



Project:	Post-Implementation Reviews	Meeting:	M187
Topic:	NFP domestic PIRs	Agenda Item:	4.2
		Date:	2 May 2022
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		Decision-Making:	Low
		Project Status:	Initial deliberations

Objective of this paper

- 1 The objective of this staff paper is to:
 - (a) provide the Board with an update on the preliminary findings from the literature review of the NFP¹ domestic Post-Implementation Reviews (PIRs);
 - (b) for two topics (related party disclosures and SPFS² basis of accounting – compliance with Australian Accounting Standards) – refresh the Board on the key reasons for issuing the pronouncements, why Board action was necessary and the policy options considered at the time of issuance; and
 - (c) consider a proposed revised timeline for completing the PIRs.

Background

- 2 At its 8-9 September 2021 meeting, the Board considered a proposed post-implementation review (PIR) process and a strategy for undertaking PIRs on the domestic Australian Accounting Standards, including Interpretations³ on issue.
- 3 The Board agreed to progress its PIR work in tranches over the 2021-2025 period. It concurred with the staff recommendation that its first tranche of PIR work (the 'Category 1 PIRs') should primarily comprise the review of topics that could be expected to inform the Board's decision making on its Not-for-Profit Financial Reporting Framework project (the 'NFP domestic PIRs').
- 4 As outlined in Agenda Paper 4.1, the NFP domestic PIRs pertain to Standards addressing the topics of:
 - (a) income;
 - (b) control/consolidation;
 - (c) the definition of a structured entity;

1 Not-for-profit

2 Special purpose financial statements

3 For the purposes of the PIR, "domestic" references both a Standard issued as AASB 10XX and not-for-profit amendments, including guidance, to the suite of Standards that incorporate IFRSs.

- (d) related party disclosures; and
 - (e) SPFS basis of accounting – compliance with Australian Accounting Standards.
- 5 The focus of the remaining tranches and the progress of the overall PIR project is detailed in Agenda Paper 4.1.

Structure of this paper

- 6 The remainder of this paper reports to Board the:
- (a) preliminary findings from a literature review (paragraphs 9 – 11);
 - (b) high-level overview of AASB 124 as amended by AASB 2015-6 (paragraphs 12 – 27);
 - (c) high-level overview of AASB 2019-4 (paragraphs 28 – 36);
 - (d) a revised project timeline (paragraph 37); and
 - (e) next steps (paragraph 38).
- 7 The high-level overview of the Standards describes:
- (a) the Board’s rationale for issuing the pronouncement;
 - (b) key requirements of the Standard;
 - (c) implementation issues staff have noted through discussions with stakeholders; and
 - (d) the Board’s process in developing each Standard.
- 8 As reflected in the revised project timeline, the timing of certain activities within the NFP domestic PIRs has changed from that previously agreed with the Board at the September 2021 meeting. This is due to a refocus of work required to ensure the Board and staff have sufficient time to consider all issues adequately. The overall project remains on schedule for completion by the end of 2023 to comply with OBPR requirements.

Literature review – preliminary findings

- 9 The *AASB Due Process Framework for Setting Standards* requires a review of any relevant research. Staff have performed a literature review on the topics considered as part of the NFP domestic PIRs (see paragraph 4). Results were identified using a keyword search in Business Source Complete, Google Scholar, and other academic databases including the Social Science Research Network (SSRN) and Research Gate.
- 10 Our preliminary findings from the literature review indicate few published academic research papers that may be relevant to a PIR of the above-noted topics. This outcome is not unexpected, given the not-for-profit entity/public sector focus and the relatively recent application dates of several of the effecting pronouncements.
- 11 Staff will analyse the identified published academic research for relevance to this project and provide the Board with an update on its literature review findings at a future Board meeting. Staff also intend to research whether there has been other relevant non-academic research conducted, for example, surveys or feedback gathered from industry participants by the professional bodies.

High-level overview: Related Party Disclosures

Board’s rationale for issuing related party disclosure requirements

- 12 The not-for-profit requirements for related party disclosures are set out in AASB 124, as amended by AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*.

