



<b>Project:</b>	<b>Not-for-Profit Private Sector Financial Reporting Framework</b>	<b>Meeting:</b>	M189
<b>Topic:</b>	<b>Project overview</b>	<b>Agenda Item:</b>	3.1
		<b>Date:</b>	18 July 2022
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Drafting of discussion paper

## Objective of this agenda item

- The objective of this agenda item is, for the purpose of the Not-for-Profit Financial Reporting Framework (NFP FRF) Discussion Paper, for the Board to:
  - receive** a project update, including interaction with cross-cutting projects and the timeline and **consider** the outreach plan (this Agenda Paper); and
  - consider** sweep issues and **approve the issuance** of the AASB Discussion Paper: *(Simplified Accounting) Reporting requirements for Not-for-Profit Private Sector Entities*;

## Attachments

- Papers for this agenda item are:
  - Agenda paper 3.2.1 Draft AASB Discussion Paper – *Development of Simplified Accounting Requirements for Not-for-Profit Sector Entities*
  - Agenda paper 3.2.2 Staff paper: Summary of sweep and other issues
  - Agenda paper 3.3 Supporting document: Examples of financial statements of Tier 3-sized not-for-profit charities
  - Agenda paper 3.4 Research article – A contingency-based accountability and governance framework for the non-profit sector in the post-COVID-19 era

## Background

- 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. Staff presented a number of papers, including the approach to simplification agreed by the Board at its 4 August 2021 Board meeting ([Minutes of the 182<sup>nd</sup> meeting of the AASB](#)) as presented in

- 4 Appendix A – Approach to simplification agreed by the Board at its 4 August 2021 Board meeting. The Board has made a number of tentative decisions to date in developing the Tier 3 accounting requirements. The Board’s preliminary views on the Tier 3 accounting requirements are incorporated in the DP. The Board’s previous decisions are summarised in [The Not-for-Profit Private Sector Financial Reporting Framework Project Summary](#).

Draft AASB Discussion Paper: (Simplified Accounting) Reporting requirements for Not-for-Profit Sector Entities (Agenda Papers 3.2.1 and 3.2.2)

- 5 Agenda Paper 3.2.1 provides the Board with the draft Discussion Paper which contains the background and reasons for developing, and the preliminary view of the Tier 3 reporting requirements. Staff will be asking the Board **to delegate the finalisation of an approval to issue the Discussion Paper in this Agenda Paper to a subcommittee** after the Board considered remaining sweep and other issues.
- 6 Agenda Paper 3.2.2 provides the Board with a document summarising all the remaining sweep and other issues that staff are seeking the Board’s decisions, for the purpose of the DP. The questions for the sweep and other issues have been provided as comment boxes within the Agenda Paper 3.2.1 itself. This staff paper is to provide the Board references to navigate to the questions within Agenda Paper 3.2.1.

Supporting Agenda Papers – Sample of Tier 3 sized not for profit entities’ financial statements (Agenda Paper 3.3) and research article (Agenda Paper 3.4)

- 7 Agenda Paper 3.3 is a supporting document to provide the Board with a sample of financial statements within the Tier 3-sized not-for-profit entities. Board is not required to make any decisions on this Agenda Paper.
- 8 Agenda Paper 3.4 is a research article that looks at how the global pandemic changed the way non-profit organisations operate and how changes in the external environment impact NPOs’ governance and accountability practices. This is discussed further in paragraph 10.

**Project update**

*Project environmental update, including interaction with cross-cutting projects*

- 9 The table below provides an update on the interactions with regulators and other cross-cutting projects.

Project and other updates	Update
Regulatory update	<p><u>Australian Charities and Not-for-profits Commission</u></p> <p>ACNC has published the 8<sup>th</sup> edition of the <a href="#">ACNC report</a> providing annual analysis of the charity sector based on the information submitted in the 2020 Annual Information Statements by 49,165 charities.</p> <p>It shows that small charities (i.e. revenue below \$250,000) make up 65.3% of the charity sector, of which 31.4% of those small charities have revenue under \$50,000. Medium charities (i.e. revenue between \$250,000 and \$999,999) made up 15.7% and large charities made up 19%.<sup>1</sup></p> <p>The most common sector in which charities operated is the religious, education and human services sector. The data also indicated that the charity sector employs 10% of the Australian workforce while a drop was reported in volunteer numbers during the 2020 reporting period. The data indicated an increase in reported overall revenue of \$176 billion, up by \$10 billion from the previous reporting period. This is predominately due to an increase in government</p>

1 Reporting thresholds increased from 2021-22 financial year. The size of small charities was increased to less than \$500,000 annual revenue and medium-sized charities was increased to less than \$3 million annual revenue.

