

1 September 2008

Professor David Boymal
Chairman
Australian Accounting Standards Board (AASB)
PO BOX 204
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Via email: standard@asb.gov.au

Dear David

ITC 17 Request for comment on IASB Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity*

CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) are pleased to respond to the Request for comment on ITC 17 IASB Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity*.

CPA Australia and the Institute have jointly considered the ITC. Our specific comments directed to the International Accounting Standards Board (IASB) are provided as an attachment for your information.

This letter addresses the specific matters requested by the AASB only. Our preference would be that any reporting entity concept that is eventually decided upon by the Boards should be appropriate for application across the different sectors. However we note in the attached appendix, that this may not be possible given the IASB's initial focus on the for-profit sector. We further note the significant amount of work currently under way to better understand the implications of the proposed Conceptual Framework for Financial Reporting for the different sectors. Some of these projects are incomplete or have not yet commenced. We understand the work of the Chairs and Senior Staff of the AASB, CASB, NZASB and UKASB *A Report on the Application to Not-for-profit Entities in the Private and Public Sectors* is likely to be ongoing. We have considered their recently published Report and think that work is valuable. We note that the International Public Sector Accounting Standards Board (IPSASB) is developing its framework separately. We encourage the AASB to continue to give appropriate consideration to the deliberations and the developments of the IPSASB.

CPA Australia and the Institute accept that there may be some circumstances unique to the not-for-profit and public sectors which requires certain amendments to measurement, recognition and disclosures. We encourage the AASB to develop a policy as a matter of priority to enable these changes to be done in a consistent manner which may take into account obvious 'signposts' such as nature, impact, cost and prevalence considerations. Dependent on the outcome of this policy, it may be determined that a separate conceptual framework is warranted, even if terminologies are the only changes made.

We encourage the AASB to contend to the IASB that consideration of not-for-profit issues is a major area in many jurisdictions that should not be left to the end of the framework project and should be done concurrently as each section is developed.

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If you require further information on any of our views, please contact John Ngiam, CPA Australia's Financial Reporting and Governance Policy Adviser via email at john.ngiam@cpaaustralia.com.au, or Kerry Hicks, the Institute's Head of Reporting by email to kerry.hicks@charteredaccountants.com.au.

Yours sincerely



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Copy: Sir David Tweedie, Chairman of the International Accounting Standards Board

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Appendix - AASB Specific Matters for Comment

(a) as indicated above, because the IASB-FASB joint conceptual framework project has an initial focus on for-profit entities in the private sector, the AASB plans to undertake additional consultation with constituents in relation to not-for-profit issues. In the meantime, in relation to the topic of 'reporting entity' covered by the Discussion Paper, the AASB would welcome comments on the issues that would need to be considered if the proposed concepts were also to be applied in Australia to not-for-profit entities in the private and public sectors and for-profit entities in the public sector;

In our view the IASB/FASB decision to produce a conceptual framework focussed on the private sector for-profit needs of capital providers was unhelpful to standard setters in other countries that have replaced their national GAAP with IFRS for use in the not-for-profit sector also. We have recommended to the IASB that not-for-profit consideration be addressed at each stage of development of the framework, rather than leaving this to the end of the framework project.

The joint project by the Canadian, NZ, Australian and UK standard setters on the implications of the conceptual framework for the not-for-profit sector should be referred to in this instance in order to determine whether a conceptual framework can incorporate both profit and not-for-profit considerations in the one framework, as was done in the predecessor AASB conceptual framework.

The AASB is placed in a difficult position in deciding how to apply the conceptual framework in Australia for both the profit and not-for-profit sectors. Whilst we would like to see one framework that applies across all sectors, it is hard to see how this can be achieved, given the drafting constraints imposed by the adoption of IFRS. The insertion of Australian paragraphs into our standards has led to the mistaken perception in some overseas jurisdictions that the Australian standards are not the same as IFRS, according to Sir David Tweedie on his recent visit to Australia. This impression, while incorrect, must be strenuously addressed.

We therefore reluctantly suggest that the AASB should consider preparing a separate Framework, based on those prepared by the IASB/FASB and IPSASB, for use in the public and not-for-profit sectors.

We agree with the issues raised in *A Report on the Application to Not-for-profit Entities in the Private and Public Sectors of the IASB/FASB Conceptual Framework Projects* by standard setters in Australia, Canada, New Zealand and the UK and commend that group on their work. As they note, the control criterion is particularly difficult to apply in the context of the not-for-profit sector in setting the boundaries of the reporting entity, for example where a not-for-profit has quasi independent branches.

For example, the individual RSL branches would be reporting entities as they each have their own members with a need for financial information. Whether the umbrella body, while providing charitable services to returned servicemen and widows using the funds raised by the RSL branches, actually controls those clubs is less obvious.

In its current state, the following modifications will be needed for it to apply to the public and not-for-profit sectors:

- Modification of the definition "a circumscribed area of *business* activity of interest to present and potential *equity investors, lenders and other capital providers*". The italicised terms are too narrowly focussed on the for-profit sector. The public and not-for-profit have a wider user group and material from SAC 1 *Definition of the Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting* may be of use in redefining this concept.
- A consideration of control in the context of how entities operate in the not-for-profit and public sectors. The notion of control over another entity in order to receive benefits would need to be expanded to include the subsidiary meeting the non-financial objectives of the parent.

Appendix - AASB Specific Matters for Comment (cont'd)

(b) whether the proposals would result in financial reports that are useful to users; and

As you will see from our submission to the IASB, we have indicated that the discussion of control should be at the standards level within the consolidation standard. This is particularly important given the low status of the FASB framework (see para P11) and the inability to ascertain at this point whether the Framework will still be referred to with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* in the hierarchy when determining accounting policies.

However, generally the discussion of control determining the composition of the group is consistent with long standing Australian practice and we support the proposals for consolidation using a controlling entity model.

(c) whether the proposals in the Discussion Paper are in the best interests of the Australian economy.

The proposals relating to control are unlikely to have any impact on the Australian economy.

However, the use of the terminology 'reporting entity' will be problematic as its use in this paper is very different from prevailing Australian usage and will prevent the application of differential reporting as practiced to date. These proposals are likely to give rise to confusion among practitioners. The AASB will clearly need to communicate these changes in a simple rational manner.

While we acknowledge there have been some difficulties with the practice of differential reporting, the examination of the applicability of the IFRS for Private Entities is starting to show that there is some merit in allowing practitioners some discretion in how they apply the standards (wholly-owned subsidiaries for example). In the interests of cutting red tape, the AASB should continue to explore how real concessions in differential reporting can be preserved.