



Grant Thornton

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Kris Peach
Chair and CEO
Australian Accounting Standards Board

Email: www.aasb.gov.au/comment

9 September 2019

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Grant Thornton Australia Submission – ED 291 *Not-for-Profit Entity Definition and Guidance*

Dear Ms Peach

We welcome this opportunity to provide our view on ED 291 *Not-for-Profit Entity Definition and Guidance*. Grant Thornton's global network maintains an open and constructive relationship with national governments, standard-setters and regulators, consistent with our policy of embracing external oversight.

Grant Thornton's response reflects our position as auditors and advisers to the Australian not-for-profit (NFP) sector. This submission has benefited from discussions with our clients and key constituents in the sector.

In essence, we agree with the proposed updated definition, particularly the focus on primary objective of an entity. We have some comments on the format of the implementation guidance and the propensity for differing conclusions to be reached on the same collection of facts.

Should you have any queries related to our submission, please feel free to contact me.

Yours sincerely

Marilyn Gwan
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Head of National Assurance Quality

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Answers to specific matters for comment in ED 291

In this section, Grant Thornton Australia offers feedback on the specific and general matters for comment requested by the AASB in ED 291.

1. Do you agree that the current definition of not-for-profit entity in Australian Accounting Standards should be replaced with the proposed definition, which is based on the New Zealand definition of public benefit entity? Please indicate your reasons.

In principle, we agree with the proposal to change the definition. The change in focus to a more positive objective of the entity is a welcome development.

2. Do you agree with the proposed implementation guidance and illustrative examples? Why, or why not? Please indicate any concerns about particular parts of the guidance, or particular examples.

The feedback we have received from industry experts, suggests that the implementation guidance is a step in the right direction and is easy to follow. We appreciate the rationale for having the illustrative examples written as they are, and the practical reality that more conclusive examples are difficult to give, however in their current form, the examples do not provide the desired outcome.

As an example, looking at the Sporting Club example, paragraph 28 of the implementation guidance mentions a membership base and benefits received being an indicator of NFP status. If the illustrative examples are included in the final form of this Standard, we would welcome specific guidance on what kinds of circumstances would indicate a sports club is not a NFP entity within the context of paragraph 28 in order to provide greater clarity on the nuances on the definitions.

It may be more helpful for users to break illustrative examples into the consideration of particular key indicators, rather than by theoretical entity type, or separate illustrative cases of an entity type that is NFP and one that is for-profit (FP) and how their operations suggest their classification type.

3. Do you agree that in determining the classification of a group that it is necessary to consider the characteristics of the group and the controlling entity? Do you agree that the classification of the controlling entity of the group would most likely determine the classification of the group? Why, or why not?

The classification of the controlling entity would generally determine the group's classification given the controlling entity's stated purpose as NFP in the case it was NFP.

Looking more broadly, we are not clear as to the benefit in declaring a profit-generating subsidiary in a NFP group as FP, except if it is treated as a stand-alone entity. Under the proposed approach, it would be possible to have a NFP group with a large FP subsidiary where all profit goes to NFP.

Restatement on consolidation would be a significant issue in this case, with the most significant impact being from recognition and measurement, valuation and impairment of assets by class rather than by individual asset.

In the NFP space it is commonplace to have a subsidiary of a NFP parent that conducts social and other activities that generates funds to support mission of the NFP group. The aim of a profit-generating subsidiary would be to meet the needs of the parent – the proceeds from such subsidiaries are reinvested in NFP activities in any case.

4. Do you agree with the proposed guidance on the accounting consequences for an entity that changes its classification as a for-profit entity or a not-for-profit entity? Is this guidance sufficient? Why, or why not?

We welcome the paragraphs of general guidance on this point in the exposure draft. We would appreciate more guidance to assist in explaining the changes required and impact of moving from NFP to FP and vice versa, particularly on areas such as the application of revaluation model for property, plant & equipment on the basis of classes of assets vs individual assets and treatment of grants (especially capital grants).

5. No transition requirements have been proposed for the initial adoption of the guidance. Are initial transition provisions required, and if so, what should they state?

We can envisage circumstances where the enhanced proposed guidance may cause some entities to change their accounting status from NFP to FP (or vice versa). Transitional relief on initial adoption would be beneficial in these cases, similar to the modified retrospective approach in AASB 15 *Revenue from Contracts with Customers*.

In the case of asset valuation within class of asset, if an entity were to change its classification to FP, it would have to restate comparatives (as we noted in our response to Question 4 above). We would welcome transitional relief on restating comparatives in this case.

6. Do you agree that the definition and associated guidance should be included in AASB 1057 *Application of Australian Accounting Standards*? Why, or why not? If not, please indicate your preferred approach.

We agree that the definition and associated guidance should be in AASB 1057 as it is the most logical place for it.

7. Do you agree that the implementation guidance should form an integral part of AASB 1057, i.e. have mandatory status? Please indicate your reasons.

We agree with the suggested approach of making the guidance integral part of the Standard (with illustrative examples as accompanying material) as proposed by the AASB.

This is in line with many other areas of the Australian Accounting Standards where we consider various mandatory requirements and factors in reaching an overall conclusion.

8. Whether the AASB's Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?

No specific comment.

9. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?

One issue that may arise is the instance where an ACNC-registered entity could become 'for profit' for accounting purposes under the proposed changes. We will welcome the AASB consulting with regulatory agencies (such as the ACNC, ATO and others) on the implications of having an ACNC-registered entity becoming 'for profit' for accounting purposes.

10. Whether, overall, the proposals would result in financial statements that would be useful to users?

In terms of usefulness, the proposed implementation guidance is helpful, however we believe in its current proposed state, the changes are more beneficial for preparers of financial statements rather than users.

11. Whether the proposals are in the best interests of the Australian economy?

No specific comment.

12. Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

No specific comment.