



<b>Project:</b>	<b>Conceptual Framework: Not-for-Profit Amendments</b>	<b>Meeting:</b>	M202
<b>Topic:</b>	<b>Proposed amendments to the <i>Conceptual Framework for Financial Reporting</i></b>	<b>Agenda Item:</b>	7.1
		<b>Date:</b>	21 May 2024
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Developing Exposure Draft

## The objective of this paper

- The objective of this staff paper is for the Board to:
  - decide** whether to scope out certain non-financial liabilities of not-for-profit (NFP) entities from paragraphs 6.55 and 6.56 of the *Conceptual Framework*;
  - decide** whether to provide an exemption, for certain NFP entities, from its application proposals regarding the *Conceptual Framework*;
  - decide** whether to develop transitional provisions for NFP entities that will prepare Tier 1 or Tier 2 general purpose financial statements on initial application of the Board proposals regarding the *Conceptual Framework*;<sup>1</sup>
  - review** a working draft of an Exposure Draft (ED); and
  - decide** the next steps of the project.

## Background and reasons for bringing this paper to the Board

- The objective of the Board's Conceptual Framework: NFP Amendments project, as set out in its June 2020 project plan,<sup>2</sup> is to extend application of the *Conceptual Framework* to all NFP entities and improve the consistency, comparability, transparency, and enforceability of financial reports prepared in accordance with Australian Accounting Standards. The *Conceptual Framework* currently applies only to certain for-profit entities; the remaining Australian entities are under the aegis of the *Framework for Preparation and Presentation of Financial Statements*.

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1 The need for, and extent of any, transitional provisions for entities that will prepare Tier 3 general purpose financial statements on initial application of the Board proposals regarding the *Conceptual Framework* is analysed as part of Agenda Item 3 – refer Agenda Paper 3.4. Agenda Item 3 also analyses potential amendments to Australian Accounting Standards as a consequence of the introduction of Tier 3 general purpose financial statements (e.g. a future change from Tier 3 general purpose financial statements to preparing Tier 2 general purpose financial statements, or vice versa).

2 Refer [Agenda Paper 5.1 Conceptual Framework – Not-For-Profit Private and Public Sector Entities Project Plan](#) of the AASB June 2020 meeting, and the related [11 June 2020 AASB meeting minutes](#).

The Board considered that the project should be conducted in two phases, with Phase 2 addressing matters that were likely to take more time to resolve.

- 3 At its 7-8 March 2024 meeting, the Board discussed the focus of its overall project and decided that the primary purpose of its project is to extend the application of the *Conceptual Framework* to all NFP entities. NFP modifications will be limited to those considered necessary to enable the *Conceptual Framework* to be relevant to NFP entities. The Board at its March 2024 meeting confirmed the NFP modifications to be made, excepting consideration of the issue discussed in paragraphs 6 – 15 of this staff paper.
- 4 This staff paper analyses the remaining previously identified potential NFP modification. This paper also analyses application and certain transition matters related to issue of the proposed amendments, and comments on the more significant drafting decisions staff have taken in developing the working draft Exposure Draft. The input of NFP Project Advisory Panel on several of the topics addressed in this staff paper was sought as part of the NFP Project Advisory Panel meeting held 10 May 2024. The feedback received (to the extent the panel members were able to provide it due to limited time available in the meeting) has been noted in the relevant sections of this staff paper.

### Structure of the paper

- 5 This paper is structured as follows:

#### Part A: Remaining issues for Board address

- (a) applicability of paragraphs 6.55 and 6.56 of the *Conceptual Framework* to non-financial liabilities arising in connection with non-financial assets that are held primarily for their service potential (paragraph 6 – 15);
- (b) applicability of a revised *Conceptual Framework* (and implications for SAC 1 *Definition of the Reporting Entity*) (paragraph 16 – 31);
- (c) transitional provisions on initial application of the *Conceptual Framework* (paragraph 32 – 43);

#### Part B: Consideration of the Exposure Draft

- (d) overview of the working draft ED (included as Agenda Paper 7.2) and comments on the more significant drafting decisions staff have taken (paragraphs 44 – 63); and

#### Part C: Next steps

- (e) next steps (paragraph 64).

### **PART A: Remaining issues for Board address**

#### **Applicability of paragraphs 6.55 and 6.56 of the Conceptual Framework to non-financial liabilities arising in connection with non-financial assets that are held primarily for their service potential**

- 6 Agenda Paper 10.1 of the 16-17 September 2020 AASB meeting<sup>3</sup> set out staff's analysis on whether paragraphs 6.55 and 6.56 of the *Conceptual Framework* should apply to the non-financial assets of NFP entities that are held primarily for their service potential, and also to the non-financial liabilities arising in conjunction with those assets. At that time, staff considered

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3 Link to [Agenda Paper 10.1 of the 16-17 September 2020 AASB meeting](#)

paragraph 6.55 to apply equally to non-financial liabilities given the discussion in the surrounding paragraphs.

- 7 At the time, staff recommended that the Board exclude both non-financial assets of NFP entities that are held primarily for their service potential, and non-financial liabilities arising in conjunction with those assets, from those paragraphs of the *Conceptual Framework*. Because the case for excluding non-financial liabilities appeared to be consistent with that for the related non-financial assets of NFP entities that are held primarily for their service potential, staff initially concluded that it was not necessary to specifically analyse these liabilities separately from the related assets. Consequently, staff proposed a 'joint' recommendation. The staff recommendation was made on staff's view that whether these assets and liabilities generate cash flows directly or indirectly has no bearing on the relevance of different measurement bases to these particular assets or liabilities.<sup>4</sup>
- 8 At its September 2020 meeting, the Board decided that paragraphs 6.55 and 6.56 of the *Conceptual Framework* should not apply to the non-financial assets of NFP entities that are held primarily for their service potential on the basis that the relevance of different measurement bases to such assets does not depend on whether they produce cash flows directly or indirectly.<sup>5</sup> The Board deferred a discussion of whether non-financial liabilities that arise in connection with the use of these non-financial assets should be similarly excluded, pending further staff research and analysis.
- 9 Consequently, at this meeting, the Board is asked to form a view on whether paragraphs 6.55 and 6.56 of the *Conceptual Framework* should apply to the non-financial liabilities of NFP entities arising as a result of the NFP entity acquiring non-financial assets that are held primarily for their service potential.

