through legislation. Power is just one of the control criteria.
- BC26 Restrictions on the allocation of funds between activities and the existence of separate administrations are listed in paragraph Aus17.7 as factors that may affect the ability of an entity to deploy resources and should be considered in determining the existence of a group in the public sector. The ability to deploy resources is relevant to assessing whether an investor has power over an investee (see paragraph IG5). Restrictions on the ability to deploy resources may reflect barriers that prevent the holder of rights from exercising them. Examples of barriers are listed in paragraph B23, including operational barriers and legal or regulatory requirements.
- BC27 Paragraph Aus17.8 noted that for a government to control an entity, it must have the power to require the entity's assets to be deployed towards achieving the government's objectives, and listed various actions that the government might be able to direct in respect of the controlled entity's assets. Whether these circumstances result in the government controlling the entity under AASB 10 would depend on whether the government has power to direct the relevant activities of the entity. The actions listed are broadly consistent with the activities listed in paragraph B11 that can be relevant activities of an investee, depending on the circumstances of the investee.
- BC28 Paragraph Aus17.9 outlined a range of circumstances in which a government does not control another entity, such as an entity dependent on government funding but able to decide whether to accept resources from the government and how to use the resources (paragraphs Aus17.9(a) and (c)). These examples are no longer needed as paragraphs IG11 and IG12 concerning economic dependence and paragraph IG20 in respect of congruent objectives adequately address the issues.
- BC29 Paragraph Aus17.9(b) stated that a government acting as the trustee of a trust would not control the trust as it would not be able to deploy the resources of the trust for its own benefit. In contrast, the implementation guidance includes an example of a trust that is controlled through the trustee (paragraph IG22). Under AASB 10, the investor's returns from a trust may be indirect non-financial returns, which the former guidance did not acknowledge.
- BC30 Regulatory powers were addressed in paragraph Aus17.9(d) as not giving rise to control of regulated entities. Paragraph IG16 states that regulatory powers may represent either substantive rights (which could result in control of regulated entities) or protective rights (which would not result in control). Examples of protective rights are included in paragraph IG17.
- BC31 Paragraph Aus17.9(e) stated that under existing legislative arrangements, State and Territory governments do not control local governments. The Board reconsidered the question of control of local governments but did not reach a categorical view. As noted in paragraph BC18, the Board concluded that although a local government normally would not be controlled by another government under current arrangements, the assessment of whether a local government is controlled by another government would depend on the particular facts and circumstances (paragraph IG8). Example IG3 illustrates how a decision as to whether a local government is controlled by another government could be addressed.
- BC32 The final paragraph in the former public sector guidance, paragraph Aus17.10, addressed government control of independent statutory offices such as auditors-general and the judiciary. The same examples have been incorporated into the implementation guidance in paragraph IG10, which addresses more particularly the organisations assisting the independent statutory office holders.

## **AASB 12 and structured entities**

- BC33 While considering issues regarding AASB 10, the Board noted that the definition of 'structured entity' in AASB 12 *Disclosure of Interests in Other Entities* does not readily translate to a not-for-profit perspective as it focusses on voting or similar rights, which have less significance in general for many not-for-profit entities. The Board decided to propose implementation guidance to assist not-for-profit entities in applying this definition. As AASB 12 applies to not-for-profit entities in conjunction with AASB 10, the Board included the proposals in the same Exposure Draft (ED 238).
- BC34 After considering the submissions received on the ED, the Board decided to add implementation guidance as Appendix E to AASB 12, integral to the Standard and thus with the same authority as the body and other appendices of the Standard. These decisions reflect the decisions on the nature and location of guidance as set out in paragraphs BC9–BC12 in respect of the AASB 10 guidance.

- BC35 The Board decided that the implementation guidance for AASB 12 should be based on the principle underlying the definition of structured entity, and identified that principle as limiting the scope of structured entities to entities that are controlled through less conventional means. This is based on the definition emphasising that voting or similar rights are not the dominant factor in deciding who controls a structured entity – and for for-profit entities, voting rights are a common or conventional means of determining control.
- BC36 The Board identified administrative arrangements and statutory provisions (legislation) as common means by which control may be determined for many not-for-profit entities, particularly those in the public sector. Accordingly, the Board took the view that the reference to ‘similar rights’ in the definition of structured entity encompasses, for not-for-profit entities, administrative arrangements and statutory provisions. Thus, not-for-profit entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity are not regarded as structured entities. Appendix E for AASB 12 includes a range of examples to illustrate this approach.

