



<b>Project:</b>	Presentation and Disclosure in Financial Statements	<b>Meeting:</b>	AASB 6–7 June 2024 (M203)
<b>Topic:</b>	Considerations for not-for-profit, public sector and superannuation entities	<b>Agenda Item:</b>	4.3
		<b>Date:</b>	21 May 2024
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		<b>Decision-Making:</b>	Medium
		<b>Project Status:</b>	Making of AASB 18

## Objective of this paper

- 1 To assist the Board's consideration of the ballot draft of AASB 18 *Presentation and Disclosure in Financial Statements* and the draft Basis for Conclusions attached to the ballot draft (Agenda Paper 4.4), the objective of this paper is for the Board to:
  - (a) **consider** staff preliminary views on the aspects of AASB 18 that might need to be the subject of Australian modifications in respect of not-for-profit (NFP) private and public sector entities and superannuation entities;
  - (b) **decide** whether NFP private and public sector entities and superannuation entities should be permitted to early adopt AASB 18; and
  - (c) **consider** a proposed project plan for the AASB's next steps on AASB 18.

## Background – Main changes introduced by AASB 18

- 2 As presented in the ballot draft of AASB 18, the effective date of the Standard is annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. AASB 18 will:
  - (a) replace AASB 101 *Presentation of Financial Statements*; and
  - (b) amend AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, including changing its title to *Basis of Preparation of Financial Statements*.
- 3 Among other changes, if approved, AASB 18 will require an entity to:
  - (a) classify income and expenses into five categories:
    - (i) the operating category;
    - (ii) the investing category;
    - (iii) the financing category;

- (iv) the income taxes [tax equivalent] category; and
  - (v) the discontinued operations category;
- (b) disclose in a note to the financial statements any management-defined performance measures the 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 (e.g. EBIT, EBITDA etc). Management-defined performance measures are subtotals of income and expenses that are not specifically required to be presented or disclosed by Accounting Standards which an entity uses in public communications outside financial statements; and
- (c) apply new principles for grouping (aggregation and disaggregation) of information in financial statements.
- 4 This paper provides the Board with staff's preliminary views on the types of issues that staff consider may emerge when conducting stakeholder outreach in respect of AASB 18 in the NFP sector, public sector and superannuation industry. Some of these issues were noted for the Board's attention at its [November 2023 meeting](#) as having been raised in submissions on AASB ED 298 *General Presentation and Disclosures* (2019) received from ACAG<sup>1</sup> and HoTARAC.<sup>2</sup>
- 5 The issues identified in this paper are not a comprehensive list of issues; additional issues might emerge as the Board carries out its due process activities.

### Structure of the paper

- 6 The paper is structured as follows:
- (a) [Section 1](#): Aspects of AASB 18 potentially affecting NFP entities in the private or public sectors preparing Tier 1 GPFS
  - (b) [Section 2](#): Aspects of AASB 18 potentially affecting specific types of public sector entities (notably, Australian Government and State, Territory and Local Governments)
  - (c) [Section 3](#): Aspects of AASB 18 potentially affecting superannuation entities
  - (d) [Section 4](#): Other matters
  - (e) [Section 5](#): Tentative project plan.

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1 Australasian Council of Auditors-General

2 Heads of Treasuries Accounting and Reporting Advisory Committee

## Section 1: Not-for-profit entities

### ***Amounts received (and expended) to acquire or construct a non-financial asset***

- 7 An NFP entity may receive a financial asset (e.g. a capital grant) that it is required to use to acquire or construct a recognisable non-financial asset for its own use. Paragraphs 15–17 of AASB 1058 *Income of Not-for-Profit Entities* require an NFP entity to initially recognise a liability representing the entity's obligation to acquire or construct the non-financial asset. The liability is recognised until such time when (or as) the entity satisfies its obligations under the transfer.
- 8 Income and expenses associated with this transaction could potentially be categorised as 'operating' or 'financing', depending on the way in which the requirements of IFRS 18 are interpreted.
- 9 In the event the transaction is regarded as 'financing', the extent to which the cash flows associated with this transaction are presented as 'financing' would depend on whether the liability recognised is regarded as arising from a transaction that:
- (a) involves only the raising of finance [IFRS 18.59(a)]; or
  - (b) does not involve only the raising of finance [IFRS 18.59(b)].
- 10 Staff consider that, subject to any feedback that might be received in response to AASB due process, there may be a case for modifying AASB 18 to, for example:
- (a) deem these types of transactions as giving rise to amounts that are categorised as 'operating'; or
  - (b) provide guidance on the extent to which they would be treated as 'financing'.

