



Project:	Not-for-Profit Private Sector Financial Reporting Framework	Meeting:	M178
Topic:	Summary of feedback from initial targeted consultation and next steps	Agenda Item:	3.1
		Date:	28 October 2020
Contact(s):	Kathy Xu kxu@asb.gov.au Fridrich Housa fhousa@asb.gov.au	Project Priority:	High
		Decision-Making:	High
		Project Status:	Consider additional feedback from targeted consultations and decide next steps

Objective of this paper

- 1 The objective of this agenda item is for the Board:
 - (a) to **note** further feedback received from initial targeted consultations with stakeholders since September 2020 Board meeting; and
 - (b) to **decide** on the next steps of the project.

Reasons for bringing this paper to the board

- 2 At the September 2020 Board meeting, the Board instructed staff to continue with targeted consultations with stakeholders on possible changes to the not-for-profit (NFP) private sector financial reporting framework (FRF).
- 3 Staff have undertaken further targeted consultation with preparers, users and staff of a regulator and summarised the feedback received.
- 4 Staff have proposed the next steps identified below after considering stakeholder feedback that are generally supportive of the direction of the project as well as the high-level design of a multi-tier reporting framework while some specific aspects of the possible framework need to be considered further.
- 5 At this meeting, staff ask for Board members to:
 - (a) consider further stakeholder feedback; and
 - (b) decide on the next steps.

Structure

- 6 This Staff Paper is set out as follows:
 - (a) [Summary of staff recommendations](#) (paragraph 7)
 - (b) [Overview](#) (paragraphs 8-9);
 - (c) [Summary of further feedback received](#) (paragraph 10); and
 - (d) [Next steps](#) (paragraphs 11-26).

Summary of staff recommendations

- 7 Staff recommend to:
- (a) continue the project; and
 - (b) develop a Consultation Paper (CP) for public consultation.

Overview

- 8 In line with the [project plan](#) approved in November 2019, in August 2020, staff started the initial targeted consultations with staff of regulators and with Conceptual Framework (CF) Project Advisory Panel (PAP) members on the high-level design of the multi-tier reporting framework.¹ Feedback received from these stakeholders did not indicate significant objections to the high-level design which incorporates two additional tiers based on New Zealand Public Benefit Entities (PBE) (NPF) Standards. However, specific concerns were raised around certain key aspects of the proposed framework. Stakeholders' feedback together with the nine key matters identified by staff were presented to the Board at its September Board meeting.²
- 9 At its September meeting, the Board instructed staff to continue with the targeted consultations to further inform the Board's deliberations on the next steps. As result, staff carried out further consultations with stakeholders since then including meetings with:
- (a) a philanthropy organisation administering and managing private and public ancillary funds;
 - (b) two NFP peak body organisations (being preparers themselves) with membership consisting of various registered charities;
 - (c) staff of a regulator; and
 - (d) other discussions organised by professional bodies, including meetings with some users, preparers, auditors and academics.

Summary of further feedback received

- 10 Feedback from further targeted consultations with stakeholders in October indicate general support for this project. No additional key matters were identified to those outlined in the September [staff paper](#). The table below summarises additional feedback on those key matters that stakeholders commented on (no additional key matters were identified since the September meeting):

Table 1: Summary of further initial feedback

Key matters identified	Further initial feedback
Key matter 1 Using NZ Tier 3 and Tier 4 PBE NFP Standards as starting point to develop Australian NFP private sector multi-tier reporting system	<ul style="list-style-type: none">- the focus of the project should be on further streamlining and standardising the reporting requirements and the desired outcome of the project would be a proportionate, simple and easy to understand, and cost effective reporting framework;- no significant objection to the proposed possible design of a multi-tier reporting framework;- this project should aim to reduce duplication and seek alignment with existing reporting (eg with ACNC AIS), and at the same time not causing significant incremental costs to entities, particularly in the current environment;- various issues have been identified in New Zealand since the adoption of their Tier 3 and Tier 4 Standards. It is important for this project to consider and build on the feedback from the post-implementation review of the New Zealand requirements;

1 Refer to September Board meeting Agenda Paper 5.2 (Board only)

2 Refer to September Board meeting, [Agenda Paper 5.1](#) NFP Private FRF Project – Summary of initial targeted consultation and key matters identified for details.

