

Basis for Conclusions

The Basis for Conclusions accompanies, but is not part of, AASB 1053.

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in AASB 1053 *Application of Tiers of Australian Accounting Standards*. It also provides a context for the Board's decisions about disclosures from which 'Tier 2' entities are exempt, which are reflected in AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*. It focuses on the issues that the Board considers to be of greatest significance. Individual Board members gave greater weight to some factors than to others.

Background to Differential Reporting in Australia

- BC2 A form of differential reporting has been incorporated in Accounting Standards in Australia since the early 1990s. The concept of 'reporting entity' is at the core of this differential reporting regime. Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* deals with the reporting entity concept. The AASB *Glossary of Defined Terms* includes the definition of a reporting entity¹ as:

An entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statement for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.

- BC3 Most Australian Accounting Standards include the requirements of corresponding International Financial Reporting Standards (IFRSs) and have the following application paragraph:

This Standard applies to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
- (b) general purpose financial statements of each other reporting entity; and
- (c) financial statements that are, or are held out to be, general purpose financial statements.

Prior to AASB 1053, for-profit and not-for-profit (NFP) entities falling within the scope of this application paragraph were subject to all the recognition, measurement, presentation and disclosure requirements of those Standards. These entities included entities incorporated under the *Corporations Act 2001* that are reporting entities.

- BC4 Under the Corporations Act, disclosing entities, public companies (including companies limited by guarantee), large proprietary companies and registered schemes must prepare and lodge financial statements that comply with accounting standards. Large proprietary companies are those companies that meet at least two of the three size thresholds set out in the Corporations Act relating to:

- (a) the consolidated revenue for the financial year of the company and the entities it controls (if any);
- (b) the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls (if any); and
- (c) the number of employees of the company and the entities it controls (if any) at the end of the financial year.

These Corporations Act size thresholds effectively remove the external reporting obligations for small proprietary companies.²

- BC5 Accordingly, prior to AASB 1053, a reporting burden that is less than compliance with full Australian Accounting Standards was only available to non-reporting entities in the preparation of financial statements that are not general purpose financial statements. The financial statements of non-reporting entities are classified as special purpose financial statements and, like general purpose financial statements, are subject to true and fair view requirements of the Corporations Act where they fall within the scope of that Act.

- BC6 Entities eligible for this reduced reporting burden included those incorporated under the Corporations Act that are not reporting entities but are required to prepare financial statements. Only AASB 101 *Presentation*

¹ This definition is included in paragraph Aus7.2 of AASB 101 *Presentation of Financial Statements*.

² Under Sections 292(2), 293 and 294 of the Corporations Act, small proprietary companies must prepare and lodge financial reports in certain circumstances such as when the Australian Securities and Investments Commission (ASIC) directs them, or they are controlled by a foreign company, or 5% of shareholders vote to have a financial report.

of *Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1031 *Materiality* and AASB 1048 *Interpretation of Standards* apply to such entities, by virtue of the application paragraphs in those Standards.

- BC7 The Australian Securities and Investment Commission (ASIC) has expressed the view³ that non-reporting entities required to prepare financial statements in accordance with Chapter 2M of the Corporations Act should comply with the recognition and measurement requirements of all accounting standards. Under ASIC's view, the only 'relief' for these entities is not having to apply the disclosure requirements contained in Standards other than AASB 101, AASB 107 and AASB 108.
- BC8 In addition to AASB pronouncements that incorporate IFRSs, there are Australian Accounting Standards (including Interpretations) that apply specifically to some or all NFP entities, including:
- (a) AASB 1004 *Contributions*;
 - (b) AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
 - (c) AASB 1050 *Administered Items*;
 - (d) AASB 1051 *Land Under Roads*;
 - (e) AASB 1052 *Disaggregated Disclosures*; and
 - (f) AASB Interpretation 1038 *Contributions by Owners Made to Wholly-owned Public Sector Entities*.
- BC9 Prior to AASB 1053, entities not incorporated under the Corporations Act, (which include many NFP entities and most public sector entities), were required to apply, where applicable, the recognition, measurement, presentation and disclosure requirements of these and other Australian Accounting Standards if they were reporting entities or holding out financial statements to be general purpose financial statements.

The Need to Review the Differential Reporting Framework

- BC10 The Board identified a number of concerns with the differential reporting framework that existed prior to AASB 1053. These concerns included that:
- (a) costs of preparing general purpose financial statements for some entities were greater than benefits for the users of those general purpose financial statements, because the framework resulted in requirements for general purpose financial statements that were overly burdensome for many entities; and
 - (b) user needs were not being satisfied for other entities, because the framework was being applied in a way that some entities (which should prepare general purpose financial statements) were being treated as non-reporting entities and preparing only special purpose financial statements.
- BC11 When it was initially considering these concerns, the Board noted that the International Accounting Standards Board (IASB) was developing an *IFRS for SMEs* that would result in general purpose financial statements that would not be compliant with IFRSs. Accordingly, the Board decided that, in revising its differential reporting framework, it was appropriate for the Board to also consider requirements for general purpose financial statements that differ from (full) Australian Accounting Standards. The Financial Reporting Council has been kept apprised of these developments.
- BC12 The Board issued a number of consultative documents containing its proposals for addressing the concerns noted in paragraph BC10. These documents were, in sequence:
- (a) Invitation to Comment ITC 12 *Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities* – issued in May 2007;
 - (b) Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements (A Proposed Reduced Disclosure Regime for Non-publicly Accountable For-profit Private Sector Entities and Certain Entities in the Not-for-profit Private Sector and Public Sector)* – issued in February 2010; and
 - (c) Exposure Draft ED 192 *Differential Reporting Framework* – also issued in February 2010.
- BC13 These consultative documents contained proposals relating to both of the concerns (a) and (b) noted in paragraph BC10 above. The Board refined its ITC 12 proposals in the light of comments it received on the ITC, and reflected its revised proposals in the Consultation Paper and accompanying ED 192. After considering constituent comments on ED 192, the Board decided to issue AASB 1053 in response to concern (a), and to undertake further research prior to deciding how it would deal with concern (b).