### ***'Endowment' arrangements***

- 11 Paragraphs B18–B19 of AASB 1058 address endowments. An endowment is referred to as a transfer of an asset to an entity for the ongoing support of the entity's objectives. An endowment may be made for the perpetual benefit of the entity in that the transfer is made with a requirement for the principal to be preserved, and only income earned on investment activity to be available for use in furthering the entity's objectives.
- 12 Staff consider there may be a need to seek feedback from stakeholders about whether such endowments are 'operating' or 'investing' in nature and any need for clarification from the AASB.

### ***Management-defined Performance measures (MPM)***

- 13 An MPM is a subtotal of income and expenses. Paragraph B116 of IFRS 18 provides examples of measures that are not MPMs because they are not subtotals of income and expenses, including:
- (a) subtotals of only income or only expenses;
  - (b) assets, liabilities, equity or combinations of these elements; and
  - (c) financial ratios (for example, return on assets); and
  - (d) measures of liquidity or cash flows.
- 14 Staff note that, as indicated in the feedback received on ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities*, which was considered at the Board's September 2023 meeting, there are differences between the management and 'statutory' reporting of revenue.

Accordingly, there is the potential for there to be different measures of net amounts of income and expense that would meet the description of MPMs in IFRS 18.

- 15 An initial staff review of information typically released publicly by NFP entities that are charities indicates that few of them would be expected to have MPMs as described in IFRS 18. Instead of measures that are a net amount of income and expense, charities typically appear to disclose performance measures that involve:
- (a) a measure of income or a measure of expense; or
  - (b) a measure not linked to the financial performance of the entity as a whole.
- 16 However, some charities may present metrics for net fundraising amounts (such as the funds raised less attributable fundraising costs) for the entity. Measures disclosed by charities might include (for example):<sup>3</sup>
- (a) fundraising ratios (attributable fundraising costs divided by funds raised);
  - (b) fundraising expense to net income (total fundraising costs divided by net income); and
  - (c) administration cost ratios (total administration costs divided by total income).
- 17 Paragraph B117 of IFRS 18 states that a financial ratio is not an MPM. However, a subtotal that is the numerator or denominator in a financial ratio is an MPM subject to disclosure if it meets the definition of an MPM (see description of MPM noted in paragraph 3(b) above).
- 18 Staff consider there may be a case for seeking comment from stakeholders on whether the financial performance measures often presented by NFP entities might usefully be the subject of disclosure along the lines of those required by IFRS 18 for MPM. For example, the numerator and/or denominator in an administration cost ratio could be reconciled to the relevant line item(s) in the financial statements.

## Section 2: Public sector entities

- 19 Tier 1 public sector entities are the Australian Government and State, Territory and Local Governments [AASB 1053 *Application of Tiers of Australian Accounting Standards*, paragraph 11(b)].

### ***Classification as 'transactions' and 'other economic flows'***

- 20 AASB 1049 *Whole of Government and General Government Sector Financial Reporting* requires Whole of Government (WoG) and General Government Sector (GGS) entities to present consolidated financial statements in a manner that is consistent with the Government Financial Statistics (ABS GFS Manual) published by the Australian Bureau of Statistics (ABS).
- 21 Feedback from key public sector stakeholders on ED 298 (which led to IFRS 18) identified potential concerns with simultaneously meeting the proposed income statement categorisations (now in IFRS 18) and the existing AASB 1049 formats for WoG and GGS income statements.
- 22 Under AASB 1049, WoG and GGS are required to classify income and expenses as:
- (a) transactions – interactions between two institutional units by mutual agreement or actions within a unit that it is analytically useful to treat as transactions. Defined in the ABS GFS Manual (Glossary, page 263); or

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3 For example, see: [Financial management of not-for-profit organisations](#), CPA Australia, 2012.

- (b) other economic flows – changes in the volume or value of an asset or liability that do not result from transactions (i.e. revaluations and other changes in the volume of assets). Defined in the ABS GFS Manual (Glossary, page 260).
- 23 Typically, under AASB 1049, in the income statement revenues from ‘transactions’ are grouped together and expenses from ‘transactions’ are grouped together. ‘Transactions’ can include items that IFRS 18 would regard as relating to ‘investing’ or ‘financing’.
  - 24 Additionally, income and expenses being grouped into ‘other economic flows’ can include items that IFRS 18 would regard as ‘operating’ or ‘investing’. For example, other economic flows arising from a change in the discount rate in measuring a liability would be considered ‘financing’ under IFRS 18.
  - 25 Staff consider there may be a case for seeking comment from stakeholders about whether an exemption from, or some other modification to AASB 18, might be warranted in respect of the WoG and GGS income statement categorisations, in view of the need to group transactions that are revenue and transactions that are expenses prescribed in AASB 1049.

