

AASB Exposure Draft

ED 3XX
[Month] 2025

Operating Cash Flow Reconciliation and Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities

Comments to the AASB by [date] [month] 2026

Note 1 to Board members

This is a draft Exposure Draft annotated with notes to Board members in comment boxes in the Standard proper section to facilitate discussion at the October 2025 meeting.

Question to Board members

Do Board members have any comments on the content of the draft Exposure Draft, including:

- (a) the title;
- (b) the Introduction section, including Specific Matters for Comment;
- (c) the Preface;
- (d) the Standard proper; and
- (e) the Basis for conclusions?



Australian Government
Australian Accounting
Standards Board

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by [date] [month] 2026.

Formal submissions

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website (www.aasb.gov.au/current-projects/open-for-comment) as a PDF document and, if possible, a Word document (for internal use only).

Other feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@asb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards.

The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Why we are making these proposals

In June 2024, the AASB issued AASB 18 *Presentation and Disclosure in Financial Statements*. When effective, AASB 18 will:

- (a) replace AASB 101 *Presentation of Financial Statements*;
- (b) amend AASB 107 *Statement of Cash Flows*; and
- (c) amend AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, including changing its title to *Basis of Preparation of Financial Statements*.

When issuing AASB 18, the AASB agreed to undertake further work to determine how AASB 18 should apply to superannuation entities, not-for-profit (NFP) private sector entities and NFP public sector entities, which led to deferring the application date of AASB 18 for these entities to annual periods beginning on or after 1 January 2028, instead of 1 January 2027. Since then, the AASB has undertaken targeted outreach with stakeholders on applying AASB 18 to superannuation and NFP entities in developing this Exposure Draft for public comment.

This Exposure Draft proposes amendments to:

- (a) AASB 18 and AASB 107 to relieve superannuation entities and NFP public sector entities preparing Tier 1 general purpose financial statements (GPFS) from certain requirements;
- (b) AASB 18 to clarify how certain principles should be applied by NFP entities in the private and public sectors;
- (c) AASB 1049 *Whole of Government and General Government Sector Financial Reporting* to align certain terminology with that used in recent Australian Accounting Standards;
- (d) AASB 1056 *Superannuation Entities* to facilitate application of AASB 18 and AASB 107 by superannuation entities; and
- (e) AASB 1054 *Australian Additional Disclosures* and AASB 1039 *Concise Financial Reports* for consistency with AASB 107 in respect of entities preparing Tier 1 GPFS, including for-profit private sector entities.

This Exposure Draft also seeks input from stakeholders on the suitability of applying AASB 18 to NFP private sector entities and universities preparing Tier 1 GPFS, and the cost and benefit of requiring for-profit public sector entities to comply with the revised AASB 107 (i.e. the version of AASB 107 incorporating the amendments made by AASB 18) with respect to the classification of cash flows from dividends received and interest paid and received.

What we are proposing

The following table provides a high-level overview of the new requirements introduced by AASB 18 and the main proposed modifications for superannuation entities and NFP public sector entities preparing Tier 1 GPFS.

New requirements introduced by AASB 18	Proposed modifications for superannuation entities	Proposed modifications for NFP public sector entities
Presentation of the statement of profit or loss		
Requires an entity to categorise income and expenses into operating, investing and financing categories and to present subtotals for 'operating profit or loss' and 'profit or loss before financing and income taxes' [AASB 18.47(a)–(c) and 69(a)–(b)]	Require superannuation entities to continue presenting the statement of profit or loss in accordance with AASB 1056. These entities would not apply AASB 18.47(a)–(c) to categorise income and expense into the operating, investing and financing categories or present the two subtotals set out in AASB 18.69(a)–(b). [Proposed paragraph Aus46.1(a) in AASB 18 and paragraph 10A in AASB 1056]	Provide an accounting policy choice for NFP public sector entities to elect to not categorise income and expense into the operating, investing and financing categories or to present the two subtotals set out in AASB 18.69(a)–(b). [Proposed paragraph Aus46.1(b) in AASB 18]
Requires an entity to classify and present operating-category expenses in line items in a way that provides the most useful structured summary of its expenses, considering the matters set out in AASB 18.B80, using one or both of these characteristics: (a) the nature of expenses; or (b) the function of the expenses within the entity. [AASB 18.78]	Require superannuation entities to classify and present expenses in accordance with AASB 1056. These entities would not apply AASB 18.78 or B80–B82. [Proposed paragraph Aus78.1(a) in AASB 18 and paragraph and 22A in AASB 1056]	Provide an accounting policy choice for NFP public sector entities to elect to not apply AASB 18.78 or consider the specific matters set out in AASB 18.B80, and instead present an analysis of expenses using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant, consistent with AASB 101.99. [Proposed paragraph Aus78.1(b) in AASB 18]
Management-defined performance measures		
Requires an entity to disclose in a single note information about all measures that meet the definition of 'management-defined performance measures' (MPMs). [AASB 18.122]	No proposed modification. Targeted outreach indicated that superannuation entities do not typically disclose subtotals of income and expenses in public communications that would meet the MPMs definition.	Provide an accounting policy choice for NFP public sector entities to elect to not apply AASB 18.122 to disclose information about MPMs. [Proposed paragraph Aus117.1 in AASB 18]
Presentation of the statement of cash flows		
AASB 18 amended AASB 107 so that entities that do not invest in assets or provide financing to customers as a main business activity would no longer be able to classify dividend and interest cash flows as operating cash flows. [AASB 107.34A] AASB 107.34B–34D require an entity with specified main business activities to classify each of dividends received, interest paid and interest received in a single cash-flow category, by: (a) classifying the cash flows in the category associated with their income statement category; or	Retain the current accounting policy choice to permit superannuation entities to elect to classify dividends received and interest paid and received as operating cash flows. [Proposed paragraphs Aus6.1 and Aus34D.1 in AASB 107]	Retain the current accounting policy choice to permit NFP public sector entities to elect to classify dividends received and interest paid and received as operating cash flows. [Proposed paragraphs Aus6.1 and Aus34D.1 in AASB 107]

New requirements introduced by AASB 18	Proposed modifications for superannuation entities	Proposed modifications for NFP public sector entities
(b) making an accounting policy choice regarding the appropriate single cash-flow category if the associated income or expenses are recognised in more than one income statement category.		
AASB 18 amended paragraphs 18(b) and 20 of AASB 107 to require entities to use the 'operating profit or loss' subtotal presented in the statement of profit or loss, instead of the 'profit or loss' total, as the starting point for the indirect method of reporting cash flows from operating activities.	Permit superannuation entities to continue using the 'profit or loss' total as the starting point for the indirect method. [Proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054]	Permit NFP public sector entities that do not present the 'operating profit or loss' subtotal to continue using the 'profit or loss' total as the starting point for the indirect method. [Proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054]

This Exposure Draft also proposes guidance to clarify how certain AASB 18 principles should be applied in an NFP entity context. Specifically, the AASB is proposing to add the following paragraphs in AASB 18:

- (a) paragraphs Aus9.1 and AusB5.1 – to require an NFP entity to consider the common information needs of users of GPFS of NFP entities as described in the *Conceptual Framework for Financial Reporting*; and
- (b) paragraph AusB80.1 – to require an NFP entity applying AASB 18.78 to consider what line items provide the most useful information to users of financial statements about the entity's "operations or main activities", which is broader than considering "the main components or drivers of the entity's profitability" required by AASB 18.B80.

Consistent with the revised AASB 107, this Exposure Draft proposes amendments to AASB 1054, and related consequential amendments to AASB 1039. It proposes requiring entities preparing Tier 1 GPFS (other than superannuation and NFP public sector entities) to use the 'operating profit or loss' subtotal, instead of the 'profit or loss' total, as the starting point for the reconciliation of the net cash flow from operating activities.

In respect to whole of government and General Government Sector (GGS) financial statements prepared by a government, in response to the feedback that the Financial Reporting Council (FRC) received on its post-implementation review of AASB 1049 (completed in December 2021), this Exposure Draft also proposes certain terminology changes to AASB 1049 to align with that used in recent Australian Accounting Standards.

Application Date

This [draft] Standard applies to entities as follows, with earlier application permitted:

- (a) superannuation entities applying AASB 1056 and not-for-profit entities for annual periods beginning on or after 1 January 2028; and
- (b) for-profit entities, other than superannuation entities applying AASB 1056, for annual periods beginning on or after 1 January 2027, with respect to amendments made to AASB 1039 and AASB 1054.

What happens next

The AASB will consider feedback on this Exposure Draft at future meetings and, based on the information received, will determine whether the proposals should be implemented, with or without amendment. Depending on the nature and extent of the feedback, the AASB may publish a Fatal-Flaw Review Draft to enable further consultation with stakeholders.

We need your feedback

Comments are invited on any of the proposals in this Exposure Draft by [date] [month] 2026. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards

supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Specific matters for comment

The AASB would particularly value comments on the following specific matters.

The specific matters for comment are categorised into questions relevant to specific entity groups, as follows:

- (a) Q1–Q2 are related to the starting point for preparing the reconciliation of the net cash flow from operating activities, which is relevant to all entities preparing Tier 1 GPFS, other than superannuation entities (see Q7) and NFP public sector entities (see Q22);
- (b) Q3–Q11 are specific to superannuation entities;
- (c) Q12–Q15 are specific to NFP private sector entities and universities preparing Tier 1 GPFS;
- (d) Q16–Q25 are specific to not-for-profit public sector entities, including governments, preparing Tier 1 GPFS;
- (e) Q26–Q28 are additional questions relating to whole of government and GGS financial statements; and
- (f) Q29–Q31 are specific to for-profit public sector entities preparing Tier 1 GPFS.

Operating cash flow reconciliation

AASB 1054.16 requires an entity that uses the direct method to present its statement of cash flows to disclose in the financial statements a reconciliation of the net cash flow from operating activities to the profit or loss total presented in the statement of profit or loss. AASB 18 modified the indirect method of presenting cash flows set out in AASB 107 to require an entity to adjust the operating profit or loss subtotal presented in the statement of profit or loss, instead of the profit or loss total, to report cash flows from operating activities.

As noted in paragraphs BC94–BC96 in the Basis for Conclusions to this Exposure Draft, to be consistent with the revision made to AASB 107 by AASB 18, the AASB is proposing to modify AASB 1054.16 to require an entity to adjust the operating profit or loss subtotal in disclosing the operating cash flow reconciliation, if the entity presents that subtotal in the statement of profit or loss in accordance with AASB 18.69(a).

- 1 In respect to entities preparing Tier 1 GPFS, other than superannuation entities and NFP public sector entities, do you agree with the proposed paragraph 16(a) in AASB 1054 that an entity should provide a reconciliation of the net cash flow from operating activities to the operating profit or loss subtotal in the statement of profit or loss, if the entity presents that subtotal in accordance with AASB 18.69(a)? Please explain your reasons.

AASB 1039.21 mentions the fact that AASB 1039 does not require an entity to provide a reconciliation of the net cash flow from operating activities. The AASB is proposing to amend AASB 1039.21 to be consistent with the proposed amendments made to AASB 1054.16.

- 2 Do you agree with the proposed amendments to AASB 1039.21? Please explain your reasons.

Superannuation entities

Line items to be presented in primary financial statements

AASB 18.23 states that “An entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if Australian Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements ...”.

AASB 1056.9 and AASB 1056.11 require a superannuation entity to present specific line items in the income statement and in the statement of changes in member benefits. However, under the general principle in AASB 18.23, a superannuation entity need not present separately a line item in those statements if the entity determines that doing so is not necessary for the statement to provide a useful structured summary. As noted in paragraphs BC16–BC20, the AASB observed the importance for financial statements to be comparable among superannuation funds and applying the judgement required by AASB 18.23 could potentially lead to inconsistencies. The AASB decided to propose adding paragraphs Aus23.1(a) and AusB8.1(a) to AASB 18 to specify that a superannuation entity should not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary.

- 3 Do you agree with the proposed paragraph Aus23.1(a) and AusB8.1(a) in AASB 18 that a superannuation entity should not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary; and therefore, would be required to present all applicable line items in the income statement and in the statement of changes in member benefits as required by AASB 1056.9 and AASB 1056.11? Please explain your reasons.

Statement of profit or loss presentation

AASB 18.47 requires an entity to classify income and expenses into specific categories. As noted in paragraphs BC21–BC23, the AASB noted that those categories are unlikely to provide additional information to users of a superannuation entity's GPFS. Therefore, the AASB is proposing to add paragraph Aus46.1(a) to AASB 18 and paragraphs 10A and 22A to AASB 1056 to specify that a superannuation entity should not classify income and expenses into the operating, investing, financing and discontinued operations categories in its statement of profit or loss, and should treat references in AASB 18 to 'operating expenses' as expenses presented in the statement of profit or loss.

- 4 Do you agree with the proposed paragraph Aus46.1(a) in AASB 18 and paragraphs 10A and 22A in AASB 1056? Please explain your reasons.

Presentation of expenses

AASB 18.78 requires an entity to classify and present operating-category expenses in line items in a way that provides the most useful structured summary of its expenses, considering the matters set out in AASB 18.B80, using one or both of these characteristics: the nature of expenses; or the function of the expenses within the entity.

AASB 1056.22 requires a superannuation entity to disclose information to provide users with a basis for understanding the nature of expenses. As noted in paragraphs BC24–BC27, the AASB considered that given the importance of GPFS of superannuation entities being comparable, the AASB is proposing to add paragraph Aus78.1(a) to AASB 18 to specify that a superannuation entity should classify and present expenses in accordance with AASB 1056 and should not apply paragraphs AASB 18.78 or B80–B82.

- 5 Do you agree with the proposed paragraph Aus78.1(a) in AASB 18? Please explain your reasons.

Cash flow classification – dividends received and interest paid and received

As noted in paragraphs BC28–BC32, under AASB 107.34B of the revised AASB 107 (i.e. the version of AASB 107 incorporating AASB 18 amendments), a superannuation entity would be required to classify dividends received and interest paid and received into a single category for each item, and classify cash flows in the same category as the income statement or make an accounting policy choice if associated income and expenses are recognised in more than one income statement category.

