

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED05-02
6 April 2022 – Online

Analysis of the Consultation Responses - Reporting and Control Entity (including Branches)

Summary	The paper analyses the consultation responses on the reporting entity and proposes the way forward regarding the guidance.
Purpose/Objective of the paper	The paper identifies the key issues highlighted through the consultation responses, and the subsequent feedback provided through a topic based Focus Group and from the Practitioner Advisory Group. It seeks advice on a proposed response to these issues, which will be used to shape the development of the Guidance.
Other supporting items	N/A
Prepared by	Sarah Sheen
Actions for this meeting	<u>Advise on</u> the way forward for drafting the Exposure Draft and associated Guidance.

Technical Advisory Group

The Reporting NPO and Control (including branches)

1. Introduction

- 1.1 The report provides:
- an overview of the consultation paper
 - a summary of the consultation responses
 - a summary of the outcomes of the Focus Group
 - an overview of the feedback from the Practitioners Advisory Group (PAG).

2. Consultation paper

- 2.1 The consultation paper set out that NPOs can have complex organisation structures to allow them, for example, to operate internationally. This may mean different structures and/or services or functions that may be delivered using branches. Additionally, activities may be delivered through separate legal entities or in partnership with another entity. Service recipients or supporters of an NPO may form entities to partner with and/or support an NPO.
- 2.2 Despite the preceding description of the operational arrangements NPOs, they can appear similar to the public but because of their nature require different financial reporting arrangements. Furthermore, NPOs may have service arrangements with local offices that are in separate reporting areas within an NPO. These reporting areas could have their own differing financial reporting arrangements.
- 2.3 The nature and complexities of the relationships that exist may make it challenging to decide when different structures, an activity or the operations of a branch which is part of an NPO, are:
- a. a part of a separate standalone reporting entity, or
 - b. when it is part of a separate reporting entity, or
 - c. a separate reporting entity controlled by an NPO.
- 2.4 The Consultation Paper also commented on the different regulatory frameworks which can exist within national jurisdictions for different types of NPOs as well as between them. This may impact on the approach to the control of the assets, liabilities, or the control of the entities that an NPO has an interest in. In

addition, there may be severe long-term restrictions that hinder control. Alternatively, in some situations, the ability of one NPO to exercise rights over another may be limited.

- 2.5 The Consultation Paper highlighted that without additional disclosures the nature of the reporting entity and its organisational and operational structure may not be clear. This is echoed in some of the consultation responses.
- 2.6 The Consultation Paper offered two main alternatives in relation to the topic of the reporting entity and branches:
- **Alternative 1 (IFRS 10):** This alternative uses the substance over form principles included in IFRS Standards and IPSAS (IFRS 10 and IPSAS 35 *Consolidated Financial Statements*). It is based on the preparation of additional NPO-specific guidance, using a principles-based approach to determine whether one entity has control over another.
 - **Alternative 2 (IFRS for SMEs):** proposes the use of pragmatic methods of assessment such as the power to govern financial and operating policies to define control as required by the IFRS for SMEs Standard. This alternative would focus on key characteristics that define NPO relationships and use the control principles set out in IFRS 10 and IPSAS 35 to develop tests to determine control. This may be a more pragmatic approach which might be particularly useful for smaller NPOs than a potentially more resource intensive assessment using principles.

3. SMC 1.a Description of the Issue – Reporting Entity and Control (including Branches

- 3.1 For each of the issues in the consultation paper stakeholders were invited to comment on whether the paper had appropriately captured the issue. As reported to TAG at its December 2021 meeting 20 (71%) of responses agree with the description of the issue. Several respondents in the supporting commentary agreed that there is a need to define control in the NPO context. Respondents also agreed the need to be clear about the description of branches ie that they are not a separate legal entity. They gave examples of NPOs operating in different contexts and noting in the examples that each branch was separately managed with its own fundraising.
- 3.2 A respondent also indicated that there were four models identified by research in New Zealand these are outlined in more detail in Annex A row 1.a.1. Sometimes these structures may take different legal forms. The Guidance and

supporting examples would need to be able to accommodate these different operating structures.

- 3.3 One respondent commented that NPOs are not owned and that the boundaries for NPO reporting entities is less clear. In terms of the Guidance a respondent commented that there was a need for it to define benefits that are non-commercial as a part of the determination of control. The Guidance would also need to be flexible such that a part of a legal entity (this might be a branch) could be deemed to be a reporting entity, if necessary. The Secretariat agrees with these comments.
- 3.4 One respondent that neither agreed nor disagreed with the description indicated that the definition of control should be based on accountability. Another respondent commented that there would need to be separate provisions on the reporting entity so that parent NPOs can determine whether the entities they have an interest in are controlled. This should address the issue relating to branches. The Secretariat agrees that there may need to be provisions in the Concepts and Pervasive Issues section of the [INPAG] Guidance, with supporting guidance.
- 3.5 Respondents disagreeing with the description of the issues, included several commentaries:
- That not-for-profits had different reasons for different operating structures that are not akin to subsidiaries and NPOs are alone in having the obligation of donors of money resources and time.
 - In Australia the reporting entity definition does not follow the model in IFRS or IPSAS – an entity must determine if it is reasonable to expect users who will rely on the entity's general purpose financial statements to make decisions about the allocation of resources.
 - The definition of the reporting entity will be hampered without the associated consideration of consolidation.
 - The description does not adequately address fund raising entities such as NPOs established to undertake fundraising activities to support medical service provision including hospitals.