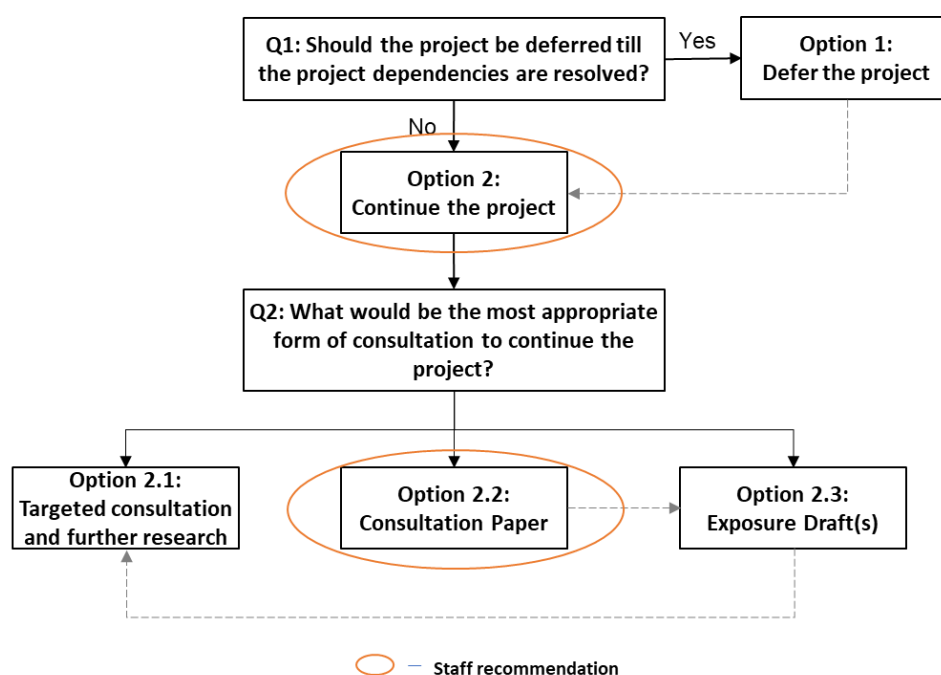
Key matters identified	Further initial feedback
	<ul style="list-style-type: none"> - need to consider whether potentially additional reporting requirements may be necessary for entities without public stakeholders (eg private ancillary funds); - specifically in relation to Tier 3 reporting requirements: <ul style="list-style-type: none"> • potential to significantly improve consistency in reporting and reduce compliance costs; • could naturally fit in the existing templates provided by accounting software platforms; and • appears to be adequate for regulator assurance purposes.
<p>Key Matter 2 Defining the reporting tiers in AASB 1053 and the interaction of this project on the Government Response to ACNC Legislative Review</p>	<ul style="list-style-type: none"> - interaction between the definition of the tiers and reporting requirements is important to determine where to draw the line between Tier 3 accrual accounting and Tier 4 cash accounting; - application of tiers needs to be clear for entities to have sufficient guidance on what reporting requirements are relevant for them; and - compared with qualitative thresholds based on which entities are currently able to prepare SPFS, quantitative thresholds are easy to implement and involve less judgement, thus would work better for NFP entities.
<p>Key matter 3 Revenue as only reporting tier threshold determinant</p>	<ul style="list-style-type: none"> - revenue should not be the only determinant for tier thresholds, eg some NFPs with a large once-off establishment donation would result in having higher reporting requirements, despite lower on-going income in subsequent periods.
<p>Key matter 4 Consolidation – whether to require application of AASB 10 <i>Consolidated Financial Statements</i> for Tier 3 entities with subsidiaries.</p>	<p>No additional comments received since the Board’s September meeting.</p>
<p>Key matter 5 Tier 4 reporting:</p> <ul style="list-style-type: none"> • Whether a framework based on NZ Tier 4 is required, with reference to the existence of primary users of general purpose financial reports and their needs; and • suitability of the reporting requirements for the entities expected to be in the scope. 	<ul style="list-style-type: none"> - in order to fully assess whether the proposed Tier 4 reporting requirements are fit for purpose, the thresholds need to be finalised such that the type of the entities in scope are identified; - in respect of user needs: <ul style="list-style-type: none"> • existence of users may depend on whether the accounts lodged with State and Territory regulators are publicly available; however, <ul style="list-style-type: none"> ○ many charities are now using their financial statements for the purposes of grant application or lease renewal, indicating that user needs do exist; and ○ small NFPs have access to significant amount of community funding in the form of tax concessions, government grants and donations, therefore there is an expectation of accountability and integrity regarding their financial data even though they may not have a regulatory requirement to lodge financial statements. - in respect of cash accounting requirements: <ul style="list-style-type: none"> • simple and can provide a suitable foundation for true and fair financial statements or a good reference point for best practice to ensure reporting is adequate for the associated risks, particularly for micro organisations that are lack of resources and run mostly by volunteers; • without a balance sheet, those charged with governance may not be able to assess the entity’s ability to operate as a going concern and the risks associated with its operation to discharge their accountability; • cash balance sheet more informative than disclosure of resources and commitments and more useful for regulators to assess the overall size of the sector; • assurance/external review will be important to ensure integrity of the financials regardless of simplicity of the requirements;