*Relevant extract from the accounting pronouncement*

- 10 Paragraphs 6.54 – 6.57 of the *Conceptual Framework* set out the following guidance [emphasis added]:

*Contribution to future cash flows*

6.54 *As noted in paragraph 1.14, some economic resources produce cash flows directly; in other cases, economic resources are used in combination to produce cash flows indirectly. How economic resources are used, and hence how assets **and liabilities** produce cash flows, depends in part on the nature of the business activities conducted by the entity.*

6.55 *When a business activity of an entity involves the use of several economic resources that produce cash flows indirectly, by being used in combination to produce and market goods or services to customers, historical cost or current cost is likely to provide relevant information about that activity. For example, property, plant and equipment is typically used in combination with an entity's other economic resources. Similarly, inventory typically cannot be sold to a customer, except by making extensive use of the entity's other economic resources (for example, in production and marketing activities).*

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- 4 As part of its September 2020 analysis, staff considered whether paragraph 6.57 of the *Conceptual Framework* set out appropriate guidance for financial assets and financial liabilities of NFP entities, and concluded that it did, including in cases of concessionary loans. This is because such loans, in substance, comprise of two elements: a donation and a claim (which is dependent on direct cash flows). Consequently, no NFP modification has been proposed with regard to paragraph 6.57 of the *Conceptual Framework*.
  - 5 Link to the [Minutes of the 16-17 September 2020 AASB meeting](#). The Board reconfirmed this decision at its 7-8 March 2024 AASB meeting (refer [Minutes of the AASB 7-8 March 2024 meeting](#)).

Paragraphs 6.24–6.31 and 6.40–6.42 explain how measuring such assets at historical cost or current cost can provide relevant information that can be used to derive margins achieved during the period.

- 6.56 For assets **and liabilities** that produce cash flows directly, such as assets that can be sold independently and without a significant economic penalty (for example, without significant business disruption), the measurement basis that provides the most relevant information is likely to be a current value that incorporates current estimates of the amount, timing and uncertainty of the future cash flows.
- 6.57 When a business activity of an entity involves managing financial assets **and financial liabilities** with the objective of collecting contractual cash flows, amortised cost may provide relevant information that can be used to derive the margin between the interest earned on the assets and the interest incurred on the liabilities. However, in assessing whether amortised cost will provide useful information, it is also necessary to consider the characteristics of the financial asset **or financial liability**. Amortised cost is unlikely to provide relevant information about cash flows that depend on factors other than principal and interest.

#### Staff analysis

- 11 On further reflection, staff now think that because a liability is settled independently of any related asset, it is appropriate to delink consideration of the measurement of a related liability from that of the asset even if the asset is consumed in settling that liability. Consequently, even though the Board has decided that these paragraphs should not apply to non-financial assets of NFP entities that are held primarily for their service potential, the Board could decide that paragraphs 6.55 and 6.56 of the *Conceptual Framework* should continue to apply to the related non-financial liabilities.
- 12 Staff note the following:
- (a) paragraph 6.55 of the *Conceptual Framework* is silent on the measurement of liabilities (including non-financial liabilities) that produce cash flows indirectly (if any – see also (b) below). Hence, it may not be appropriate to infer that paragraph 6.55 should be read as applying also to liabilities simply because paragraphs 6.54 and 6.56 explicitly reference liabilities.

Excluding particular non-financial liabilities could imply a particular meaning of paragraphs 6.54 – 6.56 that was neither stated nor possibly intended by the IASB, and would in effect provide an Australian interpretation of an issue not restricted to NFP entities (in contrast with non-financial assets, for which paragraphs 6.54 – 6.56 are explicit and raise an issue that satisfies the Board’s criteria for an NFP modification). For example, non-financial liabilities that generate cash flows indirectly for the entity may not exist in practice. Explicitly excluding these liabilities through an Aus paragraph could be interpreted as the Board definitively concluding that they could exist;

- (b) liabilities arguably always generate ‘separate’ cash outflows i.e. produce cash flows directly. Therefore, if paragraphs 6.55 and 6.56 of the *Conceptual Framework* were intended to equally provide guidance on the selection of a measurement base for non-financial liabilities, not scoping out the related non-financial liabilities ‘does no harm’ because paragraph 6.55 will in practice never apply to non-financial liabilities. That is, the September 2020 potential issue noted by staff – that the paragraph sets out an expectation that certain non-financial liabilities should be measured at historical cost – can be dismissed;

- (c) developing a NFP modification in this regard could be viewed as providing additional clarity to users of the *Conceptual Framework* when considering the measurement of non-financial liabilities arising as a result of non-financial assets not primarily held for their service potential. This is because the Aus paragraph would make it clear that the paragraphs do not provide guidance on liability measurement.

However, the benefits of the additional 'clarity' could be questionable as users of the *Conceptual Framework* will remain left with no guidance on liability measurement. Consequently, some users may consider that the NFP modification implies that:

- (i) current value measurement is not appropriate for non-financial liabilities that generate cash flows directly; and
- (ii) the paragraphs do, in fact, specify measurement guidelines for other non-financial liabilities, including those held by a for-profit entity.

#### *Staff recommendation*

- 13 Having regard to paragraph 12 above, on further reflection, staff now think that it is not necessary to make a NFP modification to the *Conceptual Framework* to exclude non-financial liabilities arising in conjunction with non-financial assets of NFP entities that are held primarily for their service potential from paragraphs 6.55 and 6.56 of the *Conceptual Framework*. That is, staff now recommend that paragraphs 6.55 and 6.56 of the *Conceptual Framework* remain unmodified with respect to the non-financial liabilities of NFP entities arising as a result of the NFP entity acquiring non-financial assets that are held primarily for their service potential. Staff note that NFP Project Advisory Panel members at their 10 May 2024 meeting were not unsupportive of the staff proposal to leave the *Conceptual Framework* unamended in this regard.
- 14 Staff are primarily concerned that making a NFP modification in this regard might inadvertently add to the *Conceptual Framework* such that the AASB (or Australian entities) could potentially reach a different conclusion to the IASB (or non-Australian entities) on the selection of an appropriate measurement base in the future for the liabilities of both for-profit and NFP entities.

#### **Question for Board members:**

- Q1 Do Board members agree with the staff recommendation in paragraph 13 that paragraphs 6.55 and 6.56 of the *Conceptual Framework* should apply, unamended, to the non-financial liabilities arising in conjunction with non-financial assets of NFP entities that are held primarily for their service potential (i.e. a NFP modification to the *Conceptual Framework* is not warranted)?

- 15 Staff note that the proposed new paragraph Aus6.56.1 to the *Conceptual Framework* presented in Agenda Paper 7.2 has been amended from the text viewed by the Board at part of the agenda papers from its 7-8 March 2024 meeting, reflecting the staff recommendation above. (The text of the paragraph has additionally been redrafted to reframe the scope exclusion for certain non-financial assets of NFP entities in a more NFP-oriented manner, rather than as a scope exclusion. More detail about the redrafted paragraph is included in Agenda Paper 7.2.)