The Secretariat's responses to these issues are outlined in rows 1.a.7 to 1.a.9. However, the Secretariat does not believe that donations of resources and time precludes the treatment in international standards, the definition of a reporting entity will need to encompass users' needs, and the reporting boundary. The issues relating to fundraising entities will be addressed in implementation guidance.

Question 1:

Does TAG agree with the Secretariat's responses to views on the description of the issue?

4. SMC1.b Are the List of Alternative Treatments Exhaustive?

- 4.1 For each Issue stakeholders were asked to comment on whether the alternative treatments for that issue were exhaustive. 20 (74%) of respondents agreed with the list of alternative treatments with 6 (22%) disagreeing and 1 (4%) respondent neither agreeing nor disagreeing.
- 4.2 A respondent that agreed indicated that it seemed logical that alternative 2 (IFRS for SMEs) be used and that alternative 1 (IFRS 10) would be used to deal with more difficult situations. A further respondent that agreed considered that relationships not defined by control should be covered by disclosures. A respondent noted that this was except for where the regulatory framework ties in with the legal form of an NPO.
- 4.3 Respondents that disagreed commented that:
- both options assume control at the heart of the definition of a reporting entity and thought an alternative option should be based on the 'mission' and outputs
 - the control approach used under IFRS 10 used in Australia is superior to the ownership basis of defining control
 - that it was difficult to identify the differences between both options.
- 4.4 The detailed comments of the Secretariat are produced in rows 1a.4. to 1.a.6.
- 4.5 The responses to the consultation do not appear to identify many significant alternative treatments to those focusing on the definition of control in terms of defining the reporting entity and the impact on other operational structures. The Secretariat is of the view that either alternative is unlikely to bring about significantly different results and therefore the approach that is easier to apply might be more useful.
- 4.6 It may be useful if some reflection of an NPO's 'mission' is included in deciding on the boundary of a reporting entity. This will be particularly important where the Guidance seeks to reflect a complete representation of an NPO. In private sectors this is described as representing the economic activities of the entity, which may not wholly apply to an NPO and require modification in the INPAG Guidance. This may help reflect the purposes or 'mission' of the NPO.

Question 2:

Does TAG have any comments on the Secretariat's responses to views on the alternatives and their impact on the Guidance?

5. SMC 1.c Articulation of the Advantages and Disadvantages of the Alternatives

- 5.1 Several respondents provided generally supportive comments on the articulation of the advantages and disadvantages of each of the alternatives. A respondent that agreed, however, noted NPOs need to understand the relationship between the organisations it works with before consolidating. The Secretariat agrees with this commentary.
- 5.2 A respondent that neither agreed nor disagreed indicated that control is an exacting criterion which would exclude the value of the services from volunteers, some bequests and conditional donations which may be delivered on an as needed basis. The Secretariat does not believe that the control model would mean that the value of these transactions would be excluded from the financial statements but would also be supported by Guidance from the other topics. A respondent that neither agreed nor disagreed commented that a practical approach may reduce consistency and therefore the value of the Guidance.
- 5.3 Alternatively, one of the respondents that disagreed with the articulation of the advantages and disadvantages commented that it may be easier for stakeholders to understand and improve comparability if alternative 2 (IFRS for SMEs) is adopted. A second respondent commented that alternative 2 seemed to be underscoring the disproportion of costs versus benefits and if this was the case this needed to be better substantiated.
- 5.4 Respondents that disagreed also commented that there was no need for NPOs to have a consolidated balance sheet and a further respondent suggested that further use of rebuttable presumptions might be helpful to ensure that any approach reflected the economic circumstances of the NPO. IFRS for SMEs already includes a rebuttable presumption, which may still apply to NPOs. The Secretariat believes that the inclusion of more than one rebuttable presumption may be confusing for users of INPAG. The Secretariat does not currently plan to include a second rebuttable presumption.
- 5.5 A respondent commented that from an Ethiopian context there is a possibility that a branch of an international NPO may be a non-reporting entity, but it has a legal responsibility to present audited financial statements. The Secretariat

would note that in such circumstances local regulations would be likely to override any requirements in the INPAG Guidance, but it may be useful to recognise this possibility in the Guidance.

Question 3:

- a) Does TAG have any comments on the Secretariat's response to views on the consultation questions?
- b) Does TAG have views on the potential for the inclusion of a rebuttable presumption different to the one currently in IFRS for SMEs? Does TAG agree that only one rebuttable presumption should be used?
- c) Does TAG particularly have any views on the regulatory issues that may arise regarding the reporting entity and control (including branches)?