Key matters identified	Further initial feedback
	<ul style="list-style-type: none"> • entities are moving away from cash accounting and accounting software packages such as MYOB, QuickBooks and Xero are more available and accessible than before, making it easier for entities to prepare accounts on an accrual basis (often with a non-accrual balance sheet and P&L statement for smaller entities); and • the proposed requirements may need adjustments to the existing templates provided by accounting software leading to increased implementation costs.
<p>Key matter 6 Mandatory disclosure of service performance information</p>	<ul style="list-style-type: none"> - consideration of whether financial statements are the right place to disclose such information; - auditability of such disclosure will be an important aspect; - potential overlap with existing reporting requirements (eg ACNC AIS and grant acquittal reports, particularly those required for government grants); - emphasis should be put on outcome/impact reporting rather than outputs, because output measures: <ul style="list-style-type: none"> • may be difficult to implement for some NFPs (eg grant making entities and entities that do not provide direct services but effect changes through policy and advocacy); • could produce misleading information; and • may not necessarily help improve comparability and could inadvertently lead to unintended consequences (ie focus on quantity and not quality); - on the contrary, some supported output measures because they are simple to implement, easy to be audited and can improve consistency and transparency, while outcome would be difficult to measure, costly to implement for small entities and may not be auditable; - one size fits all approach would not be appropriate; - the significant debates around service performance reporting should not delay the introduction of the financial reporting simplicity to the NFP sector; and - concern that service performance reporting is mandatory for NFPs but not mandatory for FPs and further consideration is needed to balance needs of users and cost to implement, particularly for entities that would be in scope of Tier 4.
<p>Key matter 7 Tier 3 entities' ability to opt up to tier 2 requirements for a specific type of transaction</p>	<p>No additional comments received since the Board's September meeting.</p>
<p>Key matter 8 Fundraising accounting</p>	<ul style="list-style-type: none"> - additional guidance on definition of and accounting for fundraising costs would be beneficial to improve consistency of financial reporting across sector.
<p>Key matter 9 Related party disclosures</p>	<p>No additional comments received since the Board's September meeting.</p>

