28 February 2025

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Via online submission www.aasb.gov.au

Dear Keith

Exposure Draft: ED 334 Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia represent over 310,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout Australia, New Zealand and internationally. We welcome the opportunity to provide feedback on the above Exposure Draft (the ED) and make this submission on behalf of our members and in the public interest.

Overall feedback

We are strong supporters of the not-for-profit (NFP) sector and many of our members are involved with the sector as advisors, auditors, employees and volunteers. We therefore strongly support the Australian Accounting Standards Board (AASB) efforts to improve the transparency and accountability of reporting in the NFP private sector via the creation of a new, fit-for-purpose Tier 3 accounting standard for smaller NFPs and associated changes to incorporate it into the reporting framework. The proposed Tier 3 standard will ensure many NFPs that currently a prepare Special Purpose Financial Statement (SPFS) will instead prepare a fit-for-purpose General Purpose Financial Statement (GPFS) when complying with their statutory or other financial reporting obligations. As noted in our submission on ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* (ED 335) we commend the AASB for taking on board the feedback from its stakeholders and producing a GPFS standard that we believe will provide a proportionate reporting response for those smaller NFPs for whom reporting under the Tier 2 accounting standards would be onerous and costly.

We also broadly support the Board's decision to make limited amendments to the Conceptual Framework for Financial Reporting (CF) to incorporate the new Tier 3 standard into the Australian Accounting Standards Framework.

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However, while we support the core purpose of the ED, we have highlighted below some of the concerns we have with the current implementation proposals for these reforms, as set out in the ED.

Implementation concerns and scoping issues

The AASB proposes to apply the Tier 3 standard using the terminology that it used to apply the preceding special purpose reforms in the for-profit sector. This terminology replicates the exact wording used in the preceding for-profit sector reforms that requires preparation of GPFS when there are legislative requirements or reporting requirements in other documents that stipulate preparation of financial reports in accordance with Australian Accounting Standards or accounting standards.

In our view adopting this approach fails to recognise the significantly more diverse nature of the Australian NFP landscape and the inherent difficulties of ensuring NFP regulators federally and in the states and territories undertake to amend the relevant legislative requirements to operationalise the new Tier 3 standard.

The AASB has indicated which NFPs it believes the Tier 3 standard is designed for (NFPs with revenue between $500,000–$3m, based on the Australian Charities and Not-for-profits Commission (ACNC) "medium" charity threshold) by using ACNC medium-sized charities as a reference point for identifying transactions and balances of smaller NFPs that may be able to prepare Tier 3 GPFS. However, this threshold does not take into consideration the wide range of other NFP reporting thresholds that exist. This currently leaves NFP entities with a significant lack of certainly about the scope of the new Tier 3 NFP standard as to which NFPs it will be applicable to. This has several significant implications, including making it difficult to:

- Determine the appropriateness of several of the accounting requirements proposed in ED 335.
- Assess the effectiveness of the transition provisions, especially the incentives to encourage early adoption.
- Provide NFP entities with the certainty they need to decide whether a transition from preparing SPFS to Tier 2 or Tier 3 best suits their specific circumstances.
- Identify how the upper limit of the Tier 3 standard will be enforced to ensure it is not inappropriately applied by larger NFP entities that should be reporting under the Tier 2 standards.

We therefore reiterate the position we expressed in our joint submission to the preceding Tier 3 Discussion Paper (DP) that it is inappropriate to view legislative change as the only implementation option for this much needed new standard.

Instead, we believe that the AASB should use the standard setting powers it has to implement this standard into its accounting standards framework via the temporary application of a threshold. This mechanism would prescribe applicability to all NFP entities that are required to report under accounting standards that have revenue below an upper threshold that we propose should be $5m in annual revenue. Such a threshold would exclude larger NFP entities who have revenue above this threshold from using the Tier 3 standard on a temporary basis whilst legislative change progresses. We do not propose a temporary lower threshold as existing legislative thresholds that define who needs to report should continue to be effective.

The inclusion of such a threshold would provide NFPs with the necessary certainty to move forward with planning for the adoption and implementation of the new Tier 3 standard while the regulatory reform discussions continue. It would also provide regulators currently accepting SPFS with a significantly improved reporting outcome from their current reporting requirements, which would support the calls for regulatory reform to implement it longer term.

