Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Post-Implementation Reviews**	**Meeting:**	M212
Topic:	**Control and consolidation for NFP entities**	**Agenda Item:**	7.2
		Date:	15 April 2025
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Objective of this paper

1 The objective of this Staff Paper is for the Board to consider:

(a) the feedback received on Topic 1: Control and consolidation for NFP entities in ITC 51 *Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements*; and

(b) staff analysis and recommendations on possible next steps.

Structure of this paper

2 This paper is structured as follows:

(a) Background (paragraphs 3 to 9);

(b) Summary of feedback received, staff analysis and recommendations (paragraphs 10 to 14);

(c) Appendix A: Feedback received, staff analysis and recommendations.

Background

3 The AASB first issued AASB 10 *Consolidated Financial Statements* in August 2011, with an effective date for annual reporting periods beginning on or after 1 January 2013. AASB 10 was part of a broader suite of consolidation standards introduced in Australia, which included AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, a revised AASB 127 *Separate Financial Statements*, and a revised AASB 128 *Investments in Associates and Joint Ventures*.

4 At the time of issuance, the AASB prohibited NFP entities from early adopting AASB 10 for periods beginning before the mandatory application date of 1 January 2013. However, in December 2012, the

AASB deferred the mandatory application date for NFP entities to periods beginning on or after 1 January 2014. This deferral allowed the AASB additional time to address NFP-specific issues related to AASB 10 and the other newly issued standards in the suite.

5 Since AASB 10 incorporates IFRS 10 *Consolidated Financial Statements*, it is primarily drafted from a for-profit perspective. Therefore, Appendix E was developed by the Board to provide specific guidance tailored to NFP entities. Appendix E does not modify the terminology or principles of AASB 10 but instead explains their application in the NFP private and public sectors through implementation guidance and implementation examples. It ensures that the core principles remain consistent while providing sector-specific guidance for NFP entities. It addresses the following key areas:

(a) the circumstances under which rights arising from statutory arrangements may confer power;

(b) the impact of economic dependence and influence over board composition on the assessment of control;

(c) clarification on substantive versus protective rights, particularly in relation to regulatory powers and statutory arrangements;

(d) what constitutes a return, and whether aligned objectives are sufficient to establish control for an NFP investor, assuming the other control criteria (power and the link between power and returns) are met;

(e) the concept of delegated power and the principles for determining whether an NFP investor is acting as a principal or an agent; and

(f) how the role of management or the board, as well as the nature of returns received or a trust established by a charity, affects the control conclusion.

6 As such, in March 2013, the AASB issued ED 238 *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities* to propose adding Appendix *E Australian Implementation Guidance for Not-for-Profit Entities* to AASB 10 as an integral part of the Standard.

7 In total, as noted in Agenda paper 13.2 of Board meeting M133 (4-5 September 2013), the AASB received 13 comment letters to ED 238. However, the responses to the ED were generally classified across only 11 submissions.[1] There was substantial support (11 out of 11) to add implementation guidance to AASB 10. Most respondents (10 out of 11) advocated for the implementation guidance to be authoritative and to be included in AASB 10 in the form of appendices. Only an insignificant number of respondents (1 out of 11) stated that the implementation guidance did not appropriately explain the definition of control in AASB 10 for application by NFP entities. This respondent asked the Board to provide clarification on whether assessing control for NFP sector entities is limited by contractual arrangements. However, staff addressed this concern and pointed out that paragraph IG5 (now in paragraph IG6) clearly stated that contractual arrangement is not the only source of power; instead, power can emerge via various sources in the NFP sector. A majority of respondents (8 out of 11) were in favour of the proposed guidance concerning the broad nature of returns. The proposal was mostly (8 out of 11) viewed to be in the best interest of the Australian economy.

[1] ED 238 posed eight Specific Matters for Comment (SMCs). The responses to the SMCs are generally classified across only 11 submissions. Though 13 respondent submitted feedback to ED 238, only 11 submissions addressed all SMCs listed in the ED, as two respondents from the religious sector only addressed SMC 5 and SMC 6).

8 As a result, in October 2013, the AASB introduced Appendix E to AASB 10 through AASB 2013-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities*.

9 As part of the post-implementation review, ITC 51 specifically sought feedback on the implementation guidance in Appendix E of AASB 10 that was prepared to explain and illustrate requirements relating to control and consolidation for NFP entities.

Summary of feedback received, staff analysis and recommendations

10 The PIR of AASB 10 Appendix E focuses on both **NFP public sector entities** and **NFP private sector entities** (except for the topic of principal versus agent, which focuses only on NFP public sector entities).

11 Feedback on this topic was received from a variety of sources:

(a) All submissions (eight out of eight) received on ITC 51 responded to this topic (Respondents include HoTARAC, CAANZ & CPA, KPMG, BDO, ACAG, ACNC, Saward Dawson Australia and Deloitte). Further feedback was gained via outreach activities conducted with KPMG, Saward Dawson Australia in March 2025 and with ACAG in April 2025.

(b) six survey respondents provided feedback on this topic;

(c) some feedback was received at a NFP Project Advisory Panel meeting, a NFP Private Sector Stakeholder Meeting, an ACNC Advisory Forum; and

(d) other feedback was received in a group meeting and other one-on-one meetings.

12 Staff note that some stakeholders also provided relevant feedback on this topic in their comment letter submissions to Exposure Draft 334 (ED 334) *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* and Exposure Draft 335 (ED 335) *General Purpose Financial Statements —Not-for-Profit Private Sector Tier 3 Entities*. This feedback has also been taken into consideration in the staff analysis.

13 Appendix A provides detailed feedback received, staff analysis and recommendations. Table 1 below is a summary of key feedback received, along with staff analysis and recommendations.

Table 1: Summary of feedback received, staff analysis and recommendations

Feedback themes/areas	Summary of feedback received	Summary of staff analysis and recommendations
Subtopic 1: Application of the control model in the NFP sector	*Usefulness of AASB 10 Appendix E to NFP entities and application challenges* Overall, many stakeholders commented that AASB 10 Appendix E is useful but noted that some implementation challenges remain as significant judgement is required in assessing control in the NFP sector, mostly stemming from the complexity of the structure and nature of NFP entities. Specific key feedback include: (a) While some audit challenges were noted, stakeholders generally agreed that these do not warrant changes to AASB 10 for auditability purposes. (Appendix A paragraph 4); (b) Additional guidance: Most feedback called for clearer guidance and additional practical illustrative examples to support consistent application. (Appendix A paragraph 6); (c) Some stakeholders noted that many NFP private sector entities have been preparing special purpose financial statements. As a result, the feedback received in response to ITC 51 may not fully capture the issues that could arise if they were required to apply AASB 10. (Appendix A paragraphs 7-10).	Staff focussed the analysis on the specific areas of concern highlighted by stakeholders, principally: (a) differences in application due to the inherently judgemental nature of control assessments principally related to assessing whether rights give rise to power and are substantive or protective; (Appendix A paragraphs 16-25); and (b) scenarios where additional guidance would be beneficial; (Appendix A paragraphs 26-28). Staff reviewed the feedback received, which included concerns about specific scenarios that could lead to inconsistent application, as well as requests for additional guidance or illustrative examples to address these issues. To further assess the extent of these concerns, staff also sought additional input from stakeholders to determine whether the issues were widespread. Based on the analysis, staff **recommend**: (a) **Conducting further research** to assess whether additional guidance or examples are warranted, and if so, in what form. This should specifically address the scenarios raised by stakeholders, as well as any other relevant situations that may not yet have been identified. (b) **Monitoring** the progress of the AASB NFP Financial Reporting Framework project[2], with particular attention to the implications of removing the ability of certain NFP entities to prepare special purpose financial statements. This change would require more NFP entities to apply AASB 10, potentially impacting a significant number of NFP entities. There may be complex scenarios that have not yet been identified, which would warrant further consideration by the AASB.

2 AASB NFP Financial Reporting Framework project published two Exposure Drafts: (1) ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*; and (2) ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*.

	Suitability of the AASB 10 control model in the NFP sector Some stakeholders expressed concerns that some aspects of the AASB 10 control model may not be suited to the NFP sector. In particular, they highlighted the need to consider factors such as governance (e.g. director appointment powers), user needs, the concept of variable returns, and the nature of NFP operations when considering an alternative or improved control model. (Appendix A paragraphs 30-39).	Staff acknowledge that, while there are areas within the AASB 10 control model that could be improved, replacing the control model for the NFP sector is not warranted. For example, a common theme in stakeholder feedback was the challenge of identifying variable returns, which is addressed in Subtopic 2: Identifying variable returns in the NFP sector of this Agenda paper. (Appendix A paragraphs 40-55). In response, staff **recommend taking no action** at this time regarding the replacement of the AASB 10 control model for the NFP sector. However, staff recognise some challenges in applying the control model, which are discussed in other relevant sections.
	ACNC's group reporting relief A charity may seek permission from the ACNC to provide "group reporting", either through joint reporting or collective reporting. In some cases, joint or collective reporting may result in the preparation of aggregated financial statements rather than consolidated statements prepared in accordance with AASB 10. The ACNC permits this, provided the group complies with Australian Accounting Standards (AAS) to the fullest extent possible and discloses any departures. (Appendix A paragraphs 56-60). Stakeholders expressed concern that the relief provided and the requirements of AASB 10 for consolidation purposes could potentially lead to confusion. (Appendix A paragraphs 61-62).	When Appendix E was being developed, the Board was aware of the ACNC's collective and joint reporting provisions, the Board acknowledged that different regulators might impose financial reporting requirements that differ from AAS for their own purposes in limited circumstances and that it would not be appropriate for the Board's requirements for general purpose financial statements to reflect those limited circumstances. (Appendix A paragraphs 63-69). As such, staff **recommend no action** is required to address this feedback.
Subtopic 2: Identifying variable returns in the NFP sector	Identifying variable returns was one of the most frequently raised areas of stakeholder feedback. While the concept is broadly understood, many stakeholders highlighted that its application in practice can be complex and highly judgemental. Key points raised include: (a) The concept of variable returns is too broad in the NFP context—especially where entities operate with aligned social or charitable objectives. In particular, stakeholders from both the public and private NFP sectors noted that identifying variable returns—particularly non-financial returns—is highly judgemental and challenging to apply consistently. (Appendix A paragraphs 71-77). (b) Application challenges in public sector contexts were noted (Appendix A paragraph 75), such as:	Staff acknowledge stakeholder concerns and note that the broad concept of variable returns reflects the diversity of objectives and structures in the NFP sector and could be difficult to apply in practice. (Appendix A paragraphs 84-89). After considering the feedback received, staff are of the view that there are existing guidance and examples demonstrating the application of identifying variable returns. However, staff recognise that some principles may not be fully addressed and that additional guidance or examples may be needed to cover key scenarios not demonstrated by the current materials. (Appendix A paragraphs 90-99). Accordingly, staff **recommend**:

	○ Judging whether aligned objectives between entities and government departments constitute variable returns. ○ Assessing exposure to non-financial returns where involvement is primarily through funding or statutory responsibilities. ○ Determining whether a Minister's or department's objectives are being furthered through another entity. (c) Trust structures were highlighted as a specific area of concern. For example, in some NFP trust structures, the trustee is not a beneficiary and may only be exposed to non-financial or negative returns. This makes assessing control particularly difficult and results in mixed application in practice. (Appendix A paragraphs 78-79). (d) Several stakeholders suggested that further guidance is needed, (Appendix A paragraph 80), including: ○ Clearer explanations on the threshold or extent of exposure required to meet the variable returns criterion. ○ Separate or tailored guidance for the public and private NFP sectors, to help clarify when public sector examples are or aren't applicable to private sector scenarios. ○ Expanded illustrative examples, including stepped scenarios that show different permutations of aligned objectives, involvement, and power. ○ More clarification on non-financial returns, particularly in cases where decision-making is shared among multiple parties. Some stakeholders, however, cautioned against adding more guidance. They expressed concern that further clarification could unintentionally narrow the interpretation of variable returns and diverge from how the concept is applied in the for-profit sector. These stakeholders view the current guidance as intentionally broad, allowing for necessary flexibility in assessing control. (Appendix A paragraph 81).	(a) **Undertaking further research** to better understand the significance, prevalence and magnitude of the implementation challenges identified by stakeholders to determine whether additional guidance is needed and, if so, in what form; and (b) **Monitoring** the Board's NFP Financial Reporting Framework project to ensure any implementation issues identified by stakeholders in response to the proposed removal of special purpose financial statements and the application of AASB 10 are considered.
Subtopic 3: Customary business practices	There were two main views about **the relevance** of customary business practices in control assessment in the NFP sector:	Customary business practice is not a concept that is explicitly addressed in AASB 10, and staff consider it should not override the existence of contractual rights. That is, the control assessment should be based on the

	• Customary business practice in NFP is often the result of a combination of interplaying factors and might be relevant to all limbs of the control model if added to AASB 10. In this case, the practical ability of the parties to change those practices should be considered in assessing whether the customary business practices equate to rights and obligations; (Appendix A paragraph 100); and • An entity either has a right or does not; and past or customary practice is not relevant to the control assessment. (Appendix A paragraph 101).	existing contractual rights (i.e. substantive rights). (Appendix A paragraphs 103-109). As such, staff **recommend no action** is required to address the concern.
Subtopic 4: Assessing control without an equity interest	Comments from stakeholders did not express any significant concerns about assessing control without an equity interest in the NFP sector. (Appendix A paragraph 110).	Staff note that the feedback received did not express any significant concerns and staff are not aware of any significant application issues or differences in application. (Appendix A paragraphs 114-119). Therefore, staff **recommend no action** to address this topic.
Subtopic 5: Principal versus agent in public sector entities:	Generally, comments from stakeholders suggested there are no significant concerns when NFP public sector entities are distinguishing whether an entity is a principal or an agent. (Appendix A paragraph 120) Despite the judgement required when distinguishing the role of an entity in practice, particularly when variable returns are often in the form of policy outcomes rather than financial outcomes in the public sector, stakeholders noted NFP public sector entities have been able to conclude on a position utilising the current guidance and no diversity is observed in practice. (Appendix A paragraph 121).	Staff note that while preliminary feedback received during the development of ITC 51 suggested that clarification was needed to assist public sector entities with determining when an entity is acting as a principal versus an agent, in response to the ITC, the general view from stakeholders is that there are no significant concerns in practice. (Appendix A paragraphs 122-126). As such, staff **recommend no action** is required to address this topic.
Subtopic 6: Other matters for consideration	Some other feedback was received regarding application challenges, (Appendix A paragraphs 127-131), such as: • Preparers' limited resources for preparing consolidated financial statements; • Inconsistencies between members of a group in their accounting policy choices of members in their group; • Questioning the usefulness of consolidation when donors desire to see the financial information of the funded entity rather than the whole group; and • Challenges for parents to access the required financial information to be able to prepare consolidated financial statements	Staff are of the view that this feedback is outside the scope of the PIR and is either already addressed in the Standard, relates to internal policies and processes or could be addressed by additional disclosures. (Appendix A paragraphs 132-139). Therefore, staff **recommend that no action** is required in response to this feedback.

14 Taking all feedback received into consideration, staff recommend that the Board does not take any immediate action. Instead, staff recommend that the Board:

(a) **undertaking further research** to better understand the significance, prevalence and magnitude of the implementation challenges identified by stakeholders, such as protective versus substantive rights and variable returns, to determine whether additional guidance is needed and, if so, in what form; and

(b) **monitor the Board's NFP Financial Reporting Framework project** to ensure any implementation issues identified by stakeholders in response to the proposed removal of special purpose financial statements and the application of AASB 10 are considered.

Question for Board members:
Question 1: Do Board members have any questions or comments on the feedback received on Topic 1 regarding control and consolidation?
Question 2: Do Board members agree with the staff analysis and recommendations in paragraph 14 on Topic 1 regarding control and consolidation***?***

Appendix A: Feedback received, staff analysis and recommendations

Sub-topic 1 Application of the control model in the NFP sector

Questions for respondents

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

1. the outcomes of applying the control model and Appendix E in practice in the NFP sector?
2. difficulties that might be experienced in identifying and consolidating controlled entities, including difficulties accessing necessary information?
3. whether differences in application exist in practice in applying the control model and Appendix E in the NFP sector?
   If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.
4. In addition to the existing guidance in AASB 10 Appendix E, is there any other guidance that would help with applying the control model in the NFP sector? If so, please provide details of the guidance and explain why you think it would be useful.

1.1. Usefulness of AASB 10 Appendix E to NFP entities and application challenges

1 Overall, many stakeholders noted that AASB 10 Appendix E is helpful, though some stakeholders noted specific challenges and concerns.

2 Five stakeholders (HoTARAC, CPA & CAANZ, BDO, Deloitte and one stakeholder who provided verbal feedback) noted that Appendix E is helpful in applying the notion of control in the NFP sector. For example, HoTARAC noted that the application of AASB 10 to NFP entities often requires greater judgement than for the private sector, and Appendix E is helpful in this regard.

3 Four stakeholders (HoTARAC, BDO, Deloitte and one stakeholder who provided verbal feedback) acknowledged that applying AASB 10 in the NFP sector often requires more judgement than in the for-profit sector due to the complexity of the sector and how entities and 'relationships' are structured. For example, HoTARAC noted that identifying all controlled entities can be difficult, especially for those with a broad range of responsibilities. However, these challenges do not necessarily prevent a determination from being made, albeit with some judgement required. BDO acknowledged that assessing control in the NFP can be challenging. BDO further commented that many of the challenges faced by NFP entities are the same or analogous to those faced by for-profit entities. A stakeholder who provided verbal feedback noted that a lot of time is spent assessing whether control exists. The stakeholder noted that there are some 'relationships' where assessing control is straightforward, and some where that is not the case.

4 Deloitte also noted that in some cases, the highly judgemental nature of a control assessment can make obtaining sufficient appropriate audit evidence to support the judgements challenging in practice. However, they did not consider that any changes to AASB 10 are required for the purposes of auditability. ACAG provided similar feedback.

5 Two stakeholders (CAANZ & CPA and BDO) suggested that most of the technical challenges arising from the application of the control model by NFP entities have been overcome and that no further standard-setting is required. BDO noted that they have not seen differences in application in practice. However, they acknowledge that control assessments are typically more qualitative in the NFP sector and, therefore, potentially more judgemental, which can require significant effort from preparers and auditors (e.g. determining whether the 'power' criterion can be challenging. However, the rest of the

control assessment is usually straightforward). In addition, BDO also noted that assessing whether an entity has power is often the most challenging step in the control assessment.

6 However, seven stakeholders (HoTARAC, ACAG, Deloitte, KPMG, one stakeholder who provided verbal feedback and two stakeholders who provided feedback via the survey) noted that implementation concerns and differences in application continue to persist. For example:

(a) HoTARAC, ACAG, Deloitte, a stakeholder who provided verbal feedback and a stakeholder who provided feedback via the survey, noted that **differences in application** can exist due to the inherent judgement required in applying the control assessment criteria. For example:

(i) in relation to assessing whether rights are substantive:

(A) HoTARAC noted that the implementation guidance can be too simplistic at times. For example, when identifying barriers to an investor's practical ability to exercise their rights, in practice, many factors require consideration to determine whether it is an investor's "choice" not to exercise their powers. In their view, the guidance in IG13 oversimplifies the assessment.

(B) Similarly, ACAG noted that some of the examples demonstrate extremes that are difficult to apply in practice because the reality is usually somewhere in the middle of those extremes (e.g. Example IG1A provides an example where an investor can control all the board members, while Example IG1B they have no control over any board members). ACAG also provided an example of a situation similar to that illustrated in Example IG1C faced by one jurisdiction where *"an entity (the investor) has the unilateral ability to amend the constitution of the Foundation (the investee), thereby having the ability to appoint the majority of the board members of the investee. However, the trust deed between the investor and the investee states that such additional board members should be independent of the investor (that is, the appointed board members must not be an employee or board member of the investor)."* They suggest additional guidance or examples covering such a scenario would be beneficial. They also noted that this is an area where differences of opinion arise.

(C) ACAG also suggested that more guidance is needed on assessing whether rights are substantive or protective in the context of public sector entities. For example, where legislation grants a Minister certain rights and powers (that appear to give the Minister the practical ability to exercise substantive rights), however, it is asserted that the intention is that the Minister will only exercise these rights and powers in a protective manner.

(ii) HoTARAC noted that when determining whether certain rights give an investor power, paragraph IG7 notes that research and development corporations may not be controlled by the government even though the government establishes the corporations' legislative mandate, whereas IG10 notes that organisations supporting independent statutory office holders may still be assessed as government-controlled because the government issues the legislative framework that governs the office holders' operations.

(iii) HoTARAC and ACAG both noted that entities could have different relevant activities and, by extension, different parties can have control at different times.

