



Project: Not-for-Profit Private Sector
Financial Reporting Framework

Meeting: M185

Topic: Project overview

Agenda Item: 11.1

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Project Priority: High
Decision-Making: High
Project Status: Initial deliberations

Objective of this agenda item

- 1 The objective of this agenda item is, for the purposes of the Not-for-Profit Financial Reporting Framework (NFP FRF), for the Board to:
 - (a) **receive** a project update, including interaction with cross-cutting projects and the timeline (this Agenda Paper);
 - (b) **decide** its preliminary views on Tier 3 accounting requirements for:
 - (i) investment property and property, plant and equipment (Agenda Paper 11.2); and
 - (ii) employee benefits (Agenda Paper 11.3).
 - (c) **consider and provide preliminary feedback** on initial staff analysis of Tier 3 – Revenue/Income – Grants, donations and bequest (Agenda Paper 11.4 and Agenda Paper 11.4.1); and
 - (d) **review** the working draft of the Discussion Paper (Agenda Paper 11.5) and **provide** its preliminary views on:
 - (i) the layout of the working draft; and
 - (ii) staffs' approach to the drafting of discussion paper.

Attachments

Agenda paper 11.2	Tier 3 – Investment Property and Property, Plant and Equipment
Agenda paper 11.3	Tier 3 – Employee Benefits
Agenda paper 11.4	Tier 3 – Revenue/Income – Grants, donations and bequests

- Agenda paper 11.4.1 Supporting document: Detailed requirements of income pronouncements from other standard setters (in supplementary folder)
- Agenda paper 11.5 Working draft of Discussion Paper (Board only)
- Agenda paper 11.6 Minutes to NFP Advisory Panel meeting held on 19 January 2022 (in Board only supplementary folder)
- Agenda paper 11.7 Research studies and articles:
- 11.7.1. *Decision Usefulness: A examination of the information needs of nonprofit GPFR users* (in supplementary folder)
- 11.7.2. *The Effect of Capitalising Operating Leases on Charities* (in Board only supplementary folder)
- 11.7.3. *Morrison Government puts charity fundraising reform on national agenda* (in supplementary folder)

Background

- 2 At its 20-21 February 2021 meeting, the Board agreed to develop a further reporting Tier (Tier 3) for application by not-for-profit (NFP) private sector entities. A number of staff papers have been presented including the approach to simplification agreed by the Board at its 4 August 2021 Board meeting ([Minutes of the 182nd meeting of the AASB](#)) as presented in [Appendix A – Approach to simplification agreed by the Board at its 4 August 2021 Board meeting](#). The Board has decided on a number of tentative decisions to date in developing the Tier 3 accounting requirements:
- (a) at its 20-21 February 2021 meeting, the Board agreed to develop a further reporting Tier (Tier 3) for application by NFP private sector entities;
 - (b) at its 20-21 April 2021 meeting, the Board decided on the principles against which it will form its views on Tier 3 accounting requirements, for inclusion in the DP;
 - (c) at its 21-22 June 2021 meeting, the Board made decisions on the setting of Tier 3 requirements in the context of Australian Accounting Standards and on accounting for controlled entities;
 - (d) at its 4 August 2021 meeting, the Board considered the primary objective in setting Tier 3 proposals and decided on the accounting for changes in accounting policies and correction of errors;
 - (e) at its 8-9 August 2021 meeting, the Board decided on the application of accounting policies for omitted topics and to seek stakeholder feedback on application of higher tier requirements where the accounting policy option is not included within Tier 3 requirements; and
 - (f) at its 10-11 November 2021 meeting, the Board decided on the accounting requirements for Tier 3 primary financial statements and leases.

[The Not-for-Profit Private Sector Financial Reporting Framework Project Summary](#) provides the overview of the Board's tentative decisions to date in respect of the project.

Tier 3 Investment Property and Property, Plant and Equipment (Agenda Paper 11.2)

- 3 The objective of Agenda Paper 11.2 is to provide the Board with the staff analysis and recommendations on Tier 3 reporting requirements for investment property and property, plant and equipment, including classification/recognition requirements for investment property and the simplification options for measurement of investment property and property, plant and equipment.

