



Project:	Not-for-Profit Private Sector Financial Reporting Framework	Meeting:	M212
Topic:	Due process to proceed with ED 335 proposals	Agenda Item:	4.1
		Date:	15 April 2025
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		Decision-Making:	High
		Project Status:	Project redeliberations

Objectives of this paper

- 1 The objectives of this staff paper are for the Board to:
 - (a) **consider** the feedback received on some Specific Matters for Comment (SMCs) and General Matters for Comment (GMCs) on ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*; and
 - (b) **decide** whether to proceed with the Not-for-Profit Private Sector Financial Reporting Framework (NFP FRF) project, including developing a Tier 3 Accounting Standard with simplified recognition, measurement and disclosure requirements for smaller not-for-profit (NFP) private sector entities, and commence redeliberations of the proposals in ED 335.

Background and reasons for bringing this paper to the Board

- 2 The AASB issued two Exposure Drafts (EDs) in October 2024 with a 4-month consultation period closing 28 February 2025:
 - (a) ED 334 *Limiting the Ability of Not-for-Profit Entities to prepare Special Purpose Financial Statements*, which includes proposed amendments to the Conceptual Framework for Financial Reporting; and
 - (b) ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*.¹
- 3 ED 335 proposes a new Australian Accounting Standard (AAS) containing simplified recognition, measurement and disclosure requirements developed for use by smaller NFP private sector entities. ED 335 works in conjunction with ED 334 which contains the proposals to require more NFP entities to prepare general purpose financial statements (GPFS) when financial statements are prepared in accordance with a directive that they comply with AAS. In recognition of the impact of the proposal to NFP private sector entities. The effect of ED 335 is that the minimum requirements for GPFS of NFP private sector entities would be a new Tier 3 GPFS reporting tier. ED 335 proposals are intended to serve as a proportionate reporting response for smaller NFP private sector entities.

1 See website for [ED 334](#) and [ED 335](#).

- 4 Agenda Paper 4.3 presented at this meeting provides a collation of the feedback received on ED 335. As detailed in Agenda Paper 4.3, staff conducted five virtual and in-person outreach sessions and staff attended other externally organised meetings where the Board's proposals were discussed. Twelve survey responses and 18 written submissions were received directly on ED 335 and three written submissions on ED 334 contained feedback relevant to ED 335. Staff plan to bring each SMC relating to each section of the draft Tier 3 Standard for the Board's consideration as per the timeline presented in Agenda Paper 4.0 at this meeting.
- 5 The *AASB Due Process Framework for Setting Standards* states that the AASB standard-setting processes used to achieve its principles of strategic international influence, transparency, appropriate consultation and accountability includes consideration of the feedback received on its issued consultative documents. Per paragraph 7.5.2 of that document, AASB staff are to prepare an overview of the comments received, the major points raised, and recommendations as to whether the Board project should continue.
- 6 In this paper, the Board will be asked to consider the feedback relating to SMC 1, SMC 5-8, and GMCs 41 – 44.² Staff think the feedback from these SMCs capture the major points raised that are relevant to the Board's decision-making whether to proceed with the NFP FRF project. Staff will address SMCs 2 – 6, and the GMCs again, at future meetings.³
- 7 Agenda Paper 3.1 for this meeting seeks the Board's decision whether to continue its Conceptual Framework: NFP Amendments project and begin redeliberations on ED 334 with a view to issuing a final accounting standard. The ED 334 proposals include amendments to AAS to extend the population of NFP entities required to prepare GPFS, proposed as part of the Board's review of the Australian financial reporting framework and in furtherance of its NFP FRF project objectives. However, as the projects overlap in this regard, and given the nature of the proposed amendments, the Board had decided to expose these proposals in ED 334 together with its other proposed amendments to the *Conceptual Framework*.
- 8 The staff analysis set out in Agenda Paper 3.1 includes consideration of the feedback received about the proposed increased population of NFP entities required to prepare GPFS. Hence, as noted in paragraph 18 of that paper, the staff's recommendation in Agenda Paper 3.1 whether the Board should begin redeliberations on ED 334, in effect, addresses this element of NFP FRF project.

Structure of the paper

- 9 This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraphs 10 – 11);
 - (b) Summary of stakeholder feedback and staff analysis for SMC 1 and SMC 5 – 8 (paragraphs 12 – 27);
 - (c) Summary of stakeholder feedback and staff analysis for GMCs 41 – 44 (paragraphs 28 – 42); and
 - (d) Staff recommendations (paragraphs 43 – 47).

2 Attendees at the outreach sessions were not asked questions about any of SMCs 1 – 8 or any GMCs.

3 The Board will need to consider some of the feedback from SMCs 2-6 as they relate to specific proposals in the Tier 3 Standard. GMCs 41 – 44 will feed into the consideration of the cost/benefit assessment, which staff will address as part of the policy impact analysis once the Board has redeliberated the Tier 3 requirements

Summary of staff recommendations

- 10 Staff recommend that the Board continue its NFP FRF project by developing a Tier 3 Accounting Standard with simplified recognition, measurement and disclosure requirements for smaller NFP private sector entities, and commence redeliberations of the proposals in ED 335
- 11 Staff also recommend that the Board:
 - (a) continue to develop a final Standard using the principles on which [draft] *AASB 10XX General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* was based, as described in paragraph BC8 on ED 335; and
 - (b) updates the *AASB Not-for-Profit Entity Standard-Setting Framework* prior to the finalisation of the NFP FRF project.

Summary of stakeholder feedback and staff analysis for SMC 1 and SMC 5- 8

12 SMC 1 of ED 335 asked stakeholders:

“Do you agree with the principles on which [draft] AASB 10XX General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities is based, described in paragraph BC8 to this ED? If you disagree, please explain why.”