(b) ACAG, Deloitte and two stakeholders who provided feedback via the survey noted that there are situations where **additional guidance would be useful**. For example,

(i) ACAG outlined situations where:

(A) the government is involved in the purpose, design and establishment of an entity and structures the entity such that other parties are primary decision makers;

(B) an entity is appointed as a decision maker but can only be removed in specific circumstances;

(C) where multiple parties are involved in decision making about a relevant activity;

(D) the interaction between financial returns (distributions) being directed to a party other than an investor and those distributions being used to meet the direct objectives of the investee. That is, an investee has an independent board that can make distributions to any party (Example IG2D), and the view that the independent board making distributions on direct outcomes of the investee gives rise to a special relationship of the kind contemplated in paragraph B19. Further, additional interdependencies such as websites and branding could affect the control conclusion. However, this is not addressed in the guidance. This feedback is considered further in Sub-topic 3 with the discussion on customary business practices.

(ii) Deloitte noted that additional examples covering situations where NFP entities have associated foundations and how the control assessment should be applied based on varying fact patterns would be helpful. For example, NFP entities have related foundations and how to assess control based on varying fact patterns because, currently, differences in application can arise due to the judgemental nature of the assessment. Similarly, ACAG noted that additional guidance could be helpful in cases of charitable foundations where the potential controlling entity does not have voting power.

(iii) one stakeholder who provided feedback via the survey suggested that additional guidance is needed regarding the role of a member of an NFP who does not control the financial and operational decision-making of the organisation it is a member of and how that affects the control conclusion.

(iv) another stakeholder who provided feedback via the survey suggested that further guidance is required across all aspects of the control model. That is, power, variable returns and the linkage. In their view, this is especially important where the power does not arise from equity interests or the variable returns are non-financial.

7 Four stakeholders (CPA & CAANZ, BDO, ACNC and KPMG) noted that potential challenges applying AASB 10 in the NFP sector may not have been fully considered, with many NFP entities electing to prepare special purpose financial statements. This is because entities preparing special purpose financial statements are not required to consider whether they control entities they have a ‘relationship’ with, and some entities find the control assessment too difficult.

8 In addition, the ACNC also noted that many charities are permitted to prepare amalgamated financial statements [applying the joint and collective reporting requirements] for the same reasons. The potential conflict between the ACNC’s current joint and collective reporting requirements and AASB 10 is discussed in paragraphs 56-70 in Section 1.3 (*ACNC’s group reporting relief*) of this Agenda paper.

9 BDO noted that conducting a control assessment for some entities operating in the charities sector (e.g. religious organisations) could be challenging as the main/head entity will be required to conduct a control assessment for each of their ‘related’ entities, which is not currently required if they are preparing special purpose financial statements or are using the ACNC joint and collective reporting requirements.

10 Similarly, KPMG noted some concerns have been identified for religious organisations in the context of the removal of special purpose financial statements for certain NFP entities. For example, they are concerned about the cost and complexity that could be involved in assessing control in some situations should certain NFP entities that are currently preparing either special purpose financial statements or stand-alone general purpose financial statements be required to apply AASB 10 for the first time. They provided an example of a religious organisation where a diocese is involved in or

responsible for wide-ranging activities through separate legal structures (e.g. aged care, home care, childcare and education). They noted that in such scenarios, it can be challenging to assess the level where control resides (e.g. does ultimate control reside with the Bishop or at a lower level). While agreements or memoranda may exist, and separate boards may be in operation, there can be complex arrangements where multiple parties have equal board representation, and this could affect the control conclusion. They also suggested that due to the complexities and the facts and circumstances of each situation, it is possible that applying the control model may result in diversity in practice for what appears on the surface to be largely similar arrangements. They noted that they have not yet fully explored applying the control model to all these situations as these entities are not yet required to apply AASB 10. However, they suggested that additional guidance in some areas, such as assessing power, may be helpful. However, they started to consider possible issues that may arise if entities were required to apply the AASB 10 control model in gathering feedback for inclusion in their AASB Exposure Draft ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* submission.[3]

Staff analysis and recommendations

11 In general, there were two main themes of feedback – those stakeholders suggesting that the implementation guidance was sufficient and that most implementation challenges had been addressed, and those that suggested that despite the implementation guidance, implementation challenges continue to persist. Staff also agree with the feedback suggesting that it is possible that the usefulness of Appendix E and the existence of implementation challenges may not have been fully explored as NFP entities continue to be able to prepare special purpose financial statements.

12 In summarising stakeholder feedback, staff focussed on the specific areas of concern highlighted by stakeholders, principally:

(a) differences in application due to the inherently judgemental nature of control assessments principally related to assessing whether rights give rise to power and whether these rights are substantive or protective; and

(b) scenarios where additional guidance would be beneficial.

Differences in application

13 The objective of the implementation guidance in Appendix E to AASB 10 is to explain and illustrate the principles in AASB 10 for NFP entities in the private and public sectors. Appendix E also notes that "it is the facts and circumstances … that need to be assessed in determining whether one entity controls another entity".[4]

14 Paragraph 6(a) in this Agenda paper sets out some examples provided by stakeholders where differences in application can arise. In some cases, stakeholders suggest that additional examples or guidance may help in resolving this.

15 Staff agree that examples that are more aligned with practice (i.e. that are less extreme and more judgemental) are likely to be more helpful. However, it is not always possible to develop examples that illustrate every scenario, and examples cannot replace the exercise of professional judgement that is required when applying principles-based standards. This is also acknowledged in paragraph IG26, which notes that "In any specific case, distinguishing substantive and protective rights

3 Staff note that this feedback was provided in response to ED 334 and not ITC 51. However, the feedback is relevant to this PIR and as such has been included in this paper for analysis and consideration. ED 334 proposes that certain NFP private sector entities preparing financial statements in accordance with Part 2M.3 of the *Corporations Act 2001* will no longer be able to prepare special purpose financial statements and will be required to prepare general purpose financial statements instead.

4 Appendix E paragraphs IG1 and IG3

requires analysis of the circumstances, including considering the reasons for different investors holding various rights in relation to the investee".

<u>Protective versus substantive rights</u>

16 In response to the specific example of paragraph IG13 (see paragraph 6(a)(i)(A) above), staff agree that paragraph IG13 and paragraph B23 set out some examples of factors to be considered when assessing whether rights are substantive, that is, whether the holder has the practical ability to exercise the rights and whether there are any barriers to this. Paragraph B23 acknowledges that judgment, taking into account all facts and circumstances, is required and that other factors, in addition to those listed, might need to be considered.

17 In response to the example provided by ACAG outlined in paragraph 6(a)(i)(B) in the current Agenda paper, the challenge appears to be how the unilateral ability to appoint the majority of board members is affected by the requirement that additional board members must be independent, that is, whether the 'appointment right' is substantive or protective. The implementation guidance in Appendix E and the application guidance in Appendix B emphasise the need to consider facts and circumstances when determining whether rights are substantive or protective. To conclude on this example, other factors would need to be considered, such as:

(a) understanding the role and purpose of the right when it was granted. For example, paragraph IG15 explains the role of protective rights, and paragraph IG16 cross-references to paragraph B26, which does the same. Protective rights relate to fundamental changes to an investee's activities or apply in exceptional circumstances. These rights 'protect' as distinct from 'enhance' the interests of the holder. HoTARAC also acknowledges these considerations in their submission.

(b) understanding the rights of other entities. For example, do other entities have similar or different rights that can be exercised and are those rights protective or substantive.

(c) it is not uncommon for an entity to have independent directors, that is, directors that are independent of a specific shareholder. To determine the effect that appointing additional director/s may have on a control assessment, the role of those director/s in the decision-making process about an entity's relevant activities should be considered.

(d) in addition to requiring an 'investor' to consider all facts and circumstances when assessing whether it controls an investee, paragraph 8 of AASB 10 also requires the 'investor' to reassess whether it controls an investee if facts and circumstances indicate there are changes to one or more of the three elements of control. For example, a reassessment may be required if there was a change to the composition of the board and additional independent board member/s were appointed.

18 However, staff sought further feedback from ACAG and understand that this scenario, whilst complex, does not appear to be a common occurrence.

19 In response to the example provided by ACAG in paragraph 6(a)(i)(C), the challenge appears to be how the control assessment is affected by an 'inconsistency' between substantive rights and assertions that indicate that the rights are indeed protective. To conclude on this example, other factors will need to be considered, such as those noted above in paragraph 17 above.

20 Staff again sought further feedback from ACAG and understand that this and other similar scenarios are common and require significant judgement, and additional examples would be helpful.

21 In response to the example provided in paragraph 6(a)(ii), like the examples discussed above, paragraph IG8 highlights the importance of considering the rights of other parties when assessing whether rights give rise to power. Paragraph IG10 discusses an 'agent' style arrangement where a government organisation provides resources and is directed to assist an independent statutory

office in carrying out its responsibilities. The fact pattern discusses that even though the resources are supporting the independent statutory office, they are still at the disposal of the government and would, therefore, be considered government-controlled (subject to considering all the relevant facts and circumstances).

22 Noting this issue of protective versus substantive rights continues to be problematic, particularly in the public sector, staff recommend **exploring whether additional guidance and examples can be developed** to support stakeholder application.

23 In response to the example provided in paragraph 6(a)(iii), AASB 10 acknowledges that an entity can have different relevant activities at different times (see paragraph 13, paragraph B10 and Example IG3). Paragraph 13 notes that "If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that **most significantly affect the returns of the investee** has power over the investee." (emphasis added). Staff consider that the determination of which relevant activities most significantly affect returns at a point in time is a matter of professional judgement. Further, an example of how this assessment could be made is set out in Example IG3. Staff recommend **no action is required** in response to this feedback.

24 In response to the example provided in paragraph 10 of this agenda paper by KPMG, staff note that a similar fact pattern was considered by the Board when developing ITC 51. However, when developing ITC 51, the feedback was more centred around entities not being comfortable with the control assessment as, in their view, if control is present, consolidation may not reflect the substance of an arrangement. The feedback provided by KPMG suggests that differences in application are occurring due to the judgemental nature of such assessments.

25 Staff suggest it is too early to understand the prevalence and magnitude of this issue as many stakeholders currently preparing special purpose financial statements may not have considered this issue as yet. As such, staff consider it is too early to predict what might be needed to support stakeholder application. Therefore, staff recommend monitoring the progress of the Board's NFP Financial Reporting Framework project and remaining alert to further stakeholder concerns.

