



Project:	Not-for-Profit Private Sector Financial Reporting Framework	Meeting:	M196
Topic:	Project update	Agenda Item:	10.1
		Date:	6 June 2023
Contact(s):	Maggie Man mman@asb.gov.au Jim Paul jpaul@asb.gov.au Fridrich Housa fhousa@asb.gov.au	Project Priority:	High
		Decision-Making:	Low
		Project Status:	Drafting Exposure Draft

Objective of this agenda item

- The objective of this agenda item is for the Board to:
 - consider** an update on the Not-for-Profit Private Sector Financial Reporting Framework (NFP FRF) project, including interaction with cross-cutting projects and the project timeline considerations (this Agenda Paper); and
 - consider** the application of the approach to drafting the Tier 3 Exposure Draft on selected Tier 3 topics of Property, Plant and Equipment, Fair Value Measurement, and Borrowing Costs (Agenda Paper 10.2 and 10.2.1).
- No decisions are required from the Board at this meeting.

Attachments

- Papers for this agenda item are:
 - Agenda paper 10.2 Tier 3 – Application of the drafting approach to selected topics
 - Agenda paper 10.2.1 Tier 3 – Staff analysis and application of the drafting approach to selected topics

Background

- At its 20 – 21 February 2021 meeting, the Board decided to develop a further reporting Tier (Tier 3) for application by not-for-profit (NFP) private sector entities. The Board approved the Discussion Paper in August 2022,¹ and it was issued in September 2022 with a six-month consultation period to 31 March 2023.
- After consideration of the preliminary analysis of the feedback on the Discussion Paper, at its 4 May 2023 meeting, the Board decided to proceed with the development of an Exposure Draft on:
 - a Tier 3 Accounting Standard with simplified accounting requirements for smaller NFP private sector entities; and

1 [Minutes of the 189th meeting of the AASB](#)

- (b) removing the ability of certain NFP entities to prepare special purpose financial statements under Australian Accounting Standards
- 6 [The Not-for-Profit Private Sector Financial Reporting Framework Project Summary](#) provides an overview of the Board's decisions to date in respect of the project based on Appendix A – 'Approach to simplification' adopted by the Board at its August 2021 meeting.²
- 7 At its May 2023 meeting, the Board decided, to the extent consistent with the project object to develop simplified and proportionate requirements for smaller NFP private sector entities and in line with the principles the Board applies in this regard, its approach to drafting the Tier 3 Standard illustrated in Appendix B – *Approach to drafting the Tier 3 Standard*, which sets out the approach to drafting the recognition and measurement requirements³ and the disclosure requirements.⁴

Application of the drafting approach to selected topics (Agenda Paper 10.2 and Agenda Paper 10.2.1)

- 8 Agenda Paper 10.2 provides the application of the approach to drafting the Tier 3 Exposure Draft on the selected Tier 3 topics of Property Plant and Equipment, Fair Value Measurement; and Borrowing Costs based on the approach adopted by the Board at its May 2023 Board meeting.
- 9 Agenda Paper 10.2.1 provides the staff analysis and application of the drafting approach with the International Financial Reporting Standards for Small and Medium-Sized Entities issued in September 2022 Exposure Draft (IFRS for SMEs) as starting point with the adoption of simpler terminology and other wording of the New Zealand Tier 3 Standard for drafting the three selected topics. This paper shows the extent of the simplification based on considerations of the factors outlined in Agenda Paper 10.2.

Project update — cross-cutting projects

- 10 Table 1 below provides an update on the cross-cutting projects and other developments.