- 13 As per Agenda Paper 4.3 at this meeting, of the 18 comment letters that responded directly to ED 335 and 12 survey responses received, 15 and 12 respondents, respectively, provided a response on SMC 1. The following table provides an overview of the responses received on SMC 1:

Table 1 Overview of SMC 1 responses

	Agree	Agree with exception	Disagree	N/A
Out of 15 comment letters that commented on SMC 1	6 (40%)	4 (27%)	5 (33%)	-
Out of 12 survey responses that commented on SMC 1	11 (91%)	-	-	1 (9%)

- 14 Staff consider that most stakeholders agreed, or agreed with exceptions, with the principles on which the draft Tier 3 Standard was developed and only a few stakeholders disagreed. Survey respondents who agreed did not provide any further comments. Table 2 presents the comments from written submissions that agreed with exception on SMC 1, reproduced from Agenda Paper 4.3 at this meeting, with staff analysis of the comments.

Table 2 SMC 1: Further stakeholder comments from those that agreed with exceptions and staff analysis

Further comments from those that agreed with exceptions	Staff analysis
Tier 3 should contain its own summarised Conceptual Framework so that management does not have to consider a comprehensive Conceptual Framework. The <i>AASB Not-for-Profit Entity Standard-Setting Framework</i> will need to be amended to accommodate Tier 3 as it only references Tier 1 and	The Board has previously considered similar feedback on its Discussion Paper about whether to include a summarised Conceptual Framework within a Tier 3 Standard. However, the Board decided against including an abbreviated Conceptual Framework because it would add unnecessary length to the Standard when the majority of entities will not refer to the Conceptual Framework’s requirements and because the Conceptual Framework does not override the requirements of a Standard. For these and other reasons presented in Agenda Paper 3.1 at the 13-14 September 2023 Board meeting, the Board decided that a single Conceptual

Further comments from those that agreed with exceptions	Staff analysis
Tier 2 and the possible departure of Tier 3 from sector neutrality.	<p>Framework should apply to NFP entities reporting under any tier of AAS (see minutes of the 13-14 Sept 2023 Board meeting).</p> <p>GMC 41 specifically sought stakeholder feedback on whether the AASB has applied the <i>AASB Not-for-Profit Entity Standard-Setting Framework</i>. As such, the staff analysis about the need to update the <i>AASB Not-for-Profit Entity Standard-Setting Framework</i> is addressed as part of the discussion of GMC 41 in paragraphs 28 – 33.</p>
<p>AASB should specify an interim annual threshold of \$5M until the necessary legislative reforms are completed to provide clarity to NFP entities transitioning from special purpose financial statements (SPFS) to GPFS. AASB should work with regulators to determine the appropriate Tier 3 thresholds (and whether a higher threshold than the ACNC ‘medium’ charity thresholds can be applied) or, alternatively, include a reference point for the size range of Tier 3 entities that the Standard was developed for within the scope paragraph without the need for readers to source that information from the Basis for Conclusions.</p>	<p>The Board previously considered similar feedback received on its Discussion Paper where a few stakeholders advocated some interim thresholds to be included in the transitional provisions to specify which entities can prepare Tier 3 GPFS. The Board had also considered other approaches when developing the ED as outlined in Agenda Paper 3.4 at its 6-7 June 2024 Board meeting on whether it should develop some guidance such as quantitative and qualitative factors to act as ‘soft boundaries’ to support NFP entities when considering whether the Tier 3 Standard would be appropriate for them, in case the legislation and other requirements would permit but not require them to adopt Tier 3 Standard. However, the Board rejected providing guidance because the Board considered it may add another layer of complexity and confusion that smaller NFP entities may have to consider with legislative and regulatory requirements. It may also extend the time to consult on the factors. Ultimately, the Board decided to reiterate its views that, as a standard setter, its role is not to, nor does it have the ability or legislative power to, develop financial reporting thresholds in AAS as per para. BC7 (see meeting minutes of 6 – 7 June 2024 Board meeting).⁴</p> <p>GMC 42 specifically sought stakeholder feedback on whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals. The staff analysis of the need to engage with regulators will be addressed in the discussion of GMC 42 in paragraphs 34 – 36.</p>
<p>Not requiring consolidation requirements does not meet the information gap and is, therefore, inconsistent with the principles for general-purpose financial statements.</p>	<p>The Board previously considered similar feedback received on its Discussion Paper where a few stakeholders considered not requiring entities to prepare consolidated financial statements undermines usefulness and comparability between similar NFP entity groups. However, the Board decided to confirm its decision to allow an accounting policy choice regarding whether to present consolidated financial statements when developing its ED proposal based on, amongst other reasons presented in Agenda Paper 5.2 at its November 2023 Board meeting, that the overarching principle of</p>

4 As per Agenda Paper 4.3, two stakeholders opposed the view that the Board does not have the ability to set financial reporting thresholds in AAS. They considered that clause 8 of the *AASB Not-for-Profit Standard-Setting Framework* states that AASB establishes the type and nature of financial statements to be prepared by entities required in accordance with AAS gives the AASB the power to implement the Tier 3 Standard via an application clause.

Further comments from those that agreed with exceptions	Staff analysis
	cost/benefit considerations and exceptions to consolidation requirements already existing in AAS (i.e. for investment entities). The exceptions show that the information needs of users about investments in subsidiaries can be met in a way other than consolidation, and that achieves a better balance of costs and benefits. As such, staff continues to think that the Board's decision aligns with the Tier 3 principles that consistency with accounting principles specified by Tier 2: Australian Accounting Standards – Simplified Disclosures is desirable, but might not always be warranted, since Tier 3 requirements are being developed as a proportionate response to the costs incurred by certain entities while still meeting the needs of users of the financial statements for this cohort of entities.

- 15 Table 3 presents the comments from those that disagreed on SMC 1, reproduced from Agenda Paper 4.3 at this meeting, with staff analysis of the comments.