The AASB's proposals to not require a superannuation entity to classify income and expenses into the AASB 18 income statement categories means AASB 107.34B would not provide a basis for superannuation entities to classify these items in the statement of cash flows. Accordingly, the AASB is proposing to add paragraph Aus34D.1 to AASB 107 to retain the current accounting policy choice to permit a superannuation entity to continue electing to classify these cash flows as operating cash flows. The AASB is also proposing to add paragraph Aus6.1 to AASB 107 to specify that, in respect to superannuation entities (and NFP public sector entities) investing cash flows do not include the receipt of interest and dividends as described in paragraphs 34A–34D of the revised AASB 107.

- 6 Do you agree with the proposed paragraphs Aus6.1 and Aus34D.1 in AASB 107 in respect to superannuation entities? Please explain your reasons.

Operating cash flow reconciliation

As noted in paragraphs BC33–BC34, consistent with the AASB's proposals to require a superannuation entity not to present the 'operating profit or loss' subtotal in its income statement, the AASB is proposing to add paragraph Aus20.2 to AASB 107 to specify that when reconciling cash flows from operating activities, a superannuation entity shall adjust its 'profit or loss' total.

The AASB is also proposing to add paragraph 16(b) to AASB 1054 to specify that the 'profit or loss' total would be used as the starting point for reconciling net cash flow from operating activities when the entity does not present the 'operating profit or loss' subtotal in the statement of profit or loss.

- 7 Do you agree with the proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054 in respect to superannuation entities? Please explain your reasons.

Statement of changes in member benefits

As noted in paragraphs BC35–BC36, the AASB received feedback from a stakeholder questioning whether the statement of changes in member benefits should be treated in the same way as other primary financial statements. The AASB is proposing to add paragraph 12A to AASB 1056 to specify that a superannuation entity should treat its statement of changes in member benefits (and its comparative information) as a primary financial statement for the purposes of applying the requirements set out in AASB 18, including comparative information, labelling, and aggregation and disaggregation.

- 8 Do you agree with the proposed paragraph 12A in AASB 1056? Please explain your reasons.

Aggregation and disaggregation

As noted in paragraphs BC37–BC38, the AASB is of the view that the requirements of AASB 1056 and AASB 18 with respect to aggregating and disaggregating line items and disclosures are not inconsistent and decided that no modifications are needed in this regard. Therefore, the aggregation and disaggregation requirements in AASB 18 would apply in the context of the more specific AASB 1056.32 requirement for superannuation entities.

- 9 Do you agree that no modifications are needed for superannuation entities with respect to aggregation and disaggregation requirements set out in AASB 18? Please explain your reasons. If you consider modifications are needed, please describe the changes and explain why they are necessary.

Management-defined performance measures

As noted in paragraphs BC39–BC40, all superannuation entity stakeholders who responded to the targeted outreach did not identify any subtotals of income and expenses a superannuation entity uses that would meet the definition of a management-defined performance measure (MPM), and the AASB 18 disclosure requirements relating to MPMs would not be onerous. The AASB decided that no modifications to the MPM disclosure requirements are necessary for superannuation entities.

- 10 Do you agree that no modifications are needed for superannuation entities with respect to the MPM disclosure requirements? Please explain your reasons. If you consider modifications are needed, please describe the changes and explain why they are necessary.

Effective date

The AASB is proposing that the modifications to AASB 18, AASB 107, AASB 1039, AASB 1054 and AASB 1056 proposed to be made in this Exposure Draft should be applied when the entity applies AASB 18. AASB 18 applies to superannuation entities for periods beginning on or after 1 January 2028 with early application permitted, which is one year after the mandatory effective date for other for-profit entities.

- 11 Do you agree that superannuation entities should be required to apply AASB 18 and the modifications proposed to be made in the Exposure Draft for periods beginning on or after 1 January 2028? If not, which date do you consider that superannuation entities should be required to apply AASB 18? Please explain your reasons.

NFP private sector entities and universities

NFP-specific guidance

As noted in paragraphs BC41–BC42, the AASB decided to propose adding the following paragraphs to AASB 18 to provide guidance for NFP entities preparing Tier 1 GPFS:

- (a) paragraphs Aus9.1 and AusB5.1 – to require an NFP entity to consider the common information needs of users of GPFS of NFP entities described in the *Conceptual Framework for Financial Reporting*; and
- (b) paragraph AusB80.1 – to require an NFP entity, when presenting expenses, to consider what line items provide the most useful information to users of financial statements about the entity's

“operations or main activities”, which is broader than considering “the main components or drivers of the entity’s profitability” required by AASB 18.B80.

- 12 In respect to NFP private sector entities and universities preparing Tier 1 GPFS, do you agree with the proposed paragraphs Aus9.1 and AusB5.1 in AASB 18 to require these entities to consider the common information needs of users of GPFS of NFP entities described in the *Conceptual Framework for Financial Reporting*? Please explain your reasons.
- 13 Do you agree with the proposed paragraph AusB80.1 in AASB 18 that NFP private sector entities and universities preparing Tier 1 GPFS should consider what line items provide the most useful information to users of financial statements about the entity’s “operations or main activities”, which is broader than considering “the main components or drivers of the entity’s profitability” required by AASB 18.B80? Please explain your reasons.
- 14 Other than the proposals in Q12–Q13, the AASB did not identify any necessary modifications from AASB 18 or the revised AASB 107 for NFP private sector entities or universities preparing Tier 1 GPFS. Do you have any comments on the suitability of applying AASB 18 or the revised AASB 107 to these entities? If you consider further modifications are needed, please explain your reasons.

Effective date

The AASB is proposing that the modifications to AASB 18, AASB 107, AASB 1039 and AASB 1054 proposed to be made in this Exposure Draft should be applied when the entity applies AASB 18. AASB 18 applies to NFP private sector entities and universities preparing Tier 1 GPFS for periods beginning on or after 1 January 2028 with early application permitted, which is one year after the mandatory effective date for for-profit entities.

- 15 Do you agree that NFP private sector entities and universities preparing Tier 1 GPFS should be required to apply AASB 18 and the modifications proposed to be made in the Exposure Draft for periods beginning on or after 1 January 2028? If not, which date do you consider that these entities should be required to apply AASB 18? Please explain your reasons.

NFP public sector entities, including governments

Statement of profit or loss presentation

AASB 18.47 requires an entity to classify income and expenses into specific categories. As noted in paragraph BC50–BC54, stakeholder feedback indicated that those categories are unlikely to provide additional information to users of an NFP public sector entity’s GPFS. Therefore, the AASB is proposing to add paragraph Aus46.1(b) to AASB 18 to provide an accounting policy choice for NFP public sector entities to select to not classify income and expenses into the operating, investing and financing categories in the statement of profit or loss.

- 16 Do you agree with the proposed paragraph Aus46.1(b) in AASB 18? Please explain your reasons.

Presentation of expenses

AASB 18.78 requires an entity to classify and present operating-category expenses in line items in a way that provides the most useful structured summary of its expenses, considering the matters set out in AASB 18.B80, using one or both of these characteristics: the nature of expenses; or the function of the expenses within the entity. This is different to the requirements in AASB 101.99, which requires an entity to present expenses by either their nature or function.

As noted in paragraphs BC55–BC58, at a practical level, given expenses are a key focus area for users of public sector GPFS, the AASB considered that it is important to maintain consistent reporting to promote comparability. The AASB is proposing to add paragraph Aus78.1(b) to provide an accounting policy choice for an NFP public sector entity to elect to classify and present expenses in line items in the statement of profit or loss based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant (consistent with the current requirements in AASB 101.99), instead of applying AASB 18.78 and B80–B82. This accounting policy choice would not prohibit a Treasury Office and the Office of Local Government from mandating the appropriate basis for presenting expenses to achieve consistency in reporting.

- 17 Do you agree with the proposed paragraph Aus78.1(b) in AASB 18? Please explain your reasons.

NFP-specific guidance

As noted in paragraphs BC41–BC42, the AASB decided to propose adding the following paragraphs to AASB 18 to provide guidance for NFP entities preparing Tier 1 GPFS, including NFP public sector entities:

- (c) paragraphs Aus9.1 and AusB5.1 – to require an NFP entity to consider the common information needs of users of GPFS of NFP entities described in the *Conceptual Framework for Financial Reporting*; and
- (d) paragraph AusB80.1 – to require an NFP entity, when presenting expenses, to consider what line items provide the most useful information to users of financial statements about the entity’s “operations or main activities”, which is broader than considering “the main components or drivers of the entity’s profitability” required by AASB 18.B80.

18 In respect to NFP public sector entities preparing Tier 1 GPFS, do you agree with the proposed paragraphs Aus9.1 and AusB5.1 in AASB 18 to require these entities to consider the common information needs of users of GPFS of NFP entities described in the *Conceptual Framework for Financial Reporting*? Please explain your reasons.

19 Do you agree with the proposed paragraph AusB80.1 in AASB 18 that NFP public sector entities preparing Tier 1 GPFS should consider what line items provide the most useful information to users of financial statements about the entity’s “operations or main activities”, which is broader than considering “the main components or drivers of the entity’s profitability” required by AASB 18.B80? Please explain your reasons.

Relief from disclosing information about management-defined performance measures (MPMs)

As noted in paragraphs BC59–BC61, stakeholder feedback indicated that NFP public sector entities publish a broad range of written communications about their performance and it would be difficult for public sector auditors to provide reasonable assurance that the MPMs are complete. Given that most subtotals used in those documents are well-defined or well-understood by users, the AASB considered that the cost and effort would outweigh the benefits of requiring NFP public sector entities to identify all MPMs and to disclose information about MPMs.

The AASB is proposing to add paragraph Aus117.1 to AASB 18 to provide an accounting policy choice for NFP public sector entities to elect to not identify and disclose information about MPMs.

20 Do you agree with the proposed paragraph Aus117.1 in AASB 18? Please explain your reasons.

Cash flow classification – dividends received and interest paid and received

As noted in paragraphs BC62–BC68, the AASB decided to propose adding paragraph Aus34D.1 to AASB 107 to retain the current accounting policy choice for NFP public sector entities to elect to classify dividends received and interest paid and received as operating cash flows. The AASB also proposes adding paragraph Aus6.1 to AASB 107 to specify that, in respect of NFP public sector entities, investing cash flows do not include the receipt of interest and dividends as described in paragraphs 34A–34D of the revised AASB 107.

The AASB noted that currently NFP public sector entities classify dividends paid as financing cash flows and dividends received and interest paid and received as operating cash flows, which is consistent with the ABS GFS Manual.

21 Do you agree with the proposed paragraphs Aus6.1 and Aus34D.1 in AASB 107 in respect to NFP public sector entities? Please explain your reasons.

Operating cash flow reconciliation

As noted in paragraphs BC69–BC70, consistent with the AASB’s proposals to provide an accounting policy choice for NFP public sector entities to elect to not present the ‘operating profit or loss’ subtotal in the statement of profit or loss, the AASB proposes adding paragraph Aus20.2 to AASB 107 to specify that when reconciling cash flows from operating activities such an entity electing to not present the ‘operating profit or loss’ subtotal shall adjust its ‘profit or loss’ total. The AASB also proposes adding paragraph 16(b) to AASB 1054 to specify that the ‘profit or loss’ total shall be used as the starting point for reconciling net cash flow from operating activities when the entity does not present the ‘operating profit or loss’ subtotal in the statement of profit or loss.

22 Do you agree with the proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054 in respect to NFP public sector entities? Please explain your reasons.

Aggregation and disaggregation

As noted in paragraphs BC71–BC74, the AASB received limited feedback from stakeholders during the targeted outreach on the AASB 18 requirements relating to aggregation and disaggregation, and the feedback did not indicate a specific reason to modify the requirements for NFP public sector entities. Therefore, the AASB decided that the requirements should be applied by these entities.

- 23 Do you agree that no modifications are needed for NFP public sector entities with respect to aggregation and disaggregation requirements set out in AASB 18? Please explain your reasons. If you consider modifications are needed, please describe the changes and explain why they are necessary.

Effective date

The AASB is proposing that the modifications to AASB 18, AASB 107, AASB 1039, AASB 1054 and AASB 1049 proposed to be made in this Exposure Draft should be applied when the entity applies AASB 18. AASB 18 applies to NFP public sector entities, including governments, for periods beginning on or after 1 January 2028 with early application permitted, which is one year after the mandatory effective date for for-profit entities.

- 24 Do you agree that NFP public sector entities, including governments, should be required to apply AASB 18 and the modifications proposed to be made in the Exposure Draft for periods beginning on or after 1 January 2028? If not, which date do you consider these entities should be required to apply AASB 18?

Statement of changes in equity

As noted in paragraph BC86, a stakeholder commented as part of the Financial Reporting Council's (FRC's) independent Post-implementation Review (PIR) of AASB 1049, that the mandatory requirement to present a statement of changes in equity in the GPFS of an NFP public sector entity should be removed in circumstances where it is redundant, but did not indicate a public-sector-specific reason.

- 25 Have you identified a public-sector-specific reason that would warrant an NFP public sector entity, or a government, to depart from the AASB 18 requirement to present a statement of changes in equity in their Tier 1 GPFS? If so, please explain.

Whole of government and GGS financial statements

Line items to be presented in primary financial statements

AASB 1049 requires a government to present specific subtotals (key fiscal aggregates) in the income statement of the whole of government and GGS financial statements. As noted in paragraphs BC75–BC78, the feedback from the FRC's PIR of AASB 1049 noted that key fiscal aggregates provide important information to users and for comparability of governments' financial performance. Accordingly, the AASB decided that governments should continue presenting key fiscal aggregates in accordance with AASB 1049.

The AASB proposes adding paragraphs Aus23.1(b) and AusB8.1(b) to AASB 18 to specify that a government does not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary.

- 26 Do you agree with the proposed paragraphs Aus23.1(b) and AusB8.1(b) in AASB 18 that a government should not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary – and therefore would be required to present all applicable line items and subtotals in accordance with AASB 1049? Please explain your reasons.

