

28 February 2025

The Chair  
Australian Accounting Standards Board

Submitted online via the "Current Projects – Open for Comment" webpage of the AASB website

## Public consultation on Not-for-profit Financial Reporting Framework – ED 334 and ED 335

Justice Connect welcomes the opportunity to make a submission to the Australian Accounting Standards Board (**AASB**) in relation to Exposure Draft ED 334 "Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements" and Exposure Draft ED 335 "General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities" (together the **Exposure Drafts**).

### About Justice Connect

In the face of huge unmet legal need, [Justice Connect](#)'s vision is a world in which legal support is within everyone's reach. Our purpose is to increase access to legal support and progress social justice.

We have been serving the community for more than 25 years. We are a registered charity and accredited community legal center.

### Our expertise

This submission draws on our own experience as a large Australian Charities and Not-for-profits Commission (**ACNC**) registered charity which has transitioned from preparing Special Purpose Financial Statements (**SPFS**) to General Purpose Financial Statements (**GPFS**). It also draws on the experience of our specialist, national [Not-for-profit Law](#) program which provides free and low-cost legal assistance to not-for-profit organisations and social enterprises, many of which are registered charities or have charitable purposes.

Not-for-profit Law delivers over thousands of hours of free legal advice and information annually to a diverse range of not-for-profits that are primarily small-to-medium sized and mostly volunteer run, and provides a range of other legal supports that are available to the broader not-for-profit sector.



Melbourne Office  
PO Box 16013  
Melbourne VIC 8007  
DX 128 Melbourne  
T +61 3 8636 4400

Sydney Office  
PO Box 463  
Darlinghurst NSW 1300  
T +61 2 8599 2100

admin@justiceconnect.org.au  
justiceconnect.org.au  
nfplaw.org.au  
ABN 54 206 789 276  
ACN 164 567 917

In 2024 we handled 266 requests related specifically to Financial Reporting and, in addition to our resources, we provided more than 1,400 hours of free legal assistance to organisations on this complex issue.

Our [Financial reporting to government](#) resources on our website received 2,840 views during 2024. Additionally, our [Guides to running an organisation](#), which contain specific content on financial reporting, received over 6,700 views. We also regularly deliver webinars on understanding financial reporting.

## Our submission

### *Overall comments*

**It is not possible to make a conclusive submission on the Exposure Drafts without understanding the reporting entity sizes the various Commonwealth, State and Territory regulators (the Regulators) will adopt.**

**Our overall recommendation is that the AASB should reconult on the Exposure Drafts once the Regulators articulate the intended application of these reporting changes in their relevant jurisdictions and legislation, including confirming reporting entity sizes, so that the sector, governments and other stakeholders can respond more effectively to the likely full impact of the proposed changes.**

We are a member of the Charities and Not-for-profits Committee of the Law Council of Australia's Legal Practice Section (**LCA Committee**). We contributed to and support the LCA Committee's submission (**LCA Submission**) dated 28 February 2025.

In addition to supporting the LCA Submission, we would like to draw the AASB's attention to the following points.

### *The Constituting Document Proposal should be removed*

Our **strong recommendation** is for the AASB to exclude those not-for-profits which are required only by their constituting document or another document to prepare financial statements to comply with Australian Accounting Standards from the Exposure Drafts (the **Constituting Document Proposal**).

Without clarity from the Regulators, it is not possible to understand which not-for-profits the Constituting Document Proposal will apply to, other than small ACNC registered charities. However, we understand it is likely to apply to smaller not-for-profits such as incorporated associations.

Our experience is that small not-for-profits are place-based organisations that rely heavily on volunteers, have limited resources and are unable to access or pay for legal or accounting advisory services.

The constituting documents of some small not-for-profits would have been written and approved many years ago with reference to requiring financial statements to be prepared in accordance with Australian Accounting Standards. These documents were written and approved when the option to prepare SPFS was available. These documents as drafted and approved did not commit the not-for-profits to GPFS and may have been written differently had the drafters been able to foresee a future requirement to move to GPFS.

Given these small not-for-profits are not required by legislation to prepare financial statements that comply with Australian Accounting Standards, **it is unfair to impose a requirement to comply with a more burdensome level of Accounting Standards** because of an existing requirement in a constituting document or other document.

