



<b>Project:</b>	<b>Conceptual Framework: Not-for-Profit Amendments</b>	<b>Meeting:</b>	M212
<b>Topic:</b>	<b>Collation of feedback on ED 334</b>	<b>Agenda Item:</b>	3.2
		<b>Date:</b>	15 April 2025
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Project redeliberations

## Objective of this paper

- 1 The objective of this staff paper is for the Board to consider the feedback received on ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*.

## Background

- 2 ED 334 exposed the Board's proposals made as part of its Conceptual Framework: Not-for-Profit Amendments project to supersede the *Framework for the Preparation and Presentation of Financial Statements* and extend the application of the *Conceptual Framework* to more not-for-profit (NFP) entities, including making limited NFP modifications to the document. The proposals bring a majority of Australian entities under the aegis of the same conceptual framework documents for guiding the development of accounting policies.
- 3 ED 334 additionally proposed superseding Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* when the *Conceptual Framework* applies to avoid inconsistency in use of the term 'reporting entity' within Australian accounting pronouncements and, with the reporting entity concept set out in SAC 1 ceasing to be valid for many NFP entities, amendments to AASB 1057 *Application of Australian Accounting Standards* to extend the applicability of Australian Accounting Standards to these NFP private and public sector entities. These latter amendments were proposed as part of the Board's review of the Australian financial reporting framework and in furtherance of its Not-for-Profit Private Sector Financial Reporting Framework project objectives. However, as the projects overlap in this regard, and given the nature of the proposed amendments, the Board decided<sup>1</sup> to expose these proposals in ED 334 together with its other proposed amendments to the *Conceptual Framework*.<sup>2</sup>

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<sup>1</sup> Board [Minutes of the 13-14 September 2023 AASB meeting](#)

<sup>2</sup> In 2018, following earlier research conducted and recognising feedback received on its agenda consultation, the AASB added a project to its standard-setting work program to review its financial reporting framework for Australian entities. The primary project driver was to address the stakeholder concern that the reporting entity concept, long embedded into the Australian financial reporting framework, was not working as originally envisaged. Rather, there remained a large population of Australian entities preparing special purpose financial statements, instead of the general purpose financial statements that facilitate comparability of financial reporting for entities in similar economic circumstances. The proposals to extend the applicability of Australian Accounting Standards to more NFP entities were made in furtherance of the Board's work to improve the quality of reporting by Australian entities as part of its staged review of the Australian financial reporting framework.

- 4 The effect of these latter ED 334 proposals is that more NFP entities will be required to prepare general purpose financial statements when financial statements are prepared in accordance with a directive that they comply with Australian Accounting Standards. In recognition of the impact of the proposal to NFP private sector entities, ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*, issued concurrently to ED 334, proposed requirements for a new reporting Tier of general purpose financial statements that is intended to serve as a proportionate reporting response for smaller NFP private sector entities.
- 5 ED 334 closed for comment on 28 February 2025. The Board received a preliminary update of the feedback received on the exposure draft at its 6-7 March 2025 meeting.<sup>3</sup> This paper presents an updated collation of the feedback received on that exposure draft, including a summary of the feedback from the written submissions received.

## Structure of this paper

- 6 This paper is structured as follows:
  - (a) avenues of feedback on ED 334 – paragraphs 9 to 11;
  - (b) demography of stakeholders providing feedback – paragraphs 12 to 17; and
  - (c) collation of feedback – paragraphs 18 to 100:
    - (i) overall support for the ED 334 proposals – paragraphs 18 to 20;
    - (ii) extension of the scope of the Conceptual Framework and limitations on the ability of entities to prepare special purpose financial statements [SMC 1 & SMC 4] – paragraphs 21 to 39;
    - (iii) NFP-specific modifications to the Conceptual Framework [SMC 2 & SMC 3] – paragraphs 40 to 52;
    - (iv) disclosures in special purpose financial statements [SMC 5] – paragraphs 53 to 58;
    - (v) transitional provisions [SMC 6 & SMC 7] – paragraphs 59 to 68;
    - (vi) effective date of the proposals [SMC 8] – paragraphs 69 to 72;
    - (vii) general matters for comment [GMC 9 – GMC 14] – paragraphs 73 to 93; and
    - (viii) other feedback received – paragraphs 94 to 101.
- 7 The following key is employed in summarising the stakeholder feedback:

Term	% of stakeholders responding to the question
Almost all	≥ 90%
Most	71% – 89%
Many	31% – 70%
Some	11% – 30%
Few	≤ 10%

- 8 In some instances, stakeholders provided comments without specifically responding to a particular Matter for Comment. In other instances, stakeholder comments to a particular Matter for Comment appeared to better respond to a different Matter for Comment, or to a Matter for

3 Refer [Agenda Paper 6.1 of the AASB 6-7 March 2025 meeting](#). Agenda Paper 6.1 summarised the feedback on ED 334 received to 13 February 2025. This comprised mainly feedback from various outreach sessions and from the AASB online survey. Staff provided a verbal update to the Board at the Board meeting of the key themes from further feedback received to the date of the Board meeting; in the main, being from the written submissions received.

Comment in ED 335. Staff have employed judgement in compiling such comments in this agenda paper.<sup>4</sup>

### **Avenues of feedback on ED 334**

- 9 Stakeholders were invited to provide feedback to the Board on ED 334 via formal written submissions or complete of an online survey. Also, the online survey instrument regarding ED 335 included a question for stakeholders pertaining to the Board's proposal in ED 334 to extend the population of entities required to prepare general purpose financial statements.<sup>5</sup>
- 10 In addition, staff conducted 3 virtual and 2 in-person outreach sessions to support ED 334 jointly with ED 335. The ED 334 proposals discussed related to the following topics:
  - (a) limiting the ability of certain NFP entities to prepare special purpose financial statements;
  - (b) disclosures in special purpose financial statements;
  - (c) transitional provisions; and
  - (d) effective date of any final requirements.

Staff used polling questions with regard to certain ED 334 Specific Matters for Comment at the virtual outreach sessions to solicit feedback from participants. Not all participants in attendance responded to the polling questions, and some attended more than one outreach session and/or made a written submission to the AASB. Respondents were not polled at the in-person outreach sessions.

- 11 Staff also presented at 4 stakeholder meetings/events where the ED proposals were in part discussed, including an academic-organised event and an NFP discussion group.

### **Demography of stakeholders providing feedback**

- 12 The AASB received 17 formal written submissions and 25 survey responses<sup>6,7</sup> regarding its ED 334 proposals. Submissions/survey respondents did not necessarily comment on all the proposals in the exposure draft.
- 13 The 17 formal submissions comprised stakeholders from:
  - (a) professional services firms – 6 (Pitcher Partners, Moore Australia, Deloitte, KPMG, BDO, RSM Australia);
  - (b) professional bodies – 6 (Law Council of Australia, CPA Australia, Chartered Accountants Australia and New Zealand ('CA ANZ') (joint submission with CPA Australia), Australian Institute of Company Directors ('AICD'), Queensland Law Society,<sup>8</sup> Institute of Public Accountants ('IPA'))

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4 This includes not collating certain feedback in this paper, but instead including it only in Agenda Paper 4.3.

5 Refer Question 2 in the ED 335 survey instrument – see Agenda Paper 4.5.

6 Comprising 5 'completed' surveys and 4 'incomplete' surveys. In addition, a further 16 unique respondents responded to the question in the ED 335 survey instrument relating to the ED 334 proposals to amend AASB 1057 to extend the application of Australian Accounting Standards to more NFP entities. A survey is considered completed if the respondent progressed to the end of the survey. A survey is considered incomplete otherwise.

7 These numbers do not include the:

- (a) 3 'completed' surveys that were abandoned following the instrument's direction to do so (the respondent indicated they intend to submit a comment letter);
- (b) 7 'incomplete' surveys that did not respond to any of the questions posed; and
- (c) double-count of 1 respondent who responded to the same question in both the ED 334 and ED 335 online surveys.