Amendments to AASB 1049 arising from the FRC's PIR of AASB 1049

As noted in paragraph BC85, in response to the feedback the FRC received on its PIR of AASB 1049, the AASB decided to propose amending the following paragraphs in AASB 1049 to align with recent Accounting Standards:

- (a) AASB 1049.14(f) – to explain the effect of AASB 1049.13 on the application of the accounting policy choice provided in the proposed paragraph Aus34D.1 in AASB 107 regarding the classification of cash flows from interest paid and received and dividends received;

- (b) AASB 1049.14(g) – to refer to AASB 1058 *Income of Not-for-Profit Entities* instead of AASB 1004 *Contributions* because AASB 1058 and AASB 15 *Revenue from Contracts with Customers* supersede the income recognition requirements previously contained in AASB 1004; and
- (c) AASB 1049.31(a)(ii) – to refer to the phrase ‘fair value through other comprehensive income’ instead of ‘available-for-sale’ to align with the terminology in AASB 9 *Financial Instruments*.

- 27 Do you agree with amending AASB 1049.14(f) to explain the effect of AASB 1049.13 on the application of the accounting policy choice provided in the proposed paragraph Aus34D.1 in AASB 107 regarding the classification of cash flows from interest paid and received and dividends received? Please explain your reasons.
- 28 Do you agree with updating the references to Standards and terminology in AASB 1049.14(g) and 31(a)(ii)? Please explain your reasons.

For-profit public sector entities

AASB 18 amended AASB 107 to require entities that do not either invest in assets or provide financing to customers as a main business activity to classify:

- (a) dividends paid as financing cash flows (AASB 107.33A);
- (b) interest paid as financing cash flows (AASB 107.34A(a));
- (c) dividends received as investing cash flows (AASB 107.34A(b)); and
- (d) interest received as investing cash flows (AASB 107.34A(b)).

As noted in paragraphs BC92–BC93, the AASB considered that the stakeholder feedback received to date did not indicate a public-sector-specific reason for for-profit public sector entities to depart from the revised AASB 107 or from AASB 18.

- 29 Do you consider it would be more important for the cash flow statements of for-profit public sector entities to be comparable with for-profit private sector entities or NFP public sector entities? Please explain why.
- 30 Please explain how important it is for for-profit public sector entities to have consistent classification of dividend and interest transactions between the income statement and the cash flow statement (noting that the AASB has decided that these entities categorise income and expenses in accordance with AASB 18)?
- 31 Assuming the AASB’s proposals are implemented and dividends received and interest paid and received will continue to be classified as operating cash flows in the whole of government and GGS financial statements, please outline the cost and effort that would be required to adjust different cash flow classifications of for-profit public sector entities to facilitate consolidation into the whole of government financial statements and how they compare with the benefits of complying with the revised requirements of AASB 107?

General matters for comment

The AASB would also particularly value comments on the following general matters:

- 32 Have the AASB *For-Profit Entity Standard-Setting Framework* and the AASB *Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in this Exposure Draft?
- 33 Are there any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals?
- 34 Do the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?
- 35 Overall, would the proposals result in financial statements that would be useful to users?
- 36 Are the proposals in the best interests of the Australian economy?
- 37 Unless already provided in response to the specific matters for comment above, what are the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Contents

PREFACE

[DRAFT] ACCOUNTING STANDARD
AASB 2026-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – OPERATING CASH FLOW RECONCILIATION AND APPLICATION OF AASB 18 AND AASB 107 BY SUPERANNUATION AND NOT-FOR-PROFIT ENTITIES

	<i>from paragraph</i>
OBJECTIVE	1
APPLICATION	2
AMENDMENTS TO AASB 18	5
AMENDMENTS TO AASB 107	13
AMENDMENTS TO AASB 1039	17
AMENDMENTS TO AASB 1049	18
AMENDMENTS TO AASB 1054	19
AMENDMENTS TO AASB 1056	20
COMMENCEMENT OF THE LEGISLATIVE INSTRUMENT	21

[DRAFT] BASIS FOR CONCLUSIONS

[Draft] Australian Accounting Standard AASB 2026-X *Amendments to Australian Accounting Standards – Operating Cash Flow Reconciliation and Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities* is set out in paragraphs 1–21. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2026-X

This [draft] Standard makes amendments to:

- (a) AASB 18 *Presentation and Disclosure in Financial Statements* (June 2024);
- (b) AASB 107 *Statement of Cash Flows* (August 2015);
- (c) AASB 1039 *Concise Financial Statements* (August 2008);
- (d) AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007);
- (e) AASB 1054 *Australian Additional Disclosures* (May 2011); and
- (f) AASB 1056 *Superannuation Entities* (December 2023).

Main features of this Standard

Main requirements

This [draft] Standard amends the following Standards in respect to the preparation of Tier 1 general purpose financial statements (GPFS):

- (a) AASB 18 – to specify:
 - (i) the requirements applicable to superannuation entities and not-for-profit (NFP) public sector entities in presenting their statement of profit or loss and related disclosures;
 - (ii) how the principles of ‘users of financial statements’, ‘assessing prospects for future net cash inflows to the entity’, ‘assessing management’s stewardship of the entity’s economic resources’, and ‘components or drivers of the entity’s profitability’ (and related terms) should be applied in an NFP entity context; and
 - (iii) NFP public sector entities are not required to disclose information about management-defined performance measures;
- (b) AASB 107 – to permit superannuation entities and NFP public sector entities to:
 - (i) classify dividends received and interest paid and received as operating cash flows; and
 - (ii) when presenting operating cash flows using the indirect method, to use the profit or loss total presented in the statement of profit or loss, instead of the operating profit or loss subtotal, as the starting point;
- (c) AASB 1049 – to:
 - (i) specify that whole of government and General Government Sector (GGS) financial statements are required to present the statement of profit or loss in the format required by AASB 1049, rather than the format set out in AASB 18; and
 - (ii) align certain terminology with that used in other, more recent Australian Accounting Standards;
- (d) AASB 1054 – to specify the starting point to use for the operating cash flow reconciliation;
- (e) AASB 1039 – to align with terminology used in AASB 18 relating to the operating cash flow reconciliation; and
- (f) AASB 1056 – to specify that superannuation entities are required to present their statement of profit or loss and statement of cash flows in the formats required by AASB 1056, rather than the formats set out in AASB 18 and the revised AASB 107 (i.e. the version of AASB 107 incorporating amendments made by AASB 18).

Application date

This [draft] Standard applies to entities as follows, with earlier application permitted:

- (a) superannuation entities applying AASB 1056 and not-for-profit entities for annual periods beginning on or after 1 January 2028; and
- (b) for-profit entities, other than superannuation entities applying AASB 1056, for annual periods beginning on or after 1 January 2027, with respect to amendments made to AASB 1039 and AASB 1054.

[Draft] Accounting Standard AASB 2026-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2026-X *Amendments to Australian Accounting Standards – Operating Cash Flow Reconciliation and Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall
Chair - AASB

[Draft] Accounting Standard AASB 2026-X *Amendments to Australian Accounting Standards – Operating Cash Flow Reconciliation and Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities*

Objective

- 1 This [draft] Standard amends:
- (a) AASB 18 *Presentation and Disclosure in Financial Statements* (June 2024);
 - (b) AASB 107 *Statement of Cash Flows* (August 2015);
 - (c) AASB 1039 *Concise Financial Statements* (August 2008);
 - (d) AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007);
 - (e) AASB 1054 *Australian Additional Disclosures* (May 2011); and
 - (f) AASB 1056 *Superannuation Entities* (December 2023).

Application

- 2 The amendments set out in this [draft] Standard apply to entities and financial statements in accordance with the application of the other Standards set out in AASB 1057 *Application of Australian Accounting Standards*.
- 3 This [draft] Standard applies to annual periods beginning on or after ... [1 January 2028]. In addition, the amendments to AASB 1039 and AASB 1054 also apply to for-profit entities (other than superannuation entities applying AASB 1056) for periods beginning on or after 1 January 2027. Earlier application is permitted.
- 4 This [draft] Standard uses underlining, striking out and other typographical material to identify the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. New paragraphs are shown with underlined text.

Amendments to AASB 18

- 5 Paragraph Aus9.1 is added to require not-for-profit entities in the private and public sectors to refer to the common information needs of users of general purpose financial reports of not-for-profit entities described in the *Conceptual Framework for Financial Reporting* when applying AASB 18. Paragraph Aus23.1 is added to specify that a superannuation entity or a government applying AASB 1049 does not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary. Paragraphs 9 and 23 are not amended but are included for reference.

Commented [PA1]: Note 2 to Board members

At its May 2025 meeting, the Board considered stakeholder feedback indicating that the objective of financial statements described in AASB 18.9 could be modified to better describe the information needs of users of NFP entities' GPFS.

In particular, stakeholders commented that the phrase "assessing the prospects for future net cash **inflows**" may be inappropriate since the focus for NFP entities is on the provision of services rather than the generation of net cash inflows.

Staff recommend adding paragraph Aus9.1 to require NFP entities to refer to the common information needs of users of GPFR of NFP entities described in the *Conceptual Framework for Financial Reporting* when applying AASB 18.

The drafting of paragraph Aus9.1 has been adapted from paragraphs 1.2.1 and 1.3.1 that the Board has proposed to add to the *Conceptual Framework for Financial Reporting* in ED 334 [Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements](#).

Commented [PA2]: Note 3 to Board members

At its May 2025 meeting, the Board considered stakeholder feedback that it would be important for superannuation entities' financial statements to remain comparable and that applying AASB 18.23 could potentially lead to inconsistencies.

The Board also decided that it would be important for governments to continue presenting key fiscal aggregates in the statement of profit or loss, since the feedback that the FRC received from its PIR of AASB 1049 noted the usefulness of key fiscal aggregates. Therefore, governments should not be required to apply AASB 18.23 to judge whether to present line items based on whether they are necessary for the statement to provide a useful structured summary.

Accordingly, staff recommend adding paragraph Aus23.1 in AASB 18.

General requirements for financial statements

Objective of financial statements

- 9 The objective of financial statements is to provide financial information about a reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources.

Aus9.1 In respect of not-for-profit private sector and public sector entities, users (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash inflows and management's stewardship of the entity's economic resources. Accordingly, where pertinent, references in this Standard to 'assessing prospects for future net cash inflows to the entity' and 'assessing management's stewardship of the entity's economic resources' (and related terms) should be read in the context of the common information needs of users of general purpose financial reports of not-for-profit entities described in the *Conceptual Framework for Financial Reporting* as identified in AASB 1048 *Interpretation of Standards*.

...

The roles of the primary financial statements and the notes

...

Information presented in the primary financial statements

...

- 23 Some Australian Accounting Standards require specific line items to be presented separately in the primary financial statements (for example paragraphs 75 and 103 of this Standard). An entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if Australian Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements (see paragraph B8).

Aus23.1 Notwithstanding paragraph 23:

- (a) a superannuation entity applying AASB 1056 *Superannuation Entities*; and
(b) a government applying AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

does not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary.

- 6 Paragraph Aus46.1(a) is added to require a superannuation entity to present its statement of profit or loss in the format specified in AASB 1056 instead of the format specified in AASB 18. Paragraph Aus46.1(b) is added to provide a policy choice for not-for-profit public sector entities to elect to not classify income and expenses into the operating, investing and financing categories required in AASB 18.47.

- 7 Paragraph Aus78.1(a) is added to require a superannuation entity to classify and present expenses in accordance with AASB 1056 instead of applying the requirements in AASB 18.78 and B80-B82. Paragraph Aus78.1(b) is added to provide relief for not-for-profit public sector entities to not consider the matters set out in AASB 18.B80-B82 regarding determining how to use the characteristics of nature and function to provide the most useful structured summary of expenses.

- 8 Paragraphs 46, 47 and 78 are not amended but are included for reference.

Commented [PA3]: Note 4 to Board members

At its May 2025 meeting, the Board decided to retain the existing AASB 1056 requirements for presenting the statement of profit or loss and expenses for superannuation entities.

Accordingly, staff recommend adding paragraphs Aus46.1(a) and Aus78.1(a) to require a superannuation entity to present its statement of profit or loss in the format specified in AASB 1056 instead of the format specified in AASB 18.

Commented [PA4]: Note 5 to Board members

At its May 2025 meeting, the Board decided to permit NFP public sector entities to continue presenting the statement of profit or loss and expenses using existing formats.

Accordingly, staff recommend adding paragraphs Aus46.1(b) and Aus78.1(b) to provide an accounting policy choice for NFP public sector entities to elect to not classify income and expenses into the operating, investing and financing categories required in AASB 18.47.

Statement of profit or loss

- 46** An entity shall include all items of income and expense in a reporting period in the statement of profit or loss unless an Australian Accounting Standard requires or permits otherwise (see paragraphs 88–95 and B86).

Aus46.1 For the purposes of paragraph 46 and notwithstanding paragraph 47:

- (a) a superannuation entity applying AASB 1056 shall not classify income and expenses into the operating, investing, financing and discontinued operations categories in its statement of profit or loss. A superannuation entity shall not apply paragraphs 47–66, 69(a), 69(b), 70–74 and B30–B77. A superannuation entity shall treat references in this Standard to ‘operating expenses’ as expenses presented in the statement of profit or loss; and
- (b) a not-for-profit public sector entity is not required to classify income and expenses into the operating, investing and financing categories in the statement of profit or loss. A not-for-profit public sector entity that elects to apply this relief shall not apply paragraphs 47–66, 69(a), 69(b), 70–74 and B30–B77. Such an entity shall treat references in this Standard to ‘operating expenses’ as expenses presented in the statement of profit or loss, including when applying paragraphs 75(a)(ii), 79–82 and 85.

Categories in the statement of profit or loss

- 47** An entity shall classify income and expenses included in the statement of profit or loss in one of five categories (see paragraph B29):

- (a) the operating category (see paragraph 52);
- (b) the investing category (see paragraphs 53–58);
- (c) the financing category (see paragraphs 59–66);
- (d) the income taxes category (see paragraph 67); and
- (e) the discontinued operations category (see paragraph 68).

...

Presentation and disclosure of expenses classified in the operating category

- 78** In the operating category of the statement of profit or loss, an entity shall classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of these characteristics (see paragraphs B80–B85):

- (a) the nature of expenses; or
- (b) the function of the expenses within the entity.

