Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M177
Topic:	**Summary of initial targeted consultation and key matters identified**	**Agenda Item:**	5.1
		Date:	2 September 2020
Contact(s):	Kathy Xu kxu@aasb.gov.au James Barden jbarden@aasb.gov.au Fridrich Housa fhousa@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High Low Consider staff update and initial feedback from targeted consultations

OBJECTIVE OF THIS PAPER

1 The objective of this agenda item is for the Board:

- to **note** the preliminary feedback received from initial targeted consultations with stakeholders to date;
- to **consider** the key matters identified by staff; and
- to **consider** the proposed next steps of the project.

ATTACHMENTS

Agenda Paper 5.2 August 2020 Initial Targeted Consultation Presentation [included in the supplementary folder]

REASONS FOR BRINGING THIS PAPER TO THE BOARD

2 The Board instructed staff to carry out initial targeted consultations on possible changes to the not-for-profit (NFP) private sector financial reporting framework. The preliminary feedback from those targeted stakeholders to date indicates no significant objection to the high-level draft design of the NFP private sector multi-tier reporting framework. However, some key matters have been identified in the consultation process and staff's preliminary thinking on these matters are provided in this paper.

3 This paper does not contain staff recommendations on how the Board should respond to the matters raised/identified to date. These recommendations will be provided to the Board at the next meeting after staff have performed further review and analysis. Consequently, the Board will not be asked to make any decisions at this meeting.

4 Although no decisions are required from the Board at this meeting, staff do require Board members to provide initial feedback on:

- the key matters identified and whether they appear to be correctly identified;
- staff's initial thinking relating to the key matters identified. This may include suggestions for further research or alternate views/options to consider;

- any other matters not identified that need to be further investigated at this stage; and
- the specific technical matters listed in the Initial Targeted Consultation Presentation (Agenda Paper 5.2).

5 As detailed in the "Next steps" section, staff intend to bring back further analysis and recommendations to the Board at the November Board meeting.

STRUCTURE

6 This Staff Paper is set out as follows:

- Overview (paragraphs 7-10);
- Summary of key matters identified to date (paragraph 11);
- Next steps (paragraphs 12-13);
- APPENDIX A: Summary of preliminary feedback received from initial targeted consultations to date.

OVERVIEW

7 In November 2019, the Board approved the project plan for the Not-for-Profit Financial Reporting Framework project. The project aim is to address issues of regulatory complexity in the NFP private sector and develop a simple, proportionate, consistent and transparent financial reporting framework for all NFP private sector entities that are required to comply with Australian Accounting Standards (AAS). The plan outlined how a multi-tier reporting framework could look, as follows:

- a top reporting tier based on AASB's Tier 2 (full recognition and measurement (R&M) and simplified disclosures) with voluntary opting up to Tier 1 permitted (in absence of public accountability definition for NFP entities); and
- middle and bottom reporting tiers based on the New Zealand Accounting Standards Board's (NZASB) Public Benefit Entities (PBE) reporting Standards (eg NZ simplified accrual accounting standard, referred to as 'Tier 3' and standalone cash accounting standard, referred to as 'Tier 4').

8 In August 2020, staff conducted a series of targeted consultations with staff of federal regulators and state and territory-based consumer affairs regulators. Staff also held an NFP Conceptual Framework (CF) panel meeting.[1] The purpose of those meetings was to gather initial feedback on a revised framework based on the NZASB's model (as noted above), and to help identify the key matters for Board consideration before formally proposing such a model (ie before issuing an Exposure Draft). To facilitate the conversation, staff prepared a set of slides illustrating the possible framework at a high level and highlighting key elements of the framework that staff considered of interest to those stakeholders. That slide pack is available for the Board's information as Agenda Paper 5.2 (see supplementary folder).

9 This paper summarises the feedback from those initial targeted consultations, as follows:

- Table 1 (paragraph 11) provides a summary of key matters for further consideration, as identified by staff; and
- Appendix A provides a detailed summary of all feedback received.

10 Both tables provide staff initial thoughts on addressing the issues identified. As noted, they are not final recommendations - those will be brought back to the Board in the November meeting for further consideration based on feedback received at this meeting. As staff expect to bring a

1 Membership of the Conceptual Framework Project Advisory Panel was recently revised to reflect the shift in focus from FP-related matters to NFP-related matters. Revised membership includes accounting firms, regulators, professional bodies, academics and others. The full membership list is reflected on the AASB website.

working draft of the exposure drafts to the November meeting, we feel it is important for the Board to be aware of our initial thinking in proceeding with the key issues before presenting that working draft. Please note that there is duplication between Table 1 and Appendix A, given that Appendix A is intended to be a detailed summary of all feedback.

SUMMARY OF KEY MATTERS IDENTIFIED TO DATE

11 The following table summarises the key matters identified from the feedback received from initial targeted consultations, as well as staff's initial thoughts on these matters.

Table 1: Key matters for further consideration

Key matters identified	Staff initial thoughts
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 ***Summary of stakeholder feedback*** There appears to be initial general support from stakeholders in August targeted consultations. However, stakeholders suggested providing further rationale to support selection of NZ standards as the basis.	In November 2019, the Board approved the updated project plan. The plan outlines the preferred approach, which is to base the middle and bottom tiers of reporting on NZASB's simplified accrual (Tier 3) and standalone cash accounting (Tier 4) standards. The Board acknowledged this was subject to further consultation with stakeholders. As outlined in AASB Staff Paper: Comparison of Standards for Smaller Entities, when compared with other options (eg IFRS for SMEs, UK FRS 102, UK Charities SORP and future development of IFR4NFO), the NZ Tier 3 and Tier 4 standards are the simplest and most understandable options relevant to smaller and medium-sized entities. Also, NZ standards contain disclosure requirements for service performance information to complement financial information and tell a more comprehensive story of the entity's performance. On the other hand, the *IFRS for SMEs* Standard is considerably longer and more complex in its accounting requirements, beyond the proportionate level of complexity for smaller sized NFP entities (eg ACNC Legislation Review 2018 recommended revenue of $5m as minimum threshold for large charities). Furthermore, *IFRS for SMEs* Standard is designed for for-profit companies, meaning NFP-specific modification would be needed. It is also designed for entities without public accountability, therefore its requirements are not necessarily developed on the basis of the entity's size. Another option considered is UK Financial Reporting Standard FRS 102, an NFP-specific Standard based on the *IFRS for SMEs* Standard. However, it is not only longer than NZASB's Standards (with more than 400 pages compared to 61 and 41 pages for NZASB's Tier 3 and Tier 4 respectively), but has been amended and its requirements are now more closely aligned with AASB Tier 1 than the *IFRS for SMEs*. This again calls into question the suitability of *IFRS for SMEs* standard as a starting point if other jurisdictions have been required to amend its requirements for application. Some stakeholders also pointed to UK Charities' Statement of Recommended Practice (SORP) which provides guidance for charities on how to apply FRS 102 and sets out charity-specific requirements that are additional to those of FRS 102. However, the SORP is not a standalone Standard, but instead an overlayed guidance, which may not be helpful for simplicity. IFR4NPO is a global initiative to develop internationally applicable financial reporting guidance for NFPs. However, the project is still at its early stages with the final guidance expected in late 2024. At this stage, it is also unknown whether the final guidance would be suitable for smaller NFPs and it is unlikely it will be available in a sufficiently timely way. On the above basis, staff's initial thinking remains that a framework based on the NZASB's model is appropriate, particularly given the general support. The above reasons can be clarified with stakeholders through Basis for Conclusions and outreach materials.