- 13 AASB 124 has applied to not-for-profit private sector entities since its issue. However, mainly because of concerns about the practicability of its former version, given its breadth of application in the public sector, when transitioning to IFRS Standards, the AASB initially did not require a not-for-profit public sector entity to comply with the Standard.
- 14 Once IAS 24 *Related Party Disclosures* was revised in 2009 to partially exempt transactions between government-related entities of the same jurisdiction from disclosure, the AASB considered the Standard to provide a more appropriate basis for application by not-for-profit public sector entities. As a result, in furtherance of its policy of promulgating transaction-neutral Standards to the extent feasible, the AASB undertook a project to amend AASB 124 to require not-for-profit public sector entities to apply the Standard. This effort was finalised through the issue of AASB 2015-6. AASB 2015-6 applied to annual periods beginning on or after 1 July 2016 and has been applied to at least five annual reporting periods.
- 15 AASB 2015-6 filled the perceived disclosure gap for public sector entities. It was the first time Australian Accounting Standards specified that information about a not-for-profit public sector entity's related parties should be included in its general purpose financial statements.

Key requirements of the Standard

- 16 AASB 124 requires the disclosure of related party relationships, transactions and outstanding balances, including commitments, in the financial statements of an entity. Its purpose is to provide users of financial statements with information that may affect assessments of the entity's operations, including assessments of the risks and opportunities facing the entity.
- 17 In general, AASB 124 does not require disclosure:
 - (a) to be made at a level that identifies the related party transactions and outstanding balances of any specified entity or person; or
 - (b) of the names of related persons or their controlled entities.

Implementation issues

- 18 Following the issue of AASB 2015-6, staff recall receiving feedback from constituents voicing concern about their entity's ability to obtain the information necessary to prepare the disclosures required by AASB 124. This information included:
 - (a) challenges in identifying a complete set of related parties;
 - (b) the completeness of representations made by related parties completing documentation about their engagements with the entity and the entity's ability to compel completion and return of such forms; and
 - (c) the extent of information that related parties were required to provide, in part because of the 'close family member' provisions of the Standard.
- 19 Staff also heard concerns raised about:
 - (a) data privacy; and
 - (b) the auditability of the related party disclosures.
- 20 In addition, some constituents queried the appropriateness and value of the requirements in relation to Indigenous Australian-focused or located public sector entities. The concerns stem from the apparent capture of a wide net of peoples and entities when considering the definition of a related party.

- 21 At the time of writing this paper, staff are not aware of any other implementation issues with applying AASB 124 to public sector entities or not-for-profit private sector entities beyond concerns previously raised by constituents during the AASB 2015-6 due process.

Process in developing AASB 2015-6

- 22 The Board developed AASB 124 using IAS 24 as a starting point and in furtherance of its policy of promulgating transaction-neutral Standards to the extent feasible.
- 23 The Board determined that no changes were necessary to the IFRS Standard for application by not-for-profit public sector entities. However, in response to stakeholder feedback, the Board decided to develop extensive implementation guidance, including examples, as part of the Standard to assist application.

The due process in developing AASB 2015-6

- 24 The Board issued Exposure Draft ED 214 *Extending Related Party Disclosures to the Not-for-Profit Public Sector* in July 2011 and held public roundtables to identify concerns and implementation issues arising from the Board's proposals. The Board finalised AASB 2015-6 in March 2015.
- 25 The length of time the Board took to finalise the project resulted from competing priorities and resourcing limitations. The Board's deliberations on the key decisions were completed in 2012.