8 This stakeholder made a submission to endorse the Law Council of Australia's submission.

- (c) preparers – 4 (Tobias Kennett, Wodonga Urban Land Care Network, Justice Connect,<sup>9</sup> Equity Trustees);
  - (d) auditors – 1 (Australasian Council of Auditors General ('ACAG')); and
  - (e) regulators – 1 (Australian Charities and Not-for-profits Commission ('ACNC')).
- 14 In addition, the AASB received 5 formal submissions about the NFP financial reporting framework more generally or to ED 335, but which include feedback relevant to ED 334 proposals. These submissions are included as part of Agenda Paper 4.3. The feedback from these submissions, where relevant to ED 334, is incorporated into this paper. The submissions comprised stakeholders from:
- (a) professional services firms – 1 (Saward Dawson Chartered Accountants);
  - (b) preparers – 3 (Theatre Network Australia, National Association of the Visual Arts, Ausdance Vic); and
  - (c) regulators – 1 (Office of the Registrar of Indigenous Corporations ('ORIC')).
- 15 11 of the 25 survey respondents represent preparers or advisors; the remaining survey respondents did not provide any identifying information.
- 16 58 participants attended the three virtual outreach sessions, and 17 participants attended the Melbourne (10) and Sydney roundtable sessions (7) held on 6 February 2025 and 11 February 2025 respectively.<sup>10</sup> The participants were a mix of preparers and advisors, academics, and attendees from professional bodies, regulators and professional services firms.

#### *Not-for-profit public sector stakeholders*

- 17 Noting that the ED 334 proposals impact NFP public sector entities, staff also sought feedback from targeted NFP public sector stakeholders. However, staff did not obtain any feedback other than those NFP public sector stakeholders that provided a formal submission to ED 334. Staff think the absence of specific feedback from these stakeholders is suggestive of negative assurance for the ED's proposals.

### **Collation of feedback on ED 334**

#### **Overall support for the ED 334 proposals**

- 18 Most (31 of 44) stakeholders responding to the exposure draft were supportive overall of either the Board's proposals in ED 334 or the Board's project.<sup>11</sup> While supporting the project overall, some stakeholders disagreed with the proposed scoping of the amendments or expressed concern about the ambiguity regarding an entity's ability to apply the proposed Tier 3 Standard without corresponding related action being progressed by relevant legislators. Some

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9 This stakeholder observed that they support the Law Council of Australia's submission, in addition to their feedback provided in their separate submission.

10 These sessions include participants who attended more than one virtual or in-person session. Staff have cleansed the data as best able.

11 **Expressed overall support for ED 334 or the Board's project (12):** Pitcher Partners, Moore, ACAG, Deloitte, ACNC, KPMG, CPA, CA ANZ, AICD, RSM, IPA, ORIC

**Otherwise inferred from the response to SMC 1 and/or SMC 4 (19):** BDO and 18 survey respondents

**Disagree (10):** Tobias Kennett, Wodonga Urban Landcare Network, Equity Trustees, and inferred from the responses of 7 survey respondents to SMC 1 and/or SMC 4

**Not clear from ED 334 submission (3):** Law Council of Australia, Justice Connect, Queensland Law Society. These stakeholders considered that it is not possible to make a conclusive submission without understanding the reporting Tier available to entities that will be impacted by the proposals to extend general purpose financial reporting, and recommended that the Board reconsult on the ED once this is known.

**Not clear from their NFP financial reporting framework or ED 335 submission (4):** Theatre Network Australia, National Association of the Visual Arts, Ausdance Vic, Saward Dawson. These stakeholders are excluded from the calculation.

stakeholders also disagreed on specific proposals or an aspect thereof, or provided drafting and other comments to other mooted requirements – these are summarised below under the relevant Specific Matter for Comment.

- 19 In general, stakeholders assumed or predicated their response to ED 334 on the expectation that Tier 3 reporting requirements would be available to NFP private sector entities when a Standard that is based on ED 334 is effective.
- 20 Some (10) stakeholders disagreed with the proposals overall. Of these, some stakeholders gave the following reasons not supporting the ED's proposals:<sup>12</sup>
- (a) the scoping proposals are too broad (Tobias Kennett, Wodonga Urban Care Network, 2 survey respondents):
    - (i) some stakeholders considered that general purpose financial statements should not be required for NFP entities that have revenue below a monetary threshold,<sup>13</sup> or for entities that rely heavily on volunteers to undertake accounting activities;
    - (ii) a stakeholder questioned the cost-benefit proportionality of requiring general purpose financial reporting for entities that are just below or on the bottom border of qualifying as an ACNC 'medium'-sized charity; and
    - (iii) another stakeholder similarly contended general purpose financial reporting requirements are disproportionate when compared to those requirements applying to similarly sized for-profit entities; placing an unfair burden on 'medium-large' charities that would be 'very small' for-profit entities;
  - (b) NFP entities are subject to resourcing constraints and may not have the financial expertise to address general purpose financial reporting (Tobias Kennett, Wodonga Urban Care Network, 2 survey respondents);
  - (c) there is a place for special purpose financial statements (Tobias Kennett, Wodonga Urban Care Network). A stakeholder observed that the grant acquittal process would already require entities to provide information about large grant spending in accordance with terms of the funding arrangement;
  - (d) the benefits to users do not exceed the costs of imposing general purpose financial reporting on the entity (3 survey respondents);
  - (e) users are interested in an NFP entity's general financial viability, and complex accounting standards add minimal value to that understanding (Wodonga Urban Care Network); and
  - (f) there is a limited user base for the financial statements of an NFP entity, and there is already a requirement for entities with dependent users to prepare general purpose financial statements (1 survey respondent);
  - (g) the premise for requiring general purpose financial reporting should be who the users are and whether an entity has public accountability, and not whether the entity has to comply with Australian Accounting Standards (Equity Trustees); and
  - (h) more comprehensive field testing with diverse small NFPs should be performed before finalising any amendments (Wodonga Urban Care Network).

Staff note that some of these themes were echoed by stakeholders who supported the exposure draft overall.

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12 The feedback from survey respondents who disagreed with the ED 334 proposals is also reflected in the staff summary of feedback to Specific Matter for Comment SMC 1 and SMC 4, consistent with their disagreement 'overall' being a staff inference from their response to the Specific Matter for Comment.

13 The suggestions put to the AASB by different stakeholders were \$3 million or \$1 million revenue respectively.

## Extension of the scope of the *Conceptual Framework* and limitations on the ability of entities to prepare special purpose financial statements [SMC 1 & SMC 4]

- 21 As noted in paragraphs 2 and 3 above, in ED 334 the Board proposed extending the application of the *Conceptual Framework* to specified NFP public and private sector entities and superseding the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 *Definition of the Reporting Entity* for these entities. As references in application clauses to 'reporting entity' would resultantly be void, the Board also proposed amendments to AASB 1057 to extend the application of most Australian Accounting Standards to these entities; requiring these entities to prepare general purpose financial statements.
- 22 In staff's view, stakeholders generally viewed the proposals in SMC 1 and SMC 4 as being inextricably linked: that is, the amendments to AASB 1057 cannot stand independent of any amendments to the *Conceptual Framework*. Many written submissions cross-referenced their SMC 1 and SMC 4 responses. For this reason, this paper groups together the feedback to SMC 1 and SMC 4 rather than presenting the feedback in numerical order.

### Specific Matter for Comment 1

Paragraph Aus1.1 of the proposed amendments to the *Conceptual Framework for Financial Reporting (Conceptual Framework)* extends the applicability of the pronouncement to apply also to not-for-profit private and public sector entities that:

- (a) are required by legislation to comply with either Australian Accounting Standards or accounting standards;
- (b) are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after a specified date; or
- (c) elect to prepare general purpose financial statements.

The *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 *Definition of the Reporting Entity* are superseded for an entity when the *Conceptual Framework* applies to the entity.

Do you agree with the proposed amendments to extend the application of the *Conceptual Framework* to not-for-profit entities, including the proposed amendments to the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1? If you disagree, please explain why.