Project and other updates	Update
	funding, followed by contributions from donations and bequests. The sector also reported an increase in revenue from goods or services while a decrease in investment income. Employee expenses accounted for approximately half of the sector's expenses. The remainder was made up of grants and donations made by the charities sector. Whilst net income fell for most charities in the 2020 reporting period, there was a reported increase in assets.
NZASB's post-implementation review (PIR) of Tier 3 and Tier 4	<p>At its Board meeting in May 2022, the NZASB Board considered and provided feedback on a communication plan for the NZ Tiers 3 and 4 PBE exposure draft for not-for-profit and public sector entities.</p> <p>Staff will consider NZASB's communication plan when developing the communication strategy for the DP.</p>
Second comprehensive review of the IFRS for SMEs Standard	<p>IASB is currently in the process of assessing whether to align the <i>IFRS for SMEs</i> Standard with IFRS Standards and is working towards publishing an exposure draft proposing amendments to the <i>IFRS for SMEs</i> Standard for new requirements that are in the scope of the review. The IASB met in <a href="#">May 2022</a> and tentatively decided:</p> <ul style="list-style-type: none"> <li>• Retain scope and name of IFRS for SMEs Standards – retain the Standard is intended for entities that do not have public accountability and prepare GPFS for external users and retain the name of the Standard.</li> <li>• To improve the understandability of the definition of public accountability – include guidance and remove reference to how often entities of IFRS for SMEs Standard hold an asset in a fiduciary capacity for a broad group of outsiders as one of their primary business. The IASB also tentatively decided to make the same amendments to the description of public accountability as set out in the draft Standard <i>Subsidiaries without Public Accountability: Disclosures</i> (if the draft Standard is finalised); and</li> <li>• Review for inconsistencies between Section 2 and other sections of IFRS for SEMs Standards – includes definitions of an 'asset' and 'liability' as defined in the Framework for the Preparation and Presentation of Financial Statements issued in 1989 in Section 12 <i>Provisions and Contingencies</i> and Section 18 <i>Intangible Assets other than Goodwill</i>.</li> <li>• Sweep issues <ul style="list-style-type: none"> <li>○ Section 19 <i>Business Combinations and Goodwill</i> – align reference to the Conceptual Framework in May 2020 and align with the requirement in IFRS 3 <i>Business Combinations</i></li> <li>○ Section 10 <i>Accounting Policies, Estimates and Errors</i> – align the definition of accounting estimates as set out in IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</li> <li>○ Section 11 <i>Financial Instruments</i> – align to IFRS 9, <i>Prepayment Features with Negative Compensation</i></li> <li>○ Section 14 <i>Investments in Associates</i> – align to IAS 28 <i>Long-term Interests in Associates and Joint Ventures</i> to clarify how to treat financial instruments that form part of an entity's net investment in an associate or jointly controlled entity</li> <li>○ Section 33 <i>Related Party Disclosures</i> – align with IAS 24 <i>Relation Party Disclosures</i>, with simplification (relating to simplified disclosure requirements for government-related entities applying for the exemption from disclosing the nature of the relationship including information about the transactions and outstanding balance with government-related entities.)</li> </ul> </li> <li>• Transition requirements for alignment with new IFRS Accounting Standards for six sections (Section 9 <i>Consolidated and Separate Financial Statements</i>; Section 11 <i>Basic Financial Instruments</i>; a new section on <i>Fair Value Measurement</i>; Section 15 <i>Investments in Joint Ventures</i>; Section 19 and Section 23 <i>Revenue</i>).</li> <li>• Effective date – proposed effective date be a minimum of two years from the date when the third edition of the Standard is issued, with early application permitted.</li> </ul> <p>Staff have included consideration in staff analysis in paragraph 15 of Agenda Paper 12.3.1.</p>
IFR4NPO	Exposure Draft will be released in three tranches with Tranche 1 due to be published in late 2022 relating to the framing of the Guidance following the format of the <i>IFRS for SMEs</i> Standard relating to Preface, Non-Profit Organisations, and the Concepts and Pervasive Principles. The Guidance will be the same as <i>IFRS for SMEs</i> except where NPO-specific financial reporting guidance is required.