Table 3 SMC 1: Further stakeholder comments from those who disagreed and staff analysis

Further comments from those that disagreed	Staff analysis
The Tier 3 Standard is only applicable to NFP private sector entities, which is inconsistent with the transaction-neutral policy because ED 334 extends the new conceptual framework to NFP public sector entities and, in turn, is inconsistent with the NFP public sector framework project (which is being conducted in a different phase). The for-profit private sector would also benefit from a simplified measurement framework.	As per para. BC6 on ED 335, the premise of the Board for developing a further reporting tier (set of accounting requirements) for use by NFP private sector entities was based on feedback on ITC 39 <i>Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems</i> (May 2018), recognising that there will be a large population of smaller NFP entities required to prepare GPFS, compared to for-profit private sector entities, because relevant legislation often sets a lower threshold for requiring NFP private sector entities to prepare financial statements that comply with requirements specified by AAS. As per the AASB work program , the NFP public sector financial reporting framework project will be considered as part of a separate project. As such, staff considered the stakeholder may not necessarily disagree with the principles for developing the Tier 3 requirements, but rather, disagree about the entities that may access the Tier 3 Standard. Staff will conduct further analysis and bring recommendations to the Board on the scope of the entities impacted by ED 334's proposals and the applicability of the Tier 3 Standard at a future meeting.
The principles have not been applied appropriately because entities are required to apply Tier 1/Tier 2 requirements, and investment property should not be included in a Tier 3 Standard.	As per para. BC23 on ED 335, the Board developed its proposals in the ED not to address accounting topics that are uncommon for Tier 3 entities or complex transactions warranting application of requirements specified by existing AAS. This decision was informed by Research Report No. 19 Common Financial Statement Items: Charities with \$0.5–\$3 million in revenue . In addition, the Board redeliberated and decided to continue to address investment property in the Tier 3 Standard at its September 2023 Board meeting (see minutes). As such, staff considered the stakeholder may not

Further comments from those that disagreed	Staff analysis
	necessarily disagree with the principles for developing the Tier 3 requirements, but rather the specific Tier 3 reporting requirements. Staff will bring further analysis and recommendations to the Board on Section 1 (SMC 9) and Section 14 (SMC 22) at a future Board meeting.
The definition of 'smaller NFP private sector entities' is unclear due to varying use of the term 'small' by different regulators with different thresholds. The Board should develop Tier 4 reporting requirements that could address the needs of a significantly large cohort of very small NFP entities as the complexities of Tier 3 requirements might deter voluntary audits or lead to modified audit opinions if Tier 3 requirements were not implemented by entities that have no legislative requirement to prepare financial statements in accordance with AAS.	As per the staff analysis in Table 2 and para. BC7 on ED 335, the Board decided to reiterate its views that, as a standard setter, its role is not to, nor does it have the ability or legislative power to, develop financial reporting thresholds in AAS. Staff are actively engaging with relevant regulators about the Board's proposals and regulators have indicated the desire to work with the AASB to review any guidance and support the delivery of effective guidance to help entities understand the Tier 3 Standard, noting the proposed three-year lead time should be used to strengthen financial literacy and capability with the NFP sector. Additionally, the Board decided not to develop a fourth reporting tier of accounting for NFP private sector entities based on overall support from stakeholders not to develop a fourth tier as noted in para. BC16(b) on ED 335. As such, staff considered the stakeholders may not necessarily disagree with the principles for developing the Tier 3 requirements, but rather the entities that may be scoped into the proposal to prepare GPFS. Staff will conduct further analysis and bring recommendations to the Board on the scope of the entities impacted by ED 334 proposals at a future meeting. ⁵
The proposals provide different recognition and measurement requirements for Tier 3 entities, representing a break from the AASB's previous approach to the Australian financial reporting framework to apply the same recognition and measurement for all entities regardless of size. They suggest the AASB should introduce a revised Tier 3 with further reduced disclosures but no separate recognition and measurement requirements.	The Board's proposals, which provide simplified recognition and measurement requirements for smaller NFP private sector entities, were developed based on extensive consultation and feedback on its Discussion Paper and now ED proposals. Given the majority support from stakeholders, staff think the Board should proceed with applying the principles in ED 335 rather than considering a different approach as per this stakeholder's suggestions.

5 ED 334 exposed the Board's proposals to supersede the Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* when the *Conceptual Framework* applies and the amendments to AASB 1057 *Application of Australian Accounting Standards* to extend the applicability of AAS to these NFP private and public sector entities. As presented in Agenda Paper 3.1 at this meeting, staff will bring the analysis of the scoping of the Conceptual Framework and the proposed amendments to AASB 1057 to extend the population of NFP entities to which AAS apply at a future meeting (expected July 2025).

- 16 Based on the staff analysis in Table 2 and Table 3 and that most stakeholders agreed with the Tier 3 development principles, staff think that the concerns raised by stakeholders in response to SMC 1 are not sufficient reason to cause the Board to cease its NFP FRF project or finalising proposals based on ED 335. Further, if the Board decides to continue its project, staff recommend the Board continues to develop its final Tier 3 requirements by reference to the principles on which the [draft] AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* was based, described in paragraph BC8 on ED 335.

17 **SMC 5 of ED 335 asked stakeholders:**

“Have you identified any unintended consequences that might arise from the proposals? If yes, please explain what they are and how they can be mitigated?”

- 18 As per Agenda Paper 4.3 at this meeting, of the 18 comment letters that responded directly to ED 335 and 12 survey responses received, 12 and 12 respondents, respectively, provided a response on SMC 5. The following table provides an overview of the responses received on SMC 5:

Table 4 Overview of SMC 5 responses

	Yes	No
Out of 12 comment letters that commented on SMC 7	8 (67%)	4 (33%)
Out of 12 survey responses that commented on SMC 7	2 (17%)	10 (83%)

- 19 Most survey respondents have not identified any unintended consequences, and for those survey respondents that commented, they considered smaller entities with turnover of \$250,000 or less but have audit requirements would be most affected as they currently only prepare financial statements to meet their member's needs. However, they consider adequate guidance and government-funded training would help small organizations understand the new reporting requirements.
- 20 Many written submitters consisting of accounting professional bodies, professional services firms, regulators, and preparers, identified various unintended consequences relating to the specific Tier 3 requirements. Staff think these matters can be redeliberated by the Board as part of the proposal finalisation process, rather than being of such significance or pervasiveness that the project should not continue or final requirements not be based on the ED 335 proposals. Table 5 presents the stakeholder's comments on SMC 5, summarised from Agenda Paper 4.3 at this meeting, with staff analysis of the comments.