- 23 Most stakeholders responding to the question agreed, or agreed in part, with the proposed amendments to extend the applicability of the *Conceptual Framework* to the identified NFP private and public sector entities.<sup>14</sup> One stakeholder (BDO) observed that they support the proposed amendment as it aligns the application of the *Conceptual Framework* with the extension of the applicability of Australian Accounting Standards to NFP entities.
- 24 **Scope – constituting document entities.** Some stakeholders (Pitcher Partners, CPA, CA ANZ, Justice Connect) disagreed with the Board's proposal to extend the application of the *Conceptual Framework* to NFP entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards. Their reason for their view is set out in paragraphs 33 – 36 below, under the summary of

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14 **Agree (15):** Moore, ACAG, Deloitte, ACNC, KPMG, CPA, CA ANZ, BDO, RSM, IPA and 5 survey respondents. Note, this question has fewer responses compared to SMC 4 as it was not posed to stakeholders at the various outreach sessions or other meetings.

**Agree in part (2):** Pitcher Partners, IPA

**Disagree (5):** Justice Connect and 4 survey respondents. One of these survey respondents indicated support for the ED if a Tier 3 Standard is issued. 3 of these survey respondents disagreed with the proposals overall.

feedback to SMC 4. These stakeholders consider this cohort of entities should be excluded from the final amendments.

- 25 A stakeholder (Moore) who supported the proposal concurred these scoping provisions create additional complexity for entities. However, this stakeholder considered that the proposals should continue to include these entities for the following reasons:
  - (a) consistency with the for-profit private sector entity requirements should be prioritised;
  - (b) the impacted cohort is likely to be small such that the ease of consistent requirements outweighs the inconvenience to those entities; and
  - (c) the impacted cohort have an opportunity to rectify their constituting or other documents to avoid general purpose financial reporting requirements.
- 26 **Scope – public sector entities.** A stakeholder (ACAG) indicated that some jurisdictions in ACAG considered that the *Conceptual Framework* should be additionally extended to apply also to for-profit public sector entities at this time. Otherwise, the *Conceptual Framework* would apply to for-profit public sector entities that voluntarily elect to prepare general purpose financial statements, while the *Framework for the Preparation and Presentation of Financial Statements* applies to similar for-profit public sector entities that are mandatorily required to prepare general purpose financial statements.
- 27 Other stakeholders (CPA, CA ANZ) disagreed with the proposal to extend the application of the *Conceptual Framework* to NFP public sector entities as part of this project, to avoid any unintended consequences – in the absence of evidence – of requiring entities to prepare Tier 2-compliant general purpose financial statements. These stakeholders considered that changes to NFP public sector requirements should not be made without completion of a broader public sector financial reporting framework project.
- 28 **Continuation of two conceptual framework documents.** Some stakeholders (one jurisdiction in ACAG, CPA, CA ANZ) considered that it is no longer appropriate to have two conceptual frameworks, maintained indefinitely. The ACAG jurisdiction noted the potential for conflict between the two documents, and is of the view that the ED 334 proposals should only proceed as part of proposals to remove the *Framework for the Preparation and Presentation of Financial Statements* from the Australian financial reporting framework. This stakeholder considered that the proposals are not consistent with a principle of transaction neutrality.
- 29 Other stakeholders (CPA, CA ANZ) simply recommended that the *Framework for the Preparation and Presentation of Financial Statements* be withdrawn following the Board’s public sector financial reporting framework project.
- 30 **Scope – possible limit on the applicability of the Conceptual Framework.** A stakeholder (Pitcher Partners) suggested a separate summarised conceptual framework be developed specifically for entities that are most likely to prepare Tier 3-compliant general purpose financial statements.<sup>15</sup>

#### Specific Matter for Comment 4

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Do you agree with the proposed amendments to AASB 1057 *Application of Australian Accounting Standards* to extend the application of Australian Accounting Standards to, in general, not-for-profit entities that are required:

- (a) by legislation to comply with either Australian Accounting Standards or accounting standards; or
- (b) only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document is created or amended on or after a specified date;

<sup>15</sup> This comment is addressed in Agenda Paper 4.1 (Table 2).

such that these entities are required to prepare general purpose financial statements?

If you disagree, please explain what you suggest instead and why.

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- 31 Many stakeholders who responded to this question agreed, or agreed in part, with the proposed amendments to AASB 1057 to extend the applicability of Australian Accounting Standards to the specified NFP private and public sector entities.<sup>16</sup> Some stakeholders gave the following reasons for their support:
- (a) it reduces the reliance on significant judgement that is inherent in an entity's self-assessment under the reporting entity concept, which in turn promotes consistency and comparability among entities within the sector (Moore, Deloitte); and
  - (b) once legislation requires an entity to prepare financial statements that are available on public record, these financial statements should no longer be considered special purpose, as those charged with governance within the entity will be unaware of who is using the financial statements (RSM);
  - (c) consistency with for-profit private sector requirements (outreach participant).
- 32 One stakeholder (AICD) supported only removing the ability of entities to prepare special purpose financial statements from those entities which may prepare Tier 3-compliant general purpose financial statements.
- 33 **Scope – constituting document entities.** Some (Pitcher Partners, CPA, CA ANZ, Justice Connect, 1 survey respondent) stakeholders disagreed with the Board's proposal to extend the application of Australian Accounting Standards to NFP entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards (see also response to SMC 1 in paragraph 24 above). These stakeholders consider this cohort of entities should be excluded from the final amendments.
- 34 Stakeholders gave the following reasons for their view:
- (a) requiring these entities to prepare general purpose financial statements is onerous, with little or no substantive benefit to users of those financial statements (Pitcher Partners);<sup>17</sup>
  - (b) there is currently a lack of evidence as to the extent and impact of entities that would be affected by these proposals (Pitcher Partners, CPA, CA ANZ);
  - (c) it complicates the application of general purpose financial reporting in the NFP sector without clear evidence about a demand for those financial statements (CPA, CA ANZ);
  - (d) requiring these entities to prepare general purpose financial statements could be expected to be a costly and complex exercise, based on feedback collected about the implementation of the AASB's for-profit private sector entity reform. There is no clear evidence that the benefits to users of the financial statements of these entities outweigh the costs of the proposals (CPA, CA ANZ); and
  - (e) it is unfair to impose a requirement to prepare general purpose financial statements on small resource-limited NFP entities as the relevant documents were likely developed at a time when the entity was not committed to preparing such financial statements. Those

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16 **Agree (26):** Moore, ACAG (majority of jurisdictions), Deloitte, ACNC, KPMG, BDO, RSM, IPA and 18 survey respondents

**Agree in part (4):** Pitcher Partners, CPA, CA ANZ, AICD

**Disagree (5):** Justice Connect, 4 survey respondents.

In addition, 18 of 31 outreach participants agreed with the proposal. 1 participant disagreed, and the remaining 12 were unsure. The identified concerns have been incorporated into the summarised feedback, to the extent relevant.

17 This stakeholder recommended that the reporting entity concept be retained for these entities.



documents might have been drafted differently otherwise (Justice Connect, 1 survey respondent).