We believe the AASB does have the authority to determine who must apply which Australian Accounting Standards, evidenced by the inclusion of both the “public accountability” and “reporting entity” concepts within the reporting framework, again as set out in our response to Question 1 of the Tier 3 DP. Implementing differential reporting for the NFP sector via a numerical threshold is not inconsistent with the principles that are inherent in SAC 1 or the use of the “public accountability” concept as a delineator between Tier 1 and Tier 2 GPFS. We therefore believe that adopting this approach is the most suitable short-term option, enabling this new Tier 3 standard to be implemented quickly once it is released.

Legislative reform still essential

Notwithstanding the above, we recognise that legislative reform is still critical as a permanent solution. We have therefore specifically written to the Assistant Minister for Competition, Charities and Treasury – The Hon Dr Andrew Leigh MP highlighting the need for these legislative reforms. This letter requests that the Federal Government acts a matter of priority to amend and align the relevant NFP thresholds in Commonwealth legislation such that the new Tier 3 NFP standard can be effectively implemented by NFP entities regulated under commonwealth legislation. A copy of this letter is attached as **Attachment B**.

We will also continue to advocate with state and territory governments to ensure similar legislative change occurs for NFPs subject to state and territory statutory reporting requirements. We appreciate that this is a complex task given the differing financial reporting requirements, and inconsistent wording, but it is essential if all these legislative requirements are to become fit-for-purpose, support the new standard and reduce the overall regulatory red tape burden on the sector. In fact, this cross jurisdictional reform was identified by the NFP Sector Blueprint as a key initiative (initiative 1 of Pillar 1) if the NFP sector is to thrive over the next 10 years.

Transition concerns

Given the implementation complexities referred to above we also do not support the sunsetting of the early adoption concessions. We believe that these concessions need to be available to incentivise and facilitate adoption, regardless of when that transition occurs.

Constituting documents references

We also do not support the AASB's proposal to extend the removal of SPFS to those NFPs whose constituting or other documents refer to "preparation of financial statements in accordance with Australian Accounting Standards". This approach has been adopted by the AASB from its preceding reforms when it removed the ability for for-profit entities to prepare SPFS when there is a requirement to prepare financial statements in accordance with Australian Accounting Standards stipulated in constituting or other documents. This was to ensure there was "brand protection" of Australian Accounting Standards in such circumstances. Since then, we have not identified any evidence that concerns about undermining the brand are significant and our feedback is that the inclusion of these entities in the for-profit reforms has been complex and costly. We are of the view that similar challenges are likely to be encountered in the NFP sector and that such evidence is essential if NFPs without legislative reporting requirements are to use their scarce resources to transition to more stringent reporting requirements than currently apply.

Instead, this aspect should be reconsidered when the NFP legislative reform has progressed and the post-implementation review (PIR) of AASB 2020-2 (removing SPFR in the for-profit sector) has been completed. This is on the basis that this PIR should provide some evidence that the benefits of including these entities within the scope of these reforms have in fact outweighed the substantial costs that were incurred by these entities in transitioning to GPFS.

Following the PIR, if there is no evidence that the preparation of SPFS (whilst stating compliance with Australian Accounting Standards) by both for-profit and NFP entities with constituting document or similar requirements is undermining the brand concerns the AASB has, we suggest removing this requirement from both the for-profit and NFP regimes. This will also allow the AASB to have only one Conceptual Framework in time, rather than the two it currently maintains.

Not-for-profit public sector reforms

We also do not support the extension of these reforms to the NFP public sector at this time. Including NFP public sector entities in this consultation is confusing, especially when they are unable to transition from SPFS to the new Tier 3 standard. While we note the incidence of SPFS within the NFP public sector is likely to be minimal, if there are any that currently prepare SPFS, such entities will automatically have to move to preparing Tier 2 GPFS. We would prefer that changes to NFP public sector requirements are not made without the completion of the broader public sector framework reform project.

Education concerns

The implementation of special purpose reforms in the for-profit sector required enormous educational effort by the AASB, the professional accounting bodies and our members as they supported preparers and users adapting to the changes. Preparers and users found the implementation clause difficult to understand, despite the changes being limited to only a relatively small number of regulators, requiring significant investment into development of resources by both the AASB and other stakeholders including ourselves in educational material. We expect that even more of these scarce resources will be necessary from all these parties to implement these reforms in the NFP sector, particularly if the standard is operationalised through fragmented NFP legislation nationwide. This will add additional complexity to the timing of, and incentives for, the transition provisions. We are therefore of the view that this is another valid reason for the AASB to reconsider its implementation approach.