Next steps

- 11 The preliminary feedback from the initial targeted consultations with staff of NFP regulators, professional bodies, preparers, accounting firms, academics as well as users indicates that stakeholders are generally supportive of the possible design of the framework, including the approach staff propose to use the additional tiers of New Zealand PBE (NFP) Standards as a starting point.
- 12 Stakeholder feedback to date assisted to identify some specific matters in relation to key aspects of the proposed framework, particularly on definition of tiers, user needs and suitability of Tier 4 reporting, Tier 3 consolidation accounting requirements and service performance reporting.
- 13 With the preliminary feedback summarised above in mind, staff have considered the next steps of the project below:

Flowchart 1: Possible next steps of the project



- 14 First, staff considered the following two alternatives to proceed with the project:
 - (a) **Option 1** – to defer the project and consultations until the reporting thresholds for registered charities³ have been finalised such that the Board would have more clarity on the type of entities in scope of each tier; or
 - (b) **Option 2** – to continue with the project.
- 15 **Option 1** (to defer the project) could be justified on the basis that this project interacts with the implementation of the ACNC Legislative Review recommendations, particularly the final outcome of the tier thresholds (**Key matter 2**) and, as stakeholders pointed out, suitability of the reporting requirements (particularly Tier 4) is dependent upon the determination of applicability of the reporting tiers (**Key matter 5**).
- 16 However, preliminary feedback collected to date supports the overall direction of the project including the multi-tier approach. Stakeholder feedback also highlights that certain aspects of the possible design of the financial reporting framework need further consideration. As a result, there is a need to collect further feedback (eg through public consultation). **Option 2** considers that (at least) preparation for the possible public consultation on the design of the framework can proceed without the final tier thresholds being finalised.

3 as per the [Government Response to ACNC Legislative Review recommendations](#)

17 The following table analyses the two options outlined in paragraph 14 and includes staff recommendations:

Table 2: Defer or continue the project

Options	Advantages	Disadvantages	Timeline	Staff analysis and recommendation
<p>Option 1 Defer the project until the tier thresholds are finalised</p>	<ul style="list-style-type: none"> - more clarity on the entities in scope of each tier (when any changes in the thresholds are implemented by respective regulators), resulting in: <ul style="list-style-type: none"> o reporting requirements more tailored for user needs; and o consultations more targeted, hence more efficient; and - possible progress of other domestic and international projects to provide further information: <ul style="list-style-type: none"> o further research, eg the research project undertaken by one of the Australian Universities on user needs; o IFR4NPO’s project of developing a global set of NFP Standards; and o NZASB’s Post-Implementation-Review (PIR) of NZ PBE (NFP) Tier 3 and Tier 4 Standards. 	<ul style="list-style-type: none"> - potential significant delay of this project and NFP Conceptual Framework (CF) project. There is significant inter-dependency between this project and the NFP CF project eg in respect of: <ul style="list-style-type: none"> o Identification of primary users of general purpose financial reporting (GPFR); o user needs of the NFP sector and the implications of accountability/stewardship for financial reporting; and o role of service performance information in the GPFR. Delay of the projects will also result in: <ul style="list-style-type: none"> o two different sets of conceptual frameworks for for-profit and NFP sectors for an extended period; and o comparability, consistency and transparency of the financial reporting of NFP entities unaddressed. - delay in further feedback and collection of further feedback through consultation. 	<p>n/a – unable to specify the project timeline as it depends on the progress of the implementation of Government Response to ACNC Legislative Review.</p>	<p>Staff recommend option 2 because:</p> <ul style="list-style-type: none"> - stakeholders in initial targeted consultations supportive of the objective of the project to improve the comparability, consistency and transparency of NFP financial reporting and enhance accountability in the sector and the proposal of the possible multi-tier reporting framework with streamlined and proportionate reporting requirements; - the possible financial reporting framework could permit entities to opt up to higher reporting requirements,⁴ limiting dependency of the reporting requirements on the tier definition; - finding of on-going research could inform the Board’s deliberation at a later stage in addition to the evidence available currently; and - continuation of the project including consultation would provide further information and enable staff to provide further detailed analysis of the considerations raised for the Board’s deliberation.
<p>Option 2 Continue the project</p>	<ul style="list-style-type: none"> - the final outcome of this project (eg a comparable, consistent and transparent financial reporting framework with simple and proportionate reporting requirements for the NFP private sector) likely delivered earlier than Option 1; - the AASB able to proceed with other cross-cutting projects – eg NFP Conceptual Framework project; and - enable to collect additional feedback to inform the Board for its deliberations on the project. 	<ul style="list-style-type: none"> - potential need to revisit design and implementation timeline of the framework and its financial reporting requirements at a later stage of the project depending on the outcome of the implementation of Government response to ACNC Legislative Review. 	<ul style="list-style-type: none"> - timeline dependent on the form of the next steps. Refer to paragraphs 18 - 25, Table 3 and Table 4 for further discussion. 	