Table 1: Update on cross-cutting projects and other developments

Cross-cutting projects	Update
<p>NZASB's post-implementation review (PIR) of Tier 3 and Tier 4</p>	<p>NZASB staff provided an update on the development of additional guidance for applying Tier 3 and Tier 4 Standards at its May 2023 NZASB Board meeting following the approval of the Tier 3 Standards at the Feb 2023 NZASB Board meeting and the Tier 4 Standards at the Dec 2022 NZASB Board meeting. Based on the PIR and feedback statement issued thereafter, the topics on which additional education or guidance will be developed include:</p> <ul style="list-style-type: none"> • Selecting appropriate performance measures; • Intangible assets; • Disaggregation of the minimum categories • Understandability of the requirements for the statement of cash flows in the Tier 3 Standard; • Meaning of significant; • Going concern and events after balance date in the Tier 3 Standard • Consolidation requirements; and • Related party transactions <p>The Tier 3 and Tier 4 Standards are now issued and required to be applied for accounting periods that begin on or after 1 April 2024 with earlier application permitted for accounting periods ending after the Standard takes effect on 15 June 2023.</p> <p>NZASB staff are also planning to conduct research to determine whether to commence a project to review the tier sizes due to recent and future statutory and financial reporting</p>

2 [Minutes of the 182nd meeting of the AASB](#)

3 Refer to [Action Alert No: 222](#)

4 [Minutes of the 188th meeting of the AASB](#)

Cross-cutting projects	Update
	<p>developments affecting NFP entities in New Zealand. The research will support the future consideration of possible proposals to amend the tier size criteria for public benefit entities.</p> <p>AASB staff are actively monitoring the NZ Tier 3 Standard and will consider the drafting of relevant sections and whether guidance should be developed for those sections. For example, stakeholder feedback on the Discussion Paper noted some guidance or educational material should be developed on the value of reporting information about cash flows and how it should be read in conjunction with other primary financial statements and explanatory notes. Stakeholder feedback received on the Discussion Paper for intangible assets noted that these assets may become more common in the future, therefore, there is merit in conducting further analysis and developing options on the accounting requirements for intangible assets as part of the Tier 3 Standard. In addition, staff will consider the guidance developed for the meaning of 'significant' and its implication for disclosing significant relationships proposed for separate financial statements and related party transactions.</p> <p>As presented at the April 2023 Board meeting, most stakeholders supported that it is not within the remit of the AASB to specify reporting thresholds in the Australian Accounting Standards. Staff will perform further analysis, including monitoring the planned research by NZASB staff, in considering whether it is possible to define the scope of the standard or alternatively, for example, provide non-authoritative guidance on which entities should apply the Tier 3 Standard in the future.</p>
<p>Second comprehensive review of the <i>IFRS for SMEs</i> Standard</p>	<p>IASB issued educational material, "Effects of climate-related matters on financial statements prepared in accordance with the <i>IFRS for SMEs</i> Accounting Standard", to illustrate how the <i>IFRS for SMEs</i> Accounting Standard requires companies to consider climate-related matters with a material effect on the financial statements.</p> <p>The material contains a non-exhaustive list of examples of when companies may need to consider climate-related matters in their financial statements and is aimed at supporting the consistent application of the <i>IFRS for SMEs</i> Accounting Standard.</p> <p>The Board has decided on the working assumptions to begin its work on the service performance reporting project to, amongst other assumptions, continually reassess the relationship of the project to and potential overlap with other projects, including the sustainability reporting and management commentary projects. Staff will also continue to monitor the development of the <i>IFRS for SMEs</i> Accounting Standard's proposals while drafting the Tier 3 topics based on the approach adopted by the Board, as outlined in Appendix B.</p>
<p>IFR4NPO</p>	<p>At its May 2023 meeting, the Technical Advisory Group discussed topics including inventory, revenue, expenses on grants and donations, foreign currency translations, non-prioritised topics for ED2, classification of expenses and fundraising costs. Specifically, for:</p> <p>(a) Inventory</p> <p>The group discussed the measurement of inventories held for use in providing services or for distribution to service recipients, which have been identified as issues for non-profit organisations. The recognition and measurement requirements for inventories were also discussed.</p> <p>(b) Revenue</p> <p>The group further discussed revenue after comments from TAG members. Consistent with the group's February 2023 meeting, revenue guidance will be developed in two parts, Part 1 will cover grants and donations, and be based on IPSASB's latest thinking on revenue (i.e. <i>IPSAS 47 Revenue</i>). Part 2 will cover contracts with customers, and be based on the Exposure Draft of the revised Section 23 in the <i>IFRS for SMEs</i> Accounting Standards.</p> <p>The group further decided that transactions should be split into separate elements for grants/donations and contracts with customers to address the concern that it may not always be clear which part of the revenue recognition guidance should be applied in accounting for a transaction.</p> <p>Other topics discussed by the group include:</p> <ol style="list-style-type: none"> 1) the unclear distinction between binding grant arrangements and other arrangements and a new definition of 'binding grant arrangement' was proposed; 2) revenue with restrictions and revenue without restrictions where funding agreements under binding grant arrangements are presented as giving rise to income with