## Applicability of a revised *Conceptual Framework* (and implications for SAC 1)<sup>6</sup>

- 16 Certain for-profit private sector entities are exempted from applying the *Conceptual Framework*. This agenda paper seeks a Board decision on whether NFP entities that are required only by their constituting document or another document (e.g. a lending agreement) to prepare financial statements that comply with Australian Accounting Standards should similarly be exempted from its proposals to extend the *Conceptual Framework* to NFP private and public sector entities, provided that the relevant document was created or amended before a specified date. That is, whether a scope exemption that is consistent with the existing scope exemption for for-profit private sector entities should be developed for NFP entities. The scope exemption for for-profit private sector entities is set out in paragraph Aus1.1(b) of the *Conceptual Framework* (see paragraph 19 below).<sup>7</sup>
- 17 This Board decision has implications for whether those NFP entities may continue to prepare special purpose financial statements following finalisation of the Board project.
- 18 Staff have included consideration of this exemption as part of this agenda item rather than Agenda Item 3 as the Board's proposal to reduce the number of NFP entities preparing special purpose financial statements takes effect via amendments to the *Conceptual Framework*.

### *Current requirements and the Board's rationale for its decision regarding for-profit private sector entities*<sup>8</sup>

- 19 Per paragraph Aus1.1 of the *Conceptual Framework*, the pronouncement presently only applies to:
- (a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards;
  - (b) other for-profit private sector entities that 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 1 July 2021; and
  - (c) other for-profit entities (private sector or public sector) that elect to prepare general purpose financial statements.
- 20 Resultantly, for-profit private sector entities that are required only by a constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, and provided that the relevant document was created or last amended before 1 July 2021 and the entity has not otherwise elected to prepare general purpose financial statements, are required to continue to apply the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1. In such cases, and where the entity is not a reporting entity, the entity may have previously determined that the preparation of special purpose financial

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6 This section of the staff paper addresses whether to develop a similar scope exemption to that existing for for-profit private sector entities. Paragraphs 46 – 63 discuss how staff have approached three drafting matters pertaining to application of the *Conceptual Framework*, including whether the scope exemption should be reframed as 'application relief'.

7 The applicability of the *Conceptual Framework* to only certain entities has been presented in this staff paper as a 'scope exemption' as this is consistent with the manner in which the topic had been discussed in the previous Board project (as reflected in the Basis for Conclusions accompanying AASB 2020-2).

8 The Board's thinking in this regard is set out in AASB 2020-2.BC81-92.

statements will satisfy a constituting document requirement to prepare financial statements that comply with Australian Accounting Standards.

- 21 When making its decision to scope out certain for-profit private sector entities from application of the *Conceptual Framework*, the Board had regard to discussions with legal advisors and outreach indicating that the constituting documents of many trusts contain a requirement for them to prepare financial statements in compliance with Australian Accounting Standards. The Board heard that these financial statements are prepared for a specific purpose and a specific user (e.g. beneficiaries) and that many such entities, particularly ‘non-corporate’ trusts, prepare special purpose financial statements. The Board also considered that the compliance documents of partnerships, joint arrangements and self-managed superannuation funds (SMSFs), as well as entities subject to other requirements such as lending agreements, may also contain a requirement for the entity to prepare financial statements in compliance with Australian Accounting Standards. As these entities also have specific users, the Board decided that the issues identified above would be equally relevant to such entities.
- 22 The Board was persuaded that the benefits of general purpose financial reporting in these cases would not exceed the costs of the additional reporting burden to the entity on expectation that the users of the entity’s financial statements were likely to be limited. Paragraph BC85 of *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Entities* observed that:
- (a) as the financial statements are prepared for specific users, those users have the ability to command whatever information they require from the entity;
  - (b) there is no external regulator of financial reporting for trusts; and
  - (c) the financial statements of trusts are not lodged on public record.

The Board also noted that these entities would suffer transitional costs to change constitutional documents to remove the requirement to comply with Australian Accounting Standards (and might incur tax obligations, if not done correctly).

#### *Staff analysis*

- 23 NFP private sector entities also use trusts and other similar structures to conduct their activities. Similarly, some NFP public sector entities may be established under a constituting document such as memorandum of understanding, rather than legislation. Consequently, there are likely to be NFP entities that fall into the category “entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards”.
- 24 The reference numbers used in the Not-for-profit sector Development Blueprint Issues Paper issued in October 2023<sup>9</sup> by the Government’s Blueprint Expert Reference Group are that there are approximately 600,000 NFP (private sector) entities in Australia; of which 225,000 are entities with Australian Business Numbers (ABNs). Also, the AASB Discussion Paper *Improving Financial Reporting for Australian Public Sector* (June 2018) reported that there are 1,337<sup>10</sup>

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9 The Issues Paper is available on <https://engage.dss.gov.au/wp-content/uploads/2023/11/not-for-profit-sector-development-blueprint-issues-paper.pdf>.

10 AASB Discussion Paper *Improving Financial Reporting for Australian Public Sector*, June 2018, page 39. A breakdown by state across local government and Commonwealth departments and state/territory agencies is available in Appendix E to the Discussion Paper, page 38.

public sector entities – staff think that this number is likely to be currently higher.<sup>11</sup> However, staff are not able to obtain good data as to how many entities might fall into the category noted in the paragraph above.<sup>12</sup>

- 25 Staff consider that providing NFP entities with access to the same scope exemption that is available to for-profit private sector entities would be consistent with its principle of transaction neutrality. However, staff note that the Board’s rationale for developing the exemption (see paragraph 22 above) may not be necessarily directly transferrable to the same extent as for NFP entities.
- 26 Staff make the following observations:
- (a) the users of the financial statements of some NFP private and public sector entities could conceivably be a broader set of parties compared to the users of the financial statements of a for-profit private sector entity. For example, the current and potential beneficiaries of a NFP trust could be expected to likely be a larger number than that of a for-profit trust;
  - (b) there are likely to be users of the financial statements of some NFP private and public sector entities that are unable to command whatever information they want from the entity. For example, the primary users of the financial statements of a NFP private sector entity might include potential donors and other funders who may not necessarily be able to obtain more insight into the NFP entity beyond any publicly available information;
  - (c) similar to for-profit private sector entities, the financial statements of a NFP private sector entity may or may not be publicly available. For example, the financial statements of a NFP private sector entity that does not have an ABN (and so, is not a charity subject to ACNC regulation) is unlikely to be publicly available. Similarly, the financial statements of a NFP public sector entity which are prepared only in satisfaction of a constituting or other document requirement to do so, may or may not necessarily be made publicly available;
  - (d) the ACNC operates as an external regulator over trusts and other similar structures where these entities are registered charities. Possibly, these are the NFP private sector entities of more significance as they fundraise;
  - (e) there may not be an external regulator of the financial statements of the NFP public sector entities that fall into the category described in paragraph 23 above. However, these entities – and their financial statements – may be subject to parliamentary or other government oversight; and
  - (f) NFP entities without ABNs are likely to be small or non-operating.
- 27 Staff also note that the Board previously decided that whether or not the prepared financial statements are publicly lodged is not sufficient reason to develop an exemption for those entities that are required by legislation to prepare financial statements that comply with Australian Accounting Standards (refer AASB 2020-2.BC70).

