



<b>Project:</b>	<b>Not-for-Profit Private Sector Financial Reporting Framework</b>	<b>Meeting:</b>	M182
<b>Topic:</b>	<b>Project overview</b>	<b>Agenda Item:</b>	4.1
		<b>Date:</b>	26 July 2021
<b>Contact(s):</b>	Maggie Man <a href="mailto:mman@asb.gov.au">mman@asb.gov.au</a> Ao Li <a href="mailto:ali@asb.gov.au">ali@asb.gov.au</a> Evelyn Ling <a href="mailto:eling@asb.gov.au">eling@asb.gov.au</a> Fridrich Housa <a href="mailto:fhousa@asb.gov.au">fhousa@asb.gov.au</a>	<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Initial deliberations

## Objective of this agenda item

- 1 The objective of this agenda item is, for the purposes of the NFP Financial Reporting Framework (NFP FRF) Discussion Paper (DP), for the Board to:
  - (a) **receive** project update including interaction with cross-cutting projects (this Agenda Paper),
  - (b) **review** the project timeline and **decide** the next steps (this Agenda Paper);
  - (c) **decide** whether the Board's primary objective in forming its Tier 3 proposals is to simplify accounting requirements or discuss the methods of simplification that can be applied when developing simplified reporting requirements (Agenda Paper 4.2); and
  - (d) **decide** its preliminary views on Tier 3 accounting requirements for changes in accounting policies and correction of errors (Agenda Paper 4.3).

## Attachments

Agenda paper 4.2	Primary objective in setting Tier 3 proposals
Agenda paper 4.3	Change in accounting policies and correction of errors
Agenda paper 4.4	Research study <a href="#">Donors' perceptions of financial disclosures and links to donation intentions</a> published in Accounting Forum in January 2021 (in Board-only supplementary folder)

## Background

- 2 At its 20-21 February 2021 meeting, the Board agreed to develop a further reporting Tier (Tier 3) for application by not-for-profit (NFP) private sector entities. At its 20-21 April 2021 meeting, the Board decided on the principles against which it will form its views on Tier 3 accounting requirements, for inclusion in the DP. At its 21-22 June 2021 meeting the Board made decisions on the setting Tier 3 requirements in the context of Australian Accounting Standards and on accounting for controlled entities. [The Not-for-Profit Private Sector Financial](#)

[Reporting Framework Project Summary](#) provides the overview of the Board’s tentative decisions to date in respect of the project.

*Project timeline and milestones*

- 3 Following the Board’s discussion at the June 2021 meeting, an updated project timeline and milestones is provided in paragraphs 11 – 16 of this Agenda Paper.
- 4 Subject to the Board’s decisions at this meeting, staff will continue analysis of NFP private sector Tier 3 differential reporting topics to discuss at forthcoming Board meetings. In addition, staff intend to bring a working draft of the DP to a future meeting once the Board has formed preliminary views on a number of topics.

*Primary objective in setting Tier 3 proposals (Agenda Paper 4.2)*

- 5 At its June 2021 meeting, the Board also discussed whether the primary objective of Tier 3 reporting requirements should be to simplify accounting requirements or to facilitate comparability between Tier 3 NFP private sector entities, and the interaction of such primary objective with the Board’s principles for developing the proposed Tier 3 requirements. The Board did not form a view and directed staff to perform further work in this regard.
- 6 The purpose of Agenda Paper 4.2 is to provide the Board with the staff analysis of the primary objective with a view to apply the agreed objective to the subsequent analysis of accounting requirements in developing the DP.

*Change in accounting policies and correction of errors (Agenda Paper 4.3)*

- 7 Agenda Paper 4.3 outlines possible Tier 3 proposals for the accounting for changes in accounting policies and correction of errors.

**Project update**

*Project environmental update including interaction with cross cutting projects*

Project	Update
<p><a href="#">Review of the ACNC Legislation Strengthening for Purpose: Australian Charities and Not-for-profits Commission Legislation Review 2018 – <a href="#">Media release: Cutting red tape for charities</a></a> (for noting in Agenda Paper 8. <i>Other Business</i>)</p>	<ul style="list-style-type: none"> <li>• ACNC financial reporting thresholds for small charities will increase to less than \$500,000 annual revenue and for medium-sized charities will increase to less than \$3 million annual revenue. The changes take effect from 1 July 2022 (reporting against the 2021-22 financial year).</li> <li>• From 1 July 2022, large charities with two or more key management personnel will be required to report remuneration paid to responsible persons (directors) and senior executives on an aggregated basis in their 2022 Annual Information Statement.</li> <li>• From 1 July 2023 all charities will be required to report related party transactions in their annual reporting to the ACNC.</li> </ul> <p>Staff will continue monitoring regulatory environment to consider the impact on the project and to identify regulators beyond those represented at the Thresholds Working Group involved in the Australian Government Treasury consultation on financial reporting thresholds for ACNC-registered charities.</p> <p>Staff has also been contacted by ORIC staff on the Recommendation 51 from the <a href="#">CATSI Act Review Final Report</a> that considered clarification of the requirements of CATSI Regulation 23 and provided updated on the progress of the project to date.</p>