Additional guidance would be useful

26 Staff acknowledge stakeholder feedback that additional guidance and examples could be helpful (see paragraphs 6(b)(i) and 6(b)(ii)). Staff sought further feedback from stakeholders and understand, for example, that the scenarios contemplated in paragraphs 6(b)(i)(A), (B) and (C) are not common, having only occurred in one specific scenario in one jurisdiction. Further, the scenario contemplated in paragraph 6(b)(i)(D) generally only occurs when a new body or government project is established. Further, because each situation is unique, it was acknowledged that it would be difficult to provide guidance or examples for all scenarios. As such, staff recommend **no action** in response to this feedback.

27 In regards to the feedback from the stakeholder who provided verbal feedback suggesting additional guidance (see 6(b)(iii)) staff consider there is already sufficient guidance within the Standard on this topic. Staff recommend **no action is required** in response to this feedback. For example, AASB 10 paragraph 7 notes that "an investor controls an investee if and only if the investor has all the following … (a) power over the investee …". One of the elements that must be present is power, which AASB 10 explains is the ability to direct [make decisions] about the relevant activities of an entity, where the relevant activities are the activities that significantly affect the investee's returns. Determining an entity's relevant activities will require judgment, and paragraphs B11-B13 provide guidance on this topic.

28 In regards to the feedback from the stakeholder who provided verbal feedback suggesting additional guidance is required across all aspects of the control model (see 6(b)(iv)), staff contacted the stakeholder to seek further clarification about their comments. As of the date of finalising

these papers, staff had not received a response. However, staff will provide Board members with a verbal update if further clarification is received.

29 In summary**, staff recommend the Board take the following action** to address some of the application challenges facing NFP entities when applying the control model:

(a) Staff agree that the requests for clearer guidance and practical examples are important and warrant further exploration. However, **rather than proposing immediate amendments** to AASB 10 or Appendix E, staff consider it appropriate to first **undertake further research** to better understand the significance, prevalence and magnitude of the implementation challenges identified in this paper. This will help to determine whether additional guidance is needed and, if so, in what form it would be most effective.

(b) staff agree that there may be some challenges for NFP entities in applying the control model that have not yet been fully explored, such as those explained in paragraph 7, due to the continued use of special purpose financial statements. However, staff consider that whilst additional guidance may be helpful and support implementation, it is too early to 'act'. It is possible that potential implementation issues may not eventuate, and other issues may arise if the ability to prepare special purpose financial statements is limited and certain NFP entities are required to apply AASB 10 for the first time. As such, staff consider it prudent to defer taking any action at this stage and instead **monitor the Board's NFP Financial Reporting Framework project**. This approach will ensure that any identified implementation issues are discussed with the Board as they arise, giving the Board an opportunity to consider what action, if any, is needed. This approach will also ensure that concerns about the costs of applying the control model are considered part of the overall project and can be balanced with any possible relief that may be provided.

1.2. Suitability of the AASB 10 control model in the NFP sector

30 One stakeholder (Saward Dawson) shared that, in their view, the outcomes of applying AASB 10 to the NFP sector are often not helpful, and the application of the Standard should be reconsidered. In their view, the AASB 10 model places too much emphasis on director appointment powers and the concept of variable returns for NFP entities is too broad. They also expressed concerns that if the current AASB 10 model is applied, NFP entities will incur considerable costs and efforts should the removal of special purpose financial statements proceed.[5]

31 For example:

(a) the AASB 10 model does not take into account the purpose of director appointment clauses in historical constitutions. In their experience these clauses are often included to ensure entities maintain faith connection or so that the underlying values remain as part of the associated entities. They also assist in identifying and nominating skilled directors from a broader network. In their view, this often does not lead to functional control or influence over operations by the 'parent.' In such cases, they suggest that these rights are more protective rather than substantive. Saward Dawson also provided similar feedback in response to ED 334 in February 2025.

(b) extending the concept of variable returns to include consideration of non-financial returns is 'overreach' in their view. In their experience, it is difficult to argue when a church establishes a school, the school is not furthering the church's objectives by providing faith-based education. However, at their core, the church and the school have different purposes – one is to provide a place of worship, and the other is to provide an education. The financial statements of the church and the school also have different users – one is the congregation, the other is the

5 This feedback is echoed in Saward Dawson's submission on ED 334.

parents and the Department of Education. The concept of variable returns is discussed in more detail in in paragraphs 71-99 in Sub-topic 2 of this Agenda paper.

32 The Saward Dawson submission suggests an alternative model that focuses on the following points is required:

(a) considering the primary users of the entities. Where they are the same, consolidated financial statements may be of use, and other factors of control should be considered to determine if control exists. For example, a benevolent entity established by a church, whilst a separate legal entity for 'structuring/taxation' purposes, could be considered an extension of the church and consolidated financial statements would be relevant for users. Conversely, as noted above, the financial statements of a church and a school have different users, so consolidated financial statements are not likely to be useful.

(b) consideration of functional and practical control where nomination and veto rights over directors are not determinative. This could include the concept of protective rights within the NFP private sector.

(c) a narrowing of the variable returns concept to focus on financial returns within Appendix E rather than the broad concept adopted for the reasons outlined in paragraph 31(b) above.

33 However, Saward Dawson clarified in a discussion with staff that whilst their view remains that the outcomes of the AASB 10 model can result in control conclusions that they do not consider are always useful to any primary users, if the variable returns guidance is narrowed as suggested in paragraph 31(b)above, this would alleviate some of their concerns. This is because the second limb of the control test would be less frequently met by 'default' as the furtherance of objectives would not be considered as part of the assessment of variable returns.[6] This sentiment is echoed in the HoTARAC submission, too.

34 Two stakeholders who provided feedback via the survey expressed concerns similar to those noted in paragraph 32(a) about the usefulness of consolidated financial reporting where there are users with different information needs. One provided an example where, in their view, the outcome of applying the control model produces financial statements that are not useful. That is where a school is required to consolidate the associated Parents and Friends Association (PFA), and the school consider the PFA to operate relatively independently and does not think the inclusion of the PFA within the school's financial statements is useful to users. They also suggested that consolidated financial statements make it harder to understand the financial position of the school.

35 The same stakeholder provided feedback about situations where entities have no financial returns and no equity interest and the determination of control can be complex. For example, an NFP had an association with a Company Limited by Guarantee. However, the members of the Company were KMP of the NFP rather than the NFP themselves, although they were appointed because they were KMP of the NFP. The only return that the NFP was receiving was non-financial returns. Although there are indicators of control, it is challenging to articulate why an entity that you have no equity interest in and you get no financial return from is an entity that you control. Whilst they appreciated that they were associated, they could not see how they controlled the company or what the benefits were of consolidating it when its operations and financial performance were separate.

36 Another stakeholder who provided feedback via the survey noted that, in their view, the application of the control model can give rise to an outcome that is not a true reflection of the operations and assets of an organisation. They provided an example as follows:

Entity A is the sole member of Entity B. Entity A does not have the power to direct the relevant activities of Entity B. As the corporate member, Entity A approves the appointment of directors of the

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6 AASB 10 paragraph 7 sets out that an investor controls an investee if and only if the investor has 1) power over the investee, 2) exposure, or rights, to variable returns from its involvement with the investee and 3) the ability to use its power over the investee to affect the amount of the investor's returns.

Board of Entity B and attends the Entity B AGM, where it receives the financial statements, directors' statement and report and the auditor's report on the financial statement and transact any other business as required per the Entity B Constitution and Corporations Act. It should also be noted that Entity A, as the member, has the power to remove directors or Entity B but must only exercise this power for good reason and not to influence strategic or operational decisions made by the Board of Entity B.

Further, approximately 330 unincorporated sub-branches exist which are operated under the same Constitution as Entity A. Some sub-branches will seek to incorporate to become a company limited by guarantee (CLBG) with Entity A as the sole member. Entity A will not have any powers over the operation of the sub-branches, nor will it appoint or remove directors. It will purely attend the AGM and be required to approve any amendments to the sub-branch's CLBG Constitution.

With that in mind and considering the principle of control and the role of the member being different to that of a shareholder (where a member can't obtain a benefit), we do not agree with the interpretation of the notion of control, which would require Entity A to consolidate the accounts of the organisations it is the corporate member of. In doing so, the financial position and performance represented in the financial statements prepared by Entity A on a consolidated basis would not be a true reflection of the operations and assets of the organisation.

37 The same stakeholder noted that in some situations, it is impossible to measure variables correctly in some scenarios. For example, Entity Y and other related charities, including sub-branches and Entity Z, share the same charitable purpose. Therefore, through the delivery of the same charitable purpose, it would be assumed that variable returns are achieved. This would be impossible to measure accurately. Similarly, the volunteers who work across multiple sub-branches to deliver the charitable purpose would experience the same challenge.

38 Conversely, Deloitte and ACAG noted that in their view, overall, the application of AASB 10 results in financial statements that are more useful to users, with Deloitte reiterating their view that additional practical guidance is needed to support application, particularly in highly judgemental areas.

39 One stakeholder who provided verbal feedback noted that in other jurisdictions (UK, US and Hong Kong), control-based models do not require entities to consider variable returns in a manner that is consistent with AASB 10.

Staff analysis and recommendations

40 Staff acknowledge this feedback about the application of the AASB 10 control model by NFP entities and the suggestion that the Board should consider an alternative control model in the NFP sector. The key reasons provided by stakeholders are:

(a) that in some cases, the outcome of applying the control model produces consolidated financial statements that are not considered useful; and

(b) the model can be costly to apply.

41 Australian Accounting Standards (AAS) are based on the principle of transaction neutrality, that is, like transactions and events are accounted for in a like manner by all types of entities, reflecting their economic substance unless there is a justifiable reason to do so. *The AASB Not-for-Profit Entity Standard-Setting Framework* sets out the circumstances where there might be a justifiable reason to depart from this principle.[7]

42 Reasons include:

(a) the PIR of an IFRS Standard or an AAS gives a compelling reason to do so;

(b) stakeholders raise the need with the AAS;

7 See paragraphs 23 and 25-33

(c) evidence of undue widespread and significant diversity in accounting practices exists;

(d) issues specific to the NFP sector being of such prevalence and magnitude that NFP entities' financial statements do not reflect economic reality;

(e) NFP application issues resulting from terminology differences; and

(f) an assessment that the costs of preparing and disclosing the information exceed the benefits to users.

43 Staff note that the objective of AASB 10 is to outline a single basis for consolidation where an investor controls an investee.