Aus78.1 Notwithstanding paragraph 78:

- (a) a superannuation entity applying AASB 1056 classifies and presents expenses in accordance with AASB 1056 and shall not apply paragraphs 78 or B80–B82; and
- (b) a not-for-profit public sector entity is permitted to classify and present expenses in line items in the statement of profit or loss based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant. A not-for-profit public sector entity that elects to apply this paragraph shall not apply paragraphs 78 or B80–B82.

- 9 Paragraph Aus117.1 is added to provide relief for not-for-profit public sector entities to not disclose information about management-defined performance measures. Paragraphs 117, 121 and 122 are not amended but are included for reference.

Commented [PA5]: Note 6 to Board members

At its May 2025 meeting, the Board decided to exempt NFP public sector entities from identifying and disclosing information about MPMs. The Board noted that MPM disclosure requirements could be applied voluntarily if considered useful to users of these entities’ GPFS.

Accordingly, staff recommend adding paragraph Aus117.1 to provide relief for NFP public sector entities to elect to not disclose information about MPMs.

Notes

...

Management-defined performance measures

Identification of management-defined performance measures

117 A *management-defined performance measure* is a subtotal of income and expenses that (see paragraphs B113–B122):

- (a) an entity uses in public communications outside financial statements;
- (b) an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and
- (c) is not listed in paragraph 118, or specifically required to be presented or disclosed by Australian Accounting Standards.

Aus117.1 Notwithstanding paragraphs 118–125 and B113–B142, a not-for-profit public sector entity is not required to identify and disclose information about management-defined performance measures.

...

121 The objective of the disclosures for management-defined performance measures is for an entity to provide information to help a user of financial statements understand:

- (a) the aspect of financial performance that, in management's view, is communicated by a management-defined performance measure; and
- (b) how the management-defined performance measure compares with the measures defined by Australian Accounting Standards.

122 An entity shall disclose information about all measures that meet the definition of management-defined performance measures in paragraph 117 in a single note (see paragraphs B132–B133). This note shall include a statement that the management-defined performance measures provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.

10 Paragraph AusB5.1 is added to Appendix B *Application guidance* to clarify the users of financial information about a not-for-profit reporting entity. Paragraph AusB8.1 is added to specify that a superannuation entity or a government does not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary. Paragraphs B5 and B8 are not amended but are included for reference.

General requirements for financial statements

Materiality

...

B5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

AusB5.1 Among the users of financial information about a not-for-profit reporting entity are existing and potential resource providers (such as donors and other funders, taxpayers, lenders and other creditors, and investors), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament). In relation to not-for-profit private sector and public sector entities, where pertinent, all references in this Standard to 'existing and potential investors, lenders and

Commented [PA6]: Note 7 to Board members

Staff recommend adding paragraph AusB5.1 to be consistent with the proposed paragraph Aus9.1 in AASB 18.

Commented [PA7]: Note 8 to Board members

Staff recommend adding paragraph AusB8.1 to be consistent with the proposed paragraph Aus23.1 in AASB 18.

other creditors' (and related terms) should be read as a reference to this broader range of users.

The roles of the primary financial statements and the notes

...

Information presented in the primary financial statements

- B8 Paragraph 23 explains that an entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary, even if the line item is required by Australian Accounting Standards. For example, an entity need not present a line item listed in paragraph 75 if doing so is not necessary for the statement of profit or loss to provide a useful structured summary of income and expenses, or a line item listed in paragraph 103 if doing so is not necessary for the statement of financial position to provide a useful structured summary of assets, liabilities and equity. If an entity does not present the line items listed in paragraphs 75 and 103, it shall disclose the items in the notes if the resulting information is material (see paragraph 42).

AusB8.1 Notwithstanding paragraph B8, consistent with paragraph Aus23.1:

- (a) a superannuation entity applying AASB 1056; and
- (b) a government applying AASB 1049;

does not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary.

- 11 Paragraph AusB80.1 is added to Appendix B to specify how paragraph B80 should be applied in a not-for-profit entity context. Paragraph B80 is not amended but is included for reference.

Statement of profit or loss

...

Items to be presented in the statement of profit or loss or disclosed in the notes

...

Presentation and disclosure of expenses classified in the operating category

Use of characteristics of nature and function

- B80 In determining how to use the characteristics of nature and function to provide the most useful structured summary as required by paragraph 78, an entity shall consider:
- (a) what line items provide the most useful information about the main components or drivers of the entity's profitability. For example, for a retail entity a main component or driver of profitability might be cost of sales. Presenting a cost of sales line item might provide relevant information about whether the revenue generated from the sale of goods covers what, for retailers, are mainly direct costs, and by what margin. However, cost of sales is unlikely to provide relevant information about the important components or drivers of profitability if the link between revenue and costs is less direct. For example, for some service entities, information about operating expenses classified by nature, such as employee benefits, might be more relevant to users of financial statements because these expenses are the main drivers of profitability.
 - (b) what line items most closely represent the way the business is managed and how management reports internally. For example, a manufacturing entity managed on the basis of major functions might classify expenses by function for internal reporting purposes. In contrast, an entity that has a single predominant function, such as providing

Commented [PA8]: Note 9 to Board members

At its May 2025 meeting, the Board considered stakeholder feedback that guidance might be needed to assist an NFP entity to apply AASB 18.B80(a). In particular, stakeholders commented that "main components or drivers of the entity's profitability" referred to in AASB 18.B80(a) might not be consistent in how users consider an NFP entity's financial statements.

Accordingly, staff recommend adding paragraph AusB80.1 to specify how paragraph B80(a) should be applied in an NFP entity context. Staff consider that the consideration of which line items provide the most useful information to users about the entity's "operations or main activities" would be broader, and more appropriate, than "main components or drivers of the entity's profitability".

- financing to customers, might determine that line items comprising expenses classified by nature provide the most useful information for internal reporting purposes.
- (c) what standard industry practice entails. If expenses are classified in the same way by entities in an industry, users of financial statements can more easily compare expenses between entities in the same industry.
 - (d) whether the allocation of particular expenses to functions would be arbitrary to the extent that the line items presented would not provide a faithful representation of the functions. In such cases, an entity shall classify these expenses by nature.

AusB80.1 For the purposes of paragraph B80(a), consistent with paragraph Aus9.1, a not-for-profit private sector entity and a not-for-profit public sector entity electing to apply paragraph 78 shall consider what line items provide the most useful information to users of financial statements about the entity's operations or main activities.

- 12 Paragraph AusC1.1 is amended. Paragraph C1 is not amended but is included for reference.

Effective date

C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2027. Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact in the notes.

AusC1.1 Notwithstanding paragraph C1, the following entities shall apply this Standard for annual reporting periods beginning on or after 1 January 2028:

- (a) not-for-profit private sector entities;
- (b) not-for-profit public sector entities; and
- (c) superannuation entities applying AASB 1056 *Superannuation Entities*.

Earlier application is permitted. If such an entity applies this Standard for an earlier period, it shall disclose that fact in the notes.

Amendments to AASB 107

- 13 Paragraph Aus6.1 is added to specify the definition of investing activities for not-for-profit public sector entities and superannuation entities. The definition of investing activities is not amended but is included for reference.

Definitions

6 The following terms are used in this Standard with the meanings specified:

...

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents and the receipt of interest and dividends as described in paragraphs 34A–34D.

...

Aus6.1 Notwithstanding the definition of investing activities in paragraph 6, in respect to superannuation entities applying AASB 1056 *Superannuation Entities* and not-for-profit public sector entities, investing activities do not include the receipt of interest and dividends as described in paragraphs 34A–34D.

- 14 Paragraph Aus20.2 is amended and renumbered as paragraph Aus20.3, and a new paragraph Aus20.2 is added, to specify the starting point to use for the indirect method to report operating cash flows for superannuation entities and not-for-profit public sector entities. Paragraphs 18 and 20 are not amended but are included for reference.

Commented [PA9]: Note 10 to Board members

At its July 2025 meeting, the Board decided to retain the current policy choice for classifying dividends received and interest paid and received for superannuation entities and NFP public sector entities.

According, staff recommend adding paragraphs Aus6.1 and Aus34D.1 in AASB 107.

Commented [PA10]: Note 11 to Board members

Consistent with the Board's proposal that superannuation entities and NFP public sector entities would not be required to present the 'operating profit or loss' subtotal, at its July 2025 meeting, the Board decided that these entities should be permitted to use the 'profit or loss' total in applying the indirect method of presenting cash flows.

Accordingly, staff recommend adding a new paragraph Aus20.2 and modifying and renumbering the existing paragraph Aus20.2 in AASB 107.

Reporting cash flows from operating activities

- 18 An entity shall report cash flows from operating activities using either:
- (a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
 - (b) the indirect method, whereby operating profit or loss is adjusted for:
 - (i) the effects of transactions of a non-cash nature;
 - (ii) any deferrals or accruals of past or future operating cash receipts or payments;
 - (iii) income or expenses classified in the operating category in the statement of profit or loss for which the associated cash flows are classified as cash flows from either investing or financing activities; and
 - (iv) cash flows from operating activities for which the associated income or expenses are not classified in the operating category of the statement of profit or loss.
- ...
- 20 Under the indirect method, the net cash flow from operating activities is determined by adjusting operating profit or loss for the effects of:
- (a) changes during the period in inventories and operating receivables and payables;
 - (b) non-cash items such as depreciation, provisions and unrealised foreign currency gains and losses classified in the operating category;
 - (c) income or expenses classified in the operating category in the statement of profit or loss for which the cash effects are investing or financing cash flows; and
 - (d) operating cash flows, such as income tax (in accordance with paragraph 35), for which the corresponding income or expenses are not classified in the operating category in the statement of profit or loss.
- Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses classified in the operating category in the statement of profit or loss, the changes during the period in inventories and operating receivables and payables and any other operating cash flows for which the corresponding income or expenses are not classified in the operating category.
- ...
- Aus20.2 For the purposes of paragraphs 18(b) and 20, and to comply with paragraph 16(b) of AASB 1054 *Australian Additional Disclosures*, a superannuation entity applying AASB 1056, or a not-for-profit public sector entity, that is not required to present operating profit or loss subtotal in the statement of profit or loss as set out in paragraph 69(a) of AASB 18, when reconciling cash flows from operating activities, shall adjust its profit or loss presented in its statement of profit or loss for:
- (a) the effects of transactions of a non-cash nature, such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses;
 - (b) any deferrals or accruals of past or future operating cash receipts or payments, including changes during the period in inventories and operating receivables and payables; and
 - (c) items of income or expense associated with investing or financing cash flows.
- Aus20.23 Notwithstanding paragraph Aus20.2, not-for-profit ~~Not for profit~~ entities that use the direct method and that highlight the net cost of services in their statement of ~~comprehensive income for the reporting period~~ profit or loss shall disclose in the complete set of financial statements a reconciliation of cash flows arising from operating activities to net cost of services as reported in the statement of ~~comprehensive income~~ profit or loss.
- 15 Paragraphs Aus34D.1 is added to permit superannuation entities and not-for-profit public sector entities to classify interest paid and received and dividends received as cash flows from operating activities. Paragraphs 31–34D are not amended but are included for reference.

Interest and dividends

- 31 **Cash flows from interest and dividends received and paid shall each be presented separately. Each shall be classified in a consistent manner from period to period applying paragraphs 32, 33A and 34A–34D.**
- 32 The total amount of interest paid during a period is included in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with AASB 123 *Borrowing Costs*.
- 33 [Deleted]
- 33A An entity shall classify dividends paid as cash flows from financing activities.
- 34 [Deleted]
- 34A An entity, other than those entities described in paragraph 34B, shall classify:
- (a) interest paid (as described in paragraph 32) as cash flows from financing activities.
 - (b) interest and dividends received as cash flows from investing activities.
- 34B An entity that invests in assets or provides financing to customers as a main business activity (as determined applying paragraphs B30–B41 of AASB 18) shall determine how to classify dividends received, interest received and interest paid in the statement of cash flows by referring to how – applying AASB 18 – it classifies dividend income, interest income and interest expenses in the statement of profit or loss. An entity shall classify the total of each of these cash flows in a single category in the statement of cash flows (that is, either as operating, investing or financing activities).
- 34C In applying paragraph 34B, if an entity classifies the total of each of dividend income, interest income and interest expenses in a single category of the statement of profit or loss, the entity shall classify the total of each of dividends received, interest received and interest paid as cash flows arising from the associated activity in the statement of cash flows. For example, if an entity classifies all its interest expenses in the financing category of the statement of profit or loss, the entity would classify all its interest paid as cash flows from financing activities.
- 34D In applying AASB 18, an entity may be required to classify each of dividend income, interest income and interest expenses in more than one category of the statement of profit or loss. In such a case, in applying paragraph 34B the entity shall make an accounting policy choice to classify the related cash flows in one of the associated activities in the statement of cash flows. For example, if an entity classifies interest expenses in the operating category and the financing category of the statement of profit or loss, the entity would classify all its interest paid in accordance with its accounting policy as either cash flows from operating activities or cash flows from financing activities.

Aus34D.1 Notwithstanding paragraphs 34A–34D, a superannuation entity and a not-for-profit public sector entity are permitted to classify interest paid and received and dividends received as cash flows from operating activities.

- 16 The following sentence is added to the preamble text of the Illustrative examples to specify that the illustrative examples are relevant to entities classifying income and expenses into the operating, investing and financing categories as set out in AASB 18.

Illustrative examples

These illustrative examples accompany, but are not part of, AASB 107.

These illustrative examples are relevant to entities classifying income and expenses into the operating, investing and financing categories as set out in AASB 18.

Amendments to AASB 1039

- 17 Paragraph 21 is amended to be consistent with the amendments made to AASB 1054.

Commented [PA11]: Note 12 to Board members

AASB 18 amended the Illustrative Examples accompanying AASB 107 to reflect the new requirements. Those amendments are mainly relating to the requirements for an entity to classify income and expenses into the operating, investing and financing categories as set out in AASB 18.

Staff recommend adding a sentence in the preamble text of the Illustrative examples to indicate that those examples are unlikely to be relevant for superannuation entities and NFP public sector entities that elect to not classify income and expenses into the AASB 18 categories.