Extension to the for-profit sector

While we welcome the AASB's development of a Tier 3 standard for the NFP sector, we are of the view that there is a place for a Tier 3 standard for similar-sized entities in the for-profit sector. Such a standard would provide proportionate relief from the full recognition and measurement requirements of Tier 1 and Tier 2 standards on a cost-benefit basis in this sector. Therefore, as noted in our response to the Tier 3 DP, we continue to recommend that the AASB consider commencing a project following publication of the Tier 3 standard, to explore how it could be repurposed to apply to similar sized entities in the for-profit sector.

Conclusion

Attachment A to this letter contains our responses to the specific questions raised in the ED. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Ram Subramanian at ram.subramanian@cpaaustralia.com.au (CPA Australia) or Amir Ghandar at amir.ghandar@charteredaccountantsanz.com (CA ANZ).

Yours sincerely

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Attachment A

Applying the Conceptual Framework to not-for-profit entities

1. **Paragraph Aus1.1 of the proposed amendments to the Conceptual Framework for Financial Reporting (Conceptual Framework) extends the applicability of the pronouncement to apply also to not-for-profit private and public sector entities that:**
   - **(a) are required by legislation to comply with either Australian Accounting Standards or accounting standards;**
   - **(b) are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after a specified date; or**
   - **(c) elect to prepare general purpose financial statements.**

   The Framework for the Preparation and Presentation of Financial Statements and SAC 1 Definition of the Reporting Entity are superseded for an entity when the Conceptual Framework applies to the entity.

   Do you agree with the proposed amendments to extend the application of the Conceptual Framework to not for-profit entities, including the proposed amendments to the Framework for the Preparation and Presentation of Financial Statements and SAC 1?

   If you disagree, please explain why.

We agree that all entities that are required to prepare GPFS, including those based on the new Tier 3 standard, should apply the same Conceptual Framework (suitably modified for NFPs). We therefore agree in principle with this proposal.

However, we are significantly concerned that the scope paragraph to implement the revised Conceptual Framework is an ineffective and onerous solution to the challenge of applying the Tier 3 standard in the current NFP environment. We acknowledge that consistency with the scope paragraph used to make these changes in the for-profit space is desirable as the familiarity will make implementation somewhat easier. However, there are specific NFP sector issues that work against this solution.

We set out these issues and our proposed response below.

(a) Legislative implementation

Use of terminology that applies to NFPs "required by legislation to comply with Australian Accounting Standards or accounting standards", fails to acknowledge that the NFP sector is subject to a very diverse range of laws and regulations (both federal and state). It also presumes that all the relevant regulators will make necessary and appropriate changes to their legislation to make this application clause clear within the transition timeframe currently being proposed by the AASB. Historical evidence about the speed of legislative change in the NFP sector would suggest that this is an optimistic presumption.

In addition, experience implementing the special purpose reforms in the for-profit sector showed that reliance on terminology that seeks to operationalise legislative requirements, while designed to ensure the reforms were effectively targeted, still caused considerable confusion about the scope of these reforms. This was because not all legislation or constituting or other documents uses this precise terminology (while adopting somewhat similar terminology as identified in the AASB's Research Report 10 Legislative and Regulatory Financial Reporting Requirements and its guidance Navigating the financial reporting requirements in for-profit private sector client documents).

We are therefore of the view, as explained in our cover letter, that the AASB should introduce a transitional threshold mechanism into its accounting standards framework, setting an upper threshold limit of $5m in annual revenue. This inclusion would provide NFPs with the necessary certainty to move forward with planning for the adoption and implementation of the new Tier 3 standard while the regulatory reform discussions continue. We believe the AASB does have the authority to determine who must apply which Australian Accounting Standards, evidenced by the inclusion of both the "public accountability" and "reporting entity" concepts within the reporting framework and that such an amendment is the most suitable short-term option for ensuring that the Tier 3 standard can be implemented as soon as it becomes effective.