### ***Key fiscal aggregates – operating, investing and financing categories***

- 26 WoG and GGS entities present additional line items and subtotals in primary financial statements related to ‘key fiscal aggregates’ in addition to the requirements under AASB 101 [AASB 1049.28, 32 and 36–37].
- 27 Referred to as ‘analytical balances’ in the ABS GFS Manual, key fiscal aggregates are data identified in the ABS GFS Manual as useful for macro-economic analysis purposes, including assessing the impact of a government and its sectors on the economy. They are:
  - (a) opening net worth;
  - (b) net operating balance;
  - (c) net lending/(borrowing);
  - (d) change in net worth due to revaluations;
  - (e) change in net worth due to other changes in the volume of assets;
  - (f) total change in net worth;
  - (g) closing net worth; and
  - (h) cash surplus/(deficit).
- 28 It is not clear whether the order in which items are presented to enable key fiscal aggregates to be shown would be compatible with the AASB 18 categorisations of ‘operating’, ‘investing’ and ‘financing’.
- 29 Staff consider there may be a case for seeking comment from stakeholders about whether an exemption from, or some other modification to AASB 18, might be warranted in respect of the WoG and GGS income statement categorisations mandated in AASB 18, in view of the need to present key fiscal aggregates.

### ***Key fiscal aggregates – MPMs***

- 30 There may be some level of doubt about whether ‘key fiscal aggregates’ are MPMs and, therefore, whether AASB 18 would require additional disclosures about them.
- 31 On an initial analysis, staff consider key fiscal aggregates do not meet the description of MPMs in paragraph 117 of IFRS 18 because, while they are used in public communications outside

financial statements, they also appear in the financial statements and are integrated within the financial statements.

- 32 Staff consider there may be a need to seek feedback from stakeholders about whether the AASB needs to provide guidance on key fiscal aggregates in light of the MPM requirements.

### **Section 3: Superannuation entities**

- 33 The AASB has only recently completed a post-implementation review (PIR) of AASB 1056 *Superannuation Entities*, which included issuing ITC 54<sup>4</sup> for comment. The feedback received 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.
- 34 The AASB decided not to propose any changes to AASB 1056 at this stage, but to continue to monitor the application of AASB 1056 and other Accounting pronouncements applicable to the superannuation industry as circumstances change.

#### ***Operating category***

- 35 One of the five possible categories for classifying items in the profit or loss is the operating category [IFRS 18.47(a)], which for an investment entity such as a superannuation entity will include most items.
- 36 AASB 1056.9 requires the income statement to include line items that present, when applicable, the following amounts for the period:
- (a) income, in aggregate or subclassified;
  - (b) expenses, in aggregate or subclassified;
  - (c) net benefits allocated to defined contribution member accounts;
  - (d) the net change in defined benefit member liabilities;
  - (e) net result; and
  - (f) income tax expense or benefit attributable to net result.
- AASB 1056 does not specify the order in which these line items are presented.
- 37 Typically, superannuation entities present tax expense or tax income before the allocation to defined contribution member accounts and the net change in defined benefit member liabilities. This is because the amounts allocated are effectively net of tax.
- 38 This presentation would not be feasible under IFRS 18 because it would involve two operating categories either side of the income tax line.
- 39 Staff consider there may be a need to seek feedback from stakeholders about whether the AASB needs to provide an exemption from AASB 18 or specific guidance on income statement presentation for superannuation entities.

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4 Invitation to Comment ITC 54 *Post-implementation Review of AASB 1056 Superannuation Entities and Interpretation 1019 The Superannuation Contributions Surcharge.*

## ***Income taxes category***

- 40 One of the five possible categories for classifying items in the profit or loss is the income taxes category [IFRS 18.47(d)], which is tax expense or tax income that is included in the statement of profit or loss applying IAS 12 *Income Taxes*, and any related foreign exchange differences [IFRS 18.67].
- 41 In the course of conducting the post-implementation review of AASB 1056, some stakeholders noted that taxes such as contributions tax are presented in the statement of changes in member benefits, while income tax expense and/or tax benefits relating to (for example) investments are presented in the income statement.
- 42 From the perspective of the superannuation entity and the ATO, taxable income includes pre-tax member contributions and other sources of income. However, when the AASB developed AASB 1056, it concluded that the contributions tax affects the benefits available to members and should be presented in the statement of changes in member benefits,<sup>5</sup> particularly since the taxable status of the contributions depends on whether they are made by members as pre-tax or post-tax contributions.
- 43 The introduction of the income taxes category in profit or loss in IFRS 18 [IFRS 18.47(d)] may be regarded as incompatible with AASB 1056. Staff consider there may be a need to seek feedback from stakeholders about whether the AASB needs to provide additional clarity that the more specific AASB 1056 requirement would override the AASB 18 requirement.