3 ASIC Regulatory Guide 85 *Reporting requirements for non-reporting entities*.

- BC14 In relation to concern (b), many constituents agreed with the manner in which the Board proposed to address the concern, which was to change the focus from reporting entity to general purpose financial statements and clarify the meaning of general purpose financial statements in an Australian context. This was on the grounds that:
- (a) the application of reporting entity involves a high degree of subjectivity and the term is open to differing interpretations; and
 - (b) the use of reporting entity for differential reporting is not universally understood.
- This group was of the view that the use of the reporting entity concept does not provide the intended result, and the uncertainty surrounding its application reduces its usefulness as a robust criterion for differential reporting purposes.
- BC15 In contrast, other constituents expressed the view that the concept of reporting entity works well and should be retained as one aspect of differential reporting. They commented that they have not seen evidence of major problems with its application. This group, therefore, considered that those entities that currently claim to be non-reporting entities and prepare special purpose financial statements do not have dependent users and the evidence does not support a view that there is a systemic problem with reporting entities claiming a non-reporting entity status to evade their reporting responsibilities under Australian Accounting Standards.
- BC16 The Board concluded that, in the light of these contrasting claims, further research should be carried out on the impact of the ED 192 proposals on those entities currently preparing special purpose financial statements. This is primarily with a view to ensuring that those entities currently appropriately preparing special purpose financial statements are not disadvantaged by the proposals. Consistent with this, the Board decided that, under the first stage of revisions to the differential reporting framework, concern (a) should be addressed. The Board's approach to dealing with concern (a) leaves the current differential reporting framework based on the reporting entity concept and general purpose financial statements intact, including the requirement for entities required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act to apply AASB 101, AASB 107, AASB 108, AASB 1031 and AASB 1048, by virtue of the application paragraphs in those Standards.
- BC17 The remainder of this Basis for Conclusions focuses on the basis for the Board's conclusions relating to concern (a).

Different Tiers of Requirements for General Purpose Financial Statements

- BC18 The Board decided to retain full IFRSs as adopted in Australia as the first Tier (Tier 1) of reporting requirements, and make it mandatory for a relatively small number of entities in the private and public sectors in their preparation of general purpose financial statements. These entities are limited to publicly accountable entities in the for-profit private sector and Governments in the public sector (see paragraphs BC25 and BC52). Accordingly, AASB 1053 does not reduce the reporting burden of those entities. Retention of full IFRSs as adopted in Australia requirements for these entities is consistent with the approach adopted by the IASB to require certain entities to continue to comply with full IFRSs in order to claim IFRS compliance.
- BC19 The Board decided to introduce a second Tier (Tier 2) of requirements to substantially reduce the burden of financial reporting for other entities in both the private and public sectors in their preparation of general purpose financial statements. Tier 2 retains the recognition, measurement and presentation requirements⁴ of full IFRSs as adopted in Australia, but requires disclosures that are substantially reduced when compared with those required under full IFRSs as adopted in Australia.
- BC20 The Board regards AASB 1053 as a pragmatic and substantive response to the need to reduce the burden of disclosure requirements on Australian reporting entities. However, the Board does not regard it as a complete or final answer to that need. In addition to the further research referred to in paragraph BC16 above, the Board intends continuing its deliberations on revising the differential reporting framework with a view to ongoing improvements (including having regard to decisions made by the IASB in relation to its *IFRS for SMEs* – see paragraph BC98). The Board concluded that the reforms in AASB 1053 should not be delayed while consideration of other possible areas of reform continues. The Board notes that important reforms are also being considered to reduce the complexity of full IFRSs, including in the area of financial instruments, which would help reduce reporting complexities when adopted in Australia, including for entities that would be subject to Tier 1 requirements. The IASB is expected to move beyond financial instruments in its efforts to simplify requirements and the AASB will continue to encourage and support those efforts.

⁴ Except for presentation of a third balance sheet required under Tier 1.

- BC21 The new Tier 2 requirements do not change the current AASB policy of the same transactions and other events being subject to the same accounting requirements to the extent feasible (that is, transaction neutrality), for all entities preparing general purpose financial statements (whether for-profit or NFP).
- BC22 The Board considered whether a third tier of reporting requirements for general purpose financial statements should be introduced to provide simpler financial reporting requirements for smaller NFP entities since those entities might find the adoption of Tier 2 requirements overly burdensome on cost-benefit grounds. The Board noted that many NFP entities in the private sector are established as companies limited by guarantee under the Corporations Act or as associations under relevant Incorporated Associations Acts in each State and Territory. Moreover, many non-trading cooperatives are regulated by State or Territory Acts. Having regard to this legislation, the Board noted that a reason for contemplating the need for a third tier was that there is generally no NFP equivalent to the outright exemption from reporting that exists for small proprietary companies (see paragraph BC4 above).
- BC23 The Board noted that while there is some support from constituents for creating a third tier, there are different views about the requirements of such a tier and the way entities applying those requirements should be identified. The Board also considered the proposals for reporting relief in the Discussion Paper published by the Australian Government in June 2007 titled *Financial Reporting by Unlisted Public Companies* in relation to the creation of a third tier of reporting requirements for companies limited by guarantee⁵.
- BC24 The Board decided not to introduce a third tier of reporting requirements on the basis that:
- (a) the Government intended to alleviate the reporting burden of small companies limited by guarantee through amendments to the Corporations Act; and
 - (b) Tier 2 requirements for preparing general purpose financial statements would help reduce the disclosure burden of NFP entities significantly.