- 35 In addition, some stakeholders (ACNC, Justice Connect<sup>18</sup>) disagreed with the Board's proposal to provide grandfathering relief for certain NFP entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards. The relief would have allowed these entities to continue to prepare special purpose financial statements. These stakeholders considered the relief to be ineffective as drafted, for the following reasons:
- (a) entities may make minor or unrelated changes to constituting or other documents, including as imposed by other regulators;
  - (b) entities may be discouraged from making best practice or other required changes to their constituting document in order to continue to be able to prepare special purpose financial statements. The ACNC submission noted that the ACNC actively encourages entities to regularly review and update their governing documents; and
  - (c) users unaware of the grandfathering relief requirements may expect the resultant financial statements to be general purpose financial statements.
- 36 However, these stakeholders had different views as to how the Board should address their concern:
- (a) a stakeholder (ACNC) suggested that the Board should remove the proposed grandfathering relief for these entities, such that a single consistent approach applies; and
  - (b) a stakeholder (Justice Connect) suggested that the Board amend the relief to allow relevant documents to be redrafted without breaching the grandfathering relief provisions, and provide entities additional support and guidance to understand and navigate these provisions.
- 37 **Scope – public sector entities.** Two stakeholders (CPA, CAANZ) disagreed with the proposal to extend the application of Australian Accounting Standards to NFP public sector entities as part of this project. As described in paragraph 27 above, these stakeholders were keen to avoid any unintended consequences of requiring entities to prepare Tier 2-compliant general purpose financial statements in the absence of the Board having gathered evidence in this regard. Relatedly, an outreach session participant observed that some very small public sector entities (e.g. some cemetery trusts) which are currently required to prepare Tier 2-compliant general purpose financial statements might appear to be over-reporting.
- 38 Without disagreeing to the proposal, other stakeholders (BDO, IPA) observed that there will be a discrepancy resulting from the ED 334 proposals until the Board's public sector financial reporting framework project is complete, as for-profit public sector entities may prepare special purpose financial statements while an equivalent NFP public sector entity must prepare, at a minimum, Tier 2-compliant general purpose financial statements. The IPA noted that such situation is not consistent with a principle of transaction neutrality, and recommended that such a project be conducted soon to allow the Board to move forward with only a single applicable conceptual framework.
- 39 **Implementation in the absence of clear thresholds.** Stakeholders also made the following comments relevant to evaluating the costs and operability of the proposal to require more NFP entities to prepare general purpose financial statements:

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18 This stakeholder objected to the scope including entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards. However, the stakeholder also provided comments in the event the Board decides to retain the scope as exposed.

- (a) a stakeholder (BDO) considered that all legislators requiring financial statements to be prepared in accordance with Australian Accounting Standards or accounting standards must be on board with the AASB's proposed 3-year implementation timeline, to avoid confusion as to whether entities will have to continue to self-assess an appropriate general purpose financial statements reporting Tier or automatically prepare Tier 2-compliant general purpose financial statements;
- (b) two stakeholders (CPA, CA ANZ) observed that it is unlikely that all relevant regulators will update legislation within a 3-year transition timeframe, and noted there was confusion regarding implementation of the terminology "required by legislation to comply with Australian Accounting Standards or accounting standards" by for-profit private sector entities. Therefore, these stakeholders considered that the Board should implement a "transitional" threshold mechanism for use of a Tier 3 Standard. They considered that the Board has authority to do so, and that taking this action would provide entities with certainty to move forward with planning for general purpose financial statements while the regulatory reform discussions continue,<sup>19</sup> and
- (c) a stakeholder (IPA) considered that the AASB should work with regulators to determine the size thresholds designating an entity that may prepare Tier 3-compliant general purpose financial statements. Similar to the CPA and CA ANZ joint submission, this stakeholder also considered that the Australian Accounting Standards should include a definition and/or guidance on the size threshold of a Tier 3 entity.

#### **NFP-specific modifications to the *Conceptual Framework* [SMC 2 & SMC 3]**

- 40 In ED 334, the Board proposed to insert a number of 'Aus' paragraphs into the *Conceptual Framework* so that the pronouncement is suitable for use as a conceptual framework document for NFP entities. In addition, the Board exposed its intent to not to add a project to its work program to further develop the Conceptual Framework with respect to the identification of users of financial statements and to the emphasis given to stewardship/accountability or other more significant or complex conceptual issues affecting not-for-profit entities.
- 41 The feedback received about these proposals were mainly from the written submissions. The Board did not receive any feedback on these proposals from the virtual or in-person outreach sessions, or other meetings.

#### **Specific Matter for Comment 2(a)**

... Do you agree with the proposed 'Aus' paragraphs to be added to Chapter 1 *The objective of general purpose financial reporting* and Chapter 2 *Qualitative characteristics of useful financial information of the Conceptual Framework*, including the amendments to:

- (i) distinguish donors from other funders (see proposed paragraph Aus1.2.1);
- (ii) clarify that transactions in equity instruments and distributions to investors typically do not occur in not-for-profit entities (see proposed paragraph Aus1.15.1);
- (iii) clarify that information about a not-for-profit entity's past financial performance and how its management discharged its stewardship responsibilities is usually helpful for predicting the volume and cost of future services and the sustainability of future service delivery (see proposed paragraph Aus1.16.1); and
- (iv) delink, for not-for-profit entities, the results of confident, more informed user decision making and more efficient functioning of capital markets and a lower cost of capital (see proposed paragraph Aus2.41.1)?

If you disagree, please explain why.

<sup>19</sup> This comment is analysed in Agenda Paper 4.1.

- 42 Almost all stakeholders responding to SMC 2(a) agreed with some, or all, of the proposed amendments to Chapter 1 and Chapter 2 of the *Conceptual Framework*.<sup>20</sup> However, stakeholders raised the following comments and concerns:
- (a) a stakeholder (Law Council of Australia)<sup>21</sup> considered that the amendments do not provide necessary clarity about who the users of the financial statements of a NFP entity are, nor explain how the proposals will meet their needs;
  - (b) two stakeholders identified volunteers (AICD) and regulators (ACNC) as other user groups that they considered should be specifically identified as users of NFP entity financial statements;
  - (c) a stakeholder (Moore) questioned whether the *Conceptual Framework* is sufficiently reflective of the purpose of financial statements for NFP entities; in particular, whether proposed Aus1.3.1 and Aus1.16.1 were sufficiently future proofed, when considering service performance reporting;
  - (d) a stakeholder (Moore) suggested that the Chapter 2 section headed ‘The cost constraint on useful financial reporting’<sup>22</sup> should also acknowledge the lack of knowledge and resources in the NFP private sector and the additional burdens that entities in this sector seem to bear in preparing financial statements. The stakeholder observed that such guidance would support the introduction of Tier 3 reporting requirements; and
  - (e) a stakeholder (IPA) considered the drafting to be in some cases unnecessarily verbose and difficult to navigate, and recommended the Board simplify and rephrase the proposed amendments.<sup>23</sup>
- 43 One stakeholder (survey respondent) disagreed with the proposed amendments, consistent with their objection to SMC 1 and SMC 4. This stakeholder considered that these proposals would place an unnecessary additional burden on accountants and CEOs by requiring them to prepare more detailed financial information.

#### Specific Matter for Comment 2(b)

... Do you agree with the proposed ‘Aus’ paragraphs to be added to Chapter 4 *The elements of financial statements*, including the amendments to:

- (i) clarify, for a not-for-profit entity, the relationship between the potential to produce economic benefits and service potential (see proposed paragraph Aus4.4.1);
- (ii) clarify, for a not-for-profit entity, the relationship between cash inflows and the definition of an asset (see proposed paragraphs Aus4.16.1 and Aus4.16.2); and
- (iii) explain how references in the *Conceptual Framework* to an equity claim should be interpreted, because a not-for-profit entity would not typically have equity claims on its assets (see proposed paragraph Aus4.67.1)?

If you disagree, please explain why.

20 **Agree (17):** Pitcher Partners, Moore, ACAG, Deloitte, KPMG, CPA, CA ANZ, AICD, BDO, RSM, IPA and 6 survey respondents. The Deloitte submission did not explicitly agree with the proposed amendments but indicated that they were supportive of the Board proposing NFP-specific amendments to the *Conceptual Framework* and raised comments only on particular amendments. The AICD submission commented only on proposed paragraph Aus1.2.1.

**Disagree (1):** 1 survey respondent

21 Two other stakeholders (Justice Connect and the Queensland Law Society) endorsed this stakeholder’s submission.

22 See paragraphs 2.39 – 2.41 of the *Conceptual Framework*

23 For example, by amending the first sentence of paragraph Aus2.41.1 to read “... reporting financial information that is relevant and faithfully represents what it purports to represent the transaction similarly helps users to make decisions with more confidence and make more confident and informed decisions. ...”

- 44 All stakeholders responding to SMC 2(b) agreed with the proposed amendments to Chapter 4 of the *Conceptual Framework*.<sup>24</sup>
- 45 In addition, the following drafting comments were received:
- (a) a stakeholder (Deloitte) queried whether paragraph Aus4.25.1, as drafted, is necessary or offers sufficient added context that would be beneficial to NFP entities; and
  - (b) a stakeholder (IPA) considered the drafting to be in some cases unnecessarily verbose and difficult to navigate, and recommended the Board simplify and rephrase the proposed amendments.