6. SMC 1.d Preferred Alternative – Alternative 1 (IFRS 10) or Alternative 2 (IFRS for SMEs)

- 6.1 Respondents favoured alternative 2 (IFRS for SMEs) with 16 (62%) of respondents suggesting that they would prefer alternative 2 and 7 (27%) of respondents favouring alternative 1 (IFRS 10) and 3 (12%) respondents not wishing to proceed with either alternative.

Alternative 1: Follow the Control Model Under IFRS 10

- 6.2 The respondents that preferred the control model under IFRS 10 indicated that this was consistent with the key international frameworks and that this control framework was based on the substance of the transaction and not the form. One respondent commented that organisations can find it easier to understand the substance of the relationships in operation better than their legal forms. However, the respondent indicated that it would support guidance where well-defined legal form is encouraged. Two respondents commented that the IASB and IPSASB frameworks do not use 'bright-lines' judgements that are not translatable to different country formats.

Alternative 2: Follow the Control Model as required by the IFRS for SMEs Standard.

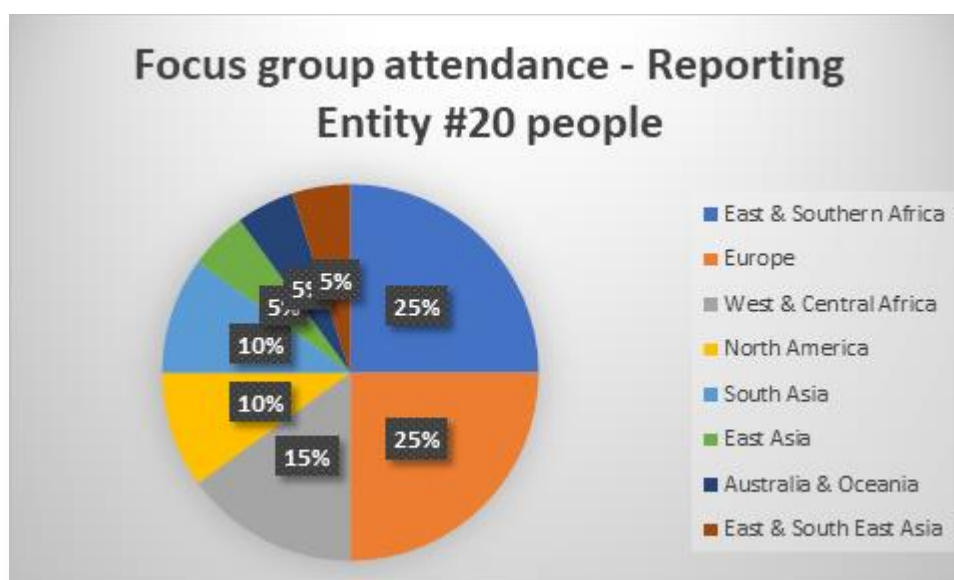
- 6.3 Seven respondents indicated that Alternative 2 allows for a customised approach to NPOs based on pragmatic methods. The approach would be easier and more cost effective to apply without significant judgement (one respondent noted that this would make initial implementation easier).
- 6.4 One respondent noted that the examples should not be limited to majority voting power and control of financial and operating policies.

Respondents Not Wishing to Proceed with Either Alternative

6.5 Three respondents did not consider that either alternative was appropriate. Two respondents appear to hold similar views. One noted that consolidation may be too complex or onerous for smaller NPOs and recommended that consideration be given to the reporting framework for Tier 3 in Australian financial reporting. In this framework consolidation is voluntary for smaller NPOs with the alternative option of simple disclosure of significant relationships. It appears that a second respondent recommended a similar solution but referred to this as a ‘minimum entity accounting report’. One respondent considered per previous responses that the reporting entity should be recognised based on an NPO’s output and mission.

7. Focus Group on the Reporting Entity and Control (Including Branches)

7.1 The focus group included 20 attendees, with representatives from accounts preparers, auditors, standard setters (including 2 members of the TAG), academics and accounting institutes. The geographic distribution of the focus group attendees is presented in the chart below.



7.2 The focus group looked at five main areas:

- the description of the reporting NPO
- the identification of the reporting NPO
- identification of branches
- the treatment of other structures and the reporting NPO, and
- the proposed alternatives.