44 The control model in AASB 10 is predicated on the basis that "an investor should consolidate an investee and present in its consolidated financial statements the investee's assets, liabilities, equity, income, expenses and cash flows, if the investor has the current ability to direct those activities of the investee that significantly affect the investee's returns and can benefit by using that ability. An investor that is exposed, or has rights, to variable returns from its involvement with an investee but does not have power over the investee so as to affect the amount of the investor's return from its involvement does not control the investee".[8]

45 Applying the control model in the NFP sector, AASB 10 paragraph IG10 outlines that an NFP investor can have power over an investee even if it does not have responsibility for the day-to-day operation of the investee.

46 Paragraph IG19 states that an investor's exposure, or rights, to variable returns from its involvement with an investee, may give rise to indirect, non-financial returns, such as when achieving or furthering the objectives of the investee contributes to the objectives of the investor.

47 Paragraph IG20 notes that an investor would have the ability to use its power over the investee when it can direct the investee to work with the investor to further the investor's objectives. However, paragraph IG20 also notes that congruent objectives alone are insufficient for an NFP investor to conclude it controls an investee.

48 When the control criteria in AASB 10 is met, consolidated financial statements must be prepared.

49 Staff acknowledge the concerns of some stakeholders that consolidating, for example, a church and a school could be unhelpful as members of the school are unlikely to be interested in the results of the church and vice versa. However, staff note that the principle of AASB 10 is that where there is control consolidated financial statements should be presented.

Control models used in other jurisdictions

50 In response to the feedback about the models used in other jurisdictions, staff note that:

(a) Hong Kong Financial Reporting Standard 10 *Consolidated Financial Statements* (HKFRS 10), which is generally applied in Hong Kong by all parents, is consistent with the control model in IFRS 10 (AASB 10).

(b) In addition, in Hong Kong, the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (HK SME) applies to certain companies that have a reporting exemption under the Hong Kong Companies Ordinance (Cap. 622) from March 2014. Under HK SME, control is presumed to exist when the parent owns directly or indirectly more than half the voting power in the entity (HK SME paragraph 19.5). This is consistent with the control model in AASB 127 *Consolidated and Separate Financial Statements*, which applied prior to the introduction of AASB 10.

(c) United Kingdom FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (UK FRS 102), which applies in the UK to the general purpose financial statements

8 IFRS 10 *Consolidated Financial Statements* paragraph BC31

and financial reporting of entities, including those that are not profit-oriented, also centres on power to control. Like HK SME, under UK FRS 102, control is presumed to exist when the parent owns directly or indirectly more than half the voting power in the entity (UK FRS 102 paragraph 9.5).

(d) In the United States of America, NFP entities evaluate whether they have control of another entity using a model that is primarily focused on whether the entity has voting control over another entity's Board (ASC 958 *Not-for-Profit Entities*). In the context of an NFP entity, control is defined as "*The direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise*".

51 Staff note that the models suggested will have their own benefits and barriers. For example, HK SME and UK FRS 102 are consistent with the previous control model that was applied in Australia, which was replaced by AASB 10 to address diversity in practice that arose under the previous model. The ASC 958 model is similar in some respects as it also considers voting control.

52 Staff acknowledge that for some stakeholders, control in the NFP sector appears to be an area of significant concern, especially given the Board's NFP financial reporting framework project and the possible removal of the ability for certain NFP entities to prepare special purpose financial statements in the future. Further, staff are mindful that when developing its Tier 3 proposals, the Board decided not to develop guidance to help Tier 3 entities assess whether control exists, especially in instances where the ownership interest may not be reflective of control due to the in-progress PIR.[9]

53 Staff acknowledge stakeholder concerns about possible transition and ongoing costs that may arise from the proposed removal of special purpose financial statements for certain NFP entities; however, note those costs would be considered as part of that project.

54 However, from the feedback received, staff do not consider there is sufficient evidence to warrant departing from the principle of transaction neutrality in the NFP sector by adopting a control model other than that set out in AASB 10 and staff **no action is needed** in response to this feedback.

55 Staff suggest that if an entity is required to prepare consolidated financial statements and they are concerned that the financial statements do not provide useful information, they can choose to include additional disclosures in the financial statements to explain the financial position and performance of individual entities (e.g. they could adopt disclosures similar to those used to report segment information) or they could elect to prepare stand-alone financial statements in addition to the consolidated financial statements. Staff do acknowledge, though, that there would be some additional costs associated with this approach to prepare additional disclosures or additional financial statements. However, staff suggest they may not be significant as if an entity is required to prepare consolidated financial statements, the information to prepare stand-alone financial statements would already be available at an individual entity level. Alternatively, if an entity chooses to prepare segment-style disclosures, there may only be incremental additional audit costs.

1.3. ACNC's group reporting relief

ACNC joint and collective reporting

56 AASB 10 requires an entity to prepare consolidated financial statements where they control one or more other entities. However, the ACNC joint and collective reporting policy permits an entity to prepare a joint report or a collective report.

9 See paragraphs BC45 and BC46 of ED 335

57 Section 60.95 of the *Australian Charities and Not-for-profits Commission Act 2012* sets out the circumstances in which The ACNC Commissioner may approve collective or joint reporting.

58 The ACNC's Policy Statement (CPS 2013/05) sets out the principles The ACNC Commissioner will apply when determining whether to allow two or more registered charities to form a reporting group or change a previously approved reporting group. One of the principles is the impact forming a reporting group might have on compliance with AAS, noting that in some cases, the *Australian Charities and Not-for-profits Commission Regulations 2022 (Cth)* (ACNC Regulations) allow non-compliance with AAS to the extent they are inconsistent with joint or collective reporting. For example, allowing a reporting group to provide aggregated financial statements on a basis other than AASB 10 whilst requiring compliance with all other aspects of AAS to the fullest extent possible.

59 In summary:

(a) Joint reporting is where two or more charities report jointly by lodging a single Annual Information Statement and, if applicable, a single annual financial report. Joint reporting is intended to streamline reporting for multiple charities and reduce administrative burden.

(b) Collective reporting is when a group of registered charities submits one or more Annual Information Statements or financial reports (if applicable) on a basis other than an entity-by-entity basis. For example, two affiliated charities that advance religion and relieve poverty may report collectively by submitting two reports: one report for the groups' religious function and one for the groups' welfare function.

60 Charities must apply to the ACNC for joint or collective reporting, and each application is considered on a case-by-case basis. The size of a reporting group is based on the size of its largest charity.

Stakeholder feedback

61 Four stakeholders (ACNC, Saward Dawson, Deloitte and one stakeholder who provided verbal feedback) provided feedback, noting the inconsistency between AASB 10 and the ACNC's reporting provisions. For example,

(a) The ACNC noted in their submission that the mandatory accounting standards under section 60-30 of the ACNC Regulations for entities preparing SPFS do not require compliance with AASB 10.

(b) Saward Dawson, in their recent ED 335 submission and subsequent discussion with staff, was concerned that as ACNC group reporters do not necessarily represent a group based on the accounting standard definition of control, this could be problematic if the ability for certain NFP entities to prepare special purpose financial statements is removed. Another stakeholder who provided verbal feedback also shared a similar view.

(c) Deloitte also commented that based on an entity's assessment of control and the requirement to prepare consolidated financial statements, this could affect financial statements that are to be prepared under ACNC requirements.

(d) One stakeholder who provided verbal feedback expressed concerns about the inconsistency between the ACNC relief and AASB 10, providing the Salvation Army as an example. It was noted that the Salvation Army prepares aggregated financial statements, taking advantage of the ACNC collective reporting provisions for ACNC reporting purposes. Whilst the stakeholder did not note any particular concerns about the preparation of the financial statements, they did request some consistency between the ACNC provisions and the AASB requirements, as the inconsistency was commonly questioned by auditors.[10]

10 For example: The Salvation Army Australia Social Fund Aggregated Financial Report for the year ended 30 June 2024

62 In addition to the inconsistency between the requirements of AASB 10 and the ACNC group reporting provisions, Deloitte noted that the application of AASB 10 by NFP entities may also impact other localised or sector-specific requirements, such as financial questionnaires that are to be submitted by non-government schools to the Department of Education and annual reports to be published on the State Register via the Victorian Registration and Qualifications Authority.

Staff analysis and recommendations

63 Staff acknowledge the inconsistency between the requirements of AASB 10 and the ACNC's group reporting provisions, which permit entities to prepare aggregated financial statements on different bases.

64 Staff also acknowledge that this inconsistency currently exists, and some entities like The Salvation Army are preparing special purpose financial statements that "comply with all of the recognition and measurement principles of Australian Accounting Standards except that the aggregated operations … do not constitute a group for the purpose of AASB 10 …" for this reason.

65 However, if the ability for certain NFP entities to prepare special purpose financial statements is removed, this inconsistency could lead to confusion and extra burden for stakeholders of ACNC-registered charities if they were required to prepare general purpose financial statements that complied with AASB 10 whilst also preparing group financial statements for ACNC reporting purposes.

66 Notwithstanding this, staff are of the view that inconsistency is primarily a regulatory issue rather than an issue with AASB 10. Particularly because, as noted in paragraph 58, the ACNC has the option to allow a reporting group to provide aggregated financial statements on a basis other than AASB 10 while requiring compliance with all other aspects of AAS to the fullest extent possible.

67 Staff note that when developing Appendix E to AASB 10 and as explained in AASB 2013-8 paragraphs BC52 – BC54, the Board was aware of the ACNC's collective and joint reporting provisions, the Board acknowledged that different regulators might impose financial reporting requirements that differ from AAS for their own purposes in limited circumstances and that it would not be appropriate for the Board's requirements for general purpose financial statements to reflect those limited circumstances.

68 Whilst staff agree that the removal of special purpose financial statements for certain NFP entities would change the financial reporting 'landscape' for NFP entities as under the proposals, most ACNC registered entities that are required to prepare financial statements would be required to prepare general purpose financial statements, which must comply with AASB 10. However, the ACNC can make exceptions, and this is a matter for them to consider. Similarly, staff consider that other regulators could make similar exceptions and maintain that it is not appropriate for the AASB's general purpose financial reporting requirements (i.e. AAS) to be amended to cater for any such limited circumstances.

69 For example, regulators could make arrangements such as those that exist between the Department of Education and the ACNC to streamline reporting.[11]

70 For these reasons, staff consider that **no action is required** to address this feedback. Staff will continue to work closely with the ACNC and other regulators as required as the Board's Not-for-Profit Private Sector Financial Reporting project progresses to ensure stakeholder concerns are considered. However, as the Board's remit is to set standards for general purpose financial reporting, staff do not consider that a regulator's decision to permit a different basis of preparation that is inconsistent with AAS should affect AAS requirements.