Applicability of the Different Tiers to For-Profit Entities

Public Accountability

- BC25 The Board concluded that for-profit entities that are publicly accountable (as defined in *International Financial Reporting Standard for Small and Medium-sized Entities [IFRS for SMEs]*) should be required to apply full IFRSs as adopted in Australia. This is on the basis of consistency with international reporting requirements in the for-profit private sector. The Board noted that, since Australia has adopted full IFRSs, it would be logical to use the public accountability notion used by the IASB in determining which entities in the for-profit sector should apply Australian Accounting Standards in full.
- BC26 The Board acknowledged constituents' comments about some aspects of the definition of public accountability that the application of the definition in some cases may involve interpretation or judgement. Some respondents to ED 192 noted it would be helpful for the Board to clarify certain terms used in the definition. These include the term 'public market' referred to in the first leg of the definition and the terms 'fiduciary', 'broad', 'outsiders' and 'primary business' referred to in the second leg of the definition. However, the Board noted it is not a policy of the Board to further interpret the IASB's terms and definitions. Accordingly, the Board decided that, instead of interpreting the terms in the definition, AASB 1053 should identify entities that the Board deems to be publicly accountable in the Australian context, to supplement the IASB's definition of public accountability (see Appendix B of AASB 1053).
- BC27 In relation to identifying entities that should be deemed to be publicly accountable in the Australian context, some respondents to ED 192 questioned whether captive insurers should be classified as publicly accountable since, in their view, there is unlikely to be a broad group of outsiders involved. The Board noted that the nature of captive insurers varies. Some only provide insurance to subsidiaries within their group while others also insure joint venture businesses. Some captive insurers, such as association captive insurers, can insure a wide range of members. Those that provide insurance to subsidiaries within groups may also deal with outsiders. For example, they may offer products that have public beneficiaries (such as public or product liability, or professional indemnity).
- BC28 The Board concluded that, whilst it expects that most insurance companies will be publicly accountable, there may be certain general insurers, such as some captive insurers, that may not be publicly accountable. Accordingly, the Board did not deem all regulated insurance entities as publicly accountable.
- BC29 Some respondents to ED 192 also questioned whether Small Australian Prudential Regulation Authority (APRA) Funds (SAFs) should be deemed to be publicly accountable, given the small number of members and the limited users of their financial statements.

⁵ The outcome of the proposals in the Discussion Paper are included in the *Corporations Amendment (Corporate Reporting Reform) Act 2010*.

- BC30 The Board noted that SAFs are usually similar in size to self-managed super funds (SMSFs) but, unlike SMSFs (which are regulated by the Australian Taxation Office [ATO]), are regulated by APRA because they do not meet all conditions to be a SMSF. The Board noted there may be users (such as regulators and trustees) of the financial statements of SAFs who can command information they need and the outsiders for whom the SAF holds assets in a fiduciary capacity. Accordingly, those users do not seem to constitute a broad group and the Board decided not to deem SAFs as publicly accountable.
- BC31 Furthermore, some respondents questioned whether all entities holding an Australian Financial Services Licence (AFSL) would meet the definition of publicly accountable.
- BC32 The Board noted that AFSL holders undertake a range of activities and are a diverse group of entities. The Board concluded that whether an AFSL holder is publicly accountable depends on the circumstances, including the nature of the services they provide. Therefore, it would not be appropriate for the Board to deem AFSL holders as publicly accountable or not publicly accountable.

Size Thresholds

- BC33 The Board proposed in ITC 12 that for-profit entities that do not satisfy the definition of a publicly accountable entity, nevertheless may be viewed as being ‘important’ from a public interest perspective because of their large size, and should be subject to Tier 1 requirements. The size thresholds proposed were:
- Consolidated revenue for the financial year of the entity and the entities it controls (if any) of \$500m.
 - Consolidated assets at financial year end of the entity and the entities it controls (if any) of \$250m.
- BC34 The Board considered constituents’ comments on the issue and decided not to require entities that are ‘important’ because of their large size to adopt Tier 1 requirements on the grounds that:
- (a) size thresholds are arbitrary;
 - (b) using public accountability (as defined by the IASB) for the for-profit sector in Australia would be consistent with international requirements;
 - (c) large non-publicly accountable entities would still be required to prepare high-quality general purpose financial statements under the requirements of Tier 2; and
 - (d) keeping size thresholds that identify ‘important’ entities up-to-date would entail additional maintenance and monitoring costs.

For-Profit Entities in the Public Sector

- BC35 The Board noted that the definition of public accountability it has adopted has a for-profit private sector orientation as it is based on the definition included in the *IFRS for SMEs*. The Board noted that the nature of for-profit entities in the public sector may differ from that in the private sector in that many Government Business Enterprises (GBEs) also undertake social policy obligations. Moreover, the ownership group in many for-profit public sector entities is not a broad group. The Board noted that, although these entities are typically seen as publicly accountable in the general sense of the term, they do not typically fall under the definition of public accountability used for the private sector.
- BC36 Some respondents to ED 192 expressed the view that GBEs should be included in Tier 1 because of their commercial significance and their participation in markets in competition with private sector for-profit entities. Others noted that, while it is acknowledged there is a relatively high level of public interest in relation to GBEs, it is also important that those public sector entities that compete with private sector entities in Tier 2 are not disadvantaged through the application of more onerous financial reporting requirements.
- BC37 Some respondents supported an approach where GBEs would by default be classified as Tier 2 entities, with the caveat that the public sector entity that ‘regulates’ the respective entities would determine whether individual entities should apply the disclosure requirements of Tier 1. This approach, it was noted, could result in GBEs achieving the same level of financial reporting as for-profit private sector entities of similar nature and size.
- BC38 The Board concluded that, consistent with the role of other regulators under the revised differential reporting framework (see paragraphs BC40-BC41), the determination of the Tiers of reporting requirements under which for-profit public sector entities should report would best be left to relevant public sector regulators in each jurisdiction.

Entities Eligible for Tier 2 Requirements can Elect to Adopt Tier 1 Requirements

- BC39 The Board concluded that an entity that is eligible to adopt Tier 2 requirements should be permitted to adopt Tier 1 requirements. This is on the basis that:
- (a) a relevant regulator may decide that in certain circumstances it is more beneficial to the users of financial statements, including the public at large, to include more comprehensive information in the general purpose financial statements;
 - (b) a subsidiary may be required to apply Tier 1 requirements by its parent; and
 - (c) some entities may find it more convenient or beneficial to continue to apply Tier 1 requirements in their circumstances. Examples include entities:
 - (i) contemplating future listing on the stock exchange;
 - (ii) planning to engage in activities as their primary business that would classify them as holders of assets in a fiduciary capacity for a broad group of outsiders; and
 - (iii) preferring to state compliance with full IFRSs because they are primarily engaged in international business.

