

28 February 2025

Dr Keith Kendall  
Chair  
Australian Accounting Standards Board  
Level 14, 530 Collins Street  
Melbourne VIC 3000

Via online portal

Dear Dr Kendall

**ED 334 Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements**  
**ED 335 General Purpose Financial Statements - NFP Private Sector Tier 3 Entities**

Thank you for the opportunity to comment on the Australian Accounting Standards Board (**AASB**) consultation into Simplifying Australia's Not-for-Profit Financial Reporting Framework, covering the Exposure Draft 334 - *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* (**ED 334**), and Exposure Draft 335 - *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* (**ED 335**) (**Tier 3 Standard**). This submission will cover both exposure drafts.

The Australian Institute of Company Directors' (**AICD**) mission is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD's membership of 53,000 reflects the diversity of Australia's director community, comprised of directors and leaders of not-for-profits (**NFPs**), large and small businesses and the government sector. With a significant majority of our members involved in the governance or work of NFPs, many of them making contributions as directors on a voluntary basis, the AICD has long been an advocate for ensuring the NFP sector is not restrained by excessive regulation.

The AICD welcomes moves by the AASB and other government bodies to reduce the compliance burden on charities over recent years. We also note the findings of the Productivity Commission Final Report on philanthropic giving and the Not-for-Profit Development Sector Blueprint on the current complexity and lack of uniformity in reporting obligations of different entities (including NFPs) under different national and state legislation.<sup>1</sup> Members have highlighted the importance of ensuring there is an outcomes-focused approach to financial reporting which adds value for NFPs in their internal management, rather than it being viewed solely as a compliance obligation.

The AICD strongly supports the development of a Tier 3 Standard that is simple, proportionate, consistent, and transparent for application by smaller NFPs, noting the proposed prohibition of preparing special purpose financial statements (**SPFS**). Whilst the AASB has not conducted a full assessment of the transition costs from SPFS to general purpose financial statements (**GPFS**) and ongoing compliance costs, it would have been helpful to provide an estimate on the *current* proposals, especially if it will result in reducing the reporting burden on smaller NFPs.

---

<sup>1</sup> Productivity Commission (May 2024). Final Report. Page 256. Available [here](#). Department of Social Services (November 2024). Not-for-profit Sector Development Blueprint. Page 10. Available [here](#).

This submission is informed by our previous submission on the Discussion Paper,<sup>2</sup> which reflected engagement with members of the AICD NFP Chairs' Forum, AICD Reporting Committee, accounting practitioners, and academics.

## 1. General comments

We provide the following comments, noting other industry stakeholders are more suited to respond to more specific technical accounting matters:

### ED 334 – Applying the Conceptual Framework to not-for-profit entities

- The AICD supports the inclusion of paragraph Aus1.2.1 to better reflect the NFP financial reporting environment, which as currently drafted, distinguishes the role of donors from other funders and the role of beneficiaries as recipients of goods and services.
- Whilst the AASB notes in paragraph BC54 that it does not intend to address feedback related to the identified set of users in the conceptual framework for NFP entities, it should consider a reference to the role of volunteers in Aus1.2.1. Volunteers provide significant value to the NFP sector and the AASB has already identified them as a key user of NFP financial information.<sup>3</sup> We observe that in practice very few NFP private sector entities currently recognise volunteer services in their financial statements but disclose this in the directors' report or the annual report.<sup>4</sup> This includes board directors providing free services.

### ED 334 – Removal of special purpose financial statements (SPFS)

- The AICD acknowledges that the use of SPFS is a longstanding area of concern to the AASB, and that its removal would assist comparability of financial information in the NFP sector. As reflected in our previous submission, the AICD supports the removal of the ability to prepare SPFS of NFPs who will be preparing statements under a Tier 3 Standard. This is consistent with our earlier submission<sup>5</sup> supporting the removal of SPFS for for-profit private sector entities which are now required to prepare, as a minimum, Tier 2 general purpose financial statements (**GPFS**).

### ED 335 – Principles and considerations applied in developing the Tier 3 reporting requirements

- The AICD broadly supports the principles outlined in paragraph BC8, including strong support for proportionality when it comes to assessing the cost/benefit and user needs for NFP financial statements. The AICD broadly supports the proposed Tier 3 Standard with simplified recognition and measurement requirements and simplified disclosure requirements.