Commented [PA12]: Note 13 to Board members

The Board has not yet considered AASB 1039. Staff recommend amending paragraph 21 to be consistent with the proposed amendments made to AASB 1054.

Financial Statements

...

- 21 All the notes to the financial statements required by other Accounting Standards are not required in the concise financial report. For example, this Standard does not require an entity that uses the direct method in the statement of cash flows to provide a reconciliation of cash flows arising from operating activities to 'operating profit or loss' or 'profit and loss', as the case may be. However, information required in some notes by other Accounting Standards is required when specified in this Standard.

Amendments to AASB 1049

- 18 Paragraph 14(f) is amended to delete redundant text relating to dividends paid and instead to explain the effect of AASB 1049.13 on the application of the accounting policy choice provided in the proposed paragraph Aus34D.1 in AASB 107 regarding the classification of cash flows from interest paid and received and dividends received. Paragraphs 14(g) and 31(a)(ii) are amended to align with terminology used in other Australian Accounting Standards.

Compliance with Australian Accounting Standards and the ABS GFS Manual

...

- 14 Examples of particular optional treatments in Australian Accounting Standards that paragraph 13 of this Standard has the effect of limiting, include:

...

- (f) dividends paid by entities within the PNFC sector and PFC sector that may be classified by those sectors as a financing cash flow or as a component of cash flows from operating activities under AASB 107. Because classification as a financing cash flow is consistent with the format of the cash flow statement under the ABS GFS Manual, paragraph 13 of this Standard has the effect of requiring classification of dividends paid as a financing cash flow under AASB 107, a not-for-profit public sector entity is permitted to classify interest paid as financing or operating cash flows and interest and dividends received as investing or operating cash flows. Because classification as an operating cash flow is consistent with the format of the cash flow statement under the ABS GFS Manual, paragraph 13 of this Standard has the effect of requiring classification of these items as an operating cash flow; and
- (g) government grants accounted for by entities within the PNFC sector and PFC sector in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. In accordance with paragraphs 52(b)(i) and 53 of this Standard, information about the PNFC sector and PFC sector disclosed for the whole of government is prepared in a manner consistent with the accounting policies adopted in the whole of government statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows. Therefore, the options in AASB 120 are not adopted and instead the principles in AASB 1058 *Income of Not-for-Profit Entities* AASB 1004 *Contributions* are applied.

...

Whole of government and GGS statements of comprehensive income

...

- 31 The following examples illustrate how the approach in paragraphs 30 and 30A applies to particular items:

Commented [PA13]: Note 14 to Board members

AASB 18 added paragraph 33A in AASB 107, which states that an entity "shall classify dividends paid as cash flows from financing activities". Therefore, the current text in AASB 1049.14(f) about dividends paid by entities within the PNFC and PFC should be classified as financing cash flows will become redundant when AASB 18 and the revised AASB 107 are effective.

Instead of deleting the subparagraph, staff recommend amending AASB 1049.14(f) to explain the effect of AASB 1049.13 on the application of the accounting policy choice provided in the proposed paragraph Aus34D.1 in AASB 107 regarding the classification of cash flows from interest paid and received and dividends received.

Commented [PA14]: Note 15 to Board members

At its August 2025 meeting, as part of its response to the feedback the FRC received from its PIR of AASB 1049, the Board decided to amend these AASB 1049 paragraphs to align with terminology used in other Australian Accounting Standards.

- (a) in both a whole of government and GGS financial reporting context, where GAAP and GFS both recognise the item in the reporting period:
- ...
- (ii) changes in the fair value of financial instruments measured at fair value, that do not arise from undistributed interest or dividends, are classified as other economic flows, irrespective of whether the instruments are classified as 'fair value through profit or loss' or 'fair value through other comprehensive income' '~~available for sale~~';

Amendments to AASB 1054

- 19 Paragraph 16 and its heading are amended to modify the starting point to use in preparing the operating cash flow reconciliation.

Reconciliation of Net Operating Cash Flow to ~~Profit (Loss)~~

- 16 When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to ~~profit (loss)~~:
- (a) the operating profit or loss subtotal in the statement of profit or loss, when the entity presents that subtotal in the statement of profit or loss in accordance with paragraph 69(a) of AASB 18; or
- (b) the profit or loss total reported in the statement of profit or loss, when the entity does not present the operating profit or loss subtotal in the statement of profit or loss.

Amendments to AASB 1056

- 20 Paragraphs 10A, 12A and 22A are added to specify how the requirements set out in AASB 18 are applied by a superannuation entity. Paragraphs 9–10, 11–12 and 22 are not amended but are included for reference.

Presentation of financial statements

...

Income statement

- 9 The income statement shall include line items that present, when applicable, the following amounts for the period:
- (a) income, in aggregate or subclassified, subject to paragraph 10;
- (b) expenses, in aggregate or subclassified, subject to paragraph 10;
- (c) net benefits allocated to *defined contribution member* accounts;
- (d) the net change in *defined benefit member* liabilities;
- (e) net result, subject to paragraph 10; and
- (f) income tax expense or benefit attributable to net result.
- 10 When a superannuation entity acts in the capacity of an insurer in respect of defined contribution members, the income statement or notes to the financial statements shall separately present insurance premiums, claim expenses, reinsurance expenses, reinsurance recoveries, and the net result from insurance activities.
- 10A Consistent with paragraph Aus46.1(a) of AASB 18, a superannuation entity shall not classify income and expenses into the categories set out in paragraph 47 of AASB 18 and not present the subtotals set out in paragraphs 69(a) and 69(b) of AASB 18.

Commented [PA15]: Note 16 to Board members

At its July 2025 meeting, the Board decided that the starting point to use for operating cash flow reconciliation should be aligned with the indirect method in the revised AASB 107 – that is, entities that present the operating profit or loss subtotal should be required to use that subtotal as the starting point. Accordingly, staff recommend adding paragraph 16(a).

Consistent with the Board's proposal that superannuation entities and NFP public sector entities would not be required to present the 'operating profit or loss' subtotal, the Board also decided that these entities should be permitted to use the 'profit or loss' total in preparing the operating cash flow reconciliation. Accordingly, staff recommend adding paragraph 16(b).

Commented [PA16]: Note 17 to Board members

Staff recommend adding paragraphs 10A and 22A to signpost the proposed relief to be provided to superannuation entities in AASB 18.

Statement of changes in member benefits

- 11 A statement of changes in member benefits shall present opening and closing balances for member liabilities and, when applicable, include the following line items for the period:
- (a) employer contributions;
 - (b) member contributions;
 - (c) taxes on contributions;
 - (d) benefits transferred into the entity from other superannuation entities;
 - (e) benefits to members or their beneficiaries;
 - (f) insurance premiums charged to defined contribution member accounts;
 - (g) net benefits allocated to defined contribution member accounts;
 - (h) net changes to defined benefit member accrued benefits; and
 - (i) amounts allocated to members from reserves.

- 12 Current tax and deferred tax shall be charged or credited directly to member liabilities and presented in the statement of changes in member benefits when the tax relates to items that are credited or charged, in the same or a different period, directly to member liabilities.

12A A superannuation entity shall treat its statement of changes in member benefits (and its comparative information) as a primary financial statement for the purposes of applying the requirements set out in AASB 18, including comparative information, labelling, and aggregation and disaggregation.

...

Disclosure

...

Nature of income and expense items

- 22 A superannuation entity shall disclose information that provides users with a basis for understanding the nature and amounts of income and expenses.

22A A superannuation entity shall treat references to 'operating expenses' in AASB 18 as expenses presented in its income statement, and not apply paragraphs 78 and B80–B82 of AASB 18.

Commencement of the legislative instrument

- 21 For legal purposes, this legislative instrument commences on ... [31 December 2026].

Commented [PA17]: Note 18 to Board members

At its May 2025 meeting, the Board decided to specify in AASB 1056 that the statement of changes in member benefits is a 'primary financial statement' for the purposes of a superannuation entity's GPFS.

Accordingly, staff recommend adding paragraph 12A in AASB 1056.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2026-X Amendments to Australian Accounting Standards – Operating Cash Flow Reconciliation and Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities.

Introduction

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB's) considerations in reaching the conclusions in this Exposure Draft. It sets out the reasons why the Board developed the Exposure Draft, the approach taken to develop it and the bases for the key decisions made. Individual Board members gave greater weight to some factors than to others.
- BC2 This Basis for Conclusions is set out in the following sections:
- (a) Reasons for undertaking the Presentation and Disclosure in Financial Statements by Superannuation and Not-For-Profit Entities project (paragraphs BC4–BC11);
 - (b) Amendments relevant to superannuation entities applying AASB 1056 *Superannuation Entities* (paragraphs BC12–BC40);
 - (c) NFP-specific guidance relevant to not-for-profit (NFP) private and public sector entities (paragraphs BC41–BC46);
 - (d) Amendments relevant to NFP public sector entities, including governments (paragraphs BC47–BC74);
 - (e) Additional amendments relevant to governments' financial statements prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, including amendments to AASB 1049 arising from the Financial Reporting Council's (FRC's) independent Post-implementation Review (PIR) (paragraphs BC75–BC91);
 - (f) Reasons for not modifying Accounting Standards for for-profit public sector entities (paragraphs BC92–BC93);
 - (g) Amendments to AASB 1054 *Australian Additional Disclosures* and AASB 1039 *Concise Financial Reports* relevant to all entities preparing Tier 1 general purpose financial statements (GPFS), related to the starting point to use for operating cash flow reconciliation (paragraphs BC94–BC96); and
 - (h) Effective date (paragraphs BC97–BC99).
- BC3 The proposals in this Exposure Draft apply only to relevant entities preparing Tier 1 GPFS. The AASB is undertaking a separate project to determine the applicability of AASB 18 to the presentation and disclosure of financial statements prepared in accordance with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. This is discussed in the Invitation to Comment [title].

Reasons for undertaking the Presentation and Disclosure in Financial Statements by Superannuation and Not-for-Profit Entities project

- BC4 In June 2024, the AASB issued AASB 18 *Presentation and Disclosure in Financial Statements*, which incorporates IFRS 18 *Presentation and Disclosure in Financial Statements* issued by the International Accounting Standards Board (IASB). When effective, AASB 18 will:
- (a) replace AASB 101 *Presentation of Financial Statements*;
 - (b) amend AASB 107 *Statement of Cash Flows*; and
 - (c) amend AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, including changing its title to Basis of Preparation of Financial Statements.
- BC5 The changes introduced by AASB 18 mainly affect the following aspects of an entity's GPFS:
- (a) the presentation of the statement of profit or loss;
 - (b) aggregating and disaggregating information to be presented and disclosed in GPFS;
 - (c) disclosures in GPFS relating to management-defined performance measures (MPMs); and

(d) classification of cash flow items in the statement of cash flows.

BC6 When issuing AASB 18, the AASB agreed to undertake the Presentation and Disclosure in Financial Statements by Superannuation and Not-for-Profit Entities project to determine how AASB 18 should apply to superannuation entities, NFP public sector entities and NFP private sector entities, which led to deferring the application date of AASB 18 for these entities to annual periods beginning on or after 1 January 2028, instead of 1 January 2027. This is because:

- (a) AASB 1056 and AASB 1049 specify presentation and disclosure requirements for superannuation entities and whole of government and General Government Sector (GGS) financial statements, respectively, and each government mandates specific financial statement formats for its public sector entities; and
- (b) the AASB received only limited feedback from NFP private sector entities on ED 298 *General Presentation and Disclosures* (January 2020), which incorporated the IASB's Exposure Draft ED/2019/7 *General Presentation and Disclosures*.

Targeted outreach

BC7 In the first half of 2025, the AASB undertook targeted outreach with stakeholders on applying AASB 18 to superannuation and NFP entities. The AASB obtained informal feedback from the following stakeholders:

- (a) representatives of nine superannuation funds and five service providers in the superannuation industry;
- (b) members of the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC);
- (c) members of the Financial Reporting and Accounting Committee of the Australasian Council of Auditors-General (ACAG-FRAC);
- (d) members of the AASB Not-for-profit Project Advisory Panel; and
- (e) members of the Accounting Research Group facilitated by Chartered Accountants Australia and New Zealand.

BC8 Based on the feedback received from the targeted outreach, the AASB decided to propose modifications to Australian Accounting Standards in respect of the following entities preparing Tier 1 GPFS and applying AASB 18 requirements and related amendments to AASB 107:

- (a) superannuation entities applying AASB 1056; and
- (b) NFP public sector entities, including governments applying AASB 1049.

BC9 The AASB noted that the limited feedback received from stakeholders in targeted outreach with respect to NFP private sector entities and universities did not provide sufficient justification to support departing from AASB 18 or the revised AASB 107 (other than providing guidance on certain AASB 18 principles, see paragraphs BC41–BC42). The AASB decided to seek input from stakeholders on the suitability of applying AASB 18 and the revised AASB 107 to these entities in preparing Tier 1 GPFS, as noted in Q14 in the Specific Matters for Comment section of the Exposure Draft.

BC10 Additionally, in response to the feedback that the FRC received on its PIR of AASB 1049 (completed in December 2021), the AASB decided to propose certain terminology changes to AASB 1049 to align with that used in other more recent Australian Accounting Standards. This is explained in paragraph BC85.

BC11 The AASB also decided to seek input from stakeholders about the costs and benefits of requiring for-profit public sector entities to comply with the revised AASB 107 (i.e. the version of AASB 107 incorporating the amendments made by AASB 18) with respect to the classification of cash flows from dividends received and interest paid and received. This is the subject of Q29–Q31 in the Specific Matters for Comment and paragraphs BC92–BC93.