Table 5 SMC 5: Further stakeholder comments on unintended consequences and staff analysis

Stakeholders identified unintended consequences	Staff analysis
Two survey respondents who were preparers considered the proposals may impact smaller or micro NFP entities that are less resourced.	These stakeholders appear to be commenting on the appropriateness of requiring relatively small entities to prepare GPFS, when an entity is directed to prepare financial statements that are in accordance with AAS. As noted in Agenda Paper 3.1, staff think this matter can be redeliberated by the Board as part of the proposal finalisation process rather than being of such significance as to cause the Board to not continue with finalising a Standard that is based on ED 334, as this would otherwise stall the financial reporting reform for other NFP entities. Staff also note that some smaller entities consider sufficient education and guidance would

Stakeholders identified unintended consequences	Staff analysis
	help small organisations understand the new reporting requirements.
<p>A few stakeholders expressed concerns relating to specific Tier 3 requirements, particularly:</p> <ul style="list-style-type: none"> the differences in revenue recognition models between the Tier 2 and Tier 3 requirements may increase complexity in ACNC size assessments. inconsistency between ACNC requirements and the proposed key management personnel (KMP) disclosures may increase complexity and risk that relevant entities do not meet all their reporting requirements; and as drafted, paragraph 1.2 of ED 335 (scope of the entities that can apply Tier 3) may restrict entities from applying the draft Tier 3 Standard and force those entities to apply Tier 2 requirements; and not mandating prior period financial statements to be restated for the correction of known errors may lead to unintended consequences. 	<p>As noted in the Discussion Paper and also from feedback on its proposals to the Discussion Paper, the Board is aware any proposed changes to revenue and other income accounting may impact the determination of the size thresholds for financial reporting requirements and may impact whether an entity qualifies for a particular financial reporting tier. Staff and other stakeholders (including staff of a regulator) think this is a regulatory matter, and note it would especially impact entities transitioning between tiers. In relation to possible fluctuations in revenue, as noted in Agenda Paper 3.1.1 at the May 2024 meeting, there are already some regulators/legislation mechanisms to allow an entity to prepare specific financial statements (e.g. ORIC allows certain entities to submit financial reports based on reports to government funders) or remain a specific entity size, if an entity would move to another tier or size due to an unusual event. Staff will continue to work with relevant legislative authorities and regulatory bodies on the interactions of the legislative requirements and the Board's proposals.</p> <p>Staff consider comments relating to KMP disclosures, the scope paragraph and correction of prior period accounting errors can be redeliberated by the Board as part of the proposal finalisation process rather than being of such significance as to cause the Board to not continue with its NFP FRF project or finalising a Standard that is based on ED 335.</p>
<p>A regulator considered the simplified recognition and measurement requirements could reduce comparability.⁶ Another stakeholder also considered the objective of the Standard has not been met given</p>	<p>While restricting accounting policy choices is a way to simplify requirements, staff note that the Board decided to include accounting policy choices as an alternative way of simplifying the existing recognition and measurement accounting requirements, even though some comparability may be lost. The feedback received suggests that many stakeholders consider that the draft Tier 3 Standard meets the Board's objectives for it, and support (with some exceptions) the ED 335 proposals regarding accounting policy choices. Consequently, staff think that these stakeholder concerns</p>

6 While this regulator noted their concerns, they also consider the proposal strikes a balance between reducing compliance burdens and preserving the integrity and usefulness of financial reporting. They suggested some mitigation initiatives, which could be include transitional support and education to preparers, auditors and users to improve understanding of the new framework and a post-implementation review to assess whether the simplified Standard is achieving its objectives without causing excessive comparability issues

Stakeholders identified unintended consequences	Staff analysis
the Standard contains too many accounting policy choices. ⁷	can be considered during the Board's redeliberations of specific sections of ED 335, rather than being of such significance as to cause the Board to not continue with finalising a Standard based on ED 335.
Some stakeholders noted that the absence of clear eligibility criteria for Tier 3 raises concerns and risks that larger charities may adopt the Tier 3 framework even if it is designed for smaller charities. They consider a lack of clear criteria may confuse NFP entities, such as those transitioning from SPFS, who may be unclear about which Tier of GPFS to adopt and this might further exacerbate the inconsistencies in reporting requirements that are already subject to varying federal, state and territory legislation.	As noted in Agenda Paper 3.1 for this meeting, whilst self-assessment judgement might continue to be required at least until there is more clarity on the accessibility of Tier 3-compliant GPFS, staff think that even if all NFP entities currently preparing SPFS 'step up' to apply Tier 3 reporting requirements at a minimum, this will still be an improvement overall in the quality of financial reporting by the sector through improved consistency in reporting and comparability between entities. Additionally, while some entities currently preparing Tier 2-compliant GPFS might take the opportunity to 'step down' to prepare simpler financial statements in the absence of a requirement preventing the entity from doing so, staff note that entities may have reasons not to do so, including the signal such action may send to potential funders and donors. Consequently, staff think that the risk and number of entities that might behave in this manner is likely to be small when compared to the NFP entities for which the quality of financial reporting is otherwise expected to improve. Additionally, as noted by some stakeholders, sufficient education and guidance would help small organisations understand the new reporting requirements. Staff will continue to work with relevant legislative authorities and regulatory bodies to promote consistent eligibility for applying the Tier 3 requirement. Therefore, staff think that this matter should not impede continuation of the Board's current project.

SMC 6 of ED 335 asked stakeholders:

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

- 21 As per Agenda Paper 4.3 at this meeting, of the 18 comment letters that responded directly to ED 335 and 12 survey responses received, 9 and 12 respondents, respectively, provided a response on SMC 6. The following table provides an overview of the responses received on SMC 6:

Table 6 Overview of SMC 6 responses

	Yes	No	Unsure
Out of 9 comment letters that commented on SMC 7	5 (56%)	4 (44%)	-
Out of 12 survey responses that commented on SMC 7	3 (25%)	8 (67%)	1 (

⁷ As presented in Agenda Paper 4.3, another stakeholder also commented to SMC 2 that the draft Standard contains too many choices in relation to specific sections of the Standard. Staff will provide analysis and recommendations relating to specific proposals in the Tier 3 Standard at future meetings.