**Specific Matter for Comment 2(c)**

... Do you agree with the proposed 'Aus' paragraphs to be added to Chapter 6 *Measurement*, including the amendments to:

- (i) clarify that, for a not-for-profit entity, the predictive value of historical cost information and current cost information is not limited to predicting future margins (see proposed paragraphs Aus6.30.1 and Aus6.41.1); and
- (ii) clarify that the selection of an appropriate measurement basis for non-financial assets held by a not-for-profit entity for their service potential rather than their potential to generate cash inflows is not necessarily informed by how those cash inflows are generated (see proposed paragraph Aus6.56.1)?

If you disagree, please explain why.

- 46 All stakeholders responding to SMC 2(c) agreed with the proposed amendments to Chapter 6 of the *Conceptual Framework*.<sup>25</sup>
- 47 In addition, the following drafting comments were received:
- (a) a stakeholder (ACNC) proposed replacing the term 'margin' in paragraph Aus6.41.1 with 'operating surplus' as the stakeholder considers this latter term to be more widely understood and used within the charity sector;
  - (b) a stakeholder (a jurisdiction in ACAG) considered that the Board should redraft paragraph Aus6.56.1 to better align it with the intent posed in SMC 2(c)(ii). That jurisdiction is of the view that the proposed text implies that a measurement method other than historical cost or current cost may provide relevant information;
  - (c) a stakeholder (Deloitte) suggested splitting paragraph Aus6.56.1 into two paragraphs to enhance the clarity of its messages; and
  - (d) a stakeholder (IPA) considered the drafting to be in some cases unnecessarily verbose and difficult to navigate, and recommended the Board simplify and rephrase the proposed amendments.

**Specific Matter for Comment 2(d)**

... Do you agree, overall, with the limited proposed amendments to the *Conceptual Framework*?

If you disagree, please explain why.

24 **Agree (16):** Pitcher Partners, Moore, ACAG, Deloitte, KPMG, CPA, CA ANZ, BDO, RSM, IPA and 6 survey respondents. The Deloitte submission did not explicitly agree with the proposed amendments but indicated that they were supportive of the Board proposing NFP-specific amendments to the *Conceptual Framework* and raised comments only on particular amendments.

25 **Agree (15):** Pitcher Partners, Moore, ACAG, Deloitte, KPMG, CPA, CA ANZ, BDO, RSM, IPA and 5 survey respondents. The Deloitte submission did not explicitly agree with the proposed amendments but indicated that they were supportive of the Board proposing NFP-specific amendments to the *Conceptual Framework* and raised comments only on particular amendments.

- 48 Almost all stakeholders responding to SMC 2(d) agreed, overall, with making only the limited proposed amendments to the *Conceptual Framework*, subject to their comments made in respect of SMC 2(a) – 2(c) (see paragraphs 42, 45 and 47 above).<sup>26</sup>
- 49 One stakeholder (preparer) disagreed with the proposed amendments, consistent with their objection to SMC 1 and SMC 4. In their view, these amendments are not necessary and do not provide any meaningful benefit. From their extended comments, staff construe the objection to this SMC to be linked to their objection to the ED 334 proposal to limit the ability of NFP entities to prepare special purpose financial statements.

### Specific Matter for Comment 3

... Do you agree with the AASB's decision to no longer undertake a project that would consider the more significant and complex conceptual issues affecting not-for-profit entities? If you disagree, please explain why.

- 50 Almost all stakeholders responding specifically to this question agreed with the AASB's decision to no longer undertake a project that would consider the more significant and complex conceptual issues affecting NFP entities.<sup>27</sup> Some stakeholders (CPA and CA ANZ) encouraged the Board to seek feedback on the possible development of an NFP-specific conceptual framework as part of its next agenda consultation.
- 51 Two stakeholders disagreed with the proposal:
- (a) a stakeholder (IPA) considered that the Board should allocate resources to consider the more significant and complex conceptual issues affecting NFP entities in the near future; and
  - (b) a stakeholder (survey respondent) considered that a project should proceed if it would provide more clarity to the preparers of Tier 3-compliant general purpose financial statements.
- 52 A stakeholder (ACNC) did not provide feedback to this question as they considered that the exposure draft did not provide examples of the significant and complex conceptual issues affected NFP entities.

### Disclosures in special purpose financial statements [SMC 5]

- 53 In ED 334, the Board proposed to largely replicate, for a new population of NFP private sector entities, the disclosures specified of certain for-profit private sector entities in special purpose financial statements. However, these NFP entities would have access to relief from having to assess how their accounting policies differ from the recognition and measurement specified by Tier 1: Australian Accounting Standards.

### Specific Matter for Comment 5

The AASB is proposing to amend AASB 1054 *Australian Additional Disclosures* and AASB 1057 to require a not-for-profit private sector entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards to disclose the information specified by paragraphs 8, 9 and 9A of AASB 1054 in special purpose financial statements, including information about its adopted accounting policies and changes in those accounting policies (proposed paragraphs 9A(b) and 9A(c) of AASB 1054).

- 26 **Agree (13):** Pitcher Partners, Moore, ACAG, KPMG, CPA, CA ANZ, BDO, RSM, IPA and 4 survey respondents  
**Disagree (1):** 1 survey respondent
- 27 **Agree (11):** Pitcher Partners, Moore, ACAG, KPMG, CPA, CA ANZ, BDO, 4 survey respondents  
**Disagree (2):** IPA, 1 survey respondent. The IPA submission indicated conditional support for not currently undertaking a project. Staff have categorised this feedback as a disagreement with the proposal as the Board's intent, as signalled in paragraphs BC48 and BC52 of ED 334, is not to further update the guidance in this regard for the foreseeable future.

- 54 Almost all stakeholders responding to this question agreed with the proposed amendments to require the disclosure of information in special purpose financial statements of specified NFP private sector entities.<sup>28</sup> Stakeholders cited the following as reasons for their support:
- (a) the appropriateness of having such disclosure in these financial statements;
  - (b) improved transparency and comparability; and
  - (c) consistency with for-profit private sector entity requirements.
- 55 A few stakeholders disagreed with the proposal, for the following reasons:
- (a) the Board should not extend the application of Australian Accounting Standards to NFP entities that are required only by their constituting document to prepare financial statements that are compliance with Australian Accounting Standards (Pitcher Partners – consistent with their response to SMC 1 and SMC 4);
  - (b) the disclosures to impose an additional ‘red tape’ burden on small NFP charities, for benefits that are not clear (ACNC, outreach participant);
  - (c) NFP entities should not be required to provide information additional to that of a for-profit entity (outreach participant); and
  - (d) the absence of a gap analysis, though permitted, could impact fundraising success (outreach participant). (However, another stakeholder (outreach participant) contrastingly observed that some entities may currently have decided not to assess the consistency of its recognition and measurement policies with those specified by Australian Accounting Standards because of the signal about that this might send about its governance to regulators and funders.)
- 56 Some stakeholders who agreed with, or who did not express a view on, the proposed amendments made observations consistent with the concern expressed in paragraph 55(b) above, being that:
- (a) the gap analysis provides useful information, but resourcing and capability might be of issue (2 outreach participants). Another stakeholder (meeting participant) observed that whether the proposed gap analysis disclosures are made may depend on an accountant’s attitude – this participant considered that the Board should remove the proposed special purpose financial statement disclosures after a period of time;
  - (b) in practice the proposed disclosures are challenging to enforce, such that the costs of enforcing the disclosures may outweighed any benefits gained (Moore); and
  - (c) comparability is unlikely to be the primary concern for users of these special purpose financial statements (KPMG).
- 57 An outreach participant considered that the disclosure is warranted only where of benefit to users, for example, where the financial statements are publicly available.
- 58 The Board did not receive any specific comments about the proposed consequential amendments to the Implementation Guidance and illustrative examples accompanying AASB 1054.