(b) Constituting or other documents

We are of the view that applying the Tier 3 standard to NFPs with a reference in their constituting or other document to prepare financial statements in accordance with Australian Accounting Standards and grandfathering this requirement for NFPs with such references already in place before a particular date, will only serve to further complicate the application of Tier 3 standard in the NFP sector. We appreciate these words were included for the for-profit sector as a means to "protect the brand" and ensure that Australian Accounting Standards are applied consistently. However, our members' experience has been that for-profit entities have found these application requirements complex, difficult to interpret and costly to implement. Therefore, without evidence (which will become available via the AASB 2020-2 PIR) that this effort has made a difference to the "brand" in the for-profit sector such that the benefits outweigh the costs, we do not believe that it is appropriate to include these requirements in the Tier 3 standard at this time. The nature of the NFP sector means that it is inappropriate to require smaller NFPs to devote scarce resources to a new reporting solution without clear evidence that they have users who require this additional information and are unable to demand it for themselves.

Therefore, we believe that the focus of the scope paragraph should remain solely on legislative requirements and those entities that choose to prepare GPFS.

(c) Public sector entities

As noted in our cover letter we do not support the extension of the Conceptual Framework to public sector entities at this stage, preferring that the public sector phase of this project is delayed until it is further developed and consulted on. This is to avoid any unintended consequences from requiring public sector entities to move from special purpose reporting to Tier 2, given the lack of evidence currently available to the AASB. Doing this within the scope of the Tier 3 consultation (which is limited to NFP private sector entities), will only serve to further confuse implementation.

(d) Future of the old Conceptual Framework

The AASB's proposals currently envisage maintaining two conceptual frameworks for the foreseeable future. We believe that this approach is unsustainable in the medium to long term, as changes to fundamental definitions such as assets and liabilities have already changed the recognition criteria for these items. We therefore recommend that once the public sector framework reform project is progressed the old Conceptual Framework be withdrawn.

2. The AASB is proposing to insert a number of 'Aus' paragraphs into the Conceptual Framework so that the pronouncement is suitable for use as a conceptual framework document for not-for-profit entities.

(a) Do you agree with the proposed 'Aus' paragraphs to be added to Chapter 1 The objective of general-purpose financial reporting and Chapter 2 Qualitative characteristics of useful financial information of the Conceptual Framework, including the amendments to:

- **(i) distinguish donors from other funders (see proposed paragraph Aus1.2.1);**
- **(ii) clarify that transactions in equity instruments and distributions to investors typically do not occur in not-for-profit entities (see proposed paragraph Aus1.15.1);**
- **(iii) clarify that information about a not-for-profit entity's past financial performance and how its management discharged its stewardship responsibilities is usually helpful for predicting the volume and cost of future services and the sustainability of future service delivery (see proposed paragraph Aus1.16.1); and**
- **(iv) delink, for not-for-profit entities, the results of confident, more informed user decision making and more efficient functioning of capital markets and a lower cost of capital (see proposed paragraph Aus2.41.1)?**

If you disagree, please explain why.

(b) Do you agree with the proposed 'Aus' paragraphs to be added to Chapter 4 The elements of financial statements, including the amendments to:

(i) clarify, for a not-for-profit entity, the relationship between the potential to produce economic benefits and service potential (see proposed paragraph Aus4.4.1);

(ii) clarify, for a not-for-profit entity, the relationship between cash inflows and the definition of an asset (see proposed paragraphs Aus4.16.1 and Aus4.16.2); and

(iii) explain how references in the Conceptual Framework to an equity claim should be interpreted, because a not-for-profit entity would not typically have equity claims on its assets (see proposed paragraph Aus4.67.1)? If you disagree, please explain why.

(c) Do you agree with the proposed 'Aus' paragraphs to be added to Chapter 6 Measurement, including the amendments to:

(i) clarify that, for a not-for-profit entity, the predictive value of historical cost information and current cost information is not limited to predicting future margins (see proposed paragraphs Aus6.30.1 and Aus6.41.1 and

(ii) clarify that the selection of an appropriate measurement basis for non-financial assets held by a not-for-profit entity for their service potential rather than their potential to generate cash inflows is not necessarily informed by how those cash inflows are generated (see proposed paragraph Aus6.56.1)?

If you disagree, please explain why.

(d) Do you agree, overall, with the limited proposed amendments to the Conceptual Framework? If you disagree, please explain why.

We support these proposals that recognise the unique considerations required for NFPs as an interim measure to support these reforms and agree that they are sufficient to make the Conceptual Framework applicable for the expansion of the use of GPFS in the NFP sector.