## **AASB 1049 amendments**

- BC37 AASB 1049 *Whole of Government and General Government Sector Financial Reporting* was not addressed in the consequential amendments arising from AASB 10 (and related Standards) that were included in AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (August 2011), given that the Board intended to address the application of AASB 10 to not-for-profit entities through its Control in the Not-for-Profit Public and Private Sectors project. This Standard (AASB 2013-8) sets out the consequential amendments to AASB 1049 arising from AASB 10 and the related Standards. Most of these amendments are editorial.
- BC38 The Board noted that paragraph 45 of AASB 1049 does not require the General Government Sector (GGS) financial statements to comply with any of the disclosure requirements of the superseded AASB 127 *Consolidated and Separate Financial Statements*. The Board reconsidered this position in respect of the disclosure requirements set out in AASB 12, and concluded that the GGS financial statements should not be required to comply with those requirements. This is effected through the amendments in this Standard to paragraph 45 of AASB 1049.
- BC39 The Board took the view that the GGS financial statements need not be required to comply with the disclosure requirements of AASB 12 on the grounds that such disclosures would essentially duplicate AASB 12 disclosures in the whole of government financial statements. As entities included in the GGS financial statements are also included in the whole of government financial statements, the entities’ association with structured entities could be addressed in either set of financial statements. The nature of the risks associated with interests in structured entities is unlikely to change between the GGS level and the whole of government level.

## **Main changes from the Exposure Draft**

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- BC40 The main changes made by the Board to the implementation guidance proposed in ED 238 following consideration of respondents’ comments are noted in the following paragraphs.
- BC41 Some respondents considered that the major examples emphasised substantive and protective rights of various investors without adequately identifying the relevant activities of the investee and in some cases did not clearly apply the three criteria for control in coming to their conclusions. The Board agreed that the relevant activities of the investee should be addressed clearly, since an investor can have power over an investee only when it has substantive rights that give it the current ability to direct the relevant activities of the investee. The examples were amended accordingly, including addressing the control criteria more directly. Nevertheless, the Board retained the substantive and protective rights details in the examples, albeit with some reclassification, as part of the background information for the examples.
- BC42 Of the four major examples proposed in the ED, three related specifically to public sector entities (local governments, universities, and government departments and authorities) and one to not-for-profit private sector entities (a religious organisation and an association). Some respondents requested additional not-for-profit private sector examples. The Board added a further major example (Example IG2) based on not-for-profit private sector entities (a charity and a company) and illustrating four scenarios. As stated in paragraph BC16, the Board also decided to note in the implementation guidance that the illustrative examples apply by analogy to types of not-for-profit entities other than those specifically identified in the examples and similar circumstances, as relevant (see paragraph IG3).
- BC43 The ED proposed that rights specified in substantively enacted legislation could not give an investor the current ability to direct the relevant activities of an investee. This was questioned by some respondents, who compared substantive enactment of substantive rights with substantive rights that were exercisable only in

the future. The Board reconsidered the issue and decided to change the guidance to acknowledge that in limited circumstances rights under substantively enacted legislation could become exercisable in time for making decisions about an investee's relevant activities. For example, the progression from substantively enacted legislation to enacted legislation may be merely a matter of the formal approval of the legislation by the Governor in Council within a limited timeframe.

- BC44 Several respondents questioned whether the notion of delegation in the not-for-profit public sector was adequately reflected in the proposed example illustrating whether a government department controlled a statutory authority. The Board revised the example and paragraph IG24 to clarify that a delegate in the not-for-profit public sector is not an agent of the delegator. The Board also deleted references to 'delegated control' as it was not necessary to introduce a new term. The Board noted that the term 'delegation' has a narrower meaning in the not-for-profit public sector than its general usage in the Standard to denote an agent/principal relationship.