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11 For example, staff note that Victoria Department of Treasury and Finance in their recent [consultation](#) on the reporting framework in Victoria referred to a total of 284 State entities (the AASB Discussion Paper noted there to be 79 entities in 2018). Also, [Appendix F to the Queensland Audit Office Local Government Report 2023](#) lists more than 120 entities preparing financial reports (only 70 local government entities were reported in the AASB Discussion Paper).

12 There are approximately 60,000 Australian Charities and Not-for-profits Commission (ACNC) registered charities. Large and medium charities would not fall into the category noted in paragraph 23.



28 Staff sought the feedback of the NFP Project Advisory Panel on the proposed scope exemption at their 10 May 2024 meeting. Those panel members who commented were supportive of the staff proposal, noting that it makes sense when it is unclear how many NFP entities will be affected by this Board project, provides relief for smaller charities and other entities that are not required by legislation to prepare financial statements that comply Australian Accounting Standards, and as it could help spread the transition impact over time.

*Staff recommendation*

29 On balance, staff recommend exposing a proposal to develop a scope exemption for NFP entities that mirrors the exemption available for for-profit private sector entities. Staff have formed their view on consideration that:

- (a) the scope exemption would not apply to medium and large-sized NFP entities that are registered charities as these entities are required to prepare financial statements that comply with Australian Accounting Standards under the *Australian Charities and Not-for-profits Commission Act 2012*. Staff think these are the more significant fundraising entities for which improving the standard of reporting would be desirable. Similarly, large NFPs other than charities (such as incorporated associations or cooperatives) would generally be required by the respective legislation or regulation to prepare such financial statements.<sup>13</sup>
- (b) while the proposed scope exemption could apply to small registered charities and certain NFP entities without ABNs, staff note that this would not be dissimilar to how the *Conceptual Framework* similarly does not currently apply to economically insignificant entities such as small proprietary limited companies (except where the entity elects to prepare general purpose financial statements). Consequently, staff think that the proposed exemption offers consistency in this regard. Staff also note that without the exemption, the requirement could impose on these NFP entities additional costs that are not outweighed by additional benefits;
- (c) with respect to NFP private sector entities that would meet the proposed conditions for exemption and which do not fundraise, whether or not the constituting document or other document requires the financial statements to be publicly available, and whether there are 'other' primary users of those financial statements, is not relevant to the type of financial statements that the entity should be required to prepare because these parties have no say in the decisions of the entity. Here, and in contrast to those entities that are required by legislation to prepare Australian Accounting Standards-compliant financial statements but which may not be publicly lodged, staff think that these entities could be accountable only to their 'owners', who may have the ability to command whatever information they require from the entity. However, staff also note that it is possible that the 'owner' group of a smaller NFP private sector entity such as an incorporated association or cooperative could be large and unable to command information from the entity; and
- (d) there may not be many primary users of the financial statements of a specified NFP public sector entity that meets the conditions of the proposed scope exemption who are not able to command more information from the entity.

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13 AASB Research Report 10 *Legislative and Regulatory Financial Reporting Requirements*, 3<sup>rd</sup> edition, September 2022.

Having regard to the considerations above, staff think that there is no reason for the Board to depart from its principle of transaction neutrality with respect to scope exemption.

**Question for Board members:**

Q2 Do Board members agree with the staff recommendation in paragraph 29 to develop a scope exemption from the *Conceptual Framework* for NFP private and public sector entities that 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 before a specified date? If not, what do Board members propose?

*A proposed specified date*

- 30 Assuming that Board members agree with the staff recommendation in paragraph 29 above to scope out certain NFP entities from the *Conceptual Framework*, staff recommend that the 'specified date' from which constituting documents should be last amended or created for the exclusion to apply be the effective date of the eventual amending pronouncement. This mirrors the timing given to the scope exclusion applying to for-profit private sector entities. (The mandatory application of AASB 2020-2 is for annual reporting periods beginning on or after 1 July 2021; the limiting date for creation or amendment of the constituting document under the scope exclusion for for-profit private sector entities is 1 July 2021.)
- 31 Staff think that such a date would not disadvantage NFP entities compared to for-profit private sector entities. In fact, it is possible that NFP entities will have a longer lead time to continue to amend their constituting documents, depending on the effective date set by the Board for application of its *Conceptual Framework* amendments and a Tier 3 Standard. The effective date of Tier 3 Standard (and the *Conceptual Framework* amendments is discussed in Agenda Paper 3.4).

**Question for Board members:**

Q3 Do Board members agree with the staff recommendation in paragraph 30 that the 'specified date' from which constituting documents should be last amended or created for the proposed scope exclusion to apply be the effective date of the eventual amending pronouncement? Otherwise, what do Board members suggest?

**Transitional provisions on initial application of the Board's proposal to extend the set of NFP entities that will need to prepare general purpose financial statements**

32 Paragraphs 33 – 43 analyse whether the Board should develop transitional provisions to assist entities preparing general purpose financial statements for the first time as a result of this Board project. Staff's analysis of whether the Board should develop transitional provisions to assist entities preparing Tier 3 general purpose financial statements for the first time, and concerning transitioning between Tier 3 and Tier 2 general purpose financial statements, is addressed in Agenda Paper 3.4. Staff also had regard to the feedback from stakeholders (noted in Agenda Paper 3.4) on the Board's preliminary views expressed in the Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)*, including the need for appropriate transitional provisions for NFP entities moving from special purpose financial statements to general purpose financial statements.

*Current requirements*

33 In accordance with AASB 1053 *Application of Tiers of Australian Accounting Standards*, a NFP entity that currently presents special purpose financial statements and that will prepare

general purpose financial statements if the Board's proposals regarding the *Conceptual Framework* are finalised will, in its first general purpose financial statements, be required to apply:

- (a) if presenting Tier 1 general purpose financial statements – AASB 1 *First-time Adoption of Australian Accounting Standards*; or
  - (b) if presenting Tier 2 general purpose financial statements – all the relevant requirements of AASB 1, or Tier 2 reporting requirements directly using the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 34 As part of its project on revising the Australian Financial Reporting Framework for for-profit private sector entities and developing AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, the Board made available to for-profit private sector entities (including those previously preparing special purpose financial statements) early adoption relief in addition to the transitional provisions stated in AASB 1. The additional relief is in the form of optional short-term exemptions from the requirements of AASB 1060 and is set out in Appendix E of AASB 1053. It provides for-profit private sector entities applying AASB 1060 relief from:
- (a) distinguishing the correction of errors and changes in accounting policy;
  - (b) presenting comparative information not previously disclosed in the notes; and
  - (c) restating comparative information, provided certain conditions are met.<sup>14</sup>
- 35 The relief was given to incentivise for-profit private sector entities transitioning from special purpose financial statements to preparing financial statements that complied with Tier 2:

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14 Paragraphs E3 – E7 of Appendix E of AASB1053 state:

“E3 For periods beginning before 1 July 2022, notwithstanding AASB 1060 paragraph 211 (for entities applying AASB 1 *First-time Adoption of Australian Accounting Standards to the period*) and AASB 1060 paragraph 110 (for entities applying AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* instead of AASB 1), an entity applying paragraph 18A(a) or (b) need not distinguish the correction of errors and changes in accounting policies if the entity becomes aware of errors made in its most recent previous special purpose financial statements.