Project	Update
<p>NZASB's post-implementation review (PIR) of Tier 3 and Tier 4</p>	<p>A detailed analysis of the feedback received was considered by <a href="#">NZASB at its meeting on 23 June 2021</a> from PIR feedback noted by NZASB at its May 2021 meeting (specific topics have been listed in <a href="#">Agenda Paper 3.1</a> at April 2021 meeting).</p> <p>NZASB staff noted that several issues raised as part of the PIR require the consideration of options to amend the Tier 3 standard (and Tier 4 standard) through development of an Exposure Draft that may be relevant for NFP FRF project:</p> <ul style="list-style-type: none"> <li>• simplifying the language and requirements within the standards,</li> <li>• considering the requirements in relation to reserves,</li> <li>• modifying the minimum categories,</li> <li>• aligning the definition of Cash with Cash and Cash Equivalents in the Tier 1,</li> <li>• exploring any changes to be made in relation to revenue recognition;</li> <li>• requirements in relation to asset revaluation;</li> <li>• clarifying other Tier 2 opt-up requirements.</li> </ul> <p>Some issues are proposed to be addressed through educational activities:</p> <ul style="list-style-type: none"> <li>• reminding preparers of what is meant by the term 'significant';</li> <li>• explaining the flexibility permitted within the Tier 3 standard relating to cash flow statement classifications; and</li> <li>• providing additional guidance and illustrative examples in relation to performance measures and preparation of the statement of service performance.</li> </ul> <p>NZASB staff did not propose taking any specific action in respect of following requests as being considered not widespread and would increase complexity and length of Tier 3 standard:</p> <ul style="list-style-type: none"> <li>• additional guidance in relation to biological and intangible assets;</li> <li>• split depreciation in the statement of financial performance and/or notes;</li> <li>• additional items to the statement of financial performance outside of net surplus/deficit;</li> <li>• allowing alternative layouts for the statement of financial position;</li> <li>• changing the definition of current and non-current; and</li> <li>• removing the requirement to sign performance reports.</li> </ul> <p>Staff have will continue to monitor the project and consider implications of the PIR feedback on the respective topics expected to be included in the DP.</p>

### Research update

- 8 Research study [Donors' perceptions of financial disclosures and links to donation intentions](#) published in Accounting Forum (Agenda Paper 4.4 in supplementary folder) finds:
- (1) a strong link between financial disclosures which donors perceive as decision-useful and their perception of the reputation of the reporting not-for-profit organisation (NFP),
  - (2) a close association between donors' perception of the reputation of an NFP (that is, their behavioural belief) and their trust in the organisation (their attitude), and
  - (3) a significant link between donors' trust in an NFP and hence their attitude towards the organisation with respect to their donation intentions. These results imply that the decision-usefulness of an NFP's financial disclosures make donors more inclined to donate to the NFP *via* the impact of disclosures on donors' perceptions of reputation and thence trustworthiness.
- 9 Staff have considered that the findings suggest that users find financial disclosures useful and provide the necessary signals of an NFP's commitment to transparency and public accountability which in turn helps users to identify organisations deserving their support. However, the findings also indicate that there is a lack of consistency in NFP definitions (e.g. fundraising, program cost) leading to inconsistency in financial disclosures, and users would benefit from less complex (simplified) reporting to help improve understandability.

- 10 Staff will also consider evidence from further research as it becomes available noting the on-going research into NFP financial statements users' needs such as:
- (a) *Identifying and analysing financial reporting user information needs in the not-for-profit sector in Australia* – Swinburne University
  - (b) *Decision Usefulness: A re-examination of the information needs of non-profit GPFR users* – noted in April 2021 [Agenda Paper 7 Research update](#)

### Question to the Board

Question 1: Do Board members have any comments on the project update summarised above?

