

Ref: KLB

20 February 2025

Dr. Keith Kendall
Chair
Australian Accounting Standards Board
Level 14, 530 Collins Street
Melbourne VIC 3000
Via email: standard@asab.gov.au

Dear Dr Kendall

SUBMISSION – AASB ED 334 LIMITING THE ABILITY OF NOT-FOR-PROFIT ENTITIES TO PREPARE SPECIAL PURPOSE FINANCIAL STATEMENTS

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on AASB Exposure Draft ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* (the Exposure Draft).

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We support the AASB's proposal to extend the application of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* and Australian Accounting Standards to also apply to not-for-profit entities that are required by legislation to comply with either Australian Accounting Standards or accounting standards in relation to the preparation of Tier 1 general purpose financial statements and Tier 2 general purpose financial statements.

However, we do not support the AASB's proposal to extend the application of the *Conceptual Framework* and Australian Accounting Standards to also apply 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. In our view, mandating not-for-profit entities to prepare general purpose financial statements when the preparation of financial statements is required only by their constituting document or another document would be onerous with little or no substantive benefit to users of those financial statements.

Our detailed responses to the questions contained in the Exposure Draft are attached to this letter.

Please contact either myself or Darryn Rundell, Director - Audit & Accounting Technical (03 8610 5574 or darryn.rundell@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely
PITCHER PARTNERS



K L Byrne
Partner



D J Rundell
Director - Audit & Accounting Technical

SPECIFIC MATTERS FOR COMMENT
Question 1 - applying the *Conceptual Framework* to not-for-profit entities

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.

Response:

We agree with the proposed amendments to the *Conceptual Framework for Financial Reporting (Conceptual Framework)* to extend the application of the *Conceptual Framework* to also apply to not-for-profit entities that:

- (a) are required by legislation to comply with either Australian Accounting Standards or accounting standards; or
- (b) elect to prepare general purpose financial statements,

in relation to the preparation of Tier 1 general purpose financial statements and Tier 2 general purpose financial statements. However, we would prefer that Tier 3 general purpose reporting have its own separate summarised *Conceptual Framework* developed specifically for the types of not-for-profit entities that are most likely to prepare Tier 3 general purpose financial statements.

We do not agree with the proposal to extend the application of the *Conceptual Framework* (and Australian Accounting Standards) to also apply 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. Please refer to our response to Question 4 for an explanation of why we do not support this proposal.

Question 2 (summarised) - applying the *Conceptual Framework* to not-for-profit entities

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*?
- (b) Do you agree with the proposed 'Aus' paragraphs to be added to Chapter 4 *The elements of financial statements*?
- (c) Do you agree with the proposed 'Aus' paragraphs to be added to Chapter 6 *Measurement*?
- (d) Do you agree, overall, with the limited proposed amendments to the *Conceptual Framework*? If you disagree, please explain why.

Response:

We agree with the proposed 'Aus' paragraphs to be added to Chapter 1, Chapter 2, Chapter 4 and Chapter 6 of the *Conceptual Framework for Financial Reporting (Conceptual Framework)*.

We agree with the limited proposed amendments to the *Conceptual Framework*.

Question 3 - applying the *Conceptual Framework* to not-for-profit entities

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.

Response:

We 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.

Question 4 - limiting the ability of certain not-for-profit entities to prepare special purpose financial statements

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.

Response:

We agree with the proposed amendments to AASB 1057 *Application of Australian Accounting Standards* to extend the application of Australian Accounting Standards to also apply to not-for-profit entities that:

- (a) are required by legislation to comply with either Australian Accounting Standards or accounting standards; or
- (b) elect to prepare general purpose financial statements.

However, we do not agree with the proposal to extend the application of Australian Accounting Standards to also apply 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. In our view, mandating not-for-profit entities to prepare general purpose financial statements when the preparation of financial statements is required only by their constituting document or another document would be onerous with little or no substantive benefit to users of those financial statements.

In our view, a not-for-profit entity that is not a reporting entity (as defined in Statement of Accounting Concepts SAC 1 *Definition of a Reporting Entity*) should be permitted to continue to prepare special purpose financial statements when those financial statements are required only by the entity's constituting document or another document.

The retention of the Australian 'reporting entity concept' for those 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 will, in our view, provide an appropriate balance between the cost and effort of preparing and disclosing financial information and benefits to users of that financial information.

Further, as outlined in BC31 of the Basis for Conclusions (accompanying the Exposure Draft), we also note that:

- the Board has not been able to obtain good visibility of the extent of not-for-profit entities that might be affected by a decision regarding the application, or exemption from the application, of Australian Accounting Standards to financial statements that are required only by a not-for-profit entity's constituting document or another document (BC31(a)); and
- members of the AASB Not-for-Profit Project Advisory Panel commented that it is unclear how many not-for-profit entities will be affected by the proposal to extend the application of Australian Accounting Standards to financial statements that are required only by a not-for-profit entity's constituting document or another document (BC31(g)).