E4 Notwithstanding AASB 1060 paragraph 20, entities that elect to apply AASB 1060 to periods beginning before 1 July 2021 (ie early application) need not present comparative information in the notes if the entity did not disclose the comparable information in its most recent previous financial statements.

E5 Paragraphs E6–E7 apply to a for-profit private sector entity that elects to apply AASB 1060 to periods beginning before 1 July 2021 (ie early application) and also applies AASB 1 in preparing its first Australian-Accounting-Standards financial statements (Tier 2) for the period.

E6 Notwithstanding AASB 1 paragraph 7, comparative information need not be restated in the entity's first Australian-Accounting-Standards financial statements (Tier 2). Under this approach, references to the 'date of transition to Australian Accounting Standards' in AASB 1 shall mean the beginning of the first Australian-Accounting-Standards reporting period. Consequently, consistent with AASB 1 paragraph 11, the entity shall recognise adjustments arising from any differences between the carrying amounts in its previous special purpose financial statements and its opening carrying amounts based on the retrospective application of Australian Accounting Standards directly in retained earnings (or, if appropriate, another category of equity) at the beginning of the first Australian-Accounting-Standards reporting period.

E7 An entity that elects to not restate comparative information in its first Australian-Accounting-Standards financial statements (Tier 2) in accordance with paragraph E6 need not provide the reconciliations required by AASB 1060 paragraphs 210(b) and (c). The entity shall: ...”

Australian Accounting Standards – Simplified Disclosures sooner.<sup>15</sup> As such, the relief had a very short effective life.

*Staff analysis and recommendation – additional transitional relief for NFP entities preparing special purpose financial statements and that will prepare Tier 1 general purpose financial statements for the first time following implementation of the Board’s proposal*

- 36 AASB 1 sets out exceptions and mandatory and optional exemptions for both for-profit and NFP entities adopting Australian Accounting Standards for the first time. As communicated by paragraph 34 above, there were no further transitional provisions made available to for-profit private sector entities that prepared Tier 1 general purpose financial statements following implementation of AASB 2020-2 (extension of the *Conceptual Framework* to more for-profit private sector entities).
- 37 Staff recommend that similarly, no further transitional provisions should be developed to assist NFP entities that prepare Tier 1 general purpose financial statements for the first time as a consequence of this Board project. In forming the staff view, staff make the following observations:
- (a) staff consider that a significant majority of NFP entities would not need to mandatorily prepare Tier 1 general purpose financial statements when the ability to prepare special purpose financial statements is removed. For example, those NFP entities with public accountability should be preparing Tier 1 general purpose financial statements already. Also, as noted in agenda paper 5.2 of the 24-25 February 2021 AASB meeting, AASB Research Report No. 5 *Financial Reporting Requirements Applicable to Charities* (October 2017) observed that no regulators researched for the purposes of that report required NFP private sector entities to lodge Tier 1 financial statements.<sup>16</sup> Further, as suggested by agenda paper 6.1 of the 7-8 March 2024 meeting, the use of special purpose financial statements in public sector is expected to be limited;<sup>17</sup> and
  - (b) AASB 1 already includes specific additional provisions for NFP entities (regarding information deficiencies and more recently, regarding the treatment of certain leases). When developing AASB 1, the Board did not consider any further specific relief for NFP entities to be necessary. Staff think that it follows therefore, that no further specific relief for NFP entities should be developed now.

**Question for Board members:**

Q4 Do Board members agree with the staff recommendation in paragraph 37 that no further transitional provisions should be developed to assist NFP entities that prepare Tier 1 general purpose financial statements for the first time as a consequence of this Board project?

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15 AASB 2020.BC136 states “... Because the transitional relief from restating comparative information is intended to facilitate a timely transition from [special purpose financial statements] to [general purpose financial statements], the Board decided that an extended effective date would remove the need for transitional relief. However, the Board decided to retain the transitional relief for entities that choose to adopt the requirements of this Standard and AASB 1060 prior to the effective date (ie that choose to early adopt). That Board decided that retaining this option would incentivise a timely transition to GPFs, helping to solve the SPFS problem sooner.”. Similar comment is made in paragraphs BC139 and BC140.

16 See paragraph 8 of [Agenda Paper 5.2 of the 24-25 February 2021 AASB meeting](#)

17 See paragraph 53 of [Agenda Paper 6.1 of the 7-8 March 2024 AASB meeting](#)

*Staff analysis and recommendation – additional transitional relief for NFP entities preparing special purpose financial statements and that will prepare Tier 2 general purpose financial statements for the first time following implementation of the Board’s proposal*

- 38 Staff note that the early adoption relief set out in Appendix E of AASB 1053 was available only to (i) for-profit private sector entities preparing general purpose financial statements for the first time, and (ii) for-profit private sector entities that already presented general purpose financial statements that complied with Tier 1 Australian Accounting Standards or Tier 2 Australian Accounting Standards – Reduced Disclosure Requirements. The Board issued transitional relief for NFP entities that already presented general purpose financial statements that comply with Tier 1 Australian Accounting Standards or which complied with Tier 2 Australian Accounting Standards – Reduced Disclosure Requirements in AASB 2021-1 – that is, the Board has already considered and granted relief for NFP entities that already prepared general purpose financial statements before AASB 1060 became operative (i.e. equivalent to for-profit private sector entities in category (ii) above). Consequently, for the purposes of this Board project, staff have considered only whether transitional provisions should be developed for NFP entities preparing Tier 2 general purpose financial statements for the first time as a consequence of this Board project (i.e. equivalent to for-profit private sector entities in category (i) above).
- 39 Providing NFP entities access to the same transitional provisions that existed for for-profit private sector entities would be consistent with the principle of transaction neutrality. Staff think it is also consistent with fulfilment of the implicit 'promise' in AASB 2021-1 *Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities*. BC8. Paragraph BC8 explained that the Board decided that the optional short-term relief set out in Appendix E of AASB 1053 should only apply to for-profit private sector entities, even though NFP entities already preparing Tier 2 general purpose financial statements would also be required to apply AASB 1060. This was because, given the interaction between the development of AASB 1060 and the Board's for-profit Australian Financial Framework project, many for-profit private sector entities would be required to prepare general purpose financial statements for the first time, and these were the set of entities who the Board wanted to assist at that time.<sup>18</sup> Hence, to be consistent, similar relief should now be made available to NFP entities.
- 40 Staff note that the NFP Project Advisory Panel members at their 10 May 2024 meeting considered that the transitional relief available to for-profit private sector entities should be made available to NFP entities as part of this Board project. Additionally, members reflected that NFP entities that will prepare Tier 1 or Tier 2 general purpose financial statements following completion of this Board project will need as much time to transition as possible (compared to those moving to Tier 3).
- 41 Nevertheless, staff observe the context in which transitional provisions for for-profit private sector entities were made – to encourage the early adoption of AASB 1060, and in