Cross-cutting projects	Update
	<p>restrictions and other grants and donations are presented as giving rise to income without restrictions;</p> <p>3) time limitations – to develop application guidance by specifying the presentation of grants with time limitations but no other terms or conditions as income without restrictions; and</p> <p>4) gifts in-kind and services in-kind – revenue recognition should be required for those services in-kind that are critical to an NPO's mission with guidance to be developed not to recognise inventories, but require to recognise revenue and an expense when donated items are used or distributed.</p> <p>AASB staff will consider the proposals once INPAG issues the ED2 on the above topics while considering the drafting for those sections in accordance with the drafting approach in Appendix B.</p>
<p>Post-implementation reviews of domestic NFP pronouncements</p>	<p>Staff are in the process of analysing the comment letters as well as summarising the feedback obtained during the virtual outreach session and stakeholder meetings on ITC 50 Post-implementation Review – <i>Income of Not-for-Profit Entities</i>; and ITC 51 <i>Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements</i> and will bring the summary of the feedback to a future Board meeting.</p> <p>Staff also expected to commence the PIRs of AASB 2020-2 and AASB 1060 in the near future; although it should be noted that the planned timing of the PIR might be affected by the IASB's Subsidiaries without Public Accountability Project.</p> <p>Staff will monitor the feedback from stakeholders on these ITCs, given the cross-cutting nature of the topics with the development of simplified accounting requirements. Feedback received on the Discussion Paper noted a survey conducted by CA ANZ IFRS in 2022 indicating views that disclosure requirements in AASB 1060 still do not strike the right cost/benefit balance, and recommended developing further simplified fit-for-purpose disclosure requirements for the Tier 3 Standard regardless of whether recognition and measurement requirements in Tier 3 differ from those in Tier 2. In staff view, this is compatible with the Board's decision to consider further simplification of disclosures when using AASB 1060 (as reflected in the Approach to disclosure requirements in Appendix B)</p>
<p>ACNC reporting requirements</p>	<p>ACNC has finalised its consultation on reporting on related party transactions and a new question will be included in their Annual Information Statement from 2023 for all charities, except for basic religious charities, to report any reportable related party transactions. The guidance, including a pre-defined list of reportable related party transactions, has been developed with no requirement to provide a dollar value to the transaction. The definition of related party for medium and large charities aligns with the definition in AASB 124 <i>Related Party Disclosures</i>, while a simplified definition has been developed for small charities.</p> <p>Staff will consider the ACNC guidance when considering the Tier 3 disclosure requirements. Stakeholder feedback from the Discussion Paper indicated the importance of related party disclosures and the need to 'cap' the requirements to Tier 2 disclosure requirements including the interactions with disclosures of 'significant relationships' of a parent entity. However, a stakeholder indicated the possible commercially sensitive nature of disclosing related party transactions for donations where no benefit is received by the related party.</p>