Stakeholder concerns made during the development of AASB 2015-6

- 26 The Board considered the following matters raised by stakeholders in finalising its proposals to extend AASB 124 to public sector not-for-profit entities. In the main, the issues raised by stakeholders relate to concern about how onerous applying AASB 124 might be, especially with regards to the disclosure of information about Ministers:
- (a) whether the definition of 'key management personnel' needed to be amended for application by public sector not-for-profit entities;
 - (b) whether relief was necessary with respect to identifying the compensation of a Minister who is a member of the key management personnel of an entity, for disclosure in aggregate with other key management personnel of the entity;
 - (c) whether the partial relief accorded to transactions between the entity and government-related entities needed to be extended to cover also related party transactions with Ministers or local government councillors;
 - (d) having regard to the potential considerable overlap between the related party disclosures for the general government sector (GGS) and whole of government financial statements, whether to exempt GGS entities from AASB 124;
 - (e) whether amendment is necessary to AASB 124 to provide a public sector perspective to the Standard; and
 - (f) whether to introduce additional disclosures (such as salary banding disclosures) for key management personnel in the public sector.
- 27 The Board decided that no amendment of AASB 124 was necessary to address the concerns above but developed Implementation Guidance that was intended to alleviate some of the stakeholder concerns about the breadth of coverage of the Standard.

High-level overview: SPFS basis of accounting – compliance with Australian Accounting Standards

Board's rationale for issuing AASB 2019-4

- 28 Requirements addressing the disclosure of the extent to which a not-for-profit private sector entity's SPFS complies with Australian Accounting Standards are set out in AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements*.
- 29 Special purpose financial statements do not always comply with the recognition and measurement requirements, including consolidation and equity accounting requirements, in Australian Accounting Standards, nor do they always disclose that fact. The Board received feedback that, in practice, users of special purpose financial statements are not always able to demand any information they need (and nor do they necessarily know what information they need). Consequently, the Board considered that users of (some) special purpose financial statements should be provided with adequate information to confidently assess an entity's level of compliance with the recognition and measurement requirements in Australian Accounting Standards or be alerted to areas where this has not been assessed. This information is expected to better support users in identifying where they might need to seek additional information from the entity.
- 30 The Standard applies to annual periods ending on or after 30 June 2020 and will have been applied only to one or two annual reporting periods at the time of the PIR.

Key requirements of the Standard

- 31 AASB 2019-4 added requirements to AASB 1054 *Australian Additional Disclosures* to require not-for-profit private sector entities that are required to apply AASB 1054 and that are preparing special purpose financial statements to disclose information about those financial statements, including information about:
 - (a) the basis on which the decision to prepare special purpose financial statements was made;
 - (b) whether the entity has assessed whether its interests in other entities give rise to interests in subsidiaries, associates or joint ventures, and its reason for not consolidating or equity accounting such entities;
 - (c) the extent to which the entity's material accounting policies comply with the recognition and measurement requirements specified in Australian Accounting Standards; and
 - (d) whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards.

Implementation issues

- 32 Staff are not aware of any specific implementation issues with the Standard. This is not wholly unexpected, given its recent application date and the operational impacts on entities due to Covid-19 pandemic measures.

Process in developing AASB 2019-4

The due process in developing AASB 2019-4

- 33 The Board issued Exposure Draft ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and*

Measurement Requirements in July 2019 and finalised AASB 2019-4 in November 2019. As part of the public consultation, the Board undertook targeted outreach with key stakeholders, including professional bodies and regulators.

- 34 The final proposals differed in several ways from those exposed in ED 293. However, further due process was unnecessary because the finalised requirements were less burdensome and had a narrower scope than those originally exposed for public comment.

Stakeholder concerns made during the development of AASB 2019-4

- 35 In finalising ED 293, stakeholders raised concern that the costs of the Board’s proposals exposed in ED 293 exceed the benefits of that information. Having regard to stakeholder concerns, the Board decided to finalise some of its proposals in a different manner from that originally proposed. This included permitting an entity to make a “not assessed” assertion regarding its compliance with the recognition and measurement requirements in Australian Accounting Standards. The Board also limited the scope of the finalised proposals to not-for-profit private sector entities only.⁴
- 36 Staff note that the finalised proposals were expected to provide users with more transparency about the basis of preparation of the special purpose financial statements. However, the usefulness of the information depends on the entity’s approach and resources directed towards describing the extent of its compliance or otherwise with the accounting policies specified by Australian Accounting Standards.