Key matters identified	Staff initial thoughts
Key matter 2: Defining the reporting tiers in AASB 1053 and the interaction of this project on the Government Response to ACNC Legislative Review ***Summary of stakeholder feedback*** There appears to be mixed views on whether the reporting tiers should be defined in AAS. The main concern appears to be around the challenge of getting all regulators to implement a unified framework across the various legislation. Some suggested to look to the thresholds of the ACNC Act as the underpinning legislative framework for aligning the tiers.	**Defining in AASB 1053** Staff agree that a reporting framework where all NFP-relevant legislation has aligned reporting thresholds and specify which reporting framework to apply would be ideal. However, staff acknowledge that that type of legislative reform appears unlikely to occur at least in the short term. Therefore, many pieces of legislation will simply refer entities to apply 'Australian Accounting Standards' for financial reporting purpose. In accordance with ASIC Act (section 229), in making and formulating accounting standards, the AASB must also ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards.[2] In absence of unified reporting requirements across relevant legislation, to ensure the objective above is met, the tiers would have to be defined in the AAS to provide clarity which AAS requirements to apply when an entity is required by legislation to prepare financial statements in accordance with AAS. In other words, staff consider there needs to be some type of scoping requirements within AAS so that entities that simply have a requirement in legislation to comply with 'Australian Accounting Standards' know which reporting requirements are relevant to them. This is similar to the FP sector, which uses the concept of public accountability within AAS to specify whether an entity is able to apply Tier 2. Without such specificity, there is a risk entities will inappropriately apply a higher or lower tier than is proportionate to their size. **Interaction with ACNC legislation and its review** As one stakeholder pointed out, as part of ACNC's red tape reduction, States and Territory regulators have been aligning their regulatory requirements with those of ACNC. Staff will continue to monitor progress of the Government response to ACNC Legislation Review and assess the impact on this project to ensure the largest possible alignment between thresholds set in AAS and in the respective federal, state and territory legislation. Staff note the importance of regulatory simplicity, and on that basis would expect any revised ACNC thresholds to be the starting point for determining the thresholds to include in accounting standards, assuming those thresholds are the most generally accepted through harmonisation agreements between ACNC and state and territory-based regulators. Staff note that the Government recently responded to the ACNC legislative review, but no legislative change has been made as yet. It is unknown whether the thresholds will be amended to the amounts suggested in the legislative review, and therefore staff think it is impracticable to discuss exact amounts that might define the tiers at this time. The thresholds proposed in the legislative review would be determined on rolling three-year revenue and would include the following: • large registered entity: $5 million or more (an increase from current threshold of $1 million); • medium registered entity: from $1 million to less than $5 million (an increase from the current threshold between $250,000 and $1 million); and • small registered entity: less than $1 million for a small (an increase from the current threshold of $250,000).
Key matter 3: Revenue as only reporting tier threshold determinant	Staff note that revenue is used as the threshold determinant in a number of jurisdictions for regulatory purposes, and also by the *Australian Charities and Not-for-Profits Commission Act* (ACNC). Staff also note that revenue as

2 Australian Securities and Investments Commission Act 2001 - Sect 229

Key matters identified	Staff initial thoughts
Summary of stakeholder feedback Several stakeholders pointed out potential revenue volatility and its implication on entities moving across tiers on a potentially frequent basis. Some suggested that additional determinants may be useful, such as asset values or employee numbers, particularly on the basis that some entities may have large asset base without much turnover.	the only determinant was not proposed to be changed in the ACNC legislative review. Therefore, staff's initial thinking is that it is simpler to use a determinant that is consistent with those other regulations. However, Staff will further consider and consult on the suggestions from stakeholders, such as using asset and/or employee numbers as supplementary thresholds, using inflationary adjustments to revenue and/or using three-year average to smooth out revenue fluctuations. This analysis also interacts with the feedback mentioned above suggesting to align any thresholds in AAS with those in the ACNC Act. Staff acknowledge revenue volatility could cause entities to move across thresholds too often in absence of other safeguards to prevent this. Staff note this could particularly be the case if there is no guidance on the difference between revenue and income, and no concept of other comprehensive income, both of which are not included in the NZASB's frameworks. Without those, there is potential for items such as revaluations to be included in the amount used to determine the entity's relevant threshold. Also, the fact some NFP entities may have large asset bases without much turnover does raise a question whether revenue alone is an appropriate threshold. Staff note that NZ Standards require entities to consider the average of the two preceding accounting periods to determine the relevant tier. Staff will monitor progress of the Post-Implementation Review (PIR) of NZ Tier 3 and Tier 4 for any feedback on thresholds determinant (ie NZ Tier 3 Standard currently uses annual expense as reporting tier threshold and NZ Tier 4 Standard currently uses annual operating payments as reporting tier threshold). As noted above, in respect of the proposals for tiers, staff will continue to monitor progress of the Government response to ACNC Legislation Review and assess the impact on this project.
Key matter 4: Consolidation – whether to require application of AASB 10 *Consolidated Financial Statements* for middle tier entities with subsidiaries. ***Summary of stakeholder feedback*** There were mixed views on consolidation requirements and consequently on using consolidated revenue as the tier threshold. Many stakeholders pointed out practical difficulties in applying consolidation accounting in NFP sector and the significant costs of preparation potentially overweighing the benefits.	Staff's proposed initial design would require a middle tier entity to prepare consolidated financial statements in accordance with AASB 10 *Consolidated Financial Statements* if it controls one or more other entities and make disclosures in accordance with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, paragraph 104. Staff consider that consolidated financial statements are fundamental to faithfully represent the financial performance and position of an NFP entity regardless of its corporate structure (ie regardless of whether it is structured as a single entity or multiple separate entities with control relationships) and should be a requirement of the revised NFP reporting framework. Consequently, when assessing the reporting tier, the size of the entity would be determined by reference to consolidated revenue. Staff note that two federal regulators (ASIC and ORIC) currently use consolidated revenue or income as their primary tier threshold and staff of one state regulator confirmed its current practice requires consolidation if the reporting entity controls other entities, even though its reporting threshold is not explicitly referred to as "consolidated revenue". The proposal to require middle tier entities to prepare consolidated financial statements is consistent with the NZ approach, which requires application of the Tier 2 consolidation accounting standard (but not the whole Tier 2 framework) where a control relationship exists. The NZASB made that decision under the assumption that entities with subsidiaries would already apply tier 2 requirements and the fact that development of simplified group accounting rules is not only difficult but would also significantly increase the complexity of the standard, thereby detracting