## **Issues raised but guidance not revised**

- BC45 The Board discussed a range of issues raised by respondents to ED 238 that did not lead to changes to the implementation guidance that had been proposed in the ED. The more significant such issues included requests for guidance concerning assessing the relative significance of the rights of different parties, a controlled local government scenario, collective control in the public sector, and the effect of removal rights in the public sector, and comments on the power to enact or change legislation.
- BC46 Respondents noted the difficulty in many cases of identifying which investor has power over an investee when more than one investor is able to direct different relevant activities of the investee. The Board was asked to provide further guidance on how to identify which investor was able to direct the activities that most significantly affected the investee's returns. The Board concluded that it was not feasible to provide guidance for weighing the relative significance of different relevant activities since this would be subject to judgement in the context of the facts and circumstances in any particular case.
- BC47 Some respondents to ED 238 noted that, unlike the other comprehensive examples, the local government example did not include an alternative scenario. The only scenario illustrated concluded that in the circumstances presented the local government was not controlled by the State government. Some respondents suggested that if it was not possible for a local government to be controlled by another government, then the guidance should state that. Other respondents suggested the addition of an alternative scenario so that the alternative control outcome would not be overlooked when the guidance was being applied. The Board decided that an alternative scenario was not required, since the proposed example already referred to the possibility of an alternative outcome (ie the local government being controlled by another government) in different circumstances or based on different judgements. The proposed implementation guidance also indicated that the assessment of whether a local government is controlled by another government would depend on the particular facts and circumstances. As noted in paragraph BC18, this approach has been retained in the implementation guidance.
- BC48 The Board considered whether to extend the proposed example concerning whether a department controlled a statutory authority to address so-called collective rights at a whole of government level, under which a particular entity would be consolidated in the whole of government financial statements despite no individual entity or Minister in the jurisdiction being considered to control the particular entity. The Board decided not to extend the example on the basis that judgement would be required to determine in the circumstances whether the collective rights amounted to control at the whole of government level, with or without joint control by entities in the jurisdiction, or some other outcome.
- BC49 The Board was asked to provide guidance regarding the implications of removal rights since, in the public sector, a government or a Minister will often have the right to dismiss key executives of public sector entities, such as the head of a department. The Board noted that the AASB 10 requirements relating to agency relationships and removal rights might be interpreted to imply that the key executives or their organisations act only as an agent of the government or Minister and therefore would be unable to control other entities. However, the Board considers that the requirements do not prevent intermediate parent entities from controlling other entities or preparing consolidated financial statements. For example, a department head is a part of the department, and a Minister's ability to remove the department head does not prevent the department from being able to control other entities. The Board concluded that specific implementation guidance was not required.
- BC50 Some respondents questioned the position proposed in the ED that the power to enact or change legislation could not give an investor the current ability to direct the relevant activities of an investee. The Board affirmed this view for the implementation guidance (paragraph IG14). If the power to legislate were relevant to determining whether a government controlled other entities, then, subject to the constitutional reach of its powers, the government might be considered to control all of the entities in its jurisdiction (including private

sector entities) since it could conceivably cause Parliament to pass legislation to enable it to direct the activities of any or all of those entities so as to achieve its economic and social objectives. However, the political and social barriers (see paragraph IG13) to passing such legislation mean that the government realistically would not have the ability to exercise such power, and thus the power would not represent substantive rights.

## ACNC requirements

- BC51 Some respondents to ED 238 commented that, in determining the application of AASB 10 to not-for-profit entities, the Board should have regard to the financial reporting requirements of the Australian Charities and Not-for-profits Commission (ACNC).
- BC52 The Board considered the requirements for annual financial reports under the *Australian Charities and Not-for-profits Commission Act 2012* (ACNC Act) and the *Australian Charities and Not-for-profits Commission Regulation 2013* (ACNC Regulation), in particular Subdivisions 60-C ‘Annual financial reports’ and 60-G ‘Collective and joint reporting’ of the ACNC Act and Subdivisions 60-B ‘Requirements for annual financial reports (core rules)’ and 60-C ‘Requirements for annual financial reports (special rules)’ of the ACNC Regulation. For example, under joint reporting, two or more registered entities may be permitted to prepare and lodge a single financial report, which might or might not be consistent with the AASB 10 requirements for consolidated financial statements. Collective reporting would not be consistent with AASB 10.
- BC53 The Board also noted that section 60.30 of the ACNC Regulation requires a registered entity to prepare a special purpose financial statement, if it is not required to and does not propose to prepare a general purpose financial statement. The Board’s focus in setting accounting standards is on general purpose financial statements rather than special purpose financial statements.
- BC54 The Board acknowledges that regulators might impose financial reporting requirements that differ from AASB Standards for their own regulatory purposes. The Board noted that the ACNC requirements would be expected to coincide with AASB Accounting Standards in most cases. However, the ACNC may permit registered entities to depart from AASB 10 in limited circumstances. The Board decided that it would not be appropriate for its requirements for general purpose financial statements to reflect those limited circumstances.