Project and other updates	Update
	<p>At its latest meeting in June 2022, the Technical Accounting Group (TAG) considered the areas as part of the ED Tranche 1 Guidance including concepts and pervasive principles to align with updates proposed for the <i>IFRS for SMEs</i> Standard and other areas including:</p> <ul style="list-style-type: none"> <li>• Narrative reporting proposals – setting minimum mandatory requirements to present information for users that integrates the performance information and financial statements commentary requirements into defined topics such as an overview of the NFP entity, performance information, its financial objectives and strategies</li> <li>• Notes to the financial statements and accounting policies, estimates and errors requirements as per <i>IFRS for SMEs</i> Standard requirements</li> <li>• Presenting restricted and unrestricted funds</li> <li>• Proposing to apply the term net assets rather than equity</li> <li>• Adopting of a statement of income and expenses that total to surplus or deficit with additional information (e.g OCI information) presented in the statement of changes in net asset, with application guidance and implementation guidance for the alternative presentation of some financial statements. Statement of financial position to present restricted and unrestricted funds. Statement of cash flows to align with IFRS for SMEs Standards requirement except to present restricted and unrestricted grants separately</li> <li>• Application of the control concepts will draw on the control principles in IFRS 10 with guidance where some rights to direct use of fund may not give rise to control, such as where NFP entity makes grants to other entities under grant agreement that a grant recipient only uses the funds provided to undertake for which the grant was made does not give rise, in substance, to an entity controlled by the grant making NFP entity. Other proposals include tailoring terminology to NFP entities, e.g. Investee to ‘beneficial interest’. A focus group will be formed to consider whether there are circumstances when consolidation might be inappropriate.</li> </ul> <p>Staff considered the direction to amend <i>IFRS for SMEs</i> Standard requirements to NFP terminology aligns with the Board’s preliminary views to tailor terminology to NFP entities when developing Tier 3 reporting requirements. While the IFR4NPO’s proposed financial statements does not require OCI information to be presented within the income and expense statement, the information would still be required to be presented in another financial statements (i.e. statement of changes in equity). This approach aligns with the Board’s preliminary view to retain the current Tier 2 requirements to present OCI information in the statement of profit or loss and other comprehensive income. The TAG’s proposal to explore whether there are circumstances when consolidation may not be appropriate appears to support the Board’s preliminary view to allow Tier 3 entities the choice to present a consolidated financial statements or separate financial statements. Staff will also continue to consider the IFR4NPO developments throughout the project.</p>

### Research update

- 10 [Huang, H.J., 2022. A contingency-based accountability and governance framework for the non-profit sector in the post-COVID-19 era. \*Pacific Accounting Review\*](#), (ahead-of-print) looked at how the global pandemic changed how non-profit organisations operate and how changes in the external environment impact NPOs’ governance and accountability practices. The findings suggested that a wider governance system beyond the board, including various internal and external forms of governance mechanisms, is critical to fulfilling multi-faceted accountability demands from various stakeholder groups and integrating elements of the external environment into the non-profit governance systems
- 11 Staff consider this research article demonstrates the importance of an NFP financial reporting framework and its impact on the accountability and governance of an NFP entity. It supports the objective of the NFP FRF project to develop a simple, proportionate, consistent, and transparent financial reporting framework for application by not-for-profit private sector entities.