Preferred Alternative

- 7.3 The focus group was presented with the outline the results of the consultation ie the preference for alternative 2 (IFRS for SMEs) and the reasons given for this. Focus group members were also presented with recent developments for IFRS for SMEs, where the IASB has made the tentative decision to align the *IFRS for SMEs* Standard with IFRS 10. Focus group members appeared to be relatively evenly split between the two alternatives with similar arguments being presented to those of the respondents to the consultation.
- 7.4 Alternative 1 (IFRS 10) was deemed to be the better conceptual approach with respondents arguing that any issues of requiring judgement could be dealt with by means of implementation guidance. Focus group attendees noted that this alternative was also better equipped to deal with control decisions that were not based on ownership. The Secretariat would largely agree with this commentary.
- 7.5 Supporters of Alternative 2 (IFRS for SMEs) were clear that this approach was substantially easier to apply and easier to understand and that the decision-making process would use less resources. Their view was that alternative 1 would require more judgements to be made and that this would test capacity and resources in NPO's. It appeared that the focus group members were concerned about capacity.
- 7.6 In addition, some members of the focus group considered it might be useful to test the guidance with some examples and possibly consider the Australian accounting standards guidance in this area. The Secretariat would note that the recently issued Australian Statement of Accounting Concepts SAC 1 The Reporting Entity '*adopts a concept of the reporting entity which is tied to the information needs of users and the nature of general purpose financial reports*'.
- 7.7 Though very useful for feedback, the Focus Group did not provide significant new evidence or arguments to add to the views provided by respondents to the Consultation Paper.

8. Commentaries from PAG

Operating Structures

- 8.1 At its meeting on 16 March 2021 PAG was asked about the types of operational structures that it considered should be subject of guidance and what type of issues might require additional guidance. In addition to the structures cited in paragraph 3.3 above individual PAG members referred to the following:



1. Structures where philanthropists appear to control the NPO. It was noted that Guidance should confirm that this was not control in the financial reporting sense.
2. The Guidance needs to cover:
 - a. joint ventures
 - b. exploitation of shared assets
 - c. consortia arrangements
 - d. the differences between associate and subsidiary entities
 - e. the difference between federations (arguably where an umbrella body coordinates but does not control independent NPOs) versus affiliates or franchises where a control relationship may exist
 - f. loose networks of independent NPOs collaborating due to shared interests.

The Guidance needs to allow preparer and user to best understand the boundary of the reporting NPO as opposed to third parties with which they collaborate.

- 8.2 Although the Secretariat recognises that the first issue regarding philanthropists is a real issue for NPOs, this may not be an issue that accounting guidance can resolve. It might be possible to address this through other literature.
- 8.3 Arguably the provisions for IFRS for SMEs already cover associates and joint ventures. These provisions should allow appropriate accounting treatment for these types of interests in other entities. To include these types of arrangements would widen the scope of this topic, though it is notable that joint arrangements was suggested by one respondent commenting on the overview section of the consultation paper. The Secretariat did not recommend inclusion of joint arrangements as a priority topic for Phase 1. This topic could, however, consider whether it needs to cover consortia though this may be covered in Issue 2.

PAG Preferred Alternative

- 8.4 PAG was also asked its views on alternative 1 and alternative 2. Although not unanimous the majority of PAG members preferred alternative 2 in line with the consultation responses. Overall PAG members supported the pragmatic approach. Comments supporting this included familiarity with existing arrangements and therefore ease of use, and IFRS 10 principles being based on commercial perspectives of reward. A PAG member commented that it was also the case that the pragmatic approach creates a space for INPAG to begin to develop the many distinctions between for-profit and not-for-profit accounting that will form the basis of the Guidance. Another PAG member commented that the pragmatic approach allowed for issues such like the environment in which NPOs operate to be taken on board eg political issues.

9. Approach to Drafting the Exposure Draft for the Reporting NPO and Control (Including Branches)

- 9.1 The Secretariat is developing drafting for the Exposure Draft, based on the proposals in the consultation paper, the outcomes of the consultation exercise and the focus group.
- 9.2 The early draft of the INPAG guidance includes:
- a. the relevant paragraphs from section 2 describing the reporting NPO and how an NPO might seek to identify the boundary of reporting NPO where difficulties exist
 - b. draft implementation guidance and implementation examples which include different operating structures and the accounting treatment for these types of structures including:
 - i. subscription and fee-based structures
 - ii. NPOs established as separate legal entities to manage the financial burdens or the risks within the activities of the NPO or for fundraising activities, and
 - iii. affiliated structures.
 - c. draft implementation guidance on the identification of branches
 - d. section 9 updated in accordance with alternative 2 (see below).

This will be updated to take on board feedback from PAG and the advice of TAG.

Approach to Alternatives

- 9.3 The Secretariat is of the view that either Alternative 1 or Alternative 2 could provide an effective response to the treatment of the reporting entity and control. It is of the view that consolidation is appropriate for relationships where an NPO has interests in other entities but would seek the TAG's views on whether this might be too complex for some NPOs as is reported in section 6.
- 9.4 The Secretariat's view is that it concurs with the views of respondents and PAG that the pragmatic approach will provide a cost-effective and easy to apply way forward and current drafting has been based on that approach which will be presented to the TAG at its next meeting. This to a certain extent addresses the impact of the requirements for smaller NPOs, though the Secretariat would seek the views of TAG.
- 9.5 Section 9 (Consolidated and Separate Financial Statements) is being augmented with examples which that are based on non-voting forms of control, and this has been supported in the implementation guidance with examples.