### ED 335 – Financial Statement Presentations

- The AICD welcomes the AASB's proposal for NFPs having the *option* of not presenting a statement of changes in equity (in certain circumstances) as part of a Tier 3 Standard, consistent with Tier 2 GPFS, which we had previously supported.<sup>6</sup>

---

<sup>2</sup> AICD submission (March 2023). Development of Simplified Accounting Requirements (Tier 3 NFPs). Available [here](#).

<sup>3</sup> AASB consultation (January 2025). Simplifying Australia's Not-for-Profit Financial Reporting Framework - Proposals at a glance. Slide 3. *The financial reports produced by NFP organisations provide vital information to a wide range of stakeholders including donors, funders and volunteers*. Access [here](#).

<sup>4</sup> BDO Australia (August 2024). Accounting for volunteer services by private sector not-for-profit entities. Access [here](#).

<sup>5</sup> AICD submission to AASB (November 2019) – Submissions to AASB on special purpose financial statements and simplified disclosure. Available [here](#).

<sup>6</sup> AASB (March 2020). Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities. Paragraph 26. Access [here](#).

## ED 335 – Application of accounting policies in the absence of explicit guidance in the Tier 3 Standard

- The AICD supports permitting NFPs to use their judgement in applying the overarching principles for the proposed standalone Tier 3 Standard as guidance when developing an accounting policy to deal with issues and topics not specifically addressed. We support the AASB's revised approach in confirming management *may* also consider Tier 2 requirements and guidance in their judgement, rather than *require* entities to apply Tier 2 requirements as a first step which may not be appropriate for the scope of the NFP's transactions and other events.

### Effective date of the proposals

- The AICD in principle supports the three-year transition period from standard issuance to commencement for both exposure drafts, noting the need to clarify the relevant reporting threshold which would help identify what NFPs the standards will apply to. We strongly encourage the AASB and ACNC and other regulators to undertake a broad awareness-raising campaign through factsheets, free webinars, and other complementary channels to educate NFPs of the new standard and any interaction with existing accounting standards.<sup>7</sup>

### General matters for comment

- Reporting thresholds: The AICD supports the previous ACNC recommendation for the AASB to propose a clear reporting threshold for the Tier 3 standard, which would provide clarity and consistency for the NFP sector, especially given the potential impact on smaller charities with greater reliance on volunteers.<sup>8</sup> The AICD supports proportionate reporting thresholds and it is challenging to assess the impact of the standards without reference to the scope of the NFP population likely to be impacted, who are already subject to a range of reporting thresholds.
- Government initiatives: The AICD recommends that the AASB consider the interaction of the Government's proposal to merge the AASB, the AUASB, and Financial Reporting Council into one body, noting the AASB's proposed three-year transition to commencement of ED 334 and the Tier 3 Standard, with earlier application permitted.<sup>9</sup> The AASB should also seek to consider relevant reforms holistically in coordination with other NFP red tape reduction initiatives including reforms from the Productivity Commission Final Report on philanthropic giving and the Not-for-Profit Development Sector Blueprint, once Government responds in full to both reports.
- Education and guidance: The AICD encourages the AASB (and the ACNC) to commit dedicated resources to meet the significant challenge of educating the substantial number of NFPs which would be required to transition from SPFS to GPFS. For example, ACNC analysis of 250 annual financial reports in 2022 and 2020 revealed that around 65 per cent of charities correctly selected the type of financial statements they had prepared, with the most common error involving charities that prepared SPFS incorrectly selecting GPFS.<sup>10</sup> These findings reinforce the need to support preparers (including volunteers at small NFPs) with clearer guidance, especially for first-time adopters of Australian Accounting Standards and non-charitable NFPs, not under the regulation of the ACNC.

---

<sup>7</sup> ACNC (February 2025). Standards and Financial Reporting. Access [here](#).

<sup>8</sup> ACNC submission (March 2023). AASB Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities). Access [here](#).

<sup>9</sup> Treasury consultation (February 2025). Positioning Australia's financial reporting system for the future. Access [here](#).

<sup>10</sup> ACNC (May 2024) – Reviewing Charities' Financial Information and Annual Financial Reports. Access 2022 findings [here](#) and 2020 findings [here](#).

## Next Steps

We hope our submission will be of assistance. If you would like to discuss any aspects further, please contact Sean Dondas, Policy Adviser ([sdondas@aicd.com.au](mailto:sdondas@aicd.com.au)).

Yours sincerely,

A handwritten signature in black ink, appearing to be 'C. Gergis', written in a cursive style.

**Christian Gergis GAICD**

Head of Policy