- 22 Most survey respondents do not consider the proposals to create any auditing or assurance challenges and only a few respondents identified audit or assurance challenges. Many written submitters consisting of accounting professional bodies, professional services firms, regulators, and preparers, identified audit and assurance challenges. Staff consider that the Board will need to deliberate specific sections of the Tier 3 requirements, which may resolve some of the stakeholders' concerns. Table 7 presents the stakeholder's comments on SMC 6, summarised from Agenda Paper 4.3 at this meeting, with staff analysis of the comments.

Table 7 SMC 6: Further stakeholder comments on audit or assurance challenges and staff analysis

Further comments from those who disagreed	Staff analysis
<p>Survey respondents that commented considered that NFP entities complying with the new requirements may incur additional audit costs. Any increase in audit or administration expenses would deplete the resources needed to achieve the NFP entity's objectives. Different requirements would make it harder for an entity to adjust when changing from one tier to another.</p> <p>A few professional services firms expressed similar sentiments that the introduction of a new accounting basis will require assurance providers to have an adequate understanding and invest resources into providing training to individuals supporting NFP entities. Auditors may find different frameworks confusing, especially if their audit clients fall into all three tiers.</p>	<p>Staff acknowledge that besides any additional ongoing costs, there would be transition costs in the first year for an entity to adopt the new requirements. While any increased cost overall will divert some resources from delivering on the NFP entity's service objectives, staff observe that more entities than not considered the ED 335 proposals to result in useful financial statements and to be in the best interests of the Australian economy. Additionally, those NFP regulators that commented supported the development of a Tier 3 Standard with simplified requirements for smaller entities.</p> <p>In the absence of evidence about additional audit costs being so substantive as to impair the NFP entity operating as intended, staff think that any additional audit costs and complexity to auditors arising from the proposed introduction of a further reporting Tier are not sufficient reason to cause the Board to cease its NFP FRF project or finalise a Standard based on ED 335. Staff consider that the need to educate and provide support to entities to implement the proposals is not a sufficient reason for the Board not to continue its project.</p>
<p>Many stakeholders expressed a concern that a material error in the comparative financial statements would make it challenging for directors and auditors to state that those financial statements are true and fair.</p>	<p>The Board had already previously considered similar feedback exposed in its Discussion paper, the same ED proposal to allow a modified retrospective approach to correcting prior period accounting errors. As noted in BC 60 of ED 335, amongst other reasons, the Board considered an auditor would provide assurance against the information presented in accordance with the applicable financial reporting framework, and where such a framework permits the financial statements to be prepared in accordance with this Standard, it includes the simplification of not requiring comparative information to be restated for corrections of prior period errors. The Board also noted that similar audit considerations arose upon the removal of SPFS for certain for-profit private sector entities, where the Board, through the issue of <i>AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-</i></p>

Further comments from those who disagreed	Staff analysis
	<p><i>Profit Private Sector Entities</i>, allowed entities that prepared SPFS not to restate comparative information when adopting Tier 2 requirements early.</p> <p>Therefore, staff think that the stakeholder concerns can be considered during the Board's redeliberations of specific sections of ED 335, rather than being of such significance as to cause the Board to not continue with finalising a Standard based on ED 335.</p>
<p>A stakeholder noted that some ACNC group provisions allow group reporting not based on control, which may need to be considered as part of the legislative implications of the removal of SPFS.</p>	<p>Staff are of the view that inconsistency between AASB 10 <i>Consolidated Financial Statements</i> and the ACNC's group reporting provisions is primarily a regulatory issue rather than an issue with the Standard. Staff note that when developing Appendix E to AASB 10, the Board was aware of the ACNC's collective and joint reporting provisions. In developing ED 335, the Board also acknowledged that different regulators might impose financial reporting requirements (also as noted in Table 5) that differ from AAS for their own purposes in limited circumstances and that it would not be appropriate for the Board's requirements for GPFS to reflect those limited circumstances.</p> <p>Therefore, staff think that this matter should not impede continuation of the Board's current project, as the Tier 3 Standard is based on Tier 2 accounting requirements, including control as the basis for any consolidation or grouping of entities.</p>
<p>A stakeholder considered that without clear authoritative guidance, the proposals may lead to the risk of a larger NFP entity applying the Tier 3 Standard when that may not be appropriate for users of their financial statements, which in turn may place auditors in a difficult position to advocate for users' interest without authoritative support. They also noted that more guidance is needed on applying materiality in the NFP sector, as existing guidance often focuses on investor decision-making and should be interpreted differently in this context. Additionally, the introduction of new terminologies, such as "common understanding," may pose assurance challenges, necessitating further guidance to ensure consistent interpretation and application of the requirements</p>	<p>Staff acknowledge the stakeholder concern that the proposals may pose possible issues for auditors in instances where an auditor and client disagree that Tier 3 GPFS should be prepared, rather than GPFS of a different reporting Tier. However, staff think this is not so different to other issues on which auditors and their clients might currently disagree on: for example, regarding an entity's reporting entity status. Consequently, staff think that this stakeholder concern is not so substantive that the Board project should not continue or a Standard finalised.</p> <p>Further, staff consider that the need to educate and provide support to entities to implement the proposals is not a sufficient reason for the Board not to continue its project. Staff will consider developing additional guidance, including a review of the Glossary of Terms to clarify new terminologies. Staff also think the Board, during redeliberation of the glossary, evaluate whether established Tier 2 terms should be retained or incorporated into the Tier 3 Standard, particularly given practitioners will be familiar with these terms, may resolve some assurance challenges.</p>

