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The Chair  
Australian Accounting Standards Board  
PO BOX 204  
Collins Street West  
Melbourne VIC 8007

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Dear Sir

**EXPOSURE DRAFT 334 *LIMITING THE ABILITY OF NOT-FOR-PROFIT ENTITIES TO PREPARE SPECIAL PURPOSE FINANCIAL STATEMENTS***

Thank you for the opportunity to comment on the Board's Exposure Draft ED 334 which proposes to limit the ability of not-for-profit entities (public and private sector) to prepare special purpose financial statements. Overall, we are supportive of having a separate Tier 3 reporting framework for smaller not-for-profit private sectors.

Please refer to Appendix 1 for our detailed comments on your specific matters for comment.

If you have any comments regarding this request, please do not hesitate to contact me.

Yours faithfully

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## APPENDIX 1 - Specific matters for comment - ED 334

### Applying the Conceptual Framework to not-for-profit entities

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for the Preparation and Presentation of Financial Statements* and SAC 1 *Definition of the Reporting Entity* are superseded for an entity when the Conceptual Framework applies to the entity.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

#### BDO Comment - Question 1

Yes, we support the proposed amendment as this aligns the application of the Conceptual Framework and SAC 1 with the extension of the applicability of Australian Accounting Standards to not-for-profit entities. Please also refer to our additional comments to Question 4.

#### Question 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.

**BDO Comment - Question 2(a)**

We agree with these proposals.

- 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.

**BDO Comment - Question 2(b)**

We agree with these proposals.

- 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.

**BDO Comment - Question 2(c)**

We agree with these proposals.

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

**BDO Comment - Question 2(d)**

We agree with these proposals.

### Question 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

#### **BDO Comment - Question 3**

We agree with this proposal.

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

#### Question 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 statements.

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.

#### **BDO Comment - Question 4**

##### ***Public sector not-for-profit entities***

Extending the application of Australian Accounting Standards to all not-for-profit entities means that for-profit public sector entities may continue to prepare special purpose financial statements until the outcome of the Board's project on public sector reporting, whereas not-for-profit public sector entities will have to prepare Tier 2 general purpose financial statements applying AASB 1060 (because Tier 3 only applies to not-for-profit private sector entities). Any delay in the Board's public sector project could result in this continued discrepancy.

##### ***Extending the application of Australian Accounting Standards to not-for-profit entities required by legislation to prepare financial statements in accordance with Australian Accounting Standards or 'accounting standards'***

We agree with this proposal to amend AASB 1057 to extend the application of Australian Accounting Standards to not-for-profit entities required by legislation to prepare financial statements in accordance with Australian Accounting Standards or 'accounting standards' (as specified in (a) above).

However, we make the following observations regarding the practical implementation of this proposal:

- The proposal in (a) is predicated on the various legislators setting appropriate thresholds for Tier 3 general purpose reporting. If legislation is not passed to coincide with the effective date of these amendments, it is not clear whether not-for-profit entities will have to:
  - (a) 'Self-assess' whether to prepare Tier 3 or Tier 2 general purpose financial statements (this would be counter-productive given one of the objectives of removing the 'reporting entity concept' was to avoid this self-assessment process) or
  - (b) Automatically prepare Tier 2 general purpose financial statements (this is likely to be an onerous burden for many smaller not-for-profit entities currently preparing special purpose financial statements).

It is vital that all legislators requiring Australian Accounting Standards or accounting standards are on board with this timeline.

- It is unclear whether legislators will set thresholds for Tier 3 (assuming on a revenue basis as per ED 335, BC7) based upon revenue calculated as per the Tier 3 requirements or the Tier 2 requirements (noting there are important differences which can result in Tier 3 entities deferring grant revenue in cases where Tier 2 entities may not). Noting in BC7, the Board based its Tier 3 proposals upon a medium-sized ACNC charity with revenue of \$500,000 to \$3 million. It would be burdensome and confusing for not-for-profit entities currently preparing special purpose financial statements to have to determine revenue as per both Tier 2 and Tier 3 simply to determine whether they are eligible for Tier 3 reporting. We recommend the Board works closely with regulators to ensure that the financial reporting requirements (thresholds) for different types of not-for-profit entities are fit-for-purpose and enable efficient financial reporting by not-for-profit entities.

***Extending the application of Australian Accounting Standards to not-for-profit entities that 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 is created or amended on or after a specified date***

We agree with these proposals as they are consistent with the requirements for for-profit entities in AASB 2020-2.

However, not-for-profit entities who continue to prepare special purpose financial statements because their constituting or other document was created or amended before the specified date need to be aware that changes to these documents after the specified date, for any reason, could result in them having to prepare general purpose financial statements unless the reference to Australian Accounting Standards is removed at the same time.

### ***Specified date***

Consistent with the specified date used in AASB 2020-2 *Amendments to Australian Accounting Standards - Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*, we also agree that the ‘specified date’ should be the effective date of the final Standard, i.e. the beginning of the first annual reporting period to which the new requirements will apply.

## **Disclosures in special purpose financial statements**

### **Question 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.

### **BDO Comment - Question 5**

We agree with this proposal.

## **Transitional provisions**

### **Question 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*. 2 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.

**BDO Comment - Question 6**

We agree in principle with the limited transitional relief provided to not-for-profit entities applying the Tier 2 general purpose financial reporting framework contained in AASB 1060. However, we note the following inconsistencies.

***AASB 1053, Appendix F***

Regarding Appendix F in AASB 1053 - paragraph F1(a), (b) and (c) all refer to the same date, i.e. for periods beginning before [date]. This is different to the transitional relief provided in Appendix E of AASB 1053, which applied for for-profit private sector entities, with different dates, depending on the relief. In that case, for-profit private sectors could apply the transitional relief as follows:

- Not having to distinguish between the correction of errors and changes in accounting policies - this applied for periods beginning before 1 July 2022, which means that entities had this relief if they early adopted, and also in the first application period for this standard
- Relief from providing comparative information not previously disclosed in the notes - this only applied for early adoption in periods beginning before 1 July 2021
- Relief from restating comparative information - this only applied for early adoption in periods beginning before 1 July 2021.

The proposed drafting of paragraph F1 results in not-for-profit entities transitioning from special purpose financial statements to Tier 2 only being able to apply this transitional relief if they adopt early. This is supported by comments in BC98. There will be no relief from distinguishing errors from changes in accounting policies in the first year of adoption. For consistency with AASB 2020-2, we recommend that not-for-profit entities be afforded the same relief in the first year of adoption as for-profit entities regarding error correction and BC98 updated accordingly.

***AASB 1, paragraph Aus 12.2***

We agree with this proposal to grant relief to not-for-profit entities early adopting AASB 1060 for the first time applying AASB 1.

While many not-for-profit entities transitioned to AASB 1060 for the year ended 30 June 2022 onwards because the Reduced Disclosures were withdrawn, others may have continued to prepare special purpose financial statements until the completion of the Board's project on not-for-profit financial reporting.

If such not-for-profit entities are too large for the thresholds set by regulators for the Tier 3 reporting framework, they may be obliged to prepare Tier 2 AASB 1060 financial statements, and therefore require similar transitional relief from having to restate comparatives.

### Question 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.

#### **BDO Comment - Question 7**

We agree with this proposal.

### Effective date of the proposals

#### Question 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.

#### **BDO Comment - Question 8**

We agree with the three-year preparation period which should provide sufficient time for not-for-profit entities required to prepare general purpose financial statements to adjust their systems and reporting processes to cater for Tier 3 or Tier 2 recognition, measurement and disclosure requirements.