Key matters identified	Staff initial thoughts
	from the usefulness of the standard for most NFPs. The NZASB also affirmed their view that consolidation is a necessary aspect of the Tier 3 framework.[3] Staff note that AASB 10 may also be an appropriate option as it contains implementation guidance specific for NFP entities, particularly to address circumstances where the for-profit terminology of AASB 10 does not readily translate to an NFP perspective. This includes guidance on how to assess control in the NFP context. Furthermore, additional illustrative examples are provided as further guidance. Staff would need to undertake further outreach/research as to whether that guidance is useful and appropriate for smaller NFP entities, and if not, why not, if it would be deemed necessary to do so. While staff will further consider other options to explore (eg disclosure only, consolidate in accordance with *IFRS for SMEs* Standard, or combine financial statements as if entities are under common control) and further consult with stakeholders, consistently with NZASB's decision, staff preliminary view is that the benefit of developing a separate set of consolidation rules for middle tier entities would not outweigh the cost.
Key matter 5: Bottom tier reporting: • 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. ***Summary of stakeholder feedback*** While the proposed bottom tier based on NZASB's Tier 4 is considered by some stakeholders to be simple, reasonable and logical in principle, some stakeholders pointed out the following concerns: • some panel members queried the existence of primary users of general purpose financial statements of the entities in this tier, and whether their needs support the need for the reporting requirements in AAS; • staff of some regulators expressed differing views whether the reporting requirements are fit for purpose for the entities expected to be in the scope of the tier. This was	**Bottom tier reporting and existence of general purpose users** *The AASB's role in setting standards* As a Standard setter, the AASB establishes the type and nature of financial statements to be prepared by entities (including NFP entities) required to report in accordance with AAS[4] in order to facilitate comparability, assist management to discharge accountability, and to allow users to make and evaluate decisions about allocating scarce resources to these entities in Australia.[5] In making and formulating accounting standards, the AASB must also ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards.[6] Arguably if there exists at least one legislative requirement for compliance with AAS at the size relevant to the bottom tier, this would indicate need for proportionate AAS requirements. Currently, one state regulator requires all of its entities to prepare annual accounts in accordance with AAS (however, in a prescribed template referring to special purpose financial report), and several other state and territory regulators require small-sized entities to prepare financial reports with a true and fair view of the entity's financial performance and position. Staff, however, acknowledge it could be argued that resources should not be expended to develop a framework which only a very small number of entities may have to comply with mandatorily. Notwithstanding those arguments, staff's view is that the proposed bottom tier framework could nonetheless provide benefit to stakeholders, even on a primarily voluntary basis, for example: • as a potential basis to provide a 'true and fair' view where required by legislation or otherwise; or • to provide information to primary users of GPFS of the NFP (including lenders and other creditors and taxpayers, as outlined further below). Staff are of the view that, without consideration of whether general purpose primary users indeed exist or not, if a regulator requires an entity's financial statements to comply with AAS, or those charged with governance voluntarily require compliance with AAS, the entity should apply a GPFS

3 See Basis for Conclusions to NZASB's Tier 3, paragraph BC17.2.
4 Paragraph 7 of the AASB's Not-for-Profit Entity Standard-Setting Framework
5 Australian Securities and Investments Commission Act 2001 - Sect 224
6 Australian Securities and Investments Commission Act 2001 - Sect 229

Key matters identified	Staff initial thoughts
particularly in light of the respective jurisdictions' current thresholds for reporting and the potential change in the thresholds in future. In particular, some stakeholders questioned whether the proposed NZ Tier 4 framework was too complex for the bottom tier.	framework developed for the primary users of the entity as defined in the Conceptual Framework. This approach is consistent with the NFP standard-setting framework paragraph 9 which states "The AASB sets standards only for GPFS". *Primary users of NFP financial reports* The existing Conceptual Framework (June 2014) identifies various users of NFP financial reports: • existing and potential resource providers (such as investors, lenders and other creditors, donors and taxpayers); • recipients of goods and services (such as beneficiaries, for example, members of the community); and • parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament). As highlighted in paragraph AusOB2.1 of the Conceptual Framework (June 2014), there is broader range of users for NFP financial reports than for for-profit financial reports, who may make resource allocation decisions in a way that is different from users of a for-profit financial reports. Users of NFP financial reports are particularly concerned with the entity's ability to achieve its objectives (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash flows and management's stewardship of the entity's economic resources. For example, as noted in AASB Research Report No 5 Financial Reporting Requirements Applicable to Charities, Appendix D, all taxpayers could be considered as users of the financial report of a charity that has been provided significant tax exemptions. Another example is that the public could be considered as users of a charity receiving significant government funding. There is also a question as to whether regulators should be considered as a primary user in the NFP context (or for example, whether further clarification of parties performing oversight function is needed). The Board would consider that further as part of the NFP Conceptual Framework project. Staff are not aware of any evidence that the types of primary users discussed above would not exist for entities applying the bottom tier of reporting. The next section discusses whether the NZ Tier 4 framework is appropriate for fulfilling the needs of those users with reference to the size, complexity and resource constraints of the bottom tier. **Bottom tier requirements fit for purpose** Staff note that the reporting thresholds for the proposed tiers are not yet determined, which does create challenges in assessing fully whether a proposed framework is proportionate to the size of entities that might apply it. However, staff believe bottom tier reporting requirements could still be formulated with a clear focus on achieving a balance of desired simplicity of the financial reporting requirements (given the bottom tier is expected to be very small NFPs), and adequate baseline disclosures to meet the needs of primary users. The proposed bottom tier design (standalone cash accounting without consolidation, complemented with disclosures of related party transactions, non-cash information and material resources, commitments and contingencies) aims to achieve this balance. In staff's view, the NZASB's Tier 4 would enable preparation of financial information by any person with knowledge of the entity, without the need for specific accounting software or specific accounting expertise, provided the entity has a good record keeping system.