Questions to the Board

Q1: Does the Board agree with the [staff recommendation](#) to continue the project ([option 2](#) above)? If not, what does the Board suggest?

⁴ NZ PBE NFP Tier 3 Standard permits entities to opt up to tier 1/tier 2 requirements for a specific type of transactions while NZ PBE NFP Tier 4 Standard permits entities to opt up from cash accounting to accrual accounting.

- 18 Should the Board decide to continue with the project and consultations ([Option 2](#) in [Table 2](#) above), the appropriate form of consultation and further collection of evidence needs to be considered in line with the AASB's [Evidence-informed Standard-Setting Framework](#) and [Due Process Framework](#).
- 19 As pointed out in section 1.6 of the [project plan](#), a significant amount of research⁵ has already been completed to identify the issue. As outlined in paragraphs 11-12 above, feedback from initial targeted consultations with wide range of stakeholders has indicated general support for the direction of the project. However, it also highlighted that certain key aspects of the possible design of the reporting framework need to be considered and analysed in more detail.⁶ Staff preliminary analysis of these key matters also helped identify a number of options as potential solutions to the relevant key matters.⁷
- 20 Staff therefore considered the most appropriate form of consultation in the next stage of this project would be public consultation. In addition, compared with targeted consultation, public consultation could help to reach wider stakeholder group, thus collecting more representative feedback to inform the Board with a balanced view.
- 21 As per AASB's [Due Process Framework](#) paragraph 6.5, one of the mandatory due process steps of Standard-setting is exposing for public comment a draft of proposals. This could be issuance of an Exposure Draft (ED) (as per paragraph 6.5(d)) or publishing a Consultation Paper (CP) before an ED is developed (as per paragraph 6.6(a)).
- 22 Paragraph 6.4 of the Due Process Framework highlights the difference between an ED and CP:
 - (a) ED is issued when there is a specific proposal;
 - (b) CP is typically used to refine the number of options being considered as the solution to an issue and can be issued prior to an ED where the Board has not determined the most appropriate option to resolve an issue.
- 23 Progressing the project through deliberations on identified matters towards public consultation would not preclude further research and targeted stakeholder engagement. On the contrary, these activities would significantly help the drafting of the CP.
- 24 The following table outlines the options staff considered how to continue with the project:
 - (a) [Option 2.1](#) Targeted consultations and further research;
 - (b) [Option 2.2](#) Consultation Paper; and
 - (c) [Option 2.3](#) Exposure Draft(s).

5 AASB Research Report No. 5 [Financial Reporting Requirements Applicable to Charities](#) (October 2017); AASB Discussion Paper: [Improving Financial Reporting for Australian Charities](#) (November 2017); AASB Staff Paper: [Comparison of Standards for Smaller Entities](#) (April 2018); AASB Research Report No. 10: [Legislative And Regulatory Financial Reporting Requirements](#) (September 2019); AASB Research Report No. 11: [Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities](#) (September 2019); and AASB Research Report No. 14: [Literature Review: Service Performance Reporting For Not-for-Profits](#) (February 2020).

