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27 February 2025

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
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Australia

Dear Dr Kendall

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

On behalf of the Australasian Council of Auditors-General (ACAG/we/our), thank you for the opportunity to comment on AASB Exposure Draft ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* (ED). The views expressed in this submission represent those of all Australian members of ACAG, unless specifically identified.

The attachment to this letter addresses the AASB's specific matters for comment and general matters for comment outlined in the ED.

Overarching feedback

- The majority of jurisdictions agree with the proposals to extend the application of the Conceptual Framework (New Conceptual Framework) to not-for-profit public sector entities. However, we have concerns that a for-profit public sector entity that is required to prepare general purpose financial statements (GPFS) is required to apply the Framework for the Preparation and Presentation of Financial Statements (Old Conceptual Framework).
- ACAG notes that the proposals will also result in the continuation of having two conceptual frameworks, with the possibility that this will continue forever for "grandfathered entities".
- ACAG believes that the AASB has not applied its transaction neutrality policy in relation to its decision not to use the same version of the conceptual framework for for-profit public sector entities and retaining the Old Conceptual Framework for such entities.

Once again, thank you for the opportunity to comment on this Exposure Draft. I hope you will find ACAG's comments helpful as you move to progress the changes.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. L. Harris', is written over a horizontal line.

Michael Harris
Chair
ACAG Financial Reporting and Accounting Committee

Attachment
AASB SPECIFIC MATTERS FOR COMMENT

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

Specific Matter for Comment 1

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.

The majority of jurisdictions agree with the proposals to extend the application of the Conceptual Framework (New Conceptual Framework) to not-for-profit public sector entities. However, we have concerns that a for-profit public sector entity that is required to prepare general purpose financial statements (GPFS) is required to apply the Framework for the Preparation and Presentation of Financial Statements (Old Conceptual Framework).

The current amendments result in not-for-profit and for-profit entities that are consolidated into the whole of government accounts applying two separate conceptual frameworks which may cause issues if conflicts arise between the two conceptual frameworks. The proposed amendments also appear inconsistent, as a for-profit public sector entity that is required to mandatorily prepare GPFS by their respective Treasury (in legislation) must apply the Old Conceptual Framework, yet if the same entity were to elect to voluntarily apply GPFS, the proposed paragraph Aus1.2AA(c) of the Old Conceptual Framework would require them to apply the New Conceptual Framework. Therefore, some jurisdictions believe that application of the new conceptual framework should be extended to for-profit public sector entities.

ACAG notes that the proposals will also result in the continuation of having two conceptual frameworks, with the possibility that this will continue forever for “grandfathered entities” (as noted in AASB 6-7 June 2024 Board meeting paper 7.1 paragraph 48(a) – being such entities that may never amend their constitutions).

One jurisdiction believes that it is no longer appropriate to have two conceptual frameworks. Also, in the near future there will be a conflict between the Old Conceptual Framework and accounting standards. In particular, ED336 Provisions—Targeted Improvements - Proposed amendments to AASB 137 which proposes to update the definition of provision to the New Conceptual Framework definition of liability.

This jurisdiction believes that the AASB should have applied its transaction neutral policy between private and public sector entities. Also, as the accounting standard setter for Australian public sector entities, the AASB should have at least reviewed the New Conceptual Framework for issues affecting these entities, as the AASB has done for NFP public sector entities – noting that the AASB did not wait for the completion of the Public Sector Financial Reporting Framework to be completed for such entities. As such, the

proposals should only proceed as part of proposals to remove the Old Conceptual Framework from the current Australian financial reporting framework.

Specific Matter for Comment 2

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.

2(a)(i) ACAG agrees with the proposals.

2(a)(ii) ACAG agrees with the proposals.

2(a)(iii) ACAG agrees with the proposals.

2(a)(iv) ACAG agrees with the proposals.

Specific Matter for Comment 2

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.
- (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

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- (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.

2(b)(i) ACAG agrees with the proposals.

2(b)(ii) ACAG agrees with the proposals.

2(b)(iii) ACAG agrees with the proposals.

Specific Matter for Comment 2

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.

- (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.

2(c)(i) ACAG agrees with the proposals.

2(c)(ii) A majority of ACAG jurisdictions agree with the proposals.