Key matters identified	Staff initial thoughts
	Staff acknowledge that the complexity of the entities in scope of the bottom tier would vary (as with any of the tiers). Entities that do not wish to apply (or the legislation does not allow them to apply) cash accounting would be able to opt up to higher tier (such as accrual-based middle tier). Also, for those entities that do not have any legislative requirements to prepare GPFS or financial statements in accordance with AAS, they would not be required to apply the framework mandatorily. However, it would be available as a voluntary tool for those charged with governance to discharge their obligations in relation to financial reporting. Staff believe using simpler language in setting the requirements, providing sufficient guidance with illustrative examples, and offering optional reporting template could facilitate the implementation and encourage the take-up. Staff will also review the NZASB Tier 4 framework in an attempt to identify whether any further simplifications are possible, without losing any of the useful information in the framework.
Key matter 6: Mandatory disclosure of service performance information ***Summary of stakeholder feedback*** There appears to be mixed views among stakeholders. While some believe service performance information supplements financial information and provide useful information for users, others were concerned that costs of preparation are likely to outweigh the benefit and pointed out the previous feedback AASB received on *ED 270 Reporting Service Performance Information*.[7]	There is a broader range of users for NFP financial reports than for for-profit financial reports and these users are particularly concerned with NFP entities' ability to achieve their objectives (whether financial or non-financial).[8] As AASB Research Report 14 pointed out, evidence from international research suggests that NFPs report more extensive information regarding accountability in documents that are required by regulators, thus mandating the reporting of service performance information is warranted to narrow the gap between stakeholders' information needs and what is currently reported by NFPs in the private sector. The research also suggests that stakeholders prefer NFPs to report on service performance information. In 2015, the AASB released ED 270 *Reporting Service Performance Information*. The majority of stakeholders who commented on ED 270 agreed with the principle that service performance information provides useful information on the extent to which an entity has achieved its objectives and hence is useful for accountability and decision-making purposes. However, significant concern was raised around the proposed use of efficiency and effectiveness as performance measures and the cost of implementation outweighing the benefits of the information provided. ED 270 was more prescriptive in setting out the requirements as compared to the current staff proposals based on NZ model, which adopt a high-level principle-based approach that would provide sufficient flexibility for entities to explain its objectives and report on impacts, thus avoiding undue costs. A report by CA ANZ on the NZ experience of adopting Tiers 3 and 4 has demonstrated that funders welcomed the disclosure and considered that service performance information "provides them with the most meaningful information because it enables them to understand what the charity has achieved during the year and what it hopes to achieve in the future".[9] Stakeholders' concern around the mandatory status of the requirement is, however, in line with the research findings that were presented at the AASB's research forum 2019. The research indicates that NFP entities may have "different risk profiles and different expectations, and even fundamentally different taxonomy" and as a result, a mandatory standard

7 Feedback received associated with ED 270 can be found here.

8 Paragraph AusOB3.1 of the Conceptual Framework (June 2014)

9 New Charity Reporting – One Year On by CAANZ

Key matters identified	Staff initial thoughts
	maybe difficult to operationalise.[10] However, the research also confirmed that donors want to know the outcomes and impact achieved by NFPs and staff will consult with wider groups of stakeholders, especially with users, as part of the further targeted consultations to consider their views when developing requirements for service performance information. For the reasons noted above, staff consider that inclusion of mandatory service performance reporting is an important element of a revised financial reporting framework for NFP entities. However, regard may be needed to ensure that the proposals are operationalizable and meet the needs of users.
Key matter 7: Middle tier entities' ability to opt up to tier 2 requirements for a specific type of transaction ***Summary of stakeholder feedback*** Many stakeholders welcomed the option for middle tier entities to opt up to Tier 1/Tier 2 requirements for a specific class of transactions. Some stakeholders were concerned with the implication on comparability of the financial statements potentially resulting in similar issues currently identified for special purpose financial statements (SPFS).	Unlike SPFS where an entity has the ability to determine its own accounting policies and disclosures, entities within the scope of a middle tier would be required to comply with all the R&M requirements specified in the Standard, unless the entity elects to apply the requirements from an applicable higher tier Standard for certain type (i.e. class) of transactions. This option would ensure that AAS requirements fit the nature and complexity of the transaction and at the same time ensures that the same type/class of transaction is treated consistently in the entity's financial statements. Staff understand that the most common areas that NZ entities choose to opt up are property, plant and equipment (PPE) revaluations and financial instruments. Generally PPE revaluation increases are recognised in other comprehensive income (OCI) in accordance with AASB 116 *Property, Plant and Equipment*. Under AASB 9 *Financial Instruments*, investments in equity instruments can be designated at initial recognition such that changes in fair value are accumulated in equity through OCI. In these cases, entities would have to recognise OCI even though middle tier reporting does not contain a concept of OCI. Staff are of the view that applying the requirement and guidance under the NZ Tier 3 Standard does not give a clear answer whether in these cases AASB 101 *Presentation of Financial Statements* should be applied in recognising the OCI or should the entity only recognise the specific OCI arising from the transactions for which entity has chosen to opt up. Preliminary feedback received by NZASB in relation to the post-implementation review (PIR) of their Tier 3 and Tier 4 Standards indicates that NZ stakeholders found it difficult to apply the opt up requirements (eg NZ PBE Standards may require some items to be recognised in other comprehensive revenue and expense but there is no equivalent concept in the Tier 3 accrual standards) and requested for specific guidance.[11] Staff will continue to monitor progress of the NZ Tier 3 and Tier 4 Standards PIR and assess impact on this project. With respect to concerns that an entity voluntarily opting-up on a by-class-of-transaction basis may reduce comparability between entities, staff note that it may be impractical to remove this option without making the Tier 3 standard excessively complex. This is because allowing entities to opt-up is a useful way for entities to determine accounting policies for complex transactions. In addition, staff note that the NZASB developed the Tier 3 standard on the same conceptual basis as its Tier 2 standards (albeit that conceptual framework is based on the IPSASB's conceptual framework). On that basis, staff consider that where entities choose to opt-up, the information would at least prepared on a consistent conceptual similar

10 Standardising the reporting of service performance information in Australia: An in-depth study of the not-for-profit user and preparer communities, presented at the AASB's Research Forum 2019