6 For example, [Key matter 2](#) Definition of tiers, [Key matter 5](#) Users needs and suitability of Tier 4 reporting and [Key matter 6](#) Service performance reporting

7 For example, [Key matter 1](#) NZ Standards as starting point and [Key matter 6](#) Service performance reporting

Table 3: Options to progress the project

Options	Advantages	Disadvantages	Possible timeline	Staff analysis and recommendation
Option 2.1 Targeted consultations and further research	<ul style="list-style-type: none"> - further research may provide new evidence to further inform Board on the extent and scope of the issue and possible solutions; - consultations with targeted stakeholders on specific issues may: <ul style="list-style-type: none"> o collect more targeted and effective feedback with proposed solutions more tailored to the applicable tiers/entities; and o help staff to run consultations more efficiently by focusing on specific issues affecting only the targeted stakeholders, thus directing efforts and resources to identifying solutions; - may identify additional matters that are not previously known; and - may help establish new or enhancing existing relationships with stakeholders. 	<ul style="list-style-type: none"> - potentially significant delay in the finalisation of the Standard(s), compared with the option of issuing ED (option 2.3); and - possibility that further targeted consultation would not identify any new issues or additional options to solve the already identified problems, thus making the use of time and resources inefficient and ineffective (when compared to option 2.2 below). 	<ul style="list-style-type: none"> - Nov 2021 – Jun 2022 – further research and targeted consultations; - Jun/Sep 2022 Board meeting – Board to note the summary of the feedback received and approval on next steps; - H2 2022/ H1 2023 – public consultation. 	Staff do not recommend this option because: <ul style="list-style-type: none"> - further targeted consultation may not result in net incremental benefit; and - feedback collected to date (through available research, targeted consultations) is sufficient to inform the development of a public consultation document which does not preclude collection of further feedback.
Option 2.2 Develop a Consultation paper (CP)	<ul style="list-style-type: none"> - provides further opportunity to consult on matters raised by stakeholders compared to ED to refine options to consider as solution to the issues raised; - outreach with broader range of stakeholders than the targeted consultation while continuing to seek input from Project Advisory Panel and targeted stakeholders; - written submissions plus feedback to be received from roundtables and other form of outreach events during the comment period would provide the Board with more robust and balanced views for decision-making; - time to develop discussion paper will provide opportunity to consider options available to address the considerations raised by stakeholders and consider further evidence/feedback provided by the research and targeted consultation while drafting the CP to inform Board’s deliberations; and - engagement with stakeholders and feedback received will potentially streamline deliberations during the next stage of the project. 	<ul style="list-style-type: none"> - feedback from users of small-sized NFP entities’ financial reports and their preparers are not guaranteed; - due to the inter-dependency with other projects (eg NFP Conceptual Framework project), improvements in consistency, comparability and transparency of NFP financial reporting would not be achieved until both projects are finalised; - possible delay in finalising the standards (compared with option 2.3). 	<ul style="list-style-type: none"> - post Nov 2020 staff to analyse considerations raised by stakeholders for Board deliberations; - H1 2021 – Board to continue deliberations on the possible design of the framework and possible options available to address the considerations with view to consult publicly on the options at; - Q3 2021 – Board to consider issuance of public Consultation (if open for comment for 120 days, comments due back in Q1 2022); - Q4 2021 - roundtables and other forms of outreach; - Q2 2022 and onwards – Board to consider stakeholder feedback on Consultation Paper and next steps. 	Staff recommend this option because: <ul style="list-style-type: none"> - significant amount research has been undertaken to understand and identify NFP specific reporting issues; - feedback from initial targeted consultations generally supportive of the direction of the project; - matters raised around certain aspect of the possible design of the NFP FRF need to be further considered and potential options how to address them to be consulted with broad range of stakeholders; - drafting the consultation paper will provide the opportunity to consider further research on the issues already identified. - feedback from public consultation may identify new issues for which further research may be required, thus making the consultation process more robust and transparent.
Option 2.3 Exposure draft(s) (ED)	<ul style="list-style-type: none"> - public exposure of specific proposals on the financial reporting requirements likely earlier than other options 	<ul style="list-style-type: none"> - potentially insufficient consultations with stakeholders on options available to address concerns around the design of the framework, considering the number of matters raised for further considerations from targeted consultations; - risk of varied feedback on the ED resulting in increased time for Board’s deliberation; - specific proposals may be exposed before number of cross-cutting projects and initiatives sufficiently progress that could further inform future Board deliberations; - the risk of discouraging stakeholder engagement progressing to a specific proposal stage without exploring wider range of options available through public consultation. 	<ul style="list-style-type: none"> - Feb and Apr 2021 Board meetings - the draft EDs for Board discussion and approval; - Dec 2021 – EDs comment period close (6 months); - Q1 2022 Board meeting – Board discussion on summary of the feedback ; - In absence of significant feedback, standard(s) could be issued before 30 June 2022. 	Staff do not recommend this option given: <ul style="list-style-type: none"> - significant matters for further consideration and consultation raised by the stakeholders; and - a number of options identified as potential solutions to various key matters (refer to paragraph -)