*In the alternative, the constituting document date exemption must be redrafted*

Justice Connect has been asked to comment on the 'constituting document date exemption' condition under the AASB's proposals in ED 334 (the **Exemption**).

While we understand the Exemption was drafted by the AASB to reduce the impact of the Constituting Document Proposal, the Exemption as currently drafted **does not work** because it puts not-for-profits at risk of not only breaching their constituting document, but also the Australian Accounting Standards. If the AASB moves forward with the Constituting Document Proposal, we suggest the Exemption is **retained but redrafted**.

Under the current wording of the Exemption, it appears that **any change** to a not-for-profit's constituting document after the Exposure Drafts become effective will enliven the obligation for the not-for-profit to switch from SPFS to GPFS.

This is problematic because not-for-profits may make minor or unrelated changes to their constituting document, often without legal advice, without considering, knowing about or understanding the limits of the Exemption. In our experience, specialist paid legal advice for not-for-profits changing and reviewing their constituting documents can cost thousands of dollars, and this cost is very often beyond the financial means of smaller not-for-profits.

The Exemption may also have an unintended effect of discouraging not-for-profits from making best practice or other required changes to their constituting documents.

If the AASB moves forward with the Constituting Document Proposal, we urge the AASB to:

- re-draft the Exemption in a way that allows for not-for-profits covered by the Exemption to amend their constituting document and not risk falling outside the Exemption, and
- provide additional supports and guidance for not-for-profits to assist them to understand and navigate decisions around changing constituting documents where they currently include a requirement to prepare financial statements that comply with Australian Accounting Standards.

*The regulators must work together and carefully consider reporting entity sizes*

It is not possible to make a conclusive submission on the Exposure Drafts without understanding the reporting entity sizes the Regulators will adopt.

When considering the size of the entities that will fall into the various tiers, we would urge the Regulators to carefully consider:

- the resource constraints faced by the not-for-profit sector,
- whether there is utility and value in having financial statements prepared to a higher standard (or put another way, proper consideration of who uses the financial statements, who has the financial literacy to understand the financial statements and whether the benefit outweighs the cost and resourcing burden on not-for-profits), and
- the need for an approach that brings clarity and national consistency to all not-for-profits across Australia on the standard of accounting required of them.

As noted by many others in the sector, the Exposure Drafts as articulated will require individual Regulators to make decisions which may add further complexity to the regulatory and reporting frameworks for not-for-profits.

We strongly encourage the AASB and Regulators to learn from the haphazard implementation of the [National Fundraising Principles](#) (the **Principles**). Despite State and Territory governments [committing to adopt the Principles](#) over two years ago, progress to implement the Principles has been painfully slow and inconsistent, and some governments are yet to progress these urgently needed reforms.

This issue is reflected in the Productivity Commission Future Foundations For Giving Inquiry Report, which recommends “regulatory architecture to improve coordination and information sharing among regulators”.<sup>1</sup> Additionally, the Not-for-profit Sector Development Blueprint identified to the need to “create a more enabling regulatory and legal environment for the

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<sup>1</sup> Australian Government Productivity Commission, ‘Future Foundations for giving, Inquiry Report,’ (Report no. 104 – 10 May 2024), 29.

NFP sector, particularly by harmonising both NFP and relevant industry standards across all Australian governments".<sup>2</sup>

*There must be a long lead time for implementation, with careful consideration of other reforms impacting the sector*

We applaud the AASB's proposed three year transition period. A long lead time is crucial. We strongly encourage the AASB to remain committed to a long lead time, and to also take into consideration the number of other reforms impacting the sector.

We would be happy to discuss or expand on any of our comments. We agree to this submission being made public (with signatures redacted).

Yours sincerely,



Sophie Gordon-Clark  
Chief Operating Officer  
Justice Connect



Geraldine Menere  
Head  
Not-for-profit Law



Amy Williams  
Principal Lawyer  
Not-for-profit Law

For more information, please contact Amy Williams, Principal Lawyer of Not-for-profit Law, at [amy.williams@justiceconnect.org.au](mailto:amy.williams@justiceconnect.org.au).

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<sup>2</sup> Blueprint Expert Reference Group, 'Not-for-profit Sector Development Blueprint,' (28 November 2024),10.