### Project timeline and milestones

- 11 As noted at the June 2021 AASB meeting ([Agenda Paper 3.1](#)), staff are actively considering the project timeline. Subject to the Board's decisions at this meeting, the table in paragraph 16 below provides an updated timeline and key milestones for the project. The updated timelines reflect the decisions made by the Board to date, as well as consideration of the extent of analysis required for the remaining topics.
- 12 Staff have also further refined the DP topics presented at April Board meeting ([Agenda paper 3.1](#))<sup>1</sup> to more clearly reflect the level of analysis required to develop the DP for the topics that are not identified as key topics but expected to be included in Tier 3 requirements (paragraph 14).

### Key topics

- 13 Topics specifically included in the project plan as key topics consist of:
- (a) those identified during the research and outreach as topics of significant interest and concern to constituents with wider potential for simplification (e.g. consolidation, revenue);
  - (b) topics having overarching impact on the project and design of Tier 3 (e.g. consideration of SAC 1 and reporting entity concept, correction of errors and changes in accounting policies); and
  - (c) other topics that have been identified through the outreach and research with some limited simplification opportunities (e.g. investment property, accounting for long-term employee benefits)

It is expected that these topics will be analysed for the purposes of the DP applying the approach outlined in Agenda Paper 4.2.

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- 1 The topics identified at the April 2021 Board meeting are based on:
- the topics of significant interest noted in the feedback from the initial targeted outreach ([Agenda paper 5.1 Sep 2020](#)) and to date including feedback from Project Advisory Panel (Agenda paper 3.4 June 2021), and
  - supplemented by the other topics covered by NZ Tier 3 – recognising these have been based on the extensive research by [Charities NZ on common transactions](#), relatively similarity of the sector (noting the scope of the research focusing on the charities only) and targeted size of the entities including feedback from on-going post-implementation review.
  - information in [AASB Staff Paper: Comparison of Standards for Smaller Entities](#) that compared NZ Tier 3 and other selected standards from smaller entities to review whether other topics should be considered.

### Other topics

14 Possible future Tier 3 requirements are likely to include accounting guidance for other topics, that have been not identified to date as an area of significant interest by the stakeholders and beyond terminology and language staff have not identified any specific areas for simplification, including the following:

- intangible assets
- property, plant and equipment
- inventory
- associates and joint ventures
- provisions, contingent liabilities and commitments
- income taxes
- fair value
- foreign currency transactions
- offsetting
- expenses
- borrowing costs;
- going concern; and
- events after reporting date.

As noted in the updated timeline in paragraph 16 below, staff plan to bring suggested drafting for these topics – primarily based on the NZ External Reporting Board’s *Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit) Accounting Standard* – for the Board’s consideration in H1 2022.

### Omitted topics

15 As noted in the updated timeline in paragraph 16 below, staff plan to bring a paper to the September 2021 Board meeting analysing a proposed approach to omitted topics. That is, topics that are proposed not to be included in the DP as forming part of Tier 3 requirements. For example, these may include specialised topics (agriculture, insurance, exploration, superannuation, service concession arrangements etc.) or topics that are not applicable to NFP Tier 3 entities (such as earnings per share, share-based payments, interim and segment reporting).

### Updated project timeline and milestones

16 The updated project timeline and milestones are as follows:

TIMELINE	PROJECT MILESTONES	TOPIC
<b>AUG 2021</b>	Board’s deliberations on DP preliminary views	<b>Key topics</b> <ul style="list-style-type: none"> <li>• Accounting for errors and changes in accounting policies</li> </ul>
<b>SEP 2021</b>	Board’s deliberations on DP preliminary views	<b>Key topics</b> <ul style="list-style-type: none"> <li>• Approach to omitted topics</li> </ul>
<b>NOV 2021</b>	Board’s deliberations on DP preliminary views	<b>Key topics</b> <ul style="list-style-type: none"> <li>• Primary financial statements</li> <li>• Disclosure principles</li> </ul>
<b>H1 2022</b>	Board’s deliberations on DP preliminary views Board to review working draft of the DP	<b>Key topics</b> <ul style="list-style-type: none"> <li>• Revenue/Income</li> <li>• Financial instruments</li> <li>• Leases</li> <li>• Investment property</li> <li>• Impairment of non-current assets</li> <li>• Employee benefits</li> </ul> <p><b>Other topics to be considered in the DP</b> (par. 14 above)</p>

<b>Q3 2022</b>	Board's deliberations on DP preliminary views Board to review final draft DP and appoint subcommittee to finalise out of session DP exposed for public comment	<ul style="list-style-type: none"><li>• Sweep issues</li></ul>
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**Question to the Board**

Question 2: Do Board members agree with the updated project timeline and milestones presented in paragraph 16 above?