## Next steps

### *Outreach plan*

- 12 Staff had previously brought to the Board at its February 2022 Board meeting the initial thoughts on the outreach plan to accompany the releases of the DP. Staff is further considering details of the outreach plan to accompany the release of the DP as outlined below.
- 13 Staff are also conscious of the upcoming domestic post-implementation reviews (PIRs) to NFP private sector entities. As such, staff propose to consult on the PIRs at the same time which is likely to be of interest to similar or overlapping stakeholder groups for the key consultation activities outlined in the table in paragraph 16.<sup>2</sup>

### *Awareness/Education*

- 14 Staff will utilise various communication channels such as a publication in an accounting article in addition to the AASB newsletters to promote and engage with this targeted sector.<sup>3</sup>
- 15 Staff propose to host a webinar session after the publication of the DP to provide education to stakeholders on what the Board's proposals are prior to conducting any in-person and virtual outreach.

### *Key consultation activities*

- 16 Staff have developed the following key consultation activities in the table below to be conducted after the release of the DP.

CONSULTATION ACTIVITY	EXPECTED DELIVERY	DETAILS
<b>Webinar</b>	In October 2022	This will be an education session on the Board's proposals
<b>Mix of in-person and virtual outreach</b>	Beginning in November 2022 until the end of the consultation period.	Staff envisage a mix of in-person and virtual outreach to be conducted. Consultation will cover on both the DP and PIRs.

### *Targeted outreach focus groups/one on one meetings*

- 17 In addition to the key consultation activities outlined in the Table above, staff are proposing to conduct one on one meetings with various stakeholders to obtain further feedback on the DP. Staff are engaging with the professional accounting bodies to leverage their communications with their NFP stakeholders and to coordinate any proposed outreach outlined above. Some of the stakeholder groups will include:
- (a) Professional accounting bodies – CPA Australia, Chartered Accountants of Australia and New Zealand and Institute of Public Accountants Australia;
  - (b) Regulators (including Treasury) – Commonwealth, state, and territories and other NFP regulators and legislative authorities;

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2 Similar to previous outreach conducted for ED295 and ED297, staff propose that outreach on the DP and the PIRs will be conducted on the same day with a break in between the two sessions to allow attendees to choose whether to attend one or both sessions.

3 Staff are actively considering different NFP communication channels staff can leverage to promote the DP including Pro Bono, Our community, University of Western Australia's Not-for-profit newsletters and newsletters of various regulators.

- (c) NFP peak bodies – Philanthropy Australia, Centre of Social Services, ACNC Advisor and User groups; and
- (d) Other targeted stakeholders such as Philanthropic Services and AASB contact database.

*Documents to accompany the DP*

- 18 In addition to the Discussion Paper, staff will be developing the following documents to accompany the DP:
- (a) a summary document covering a high-level summary of the background of the project and the accounting requirements for key topics – this document may be the main source that many Tier 3 stakeholders will engage with;<sup>4</sup>
  - (b) a survey to collect feedback with link accessible from the AASB website; and
  - (c) an update of [Research Report 10](#) *Legislative and Regulatory Financial Reporting Requirements* with any new or updated legislative changes relevant to not-for-profit entities.
- 19 Staff recommend a 6 month consultation period to commence after the publication of the DP. Staff is aware of the diversity and the size of not-for-profit sector entities to ensure stakeholders are provided adequate time to provide their feedback.

**Question 1 to Board members**

Do Board members agree with the consultation period of 6 months after the publication of the DP?  
If not, how long do Board members think the consultation period should be?

- 20 In line with the [AASB and AASB Charter](#) (paragraph 6.20) and the [AASB Due Process Framework](#) (paragraph 7.4.4), since the Board can delegate the approval of a non-mandatory pronouncement, staff recommend that the Board delegate the finalisation of and approval to issue the DP to a subcommittee.

**Question 2 to Board members**

Do Board members agree to delegate to a subcommittee the finalisation of an approval to issue the DP? If not, which approach do Board members support to approve the DP?

*Project timeline and milestones*

- 21 There have been no changes to the project timeline and milestones since the June 2022 meeting.

TIMELINE	PROJECT MILESTONES
EARLY OCT 2022	DP exposed for public comment
OCT 2022 – MAR 2023	Outreach
FROM Q2 2023	Staff to consider feedback

**Question 3 to Board members**

Do Board members have any comments or questions on the project update or outreach plan?

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4 Staff will engage with an external communications expert to consider simplifying the DP and developing the snapshot documents.

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