23 **SMC 7 of ED 335 asked stakeholders:**

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

- 24 As per Agenda Paper 4.3 at this meeting, of the 18 comment letters that responded directly to ED 335 and 12 survey responses received, 14 and 12 respondents, respectively, provided a response on SMC 7. The following table provides an overview of the responses received on SMC 7:

Table 8 Overview of SMC 7 responses

	Agree	Agree with exception	Disagree	N/A
Out of 14 comment letters that commented on SMC 7	11 (79%)	-	3 (21%)	-
Out of 12 survey responses that commented on SMC 7	9 (75%)	-	3 (25%)	-

- 25 Most stakeholders, consisting of accounting professional bodies, professional services firms, regulators, and other stakeholders, considered the proposals overall would result in financial statements that are useful to users, with some smaller entities commenting that the proposals increase transparency, and reflect a proportional and practical approach. They also noted that, while there are more accounting policy choices in Tier 3 compared with Tier 2 requirements, nevertheless those choices are in areas not often entered into by entities of the size envisaged to apply the Tier 3 Standard. Only a few stakeholders disagreed that the proposals would result overall in financial statements that are useful to users. Table 9 presents the comments from those that disagreed on SMC 7, reproduced from Agenda Paper 4.3 at this meeting, with staff analysis of the comments.

Table 9 SMC 7: Further stakeholder comments from those who disagreed and staff analysis

Further comments from those who disagreed	Staff analysis
A few stakeholders commented that the proposals are onerous and unnecessary and will give rise to costs far exceeding the related benefits. One stakeholder also considered that financial report users are primarily concerned with its general financial viability and that complex accounting standards add minimal value to users' understanding.	Staff disagree with the stakeholders' concerns because most stakeholders responding to ED 335 consider that the Board's proposals will result in more transparent, comparable financial information for users. Staff also note that these stakeholders appear to be commenting on the appropriateness of requiring relatively small entities to prepare GPFS, when an entity is directed to prepare financial statements that are in accordance with AAS. As noted in Agenda Paper 3.1, staff think this matter can be redeliberated by the Board as part of the proposal finalisation process. Given that few stakeholders are of the view that the proposed Tier 3 requirements are meaningless and unnecessarily complicated, staff think that the stakeholder concern is not of sufficient weight to not continue its project.
A stakeholder commented that there is major concern regarding the lack of consolidation/equity accounting, and non-restatement of prior period errors would not result in financial statements that are useful to users. However, for entities without subsidiaries, associates, joint ventures, or	As per the staff analysis in Table 2 and Table 5, staff consider the stakeholder's comments can be redeliberated by the Board as part of the proposal finalisation process rather than being of such significance as to cause the Board to not continue with its NFP FRF project or finalising a Standard that is based on ED 335.

Further comments from those who disagreed	Staff analysis
prior period errors, the proposals will result in useful information for users.	

26 SMC 8 of ED 35 asked stakeholders:

“Do you have any other comments on the proposals? If so, please explain the issue and if you disagree with a particular proposal, please explain your reasons why.”

- 27 12 written submissions included further comments on some or all of the specific proposals. Subject to the Board agreeing with the staff recommendation to proceed with the NFP FRF project at this meeting, staff will conduct further analysis and bring recommendations on specific proposals in ED 335 for the Board to consider at a future meeting. Some stakeholders, including those that did not respond to specific comments about the Tier 3 proposals provided further comments as presented in Table 10, reproduced from Agenda Paper 4.3 at this meeting, with staff analysis of the comments.

Table 10 SMC 8: Further stakeholder comments and staff analysis

Further comments	Staff analysis
One professional firm advocated reviewing the whole NFP reporting framework, noting the upcoming issue of the international non-profit accounting guidance (INPAG) and asked whether any consequential amendments are required for Tier 1 and Tier 2 requirements.	The Board had regard to the draft INPAG when developing ED 335. Staff think that any further issues arising from the finalised INPAG (once issued) can be addressed in future reviews of the Conceptual Framework and the Tier 3 Standard, to the extent a post-implementation review of the proposed Tier 3 requirements suggests that it is necessary to do so. ⁸
A stakeholder recommended simplifying the Tier 3 GPFS and providing administrative support to small to medium NFPs to enable them to transition to GPFS without an increase in administration. To reduce the financial burden of this change, the requirement to have an external auditor produce the new Tier 3 GPFS should be removed.	Staff consider that the Board has already introduced significant simplifications in the proposed Tier 3 requirements, which have been largely supported by stakeholders. However, to address the stakeholder’s desire for further simplification of Tier 3 GPFS, staff will continue to explore potential changes to the language and structure of the requirements, presenting these to the Board for consideration during discussions of each section of the Tier 3 requirements. Staff inferred the stakeholder’s comment about the requirement to have an external auditor produce the new Tier 3 GPFS be removed as meaning the removal of the need to have an external auditor audit the Tier 3 GPFS. Although the requirement for an external audit is outside the Board's remit, staff recognise the need to support small NFPs in transitioning to GPFS. In response, staff will consider developing educational materials, such as template financial statements, to support implementation of the Standard.

⁸ As per Agenda Paper 3.2, some stakeholders encourage the Board to seek feedback on the possible development of an NFP-specific conceptual framework as part of its next agenda consultation.