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18 AASB2021-1.BC8 states “However, when finalising the [addition of Appendix E] to AASB 1053, the Board decided not to extend any additional relief to NFP entities, as that could result in the loss of useful, restated comparative information. The Board also noted that it had decided to grant such relief to for-profit private sector entities due to the removal of the ability of such entities to prepare [special purpose financial statements], which does not apply to NFP entities. Transition by NFP entities from [special purpose financial statements] to general purpose financial statements will be considered in more detail by the Board in its deliberations on the Board’s separate NFP Private Sector Financial Reporting Framework project.”

acknowledgement of the short lead time between issue of AASB 2020-2 and the proposed application of the *Conceptual Framework* (and hence, requirement to prepare general purpose financial statements) to a broader set of for-profit private sector entities. Staff further note the Board's acknowledgement in AASB 2020-2.BC136 regarding relief from providing comparative information on first application of AASB 1060 – the Board noted that such relief was not strictly necessary on the Board's decision to delay the effective date of its proposals between the date proposed in the exposure draft and the final pronouncement.

- 42 AASB 1060 is now operative, and the Board could decide to set a longer lead time between the issue and application of any pronouncements resulting from its current NFP projects. Consequently, staff think it is arguable that the circumstances for for-profit private sector entities and NFP entities may be different. Accordingly, there may be a case for the Board not to develop similar transitional relief for NFP entities.
- 43 On balance, staff recommend the Board replicate the limited transitional relief set out in Appendix E of AASB 1053 for NFP private and public sector entities preparing general purpose financial statements for the first time, for the reasons given in paragraph 38 above. The staff view has been reflected in Agenda Paper 7.2 (see proposed Appendix F to AASB 1053).

**Question for Board members:**

- Q5 Do Board members agree with the staff recommendation in paragraph 43 to replicate the limited transitional relief set out in Appendix E of AASB 1053 for NFP private and public sector entities preparing general purpose financial statements for the first time?

**Part B: Consideration of the Exposure Draft**

- 44 A working draft of an exposure draft is included as Agenda Paper 7.2. At this meeting, the Board is asked to review the text of the draft amendments to the various AASB pronouncements, and to raise for discussion any concerns with the proposed wording. Paragraphs 46 – 63 below detail the drafting approach taken by staff in the draft ED for three more significant drafting matters, and explain why an alternative approach that was considered was not adopted. Agenda Paper 7.2 additionally includes comments explaining other drafting decisions that staff have made.
- 45 Editorial comments regarding the wording can be provided to staff before or after the Board meeting. Staff do not intend to discuss editorial comments at the meeting.

**Questions for Board members:**

- Q6 Excepting Drafting Approach Elections 1- 3 (discussed below), do Board members have any substantive concerns about the proposed wording of the draft amendments to the various AASB pronouncements, as set out in Agenda Paper 7.2?
- Q7 Do Board members agree with the proposed title for the Exposure Draft, as set out in Agenda Paper 7.2?

***Drafting Approach Election 1 – retaining the Framework for the Preparation and Presentation of Financial Statements and SAC 1***

- 46 In short, the Board's For-Profit Phase 2: Adopt RCF and Remove SPFS for Certain For-Profit Private Sector Entities project to adopt the *Conceptual Framework* and remove special purpose financial statements for certain for-profit private sector entities:
- (a) introduced entity application paragraphs to the *Conceptual Framework*;

- (b) introduced similar 'signpost' application paragraphs to the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 to make clear which entities the pronouncements apply to (i.e. other than certain for-profit entities);
  - (c) made amendments to the suite of Australian Accounting Standards to acknowledge that there are currently two 'Framework' pronouncements applying, including introducing 'AusCF' paragraphs that explain that the reporting entity concept is superseded for certain for-profit entities.
- 47 The drafting approach adopted in Agenda Paper 7.2 is to follow the style of the existing application paragraphs of the *Conceptual Framework* and other pronouncements.<sup>19</sup> That is, staff have simply 'added on' to the relevant paragraphs to update those paragraphs to extend application of the *Conceptual Framework* pronouncement to NFP entities.
- 48 However, staff note that another way of making amendments to the Australian Accounting Standards to effect the Board's proposals for the project is a drafting approach where the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 are fully superseded, and amendments are made instead to AASB 1057 *Application of Australian Accounting Standards* to provide application relief (i.e. scope out) to the entities benefiting from the 'constituting document or other document' exemption (refer paragraph Aus1.1(b) of the *Conceptual Framework* and paragraphs 16 – 31 of this staff paper). Staff think there could be a case for developing such drafting as it would:
- (a) enable the withdrawal of the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1. Under the present approach, there is no end date for these pronouncements as some for-profit and NFP entities may never amend their constitutions;<sup>20</sup>
  - (b) return Framework pronouncements to generically being applicable to entities preparing general purpose financial statements. Under the present approach, while Australian Accounting Standards and Interpretations do not apply, the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 apply to entities that do not prepare general purpose financial statements. This appears somewhat redundant, as the Framework pronouncements are concerned with general purpose financial statements; and
  - (c) many of the AusCF paragraphs introduced by AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* could be deleted.
- 49 An illustration of how this approach could look is included as an Appendix to this agenda paper.
- 50 Nevertheless, staff have presently adopted the drafting approach of following the style of the existing application paragraphs of the *Conceptual Framework* and other pronouncements made as part of the preceding for-profit entity project for the following reasons:
- (a) while unlikely to result in any practical impact, changing the way the various paragraphs currently appear would appear as amendments to the requirements for for-profit private sector entities. Consequently, to satisfy due process, the outreach activity on the ED

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19 The amendments to Australian Accounting Standards to introduce these application paragraphs were mainly contained in AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* and AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

20 The Board previously considered whether to specify a sunset date for the 'constitution' exemption for certain for-profit entities, and decided not to do so (refer AASB 2020-2.BC91-BC92).

should necessarily include also for-profit private sector entities. This is not ideal as the focus and messaging of the Board's current Australian Conceptual Framework and Australian Financial Reporting Framework projects has, since the beginning, been communicated to be the NFP (private and public) sector;