Questions to the Board

Q2: If Board agrees with the [staff recommendation](#) in paragraph 17, does the Board agree with the [staff recommendation](#) to develop Consultation Paper as next step of the project ([option 2.2](#) above)? If not, which option does the Board prefer?

25 Subject to the Board decision on recommendations above (summarised in paragraph 7), the following table provides further details of staff proposed timeline and key milestones.

Table 4: Option 2.3 – Timeline and milestones

MEETING / DATE	PROJECT TIMELINE AND MILESTONES
NOV 2020 (this meeting)	<ul style="list-style-type: none"> - project status update including consideration of initial targeted consultations with stakeholders; - Board consideration of next steps.
FEB 2021	<ul style="list-style-type: none"> - Board’s deliberations on scoping of the reporting requirements, including: <ul style="list-style-type: none"> o Key matter 1: NZ PBE NFP Tier 3 and Tier 4 Standards as a foundation to develop reporting requirements for the additional tiers in the possible multi-tier reporting framework o Key matter 5: User needs and suitability of cash accounting for Tier 4 entities o Key matter 6: Service performance reporting (eg user needs and mandatory vs optional requirements)
APR 2021	<ul style="list-style-type: none"> - Board’s deliberations on the following topics : <ul style="list-style-type: none"> o Tiers and thresholds: <ul style="list-style-type: none"> ▪ Key matter 2: Definition of tiers ▪ Key matter 3: Tier threshold determinant o Tier 3 reporting requirements <ul style="list-style-type: none"> ▪ Key matter 4: Accounting for interests in other entities, including consolidation accounting ▪ Key matter 7: Opting up option ▪ Key matter 8: Fundraising accounting ▪ Key matter 9: Related party disclosure
JUN 2021	<ul style="list-style-type: none"> - Board’s deliberations on Tier 4 reporting requirements, including: <ul style="list-style-type: none"> o Key matter 5: Basis of preparation and level of disclosures o Key matter 9: Related party disclosure o Sweep issues
SEP 2021	<ul style="list-style-type: none"> - Board to consider final draft of the public consultation paper - Issue consultation paper for public comment (eg with 120-day comment period close Q1 2022)

26 Given the importance of this project and complexity of issues involved, staff plan to obtain input and feedback from the Project Advisory Panel (PAP) throughout the project. The PAP currently consists of 29 members, including three Board members. Rather than establishing a separate Board sub-committee, to assist in obtaining feedback on the development of project proposals staff are seeking one or more additional Board members to join the PAP.

Questions to the Board

Q3: Does the Board agree with suggested next steps and timeline? If not, what does the Board suggest?

Q4: Do any Board members wish to join the [NFP PAP](#) at this time?