3. The AASB reviewed the adequacy of the not-for-profit modifications in the Framework for the Preparation and Presentation of Financial Statements to address a view that further consideration should be given to the identification of users of financial statements and to the emphasis given to stewardship/accountability, amongst other matters. The AASB concluded that, with minor updates, those modifications are suitable for inclusion in the Conceptual Framework as applicable to Australian not-for-profit entities. The AASB observed that the Conceptual Framework gives greater emphasis to stewardship/accountability than the Framework for the Preparation and Presentation of Financial Statements. Therefore, the AASB decided not to add a

project to its work program to further develop the Conceptual Framework for these or other more significant or complex conceptual issues affecting not-for-profit entities. The AASB made this decision on considering the effort involved with undertaking a project in this regard versus the urgency of such a project when considered against its existing other work program priorities. Do you agree with the AASB's decision to no longer undertake a project that would consider the more significant and complex conceptual issues affecting not-for-profit entities? If you disagree, please explain why.

We support these proposals that recognise the unique considerations required for NFPs as an interim measure to support these reforms and agree that they are sufficient to make the Conceptual Framework applicable for the expansion of GPFS in the NFP sector.

However, we continue to believe that an NFP specific conceptual framework project remains important to underpin NFP reporting in this sector and note that the impending release of the International Non-Profit Accounting Standard (INPAS) may provide a more suitable basis upon which to develop such a framework. Therefore, we would encourage the AASB to include the possible update of the Conceptual Framework in its next agenda consultation in order to enable stakeholders to have their say on the relative importance of this project.

Limiting the ability of certain not-for-profit entities to prepare special purpose financial statements

4. **The AASB is proposing to extend the application of Australian Accounting Standards to more not-for-profit entities by no longer predicating the applicability of a Standard on such an entity's identification as a reporting entity (as defined by SAC 1). The proposals amend requirements for not-for-profit public sector entities but do not affect for-profit public sector entities, except where these entities are consolidated or otherwise incorporated into a not-for-profit public sector entity's financial statement. Do you agree with the proposed amendments to AASB 1057 Application of Australian Accounting Standards to extend the application of Australian Accounting Standards to, in general, not-for-profit entities that are required:**
   (a) by legislation to comply with either Australian Accounting Standards or accounting standards; or
   (b) only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document is created or amended on or after a specified date; such that these entities are required to prepare general purpose financial statements?

If you disagree, please explain what you suggest instead and why.

For the purposes of this question, the specified date would be the first effective date of a Standard resulting from this Exposure Draft. For example, if the effective date of a final Standard is for annual periods beginning on or after 1 January 2029, the specified date would be 1 January 2029.

We do not support the scope of NFPs that will be prevented from using SAC 1 under these reforms for the reasons set out in our cover letter and our response to Question 1. We believe the reference to legislative requirements in the application clause is ineffective without the inclusion of a transitional monetary threshold. As previously noted, we also believe the reference to a requirement to prepare financial statements in accordance with accounting standards in constituting or other documents is an unnecessary overreach for these reforms.

Disclosures in special purpose financial statements

5. **The AASB is proposing to amend AASB 1054 Australian Additional Disclosures and AASB 1057 to require a not-for-profit private sector entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards to disclose the information specified by paragraphs 8, 9 and 9A of AASB 1054 in special purpose financial statements, including information about its adopted accounting policies and changes in those accounting policies (proposed paragraphs 9A(b) and 9A(c) of AASB 1054).**

Do you agree with this proposal? If you disagree, please explain why.

We agree that NFPs continuing to produce SPFS that claim compliance with Australian Accounting Standards should be required to provide the information specified. This will help clarify for users the basis on which those financial statements are prepared.

Transitional provisions

6. **The AASB is proposing to provide limited transitional relief to an entity that is a first-time adopter of Australian Accounting Standards and that elects to apply AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.**

Do you agree with the proposals set out in Appendix F in AASB 1053 and paragraph Aus12.2 of AASB 1 First-time Adoption of Australian Accounting Standards? If you disagree, please explain why.

We agree with most of these proposals, which our feedback indicates has worked in the previous transition of for-profit entities from SPFS to Tier 2.

However, in the case of the NFP sector we do not believe that these incentives for early adoption should be required to sunset. Facilitating adoption is of such critical importance in the NFP sector that such benefits should be available whenever the NFPs determines that it is in their best interests to apply them.

We also do not support the proposed treatment of prior period errors, which provides an optional choice not to correct these retrospectively. Instead, as noted in our response to the Tier 3 DP and our submission on ED 335, we continue to recommend that comparatives and opening retained earnings should be adjusted where prior period accounting errors are identified. Feedback from our members is that such comparative year adjustments will ensure users have all the necessary information in respect of accounting errors that may have occurred in a previous year or years. Our members are also of the view that the benefits of making such adjustments will exceed costs.