The Role of Other Regulators

- BC40 The Board noted that other regulators, legislators and stakeholders play an important role in the application of Standards, including providing exemptions in certain circumstances. For example, as noted in paragraph BC4, small proprietary companies are exempted from financial reporting under the Corporations Act.
- BC41 The Board noted that some respondents to ITC 12 expressed concern about possible inconsistencies in practice that may arise if the Board were to specify rules rather than principles for determining which Tier of reporting is applicable to which entities. This is due to complexities involved in determining the application of different Tiers of reporting requirements to entities of different sizes and with varying levels of economic, social and political significance across different economic sectors. To help avoid these inconsistencies and to facilitate the application of different Tiers of reporting requirements in an effective and efficient manner, the Board decided that other regulators, legislators or stakeholders should have a role in determining the application of Standards under the revised framework. Accordingly, the Board decided that, except for the cases where a clear-cut and timeless application criterion can be used by the Board or a clear-cut judgement can be made based on relevant factors, the application issue would best be dealt with by other regulators, legislators and stakeholders (see, for example, paragraphs BC39(a) and (b)).

Applicability of the Different Tiers to NFP Entities

Public Accountability

- BC42 The Board considered whether the notion of public accountability as defined by the IASB could usefully be applied to the NFP sector. It noted that, although there are some who argue that the IASB definition of public accountability may cover some NFP entities on the grounds that they hold funds in a fiduciary capacity for a broad group of outsiders, the IASB definition has a for-profit context that makes it unsuitable for the NFP sector.
- BC43 The Board also considered using a modified definition of public accountability in the NFP sector context. The Board noted the disparate views among constituents about whether such a notion can effectively be modified and used to identify entities falling under different reporting Tiers in the NFP sector.
- BC44 The Board noted that some constituents believe that the level of public accountability, for example, for each charity, depends on a number of entity-specific factors, which reduce the usefulness of ‘public accountability’ as a stand-alone criterion for differential reporting purposes in the NFP sector. Some constituents argued that the degree of public accountability of a charity has a direct relationship to the following.
- (a) *Sources of funds*: for example, if the sources of funds are public donations (particularly those that are tax deductible by the donor) or government grants, then a high degree of public accountability is expected. Voluntary labour may be regarded as a form of donation and, therefore, a high degree of public accountability might be expected when significant voluntary labour is involved. Generally the level of public accountability is high where public funds are involved, such as when community or social activities are carried out on behalf of government. However, when the source of funds is an individual or a corporation, a much lower degree of public accountability is expected on the basis that the individual or corporation involved can probably access the financial

information they need. A moderate level of public accountability may be envisaged when the sources of funds are grants from foundations or sponsors.

- (b) *Number of stakeholders in the entity*: the wider the spectrum of stakeholders, the higher the expected level of public accountability.
- (c) *Scale of operations and geographical coverage*: generally charities active at the national or international level are seen as being publicly accountable at a high level.

BC45 The Board concluded that a modified definition of public accountability in the NFP private sector context would not provide a robust basis for identifying entities falling under different reporting Tiers since NFP private sector entities, (with the likely exception of smaller member-based entities), are typically seen as having differing degrees of public accountability in the general sense of the term.

BC46 The Board reached a similar conclusion about whether a definition of public accountability could provide a robust basis for identifying NFP public sector entities falling under different reporting Tiers. This is on the basis that these entities are regarded as publicly accountable in the general sense of the term.

Size Thresholds

BC47 The Board proposed in ITC 12 that NFP entities that prepare general purpose financial statements that exceed nominated size thresholds should be required to apply Tier 1 requirements. The size thresholds proposed were:

- Consolidated revenue for the financial year of the entity and the entities it controls (if any) of \$25m.
- Consolidated assets at the end of the financial year of the entity and the entities it controls (if any) of \$12.5m.

BC48 Some respondents to ITC 12 preferred the use of size thresholds in comparison to the use of a modified notion of public accountability as the basis for identifying reporting Tiers on the grounds that it is relatively objective and would provide consistency in identifying entities that fall under different Tiers. However, other respondents were concerned about using size thresholds, citing the following reasons:

- (a) size thresholds are arbitrary;
- (b) size thresholds will become outdated over time; and
- (c) particularly in the public sector, unless jurisdiction-specific thresholds are prescribed, it would lead to similar entities applying different requirements across different State and Territory jurisdictions.

BC49 There were also differences of view between respondents as to the amounts of the appropriate thresholds. Some thought the thresholds noted in paragraph BC47 are too low and should be raised to be comparable to 'important' entity thresholds contemplated for the for-profit sector noted in paragraph BC33. Others thought the thresholds being contemplated are too high, which would mean that too few NFP entities would apply full IFRSs as adopted in Australia. Yet others thought that the ratio of thresholds (revenue twice the assets) is not appropriate for many asset-rich entities in the NFP sector.

BC50 Respondents' comments on the comparability of thresholds between private and public sector NFP entities and their difference from those contemplated for 'important' entities in the for-profit sector did not reflect any convergence of views. Some respondents thought that public sector NFP entities are inherently of greater public interest than private sector NFP entities. Others thought that the thresholds should take account of the fact that the resources at the disposal of public sector NFP entities are generally significantly greater than those at the disposal of private sector NFP entities. Some expressed the view that public interest would not differ between the for-profit and NFP sectors. Others expressed the view that entities within the public sector are all of public interest and expressed concern that size thresholds would give a misleading perception of an increase in public interest proportional to an increase in an entity's size.

BC51 Consistent with the Board's conclusions in relation to size thresholds for for-profit entities, the Board concluded that size thresholds do not provide a robust basis for differential reporting purposes in a NFP context because of the complexities involved and that the disadvantages of using size thresholds would exceed any advantages that may arise from their use. The Board also noted that keeping size thresholds up-to-date would entail additional maintenance and monitoring costs.

Governments

BC52 The Board concluded that the Australian Government and State, Territory and Local Governments should be subject to Tier 1 requirements. This is on the basis that these entities clearly satisfy the criteria cited in paragraph BC63 as a whole, including in particular their coercive power to tax, rate or levy. Consistent with this conclusion, the Board also decided that General Government Sectors of the Australian Government and

State and Territory Governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2.