Question 4: Does TAG agree with the approach to drafting the Exposure Draft on the reporting entity and control (including branches) following its consideration of the consultation responses above?

Question 5: Does TAG consider that guidance needs to be provided on any other forms of operating structure such as consortia?

Question 6: Does TAG have any comments about the preferred approach of the Secretariat to Alternatives (ie following Alternative 2 IFRS for SMEs) following the consultation responses (and the feedback from the focus Group and PAG)?

Question 7: Does TAG consider that reporting an interest in other entities using the consolidation approach is too complex for some NPOs?

INPAG
March 2022

Annex A - Issue 1: Reporting entity and control (including branches)

Table (D)	Agree	Disagree	Neither Agree nor Disagree	Total Number of Responses to SMC	Non-Response	Total No. Responses
SMC 1a) Do you agree with the description of issue 1 – Reporting entity and control (including branches) – in the Consultation Paper? If not, why not?	20 (71%)	6 (21%)	2 (7%)	28	41	69
SMC 1b) Do you agree that the list of alternative treatments that should be considered for issue 1 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.	20 (74%)	6 (22%)	1 (4%)	27	42	69
SMC 1c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 1? If you do not agree, please set out the changes you propose, and why these should be made.	18 (69%)	8 (31%)	0	26	43	69



Table D (ii)	Alternative 1	Alternative 2	None	Total Number of Responses to SMC	Nonresponse	Total No. Responses
SMC 1d) Please identify the alternative treatment that you favour for issue 1, and the reasons for your view.	7 (27%)	16 (62%)	3 (12%)	26	43	69



Question 1 a) Analysis		
	Comment	Secretariat Response with Comments Relating to the Guidance
	The respondents that agree with question 1 a) commented:	
1a.1	<p>Several respondents agreed that there is need to define control, and what constitutes a branch. They expressed the view that there is a need for clarity on the status of the financial statements of a branch that is not a separate legal entity. The examples cited included:</p> <ul style="list-style-type: none"> • NPOs found to be operating in very different contexts as compared to their branches. • each branch was separately managed with its own fundraising, and spending, but technically part of the national operation <p>Research in New Zealand in 2013 indicated that there were four models:</p> <ol style="list-style-type: none"> 1. a 'top down' approach to their related entities which were managed by a Head Office. This structure generally prepared single entity financial statements that reflected this; or 2. a 'bottom up' approach with complex inter-relationships and democratic governance resulting in a multitude of reporting entities (as single entities, groups, etc); or 3. an 'affiliated members' approach where the Head Office was a separate entity and members operated independently; and 4. a final set of NPOs had 'related interests' but did not acknowledge this in their financial statements; hence they registered separately and 	<p>These comments provide useful evidence of the different type of organisational structures that might be established, and the draft Guidance has attempted to accommodate these.</p>



Question 1 a) Analysis		
	Comment	Secretariat Response with Comments Relating to the Guidance
	<p>prepared financial statements for those single entities.</p> <p>The same respondent commented that sometimes entities will register or take different legal forms to limit liability from various programme activities, to protect funding sources and to establish clear lines of authority (and autonomy). These used many different terms to refer to their related entities, including 'schemes', 'subsidiaries', 'branches', 'divisions', 'accredited members', 'constituents', 'regional organisations' etc.</p>	
1.a.2	<p>A respondent indicated that control was the main consideration as to when a connected entity is a subsidiary which needed to be consolidated. NPOs are 'non-owned' entities where the boundary between entities or activities is often less clear. A further respondent commented that there was a need for guidance about the definition of benefits to the reporting entity as in the not for profit environment identifying non-commercial benefits which nevertheless further purposes of the organisation directly or indirectly can be difficult to determine.</p>	<p>It is agreed that whichever control model is taken forward there will be a need to carefully assess the reporting boundary based on the control of the relevant activities of the NPO expressed in both commercial and non-commercial terms.</p>
1.a.3	<p>A respondent commented that the Guidance standard should be flexible enough that part of a legal entity, such as a branch, or a fund (however defined), could be a reporting entity. If it met the relevant criteria.</p>	<p>Agree. The INPAG Guidance needs to accommodate such issues.</p>
	<p>Respondents that neither agreed nor disagreed with question 1a) commented:</p>	