7. **The AASB is proposing to amend paragraph 20A of AASB 1053 to allow not-for-profit entities transitioning from unconsolidated Tier 2 – Simplified Disclosures general purpose financial statements to consolidated Tier 2 – Simplified Disclosures general purpose financial statements to apply AASB 1 when preparing consolidated financial statements for the first time. Do you agree with the proposed amendments to paragraph 20A of AASB 1053?**

   If you disagree, please explain why.

We agree with this approach. The feedback we have received on the previous transition to Tier 2 by for-profits was that the AASB 1 approach was workable. Adopting the same approach would leverage the education process that occurred previously, so reducing costs of implementation.

Effective date of the proposals

8. **The AASB is proposing that the effective date of a final Standard would be at least three years after the issue of that pronouncement (for example, if the Standard is issued in December 2025, the effective date would not be earlier than annual periods beginning on or after 1 January 2029). Earlier adoption would be permitted.**

   Do you agree with this proposal? If you disagree, please explain why.

While we agree in principle that a three-year implementation timetable provides adequate time for NFPs, this is subject to there being clarity as to which NFPs the new Tier 3 standard is applicable to when it is issued. Our recommendations in our responses to previous questions are relevant in this regard. Provided there is clarity on applicability, we believe NFPs, their advisors and other stakeholders will have sufficient time to develop an effective transition timetable and identify the manpower and educational resources necessary to support implementation of the changes.

However, we reiterate that the effectiveness of implementation is all premised on a clear applicability statement so that impacted NFPs know both that they are impacted and what they have to transition to. This proved to be a complex matter in the for-profit sector previously, which involved far fewer regulators than will be the case in the NFP sector.

It is therefore critical that the legislative structure underpinning Tier 3 standard be clearly and quickly resolved and communicated by all the relevant regulators and that in the interim the AASB provide support via an application threshold clause as detailed in our cover letter and our responses to Questions 1, 4 and 11.

We also support in principle incentives that will encourage NFPs that are in a position to adopt the changes earlier to do so in a more cost-effective way. However, such incentives can only work if there is clarity as to which NFPs have the choice to utilise them. Again, this can only occur when there is a clear statement of applicability for the Tier 3 standard when it is issued.

General matters for comment

The AASB would also particularly value comments on the following general matters:

9. Has the AASB Not-for-Profit Entity Standard-Setting Framework been applied appropriately in developing the proposals in this Exposure Draft?

We believe that the NFP standard setting framework overall has been appropriately applied in recognising and responding to the need for a Tier 3 standard. However, we do not agree that the framework has been appropriately applied in making the choice to leave the application of the standard to relevant regulators. We believe that clause 8, which states that the "AASB establishes the type and nature of financial statements to be prepared by entities required to report in accordance with Australian Accounting Standards", makes it clear that the AASB has the necessary powers to implement the Tier 3 standard via an application clause where those regulators have specified the use of Australian Accounting Standards or referenced accounting standards as part of their reporting requirements.

Therefore, as recommended in our cover letter and in our responses to Questions 1 and 4, a monetary threshold should be included as an interim measure while awaiting further regulatory implementation reform.

10. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
(a) not-for-profit entities; and
(b) public sector entities, including GAAP/GFS implications?

(a) As noted in our cover letter and in our response to Question 1, there are a range of legislative issues that will impact the implementation of these proposals which include:

- The myriad of different legislative requirements governing entities in the sector.

- The inconsistent nature of these requirements, including the use of inconsistent and outdated terminology.
- The inconsistent size thresholds that exist for determining reporting requirements.

None of these challenges are new and there are a range of both AASB research reports and other publications that provide more detail on the regulatory challenges the sector faces. However, it is essential that they be resolved if the benefits of this vital reform work that has been conducted by the AASB are to be achieved. In fact, this need for cross jurisdictional reform was identified by the NFP Sector Blueprint as a key initiative (initiative 1 of Pillar 1) if the NFP sector is to thrive over the next 10 years.

It is therefore essential that the AASB actively engages at all levels of government in a timely manner to ensure that the necessary changes are identified and progressed.

(b) None that we are aware of.

11. Do the proposals create any auditing or assurance challenges? If so, please explain those challenges.

While the creation of a Tier 3 standard represents a beneficial addition to Australia's general purpose reporting regime, it will nevertheless require a significant investment of time and resources by the NFP sector and auditors to transition from SPFS. The provision of a three-year implementation timetable will be important in minimising the resource challenges this will impose on the sector.