## **Section 4: Other matters**

### ***Early application***

- 44 IFRS 18 applies for annual periods beginning on or after 1 January 2027 with earlier application permitted. In view of the further due process planned in respect of NFP private and public sector entities and superannuation entities, the Board should consider whether to permit (or prohibit) earlier application by those entities.
- 45 The arguments against permitting earlier application include that those entities mentioned in paragraph 44 would not have the benefit of any guidance, exemptions, alternative requirements or other modifications that the AASB might require or permit. Accordingly, early adopters may need to change their presentation under AASB 18 after initially applying the Standard without modifications.
- 46 However, staff consider permitting earlier application is appropriate because the AASB's typical approach is to generally permit it (paragraph 7.9.2 of the AASB *Due Process Framework*) and NFP private and public sector entities and superannuation entities should be able to avail themselves of improvements in presentation of financial statements as soon as they are prepared to implement them and if they wish to do so.

### ***Line item labels***

- 47 In common with IAS 1/AASB 101 *Presentation of Financial Statements*, IFRS 18 notes that an entity may use other terms to label the totals, subtotals and line items required, as long as they are labelled in a way that faithfully represents the characteristics of the items [IFRS 18.11]. However, IFRS 18 is more specific about profit or loss line item categories. For example, the requirement for an 'income taxes' category [IFRS 18.47(d)].
- 48 Many NFP entities and public sector entities are exempt from income taxes and current practice among these entities is typically not to present a line item for income tax. However,

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5 AASB 1056.AG15

there are some instances of NFP entities that are exempt from income taxes presenting a line item for income tax and showing 'nil'.

- 49 There may be case for the AASB providing guidance on how IFRS 18.47 could be applied in a NFP or public sector entity context when the labels in IFRS 18 are not directly relevant – for example, when the entity is tax exempt.

## Section 5: Project plan

- 50 Staff note that a preliminary analysis has identified a number of possible issues that could be highlighted as part of the due process, but that it is difficult to determine whether the most effective process would be to:
- (a) simply ask NFP, public sector and superannuation stakeholders a series of questions about issues or concerns with AASB 18; or
  - (b) at least in some cases, provide stakeholders with proposed solutions to known issues on which they could comment.
- 51 Accordingly, staff suggest a two-stage due process:
- (a) preliminary targeted outreach (probably via interviews and meetings with targeted groups, such as professional bodies and relevant AASB project advisory panels) to identify issues and enable the Board to consider the need for propose suggested modifications; followed by
  - (b) publishing a consultation document (e.g. an Exposure Draft) for public comment.
- 52 At its [November 2023 meeting](#), the Board considered an overview of draft timeline for due process steps. Staff suggest the following tentative (more detailed) project plan, which is consistent with the previously considered overview.

Activity	Staff	Board's consideration
Targeted stakeholder outreach	August–October 2024	
Consider results of targeted stakeholder outreach		November 2024
Prepare consultation document	December 2024/ January 2025	
Approve consultation document, to be exposed for a minimum of 90 days		First AASB meeting of 2025
Outreach	March–May 2025	
Analyse feedback	June–July 2025	
Consider feedback and decide on any modifications to AASB 18		July 2025
Prepare Amending Standard (if required)	August 2025	
Consider and approve Amending Standard		September 2025
Issue Amending Standard	October 2025	

- 53 The Amending Standard would have the same effective date as IFRS 18—annual periods beginning on or after 1 January 2027. Under the tentative project plan, given the June reporting dates of the vast majority of NFP, public sector and superannuation entities, there



would be a time lag of more than 18 months between the issue of the Amending Standard and the AASB 18 transition date (the beginning of the annual reporting period immediately preceding the date of initial application).

- 54 Staff will consider the timing for reaching out to entities preparing Tier 2 GPFs about the application of AASB 18 when staff have progressed further with the planning of the PIR of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.
- 55 Staff note the IPSASB is currently developing a Consultation Paper on presentation of financial statements which is planned for release in August 2025. The staff will monitor the development of that Consultation Paper with a view to identifying any aspects that might be helpful to the Board’s consideration of applying AASB 18 in the public sector.

**Questions for Board members:**

- Q1: Do Board members agree with the staff view noted in paragraphs 44–46 that NFP private and public sector entities and superannuation entities should be permitted to early adopt AASB 18?
- Q2: Do Board members agree with the project plan outlined in paragraph 52? If not, what changes do Board members suggest?
- Q3: Are there any other issues that Board members wish to raise about the application of AASB 18 to NFP private and public sector entities and superannuation entities?