Superannuation Entities

BC12 As outlined in AASB 1056.BC17, when developing AASB 1056, the AASB concluded that, for some items, the reporting requirements that would otherwise apply under other Australian Accounting Standards would not necessarily give rise to relevant financial information for users of superannuation entity GPFS. Consequently, AASB 1056 has the effect of:

- (a) requiring superannuation entities to depart from other Australian Accounting Standards on some topics;

- (b) limiting the accounting treatments available to superannuation entities in other Australian Accounting Standards; and
 - (c) requiring superannuation entities to provide information about items and events specific to them.
- BC13 In 2024, the AASB completed a PIR of AASB 1056, which included issuing Invitation to Comment ITC 54 *Post-implementation Review of AASB 1056 Superannuation Entities and Interpretation 1019* The Superannuation Contributions Surcharge for comment. The feedback received on ITC 54 indicated:
- (a) widespread support for the existing requirements; and
 - (b) a number of issues that could be clarified, none of which are regarded as sufficiently significant to warrant a due process at this stage.
- BC14 Based on the PIR feedback, the AASB decided not to propose any changes to AASB 1056, but to continue to monitor the application of AASB 1056 and other Accounting pronouncements applicable to the superannuation industry as circumstances change. However, at that time, AASB 18 had not been issued and the AASB did not consider how the AASB 18 requirements interact with AASB 1056.
- BC15 In the first half of 2025, the AASB undertook targeted outreach with nine key superannuation entity stakeholders and five service providers to seek feedback on how AASB 18 and the revised AASB 107 should be applied by superannuation entities. The AASB decided to propose adding new paragraphs to AASB 18, AASB 107 and AASB 1056 to specify how superannuation entities should apply those Standards, as summarised in paragraphs BC16–BC40.

Presenting line items in the primary financial statements – paragraphs Aus23.1(a) and AusB8.1(a) in AASB 18

- BC16 AASB 18.23 states that “An entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if Australian Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements ...”.
- BC17 AASB 1056.9 and 11 require a superannuation entity to present specific line items in the income statement and in the statement of changes in member benefits. However, under the general principle in AASB 18.23, a superannuation entity need not present separately a line item in those statements if the entity determines that doing so is not necessary for the statement to provide a useful structured summary.
- BC18 The majority of stakeholders disagreed with providing a superannuation entity the flexibility to apply judgement in determining which items to present in primary financial statements, including the statement of changes in member benefits. They considered that superannuation entities should continue to be required to present the line items specified in AASB 1056.9 and 11 (when applicable). Stakeholders considered that applying the judgement required by AASB 18:
- (a) could lead to inconsistencies across superannuation entities’ GPFS, reducing comparability for users;
 - (b) would incur costs that would likely outweigh the benefits because a superannuation entity is likely to conclude that the same line items are necessary, applying the requirements in AASB 18.23; and
 - (c) would require system updates and explanations to users if any changes to a statement’s presentation were made, incurring unjustified costs given that the current presentation already meets user needs.
- BC19 The minority of stakeholders suggested there may be benefits to identifying that the line items specified in AASB 1056 are the minimum disclosures required to provide useful information to users and are not overridden by AASB 18. The AASB considered that no modifications to Accounting Standards are needed to achieve this since the line items specified in AASB 1056 are the minimum disclosures that must be disclosed “when applicable” and material to the entity. AASB 18.20 would require a superannuation entity to consider whether to provide additional disclosures when compliance with AASB 1056 is insufficient to enable users to understand the effect of transactions and other events and conditions on the entity’s financial position and performance. The AASB observed the stakeholder view that the existing requirements in AASB 1056.9 and 11 help facilitate comparability.
- BC20 The AASB considered that a superannuation entity is permitted to exclude line items listed in AASB 1056 if they are not applicable. This effectively achieves the same outcome as applying the principle in AASB 18.23. For avoidance of doubt, the AASB decided to propose adding paragraphs Aus23.1(a) and AusB8.1(a) to AASB 18 to specify that a superannuation entity does not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary.

Income statement presentation – paragraph Aus46.1(a) in AASB 18 and paragraph 10A in AASB 1056

- BC21 All superannuation entity stakeholders who responded to the targeted outreach expressed the view that under AASB 18, a superannuation entity would be considered as investing in assets as a main business activity; and therefore, would likely present all income and expenses in the operating category and nil or immaterial balances in the investing and financing categories. That is, the same amounts are likely to be reported in the two new subtotals required in AASB 18.69(a) and 69(b): ‘operating profit or loss’ and ‘profit before financing and income taxes’.
- BC22 AASB 1056.9 includes specific income statement presentation requirements for superannuation entities. Stakeholders held the view that distinguishing between the operating, investing and financing categories, as required by AASB 18, would not provide more relevant and reliable information to users and therefore the benefits would not outweigh the costs. Stakeholders were concerned that the categorisation might result in less transparency for users because:
- (a) users might not understand the differences in the definitions of the income statement categories compared to the definitions in AASB 107 for operating, investing and financial activities; and
 - (b) under AASB 1056, the income statement currently could be regarded as including ‘operating and investing’ activities and the statement of changes in member benefits could be regarded as including member-related ‘financing activities’.
- BC23 Considering the feedback received, the AASB decided to propose maintaining the income statement presentation requirements of AASB 1056 and to add paragraph Aus46.1(a) to AASB 18 and paragraph 10A to AASB 1056 to specify that a superannuation entity should not classify income and expenses into the operating, investing, financing and discontinued operations categories and need not present the two related subtotals in its statement of profit or loss.

Presentation of expenses – paragraph Aus78.1(a) in AASB 18 and paragraph 22A in AASB 1056

- BC24 AASB 1056.22 requires a superannuation entity to present expenses by their nature in the income statement. AASB 18.78 requires an entity to classify and present operating-category expenses in line items in a way that provides the most useful structured summary of its expenses, considering the matters set out in AASB 18.B80, using one or both of these characteristics: the nature of expense, or the function of the expenses within the entity.
- BC25 The majority of stakeholders considered that the additional flexibility to present expenses by their nature or function, in line with AASB 18, would not be beneficial because:
- (a) presenting expenses by nature is considered the most useful presentation;
 - (b) superannuation entity members need to be able to compare between superannuation plans, particularly with respect to expenses, the importance of which is noted in AASB 1056.BC187–BC190. Requiring a consistent presentation by nature enables comparison and is regarded as the most understandable basis for users;
 - (c) the current expense disclosure requirements could be considered to meet the ‘standard industry practice’ requirement under AASB 18.B80(c) and is consistent with expenses being classified by nature in other forms of reporting required of superannuation entities. The list of expense items prescribed in AASB 1056.AG29 is a result of extensive stakeholder consultation under both ED 179 and ED 223¹ when developing the Standard and are deemed to be the most relevant in assisting members and employers to make informed decisions about their superannuation funds. Maintaining the current presentation and disclosure requirements is critical in promoting comparability and usability of financial information; and
 - (d) the exercise to re-examine the basis of expense classification under AASB 18 would likely yield a similar result to existing practice, making its benefits marginal compared to the potential cost and effort involved.
- BC26 In contrast, one stakeholder considered that superannuation entities should be required to classify their operating expenses in accordance with the requirements of AASB 18 because currently some superannuation entities present operating expenses using a mixture of nature and function-related disclosures.

¹ ED 179 *Superannuation Plans and Approved Deposit Funds* (May 2009) and ED 223 *Superannuation Entities* (December 2011).

- BC27 Overall, the AASB considered that achieving comparability of expenses across superannuation entities is important to users and the benefits of allowing entities the flexibility to classify and present expenses by nature or function is unlikely to outweigh the associated costs. The AASB also noted that the feedback received during the PIR of AASB 1056 did not raise the presentation of expenses by nature as a key issue. The AASB considered that AASB 1056 (particularly AASB 1056.AG3) is clear about the requirements to present expenses by nature and that amendments to AASB 1056 is unnecessary. However, to avoid any confusion, the AASB decided to propose adding paragraph Aus78.1(a) to AASB 18 and paragraph 22A to AASB 1056 to specify that a superannuation entity shall not apply paragraphs AASB 18.78 and B80–B82.

Classifying dividends received and interest paid and received – paragraphs Aus6.1 and Aus34D.1 in AASB 107

- BC28 The version of AASB 107 that pre-dated AASB 18 provides an accounting policy choice for an entity to elect to measure cash flows from dividends and interest as operating cash flows. The AASB observed that currently superannuation entities classify dividends received and interest paid and received as operating activities. Superannuation entities do not pay dividends.
- BC29 Under AASB 107.34B of the revised AASB 107 (i.e. the version of AASB 107 incorporating AASB 18 amendments), an entity that invests in assets as a main business activity would be required to classify dividends received and interest paid and received as a single category for each item, and:
- (a) classify cash flows in the same category as the income statement; or
 - (b) make an accounting policy choice if associated income and expenses are recognised in more than one income statement category.
- BC30 As noted in paragraph BC21, stakeholders commented that under AASB 18 a superannuation entity would be considered as investing in assets as a main business activity; and therefore, would likely present all income and expenses in the operating category. Thus, applying AASB 107.34B, a superannuation entity would likely classify dividends received and interest paid and received as operating activities.
- BC31 However, as a consequence of the AASB's decisions described in paragraph BC21–BC23 – to propose that a superannuation entity not classify income and expenses into the operating, investing, financing and discontinued operations categories described in AASB 18 – AASB 107.34B would not provide a basis for superannuation entities in classifying dividends received and interest paid and received.
- BC32 The AASB decided to propose adding paragraph Aus34D.1 to AASB 107 to retain the current accounting policy choice for superannuation entities to elect to classify dividends received and interest paid and received as operating cash flows. The AASB also proposes to add paragraph Aus6.1 to AASB 107 to specify that, in respect of superannuation entities (and NFP public sector entities), investing cash flows do not include the receipt of interest and dividends as described in paragraphs 34A–34D of the revised AASB 107.

Operating cash flow reconciliation – paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054

- BC33 AASB 18 amended AASB 107 to require entities to use the 'operating profit or loss' subtotal, instead of the 'profit or loss' total, as the starting point for the indirect method of reporting cash flows from operating activities.
- BC34 Consistent with the decision to propose adding paragraph Aus46.1(a) to AASB 18 and paragraph 10A to AASB 1056 – to require a superannuation entity not to present the 'operating profit or loss' subtotal in its income statement – the AASB proposes to add a new paragraph Aus20.2 to AASB 107 to specify that when reconciling cash flows from operating activities a superannuation entity shall adjust its 'profit or loss' total. The AASB also proposes to add paragraph 16(b) to AASB 1054 to specify that the 'profit or loss' total shall be used as the starting point for reconciling net cash flow from operating activities when the entity does not present the 'operating profit or loss' subtotal in the statement of profit or loss.

Statement of changes in member benefits – paragraph 12A in AASB 1056

- BC35 AASB 1056 requires a superannuation entity to present a statement of changes in member benefits which is not referred to as a primary financial statement in AASB 18. A stakeholder questioned whether the principles underpinning primary financial statements (including comparative information, labelling, and aggregation and disaggregation) should be extended to the preparation of the statement of changes in member benefits.

- BC36 Considering this, the AASB decided to propose adding paragraph 12A to AASB 1056 to specify that a superannuation entity shall treat its statement of changes in member benefits (and its comparative information) as a primary financial statement for the purposes of applying the requirements set out in AASB 18.

Aggregation and disaggregation

- BC37 AASB 1056.32 requires the disclosure of disaggregated information when it is necessary to explain the risks and benefit arrangements relating to different categories of superannuation entity members. The majority of stakeholders considered that applying the aggregation and disaggregation principles specified in AASB 18.41 would unlikely change how items are aggregated and disaggregated in the GPFS of a superannuation entity. One stakeholder considered that, other than in relation to member liabilities, superannuation funds/Trustees do not manage their schemes on a disaggregated basis (i.e. investments are in a general pool and are not allocated between defined contribution schemes, defined benefit schemes and pensions). Therefore, applying the shared characteristics principle in AASB 18.41(a) would unlikely improve consistent and comparable reporting overtime and between entities. The AASB also considered that applying AASB 18.B17(b), which requires an entity to classify and aggregate line items based on their characteristics so they have at least one similar characteristic, would have little or no impact on the way a superannuation entity disaggregates information.
- BC38 The AASB held the view that the requirements of AASB 1056 and AASB 18 are not inconsistent and decided that no sector-specific modifications are needed in this regard. Therefore, the aggregation and disaggregation requirements in AASB 18 would apply in the context of the more specific AASB 1056.32 requirements for superannuation entities.

Management-defined performance measures

- BC39 All superannuation entity stakeholders who responded to the targeted outreach did not identify any subtotals of income and expenses a superannuation entity uses that would meet the definition of an MPM. Nonetheless, stakeholders commented that the AASB 18 disclosure requirements relating to MPMs would not be onerous.
- BC40 The AASB therefore decided that no modifications to the MPM disclosure requirements are necessary for superannuation entities.

NFP-specific guidance relevant to NFP private and public sector entities

- BC41 The AASB observed there are some principles in AASB 18 expressed in for-profit terminology that might require additional guidance to specify how those principles should be applied by NFP entities. The AASB decided to propose adding the following paragraphs to AASB 18:
- (a) paragraphs Aus9.1 and AusB5.1 – to require an NFP entity to consider the common information needs of users of GPFS of NFP entities described in the *Conceptual Framework for Financial Reporting*; and
 - (b) paragraph AusB80.1 – to require an NFP entity applying AASB 18.78 to consider what line items provide the most useful information to users of financial statements about the entity's "operations or main activities", which is broader than considering "the main components or drivers of the entity's profitability" required by AASB 18.B80.
- BC42 In respect to the proposed paragraph AusB80.1 in AASB 18, the AASB considered stakeholder comments that users of NFP entity financial statements might focus more on the entity's operations or main activities, rather than on the entity's profitability.

Limited stakeholder feedback from NFP private sector entities and universities

- BC43 The AASB received limited feedback from stakeholders in the targeted outreach with respect to NFP private sector entities and universities.
- BC44 In respect to NFP private sector entities preparing Tier 1 GPFS, the feedback suggested that there is no compelling reason for modifying the AASB 18 requirements for these entities. While acknowledging that there will be a degree of cost and effort needed to apply the requirements (e.g. to categorise income and expenses into categories), NFP private sector entities preparing Tier 1 GPFS are likely to be relatively large, or be subject to a high level of public interest and accountability. Therefore, the costs and efforts to apply AASB 18 would seem commensurate with added benefits for a clearer and more structured income statement.