11 ACNC's Reporting and non-governement schools

Sub-topic 2 Identifying variable returns in the NFP sector

Questions for respondents
5. Do you have any comments about difficulties that might be experienced in identifying variable returns in the NFP sector? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.
6. In addition to the existing guidance in AASB 10 Appendix E, is there any other guidance that would help with identifying variable returns in the NFP sector? If so, please provide details of the guidance and explain why you think it would be useful.

71 In summary, stakeholders have mixed views regarding identifying variable returns in the NFP sector.

72 Seven stakeholders (HoTARAC, Saward Dawson, Deloitte, ACAG and three stakeholders that provided feedback via the survey) provided feedback that identifying variable returns in the NFP sector can be challenging and judgemental. Some of these stakeholders provided examples of specific challenges and suggested additional guidance would be helpful.

73 Conversely, BDO does not have concerns about identifying variable returns, noting that it is an intentionally broad concept and that it is not hard to identify variable returns in the NFP sector. Many entities 'related' to an NFP entity because they undertake activities that promote or assist the NFP entity's objectives will meet the 'variable returns' criterion in the control assessment. However, this does not necessarily mean they have/are controlled. The NFP entity must also meet the 'power' criterion before it is considered to have control, and, as noted in paragraph 3, assessing whether the power criterion is met can often be more challenging than determining variable returns.

74 ACAG noted that variable returns is a technical accounting term that does not translate easily in practice. It is difficult, for example, for a non-accountant board member to understand and apply the term, which can result in an incorrect assessment of control.

*Application challenges in the **NFP public sector***

75 In the NFP public sector, HoTARAC and ACAG provided specific feedback about application challenges as follows:

(a) HoTARAC noted that meeting the variable returns criterion is often a default conclusion because the concept is so broad, and the public sector has a wide range of service objectives. They suggested that the existing implementation examples are useful. However, they suggested that clarification about the extent to which/threshold of exposure to variable returns is needed.

(b) ACAG noted that it can be difficult to determine the difference between similar/congruent objectives and non-financial returns or furthering the objectives of the investor and achieving social policy objectives. Some of the areas where judgment is required include circumstances where:

(i) entities established by Acts, and Ministers are responsible for administering those Acts. Often, the entities created will have functions that serve the public but may also help fulfil the Minister's or the department's objectives under an Act. Judgement is required to determine whether the entity is furthering the objectives of the Minister and department or whether they only have congruent objectives.

(ii) a State or local government body is required to determine whether it is exposed to the variable returns from its involvement with another entity. This is because when it funds activities, it is common for them to have some involvement in how that money is spent.

Often, the involvement is restricted to a single project or funding agreement, but in some cases, an entity is set up to undertake a narrow range of activities. Regarding the latter, where the entity's activities align with the State or local government body, it can be difficult to determine whether the State or local government body is exposed to variable returns via the outcomes of those activities and whether it has power over those variable returns.

(iii) a State or local government body is required to determine whether it is exposed to the variable returns from its involvement with another entity. This is because when it funds activities, it is common for them to have some involvement in how that money is spent. Often, the involvement is restricted to a single project or funding agreement, but in some cases, an entity is set up to undertake a narrow range of activities. Regarding the latter, where the entity's activities align with the State or local government body, it can be difficult to determine whether the State or local government body is exposed to variable returns via the outcomes of those activities and whether it has power over those variable returns.

(iv) an entity is required to apply the power over variable returns test when there is an alignment of values and outcomes (and non-financial returns) between the State or local government body initiating the establishment of the entity and the desire to 'be involved'. Being involved often involves some sort of review or approval of budgets and plans. While some situations can be relatively easily categorised into giving rise to protective rights, others are much more difficult when the involvement extends to detailed operating parameters, such as decisions over services to be provided, performance expectations and points of presence.

*Application challenges in the **NFP private sector***

76 Like HoTARAC, Saward Dawson noted that meeting the variable returns criterion in the NFP private sector is often a default conclusion. In their view, the concept of variable returns for NFP entities is so broad that 'furthering objectives' is often easily demonstrated. They suggest that for the purpose of preparing a financial report, the focus should be on financial returns for consistency with the for-profit requirements rather than the extensively broad application described in paragraph IG18 of AASB 10. They note it is very difficult to argue that if a 'parent' were initially involved or supported the establishment of a 'subsidiary', and the parent could nominate/approve the majority of board members, the subsidiary's activities would not be considered as a furtherance of the parent's objectives.

77 One stakeholder who provided feedback via the survey noted that it can be difficult to identify variable returns that are non-financial and not quantitative. They also shared that it can be difficult to link non-financial variable returns to any power another party in the entity might have. They noted that Example IG2 in Appendix E provides some examples. However, they suggest there are a lot of other factors in the example to link the variable returns back to the 'investor', and the non-financial returns are not a significant factor in determining control in that fact pattern. They suggest that where some of those other factors are removed in practice, assessing whether there is a link between variable returns and power is much more challenging and further guidance would be beneficial.

*Application challenges to **trust and trustee structures***

78 A stakeholder who provided feedback via the survey noted a common trust structure in the NFP sector in which the 'parent' is the trustee, but it is not a beneficiary of the trust. In these structures, it is common to see only non-financial returns rather than financial returns.

79 They have observed that there can be differences in the application of the control model to trusts in practice. For example, they noted mixed views about whether the trustee should consolidate a trust if the trustee's only 'exposure to variable returns' is the exposure to variable negative returns in the

event of bankruptcy. They further noted that when there are no variable financial returns and only the existence of a common purpose, demonstrating control is more difficult.

Additional guidance is needed

80 In addition to the above feedback, seven stakeholders (HoTARAC, Saward Dawson, ACAG, Deloitte, two stakeholders who provided verbal feedback and one stakeholder who provided feedback via the survey) consider that additional guidance would be useful in many cases. For example:

(a) Saward Dawson suggests:

(i) separating the implementation guidance into two sections (one for the public sector and one for the private sector) to avoid confusion. In their view, it is not clear how public sector examples could be applied by analogy in assessing control in the private sector.

(ii) additional stepped examples would be useful to illustrate additional/different variations.[12]

(b) HoTARAC, ACAG and Deloitte provided similar feedback in relation to additional guidance about variable returns:

(i) in the public sector, ACAG suggests that more examples of how to apply the concept of non-financial variable returns in the public sector would be useful. ACAG also suggested that it would be beneficial to provide more guidance about how the alignment of values and outcomes and non-financial returns concept is applied in the public sector.

(ii) Deloitte suggested expanding the current guidance and including more examples to demonstrate how narrow the scope should be when it comes to congruence of social objectives (e.g., the difference between a case where the related entity is clearly furthering the entity's objectives versus where it is merely tangentially related) in order to provide NFP entities with practical application guidance in identifying variable returns.

(iii) as set out in paragraph 75(a), HoTARAC suggested that clarification about the extent to which/threshold of exposure to variable returns is needed.

(c) one stakeholder who provided verbal feedback suggested that clarification is needed about non-financial returns where multiple parties are involved in decision-making.

(d) in the private sector, one stakeholder who provided verbal feedback suggested that more guidance and examples on what variable returns are needed.

81 However, consistent with their view that identifying variable returns is not a concern, BDO confirmed that additional guidance is not needed and was concerned that additional guidance could narrow the interpretation of variable returns, which would not be consistent with how for-profit entities apply the concept.

Staff analysis and recommendations

82 Staff agree with stakeholder comments that variable returns is an intentionally broad concept, and this is supported by paragraph IG18 of AASB 10, which states that "the broad scope of the nature of returns encompasses financial, non-financial, direct and indirect benefits, whether positive or negative, including the achievement or furtherance of the investor's objectives".

83 In summary, staff consider the key concerns expressed by stakeholders in response to ITC 51 on this topic are:

12 For example, using Example IG1 as a reference, their comment letter suggested including the first example, then excluding the land/housing so that no financial transactions occur between the entities, and then including a subsequent item such as non-variable land rental arrangements or set management fees if that would result in a different determination. In the current example, it is unclear if the land/housing transactions have impacted the determination.

(a) identifying variable returns can be complex and judgemental, and the concept of variable returns in the NFP sector is too broad;

(b) specific application challenges can arise in trust structures; and

(c) additional guidance is needed to support application.

Identifying variable returns can be complex and judgemental, and the concept of variable returns in the NFP sector is too broad

84 Staff note that most of the feedback relating to application challenges was accompanied by a suggestion that additional guidance is needed. However, staff noted that the feedback provided by stakeholders did not indicate that any significant differences in application were arising. Most feedback indicated that the biggest challenge in practice is differentiating between what should be considered a variable return and what is a 'side-effect' of a relationship with another entity.

85 Staff consider that what constitutes a variable return will be different for different entities and is fact pattern-specific. Therefore, staff acknowledge that identifying variable returns in the NFP sector can be complex and require the exercise of professional judgement. Staff also acknowledged feedback suggesting that identifying qualitative non-financial variable returns is likely to be more difficult than identifying quantitative financial variable returns. However, staff note that judgement will always be required when applying AAS as they are principles-based standards. Staff suggest there is merit in considering whether the Board can provide additional application support given the complexities identified by stakeholders. This is considered further in paragraphs 90 to 93.

86 Whilst in practice, the broadness of the variable returns concept may mean that "furthering objectives" is often easily demonstrated, staff do not consider that narrowing the scope of what is considered a variable return to only financial returns as it is in the for-profit sector is appropriate. This is because AASB 10 was written for for-profit entities, and the Board developed Appendix E to support the application of for-profit principles by NFP entities. The majority of respondents to ED 238 supported the broad scope of variable returns in the NFP sector.

87 The concept of variable returns in the for-profit sector can be broad, too, particularly considering the factors noted in paragraph 57(c) of AASB 10. Further, the concept of variable returns in the for-profit sector is limited to financial returns, which is consistent with the 'profit generation' objective of for-profit entities. However, when the Board was developing Appendix E, staff noted that the majority of respondents to ED 238 also supported the consideration of non-financial returns (see paragraph 7). This acknowledges that the objective of NFP entities is typically service provision and not the generation of profit.

88 In response to feedback suggesting that guidance about the extent to which/threshold of exposure to variable returns is needed, paragraph B20 of AASB 10 notes that while a greater exposure to variability of return increases the likelihood of the existence of power, "the extent of the investor's exposure does not, in itself, determine whether an investor has power over the investee." This suggests that entities should consider the facts and circumstances in each situation and use professional judgement to assess whether variable returns exist rather than making an assessment using a rules-based threshold.