Question for Board members

Q1 Do Board members have any comments on the:

(a) preliminary findings from the literature review; or

(b) high-level summaries of AASB 124 and AASB 2019-4?

Revised project timeline

- 37 The following table contains the original timeline approved in September 2021 and staff’s proposed revised timeline for the Board’s consideration.

Original timeline	Staff’s proposed timeline	Project milestones based on the PIR process
<i>Planning phase</i>		
Q4 2021 – Q2 2022	April: <i>related party and GPFS topics only</i> Board meeting: 18 May 2022	Steps 1, 2: Review of original project documentation and collation of identified issues.

4 Notwithstanding the removal of SPFS for certain for-profit private sector entities, as there are some for-profit private sector entities that can continue to prepare SPFS, the Board decided to require them to include disclosures in their financial statements that inform users of the basis upon which they were prepared which includes disclosing information about the material accounting policies applied in the SPFS and the extent of compliance or otherwise of those accounting policies with the recognition, measurement, consolidation and equity accounting requirements in AAS. These proposals were originally outlined in ED 302, with some changes. These requirements are beyond the scope of this PIR.

Original timeline	Staff's proposed timeline	Project milestones based on the PIR process
	May – June 2022: <i>all remaining topics, except for income</i> Board meeting: 22/23 June 2022	Steps 1, 2: Review of original project documentation and collation of identified issues.
	June 2022	Step 3: Finalise findings from academic research
	June 2022 – September 2022: <i>all topics except for income</i>	Step 4: Seek preliminary feedback from targeted stakeholders (as necessary) and review feedback received ⁵
	<i>Income</i> Board meeting: 3 August 2022	Steps 1, 2: Review of original project documentation and collation of issues the Board are aware of.
	Board meeting: 21/22 September 2022	Steps 5, 6: Prioritise issues obtained in the planning phase to determine the scope of the consultation document and discuss steps 1–5 (as necessary) with the Board before developing the consultation document. Staff note that prior to the September 2022 meeting, the Board will have considered steps 1 and 2 for each of the topics covered by the NFP domestic PIRs. Therefore discussion at the September meeting is expected to be limited to providing Board members with an update on any findings from academic and relevant non-academic research, feedback obtained from stakeholders during targeted outreach and any sweep issues.
<i>Outreach phase</i>		
Q2 2022 – Q3 2022		Step 7: Draft consultation document. Step 8: Discuss draft consultation document with the Board and approve for issue.
Q3 2022	September 2022 – October 2022	Staff intend to ask the Board to approve the consultation document out-of-session either via the full Board or a subcommittee. Staff propose a comment period of approximately 150-days to align with the expected comment period for the Not-for-Profit Private Sector Financial Reporting Framework Tier 3 Discussion Paper. Comments on this consultation paper are expected to close end of March 2023.
Q3 2022 – Q4 2022	December 2022 – March 2023	Step 9: Undertake general and targeted outreach to seek stakeholder feedback on the consultation document.
<i>Consideration of feedback and next steps phase</i>		

5 As staff have previously gathered initial feedback from targeted stakeholders relating to income of not-for-profit entities as part of the Board's narrow-scope project on this topic, no additional targeted outreach is considered necessary.

Original timeline	Staff's proposed timeline	Project milestones based on the PIR process
Q1 2023 – Q3 2023	Q2 2023 – Q3 2023	<p>Step 10: Consultation comment period closes at the end of March 2023 (the original timeline has a planned comment period closing in Q1 2023).</p> <p>Step 11: Review and summarise responses received on the consultation document and through outreach. Perform follow-up procedures where appropriate.</p> <p>Step 12: Identify possible 'next steps' to respond to findings.</p> <p>Step 13: Discuss feedback and possible next steps with the Board.</p>
Q4 2023	Q4 2023	Step 14: Prepare a feedback statement, discuss it with the Board and publish the feedback statement.

Question for Board members

Q2 Do Board members have any comments on the proposed project timeline and milestones?

Next steps

38 Staff will continue to progress work on the project consistent with the steps identified in the project timeline.