Further comments	Staff analysis
A stakeholder considered it impossible to make a conclusive submission of the EDs without understanding the reporting size that various regulators will adopt. They suggest the AASB reconsiders the ED once the regulators make relevant changes to specify which entities could apply Tier 3 GPFS so stakeholders can respond more effectively to the impact of the changes. Other stakeholders also encouraged AASB to work with the government on the intended application of the Tier 3 Standard to enable the sector to respond more effectively to the likely impact of the proposals.	<p>As noted in Table 5, while stakeholders have expressed concerns about providing feedback without knowing specific regulatory thresholds, there are several reasons why the AASB can proceed with finalising its NFP FRF project, including the content of a Tier 3 Standard:</p> <ul style="list-style-type: none"> • many stakeholders have already provided valuable feedback despite the lack of finalising legislation; • the Board developed its proposals based on \$500k to \$3 million revenues, which provides context to stakeholders for considering the proposals; • proceeding with the development of the framework before regulatory thresholds are set would ensure that the Standard is ready when needed; and • staff are already engaging with, and will continue to engage with, relevant regulators on the appropriateness of the proposals in the context of the legislative requirements.
Another stakeholder considered the AASB has not conducted a full assessment of the transition costs from SPFS to GPFS and ongoing compliance costs. They considered it would be helpful to provide an estimate on the current proposals, especially if it will result in reducing the reporting burden on smaller entities.	<p>As noted in Agenda Paper 4.0 for this meeting, a Policy Impact Analysis (PIA) will need to be prepared with respect to the Board's final proposals. The impact of the Board's proposals to extend the population of general purpose financial report preparers is expected to be ameliorated by its NFP FRF project proposals. Staff also think an assessment of the transition costs cannot be done until the Board has redeliberated and made all significant decisions in its proposals. As reflected in Agenda Paper 4.0, the PIA is expected to be prepared in H1 2026.</p>

Summary of stakeholder feedback and staff analysis for GMC 41 to GMC 44

28 GMC 41 of ED 335 asked stakeholders:

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

29 Stakeholders generally agreed that the AASB has applied the *AASB Not-for-Profit Entity Standard-Setting Framework* in developing the proposals in ED 335. However, some stakeholders noted that the *AASB Not-for-Profit Entity Standard-Setting Framework* will need to be amended to address the following concerns:

- accommodation of the Tier 3 reporting requirements, as that policy document currently only deals with Tier 1/Tier 2 reporting requirements; and
- the arguable departure from transaction neutrality, by limiting use of Tier 3 reporting requirements to a particular sector of entities.

30 In addition, two stakeholders considered that the *AASB Not-for-Profit Entity Standard-Setting Framework* requires the Board to specify the type of GPFS that entities that have to comply with

Australian Accounting Standards must prepare.⁹ These stakeholders consider that this aspect of the *AASB Not-for-Profit Entity Standard-Setting Framework* has not been applied appropriately because of the Board's decision to not place monetary boundaries on use of a Tier 3 Standard.

- 31 Staff think that the stakeholder feedback in paragraphs 29 and 30 do not indicate a need to cease the NFP FRF project or not to finalise requirements that are based on the ED 335 proposals because:
- (a) as per Agenda Paper [3.3](#) at the April 2021 Board meeting, when developing the principles underpinning its proposed Tier 3 requirements, the Board had regard to whether the *AASB Not-for-Profit Entity Standard-Setting Framework* can accommodate Tier 3 modifications. The Board considered that modifications of Tier 1 reporting requirements for Tier 3 are justified on the grounds of the undue costs to the Tier 3 preparers and that the revised requirements will provide information that meets user needs. Regarding the stakeholder observation in paragraph 30 above, staff think that the *AASB Not-for-Profit Entity Standard-Setting Framework* could be read as not necessarily requiring the AASB to specify the particular reporting Tier that an entity must comply with. However, it may indicate a need to further review the wording of the policy document in this regard. As such, staff continues to think that the Board's proposals have been made in accordance with the *AASB Not-for-Profit Entity Standard-Setting Framework*.
 - (b) regarding the stakeholder's comment in paragraph 29, the Board will be considering the public sector financial reporting framework as part of a separate project and the applicability of Tier 3 requirements to be expanded to for-profit private and NFP public sector entities can be considered as part of its next agenda consultation.
- 32 However, staff concur that the *AASB Not-for-Profit Entity Standard-Setting Framework* will need to be updated to acknowledge Tier 3 reporting requirements as per the stakeholder feedback prior to finalising the NFP FRF project. This will ensure clarity about the legitimacy and applicability, given its current absence in the framework.
- 33 Therefore, staff recommend that, prior to finalising its NFP FRF project, the Board develops an updated *AASB Not-for-Profit Entity Standard-Setting Framework* to address any revisions that might be necessary due to the proposed introduction of Tier 3 reporting requirements. If so, staff will bring the possible changes needed for the Board's consideration at a future meeting.
- 34 **GMC 42 of ED 335 asked stakeholders:**
- "Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?"*
- 35 Almost all stakeholders identified the lack of legislation defining which entities can apply Tier 3 as a concern that may affect the implementation of the proposals. All these stakeholders suggested the AASB engages with government bodies to facilitate necessary legislative amendments.
- 36 Staff have been actively engaging with relevant regulators throughout the project and will maintain this engagement as the project advances. Agenda Paper 4.6 for this meeting provides details of the staff interactions with relevant regulators on the Board's proposals. As indicated elsewhere in this paper and in Agenda Paper 3.1, for several reasons, staff think that the present absence of legislation defining which entities can apply Tier 3 reporting requirements is not a sufficient reason for the Board to not continue with its NFP FRF project or delay finalisation a Standard based on ED 335. Further,

9 Clause 8 of the *AASB Not-for-Profit Standard Setting Framework* states under the heading "What role does the AASB play in setting Accounting Standards for NFP entities? that "The AASB establishes the type and nature of financial statements to be prepared by entities required to report in accordance with Australian Accounting Standards."

staff note that many regulators and users currently accept SPFS. This may suggest that, arguably, even Tier 3 GPFS inappropriately applied may provide users of the financial statements with sufficient useful information.

37 GMC 43 of ED 335 asked stakeholders:

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

- 38 All stakeholders who answered GMC 43 generally considered the proposals to be in the best interests of the Australian economy by improving consistency in reporting for certain-sized NFPs, making financial statements easier to read, prepare and compare. Another stakeholder believed Tier 3 financial statements offer users of NFP financial statements a cost-effective general purpose reporting solution for smaller NFP entities but noted the concerns that a lack of certainty as to who can apply the Standard means it will be difficult to achieve the potential benefits of the new Tier 3 Standard because of the uncertainty preparers and users will face, and inappropriate pressure placed on auditors to assist NFPs to determine the applicability of the new Tier 3 Standard. Only one other stakeholder considered the benefits could be maximised by expanding the scope of the Tier 3 Standard to include NFP public sector entities.
- 39 As noted in the staff analysis in Table 3, the public sector financial reporting framework will be considered as part of a separate project. Staff will also be conducting further analysis of the scope of entities impacted by ED 334’s proposals and the applicability of the Tier 3 Standard for the Board’s consideration at a future meeting.