Question 1 a) Analysis		
	Comment	Secretariat Response with Comments Relating to the Guidance
1.a.4	<p>Another respondent commented that the reporting entity should be defined without the definition of control and should be based on accountability.</p> <p>A second respondent citing previous comments to part 1 of the Consultation Paper indicated that the Guidance would need to provide separate provisions on the reporting entity so that parent NPOs can determine the entities they control and address the financial reporting implications accordingly. It continued that that guidance regarding branches will need to be included within the scope of material on the reporting entity and its boundary, separate from the definition of control of other entities.</p>	<p>The Secretariat is of the view that the reporting entity/NPO should be described in the Concepts and Pervasive principles section of the guidance and include commentary on the definition of control together with relevant accompanying guidance. Implementation guidance will cover the issue of branches and the structures that NPOs operate to deliver their activities.</p>
1.a.5	<p>One respondent commented that the Guidance does not address the dynamics in their countries ie that all the entities are separately registered and have autonomy, funding arrangements based government requirements.</p>	<p>See comments above on the need to be flexible.</p>
1.a.6	<p>One respondent referred to joint campaigning becoming more prevalent</p>	<p>This is probably outside of the scope of the topic, but the Secretariat will keep this under review.</p>
<p>Respondents that disagreed with question 1a):</p>		
1.a.7	<p>A respondent commented that not for profits had different reasons for operating structures eg via branches that were not akin to subsidiaries.</p>	<p>It is noted that the nature of donors is a particular issue for NPOs and donations of time is a special feature of the NPO sector .</p> <p>(No specific impact on the Guidance though this underlines the need to include branches in the Guidance).</p>



Question 1 a) Analysis		
	Comment	Secretariat Response with Comments Relating to the Guidance
	It noted that NPO's are alone in having an obligation to donors of money, resources and time.	
1.a.8	<p>One respondent commented:</p> <p><i>'Australia has a dual conceptual framework maintained by the AASB. In the context of an NPO, the 'Reporting Entity' definition follows neither IFRS/IPSAS nor IFRS for SMEs standards. An entity must determine, by self-assessment, if it is reasonable to expect that users exist who will rely on the entity's general purpose financial statements to make decisions about the allocation of their resources. The definition is not based on a legal entity concept - a reporting entity can be a single legal entity or group of legal entities.'</i></p> <p>This respondent continued:</p> <p><i>'Importantly, the 'Reporting Entity' definition to be used by IFR4NPO should not contradict existing terms used within each jurisdiction. Although it is inevitable there will be differences, we recommend IFR4NPO use a unique and exclusive term which won't cause confusion for intended users.'</i></p>	<p>It is agreed that the definition of a reporting entity need not rely on the definition of a legal entity (though it is often the case that these will align). Definitions within IFRS do not rely on the definition of a legal entity. In line with the overarching framework, national standards will be examined where international standards do not provide a solution.</p> <p>Although not explicitly adopting the suggested approach the early draft of the Guidance does consider the needs of the primary users when assessing the reporting entity.</p>
1.a.9	<p>A respondent commented that it was concerned with the way that the 'control' aspect of the reporting entity concept has been articulated. It expressed the views that the Guidance will be 'hampered' without the associated considerations of entity boundaries and guidance on consolidation. This given the existing identified complexity of many NPO</p>	<p>Note that this directly contradicts the response in 1.a4 above. See the response in 1.a4. The intention is that the reporting NPO considers the issue of the reporting boundary as does the implementation guidance .</p>



Question 1 a) Analysis		
	Comment	Secretariat Response with Comments Relating to the Guidance
	structures. The respondent therefore recommended that these issues be addressed as part of the discussion of this topic in the first version of the Guidance. A second respondent made a similar comment.	
1.a.10	A respondent commented that the description does not adequately address fund raising entities established solely for the purpose of raising funds for an operating NPO such as a hospital or University, but which does have variance power regarding timing. In these cases, control and risk and reward are divorced for good reason.	The Secretariat is of the view that though these may not have been explicitly referred to in the consultation paper the Guidance will need to accommodate these structures.

Question 1b) Analysis		
	Comment	Secretariat Response
	The respondents that agree with question 1 b) commented:	
1b.1	A respondent commented that disclosures should be considered when a relationship is not defined as being one of control. The disclosures should feature the relevant information it would be appropriate to disclose so readers of the financial statements can sufficiently understand the level and scale of transactions with those nonconsolidated branches and other entities.	It may be useful to include disclosures that affectively describes the reporting structure in operation.



Question 1b) Analysis		
	Comment	Secretariat Response
1b.2	A respondent agreed but noted that this was except for the regulations at national level which may tie in with NPOs' legal forms. This would assist NPOs to work out the parameters of the reporting entity. This point is particularly important to note, given that studies found national requirements (both regulators and taxation requirements) drive much NPO reporting.	The Secretariat agrees that it would be important to reflect these relationships in the financial statements.
1b.2	A respondent commented that it would seem logical that Alternative 2 (IFRS for SMEs) is the correct answer. In addition, adding the Alternative 1 (IFRS 10) guidance to deal with more complicated situations in which control or power is not so easily determined.	No further comments
	The respondent that neither agreed nor disagreed with question 1b) commented	
1.b.3	A respondent queried the treatment in cases where a branch is financially independent but legally depends on an NPO should there be consolidation of the accounts?	This would depend on the nature of the relationship between the entities and whether the legal dependency creates a relationship where an NPO controls the other entity.
	The respondents that disagreed with question 1b) commented:	
1.b.4	A respondent commented that both alternatives have the presumption that the definition for a reporting entity is control and therefore they are giving alternatives for establishing control rather than getting alternatives for defining a reporting entity. The respondent proposed that reporting entity be identified by uniqueness in missions/outputs as comparison of reporting entities can only take place if they have the same primary outputs or	It may be possible and appropriate to build accountability into the definition of a reporting entity and therefore this may accommodate some of the points raised by the respondent.