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28 **Agree (10):** Moore, KPMG, CPA, CA ANZ, BDO, IPA and 4 survey respondents

**Disagree (2):** Pitcher Partners, ACNC

In addition, 25 of 30 outreach participants supported the proposal. 1 participant disagreed, and the remaining 4 were unsure. Remarks made in support and the identified concerns have been incorporated into the summarised feedback, to the extent relevant.

## Transitional provisions [SMC 6 & SMC 7]

- 59 In ED 334, the Board proposed replicating the transitional provisions that were available to for-profit private sector entities preparing Tier 1 or Tier 2-compliant general purpose financial statements for the first time. That is, to introduce only further limited relief for first-time adopters of Australian Accounting Standards preparing Tier 2-compliant general purpose financial statements, and to make clear that an entity preparing consolidated Tier 2-compliant general purpose financial statements may access the transition relief specified by AASB 1 *First-time Adoption of Australian Accounting Standards*.
- 60 The further limited relief was to be restricted to early adopters of the amending Standard, and would optionally exempt a first-time adopter of Australian Accounting Standards complying with AASB 1060 from having to restate comparative information, develop comparative disclosures that were not previously required, and/or distinguish the correction of errors from changes in accounting policies in their first general purpose financial statements.

### Specific Matter for Comment 6

The AASB is proposing to provide limited transitional relief to an entity that is a first-time adopter of Australian Accounting Standards and that elects to apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Do you agree with the proposals set out in Appendix F in AASB 1053 and paragraph Aus12.2 of AASB 1 *First-time Adoption of Australian Accounting Standards*? If you disagree, please explain why.

- 61 Almost all stakeholders responding to the question agreed with the form of transitional relief to be made available to an entity that is a first-time adopter of Australian Accounting Standards and that elects to apply AASB 1060.<sup>29</sup> However, giving lease accounting as an example, a stakeholder (meeting participant) considered that proposed transitional relief from restating comparative information was inappropriate, as it could make the comparative information meaningless.
- 62 However, many of these stakeholders disagreed with limiting the availability of the transitional relief.<sup>30</sup> These stakeholders considered that all of the proposed transitional relief should not be limited to early adopters of a final Standard, but instead be available to all NFP entities that are first-time adopters of Australian Accounting Standards and that elect to apply AASB 1060. Stakeholders gave the following reasons for their view:
- (a) facilitating adoption is of such crucial importance that these benefits should be available whenever an NFP entity determines that is in their best interests to apply them (CPA, CA ANZ);
  - (b) early adoption is unlikely given NFP entity resource constraints and considering the potential lack of financial expertise, and may not be beneficial (Moore, outreach participant);
  - (c) the AASB should not be involved in providing incentives for early adopters to move from special purpose financial statements (ACAG – one jurisdiction).
  - (d) there should be a sound basis or set of conditions necessitating the relief, rather than simply as an incentive for early adoption (IPA); and

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29 **Agree with the form of transitional relief (15):** Pitcher Partners, Moore, ACAG, Deloitte, ACNC, KPMG, CPA, CA ANZ, BDO, RSM, IPA and 4 survey respondents

**Disagree:** 1 survey respondent. This stakeholder disagreed overall with the ED 334 proposals.

In addition, 23 of 30 outreach participants supported the proposal. 5 participants disagreed, and the remaining 2 were unsure. Some participants disagreed because of the limit on the availability of the transitional relief to only early adopters.

30 **Disagree with the early adoption limit on the proposed relief (6):** Pitcher Partners, Moore, ACAG, CPA, CA ANZ, IPA

- (e) an inconsistency would otherwise exist with the transitional provisions proposed in ED 335, which do not limit the similar relief available to an entity transitioning from Tier 3: Australian Accounting Standards – Simplified Accounting to Tier 2: Australian Accounting Standards – Simplified Disclosures.
- 63 A stakeholder (outreach participant) questioned whether early adoption should be even encouraged, noting that stakeholders would already have to address competing priorities relating to, amongst other matters, the implementation of AASB 18 *Presentation and Disclosure in Financial Statements* and sustainability reporting.
- 64 Other stakeholders made the following comments about the availability of the proposed transitional relief:
- (a) a stakeholder (BDO) considered that only the transitional relief to not distinguish the correction of errors from changes in accounting policies should be made available also to the first year of adoption, consistent with the equivalent transitional relief clause in Appendix E of AASB 1057 applying to for-profit private sector entities; and
  - (b) a stakeholder (KPMG) considered that transitional relief should be made available also in the first year of adoption if the proposed implementation period is shorter than 3 years.
- 65 Stakeholders did not comment on the Board’s proposal to not develop any further specific transitional provisions for first time adopters of Australian Accounting Standards electing to prepare Tier 1-compliant general purpose financial statements; suggesting support for the proposal.
- 66 Stakeholders also did not make any drafting or raise other comments about the proposed amendments to AASB 1053, including about the proposed replacement Charts in Appendix C, or new Appendix D (transition scenarios), to the Standard.

#### **Specific Matter for Comment 7**

The AASB is proposing to amend paragraph 20A of AASB 1053 to allow not-for-profit entities transitioning from unconsolidated Tier 2 – Simplified Disclosures general purpose financial statements to consolidated Tier 2 – Simplified Disclosures general purpose financial statements to apply AASB 1 when preparing consolidated financial statements for the first time.

Do you agree with the proposed amendments to paragraph 20A of AASB 1053? If you disagree, please explain why.

- 67 All stakeholders who responded to the question agreed with the proposed amendments to paragraph 20A of AASB 1053.<sup>31</sup> Two stakeholders (CPA, CA ANZ) commented that these proposals would leverage previous education processes and so, reduce costs of implementation.
- 68 One stakeholder (ACNC) considered that entities impacted by this proposal should be required to disclose when the entity will prepare consolidated Tier 2-compliant general purpose financial statements.<sup>32</sup>

#### **Effective date of the proposals [SMC 8]**

- 69 In ED 334, the Board proposed that the effective date of a final Standard would be aligned to that of the proposals exposed in ED 335. This was so that eligible entities would have access to Tier 3 reporting requirements on the implementation of a requirement to prepare general

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31 **Agree (16):** Pitcher Partners, Moore, ACAG, Deloitte, ACNC, KPMG, CPA, CA ANZ, BDO, RSM, IPA and 5 survey respondents

In addition, 23 of 29 outreach participants supported the proposal. 6 participants indicated they were unsure whether they supported the proposal, but provided no clarification to their response.

32 Staff’s understanding is that the suggested disclosure is of the reason why the entity, having previously prepared unconsolidated Tier 2 general purpose financial statements, now needs to prepare consolidated financial statements.



purpose financial statements, thereby alleviating costs and the impact of the ED 334 proposed amendments to AASB 1057.

#### Specific Matter for Comment 8

The AASB is proposing that the effective date of a final Standard would be at least three years after the issue of that pronouncement (for example, if the Standard is issued in December 2025, the effective date would not be earlier than annual periods beginning on or after 1 January 2029). Earlier adoption would be permitted.

Do you agree with this proposal? If you disagree, please explain why.