Public Sector NFP Universities

- BC53 ED 192 proposed that universities in the public sector should be subject to Tier 1 requirements. Some respondents concurred with the proposal on the grounds that universities in the public sector are government funded. However, others had reservations, which included the following:
- (a) since universities are statutory bodies (in some jurisdictions), then they should be subject to the same reporting requirements that apply to other statutory bodies in the relevant jurisdiction – that is, the decision as to whether universities should be subject to Tier 1 or Tier 2 requirements should be left to the local regulator;
 - (b) while it is acknowledged they are large entities, there would appear to be no conceptual reason mandating the classification of universities under Tier 1 – for example, they have no coercive power to tax, rate or levy;
 - (c) funding by government or receipt of voluntary donations, by itself, does not suffice to classify universities as Tier 1 entities since many other public sector entities fall in the same category; and
 - (d) the proposal would not be consistent with transaction-neutrality principles, because it would result in public sector NFP universities being treated differently from private sector universities.
- BC54 The Board noted that because universities differ from jurisdiction to jurisdiction, it may not enable regulators in those jurisdictions to apply criteria that they regard as appropriate in their circumstances, if the Board were to make a universal decision on the reporting Tier under which they fall. Accordingly the Board decided that universities should be allowed to apply Tier 2 requirements in preparing their general purpose financial statements unless a relevant public sector regulator requires the application of Tier 1 requirements.

Private Sector NFP Entities

- BC55 The Board considered the issue of possible subclassifications of different types of NFP entities within the NFP sector for differential reporting purposes. The Board noted commentators' views on ITC 14 *Proposed Definition and Guidance for Not-for-Profit Entities* that NFP entities can generally be identified as being in one of three categories based on the nature of their operations and sources of funding:
- (a) charities;
 - (b) member-based entities; and
 - (c) public sector entities;
- and that there may be a need for a fourth 'other' category to cater for entities such as schools and religious organisations. The Board noted the significant disparities in the size of entities within each of the above categories.
- BC56 Some constituents argued that the disclosures required by full IFRSs (or the *IFRS for SMEs*) would not satisfy the information needs of users of financial statements of, for example, charities. These Standards, it was noted, have a for-profit focus while the nature of charities' activities is such that not all disclosures in these Standards are pertinent to the needs of users of the financial statements of charities. Moreover, there are disclosures that relate to the nature of operations of charities and specific issues of public interest that are not required by these Standards and that may be within the scope of financial reporting. It was argued that the stakeholders of a charity are interested in the accountability of the entity in achieving objectives stated in the entity's mission statement using funds provided by those stakeholders. They noted that donors, grantors and other contributors who provide resources in the form of money or voluntary services and the public at large (which includes the beneficiaries of charitable activity) are all interested in the accountability of charities.
- BC57 The Board noted that a similar view exists in regard to all NFP entities. This view links accountability to the objective of each NFP entity and advocates disclosure of particular performance-related information to help inform a wide range of stakeholders about the way a NFP entity is utilising its resources in achieving its purpose.
- BC58 The Board decided that there should not be subclassifications of different types of entities in the NFP sector other than between private and public sector entities, for differential reporting purposes. In arriving at this decision, the Board noted that:
- (a) in a transaction-neutral reporting environment, subclassifications should not make a reporting difference as far as the recognition and measurement of transactions are concerned; and

- (b) a choice between Tier 1 and Tier 2 requirements would provide different levels of disclosures appropriate for entities with different levels of activities.

BC59 The Board noted that its conclusion on this matter does not rule out specific projects directed at particular types of NFP entities and decided that its separate project on Disclosures by Private Sector Not-for-Profit Entities should be the vehicle through which it determines whether disclosures in addition to those required by full IFRSs as adopted in Australia should be required of Tier 1 or Tier 2 NFP entities. The Board also noted that much of the information relating to the extent to which a NFP entity has achieved its purpose set out in its mission statement may not be of a financial nature.

Entities Eligible for Tier 2 Requirements can Elect to Adopt Tier 1 Requirements

BC60 The Board concluded that a NFP entity that is eligible to adopt Tier 2 requirements should be permitted to adopt Tier 1 requirements. This is on the basis that, as noted in relation to the for-profit sector in paragraph BC39, in some jurisdictions, a relevant regulator may decide that in certain circumstances it is more beneficial to the users of financial statements, including the public at large, to include more comprehensive information in the general purpose financial statements. A NFP entity may also find it beneficial to choose to apply Tier 1 requirements in order to claim compliance with full IFRSs as adopted in Australia with a view to enhancing its credibility internationally, in particular in relation to major users of financial statements such as donors and governments.

The Role of Other Regulators

BC61 The Board acknowledges that, although AASB 1053 allows the vast majority of entities in the NFP sector to adopt Tier 2 requirements, other regulators may decide that some of those entities should adopt Tier 1 requirements.

BC62 Some respondents to ED 192 particularly commented that, while they welcome the choice that the Board has provided to public sector regulators in determining which of the Tiers should be followed by entities other than those required by the Board to apply Tier 1 requirements, the Board should develop non-mandatory guidance, in the form of qualitative criteria, to help public sector regulators consistently identify entities falling under each of the two Tiers of reporting requirements.

BC63 The Board explored the possibility of providing guidance, noting there are a range of qualitative factors that could be considered, including the following:

- (a) *the entity's coercive power to obtain public funds*: the Board noted this notion of coercive power is a narrow criterion and on its own would be helpful only in a limited number of cases for jurisdictions in identifying entities falling under each Tier;
- (b) *level of public funds used by the entity*: entities in the public sector vary in the degree to which they are publicly funded, the discretion over the distribution or expenditure of public funds, and the nature of that spending (for example, operational compared with income redistribution);
- (c) *risk profile*: generally, risk in the public sector is a reference to uncertainty in achieving an organisation's objectives and more comprehensive disclosures may be warranted where an entity is seen as having a high risk profile;
- (d) *level of complexity*: the level of complexity of public sector entities varies with the nature, diversity and range of their activities, which may also point to the existence of a wide range of stakeholders; and
- (e) *financial profile*: the financial profile of a public sector entity may point to its economic significance and ability in providing services, which would in turn have an impact on the level of public interest.