Question 1b) Analysis		
	Comment	Secretariat Response
	primary mission.	
1.b.5	A respondent commented that: 'I believe that the control approach under IFRS 10 that Australia has been using is superior to the ownership-based approach. However, I believe that a simplified approach is needed for IFR4NPO. If IFRS for SMEs is updated for IFRS 10, then that is likely to provide a very good start.'	No further comments.
1.b.6	A respondent indicated that there was a difficulty in identifying the difference between the two alternatives: assessing the power to govern financial and operating policies to define control.	The Secretariat would note that this is because for many transactions there is likely to be little difference in practice as the old IAS 27 <i>Consolidated and Separate Financial Statements</i> definition of control is subsumed into IFRS 10 <i>Consolidated Financial Statements</i> definition. General commentaries have found that differences on decisions on control are often for marginal decisions and largely both definitions would produce the same results.

Question 1c) Analysis		
	Comment	Secretariat Response
	The respondents that agree with question 1 c) commented:	
1c.1	A number of respondents provided generally supportive comments on the articulation of the advantages and disadvantages of each alternative for the reporting entity.	No further comments.
1c.2	A respondent commented that the advantages and disadvantages were appropriately articulated but that it was 'useful not to be pushing NPOs to work out	The Secretariat would concur that it is important that the reporting entity and the users of the financial statements understand



Question 1c) Analysis		
	Comment	Secretariat Response
	<i>whether a relationship represents the need to consolidate or treat a related party as an affiliate, before the essence of that relationship is understood.'</i>	the relationship with all parts of its reporting structures. As noted in point 1.b.2 it will be useful to the users of the financial statements if material relationships are clearly reported. The Guidance could indicate that where it is difficult to identify the reporting NPO boundary that the NPO should disclose the nature of the entity and the judgements made.
	The respondents that neither agreed nor disagreed with question 1c) commented	
1.c.3	A respondent commented that control is a very exacting criterion for NPOs. It would always exclude the value of services from volunteers, some bequests and conditional donations in kind which may be delivered on an as needed basis.	The Secretariat does not believe that either control model would lead to the exclusion of the value of these transactions from the financial statements. The Guidance could require that the reporting entity should ensure that it reports a complete depiction of the reporting entity.
1.c.4	A respondent noted that it had a preference for alternative 1 which is preparing NPO-specific guidance on the nature of reporting entities and the use of the principles-based approach of substance over form to define control.	The Secretariat has no further comments. These are the benefits of an approach based on IFRS 10.
1.c.5	One respondent noted that a practical approach will reduce consistency and therefore the value of the standard.	The Secretariat notes this risk.
	The respondents that disagreed with question 1c) commented:	
1.c.6	A respondent noted that Alternative 2 was easier to apply. The key advantages are that it may be easier for stakeholders to understand and improve comparability.	This is one of the advantages of alternative 2.



Question 1c) Analysis		
	Comment	Secretariat Response
1.c..7	A respondent commented that 'The 'pragmatic approach' described in Alternative 2 seems to be underscoring the potential disproportion of costs vs benefits. This appears to be a 'judgement call' that would need to be better substantiated.	This may be verified by further outreach activities ie at the consultation on Exposure Draft stage.
1.c.8	A respondent expressed the view that there was no need for NPOs to have a consolidated balance sheet.	The Secretariat is of the view that if an NPO has a material interest in other entities that a consolidated balance sheet would be necessary to demonstrate the economic relationship of that interest.
1.c.9	A respondent commented that paragraph 3.8 of the consultation paper sets out that IFRS for SMEs standard allows the presumption of control to be rebutted if it can be clearly demonstrated to the contrary. It queried whether consideration should be given to whether it would be appropriate to make any such result of the pragmatic methods rebuttable, if it can be clearly demonstrated to the contrary, to better reflect the true economic circumstances?	Although rebuttable presumptions can be useful in pragmatic solutions. If the Guidance is also dependent on the rebuttable presumption in IFRS for SMEs, it is likely that adding a further rebuttable presumption may cause confusion for NPO accounts preparers.
1.c.10	A respondent commented that the principle set out in Part 1 of the paper would lead us to always choosing the IFRS for SMEs alternative, while including additional guidance for those situations that cannot be resolved without reference to IFRS.	The Secretariat recognises this response but notes that the principles within the consultation paper and now embodied within the 'rules of the road' document allow for further steps to better reflect the relationships where an NPO has an interest in another entity.
1.c.11	A respondent reinforced its views expressed in question 1b that it was not of the view that control is as important as specific/unique mission or outputs. A respondent also expressed the view that the focus on Alternative 2 on ownership	As noted in response to 1.b.4 it may be possible to reflect accountability in the definition of a reporting entity. The pragmatic guidance if taken forward would include situations, which do not just reflect