Project timeline and milestones

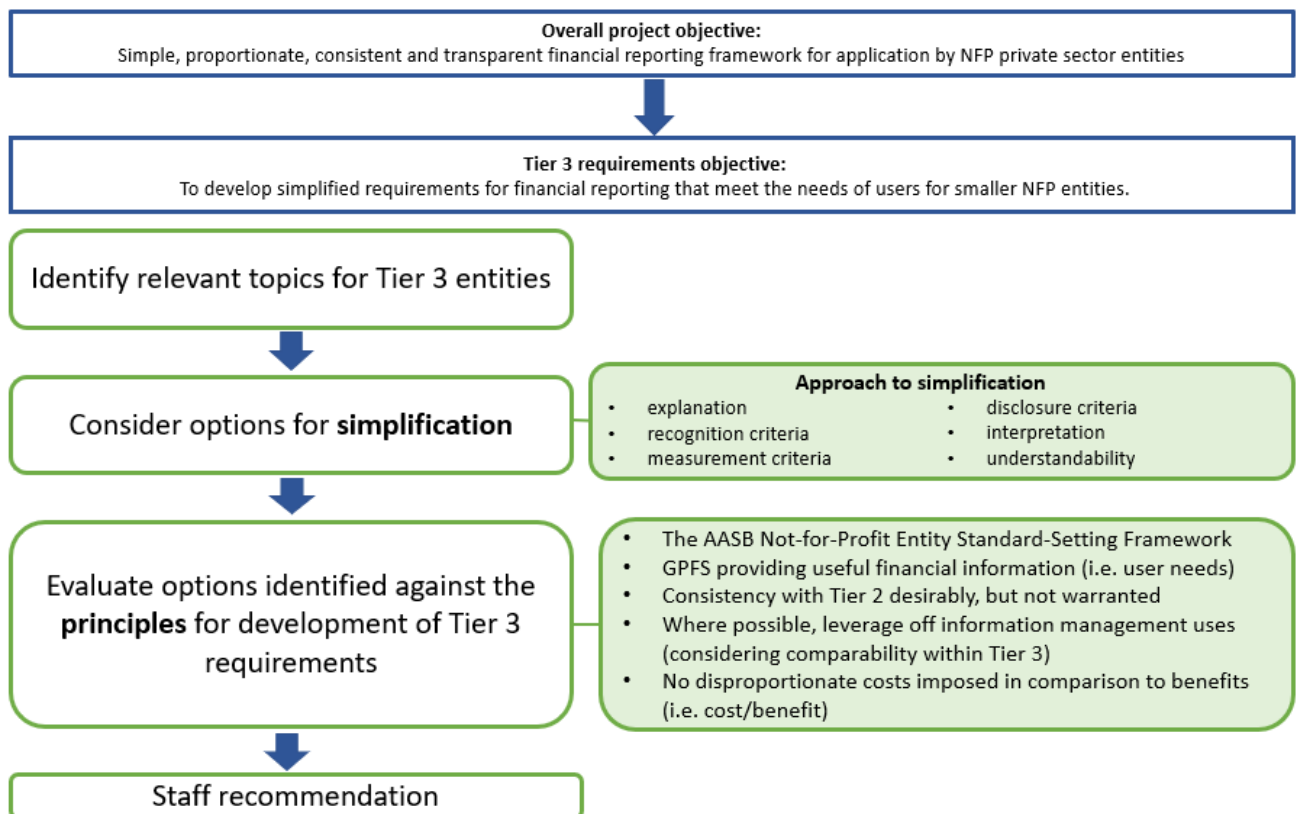
- 11 Further to the staff expectation noted at the May 2023 Board meeting that the ED could be released in late 2024 (based on estimated time and effort needed for staff analysis and the deliberation by the Board on the feedback on the Discussion Paper and on the drafting of the Exposure Draft including consultation with the NFP Project Advisory Panel and other targeted outreach), staff are developing the project timeline for the Board to consider at a future meeting by applying the following considerations:

- (a) grouping of similar topics to be considered together to allow the Board to consider interrelated topics at the same meeting (e.g. staff is planning to group further discussions on consolidated financial statements, separate financial statements, investment in associates and joint arrangements and related party disclosures to be considered in the same Board meeting);
- (b) bringing analysis and seeking the Board's direction early for topics that may impact the consideration of other topics such as the extent of Tier 3 as a stand-alone standard, topics to be omitted from Tier 3, the opt-up approach and the hierarchy approach;
- (c) resources available to achieve efficient and concurrent drafting of the Tier 3 Exposure Draft as the Board makes decisions on the proposed Tier 3 requirements and the Board to consider the drafting of the Tier 3 Exposure Draft in several batches; and
- (d) to seek the Board to form a sub-committee to review the drafting of the Exposure Draft throughout the drafting process.

Question to Board members

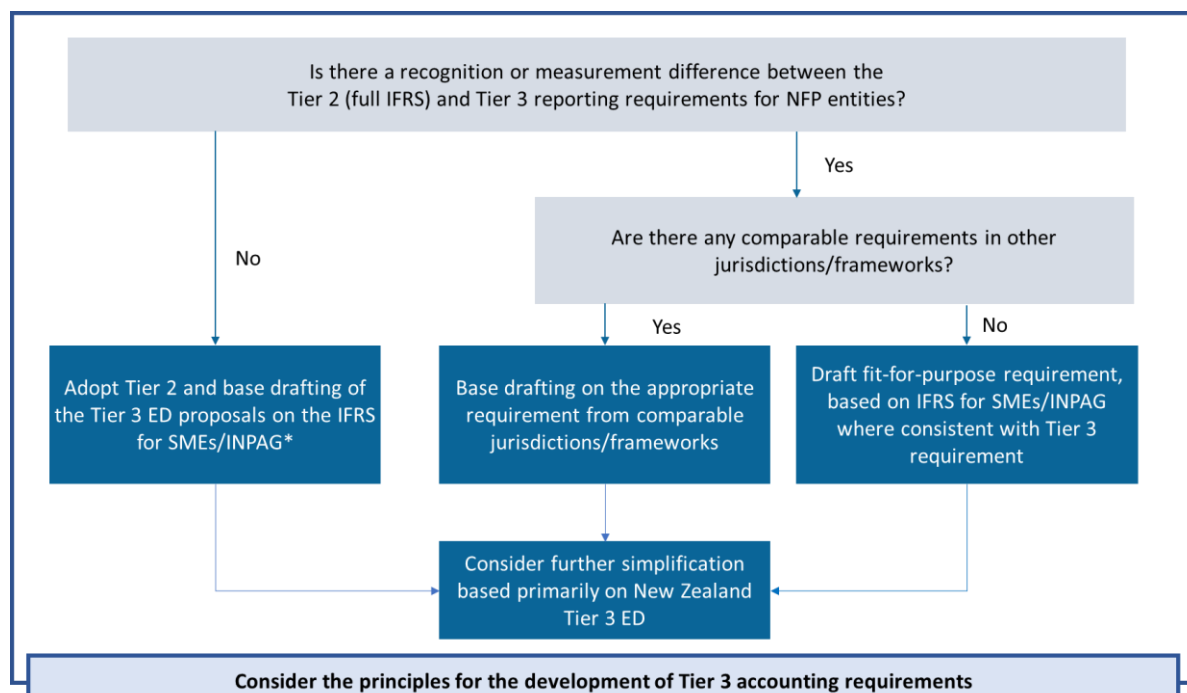
Do Board members have any comments on the information summarised above?

Appendix A – Approach to simplification agreed by the Board at its 4 August 2021 Board meeting



Appendix B – Approach to drafting the Tier 3 Exposure Draft

Approach to drafting recognition and measurement requirements for Tier 3 NFP private sector entities (each topic/issue) agreed by the Board at its 4 May 2023 Board meeting



Approach to developing disclosure requirements for Tier 3 not-for-profit private sector entities for each topic/issue agreed by the Board at its 22 – 23 June 2022 Board meeting