11 Paragraph 27 on page 75 of the Board paper presented at the NZASB Meeting dated 7 May 2020

Key matters identified	Staff initial thoughts
	basis applying all relevant AAS requirements, and not based on accounting policies determined solely by the entity itself (as may be the case when an entity prepares special purposes financial statements). In summary, staff think it is acceptable to retain an opt-up option despite potential loss of comparability.
Key matter 8: Fundraising accounting ***Summary of stakeholder feedback*** Most of the regulator staff that participated in the initial targeted consultation supported the proposal to allocate direct attributable administrative overheads to fundraising activities. However, some pointed out practical difficulties in assessing and comparing administration costs between the entities.	Decisions to donate are often influenced by how effectively the donated funds have been used. One way to assess this effectiveness could be by examining the entity's administration costs as all NFP entities spend money on administration to operate and pursue its objectives.[12] The Board has previously noted a need for enhanced fundraising definitions and related disclosure (for Tier 1 and Tier 2 entities).[13] Research at the AASB's 2019 research forum has also highlighted the need for improved guidance on allocating expenses between being directly related to fundraising activities and general administration costs.[14] That research noted that stakeholders are particularly interested in information about how their money has been spent. However, fundraising activities can be run using a variety of models (eg by volunteers, by paid employees, or through contractors). As a result, assessing and comparing administration costs can be difficult. As part of the further targeted consultations, staff plan to consult with wider stakeholder groups, including users, to understand their information needs and to further engage with state and territory regulators. Staff will also look into the existing guidance (eg in ACNC's National Standard Chart of Accounts and UK Charity SORP guidance) to ensure that the staff proposed requirements will achieve reasonable allocation and consistent outcome.
Key matter 9: Related party disclosures ***Summary of stakeholder feedback*** There appears to be broad support to align related party definition and disclosures (at least for middle tier entities) with those of Tier 2. Most stakeholders agreed that related party transactions are common even among small NFP entities.	As stated in NZ Tier 3 and Tier 4 Standards, related party relationships exist throughout the NFP sector. Disclosure of related party relationships and related party transactions is necessary for accountability purposes. This is because: (a) Related party relationships can influence the way in which an entity operates with other entities; (b) Related party relationships might expose an entity to risks, or provide opportunities that would not have existed in the absence of that relationship; and (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on terms and conditions that differ from those that would normally be available to unrelated parties. Staff believe that aligning the related party definition with that in AASB 124 (eg to include a close family member that is Key Management Personnel (KMP) of the reporting entity or its parent) and expanding the related party disclosure to include KMP compensation in total would ensure consistency in related party disclosure requirements across the tiers. Staff also note the ACNC Legislation Review placed particular importance on related party disclosures, noting that "All registered entities should disclose related party transactions in their AIS and all medium and large registered entities should comply with AASB 124 in their annual financial reports irrespective of whether the registered entity is otherwise required to comply with AASB 124."

12 https://www.acnc.gov.au/for-public/understanding-charities/charities-and-administration-costs
13 https://www.aasb.gov.au/admin/file/content102/c3/3.8_Definition_of_fundraising_project_plan_M157.pdf
14 https://www.aasb.gov.au/admin/file/content102/c3/Hall_et_al_2019.pdf

NEXT STEPS

12 Based on the initial targeted outreach, staff expect there will be significant interest and potentially diverse feedback on this project. On that basis, staff identified and considered two principal options for the next phase of work, as follows:

Options	Advantages	Disadvantages
Option 1 - Proceed as per project plan: • Finalise targeted outreach with users, preparers, professional bodies and accounting firms; • Analyse and provide staff recommendations to key issues identified through targeted outreach for November meeting; and Present working draft of Exposure Drafts based on NZ Tier 3 and Tier 4 to the Board in November 2020 (without Basis for Conclusions, Illustrative examples etc).	• Development of proposals to address NFP issues on more timely basis. • Broader outreach would be conducted with more refined proposals (ie an ED). This may lead to more valuable feedback on the specific issues and help better identify what the solutions to particular issues may be. • Board is able to discuss technical details of NZASB's tiers sooner (as opposed to further discussion on high-level issues).	• Potential for some additional issues or views to remain unidentified until ED outreach. • Consequently, **might** lead to more redeliberation after ED stage compared to Option 2.
Option 2 – Conduct broader outreach on fundamental issues • Broaden outreach to wider stakeholder groups, and seek additional feedback on the fundamental issues identified as key issues above (eg NZASB as appropriate base, user needs and costs vs benefit); • Report back to the Board at November Board meeting on further feedback received. Would include updated list of key issues and revisions to staff's initial thoughts based on further outreach; and • Delay further analysis/recommendations on key issues until first meeting of 2021. Working draft of Exposure Drafts presented to the Board in H1 2021.	• Could identify a broader range of stakeholder issues and views on how to address issues before proceeding to ED. • Provides more feedback and opportunity for AASB to re-consider any fundamental issues (if the Board feels the need to do so). • Proposals in ED **might** be more refined, meaning potentially less redeliberation (however not guaranteed).	• Slower progress of the project. • Additional feedback might be high-level or theoretical in nature without presenting proposals in an ED (or similar). • The AASB has already discussed framework issues at a high-level in previous roundtables, such as before responding to ACNC Legislation Review. Stakeholders may find outreach repetitive, and feedback received may be repetitive.

13 Based on the analysis of options above, staff intend to continue progression based on Option 1 (proceed as per project plan). Staff consider that the targeted consultation is sufficient to identify the key issues before progressing to the consideration of a working draft of the ED. Staff also consider that more meaningful feedback is provided on the specific proposed requirements (rather than higher-level discussions beyond initial targeted consultation).

Questions to the Board

Q1. Does the Board agree that staff have correctly identified the key matters?

Q2. Do the Board members have any initial feedback on the key matters identified and/or any other matters that staff need to further investigate at this stage?

Q3. Do the Board members have any feedback on further matters listed in the attached slide pack (Agenda paper 5.2)?

Q4. Do Board members have any objection to staff continuing with the next steps as per the project plan?

APPENDIX A: SUMMARY OF PRELIMINARY FEEDBACK RECEIVED FROM INITIAL TARGETED CONSULTATIONS WITH STAKEHOLDERS TO DATE

Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
• **Reporting tiers**			
Multi-tier reporting system with middle and bottom tiers based on NZ standards	Possible three tier reporting system: • Top Tier: AASB Tier 2 (full R&M and simplified disclosures) • Middle Tier: simple format accrual accounting (based on NZ PBE NFP Tier 3 Standard) • Bottom Tier: standalone cash accounting (based on NZ PBE NFP Tier 4 Standard) Note: Entities may opt-up to a higher tier, including AASB Tier 1.	No significant objection to the proposal of a multi-tier reporting system and the proposed approach to develop the additional tiers based on NZ model appropriate. Specific feedback included: • the proposed model with additional tiers would enable a fairer reporting framework allowing proportionate reporting and flexibility to balance burden on NFP entities (a regulator's staff); • evidence indicates that NZ model has worked well despite the challenges and NZ Tier 4 model has served an important purpose in NZ (a PAP member); and • however, the AASB should provide clear rationale and benefit for adopting NZ approach as a base against other options (a regulator's staff). There were mixed views on the need for proposed bottom tier (also refer to the section further below for specific feedback in relation to bottom tier reporting requirements): • questionable rationale to develop stricter and more detailed accounting requirements for small entities as many of them are not required by legislation to prepare financial report in accordance with AAS and lodge them on public record via regulators or otherwise (some PAP members) • whether primary users of general purpose financial reports of these entities exist including whether regulators should be considered as primary users (some PAP members). On the other hand, one PAP member noted a view that all NFPs have public accountability which would lend to a requirement for all NFPs to prepare some sort of GPFS.	<u>**See Key matter 1:**</u> Using NZ Tier 3 and Tier PBE models as starting point to develop Australian NFP private sector multi-tier reporting system <u>**See Key matter 5:**</u> Bottom tier reporting: • 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. <u>**Staff initial thoughts on other matters:**</u> • Tier 1 reporting is currently applied on a voluntary basis for NFP private sector entities. This is because, as per paragraph BC45 of AASB 1053, the Board concluded that a modified definition of public accountability in the NFP private sector would not provide a robust basis for identifying appropriate reporting Tiers. This is because NFP private sector entities (with the likely exception of smaller member-based entities) are typically seen as having differing degrees of public

Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
		• several panel members questioned whether bottom tier reports should be considered GPFS. Other matters raised by stakeholders include: • whether the tier 1 with full R&M and disclosure compliance is necessary for NFP private sector (a regulator's staff). • standardisation of terminology for tiers (eg use large, medium, small rather than tier 1,2,3) to avoid confusion in the sector as jurisdictions currently use those tiering terms within various regulations with different meanings.	accountability in the general sense of the term. • Tier 1 and Tier 2 are well-established terms used in AAS. Any additional tiers for NFP private entities would need to ensure consistency. Clear communication and further education should be considered to clarify what each tier means to NFP entities, their regulators and auditors.
Reporting tier threshold determinant	Consolidated revenue to determine the size of the entities and consequently the reporting requirements	Most stakeholders were concerned about revenue volatility and its implication on entities crossing the thresholds year on year. One panel member believed that any selected reporting threshold should be justified from the perspective of user needs. Some suggested using inflationary adjustments three-year averages to smooth out revenue fluctuations. Some suggested considering other metrics such as assets and/or number of employees which not only provide more stability in size determination but also reflect unique circumstances of some NFP entities with significant asset bases but without significant revenue. Some raised implication of not differentiating between revenue and income as potential contributor to entities crossing thresholds in case of sole determinant. See "Middle Tier accounting requirements" further below. Staff of regulators expressed mixed views on using consolidated revenue as tier threshold: • wo mentioned the current use of consolidated revenue or income as their primary tier threshold in their jurisdiction and therefore did not object to the staff proposals.	**See Key matter 3:** Revenue as only reporting tier threshold determinant **See Key matter 4:** Consolidation – whether to require application of AASB 10 *Consolidated Financial Statements* for middle tier entities with subsidiaries

Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
		• One confirmed its current practice requires consolidation if the reporting entity controls other entities, even though its reporting threshold is not explicitly referred to as "consolidated revenue". • Others currently require the size to be determined and financial reports to be prepared on a single entity basis and therefore expressed concerns Refer below for further feedback received from staff of regulators and panel members on the consolidation matter.	
Thresholds definition	To define the reporting tiers in the Australian Accounting Standard (AAS).	Many stakeholders did not comment. However, those who did comment had mixed views. • staff of two regulators supported the proposal of defining the tiers within AAS as their view defining the tiers by legislation or regulations would require the states and territories to reinvent the terminology and make the compliance more complicated. • staff of other regulators pointed out that to conform reporting thresholds, regulators would be required to standardise legislations across different jurisdictions. In absence of this, defining the tiers in AAS could add confusion for entities to work out which reporting requirements apply to them. • one panel member suggested using ACNC thresholds as underpinning framework given the on-going alignment of state, territory, and ACNC regulatory obligations for applicable entities. • staff of one regulator highlighted the potential need to allow flexibility in AAS to accommodate for any future changes to the regulatory thresholds.	**See Key matter 2:** Defining the reporting tiers in AASB 1053 and the interaction of this project on the Government Response to ACNC Legislation Review

Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
• **Proposed mandatory disclosure of non-financial information by middle and bottom tier entities**			
Mandatory disclosure of non-financial information	Mandatory disclosure of: • entity information, to describe the nature and purpose of the entity; and • service performance information, being a statement focusing on entity's objective, outputs and performance measures. An optional template provided to facilitate implementation. Potential need to introduce equivalent requirements for service performance reporting for Tier 1 and Tier 2 entities if Service Performance Reporting project not completed by the time the middle and bottom tier Standards become applicable.	Stakeholders expressed mixed views on the proposed mandatory disclosure of non-financial information, particularly the disclosure of service performance information. • staff of two regulators welcomed the proposed disclosure of non-financial information and believed it would provide more useful information for users to assess whether the entity meets its objectives. Staff of one regulator supported the disclosure for Tier 3 entities, but considered it too complex for Tier 4. • one panel member said feedback from many charities indicates that financial information alone does not tell the full story and users would want to know whether the entity is achieving its objectives. Service performance information is not only relevant but also important for entities to discharge their accountability to the public, the largest funding source for many charities. Some other panel members agreed with this view. • staff of two regulators did not support the requirement being mandatory for middle and bottom tiers while top tiers do not have the equivalent requirements. One of them said the cost of enforcing it would most likely outweigh the benefit. • Some panel members believed the disclosure of non-financial information should not be extended beyond companies limited by guarantee and the information disclosed in the Directors' Report in accordance with the *Corporations Act 2001* as it is not the AASB's role to mandate disclosure of non-financial information (but rather the relevant regulators' decision to mandate such disclosure). The panel member also questioned the auditability of the service performance information. Some other panel members agreed with this view.	<u>**See Key matter 6:**</u> Mandatory disclosure of service performance information

Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
		• staff of one regulator cautioned about entities' perception of service performance disclosure being burdensome given the previous feedback received on the service performance reporting ED in Australia. While some stakeholders found the prescribed format (based on NZASB tiers) helpful, one panel member said the illustrated example underestimates the complexity of many charities as it is not always straightforward to determine the outputs and performance measures. Some suggested using a simpler terminology (eg "impact report" instead of "service performance report") to describe the concept more clearly and to avoid confusion.	
• **Opt-up option for the proposed middle and bottom tier reporting models**			
Opting up permitted	• Middle tier entities would be able to opt up to Tier 1 or Tier 2 R&M requirements for a specific type of transactions. Once opted up, returning to middle tier for that type of transaction is only allowed as a change in accounting policy. Disclosure of the opt up is required. • Middle tier entities can also opt up to a higher tier reporting in its entirety. • Similar to middle tier entities, bottom tier entities would be able to opt up to apply middle tier Standard or top tier requirements in full. However, opting up for a specific type of transition is not available for bottom tier entities	Consulted stakeholders appear to be in broad agreement that the option for middle tier entities to opt up on the type of transaction basis will ensure that accounting reflects the nature and complexity of the transaction. Entities' ability to opt up to a higher reporting tier in its entirety appears to be able to alleviate concerns, to certain extent, that some regulators' staff have over what the interaction of the thresholds defined in AAS with the respective regulatory requirements. While there was no significant objection to the opt-up option, some stakeholders were concerned with the implication on comparability of the financial statements potentially resulting in similar issues currently identified for special purpose financial reports.	**See Key matter 5:** Bottom tier reporting: • 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. **See Key matter 7:** Middle tier entities' ability to opt up to tier 2 requirements for a specific type of transaction