BC64 The Board noted that, while each of the above factors may be a useful indicator to help regulators in identifying entities that should disclose more comprehensive information in their general purpose financial statements, no single criterion, by itself, would be likely to provide a conclusive basis for a jurisdiction to distinguish between Tier 1 and Tier 2 entities in the public sector.

BC65 The Board noted these factors as a whole were taken into account in its decision to classify the Australian Government and State, Territory and Local Governments as Tier 1 entities (see paragraph BC52). Accordingly, the Board concluded that these factors as a whole would be likely to benefit regulators across public sector jurisdictions in identifying the population of entities that could be of greater interest to users of general purpose financial statements, including the public at large. The Board noted regulators may develop their own size thresholds to identify those entities about which there would be sufficient interest to justify

applying Tier 1 requirements. To arrive at consistent results, the Board noted it might be appropriate to use a number of different size indicators such as total assets, revenue, and number of employees as the basis for thresholds.

Tier 2 Requirements

BC66 The Board decided to adopt the Reduced Disclosure Requirements (RDR) reflected in AASB 1053, rather than the *IFRS for SMEs*, as Tier 2 requirements. The Board noted that the two approaches are fundamentally different because the RDR involve applying the same recognition and measurement requirements as Tier 1, whereas the *IFRS for SMEs* modifies the recognition and measurement requirements of full IFRSs. In deciding between the RDR and the *IFRS for SMEs*, the Board also considered whether entities subject to Tier 2 requirements should be provided with an option of adopting the RDR or the *IFRS for SMEs*.

Reasons for Not Adopting *IFRS for SMEs*

BC67 Constituents' comments on the *IFRS for SMEs* were mixed. While many supported its reduction in disclosure requirements, they expressed concern about introducing recognition and measurement requirements that are different from those included in full IFRSs.

BC68 There was also concern expressed about the differences in the hierarchies for determining accounting policies under the *IFRS for SMEs* and full IFRSs in the absence of a specific requirement. It was noted that the hierarchy adopted in the *IFRS for SMEs* would lead to disparities in the choice of accounting policies by different entities as it gives precedence to the Conceptual Framework over full IFRSs as the source of guidance for determining accounting policies in the absence of a specific requirement.

BC69 Other respondents noted the additional initial and ongoing costs of training and education for two sets of standards both for the profession and at the tertiary level.

BC70 In its submission to the IASB on the proposed *IFRS for SMEs*, the AASB noted that the *IFRS for SMEs* in its proposed form would not be a stand-alone document and that to meet its stand-alone objective more topics and more treatment options would need to be included from full IFRSs.

BC71 Based on comments received from constituents, the AASB commented in its submission to the IASB that:

Some subsidiaries of publicly accountable entities would find it burdensome to apply the proposed *IFRS for SMEs* in preparing their general purpose financial statements. They would need to prepare financial information based on the recognition and measurement requirements of full IFRSs for the purposes of the parent entity consolidation. If such subsidiaries are not themselves publicly accountable but apply full IFRSs (as they are already applying full IFRS recognition and measurement for consolidation purposes), they are required to disclose information that is onerous to prepare and is often of no benefit to users. If they were to adopt the *IFRS for SMEs* as proposed, they could choose to refer to a full IFRS for an option that is not included in the *IFRS for SMEs*. However, they are then required to follow the disclosure requirements of that full IFRS. A stand-alone *IFRS for SMEs* that includes only the absolute minimum necessary disclosures, more topics and more of the treatment options from full IFRSs may alleviate the problem. However, it seems likely that subsidiaries within large groups would be involved in a wider range of activities and transactions than an equivalent SME that is not part of a group. Accordingly, it may be necessary for the IASB to consider permitting subsidiaries of publicly accountable entities to prepare general purpose financial statements by applying all the recognition and measurement requirements of full IFRSs, but permitting reduced disclosures similar to those required by the *IFRS for SMEs*.

BC72 However, the *IFRS for SMEs*, published in July 2009, did not address many of the Australian constituents' concerns. The *IFRS for SMEs* changes some of the full IFRS recognition and measurement accounting policy options by mandating or eliminating a particular option or introducing 'new' options. That means some of the full IFRS recognition and measurement accounting policy options are not available to SMEs and there are some that differ from comparable full IFRS recognition and measurement requirements.

BC73 The AASB discussed the *IFRS for SMEs* with a view to assessing its suitability as Tier 2 requirements. The AASB noted that there are concerns about adopting the *IFRS for SMEs* in Australia for the following reasons:

- (a) some of the accounting policy options that have been removed would be the favoured accounting policies for many Australian entities;
- (b) changes to full IFRS recognition and measurement requirements under the *IFRS for SMEs* and the absence of some accounting policy options from the *IFRS for SMEs* would force subsidiaries to adjust accounting policies for consolidation purposes when parents apply full IFRSs;

- (c) entities applying the *IFRS for SMEs* would be deprived of improvements and simplifications as they become available at the full IFRS level because the IASB has stated that it will only update the *IFRS for SMEs* once there have been two years of broad adoption and, thereafter, every three years;
- (d) possible benefits that might result from comparability with overseas entities applying the *IFRS for SMEs* would:
 - (i) depend on how widely adopted it becomes;
 - (ii) be limited because entities seeking to access international capital markets would generally apply full IFRSs; and
 - (iii) be mitigated due to a loss of comparability across all types of entities' general purpose financial statements within Australia;
- (e) having different streams of recognition and measurement requirements involves different streams of knowledge, such that education and training at the tertiary level and within the accounting profession would become more costly;
- (f) there would be start up costs because entities preparing general purpose financial statements have already made the effort to apply full IFRSs;
- (g) adoption of the *IFRS for SMEs* may be seen as a retrograde step in a country that has already adopted full IFRS recognition and measurement accounting policy options;
- (h) the actual changes in recognition and measurement requirements in the *IFRS for SMEs* would not produce any real economies for Australian SMEs; and
- (i) in the event that an entity moves to, or from, full IFRSs, there would be costs involved in migrating from the recognition and measurement requirements of one Tier of reporting to another.

BC74 The Board concluded that the *IFRS for SMEs* is not presently a suitable set of requirements for Tier 2 in Australia. However, the Board decided it will continue to monitor and contribute to further changes in the *IFRS for SMEs* and that it is open to the possibility of adopting the *IFRS for SMEs* in future should the changes in that Standard make it practicable in an integrated for-profit/NFP sector reporting environment.