- BC45 Universities are required to prepare financial statements using the financial statement guidelines published by the Commonwealth Department of Education. The guidelines require certain presentation and the classification of dividends received and interest paid and received as operating cash flows (which is inconsistent with the revised AASB 107). One stakeholder commented that there might be a benefit to continue permitting universities to depart from the revised AASB 107 and to continue their current classifications.
- BC46 The AASB decided that no sufficient justification has been brought to its attention to support modifying AASB 18 or the revised AASB 107 for NFP private sector entities and universities preparing Tier 1 GPFS, other than the proposed guidance noted in paragraph BC41. The AASB decided to seek input from stakeholders on the suitability of applying AASB 18 or the revised AASB 107 to these entities, as noted in Q14 in the Specific Matters for Comment section of the Exposure Draft.

NFP public sector entities, including governments

- BC47 The AASB noted the International Public Sector Accounting Standards Board (IPSASB) is undertaking a project on Presentation of Financial Statements, which includes considering the application of IFRS 18 by NFP public sector entities. The AASB decided not to postpone its own work on the financial statement presentation requirements for Australian NFP public sector entities until the results of the IPSASB's project are available, given the likely timeframe. However, the AASB plans to review the IPSASB's work as part of its project on the Public Sector Financial Reporting Framework.
- BC48 The AASB received responses from eight public sector stakeholders in the targeted outreach. Based on the feedback, the AASB determined that it is justifiable under the *AASB Not-for-Profit Entity Standard-Setting Framework* for NFP public sector entities to depart from AASB 18 and the revised AASB 107.
- BC49 In addition to the NFP guidance described in paragraph BC41, the AASB decided to propose permitting NFP public sector entities, including governments, to continue presenting the statement of profit or loss and the statement of cash flows using existing formats, and to provide relief from the MPM disclosure requirements. The AASB decided to propose adding new paragraphs to AASB 18 and AASB 107 to specify how NFP public sector entities should apply those Standards, as summarised below.

Statement of profit or loss presentation – paragraph Aus46.1(b) in AASB 18

- BC50 The Treasury or Finance Department of each government prescribes the GPFS presentation and disclosure formats for the public sector entities in their jurisdiction. The Office of Local Government of each state and territory government prescribes the GPFS presentation and disclosure formats for the local government entities in their jurisdiction. AASB 1049 includes presentation and disclosure requirements for whole of government and GGS financial statements.
- BC51 Most public sector stakeholders who responded to the targeted outreach commented that the costs would outweigh the benefits of classifying income and expenses into the operating, investing and financing categories and to present the 'operating profit or loss' and 'profit before financing and income taxes' subtotals in the statement of profit or loss (AASB 18.74, 69(a) and 69(b)). They provided the following comments:
- (a) The current presentation formats prescribed by the relevant authority and AASB 1049 are relevant and well-understood by users of public sector GPFS and budget papers. Some NFP public sector entities are required to report a 'net cost of services'² subtotal in the statement of profit or loss. This subtotal is also used as a budget management tool to manage an entity's overall recurrent expenditure to within budget limits.
 - (b) Classifying income and expenses into the operating, investing and financing categories would detract from meeting the needs of users and reduce the clarity and understandability of the statement of profit or loss. This is because separately identifying income and expenses related to the day-to-day operations from those related to capital projects provides useful information to users. As a result, many NFP public sector entities present an operating result net of the following items:
 - (i) certain non-cash items, including depreciation, amortisation and impairment, fair value movements and gain/loss on the sale of assets;
 - (ii) capital grants that are related to constructing or purchasing tangible assets that are not directly related to the entity's underlying operations; and
 - (iii) restricted grants and investment funds that can only be used for specific purposes.

² Calculated as total expenses less income received from its own sources (i.e. excluding appropriations from its government).

- (c) Removing items such as interest expenses and expenses relating to employee benefit liabilities from the operating category is unimportant for users. The nature of NFP public sector entities means that they will inherently have few activities in the investing and financing categories because their core focus is on providing goods and services, which are generally funded by appropriations or other forms of taxes or rates.
- (d) Debt financing activities are typically managed centrally, with funding provided to the consolidated fund and advanced to government departments and public sector entities through appropriations. Therefore, the full cost of interest and borrowing is not captured within an entity's GPFS.
- (e) Entities subject to administrative restructures and machinery of government changes would be required to reassess their main business activities and therefore the categorisation of income and expenses.
- (f) Categorising income and expenses into the AASB 18 categories would incur significant costs because a new chart of accounts and report mappings might be needed, and there are no apparent benefits in categorising income and expenses into those categories.

BC52 The AASB observed that the stakeholder feedback indicated that there is no evidence that the AASB 18 categories would provide additional useful information for users compared with existing formats. The AASB considered it is justifiable under the *AASB Not-for-Profit Entity Standard-Setting Framework* for NFP public sector Tier 1 GPFS to depart from the AASB 18 requirements relating to the income statement presentation (including assessment of main business activities, classification of income and expenses and presenting related subtotals in the income statement).

BC53 In respect to the whole of government and GGS financial statements, the AASB decided that it would be important to maintain the current presentation formats required under AASB 1049 since the feedback from the FRC's independent PIR of AASB 1049 noted that all stakeholders are of the view that AASB 1049 has been successful in harmonising Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting and that there is strong support for retaining AASB 1049 in its current form (see paragraphs BC79–BC91 for information about the PIR).

BC54 The AASB decided to propose adding paragraph Aus46.1(b) to AASB 18 to provide an accounting policy choice for NFP public sector entities to select to not classify income and expenses into the operating, investing and financing categories in the statement of profit or loss.

Presentation of expenses – paragraph Aus78.1(b) in AASB 18

BC55 AASB 18.78 requires an entity to classify and present operating-category expenses in line items in a way that provides the most useful structured summary of its expenses, considering the matters set out in AASB 18.B80, using one or both of these characteristics: the nature of expense, or the function of the expenses within the entity. This is different from the requirements in AASB 101.99, which require an entity to present expenses by either their nature or function.

BC56 Public sector stakeholders commented that:

- (a) public sector entities apply a consistent basis for presenting expenses based on Treasury model financial statements or Treasury mandates. Therefore, there is strong comparability between financial statements prepared by the public sector entities within a jurisdiction;
- (b) Treasury Offices currently mandate presentation of expenses by their nature. The AASB noted that this is likely because the Australian Bureau of Statistics (ABS) GFS Manual requires (and therefore AASB 1049 requires) disclosure of expenses by nature, and this facilitates governments in preparing the whole of government and GGS financial statements; and
- (c) AASB 1052 *Disaggregated Disclosures* requires government departments and local government entities to disaggregate expenses (and other information) for each major function or activity.

BC57 The AASB considered, at a conceptual level, stakeholders' feedback did not indicate specific reasons to prohibit a mixed presentation in presenting expenses for NFP public sector stakeholders. However, at a practical level, given expenses are a key focus area for users of public sector GPFS, it is important to maintain consistent reporting to promote comparability. The AASB also observed that the matters set out in AASB 18.B80 – regarding determining how to use the characteristics of nature and function to provide the most useful structured summary of expenses – might not be as relevant for users of NFP public sector entities' GPFS.

BC58 The AASB decided to propose adding paragraph Aus78.1(b) to AASB 18 to provide an accounting policy choice for NFP public sector entities to elect to classify and present expenses in line items in the statement of profit or loss based on either their nature or their function within the entity, whichever provides information

that is reliable and more relevant (consistent with the current requirements in AASB 101.99), instead of applying AASB 18.78 and B80–B82. This accounting policy choice would not prohibit the Treasury Office and the Office of Local Government of a government from mandating a relevant basis for presenting expenses to achieve consistency in reporting to facilitate whole of government and GGS consolidation and to achieve consistency in reporting among local government entities in the same jurisdiction.

Relief from disclosing information about MPMs – paragraph Aus117.1 in AASB 18

- BC59 In respect to the AASB 18 requirement to identify and disclose information about MPMs, NFP public sector stakeholders provided the following comments.
- (a) NFP public sector entities present ‘underlying results’ in their annual report (outside of financial statements) that would meet the definition of an MPM. However, an explanation of how underlying results are calculated is usually provided in the annual report, and therefore, there is little benefit in adding a disclosure note within the financial statements about ‘underlying results’.
 - (b) Public sector entities have various forms of written communications about their performance and the subtotals used in those documents are typically well-defined or well-understood by users.
 - (c) Governments publish a broad range of information, including in budgets and annual reports, and share performance and expenditure information on a variety of platforms including websites and media releases. Therefore, it would be difficult for public sector auditors to provide reasonable assurance that the MPMs are complete. It would also be costly to scan through all written communication documents in identifying all MPMs.
 - (d) The IASB’s concern regarding management using alternative presentations of income and expenses has limited application to NFP public sector entities and local government entities. This is because alternative measures of financial performance are not widely used in these entities. These public sector entities typically provide service delivery metrics specific to a particular function that would typically have greater relevance to users than alternative subtotals of income and expenses. Users’ focus is on how the entity’s service delivery is funded and the net surplus or deficit of the entity.
- BC60 The AASB considered that the cost and effort would outweigh the benefits of requiring NFP public sector entities to identify all MPMs and disclose information about them. The AASB decided to propose adding paragraph Aus117.1 to AASB 18 to provide an accounting policy choice for NFP public sector entities to elect to not identify and disclose information about MPMs.
- BC61 In respect to whole of government and GGS financial statements, AASB 1049 requires disclosure of key fiscal aggregates within the GPFS. Therefore, key fiscal aggregates do not fall within the definition of MPMs and would not be subject to the disclosure requirement set out in AASB 18.122.

Classifying dividends received and interest paid and received – paragraphs Aus6.1 and Aus34D.1 in AASB 107

- BC62 The version of AASB 107 that pre-dated AASB 18 provides an accounting policy choice for an entity to elect to measure cash flows from dividends and interests as operating cash flows. Currently, NFP public sector entities classify dividends paid as financing cash flows and dividends received and interest paid³ and received as operating cash flows, which is consistent with the ABS GFS Manual.
- BC63 AASB 18 amended AASB 107 to require entities that do not either invest in assets or provide financing to customers as a main business activity to classify:
- (a) dividends paid as financing cash flows (AASB 107.33A);
 - (b) interest paid as financing cash flows (AASB 107.34A(a));
 - (c) dividends received as investing cash flows (AASB 107.34A(b)); and
 - (d) interest received as investing cash flows (AASB 107.34A(b)).

³ Except for the interest portion of lease liability – the local councils in a few jurisdictions classify the interest portion of the lease liability within financing activities to be consistent with the payment for the principal portion. Paragraph 50 of AASB 16 *Leases* states that a lessee shall classify cash payments for the principal portion of the lease liability within financing activities, and cash payments for the interest portion of the lease liability in accordance with AASB 107 for interest paid (which currently permits classifying as operating or financing cash flows in the version that pre-dates AASB 18).

- BC64 Public sector stakeholders did not raise concerns about classifying dividends paid as financing cash flows. This classification is consistent with the requirements in GFS. The AASB decided that no modification is needed with respect to the classification of cash flows from dividends paid.
- BC65 Most stakeholders who responded to the targeted outreach raised significant concerns about changing the cash flow classifications for dividends received and interest paid and received. They provided the following comments.
- (a) NFP public sector entities have consistently classified these items as operating cash flows for many years, and this classification is most relevant to users. They are of the view that there is no evidence indicating that classifying these items in accordance with the revised AASB 107 would provide more useful information to users of NFP public sector entities' GPFS or that the benefits from changing the current classification would outweigh the costs.
 - (b) Classifying these items as financing and investing cash flows would not reflect the nature or purpose of public sector cash flows. This is because debt financing of government activities is typically managed centrally with funding appropriated to the consolidated fund and allocated to government departments and public sector entities. Entities responsible for undertaking debt financing would be doing so as a main business activity, meaning it is operating in character. Any allocation of debt financing charges to other entities would be to help ensure a relevant total cost of those entities' operations is recognised. Therefore, a public sector entity's interest expense would typically be associated with operating activities rather than financing activities.
 - (c) NFP public sector entities receive cash from government in a range of ways to fund their operations (e.g. appropriations, grants and allocations of centrally raised debt). Making an operating versus financing distinction has less relevance than in the private sector where there are typically material cash flows from different counterparties (e.g. revenue from customers versus capital from debtholders).
 - (d) NFP public sector entities use dividend and interest receipts to fund their service delivery. Classifying these cash flows as investing and financing activities would not reflect that these funds are applied to the operations of these entities. The 'net cost of services' is often a significant focus for these entities (as outlined in paragraph BC51(a)), rather than profit from operating activities.
 - (e) Governments are required to prepare budget papers in accordance with the Uniform Presentation Framework, which requires the cash flow statement presentation set out in the ABS GFS Manual. Accordingly, it is useful for the cash flow classifications in a government's GPFS to be consistent with the classifications in the government's budget papers for comparability.
 - (f) Further to subparagraph (e) it would be important for other NFP public sector entities to classify cash flows on the same basis as the government to assist the preparation of the whole of government and GGS consolidated GPFS and to promote comparability between the entities' GPFS and their government's GPFS and budget papers.
- BC66 Additionally, the AASB noted that:
- (a) paragraph BC48 of the Basis for Conclusions added to IAS 7 *Statement of Cash Flows* explains that the IASB decided to remove the cash flow classification choice for most entities, because users of financial statements indicated that diversity in the classification between entities in the same industry reduces comparability, making their analyses more difficult and is often not meaningful. The AASB considered that the IASB's reasoning is less relevant to the NFP public sector because entities in this sector have been classifying dividend and interest cash flow consistently in GPFS and in budget papers; and
 - (b) the IASB has an active project on the Statement of Cash Flows and Related Matters, which will assess potential ways to improve IAS 7 where stakeholders have indicated perceived deficiencies. Any future guidance or amendments to IAS 7 arising from this might be relevant to the NFP public sector.
- BC67 The AASB considered that it is justifiable for NFP public sector entities to depart from the revised AASB 107 with respect to classifications of dividends paid and interest paid and received. The AASB decided to propose adding paragraph Aus34D.1 to AASB 107 to retain the current accounting policy choice for NFP public sector entities to elect to classify dividends received and interest paid and received as operating cash flows. The AASB also proposes adding paragraph Aus6.1 to AASB 107 to specify that, in respect of NFP public sector entities, investing cash flows do not include the receipt of interest and dividends as described in paragraphs 34A–34D of the revised AASB 107.
- BC68 The AASB acknowledged the potential for reconsidering this interim position once the outcomes of the IASB's project on the Statement of Cash Flows and Related Matters and the IPSASB's Presentation of Financial Statements project are known.