- (b) staff are primarily concerned that adopting the alternative drafting approach could add to smaller NFP stakeholders becoming disenfranchised from engaging with the projects as the drafting approach could be viewed as making it harder to understand the Australian Conceptual Framework and Australian Financial Reporting Framework project proposals (as it brings for-profit entities into the current proposals). The proposed drafting approach reflected in Agenda Paper 7.2 (draft ED), while overall appearing lengthier, clearly sets out – albeit in the *Conceptual Framework*, rather than AASB 1057 – the principles that apply to NFP entities without significant change to the existing wording applying to for-profit private sector entities. Staff think this may make it easier for NFP stakeholders to understand the Board's proposals at this stage of the project and on any resulting Standards becoming effective. The AASB's project communications are also simpler as they can be kept targeted to NFP entities;
- (c) for-profit stakeholders may be confused as to how a Conceptual Framework: Not-for-Profit Amendments project affects them, and it may become necessary for the Board to invest more resources into raising for-profit stakeholder engagement with the project, for what in substance is a purely mechanical change to the Australian Accounting Standards for them;
- (d) there may be additional costs for the AASB, for example, as part of assessing the quantitative cost-benefit impacts of what is essentially a drafting change for for-profit entities (if determined to be necessary);
- (e) the current approach reflected in the Australian Accounting Standards is an efficient way of dealing with the issues while still retaining the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 in support of the reporting entity concept for those entities for whom it is still relevant;
- (f) the Board has not yet decided to withdraw the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1; and
- (g) this is a matter that could be addressed as part of a future Board project following completion of a project reviewing the public sector financial reporting framework – assuming that the Board's proposals are eventually finalised in a manner for which such drafting is feasible (e.g. Annual Improvements or a separate limited scope project).

**Questions for Board members:**

Q8 With regard to Drafting Approach Election 1, do Board members support the drafting approach taken by staff in Agenda Paper 7.2 (as summarised in paragraph 47)?

***Drafting Approach Election 2 – Retaining a reference to the AASB 1057 and SAC 1 definition of a reporting entity in paragraph AusCF1***

51 This section is only relevant if the Board agrees with the staff recommendation regarding Drafting Approach Election 1. Staff note that if the Board disagrees with the staff recommendation regarding Drafting Approach Election 1, staff will need to consider the implications for Drafting Approach Election 2 (regarding the AusCF1 paragraph) and will bring the revised drafting to a future Board meeting.



- 52 When making AASB 2019-1, the Board inserted two styles of ‘AusCF1’ application-type paragraphs into the Australian Accounting Standards:<sup>21</sup>
- (a) one version states that the requirements of the AusCF paragraphs and footnotes added to the Standard apply only to those entities applying the *Framework for the Preparation and Presentation of Financial Statements*. It also directs entities applying the *Framework for the Preparation and Presentation of Financial Statements* to AASB 1057 and SAC 1 for the definition of the term ‘reporting entity’; and
  - (b) a second version is used where no other AusCF paragraphs or footnotes were added to the Standard, but the Standard contains the term ‘reporting entity’. This version merely directs entities applying the *Framework for the Preparation and Presentation of Financial Statements* to AASB 1057 and SAC 1 for the definition of the term ‘reporting entity’.
- 53 Presently (before amendment as part of this Board project), these two paragraph styles present as follows [emphasis added]:

AusCF1 AusCF paragraphs and footnotes included in this Standard apply only to:

- (a) not-for-profit entities; and
- (b) for-profit entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as ‘AusCF entities’. **For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies.** For-profit entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.<sup>22</sup>

and

AusCF1 AusCF entities are:

- (a) not-for-profit entities; and
- (b) for-profit entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

**For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies.** For-profit entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.<sup>23</sup>

- 54 The drafting approach adopted in Agenda Paper 7.2 is to retain the sentence regarding the reporting entity (the bolded sentence shown above) in paragraph AusCF1.

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21 An AusCF1 paragraph was not included in those Australian Accounting Standards that contained no other AusCF paragraphs (i.e. did not refer to the *Conceptual Framework*) and also did not reference a ‘reporting entity’ (e.g. AASB 13 *Fair Value Measurement*, AASB 136 *Impairment of Assets*). Standards and Interpretations that include an AusCF1 paragraph can be identified in Agenda Paper 7.2.

22 Examples of Standards where this form of paragraph has been used include AASB 3 *Business Combinations* and AASB 10 *Consolidated Financial Statements*.

23 Examples of Standards where this form of paragraph has been used include AASB 110 *Events after the Reporting Period* and AASB 124 *Related Party Disclosures*.

- 55 However, staff note that following completion of this Board project, there will be fewer AusCF entities and therefore such emphasis on 'reporting entity' may be less warranted, especially as Australian Accounting Standards are developed for general purpose financial statements. Also, staff observe that there are several instances in Australian Accounting Standards where this reporting entity reference could potentially create confusion for AusCF entities. For example, while AASB 10.AusCFAus4.2 applies the reference consistently between paragraph AusCF1 and paragraph AusCFAus4.2, this is not the case in AASB 124 – paragraph 9 of AASB 124 states that for the purposes of the Standard, 'reporting entity' refers to the entity that is preparing its financial statements (rather than the term defined in AASB 1057). Consequently, staff think there could be a case for removing this sentence from the AusCF1 paragraphs. Deleting this sentence would not change the fact that AASB 1057 includes a definition of reporting entity for certain entities, but would leave open for the reader to consider whether 'reporting entity' in each use should be read having regard to its plain English or 'defined term' use.
- 56 Nevertheless, staff have presently adopted the drafting approach of retaining the sentence regarding the reporting entity (the bolded sentence shown above) in paragraph AusCF1 for the following reasons:
- (a) it limits amendments of the current text, reinforcing that the current Board project focus is on NFP entities;
  - (b) staff have not received any feedback that entities are having difficulty applying the text as currently drafted; and
  - (c) this is a drafting matter that could be addressed as part of a future other Board project (e.g. Annual Improvements).

**Question for Board members:**

Q9 With regard to Drafting Approach Election 2, do Board members support the drafting approach taken by staff in Agenda Paper 7.2 (as summarised in paragraph 54)?

***Drafting Approach Election 3 – Scope of paragraph Aus1.1(c) of the Conceptual Framework***

- 57 This section is only relevant if the Board agrees with the staff recommendation regarding Drafting Approach Election 1. Staff note that if the Board disagrees with the staff recommendation regarding Drafting Approach Election 1, staff will need to consider the implications for Drafting Approach Election 3 (regarding Aus1.1(c) of the *Conceptual Framework*) and will bring the revised drafting to a future Board meeting.
- 58 Presently (before amendment as part of this Board project), paragraph Aus1.1 of the *Conceptual Framework* states [emphasis added]:
- Aus1.1 This Conceptual Framework applies to:
- (a) for-profit private sector entities that are required by legislation to comply with either Australian Accounting Standards or accounting standards;
  - (b) other for-profit private sector entities that 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 1 July 2021; and
  - (c) other for-profit entities (private or public sector) that **elect** to prepare general purpose financial statements.