However as identified in our cover letter and in our responses to Questions 1 and 4, a lack of certainty as to who can apply the standard means it will be difficult to achieve the benefits that the new Tier 3 standard offers because of the uncertainty preparers and users will face. This makes it more likely that inappropriate pressure will be placed on auditors to assist NFPs determine applicability of the new Tier 3 standard.

Therefore, we reiterate the need for the AASB to include in the standard a monetary threshold as an interim measure, providing the implementation certainty that is necessary until such time as the permanent regulatory certainty can be obtained.

12. Would the proposals result overall in financial statements that are useful to users?

We believe that once the issues identified in this submission are adequately addressed, the AASB's proposed Tier 3 standard does offer users of NFP financial statements a cost-effective general purpose reporting solution for smaller NFPs. However, as noted in our cover letter and our responses to Questions 1, 4 and 11, without an adequate and timely means of ensuring the standard is appropriately applied many of these benefits could be misunderstood, delayed or lost completely.

13. Are the proposals in the best interests of the Australian economy?

Yes, subject to the AASB addressing the issues identified in this submission, we believe these proposals are in the best interests of the NFP sector, a crucial segment of the Australian economy.

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

We have no further comments.

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Attachment B

27 February 2025

The Hon. Dr Andrew Leigh MP
Assistant Minister for Competition, Charities and Treasury
Assistant Minister for Employment

Via email: andrew.leigh@treasury.gov.au
CC: Treasury

Dear Dr Leigh

Call for legislative change to effectively enable the proposed new Accounting Standard for smaller not-for-profits

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia represent over 310,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout Australia, New Zealand and internationally.

We are strong supporters of the not-for-profit (NFP) sector and many of our members are involved with the sector as advisors, auditors, employees and volunteers.

Background

Transparency and accountability foster trust and confidence in the Australian charities and not-for-profit (NFP) sector. Statutory compliance through annual financial reporting plays a catalytic role in providing stakeholders the necessary transparency into NFP operational and financial performance. However, this comes at a cost to the sector, and that cost can be particularly onerous for smaller NFPs.

Maintaining the right balance between effective transparency into NFP performance and cost has been an ongoing challenge for many years. Since the establishment of the Australian Charities and Not-for-profits Commission (ACNC) 12 years ago, the legislation underpinning the regulator has required the preparation and lodgement of annual financial reports by "medium" and "large" charities (as defined). These annual financial reports have to be prepared in compliance with Australian Accounting Standards (AAS) issued by the Australian Accounting Standards Board (AASB). Other Commonwealth and state/territory NFP regulators include similar requirements within their respective regulatory regimes and the ACNC has worked hard with these regulators to reduce reporting duplication.

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However, embedded in the current regulatory reporting framework is the ability for NFPs (including charities regulated by the ACNC) to determine whether or not they are a "reporting entity" under the AASB accounting standards framework. If they do not consider themselves to be a reporting entity, they can prepare and lodge financial reports that do *not* comply with *all* of the AAS issued by the AASB. Such financial reports are referred to as special purpose financial reports (SPFR). This regime was designed to ensure that entities could produce a financial report that best meets the needs of their specific stakeholders in a cost-effective way.

Over recent years, the AASB has undertaken research into the application of the reporting entity concept which identified that the regime has not been working as intended, with inappropriate determination of not being a reporting entity and consequently, inappropriate preparation of SPFR. These findings indicate a potential lack of appropriate transparency that could in turn undermine trust and confidence in the sector.

In response, the AASB is currently undertaking an important initiative that is aimed at addressing these concerns. This project will culminate in the release of a fit-for-purpose, single accounting standard that enables smaller NFPs to prepare a general purpose financial report (GPFR), meeting their financial reporting compliance requirements in a straightforward and cost-effective manner. Once this new accounting standard is completed and issued, the AASB intends to remove the reporting entity concept which would mean that most NFPs preparing financial reports that purport to comply with the AASB standards will no longer be able to prepare SPFR.

The problem

However, the AASB has indicated that it is unable to specify the exact population of smaller NFPs who can benefit from using this accounting standard. Publication of a final standard without clearly identified boundaries or thresholds that specify the population of smaller NFPs that can apply this new standard is likely to undermine the expected benefits and potentially cause further confusion as to which NFPs can use it.