Given the lack of information regarding the extent and impact of the proposal to extend the application of Australian Accounting Standards to financial statements that are required only by a not-for-profit entity's constituting document or another document, in our view, it would not be appropriate to make such amendment at this time.

Question 5 - disclosures in special purpose financial statements

<p>The AASB is proposing to amend AASB 1054 <i>Australian Additional Disclosures</i> 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).</p>

<p>Do you agree with this proposal? If you disagree, please explain why.</p>
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Response:

As outlined in our response to question 4, we do not agree with the proposal to extend the application of Australian Accounting Standards to also apply 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.

Consistent with that view, we do not support the proposal to amend AASB 1054 *Australian Additional Disclosures* and AASB 1057 *Application of Australian Accounting Standards* to require the disclosure of information in special purpose financial statements.

Question 6 – transition provisions

<p>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 <i>General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities</i>.</p>

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

Response:

We do not 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*.

In our opinion, the application of the transitional relief should not be limited to not-for-profit entities / first-time adopters that elect to apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to periods beginning before the mandatory application date.

In our view, the transitional relief should be available to all not-for-profit entities that apply AASB 1060 for the first time. We believe such approach would be appropriate in the context of financial reporting by not-for profit entities, and would be consistent with the AASB's proposals regarding transitional relief for:

- not-for-profit entities transitioning from special purpose financial statements to Tier 3 general purpose financial statements; and
- not-for-profit entities transitioning from Tier 3 general purpose financial statements to Tier 2 general purpose financial statements,

as set out in AASB Exposure Draft ED 355 - *General Purpose Financial Statements – Tier 3 Not-for-Profit Private Sector Entities*.

Question 7 – transition provisions

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.

Response:

We agree with the proposed amendments to paragraph 20A of AASB 1053.

Question 8 – effective date of proposals

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.

Response:

We agree with this proposal.

GENERAL MATTERS FOR COMMENT
Questions 9-14

9. Has the *AASB Not-for-Profit Entity Standard Setting Framework* been applied appropriately in developing the proposals in this ED?
10. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
11. Do the proposals create any auditing or assurance challenges?
12. Would the proposals result overall in financial statements that are useful to users?
13. Are the proposals in the best interests 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 or qualitative?

Response:

9. Yes, the *AASB NFP Entity Standard Setting Framework* has been applied appropriately in developing the proposals in this ED. However, we note that it will need to be amended for Tier 3 as it currently only deals with Tier 1 and Tier 2. Further, we note that Tier 3 has moved further away from transaction neutrality using IFRS for SMEs as a base, which we do not see as a problem, but it will no longer fit neatly into the *AASB NFP Entity Standard Setting Framework*. We recommend that the Framework is updated simultaneously with the issue of the Tier 3 standard.
10. The removal of the ability to prepare special purpose financial statements for not-for-profit entities reporting under legislation will increase the reporting burden of not-for-profit entities, thereby diverting resources away from their primary services into compliance. Therefore, it will be important to have the Tier 3 requirements (refer to ED 335) made available to not-for-profit entities at the same time, along with any legislative changes that are required to restrict (or allow) the use of Tier 3 to certain types of entities. The AASB should therefore prioritise facilitating this change through their connections with the Commonwealth Treasury (and other relevant legislators/regulators).
11. The proposals do not create any audit or assurance challenges.
12. Yes, the removal of the ability to prepare special purpose financial statements for not-for-profit entities reporting under legislation will result overall in financial statements that are useful to users. The improved usefulness is outlined in Q13 below. However, we do not believe there would be any benefit to users (in excess of the costs) of financial statements that are not prepared under legislation. These users are generally related to the not-for-profit entity (such as members), they are currently receiving information in the format they desire, and any changes would be confusing to them as they will fail to see any benefit above the costs to implement general purpose financial statements.
13. Yes, the proposals to not-for-profit entity financial statements prepared under legislation are in the best interests of the Australian economy as they promote improved consistency for not-for-profit entities of a certain size reporting in accordance with specific legislative requirements. This will benefit preparers as well as users of the financial statements as the financial statements will be easier to read, simpler to prepare and will be more comparable between entities. This is especially important for charities, whose financial statements are readily available for free on the ACNC website.

14. The benefits of the proposals are as mentioned in Question 13 above.

The costs are difficult to quantify as it is dependent on what type of financial statements entities currently prepare – general purpose financial statements versus special purpose financial statements. And further if they prepare special purpose financial statements – the cost to implement the proposals will depend on which accounting policies they already adopt (for example, do they already have leases on their balance sheet or do they expense leases?).

As always, with new standards, there will be an initial cost in preparing templates and adopting policies. However, once this is done, the ongoing cost should be less given the simpler accounting policy options available under the Tier 3 proposals (ED 335).