BC75 The Board noted that the introduction of the RDR as Tier 2 is supported by a majority of respondents to ED 192 who have also provided reasons for not supporting the adoption of the *IFRS for SMEs* as Tier 2 in place of the RDR or as an alternative alongside it.

Approach to Determining Disclosure Requirements under the RDR

BC76 In determining the RDR, the Board sought to balance the need to reduce disclosures with the need to satisfy the objective of general purpose financial statements. From amongst a number of possible approaches to determining disclosure requirements under the RDR, the Board decided to adopt an approach that:

- (a) draws on the *IFRS for SMEs* to identify disclosures in cases where the recognition and measurement accounting policy options available or requirements under the RDR align with those under the *IFRS for SMEs*; and
- (b) applies 'user need' and 'cost-benefit' principles (that is, the same basic principles used by the IASB in determining disclosures under the *IFRS for SMEs*) to arrive at reduced disclosure requirements in cases where the recognition and measurement accounting policy options or requirements under the RDR differ from those under the *IFRS for SMEs*.

In applying this approach, the Board concluded that satisfying the objective of general purpose financial statements should be the overriding basis for determining the disclosures under the RDR whether or not the recognition and measurement accounting policy options available or required under that regime align with those provided under the *IFRS for SMEs*. The Board applied this approach to each disclosure requirement in each Australian Accounting Standard. The results are reflected in AASB 2010-2.

BC77 The Board noted that its approach would help minimise the cost of determining and maintaining disclosures under the RDR.

BC78 Consistent with the IASB's approach in the *IFRS for SMEs*, the AASB concluded that users of general purpose financial statements of non-publicly accountable for-profit entities are particularly interested in information about:

- (a) short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities;
- (b) liquidity and solvency;

- (c) measurement uncertainties;
- (d) the entity's accounting policy choices;
- (e) disaggregations of amounts presented in the financial statements; and
- (f) transactions and other events and conditions encountered by such entities.

BC79 The Board also concluded that, in addition to the particular information needs of users of non-publicly accountable for-profit entities noted in paragraph BC78, the information needs of the users of general purpose financial statements of NFP entities in both the private and public sectors would be satisfied by adopting a similar approach, having regard to the specific needs of users of NFP, including public sector, entity financial statements. The AASB uses its *Process for Modifying IFRSs for PBE/NFP* in assessing the need for specific requirements relating to NFP entities.

BC80 The Board noted that, although the *IFRS for SMEs* has been developed to apply to for-profit private sector entities, broadly it is considered reasonable to rely on the judgements made in developing the *IFRS for SMEs* in respect of both for-profit and NFP (including public sector) entities in Australia given that IFRSs are generally applied to all types of Australian entities.

Application of Standards

BC81 AASB 2010-2 specifies the disclosures in each Australian Accounting Standard from which Tier 2 entities are exempted. However, some Standards are equally applicable to both Tier 1 and Tier 2 entities. Accordingly, such Standards do not provide reduced disclosures for Tier 2 entities. Examples are AASB 4 *Insurance Contracts* and AASB 1004 *Contributions*.

BC82 Some Standards apply only to Tier 1 entities, but Tier 2 entities may elect to use them. Examples are AASB 8 *Operating Segments* and AASB 133 *Earnings per Share*, which generally apply only to entities that access public capital markets, as stated in their application paragraphs.

BC83 AASB 134 *Interim Financial Reporting* applies to disclosing entities' half-year financial statements. Consistent with the Board's approach to other Standards in respect of annual general purpose financial statements, other Tier 1 entities and Tier 2 entities that elect to prepare interim general purpose financial statements would be required to apply AASB 134 (which specifies reduced disclosure requirements under Tier 2), by virtue of the application paragraph in that Standard.

BC84 Entities applying AASB 134 may prepare condensed interim financial statements or present a complete set of financial statements as interim financial statements. Tier 2 entities are exempted from some disclosures when preparing condensed financial statements and would apply Tier 2 requirements in AASB 101 when preparing a complete set of financial statements as their interim financial statements.

BC85 There are also Standards that are only applicable to Tier 1 entities, and Tier 2 entities cannot elect to apply them in preparing financial statements. These Standards are identified by virtue of their application paragraphs. Currently the only example is AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

BC86 In considering possible reductions in disclosure requirements of:

- (a) AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* for insurers that might not be publicly accountable, such as potentially some captive insurers (see paragraphs BC27-BC28); and
- (b) AAS 25 *Financial Reporting by Superannuation Plans* for superannuation plans that might not be publicly accountable, such as SAFs (see paragraphs BC29-BC30);

the Board noted that such decisions should be made after applying further due process, including public exposure of proposed reductions. This is because ED 192 did not include proposed reduced disclosures for AASB 4, AASB 1023, AASB 1038 and AAS 25. In particular, the Board considered it would need to consult widely about whether some life insurers could be given relief from disclosures under AASB 1038 because the Board's initial view is that life insurance is of high public interest and comprehensive information on life insurance is needed by users of general purpose financial statements.

BC87 The Board noted that, until the above due process is completed, all insurers and superannuation plans preparing general purpose financial statements would continue to apply these Standards in full. Accordingly, if there are any Tier 2 insurers or superannuation plans preparing general purpose financial statements, the only benefits of reduced disclosure requirements available to them would be through the reduced disclosures in other Standards.