The ask

We therefore call upon you as the Minister for Charities to initiate crucial amendments to Commonwealth legislation that will establish the appropriate size thresholds for smaller NFPs that can apply the new accounting standard. We provide below our recommendations for appropriate size thresholds and legislation that will have the most impact on NFPs likely to benefit from the new accounting standard.

Recommended size thresholds

A NFP with annual revenue of between $500K and $5m should be eligible to apply the new accounting standard. Our suggested range is based on Recommendation 12 from the 2018 Independent Review of the ACNC legislation that recommended the revenue threshold for

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medium-sized charities be revised to be between $1m and $5m. Although the final change was to set the revised revenue threshold to be between $500k and $3m, we believe the threshold of $5m in revenue provides a more suitable upper boundary for medium-sized NFPs. As the current lower threshold for medium-sized charities is set as $500k in revenue, it would be appropriate to leave this lower threshold unchanged.

Legislation requiring changes

Australian Charities and Not-for-profits Commission Act 2012 (ACNC Act) and associated consequential and transitional legislation and Regulations

The ACNC legislation currently requires charities with revenue greater than $500k to prepare and lodge annual financial reports with the ACNC. These financial reports can either be GPFR (if the charity *is* a reporting entity) or SPFR (if the charity is *not* a reporting entity). The ACNC legislation requires SPFR to be prepared in compliance with only six specified AAS issued by the AASB (at a minimum).

The ACNC legislation should be amended to enable charities with revenue between $500k and $5m to apply the new accounting standard whilst keeping the status quo for charities outside of these thresholds. NFPs are eligible to opt for simplified disclosures when applying the full suite of AAS and we recommend no changes to this aspect of the current regime.

Corporations Act 2001 and associated Regulations

Public companies limited by guarantee (CLG) that are not charities registered with the ACNC are required to prepare and lodge annual financial reports with the Australian Securities and Investments Commission (ASIC). Similar to charities, these financial reports can either be SPFR or GPFR. Unlike charities, there are no statutory requirements for the AAS that must be complied with in the preparation of SPFR. Also inconsistent with charities, annual financial reports have to be prepared and lodged for CLG with revenue of $250k or more.

The Corporations Act 2001 should be amended to:

- Increase the minimum financial reporting threshold for CLG from revenue of $250k to revenue of $500k to align with the financial reporting threshold for charities.
- Enable CLG with revenue between $500k and $5m to apply the new accounting standard.

Corporations (Aboriginal and Torres Strait Islander) Act 2006 (CATSI Act) and associated Regulations

Indigenous Corporations with consolidated gross operating income of $100k or more are required to prepare and lodge financial reports with the Office of the Registrar of Indigenous Corporations (ORIC). ORIC requires all Indigenous Corporations to prepare and lodge GPFR.

The CATSI Act should be amended to:

- Increase the minimum financial reporting threshold from consolidated gross operating income of $100k to revenue of $500k to align with the financial reporting threshold for charities.
- Enable Indigenous Corporations with revenue between $500k and $5m to apply the new accounting standard.

Concluding recommendations

We therefore request that, as a priority, you address the following two key matters that will significantly improve the NFP reporting framework:

- Make amendments to Commonwealth NFP legislation highlighted above to allow for the application of the AASB's new accounting standard for smaller NFPs (revenue between $500k and $5m).
- Make amendments to Commonwealth NFP legislation highlighted above to ensure financial reporting thresholds are consistent.

Making these key changes to Commonwealth legislation will facilitate the introduction of the AASB's new accounting standard. In turn this will be a major step forward in establishing a fully fit-for-purpose financial reporting framework for NFPs that will pave the way for consistent reporting requirements that are proportionate based on size, achieving the ideal balance between compliance costs and much needed transparency and accountability.

However, it is important to note that these changes, while necessary, will not complete the NFP reporting framework reform task, which continues to remain essential. This requires the broader alignment of Commonwealth, state and territory reporting legislation for the NFP sector in a way that will significantly reduce red tape for the sector and continues to be an important matter of ongoing advocacy for us as noted in our joint submissions to the Department of Social Services' Not-for-Profit Sector Blueprint and the Productivity Commission's Philanthropy Inquiry.

Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Ram Subramanian at ram.subramanian@cpaaustralia.com.au (CPA Australia) or Amir Ghandar at amir.ghandar@charteredaccountantsanz.com (CA ANZ).

Yours sincerely

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