- 70 Most stakeholders responding to this question agreed with the Board's proposal regarding the effective date of a final Standard.<sup>33</sup> In some instances, the support was qualified:
- (a) some stakeholders (Pitcher Partners, KPMG) observed the expectation in their response that the effective date would be aligned with the availability of the Board's Tier 3 proposals;<sup>34</sup> and
  - (b) some stakeholders (CPA, CA ANZ) considered that a 3-year implementation period to be sufficient lead time only if there is clarity as to which NFPs may prepare Tier 3-compliant general purpose financial statements when a 'Tier 3 Standard' is issued. These stakeholders were concerned that entities, advisors, and other stakeholders may not otherwise have sufficient time to develop an effective transition timetable and identify the resources to support implementation.
- 71 Stakeholders made the following observations in support of the proposed effective date:
- (a) an effective date before 1 January 2029 may stretch the capacity of the accounting industry, as auditors and advisors will already need to consider new sustainability reporting requirements and AASB 18 (Moore);
  - (b) an extended period is essential given the efforts necessary for affected entities to transition from special purpose financial statements to general purpose financial statements, especially for those entities transitioning from unconsolidated special purpose financial statements to consolidated general purpose financial statements;
  - (c) it allows time for:
    - (i) any legislative amendments to be progressed (ACNC);
    - (ii) the sector to be educated about the changes (ACNC);
    - (iii) software companies to update templates (outreach participant); and
    - (iv) funds to be allocated in the budget to comply with the new requirements (outreach participant).
- 72 Some stakeholders disagreed with the proposed effective date:
- (a) some stakeholders (Theatre Networks Australia, National Association for the Visual Arts, Ausdance Vic) considered that a longer implementation period or a phased implementation period of 3+ years should be required instead to allow small entities the

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33 **Agree (16):** Pitcher Partners, Moore, ACAG, Deloitte, ACNC, KPMG, CPA, CA ANZ, AICD, Justice Connect, BDO, RSM, IPA and 3 survey respondents

**Disagree (6):** Theatre Networks Australia, National Association for the Visual Arts, Ausdance Vic, 1 survey respondent and 2 outreach participants. The survey respondent stakeholder disagreed overall with the ED 334 proposals.

In addition, 24 of 30 outreach participants supported the proposal. 2 participants disagreed, and the remaining 4 were unsure. Remarks made in support and the identified concerns have been incorporated into the summarised feedback, to the extent relevant.

34 Per Agenda Paper 4.3, stakeholders broadly supported the proposed effective date in ED 335

time to adjust to any new general purpose financial reporting requirements without disrupting their core activities; and

- (b) some meeting participants suggested that a shorter implementation period might be preferable to keep the developments current to entities and other stakeholders.

### General matters for comment [GMC 9 – GMC 14]

- 73 ED 334 included six questions that contribute to the Board’s evaluation as whether the exposure draft’s proposals are overall suitable for implementation. In general, the Board received less feedback to these questions as these questions were not discussed in outreach sessions and as not all stakeholders responded to these questions in the survey or as part of their formal submission.

#### General matter for comment 9

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

- 74 7 stakeholders responded to this question.<sup>35</sup> 4 stakeholders (survey respondents) agreed that the *AASB Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in ED 334.
- 75 3 stakeholders (ACAG, IPA and a survey respondent) disagreed that the *AASB Not-for-Profit Entity Standard-Setting Framework* has been applied appropriately:
- (a) with respect to the AASB’s principle of transaction neutrality, as a different conceptual framework document will continue to apply to certain for-profit public sector entities, and as NFP public sector entities are not able to apply Tier 3 reporting requirements (ACAG, IPA); and
  - (b) there is no evidence that undue widespread and significant diversity in accounting practices exists (survey respondent).

#### General matter for comment 10

Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- (a) not-for-profit entities; and
- (b) public sector entities, including GAAP/GFS implications?

- 76 11 stakeholders responded directly or indirectly to this question.<sup>36</sup> 5 stakeholders (ACAG, IPA and 3 survey respondents) noted that they were not aware of any regulatory or other issues affecting implementation.
- 77 The remaining stakeholders responding to this question identified potential regulatory or other issues that may affect implementation of the proposals. In the main, the issues identified by these stakeholders are consistent with their or another stakeholder’s comments raised in response to a specific matter for comment, and are as follows:
- (a) one stakeholder (AICD) noted that the Board should consider the interaction of these proposals with the Government’s proposal to merge the AASB, Auditing and Assurance Standards Board and Financial Reporting Council into a single body, the Productivity

35 ACAG, IPA and 5 survey respondents. Some other stakeholders responded to this question, but with respect to the proposals to introduce Tier 3 reporting requirements. As these are part of the proposals set out in ED 335, such stakeholder feedback has instead been compiled in Agenda Paper 4.3 and where relevant, addressed in Agenda Paper 4.1.

36 Pitcher Partners, AICD, CPA, CA ANZ, ACAG, ACNC, IPA and 4 survey respondents.

Commission's Final Report on philanthropic giving, and the Not-for-Profit Development Sector Blueprint;

- (b) two stakeholders (CPA, CA ANZ) considered that the extent of legislation that imposes financial reporting obligations on NFP entities is likely to affect implementation of the proposals, for reasons including that thresholds and terminology differ between different pieces of legislation. Similarly, another stakeholder (ACNC) noted that there is likely to be an increase in red tape if there is inconsistency between different governing legislation;
- (c) a stakeholder (survey respondent) was of the view that the proposal to require general purpose financial statements for some, but not all, NFP entities would create further confusion for preparers, and opined that greater harmonisation between state and territory legislative obligations and federal obligations in this regard should continue to be prioritised; and
- (d) noting that imposing the preparation of general purpose financial statements will already divert resources, a stakeholder (Pitcher Partners) observed that it is important that any legislative move to restrict the use of the proposed 'Tier 3 Standard' is actioned before the ED 334 proposals become effective. Consistent with this, two other stakeholders (CPA, CA ANZ) considered that the Board should actively engage with all levels of government to ensure that necessary changes are identified and progressed in a timely manner.

78 Whilst not identifying it as an issue, a stakeholder (ACAG) observed that different conceptual frameworks will continue to apply to for-profit and NFP public sector entities.

**General matter for comment 11**

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

79 5 stakeholders (Pitcher Partners, IPA, 3 survey respondents) noted that they were not aware of any auditing or assurance challenges that would be created by the proposals. A stakeholder (survey respondent) qualified their response: noting that early education for auditors would be necessary and clear guidelines should be set.

80 Other stakeholders highlighted that the following auditing or assurance challenges might arise:

- (a) in the absence of certainty as to who can prepare Tier 3-compliant general purpose financial statements, it is likely that inappropriate pressure will be placed on auditors to help entities to determine applicability (CPA, CA ANZ);
- (b) it will be challenging for auditors to ensure they have reviewed all documents to determine whether general purpose financial statements need to be prepared (Moore Australia). This stakeholder noted that this risk would be mitigated if the onus is on the entity to determine the basis of reporting, and if the auditor does not need to sign off on the appropriateness of the basis of financial reporting;
- (c) the continuation of two conceptual frameworks will cause continued challenges for both preparers as well as auditing and assurance challenges (ACAG). This stakeholder noted that they have heard instances of practitioners referencing the wrong conceptual framework document when providing accounting advice;
- (d) further financial pressure in the form of increased audit costs (survey respondent). This stakeholder<sup>37</sup> considered that ED 334 may result in potential disruption to the continuity of financial oversight within the NFP sector, a loss of valuable institutional knowledge, and introduce inefficiencies, if entities are forced to change their auditors as a result of the new requirements;

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37 The stakeholder disagreed overall with the ED 334 proposals.

- (e) it may inspire entities that currently voluntarily have their financial statements audited to discontinue this practice, if auditors were to insist on the entity applying Tier 3 reporting requirements (Law Council of Australia);<sup>38</sup> and
- (f) conflicts or issues may arise if the ED 336 *Provisions – Targeted Improvements* proposals are finalised whilst the *Framework for the Preparation and Presentation of Financial Statements* remains operative for a population of Australian entities, as ED 336 is based on the *Conceptual Framework’s* definition of a liability (one jurisdiction in ACAG).