Transition

- BC88 The Board considered the transitional requirements for entities adopting Tier 2 requirements for the first time and moving between Tiers. The Board identified three main scenarios for transition that should be dealt with in AASB 1053:
- (a) transition by an entity that prepared its most recent previous financial statements in the form of special purpose financial statements to Tier 1 or Tier 2;
 - (b) transition by an entity applying Tier 1 to Tier 2; and
 - (c) transition by an entity applying Tier 2 to Tier 1.
- BC89 The Board noted that, for transitioning from special purpose financial statements to general purpose financial statements, an assessment of whether the preparer has applied recognition and measurement requirements in its most recent previous financial statements is of paramount importance. Accordingly, an entity that has applied recognition and measurement requirements of Australian Accounting Standards selectively or not at all in its special purpose financial statements should be treated differently from one that has applied the recognition and measurement requirements of applicable Australian Accounting Standards, including those of AASB 1 *First-time Adoption of Australian Accounting Standards*.
- BC90 AASB 1 includes disclosure requirements. Entities transitioning from special purpose financial statements to Tier 2 are exempted from some of the disclosure requirements in that Standard, using the principles applied in determining disclosures under Tier 2 (see paragraph BC78).
- BC91 Entities transitioning from Tier 1 to Tier 2 would not apply AASB 1. However, entities transitioning from Tier 2 to Tier 1 would need to apply AASB 1 in full to claim compliance with IFRSs, as under Tier 2 they would only have applied some of the disclosure requirements of AASB 1. This is consistent with the Board's policy that for-profit entities complying with Australian Accounting Standards simultaneously comply with IFRSs.
- BC92 Entities that transition to Tier 1 need to apply AASB 1 in full in order to be able to claim compliance with IFRSs, in accordance with AASB 101, including making an unreserved statement of compliance as required by AASB 101.
- BC93 The Board considered whether entities transitioning between Tiers for which compliance with IFRSs is not pertinent, in particular NFP entities that are subject to Aus paragraphs, should be subject to AASB 1 on transition. The Board concluded that AASB 1 is not applicable in those circumstances because, at the time of transition between Tiers, Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements, which have common recognition and measurement requirements, have previously been complied with. Accordingly, it would not be appropriate to imply, through application of AASB 1, that the basis of accounting has changed.

Operative Date

- BC94 The Board concluded that mandatory application of Tier 2 requirements should be annual reporting periods beginning on or after 1 July 2013. The Board noted a long transitional period is particularly required to allow entities that prepare special purpose financial statements to make necessary preparations for transitioning to Tier 2 requirements should they choose to prepare general purpose financial statements under Tier 2. The Board considered it would be beneficial to have a relatively long transition period to allow these entities to prepare their internal reporting systems for transition.
- BC95 However, the Board decided to allow early adoption of Tier 2 requirements for those entities that want to avail themselves of the reduced disclosure requirements under that Tier before the mandatory application date of 1 July 2013. Early adoption is permitted for annual reporting periods that begin on or after 1 July 2009 but before 1 July 2013. The Board decided not to permit early adoption for annual reporting periods that begin before 1 July 2009 due to the difficulty of identifying relevant Standards applying to those earlier periods and making consistent judgments as to which disclosures in those Standards would be applicable under Tier 2.
- BC96 The Board also noted that a long transition period would potentially enable any outcome of the second stage of the project to be made operative from the same date as the first stage, to facilitate minimal disruption on transition. The Board will not decide whether the second stage should be progressed until the results of the research project it has commissioned are known.
- BC97 The transition period is also consistent with the Board's normal policy regarding transition periods for its Standards. The Board concluded that making Tier 2 requirements mandatory from the date of issue of relevant Standards may inappropriately require entities that currently apply Tier 1 to select that Tier and make

disclosures related to that selection rather than continue their current accounting disclosures that comply with current GAAP.

Maintenance of Tier 2 Requirements

- BC98 The Board decided that Tier 2 requirements should be maintained on a continuous basis, rather than waiting for the IASB to update its *IFRS for SMEs*, which the IASB plans to undertake only every few years, by which time there would be an accumulation of possible changes. The AASB intends that each future Exposure Draft or Invitation to Comment involving changes to Tier 1 that includes disclosure proposals would seek comment about which disclosures should be included in Tier 2, and may include the AASB's proposed reduced disclosures.

Post-implementation Review

- BC99 The Board decided that Tier 2 requirements should be subject to review and revision taking account of implementation experience and international developments.
- BC100 The Board plans to monitor implementation experience with Tier 2 requirements and use it as a basis for providing feedback to the IASB to assist with its further deliberations on differential reporting matters and to help shape future amendments to the *IFRS for SMEs*.

Trans-Tasman Convergence

- BC101 AASB 1053 was developed in the context of the Prime Ministers of Australia and New Zealand having signed on 20 August 2009 a Joint Statement of Intent that agreed on a framework of Outcome Proposals for developing cross-border economic initiatives. A range of shared Outcome Proposals have been identified across a wide range of business law areas, including in relation to financial reporting. The outcomes are expected to accelerate and deepen trans-Tasman regulatory integration as part of a broader single economic market initiative. Outcome Proposals relating to financial reporting include:

For-profit entities

- (a) "Profit entities are able to use a single set of accounting standards and prepare only one set of financial statements (timeframe: short term – within two years)"
- (b) "Trans-Tasman companies have to prepare only one set of financial statements to one set of standards (timeframe: short term – within two years)"

Not-for-profit entities

"Not-for-profit entities are able to use a single set of accounting standards and prepare only one set of financial statements (timeframe: medium term – within five years)".

- BC102 These Outcome Proposals are intended to reduce compliance costs for entities operating across the Tasman and support trans-Tasman investment through the consistency of financial statements. The use of full IFRSs as the foundation standards in both countries provides a sound basis for achieving the above Outcome Proposals. However, further harmonisation in regard to financial reporting by entities other than those that are required to apply full IFRSs as adopted in Australia would be necessary to achieve the Outcome Proposals. This would be achieved by convergence of the differential reporting frameworks in the two countries.
- BC103 New Zealand already adopts a differential reporting regime (that is different from the regime in Australia both before and after AASB 1053), which is expected to undergo restructuring in the light of the New Zealand Ministry of Economic Development review of standard setting arrangements. Close monitoring of these developments by the two countries would help identify an appropriate approach to converge the differential reporting frameworks in the two countries in due course.
- BC104 The convergence of differential reporting frameworks is likely to be conducted in stages, with the first stage relating to for-profit private sector entities. New Zealand is expected to employ a notion of public accountability that is close to the IASB's definition to distinguish between for-profit entities that apply NZ IFRSs and those that can avail themselves of concessions under the differential reporting framework. The AASB noted that the use of the IASB's notion of public accountability under Tier 2 requirements in Australia provides common ground to discuss the harmonisation of the two countries' differential reporting frameworks in regard to for-profit private sector entities.