Operating cash flow reconciliation – paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054

- BC69 AASB 18 amended AASB 107 to require entities to use the ‘operating profit or loss’ subtotal, instead of the ‘profit or loss’ total, as the starting point for the indirect method of reporting cash flows from operating activities.
- BC70 Consistent with the decision to propose adding paragraph Aus46.1(b) to AASB 18 – to provide an accounting policy choice for NFP public sector entities to elect to not present the ‘operating profit or loss’ subtotal in the statement of profit or loss – the AASB proposes adding a new paragraph Aus20.2 to AASB 107 to specify that when reconciling cash flows from operating activities an NFP public sector entity electing to not present the ‘operating profit or loss’ subtotal shall adjust its ‘profit or loss’ total. The AASB also proposes adding paragraph 16(b) to AASB 1054 to specify that the ‘profit or loss’ total shall be used as the starting point for reconciling net cash flow from operating activities when the entity does not present the ‘operating profit or loss’ subtotal in the statement of profit or loss.

Aggregation and disaggregation

- BC71 AASB 18 includes principles of aggregation and disaggregation, including classifying and aggregating line items based on shared characteristics and to provide a useful structured summary. This is a change from the requirements of AASB 101, which requires the separate presentation of each material class of similar items, according to their nature or function.
- BC72 The AASB received limited feedback from stakeholders on this topic. One stakeholder commented that applying the aggregation and disaggregation principles in AASB 18 would likely lead to more useful information for users.
- BC73 Another stakeholder commented that the AASB 18 requirements are neither an improvement to existing practice nor a hindrance to providing useful information to users. However, moving to a structured summary approach is more prescriptive, which might be counter to the principle that preparers are responsible for determining the relevant information to present based on their user needs and the environment in which they operate. The AASB noted that the IASB’s intention relating to these requirements was to provide further guidance in response to feedback raised by users of GPFS that information is not appropriately aggregated or disaggregated (paragraph BC71 of IFRS 18) and judgement would be needed to apply these requirements.
- BC74 The AASB noted that the stakeholder feedback did not indicate a specific reason to modify the aggregation and disaggregation requirements for NFP public sector entities and decided that the requirements should be applied by these entities. Additionally, paragraph BC75 of IFRS 18 states that the IASB expects that “an entity would generally conclude that line items previously determined to be a ‘material class of items’ would also contribute to a useful structured summary.” Therefore, applying the aggregation and disaggregation requirements might not significantly affect how line items and disclosures are currently disclosed.

Whole of government and GGS financial statements

Presenting line items in the primary financial statements – paragraphs Aus23.1(b) and AusB8.1(b) in AASB 18

- BC75 AASB 18.23 states that “An entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if Australian Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements ...”.
- BC76 AASB 1049 requires a government to present specific subtotals (key fiscal aggregates) in the income statement of the whole of government and GGS financial statements. However, under the general principle in AASB 18.23, a government need not present a key fiscal aggregate if it determines that doing so is not necessary to provide a useful structured summary.
- BC77 The feedback from the FRC’s PIR of AASB 1049 (see paragraphs BC79–BC91) noted that key fiscal aggregates provide important information to users and for comparability between governments’ financial performance. Accordingly, the AASB decided that governments should continue presenting key fiscal aggregates in accordance with AASB 1049.
- BC78 In addition to the proposals described in paragraphs BC41–BC74, the AASB proposes adding paragraphs Aus23.1(b) and AusB8.1(b) to AASB 18 to specify that a government does not judge whether to present line

items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary.

FRC's independent PIR of AASB 1049

- BC79 In December 2002, the FRC issued a strategic direction to the AASB to “pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements” (FRC Bulletin 2002/5 18 December 2002, as modified by FRC Bulletin 2003/1 11 April 2003). As a result, AASB 1049 was developed in October 2007 (effective for annual periods beginning on or after 1 July 2008).
- BC80 In December 2021, the FRC completed an independent PIR of AASB 1049 and AASB 1055 *Budgetary Reporting* regarding whole of government and GGS financial statements. The purpose of the PIR included:
- (a) evaluating the extent to which these Standards have been successful in harmonising GFS and GAAP reporting, such that the objective of the FRC direction has been achieved;
 - (b) evaluating the costs and benefits of applying the Standards; and
 - (c) reassessing the need to have a specific Accounting Standard to harmonise GFS and GAAP.
- BC81 Dr Kim Langfield-Smith undertook the PIR and produced a report “The Post-Implementation Review of AASB 1049 Whole of Government and General Government Sector Financial Reporting” (PIR Report), which the FRC accepted on 10 December 2021. The PIR was undertaken as a targeted, non-public process and the FRC received 15 submissions from stakeholders.
- BC82 The PIR Report, on page 2, states “All stakeholders who responded to the Consultation Paper stated the objective of the FRC direction has been achieved – AASB 1049 has been successful in harmonising GFS and GAAP reporting ... There is strong support for retaining AASB 1049 and AASB 1055 in their current form.”
- BC83 The PIR Report to the FRC includes the following recommendations:
- (a) no significant changes should be made to AASB 1049;
 - (b) consideration should be made to implementing minor changes to AASB 1049, AASB 1055 and supporting material to improve GAAP-GFS harmonisation, reduce cost or improve information for users;
 - (c) the number and magnitude of convergence differences between GAAP and GFS should be monitored over the next three years to gauge the impact on the costs of preparers and users and the impact on the usefulness of the financial statements; and
 - (d) given the lack of compelling evidence of any major shortcomings in the requirements of AASB 1055, there should be no major amendments made to the standard.
- BC84 The FRC asked the AASB to consider the recommendations noted in the PIR Report. In the first half of 2025, the AASB undertook additional outreach with members of HoTARAC and ACAG-FRAC to obtain further information on the “potential improvements to AASB 1049 and AASB 1055” described in the PIR report (pages 30 and 31). The AASB decided on the following standard-setting response, as described in paragraphs BC85–BC91.
- BC85 The AASB decided to propose amending the following paragraphs in AASB 1049 to align with recent Accounting Standards.
- (a) AASB 1049.14(f) – the explanation in AASB 1049.14(f) about the cash flow classification of dividends paid is redundant because, in accordance with AASB 107.33A, such items are required to be classified as financing cash flows. Therefore, the AASB decided to propose amending AASB 1049.14(f) to explain the effect of AASB 1049.13 on the application of the accounting policy choice provided in the proposed paragraph Aus34D.1 in AASB 107 regarding the classification of cash flows from interest paid and received and dividends received.
 - (b) AASB 1049.14(g) – to refer to AASB 1058 *Income of Not-for-profit Entities* instead of AASB 1004 *Contributions* because AASB 1058 and AASB 15 *Revenue from Contracts with Customers* supersede the income recognition requirements previously contained in AASB 1004.
 - (c) AASB 1049.31(a)(ii) – to refer to the phrase ‘fair value through other comprehensive income’ instead of ‘available-for-sale’ to align with the terminology in the current AASB 9 *Financial Instruments*.

- BC86 One stakeholder suggested that the mandatory requirement to present a statement of changes in equity in the GPFS of an NFP public sector entity should be removed in circumstances where it is redundant because it does not provide additional information to that in the other statements and explanatory notes. In contrast, other stakeholders, while acknowledging that there are cases where the information contained in the statement can be readily found in other components of the financial statements, did not support removing the requirement because the statement is a fundamental component of the GPFS. The AASB considered that the feedback received did not indicate a public-sector-specific reason that would warrant entities to omit the statement. The AASB decided to seek further input from stakeholders on this matter, see Q25 in the Specific Matter for Comment.
- BC87 Some stakeholders suggested clarifying that the AASB 18 requirements relating to MPMs do not apply to key fiscal aggregates. This is explained in paragraph BC61 above.
- BC88 Since the International Monetary Fund is updating the international GFS Manual, the AASB plans to consider the forthcoming updated Australian GFS Manual, to be issued by the ABS, before addressing:
- (a) updating convergence difference examples and the Illustrative Examples in AASB 1049;
 - (b) potential amendments to the requirements for disclosing convergence differences for key fiscal aggregates (AASB 1049.41 and 52); and
 - (c) updating references in AASB 1049 to the ABS GFS Manual.
- BC89 The AASB decided that the following matters raised by stakeholders during the PIR of AASB 1049 should be considered in future PIRs of related accounting pronouncements:
- (a) potential amendments to AASB 1049.14(a) regarding fair value measurement of intangible assets arising from service concession arrangements – in the PIR of AASB 1059 *Service Concession Arrangements: Grantors*;
 - (b) the disclosure of total assets by function (AASB 1049.48(b)) – in the PIR of AASB 1052 *Disaggregated Disclosures*. Some stakeholders are of the view that this disclosure requirement should either be simplified or removed because this disclosure is not mandated by the ABS GFS Manual and there are challenges with attributing cash, investments and office accommodation across functions;
 - (c) equity transfers and restructuring of administrative arrangements among GGS and other government sectors – in the PIR of AASB 1004 and Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*. Stakeholders have requested guidance to clarify the accounting treatment of accumulated equity reserve balances in a restructure of administrative arrangements and whether transfers between GGS and other government sectors should be recognised as equity or income; and
 - (d) simplifying and clarifying the budgetary reporting requirements at the consolidated GGS level – concurrently with the PIR of AASB 1055 for entities within the GGS.
- BC90 In response to the feedback regarding developing additional guidance on financial instruments, the AASB decided to seek further input through its forthcoming Agenda Consultation on whether to add a project to the work program to consider enhancing AASB 9 for application by NFP public sector entities, including whether such a project should consider amendments based on IPSAS 41 *Financial Instruments*.
- BC91 The AASB also concluded that no standard-setting work is needed for the following stakeholder requests noted in the PIR Report to the FRC:
- (a) permitting governments to disclose user-defined fiscal aggregates in the whole of government and GGS financial statements – already permitted under AASB 1049.18A–18D;
 - (b) clarification of the classification of entities into the GGS or other government sectors and of transactions versus other economic flows – since these terms are defined in AASB 1049 by incorporating the definitions from the ABS GFS Manual, the AASB will pass the feedback to the ABS for its consideration; and
 - (c) developing additional guidance on fair value measurement of non-financial assets – this request has been met by the AASB’s work that culminated in the issuance of AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*.

For-profit public sector entities

- BC92 In responding to the application of the requirements in the revised AASB 107 regarding dividends and interest cash flows, all public sector stakeholders who commented on this topic in the targeted outreach emphasised

the importance for all public sector entities, including for-profit entities, within a jurisdiction to classify dividend and interest cash flows consistently to promote comparability of GPFS and to facilitate whole of government consolidation.

- BC93 In accordance with the *AASB For-Profit Entity Standard-Setting Framework*, the AASB’s default position is to use IFRS Standards and transaction neutrality as a starting point. The AASB typically does not modify Australian Accounting Standards for public sector for-profit entities. The AASB observed that the feedback obtained from the targeted outreach does not indicate that departure from the revised AASB 107 is justified for for-profit entities in the public sector. The AASB decided that more information about the costs versus benefits of complying with the revised AASB 107 is needed to determine whether there is merit for these entities to depart from the Standard (see Q29–Q31 in the Specific Matters for Comment).

Amendments to AASB 1054 and AASB 1039 relevant to all entities preparing Tier 1 GPFS

- BC94 AASB 18 amended AASB 107.18(b) and 20 to require an entity, when applying the indirect method to present cash flows from operating activities, to adjust the ‘operating profit or loss’ subtotal, instead of the ‘profit or loss’ total, presented in the statement of profit or loss.
- BC95 AASB 1054.16 states that “When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to **profit (loss)**” [emphasis added].
- BC96 To be consistent with the amendments to AASB 107 made by AASB 18 regarding the starting point for the indirect method, the AASB decided to propose amending:
- (a) AASB 1054.16 to require an entity, when preparing a reconciliation of the net cash flow from operating activities, to adjust:
 - (i) the ‘operating profit or loss’ subtotal reported in the statement of profit or loss, if the entity presents that subtotal in the statement of profit or loss (see the proposed paragraph 16(a) to be added to AASB 1054); and
 - (ii) the profit or loss total reported in the statement of profit or loss when the entity does not present the operating profit or loss subtotal in the statement of profit or loss (based on the proposals, this would be relevant only to superannuation entities and NFP public sector entities, see paragraphs BC33–BC34 and BC69–BC70); and
 - (b) the description of the example stated in AASB 1039.21 – about the fact that AASB 1039 does not require an entity that uses the direct method in the statement of cash flows to provide an operating cash flow reconciliation.

Effective date

- BC97 When issuing AASB 18, in view of the further due process needed to consider potential modifications of AASB 18 for application by superannuation and NFP entities, the AASB deferred the effective date of AASB 18 for these by one year until annual periods beginning on or after 1 January 2028, with earlier application permitted. The AASB considered that these entities should have an implementation period for applying AASB 18, including any modifications the AASB may make to AASB 18 and other relevant Standards, similar to that for for-profit entities preparing Tier 1 GPFS.
- BC98 Since the proposed modifications to Accounting Standards in this Exposure Draft are to either provide relief from certain requirements or to clarify how certain AASB 18 requirements and principles should be applied by superannuation and NFP entities, the AASB considered that the one-year deferral already provided to these entities would be sufficient for these entities to implement AASB 18 along with the proposed modifications.
- BC99 Consequently, the AASB is proposing that the proposals in this Exposure Draft should apply to entities as follows, with earlier application permitted:
- (a) superannuation entities applying AASB 1056 and NFP entities for annual periods beginning on or after 1 January 2028; and
 - (b) for-profit entities, other than superannuation entities applying AASB 1056, for annual periods beginning on or after 1 January 2027, with respect to amendments made to AASB 1039 and AASB 1054.