#### General matter for comment 12

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

- 81 As noted in paragraph 18 above, many stakeholders expressed support for the project and/or ED 334. In addition, some stakeholders responded specifically to the question in GMC 12.
- 82 5 stakeholders responding to this question agreed that the proposals would result overall in financial statements that are useful to users.<sup>39</sup> Of these, a stakeholder (survey respondent) cautioned that the users of the financial statements of an NFP entity are not the same as for listed entities and, as such, that there is a need to balance the costs and impacts of the proposals for NFP entities.
- 83 Most other stakeholders responding to this question indicated qualified support that the ED 334 proposals would result overall in financial statements that are useful to users. The qualification is generally consistent with their objections or concerns regarding a specific aspect of the proposals, as follows:
  - (a) some stakeholders (Pitcher Partners, CPA, CA ANZ) considered that the proposals would result overall in financial statements that are useful to users only for the population of NFP entities that are required by legislation to prepare financial statements that comply with Australian Accounting Standards;
  - (b) a stakeholder (IPA) qualified their response in respect of the proposals resulting in the Board maintaining two conceptual frameworks; and
  - (c) two stakeholders (CPA, CA ANZ) considered that whether the proposals result overall in financial statements that are useful to users is subject to address of the issues identified in their submission.
- 84 2 stakeholders (Theatre Networks Australia, National Association of the Visual Arts), while not responding directly to the question, observed that the proposed reporting framework could increase transparency and simplify the financial reporting of small arts organisations. Some of these organisations may already be preparing general purpose financial statements, and might be able to benefit from the proposed Tier 3 reporting requirements. Other arts organisations are expected to be impacted by the proposals.
- 85 A stakeholder (survey respondent)<sup>40</sup> disagreed that the proposals would result overall in financial statements that are significantly more useful to users. This stakeholder considered that there is no clear evidence that existing financial statements are inadequate or fail to meet the needs of users of the NFP entity’s financial statements, because:
  - (a) there is already financial transparency;
  - (b) annual general meetings are already held where performance and results are discussed; and

38 This stakeholder noted that there is feedback from auditors that they would modify their opinions if Tier 3 reporting requirements were not implemented.

39 ACAG and 4 survey respondents

40 This stakeholder disagreed overall with the ED 334 proposals.

- (c) the primary engagement of donors, funders, and supporters with the entity is through its mission, impact, and messaging, and not its financial statements.
- 86 In addition, a stakeholder (ACAG) indicated that further improvement can be achieved for public sector entities excluded from these proposals. That stakeholder considered that a public sector reporting framework project is critical to achieving the most useful reporting.

#### **General matter for comment 13**

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

- 87 9 stakeholders responding to this question agreed that the proposals are in the best interests of the Australian economy.<sup>41</sup> One stakeholder (survey respondent) opined that some form of general purpose financial reporting must be required whenever entities are required to report to their members. In some cases, the stakeholder support was qualified for the stakeholder's objection or concerns with particular aspects of the proposals (e.g. the inclusion of entities required only by their constituting document to prepare financial statements that comply with Australian Accounting Standards).
- 88 As noted in paragraph 20 above, 10 of 44 stakeholders were not supportive of the ED 334 proposals overall, suggesting that they would not consider the proposals to be in the best interests of the Australian economy. Of these, and echoing some of the reasons noted in paragraph 20, a stakeholder (survey respondent) cited existing financial strains and the concern that the proposals would divert limited resources away from the entity delivering on its NFP service objectives as the reason for their disagreement that the proposals would result overall in financial statements that are significantly more useful to users. This stakeholder considered that it is possible that NFP sector and economy may be weakened overall by proposals which could result in reduced services, reduced employment and a decline in the overall social and environmental benefits that these entities provide.
- 89 Similarly, while not commenting directly to this question and/or specifically opining on the proposed scope of ED 334, some other stakeholders<sup>42</sup> highlighted the resource constraints and financial expertise available to smaller entities, and that the proposals may further divert limited resources in the form of money and time from the delivery of an entity's NFP services. Many of these stakeholders were concerned that a revised financial reporting framework might disadvantage smaller NFP entities by imposing on them a further financial and administrative burden. These stakeholders considered that the finalisation and operationalisation of any final proposals to extend general purpose financial reporting should have regard to these practical aspects. A stakeholder (Law Council of Australia) additionally observed that there are sustainability and tax pipeline developments that will likely also impose further costs to the impacted NFP entities.
- 90 A stakeholder (survey respondent) considered that the combined proposals of ED 334 and ED 335 should 'make life easier' for preparers. Consequently, that stakeholder was of the view that disclosures and costs of preparing Tier 3-compliant general purpose financial statements should not be higher than the costs of preparing special purpose financial statements.

#### **General matter for comment 14**

Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

41 Pitcher Partners, CPA, CA ANZ, IPA and 4 survey respondents

42 These stakeholders include Theatre Network Australia, National Association for the Visual Arts and Ausdance Vic, whose feedback in this regard have not been captured against a specific SMC.

- 91 Few stakeholders responded to this question. Stakeholders made the following comments:
- (a) the proposals could see an increase in costs of between 20% to 40% increase in costs (preparer/advisor);
  - (b) the proposals should not result in extra costs (preparer);
  - (c) the main costs will be in the transition of an entity's special purpose financial statements to general purpose financial statements (ACAG); and
  - (d) the ongoing costs should be less given the development of Tier 3 reporting requirements (Pitcher Partners).
- 92 A stakeholder that is a small charity (Wodonga Urban Landcare Network) observed that its costs of implementing the proposals would include upskilling, more reliance on paid professional services, the duplication of financial reporting obligations and efforts, and the diversion of resource time to compliance activities rather than service delivery. This stakeholder estimates that its implementation activities would cost the entity between \$5,000 and \$8,000; viz operating revenue of just under \$500k.
- 93 Another stakeholder (Equity Trustees) estimated that the costs of preparing and auditing Tier 3-compliant general purpose financial statements for 74 trusts which are ancillary funds to exceed \$100,000 annually.

### **Other feedback received**

- 94 In addition to the feedback noted above, stakeholders also made the following comments.

#### *Successful implementation through collaboration and cooperation*

- 95 Some stakeholders (Law Council of Australia, ACNC, CPA, CA ANZ, BDO, IPA) considered that the AASB must work together with regulators to establish any intended reporting Tier application so that NFP sector can respond effectively to the proposals, and that cooperation between State/Territory and Commonwealth legislators and regulators to establish consistent thresholds is important for successful implementation of the proposals.

#### *Review of currently applicable accounting policies for all NFP entities*

- 96 A stakeholder (Saward Dawson) considered that aspects of AASB 10 *Consolidated Financial Statements*, AASB 15 *Revenue*, AASB 16 *Leases* and AASB 9 *Financial Instruments* for which the accounting was simplified as part of the proposed Tier 3 reporting requirements should be reviewed also for their appropriateness for NFP entities more generally, as more NFP entities will need to apply the accounting policies specified by these Standards if the entity is required to prepare Tier 2-compliant general purpose financial statements in the future.
- 97 Similarly, a stakeholder (KPMG) observed that if the proposals are finalised, more NFP entities will need to make decisions about whether and when they control another entity. This stakeholder encouraged the Board to consider expanding its existing guidance in AASB 10 *Consolidated Financial Statements* to include more application examples in the context of religious organisations that conduct a wide range of activities (e.g. aged care, home care, childcare, education) through separate legal structures.<sup>43</sup>
- 98 Another stakeholder (RSM) recommended that the Board review the revenue recognition model of AASB 1058 *Income of Not-for-Profit Entities*.

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43 This comment is considered also in Agenda Paper 7.2, as it provides feedback relevant to the Board's address of ITC 51 Post-implementation Review of Not-for-Profit Topics.

*More field testing required*

- 99 A stakeholder (Wodonga Urban Care Network) considered that the Board should conduct more comprehensive field testing with diverse small NFPs before finalising any amendments.

*The need for education and guidance support*

- 100 Some stakeholders (Law Council of Australia, ACNC, KPMG, AICD, Justice Connect, Theatre Network Australia, National Association for the Visual Arts, Ausdance Vic) considered that there is a need for the AASB or other body to undertake education activity and/or provide support and more clarity with regards to the proposed amendments, if finalised. Such activity would generate awareness and improve understanding of the new requirements, facilitating implementation.
- 101 The following matters were identified as necessary aspects of such activity or guidance:
- (a) which entities have to prepare general purpose financial statements and the reporting Tiers available to those entities;
  - (b) how a reference to legislation in funding arrangements should be assessed, interpreted and applied (e.g. a funding agreement between a school and the Department of Education, where that agreement references the Education Act);
  - (c) the impact to entities preparing special purpose financial statements under the proposed grandfathering relief of making changes to the relevant constituting document or other document; and
  - (d) guidance about available transitional relief.

**Question to Board members**

- Q1 Do Board members have any questions or comments about the feedback or other matters set out in this agenda paper?