<table>
<tr><th>Matters discussed</th><th>Staff proposal of possible design</th><th>Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members</th><th>Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)</th></tr>
<tr><td></td><td>due to the different basis of preparation.</td><td></td><td></td></tr>
<tr><td colspan="4">Proposed middle tier R&M, presentation and disclosure requirements</td></tr>
<tr><td>Consolidation</td><td>Mandatory application of AASB Tier 2 consolidation, equity accounting for investments in associates and joint ventures (JV) requirements (not required to apply full framework)</td><td>Staff of regulators also had significant concern with the proposed requirement for consolidation for middle tier entities.
Some stakeholders expressed concerns around the proposed consolidation requirement for middle tier entities:
staff of one regulator (based on the feedback from their constituents) indicated the sector found it difficult to apply the consolidation accounting and many NFP entities' organisation structures do not naturally fit into the "control" definition in AAS.
staff of one regulator commented that many of the NFPs are small and unsophisticated community groups and the accounting requirements should not overburden them.
staff of one regulator noted that many NFP organisation structures do not naturally fit into AASB 10's "control" definition.
one panel member pointed out that for some NFP groups (ie where control exists), entities within the group may have different charitable purposes and separate user groups. There was concern that consolidation would deprive the separate user groups the clear reporting at the single entity level. The panel member said the proposed consolidation requirement would be the largest concern for many of their clients who currently prepare SPFS without consolidation, due to the cost of consolidation.
another panel member, however, believed that NFP entities have 'public accountability' in the sense that their operations rely on public funding. To discharge this 'public accountability', they should prepare consolidated financial</td><td><u>See Key matter 4:</u> Consolidation – whether to require application of AASB 10 Consolidated Financial Statements for middle tier entities with subsidiaries</td></tr>
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Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
		statements (where relevant) and make available the separate financial statements of individual entities within the group. • staff of one regulator urged the AASB to consult widely with stakeholders to understand the issues with the mandatory application of full consolidation and equity accounting within the NFP private sector. Feedback was also received in relation to 'consolidated revenue as reporting tiers. Refer above for details.	
Statement of financial performance	Overall R&M, presentation and disclosures • simpler R&M • focusing on common type of transactions with specific guidance • minimum disaggregation specified • significantly reduced disclosure compared with Tier 2 simplified disclosures **Revenue** • no distinction between revenue and income • optional recognition of volunteer services and optional disclosure of volunteers' contribution (eg in hours) • material donated asset recognised only if ○ useful life > 12 months; and ○ rateable value readily obtainable	***Note:*** *Advisory panel discussion did not focus on the specific requirements of middle and bottom tiers. The feedback summarised from this point onwards is almost solely from staff of the regulators.* **<u>Simple R&M with specific guidance:</u>** No significant concerns received in relation to the proposed revenue and expense accounting: • staff of one regulator commented that the proposed simplified revenue accounting requirements would improve clarity and therefore would be useful from regulatory perspective. The resulted reporting would better inform members. However, they were concerned that for smaller middle tier entities, these requirements may still be onerous, but confirmation of that view would depend on what the bottom tier reporting threshold would be. • staff of another regulator agreed with the proposed accounting to recognise grants/donation with 'use or return' conditions as a liability if the conditions are not met. In their view, this would result in an accounting outcome that is more useful than, for example, a framework with upfront revenue recognition in all instances. • staff of one regulator questioned the reason for expensing donated assets with useful life less than 12 months and	**<u>See Key matter 8:</u>** Fundraising accounting **<u>Staff initial thoughts on other matters:</u>** • No distinction between revenue and income Even though the minimum revenue disaggregation would still allow entities to separate the revenue arising from the ordinary activities of the entity from other revenue stream, including certain once-off revenue stream in the tier threshold would increase the revenue volatility and may have unintended consequences in size determination. Staff, therefore, believe further consideration is required as to how and where to define the 'consolidated revenue' as the tier threshold and further consultations on this matter with wider group of stakeholders are necessary.

Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
	• suggested minimum disaggregation goes beyond the NZ requirement (eg further disaggregation of government grants from non-government grants) **Expenses** • requiring allocation of directly attributable overheads to the related fundraising activities; and • requiring recognition of long service leave (LSL) with guidance	suggested to provide further rationale when drafting the proposals.[15] **<u>Minimum disaggregation:</u>** Staff of most regulators consulted consider the proposed minimum disaggregation as sufficient to satisfy the legislative reporting purposes for the relevant entities and at the same time allows greater transparency and more useful information than currently received. • some agreed that separate presentation of fundraising revenue and government/non-government grants is important. • some would like to see more guidance on the revenue classification. • some would prefer more flexibility in allowing additional revenue categories. • staff of three regulator representatives supported further disaggregation of material other expenses to ensure transparency and accountability. **<u>No distinction between revenue and income:</u>** Majority of the regulators require size determination based on revenue. Some regulators define the revenue as related to ordinary activities of the entities. Staff of several regulators expressed concern that the proposal to not distinguish revenue from an entity's ordinary activities from other income will have an impact on the size determination for financial reporting purposes. For example, including the one-off fair value gains/losses on investments in the 'consolidated revenue' would increase its volatility and may have unintended	Refer to **<u>Key matter 3</u>** for further discussion on the implication on revenue as only reporting tier threshold. • Further disaggregation of other expenses Staff note that, consistent with top tier reporting, middle and bottom tier reporting would be subject to the overriding principle of materiality. Furthermore, additional disaggregation is permitted if further breakdown will provide users with useful information (NZ Tier 3 Standard provides possible examples of additional categories). Staff will consider the feedback received in the proposals.

15 Staff note that due to the high-level nature of the consultation, the rationale for certain requirements was not always able to be explained through the materials provided.

Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
		consequence of the entity falling into different tiers in different years. Further feedback received in relation to revenue volatility can be found in the section above "Reporting tier threshold determinant". **Fundraising related accounting:** Staff of regulators consulted mentioned that split between fundraising and general admin expenses has been a focus area. Staff of most regulators consulted were supportive of the proposal of requiring administrative expense allocation and providing additional guidance. Also: • staff of one regulator suggested the AASB working with states and territories on fundraising related accounting to ensure consistent and proportionate reporting. • Staff of another regulator cautioned against the overhead allocation as this may result in losing track of salary and wage expense as percentage of funds raised, hence making the regulation more difficult. • Staff of another regulator, however, believed such allocation should only be required for entities that apply full AAS R&M in their financial statements. **LSL calculation and guidance:** No significant objective received from stakeholders. However, staff of two regulators questioned whether the requirement is necessary as many middle tier entities may not have employees, as a result the impact may be limited.	
Statement of financial position	• simpler R&M, including simpler depreciation for PPE and simpler initial and subsequent accounting for financial instruments	There appears to be broad support for a simpler balance sheet by the consulted stakeholders. Some stakeholders said they like the flexibility of the ability to opt-up, particularly for entities that are already applying or would want to apply top tier reporting requirements (eg to account for	**See Key matter 7:** Middle tier entities' ability to opt up to tier 2 requirements for a specific type of transaction

Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
	• focusing on common type of transactions with specific guidance • option to opt up permitted by a type of transaction (eg for PPE revaluation and financial instrument accounting) • minimum disaggregation specified (no separate intangible asset category) • significantly reduced disclosure compared with Tier 2 simplified disclosures	investments in accordance with AASB 9 *Financial Instruments* and/or leases in accordance with AASB 16 *Leases*). Some stakeholders, however, were concerned with the implication on comparability of the financial statements potentially resulting in similar issues currently identified for special purpose financial reports. Refer to the "opting up permitted" section for further discussion of the feedback received. Furthermore, there seems to be consensus that most middle tier entities do not expect to have material or complex intangible assets that would warrant guidance specific for intangible assets in the standard.	**Staff initial thoughts on intangible assets not required as a minimum line item:** Under the current proposal (ie NZ Tier 3), intangible assets would be presented as part of 'other assets' and recognised at the amount paid or other value that can be measured reliably upon initial recognition. Further disaggregation is permitted if separate presentation provides more relevant information, subject to materiality. Given middle tier entities are unlikely to have material or complex intangible assets, not requiring these assets to be presented as a separate line item is unlikely to be an issue.
Statement of cash flows	• simpler R&M (eg cash flows recognised for cash, excluding cash equivalents) • presenting cash flows using direct method • no separate presentation of investing and financing cash flows • minimum disaggregation of cash flows mirroring those of P&L	No significant concerns were raised during the initial targeted consultations. Staff of one regulator suggested allowing a choice to separately disclose investing and financing cash flows as in their view financing may sometimes provide information (eg on related party loans) that may not always appear in the financial statements.	**Staff initial thoughts on the aggregated presentation of financing and investing cash flows:** Although there will no separate subtotals for cash flows from financing activities and cash flows from investing activities, further breakdown of receipts from sale of PPE, payments to acquire PPE, proceeds from borrowings, repayments of loans, capital contributions from owners or members, and capital repaid to owners or members are required as part of the minimum disaggregation.

Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
			Related party balances and transactions are required to be disclosed separately as part of the related party disclosure requirement. Furthermore, entities that would prefer to separately present the financing and investing cash flows can always opt up to top tier reporting requirement as long as it is applied consistently year-on-year.
Related party disclosure	• Related party definition aligned with AASB 124 *Related Party Disclosures* to include a person or other entity that is closely associated with the reporting entity that has the ability to influence the reporting entity, and that person could be a close family member that is Key Management Personnel (KMP) of the reporting entity or its parent. • Requirement to disclose related party relationships, material related party transactions, and KPM compensation in total.	There appears to be broad support for the proposal to require the same level of disclosure for middle tier entities as for top tier entities. Staff of one regulator suggested exempting KMP compensation disclosure where there is only one identifiable KMP within the organisation,[16] and further consultation with Australian Taxation Office (ATO) around potential exemption of certain related party transactions that are assessed to be low risk within ATO's risk assessment framework.	**See Key matter 9:** Related party disclosures
Other matters	• No recognition and presentation of OCI	Staff of one regulator was concerned about the impact on the P&L volatility as a result of OCI not being recognised and its implication on the entity's size determination.	**See Key matter 3:** Revenue as only reporting tier threshold determinant

16 ACNC Legislative Review recommended that large registered entities should be required to disclose the remuneration paid to responsible persons and senior executives on an aggregated basis. Government response to ACNC legislation review recommendation #15 states that this disclosure will only be required from entities with two or more key management personnel to accommodate privacy concerns. Refer to ANCN Legislative Review and Government Responses for further details.

Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
	• Simplified requirements to reflect changes in accounting policies, changes in accounting estimates and prior year errors (eg. no requirement to restate in most cases) • Modified retrospective transition approach with possible transitional relief for restatement of comparatives and consolidation (depending on previously used framework)	No other significant concern was raised other than the expectation that the accounting requirements should be written in simpler and less technical language and education should be provided to aid understanding of these requirements.	**See Key matter 7:** Middle tier entities' ability to opt up to Tier 2 requirements for a specific type of transaction
• **Proposed bottom tier accounting and disclosure requirements (based on NZASB Tier 4)**			
No consolidation but control concept still relevant	• Bottom tier entities would not be required to consolidate their subsidiaries and financial statements and disclosures are prepared on single entity basis. • Bottom tier entities would still be required to assess whether they control any other entities in accordance with AASB 10 to determine the applicable reporting tier.	Refer to the section "the proposed multi-tier reporting system" above for feedback received from panel members on bottom tier cash-based accounting. Staff of some regulators thought the proposed cash accounting is simple, reasonable and logical, and would in principle agree with the proposal if bottom tier entities can opt up to a higher tier of reporting. However, most of them had concerns about the requirements applying to micro entities as they believe the application of these simpler rules may still require someone with at least some accounting knowledge. There was also concern with the level of disclosures required in the Statement of Resources and Commitments. Staff of one regulator suggested a further simplified regime (eg cash-based income and expenditure	**See Key matter 5:** Bottom tier reporting: • 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. **See Key matter 9:** Related party disclosures
Statement of receipts and payments	• Cash-based accounting with no balance sheet or P&L • Non-cash transactions such as depreciation, receivables and payables are not recognised		

Matters discussed	Staff proposal of possible design	Initial feedback received from staff of federal, state and territory regulators and Project Advisory Panel members	Staff initial thoughts on the matter discussed (the key matters further discussed in paragraph 11 above)
Statement of Resources and Commitments	• Material non-cash information, such as receivables, payables, non-financial assets, commitments and contingencies, guarantees and other information including grants/donations with conditions attached, donated goods/services, assets pledged as securities and restricted assets, would be required to be disclosed	statement only) for the micro-sized entities (eg clubs and associations with revenue less than $40,000). On the other hand, staff of one regulator highlighted the need to balance simplicity and sufficient risk coverage when designing the bottom tier reporting requirements. Staff of some regulators also referred to the fact that in many jurisdictions small NFP entities currently do not have any legislative financial reporting requirements to regulators (in which case there is no obligation for the entity to apply the AASB's pronouncements). Some questioned whether the bottom tier reports should be considered GPFS, which could be perceived as being onerous. Some, however, did acknowledge existence of reporting obligations to, for example, members of the NFP entities in some jurisdictions.	
Related party disclosure	Related party definition and disclosure requirements aligned with top tier (ie AASB Tier 2) requirements		
Other matters	Transition with option to apply bottom tier requirements only to current year (hence no restatement of comparatives) or at the start of previous year (by restating the comparatives)		