Question 1c) Analysis		
	Comment	Secretariat Response
	is the best approach for NPOs. This is because many NPO governing arrangements are based on agreements and constitutions (e.g. who can appoint the directors) and are not always linked to votes by members.	ownership, but that properly reflect entities controlled by the NPO.
1.c.12	A respondent noted that a disadvantage of both alternatives (from Ethiopian context) is that there is a possibility where a branch of an international NPO may be considered as a non-reporting entity, while the branch office has a legal responsibility by law to present an audited financial statement for the Ethiopia branch (country office). If local reporting jurisdictions should be indicated as a possible criterion to determine whether a branch is a reporting entity	Regulatory requirements that specify different reporting arrangements will need to be considered by each jurisdiction in deciding whether to adopt, adapt or align with the Guidance.

Question 1d) Analysis		
	Comment	Secretariat Response
	The respondents that preferred Alternative 1 (IFRS 10) commented:	
1d.1	Alternative 1 (IFRS 10) is consistent with key International Accounting Standards Frameworks (IFRS and IPSAS) where the substance is preferred over the form.	No further comments.
1d.2	A respondent commented that NPO arrangements can often be quite informal, resulting in a lack of clarity regarding key criteria such a control and benefit. Often the need for clarity in financial reporting can be helpful in encouraging and facilitating NPOs to put in place clearer arrangements which help define and	The Secretariat recognises that this might be an advantage of Alternative 1.



Question 1d) Analysis		
	Comment	Secretariat Response
	establish legal responsibilities. NPOs can find it easier to understand the substance of relationships better than consideration of its legal form. However, it would encourage any guidance produced to suggest that well-defined legal form is always to be encouraged	
1.d.3	Two respondents recommend Alternative 1 (IFRS 10) by drawing on current frameworks from the IASB and IPSASB does not bring in specific 'bright-lines' that are not translatable to different country contexts.	A principles-based definition allows for guidance to be applied across different structures of NPOs and is translatable across different jurisdictions.
	The respondents that preferred Alternative 2 (IFRS for SMEs) commented:	
1.d..4	A respondent expressed the view that many NPOs do not provide any paid services, so they don't have profit on sales and cannot provide any material (monetized) returns/benefits to the controlling entity.	The returns do not have to be monetised to meet the definition of control.
1.d..5	Seven respondents indicated that alternative 2 allows for a customised approach based on the pragmatic methods. This approach would be easier and cheaper to apply without requiring significant amounts of judgement. One respondent added that this would make initial implementation easier.	It is recognised that this alternative is likely to be easier and more cost effective to implement.
1.d.6	Two respondents commented that this approach was consistent with the underlying framework of IFRS for SMEs.	Agreed. No further comments. But see comments in section 4 of the report.
1.d.7	One respondent caveated indicating that the additional guidelines should not be limited to majority voting power or control of financial policies. The guidelines should	It is agreed that examples should not be limited to majority voting power or control of financial and operating policies per the



Question 1d) Analysis		
	Comment	Secretariat Response
	include additional aspects such as the ability to withdraw its business brand from the controlled entity or the ability to veto certain strategic decisions. Another commented this is because many NPO governing arrangements are based on agreements and constitutions (e.g. who can appoint the directors) and are not always linked to votes by members.	articulation of alternative 2. Guidance will be included to address these issues.
1.d.8	One respondent commented: <i>'However, the pragmatic criteria should include local definition (contexts). As indicated above, branches of an international NGO operating in Ethiopia is a reporting entity by law regardless of the extent of control by its Head Office.'</i>	This would need to be considered by each jurisdiction in adopting, adapting or aligning with the Guidance.
	The respondents did not want to proceed with either alternative said:	
1.d.9	The respondent noted that consolidation may be too complex or onerous for smaller charities, and two respondents referred to the AASB's recent deliberations on this issue in developing a Tier 3 financial reporting framework for not-for-profit private sector entities. A solution may be for consolidation to be voluntary for smaller NPOs with the alternative option of a simple disclosure regarding 'significant' relationships.	This approach may be the appropriate for smaller NPOs. It is not the current intention to create tiered guidance and jurisdictions in adopting, adapting or aligning with the Guidance will need to determine which entities should follow the Guidance.
1.d.10	A minimum entity accounting report is the best and just mention related NPOs without any definitions (non-financial report).	Although the Secretariat is not precisely clear what this reporting arrangement is it appears to be similar to the one described in row 1.d.9.
1.d.11	A respondent considered that their preferred alternative is to recognise a reporting entity based on outputs and	This could be considered as a part of the definition of a reporting entity as described in 1.b.4 and 1. c.11.



Question 1d) Analysis

	Comment	Secretariat Response
	mission as explained in previous responses.	