89 Therefore staff recommend the Board take no action in response to stakeholder feedback that the concept of variable returns is too broad.

Additional guidance is needed to support application

90 In response to feedback that suggests that more guidance is needed to support entities with identifying what 'furthering objectives' is and is not, staff are unsure what additional guidance could be provided. Staff note that AASB 10 already contains a lot of (for example, in Examples

IG1A, IG1C, IG2A, IG3, IG4A, and IG4B, together with implementation guidance in Paragraphs IG18 and IG19), and as noted in paragraph 85, judgement will always be required.

91 However, given that most stakeholders who provided feedback on this topic suggested additional guidance and examples are needed, staff suggest careful consideration is needed. For example, staff note that some guidance and examples included in IPSAS 35 *Consolidated Financial Statements* could be helpful for stakeholders. For example paragraphs AG58, AG 59, IE12, and Example 33.

92 Staff sought additional feedback from some stakeholders to understand more about the significance, prevalence and magnitude of the issues raised and better understand example what guidance is needed (e.g. whether they think more illustrative examples are needed, and if so, what type of examples or whether they think more guidance paragraphs are needed to assist NFPs with applying specific aspects of some/all of the principles, and if so, which principles). As of the date of finalising these papers, staff had not received a response. However, staff will provide Board members with a verbal update if further clarification is received.

93 In addition, and as noted in paragraph 3, staff also acknowledge that it is possible that the existence of implementation challenges and the usefulness of the guidance on variable returns may not have been fully explored whilst NFP entities continue to be able to prepare special purpose financial statements.

94 Therefore, consistent with paragraph 29, **staff recommend the Board take the following action**:

(a) **undertake further research** to better understand the significance, prevalence and magnitude of the implementation challenges identified in this paper in relation to variable returns. This will help to determine whether additional guidance is needed and, if so, in what form it would be most effective.

(b) **monitor the Board's NFP Financial Reporting Framework project** and remain alert for any new/different issues that are identified.

95 In response to feedback suggesting that the existing guidance should be separated into that which applies to the public and private sectors (see paragraph 80(a)(i)), staff recommend the Board **take no action**. While staff acknowledge that the factors considered in the assessment of variable return could vary between public sector and private sector NFP entities, staff noted that when the Board was developing the implementation guidance and examples, they took the view that they "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" (AASB 10 paragraph BC16). Whilst there might be some examples that are more relevant to the NFP public sector, therefore some examples that were drafted for the NFP private sector in Appendix E could be relevant to the NFP public sector, too. For example, Example IG1 in AASB 10 is included in IPSAS 35 as example 8, illustrating the same fact pattern, but instead of a religious organisation establishing a community housing program, it is a government housing agency.

Specific application challenges can arise in trust structures

96 Staff acknowledge that identifying variable returns specifically in the context of a trust structure might be challenging, particularly if indirect non-financial returns are present alongside the existence of delegated power and returns that are only negative.

97 In making an assessment, staff consider that the degree of exposure or rights to variable returns will depend on how the arrangement is structured and what is set out in the trust deed and any other relevant agreements. Staff note that when the implementation guidance was developed, the Board considered the complexity of trust arrangements and decided to include guidance to address this concern (see paragraph IG22). At the time, in the Board's view, if the trustee's role is limited to that of an agent, the trustee cannot control the trust in its own right, and the existence of the

principal's control over the trust needs further assessment. For example, as noted in BC29 of AASB 2013-8, the Board viewed that when a government acts as the trustee of a trust, it would not have control over the trust due to its inability to deploy the trust's resources for its own benefit.

98 Further, paragraph 17 of AASB 10 states that the returns can be only negative, only positive or both positive and negative.

99 While staff note that legal responsibility (e.g., when the trust is sued or in case of bankruptcy) may be a good indicator of control, entities should also consider the other elements of the control model rather than solely relying on variable returns when making their assessment. As such, staff recommend the Board take **no action** in response to this feedback.

Sub-topic 3 Customary business practices in the NFP sector

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

100 Four stakeholders (HoTARAC, Saward Dawson, ACAG and one stakeholder who provided feedback via the survey) suggested that it could be useful to consider customary business practices when assessing whether an entity has control. Specifically:

(a) HoTARAC noted that existing guidance in AASB 10 (paragraph IG13) is relevant. However, they also noted that the term 'customary business practices' is not used in AASB 10, so if the concept is added to AASB 10, they assume it should be relevant to all three limbs of the control model assessment and would not just be relevant to variable returns as illustrated in ITC 51. HoTARAC further elaborated that customary business practices in the NFP sector are often the result of a combination of interplaying factors. For example, there is no binding obligation to distribute profits to a particular entity, but in practice, the recipient entity has been relying on it as the key revenue source for a long time and the continuing operation of the entity is critical to many stakeholders. Therefore, relevant stakeholders may intervene if there is a change in the profit distribution pattern. They noted that if customary business practices are added to AASB 10, the practical ability of the parties to change those practices should be considered in assessing whether the customary business practices equate to rights and obligations.

(b) Saward Dawson noted that it is common for control to exist due to common KMP/Board membership or for the distribution clause to not be quite restrictive. They also noted it is helpful to consider customary practice in assessing control.

(c) ACAG noted that they have observed this issue mainly in relation to the fundraising arms of organisations. In their experience, these entities are set up as 'friends of', and, commonly, the entity's constitution does not restrict the distribution of fundraising; however, distributions are often limited to one entity, giving rise to customary business practice. ACAG noted that the guidance in Example IG2D, which illustrates a similar fact pattern, often results in a 'not controlled' conclusion. They have seen consistent application of this principle; however, there are often questions about this concept in practice.

(d) One stakeholder who provided feedback via the survey suggested that further clarification of how customary business practices interact with other factors, including constitutional or other legal rights, would be useful. They noted that scenarios similar to that in ITC 51, i.e. where an entity always distributes funds to one entity despite having the ability to distribute funds to any entity, require careful consideration, and judgment is needed to determine which is the most relevant factor in determining whether control is indicated.

101 However, two stakeholders (BDO and one stakeholder that provided feedback via the survey) suggested that customary business practices are not relevant because an entity either has a right or does not and past/customary practice is not relevant to the control assessment. However, BDO did acknowledge there may be a situation where an entity has no rights to variable returns but has an exposure to variable returns due to its 'relatedness' to another entity. The stakeholder who provided feedback via the survey provided the following example:

Entity A has established a central fund for sub-branches to donate to so that the other initiatives it supports will be recognised at a higher level and recognition applied to Entity A - as opposed to current practice where individual sub-branches donate to whichever initiatives they wish to. More than 300 unincorporated sub-branches exist which are operated under the same Constitution as Entity

A. Some sub-branches will seek to incorporate to become a Company Limited by Guarantee (CLBG) with Entity A as the sole member. Entity A does not have any power over the operation of the sub-branches, nor will it appoint or remove directors. Entity A will purely attend the AGM and be required to approve any amendments to the sub-branch's CLBG Constitution.
The donations are discretionary, and therefore, the implication that Entity A has control would not be a true reflection of how those funds are applied.

102 Deloitte noted that they had not encountered this issue in practice.

Staff analysis and recommendations

103 Staff acknowledge that customary business practices could be helpful when assessing control and note stakeholders' comments that some seem to be currently exercising judgment and considering the effect of customary business practice when assessing control.

104 However, customary business practice is not a concept that is explicitly addressed in AASB 10.

105 Staff note that AASB 10 is based on the premise of an entity having rights that are exercisable when needed and the ability to exercise those rights and be exposed to variable returns.

106 The examples set out in Example IG2D and paragraph IG13 indicate that past practice of choosing or not to do X does not affect an entity's rights or lack thereof. This suggests that customary practice does not override the existence of contractual rights, and what is relevant is whether a right can be exercised.

107 Staff acknowledge there could be a situation where governing documents and other agreements cannot be located or do not exist, and this could make assessing whether there are contractual rights difficult. Staff do not expect this to be a common occurrence. However, if this does occur, staff suggest the entity should seek advice on how the control model can be applied to their circumstances, as this appears more akin to a governance matter (i.e. the absence of documentation) rather than a matter for an accounting standard-setter to consider.

108 Whilst staff note that customary business practice is considered in AASB 15 *Contracts with Customers* and can give rise to enforceable obligations in the context of contracts with customers and revenue recognition. Staff consider that if the concept of customary business practice were relevant to the control assessment, it would have been addressed by the IASB during its recent PIR of IFRS 10. Staff reviewed the IASB's feedback statement and noted that this issue does not appear to have been raised by stakeholders.[13]

109 On balance, staff are of the view that **no action is required** to address this feedback at this stage.

13 Report and Feedback Statement: Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12

Sub-topic 4 Assessing control without an equity interest

Questions for respondents
Regarding assessing control without an equity interest, do you have any comments about:
8. the application of the requirements in practice?
9. whether differences in application exist in practice?
If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.
10. In addition to the existing guidance in AASB 10 Appendix E, is there any guidance that would help with assessing control without an equity interest? If so, please provide details of the guidance and explain why you think it would be useful.

110 Generally, comments from stakeholders did not express any significant concerns about assessing control without an equity interest in the NFP sector. For example:

(a) Three stakeholders (HoTARAC, BDO, and Deloitte) do not consider there to be any issues in practice. Specifically:

(i) HoTARAC considers the existing guidance in paragraphs 11, B6, IG6-IG7 and IG18-IG19 is useful.

(ii) BDO suggests control should be assessed in the context of an entity's relevant activities, not based on an 'end of life' scenario in which protective rights are present (i.e. how funds and assets are distributed on winding up is only relevant to the control assessment if the entity is in the process of winding up). Accordingly, they also suggest no additional guidance is needed and are concerned that any additional guidance could have implications for the for-profit sector.

(iii) Deloitte's submission noted that they have not encountered any issues in practice and that no further guidance is needed on this topic.

(b) One stakeholder (Saward Dawson) noted that in the absence of equity interest, they would predominantly rely on factors such as membership rights and the ability to appoint a controlling portion of the board. Furthermore, they consider such rights to be protective and suggest that the concept of protective rights has not been clearly considered in a private sector NFP context within Appendix E. They noted that IG17(e) is grouped with what appears to be NFP public sector guidance and suggest that guidance in Appendix E should be separated into that which is relevant to the NFP public sector and that which is relevant to the NFP private sector, as noted above in paragraph 80(a)(i).