GMC 44 of ED 335 asked stakeholders:

- 40 *“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??”*
- 41 Almost all stakeholders who answered GMC 44 acknowledged both the benefits and challenges of the new Tier 3 Standard. While there may be more accounting policies that could reduce comparability, a stakeholder considers entities to prioritise simpler options, leading to manageable initial costs and reduced ongoing costs. Another stakeholder considered there will be significant cost savings for entities from optional consolidation and other simplification with minor transition costs. One stakeholder considered the proposals to provide a much simpler reporting framework, but they disagreed with the Tier 3 requirements being only available to NFP private sector entities. Only one stakeholder considered the costs outweigh the benefits of the proposals. This stakeholder estimated that the proposals will add an additional \$100,000 for 74 trusts to prepare and audit Tier 3 GPFS.
- 42 Staff acknowledge that while one stakeholder raised concerns about additional audit costs for Tier 3 GPFS, many other stakeholders emphasised that these would primarily represent initial transition expenses rather than recurring costs. Additionally, stakeholders widely noted that the proposed framework’s simplified accounting requirements are expected to deliver benefits outweighing the associated implementation costs.

Staff recommendations

- 43 The objective of the Board’s NFP FRF project is to develop a reporting framework that is simple, proportionate, consistent, transparent and cost effective for all NFP private sector entities in Australia.¹⁰ The Board is meeting this objective by:
- (a) extending the population of NFP private sector entities that are required to prepare general purpose financial statements; and

10 Refer to the [NFP Framework Project Plan](#)

(b) developing a third reporting Tier that is suitable for use by smaller NFP private sector entities.

44 As noted in paragraph 7 above, the Board's proposals to extend the population of NFP private sector entities that are required to prepare GPFS are set out in ED 334, and in Agenda Paper 3.1, staff have analysed whether the feedback to those proposals is so substantive as to suggest the Board should cease developing a Standard that is based on ED 334. The staff recommendation in Agenda Paper 3.1 (refer paragraph 18) was for the Board to continue developing requirements that are based on ED 334.

45 In addition, based on the staff analysis presented in paragraphs 12 – 42, staff construe stakeholders' feedback as broadly supporting the development of a Tier 3 Standard that is based on ED 335 because:

- (a) most stakeholders agreed with the set of principles outlined in paragraph BC8 on which the new Tier 3 Standard is based;
- (b) most stakeholders agree that the Tier 3 financial statements will be useful to users, and generally agree that the benefits of the proposals will outweigh their costs; and
- (c) as noted in paragraph 38, all stakeholders who answered GMC 43 generally considered the proposals to be in the best interests of the Australian economy. The proposals to develop a Tier 3 Standard would improve consistency in reporting for certain-sized NFPs and make financial statements easier to read, prepare, and compare;
- (d) as noted in paragraph 20 and Table 5, while many stakeholders identified various unintended consequences relating to the specific Tier 3 requirements, these concerns can be addressed as part of the Board's redeliberation of ED 335, which may resolve some of the issues raised. Even though an absence of clear eligibility criteria (by means of a monetary threshold) limiting the preparation of Tier 3 GPFS raises a legitimate risk that larger entities may choose to do so even though the Tier 3 framework is designed for smaller entities, staff think that, overall, the risk and number of entities that might behave in this manner is likely to be small when compared to the NFP entities for which the quality of financial reporting is otherwise expected to improve; and
- (e) as noted in paragraph 22 and Table 7, staff think the audit and assurance challenges raised either relate to concerns with particular aspects of the proposals, or other matters that can be addressed by education and/or more guidance.

46 Staff note stakeholders' concerns about the lack of clarity as to whether certain NFP private sector entities will be limited from accessing Tier 3 reporting requirements because of an absence of clearly established thresholds, and which these stakeholders regard as potentially affecting their ability to provide fully informed comments on the implementation of the Board's proposals. However, staff do not consider that these stakeholders necessarily disagree with developing a Tier 3 Standard. The Board's proposed effective date for ED 335 proposals is three years from the issue of the Tier 3 Standard to allow time for NFP regulators and legislators to review and adapt the framework as needed. As noted in paragraph BC135 on ED 335, the Board also noted that it could assess closer to the effective date whether there is a need to provide a further extension to the effective date to accommodate legislative threshold changes. As such, staff consider that the lack of clarity about reporting thresholds is not a compelling reason for the Board to delay the progression of the NFP FRF project.

47 Therefore, having regard to paragraphs 43 – 46 above, staff recommend that the Board continues its NFP FRF project, including developing a Tier 3 Accounting Standard with simplified accounting requirements for smaller NFP private sector entities and commence redeliberations of its proposals

with a view to issuing a final standard. This recommendation aligns with the staff recommendation to continue with its Conceptual Framework: Not-for-Profit Amendments project in Agenda Paper 3.1.

48 As noted in paragraphs 16 and 33, staff also recommend the Board:

- (a) proceed with its principles on which the [draft] AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* was based, described in paragraph BC8 in ED 335; and
- (b) updates the *AASB Not-for-Profit Entity Standard-Setting Framework* prior to the finalisation of the NFP FRF project.

Questions to Board members:

Do Board members agree with the staff recommendation:

- (1) in paragraph 47, that the Board continues its NFP FRF project, including developing a Tier 3 Accounting Standard with simplified accounting requirements for smaller NFP private sector entities and commence redeliberations of its proposals with a view to issuing a final standard?
- (2) in paragraph 48, that the Board:
 - (a) proceed with its principles on which the [draft] AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* was based, described in paragraph BC8 in ED 335; and
 - (b) updates the *AASB Not-for-Profit Entity Standard-Setting Framework* prior to the finalisation of the NFP FRF project?

If not, what do Board members suggest?