- 59 The drafting approach adopted in Agenda Paper 7.2 is to limit the proposed edits to paragraph Aus1.1(c) to deleting the text “for-profit”.
- 60 However, staff have observed that the reference to ‘elect’ could potentially be interpreted by some stakeholders as requiring a trust (or other entity) that is not within the scope of paragraphs Aus1.1(a) and (b) and that identifies as a SAC 1 reporting entity to prepare general purpose financial statements under the aegis of the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 without a sunset date, rather than apply the *Conceptual Framework*. This is because paragraph Aus1.1(c) applies to scope into the *Conceptual Framework* only those entities that voluntarily elect, rather than are required, to prepare general purpose financial statements.<sup>24</sup>
- 61 Staff think that ideally, all for-profit private sector entities, and NFP private and public sector entities, that prepare general purpose financial statements should do so under the *Conceptual Framework*. Consequently, staff think there could be a case for refining the text of paragraph Aus1.1(c).
- 62 Nevertheless, staff have presently adopted the drafting approach of limiting the proposed edits to paragraph Aus1.1(c) to deleting the text “for-profit” (that is, retaining the reference to ‘elect’) for the following reasons:
- (a) it limits amendments of the current text, reinforcing that the current Board project focus is on NFP entities;
  - (b) staff think that a for-profit or NFP private sector entity that is required to prepare general purpose financial statements because the entity is a SAC 1 reporting entity could voluntarily elect to prepare *Conceptual Framework*-compliant general purpose financial statements instead;
  - (c) staff are not aware of any instances of a trust (or other entity) that is not within the scope of paragraphs Aus1.1(a) and (b) identifying as a SAC 1 reporting entity and preparing general purpose financial statements under the aegis of the *Framework for the Preparation and Presentation of Financial Statements*. Staff think any instances are likely to be few, if any; and<sup>25</sup>
  - (c) this is a limited scope improvement matter that could be addressed as part of a future other Board project (e.g. Annual Improvements).
- 63 Staff note that if the Board disagrees with the staff recommendation regarding Drafting Approach Election 3, staff will need to consider the implications for the draft ED. Further amendments (or revisions to the paragraphs included in the working draft ED in Agenda Paper 7.2) may be proposed.

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24 This is made clear by footnote 35 in the Basis of Conclusions accompanying AASB 2020-2, which states “For-profit public sector entities can elect (voluntarily) to prepare [general purpose financial statements] and apply the [Conceptual Framework]”. That is, as noted by the table in AASB 2020-2.BC93, the Board did not intend to extend the *Conceptual Framework* to those for-profit public sector entities presently preparing general purpose financial statements as part of its For Profit Phase 2: Adopt RCF and Remove SPFS for Certain For-Profit Private Sector Entities project. (NB: If the Board’s proposals for this project are finalised, the *Conceptual Framework* will apply to for-profit public sector entities preparing general purpose financial statements)

25 NFP Project Advisory Panel members did not highlight any examples when asked a question in this regard at the 10 May 2024 NFP Project Advisory Panel meeting.

**Question for Board members:**

Q10 With regard to Drafting Approach Election 3, do Board members support the drafting approach taken by staff in Agenda Paper 7.2 (as summarised in paragraph 59)?

**Part C: Next steps**

64 Staff will update the draft ED for the Board's decisions and other Board directions from this meeting, outstanding sections not yet developed and amendments arising from issues still under staff consideration, and will bring a further draft of the ED for the Board's consideration at a future meeting, currently expected to be the September 2024 meeting.

**Question for Board members:**

Q11 Do Board members have any concerns or comments about the proposed next steps noted in paragraph 64?

## APPENDIX

### Drafting the ED to fully supersede the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1

This Appendix illustrates staff's preliminary drafting of an alternative approach the Board could take to amending the application paragraphs of its various pronouncements. It is not a complete depiction of all the amendments that would be required, but only sufficient to provide Board members with an idea of how AASB pronouncements might be amended under a drafting approach where which the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 are fully superseded.

Amendments to the text of the existing pronouncements are shown in mark up. New text is underlined and deleted text is struck through. Some paragraphs are not amended but have been included for reference.

#### **Conceptual Framework for Financial Reporting**

Aus1.1 ~~This *Conceptual Framework* applies to:~~

- ~~(a) for profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards;~~
- ~~(b) other for profit private sector entities that 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 1 July 2021; and~~
- ~~(c) other for profit entities (private sector or public sector) that elect to prepare general purpose financial statements. The concepts in the *Conceptual Framework for Financial Reporting (Conceptual Framework)* are not set out as requirements for the purpose of general purpose financial reporting, since it is not a Standard.~~

Aus1.2 This *Conceptual Framework* applies to periods beginning on or after 1 July 2021. Earlier application is permitted if at the same time an entity also applies the amendments made by AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* and AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

Aus1.2A AASB 20XX-X *Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* amended paragraph Aus1.1 and the Appendix and added 'Aus' paragraphs. An entity shall apply these amendments from [date]. Earlier application by not-for-profit entities is permitted if at the same time the entity also applies all the other amendments made by AASB 20XX-X.

Aus1.3 When applicable to an entity, this *Conceptual Framework* supersedes:

- (a) the *Framework for the Preparation and Presentation of Financial Statements* (July 2004); and
- (b) Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* (August 1990);

except as otherwise required by Australian Accounting Standards.

## AASB 1057 *Application of Australian Accounting Standards*

- 5 Unless specified otherwise in paragraphs 5A–21, Australian Accounting Standards apply to:
- (a) ~~each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;~~
  - (b) ~~general purpose financial statements of each other not-for-profit entity that is a reporting entity;~~
  - (c) each other entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements;
  - (da) ~~for-profit private sector entities~~ each entity that are is required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
  - (eb) ~~other for-profit private sector entities~~ each entity that are is 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 1 July 2021.~~

5AA Notwithstanding paragraph 5(b), an entity that is required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards may elect to adopt accounting policies that are not consistent with Australian Accounting Standards, provided that:

- (a) the entity does not elect to prepare general purpose financial statements under paragraph 5(c);
- (b) the entity is not an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources;
- (c) for a for-profit entity – the relevant document was created before 1 July 2021 and not amended on or after that date; and
- (d) for a not-for-profit entity – the relevant document was created before [date] and not amended on or after that date.

Such financial statements are not general purpose financial statements.

### Appendix – Defined terms

#### ~~reporting entity~~

~~An entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.~~

~~This reporting entity definition is not relevant to:~~

- ~~(a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards;~~
- ~~(b) other for-profit private sector entities that 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 1 July 2021; and

(c) ~~other for-profit entities (private sector or public sector) that elect to prepare general purpose financial statements.~~

### **AASB 10 Consolidated Financial Statements**

AusCF1 AusCF paragraphs included in this Standard apply only to:

~~(a) not for-profit entities; and~~

~~(b) for profit entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).~~

~~Such entities are referred to as 'AusCF entities'. For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. For profit entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs.~~

Aus4.2 Notwithstanding paragraphs 4(a) and Aus4.1, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when the ultimate Australian parent is required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards, except if the ultimate Australian parent is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss.

~~AusCFAus4.2 — Notwithstanding paragraphs 4(a), Aus4.1 and Aus4.2, in respect of AusCF entities, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities, except if the ultimate Australian parent is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss.~~

[These amendments would remove all of the AusCF paragraphs in AASB 10]