(c) One stakeholder who provided verbal feedback provided an example of a scenario similar to that in ITC 51. They noted in the example that the distribution of funds could be considered a customary business practice, but ultimately, power is missing in their view, so there is no control. They shared that scenarios where ultimately funds are being used to support the 'parent' body's objectives but the 'parent' is not funding them directly are common.

Entity A is established by a 'parent' to support a community event. Entity A's constitution permits it to provide funding to any party, not just the community event. Entity A does not retain any funds on winding up, and the Board of Entity A appears to be independent. Prima facie, there is no power, and funds can be distributed anywhere at the discretion of the Board, notwithstanding that the entity's purpose is to support the community event.

111 ACAG expressed some concerns, particularly in relation to assessing variable returns where there is no equity interest. These concerns are summarised in Sub-topic 2 (see paragraphs 75(b)(ii) and 75(b)(iii)).

112 One stakeholder who provided feedback via the survey noted that in some situations, although there are indicators of control, it is challenging to articulate why an entity that you have no equity interest in and you get no financial returns from (as the only returns are non-financial) is an entity that you control. These concerns are summarised in section 1.2 Suitability of the AASB 10 control model in the NFP sector (see paragraph 35).

113 Another stakeholder who provided feedback via the survey noted that NFP entities use a variety of structures and exercise control in different ways, such as through the appointment of all directors, the appointment of some directors, veto rights on all decisions and veto rights on some decisions. Often, these arrangements are complex and require careful consideration of the constitution and other relevant documents to determine if control exists. They provided an example of a charity with a related public ancillary fund (PAF). The charity and PAF have similar names, the same founder, administration activities are conducted by the same staff and only one person sits on both boards (the original founder). In practice, the PAF demonstrated through past decisions that it didn't always provide funds to the charity when requested; however, as the charity was the trustee of the PAF trust, the existence of control had to be considered.

Staff analysis and recommendations

114 The control model in AASB 10 is based on three key elements: power, exposure or rights to variable returns and the ability to use power to affect returns. An equity interest is not required for one entity to have power over another. In addition, an entity that can direct where ‘resources’ are distributed and can benefit from indirect non-financial returns.

115 The fact pattern set out in ITC 51 sought feedback on whether the ability to direct distributions on winding up gives rise to 1) power and 2) exposure to variable returns.

<u>Power</u>

116 Staff note that AASB 10 clearly states that the existence of power and exposure to variable return can still occur in the absence of equity interest. AASB 10:

(a) paragraph 11 notes that power arises from rights and that sometimes assessing power can be straightforward, such as when power is obtained directly and solely from voting rights granted by equity interests. In other cases, without equity interests, the assessment will be more complex and require more than one factor to be considered, such as when power arises from one or more contractual arrangements.

(b) paragraph B15 provides examples of rights that give an investor power. These include rights in the form of voting rights, rights to appoint, reassign or remove KMP who have the ability to direct the relevant activities, rights to appoint or remove another entity that directs the relevant activities and other rights such as those specified in a management contract.

(c) paragraph IG9 expands on paragraph B15, noting that for NFP entities, additional examples of rights include rights to give policy directions to the governing body of the investee that gives the holder the ability to direct the relevant activities and rights to approve or veto operating and capital budgets relating to the relevant activities.

(d) paragraph IG6 notes that in the NFP context, rights frequently arise from sources other than voting rights and rights arising from contractual arrangements. For example, for many NFP entities, rights arising from administrative arrangements or statutory provisions will often be a source of power.

(e) paragraph IG7 notes that the impact of constituting documents and other legislation, for example, should be considered along with all other relevant facts and circumstances.

(f) paragraph IG17(e) notes that the right to direct distribution upon liquidation is considered a protective right.

Exposure to variable returns

117 In relation to variable returns, AASB 10 paragraph IG18 notes that for an NFP entity, the broad scope of the nature of returns encompasses financial, non-financial, direct and indirect benefits, whether positive or negative, including the achievement or furtherance of the investor's objectives. In the absence of equity interest, an entity that can still direct where 'resources' are distributed and can benefit from indirect non-financial returns.

118 However, the topic of variable returns is considered in more detail in Sub-topic 2 as stakeholders' feedback significant feedback about the application challenges they are experiencing and staff recommend Board action on the topic of variable returns is warranted.

119 Whilst there are concerns about the identification of variable returns in the NFP sector, staff do not consider the Board needs to take any specific action in response to assessing control without an equity interest as no specific application issues or differences in application have been identified. For these reasons, staff are of the view that **no action is required** at this time.

Sub-topic 5 Principal versus agent – public sector entities

Questions for respondents

Regarding assessing whether an NFP entity in the public sector is acting as principal or an agent do you have any comments about:

11. distinguishing the role of an entity in practice?
12. whether differences in application exist in practice when applying the control model and Appendix E?

    If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.
13. In addition to the existing guidance in AASB 10 Appendix E, is there any guidance that would help you determine whether an NFP entity is a principal or an agent? If so, please provide details of the guidance and explain why you think it would be useful.

120 Generally, comments from stakeholders suggested there are no significant concerns when NFP public sector entities are distinguishing whether an entity is a principal or an agent. For example:

(a) in BDO's experience, agency arrangements are rare, and there is sufficient guidance in AASB 15 and AASB 10. They also expressed concern that if additional guidance was included, it could create inconsistencies between how for-profit and NFP entities apply the same requirements.

(b) ACAG noted that determining principal versus agent is not usually an issue when applying the control model. The determination is more of a challenge when accounting for separate agreements and the recognition of income. Further, ACAG is not aware of any differences in application and suggests that no further guidance is needed. ACAG also made comments on the concept of principal versus agent in its response to ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities*.[14]

(c) Deloitte noted that judgement is required when distinguishing the role of an entity in practice, as investments are often not financial, and returns are often in the form of policy outcomes rather than financial outcomes in the public sector. However, while there is inherent judgement involved when distinguishing the role of an entity in practice, they suggest that NFP public sector entities have been able to conclude on a position utilising the current guidance. Further, they are not aware of diversity in practice.

121 HoTARAC noted that the roles of various parties are often prescribed in legislation or regulation, frequently making it difficult to determine whether one entity (a principal) delegated its decision-making powers to another entity (an agent). They also noted that the lack of financial returns makes it difficult to quantify the returns and the variability of returns of each party, and often, several parties will be exposed to returns that contribute to their separate policy objectives. However, in their view, the existing guidance in AASB 10 is adequate (e.g. paragraphs 17-18, B58-75, IG21-IG24 and the application examples).

Staff analysis and recommendations

122 AASB 10 paragraph B58 requires a party with decision-making rights to consider whether it is a principal or an agent. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and, therefore, does not control the investee when it exercises its decision-making authority.

14 ITC50_sub7_AuditNSW_2023.pdf

123 Whilst preliminary feedback received during the development of ITC 51 suggested that clarification was needed to assist public sector entities with determining when an entity is acting as a principal versus an agent, in response to the ITC, the general view from stakeholders is that there are no significant concerns in practice.

124 Staff note that some stakeholders commented on the judgemental nature of the assessment, however, most noted that there is sufficient guidance in AAS to support entities applying the concept in practice.

125 Therefore, staff are of the view that **no action is required** at this time.

126 This is consistent with the Board's consideration of the principal versus agent topic during the Post-Implementation Review of Income of Not-for-Profit Entities, where feedback also suggested that the principle can be difficult to apply as it requires significant judgement. Staff note that after considering stakeholder feedback during that PIR, the Board concluded that no further guidance was required for NFP entities at this time.[15]

15 ITC 51 Feedback Statement

Sub-topic 6 Other matters for consideration

127 Some stakeholders who provided verbal feedback of feedback via the survey highlighted some application challenges they are facing.

128 One stakeholder noted that preparing consolidated financial statements can be challenging due to their limited resources. For example, preparing consolidated financial statements with multiple organisations that use different general ledger structures and operate in different industries is difficult.

129 Another stakeholder has observed similar challenges. In their experience, NFP entities can experience issues where 'group' entities have different financial year ends. For example, a parent entity (incorporated association) with a December year-end that has one subsidiary with a December year-end (a school) and another subsidiary with a June year-end (an aged care facility). They noted that both the school and the aged care facility have to prepare individual financial statements for their respective government reporting obligations, and the aged care facility also has to finalise six monthly accounts for consolidation and individual reporting.

130 Another stakeholder commented about inconsistencies between members of a group in their accounting policy choices of members in their 'group'.

131 A stakeholder noted that consolidation might not be helpful because when a funding body is considering providing grants or donations to an entity, they may want to see the financials of that entity and not the whole group. They also noted that it is sometimes challenging for the Board of the 'parent' to access the required financial information to be able to prepare consolidated financial statements.

Staff analysis and recommendations

132 Staff acknowledge the application challenges experienced by stakeholders.

133 Whilst this feedback is outside the scope of this PIR, staff do not consider it to be representative of a shortcoming of the Standard; rather, it is an opportunity for the stakeholder to improve their internal systems and processes to make financial reporting less complex.

134 For example, staff note that AASB 10 sets out how to prepare consolidated financial statements (e.g. combine items of assets, liabilities, equity, income, expenses and cash flows). However, AASB 10 does not govern how an entity's chart of accounts should be structured. That is a matter for the entity to consider, as they could choose to adopt a standard chart of accounts for all 'group' entities to streamline the consolidation process.

135 Similarly, entities may wish to consider whether to align their reporting periods to reduce duplication of effort.

136 AASB 10 requires that uniform accounting policies are used in the preparation of consolidated financial statements and provides guidance on how to address any differences that might exist due to different accounting policies being used by group entities. Staff consider this a matter for the entity to consider, as they could choose to align the accounting policies of 'group' entities to reduce duplication of effort.

137 Staff acknowledge stakeholder concerns about the usefulness of consolidated information where a funding body is considering providing grants or donations to a specific entity and is interested in the financial position and performance of the individual entity. However, staff consider that there is nothing within AAS that prevents the entity from providing information about an individual entity to a funding body if they require it. Staff consider the funding body likely has specific information needs, and the role of the AASB as a standard-setter is to set standards for general purpose financial statements, which are designed for 'consumption' by a broad range of users. As such, this

is best addressed by the entity and the funding body to ensure the funding body's information needs are met.

138 Finally, whilst staff acknowledge the difficulty identified by the stakeholder relating to accessing and obtaining the information required to prepare consolidated financial statements, staff do not consider this challenge to be unique to the NFP sector as for-profit entities face similar difficulties at times.

139 Whilst staff acknowledge this feedback and the application challenges, staff are of the view that **no action is required to address this feedback**.