One jurisdiction finds paragraph Aus6.56.1 is confusing and does not appear to say what is described in the question. The paragraph states "historical cost or current cost may or may not provide relevant information". This implies that maybe there is a different measurement method that is relevant. This jurisdiction requests the paragraph to be clarified, consistent with the question.

Specific Matter for Comment 2

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.

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

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- 2(d) ACAG agrees with the proposals listed under Question 2, apart from the exception noted above under Question 2(c)(ii).

Specific Matter for Comment 3

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.

ACAG agrees with the AASB decision to not include this project as part of its current priorities, and to consider it as part of the next agenda consultation, for the reasons given.

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

Specific Matter for Comment 4

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.¹

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.

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The majority of jurisdictions agree with the proposals to extend the application of the New Conceptual Framework to not-for-profit public sector entities but have concerns on the continuation of the Old Conceptual Framework for for-profit public sector entities.

As noted in Question 1, one jurisdiction believes that it is no longer appropriate to have two conceptual frameworks and that the proposals should only proceed as part of proposals to remove the Old Conceptual Framework from the current Australian financial reporting framework.

Further, this jurisdiction believes that the AASB should have applied its transaction neutrality policy and provide to the public sector the same relief “to limit the transitional and ongoing costs” (specifically, Tier 3) provided to private sector entities. While there will be more private sector NFPs to take advantage of the relief, public sector NFPs should not be prevented from similar cost relief.

Disclosures in special purpose financial statements

Specific Matter for Comment 5

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.

ACAG offers no comment, as the proposals relate solely to NFP private sector entities.

Transitional provisions

Specific Matter for Comment 6

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.

ACAG agrees with the proposed additional limited transitional relief for first-time adopters.

However, one jurisdiction believes that the AASB should not be involved in providing “incentives” (“short-term exemptions”) for “early adopters” to move from special purpose financial reports. Further, that the proposed “incentive” relief should be available for all entities moving from special purpose financial statements to general purpose financial statements, irrespective of when this occurs.

Specific Matter for Comment 7

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.

ACAG agrees with the proposals.

Effective date of the proposals

Specific Matter for Comment 8

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.

ACAG agrees with the proposals

AASB GENERAL MATTERS FOR COMMENT

General Matter for Comment 9

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

AASB Not-for-Profit Entity Standard-Setting Framework

As noted in Question 4, one jurisdiction believes that the AASB should have applied its transaction neutrality policy and provide to the public sector the same relief “to limit the transitional and ongoing costs” (specifically, Tier 3) provided to private sector entities. While there will be more private sector NFPs to take advantage of the relief, public sector NFPs should not be prevented from similar cost relief.

AASB For-Profit Entity Standard-Setting Framework

ACAG believes that the AASB has not applied its transaction neutrality policy in relation to its decision not to use the same version of the conceptual framework for for-profit public sector entities and retaining the Old Conceptual Framework for such entities.

General Matter for Comment 10

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?

ACAG does not anticipate any regulatory issues. However, ACAG notes that for-profit and not-for-profit public sector entities will be using different versions of the conceptual framework.

General Matter for Comment 11

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

ACAG notes that the continuation of two conceptual frameworks will cause continued challenges for both preparers as well as auditing and assurance challenges.

ACAG has experienced practitioners referring to the incorrect conceptual framework when providing accounting advice. While circumstances for this error should reduce (not-for-profit public sector entities now largely being included in the New Conceptual Framework), the issue will continue to exist for entities that remain subject to the Old Conceptual Framework.

As noted in Question 1, one jurisdiction highlights likely issues and conflicts between the Old Conceptual Framework and accounting standards with the introduction of changes under ED336 Provisions—Targeted Improvements - Proposed amendments to AASB 137.

General Matter for Comment 12

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

ACAG agrees that the proposals will result in financial statements that are useful to users, for those entities that are affected.

ACAG also notes that further improvement can be achieved for public sector entities excluded from these proposals, and which will be required to retain reference to and compliance with the Old Conceptual Framework.

ACAG also notes that the public sector reporting framework project is still critical in achieving the most useful reporting.

General Matter for Comment 13

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

ACAG is not able to comment on whether the proposals are in the best interests of the Australian economy.

General Matter for Comment 14

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.

The main costs identified by ACAG relate to moving from special purpose to general purpose financial statements, which differs amongst ACAG jurisdictions depending on the extent that special purpose financial statements are used.