Tier 3 Employee benefits (Agenda Paper 11.3)

- 4 The objective of Agenda Paper 11.3 is for the Board to consider staff analysis and recommendations on possible Tier 3 proposals for the accounting requirements for employee benefits, including simplification options on recognition and measurement requirements for short-term employee benefits and some long-term employee benefits.

Tier 3 Revenue/Income (Agenda Paper 11.4 and Agenda Paper 11.4.1)

- 5 The objective of Agenda Paper 11.4 is for the Board to receive initial consideration of staff's analysis and recommendations on possible Tier 3 proposals for the accounting requirements for revenue and other income; specifically grants, donations and bequests. Staff intend to bring the further discussion of this topic to its April and May 2022 Board meetings. Agenda Paper 11.4.1 is a supporting document providing an overview of the approach of the accounting requirements for revenue and income from other standard setters in other selected jurisdictions.

Working draft of Tier 3 Discussion Paper (Agenda Paper 11.5)

- 6 The objective of Agenda Paper 11.5 is for the Board to provide initial comments on the general layout of the draft DP including consideration of the language used, and staff's approach to the focus of the discussion paper and proposed title of the Tier 3 accounting standard.

Project update

Stakeholder outreach update

- 7 The AASB NFP Project Advisory Panel met on 19 January 2022 (Agenda item 11.6). At that meeting, staff sought to obtain Panel members' input into initial staff considerations on the topics that staff planned to discuss with the Board at its February 2022 meeting:
 - (a) Tier 3 reporting requirements on investment property and property, plant and equipment (as referenced in Agenda Paper 11.2 paragraph 19);
 - (b) Tier 3 accounting requirements for employee benefits (as referenced in Agenda Paper 11.3 paragraph 26);
 - (c) Tier 3 accounting requirements for revenue and income and donated or granted non-financial assets (as referenced in Agenda Paper 11.4 paragraph 27); and
 - (d) the scope of the forthcoming Exposure Draft for measuring the fair value of non-financial assets not primarily held for their ability to generate net cash inflows.

Staff have incorporated the feedback into the respective staff analysis. Staff will continue to seek feedback from NFP Project Advisory Panel throughout the project.

Project environmental update including interaction with cross cutting projects

Project	Update
Australian Charities and Not-for-profits Regulations 2013	<p>The amendments to the <i>Australian Charities and Not-for-Profits Commission Regulations 2013</i> came into effect from the 2022 annual information statement reporting period affecting: changes to:</p> <ul style="list-style-type: none"> • the charity size thresholds; • disclosure of remuneration for key management personnel for large charities; and • disclosure of related party transactions for medium and large charities. <p>ACNC will develop guidance for the additional reporting requirements.</p>
NZASB’s post-implementation review (PIR) of Tier 3 and Tier 4	<p>At its NZASB Board meeting in December 2021, staff further considered PIR feedback presented at the 23 June 2021 Board meeting to review the minimum categories of income, expenses, assets and liabilities in the Tier 3 and Tier 4 Standards. The NZASB Board decided to expand on the mandatory minimum categories for revenue (based on a mixture of nature and sources) and expenses in the Tier 3 and Tier 4 Standards, subject to applicability and significance to the entity. The NZASB Board also decided to require additional minimum categories of significant assets and liabilities (previously referred as resources and commitments) in the Tier 4 Standards.</p> <p>Staff note that the AASB Board, at its 10-11 November 2021 Board meeting, decided to propose in the DP to replicate the Tier 2 requirements for the information presented on the face of the primary financial statements, supplemented by guidance or education material, rather than specifying minimum categories specific to Tier 3 entities. Staff will continue to monitor the project and consider implications of the PIR feedback on the respective topics expected to be included in the DP. The disclosure requirements for key topics have not yet been discussed, as these presentation requirements are subject to the discussion of the disclosure requirements for key topics in future Board meeting.</p>
IFR4NPO	<p>Consultation on Phase 2 (Not-for-Profit Organisations (NPOs)-specific financial reporting issues) concluded on 7 October 2021. ED batches are expected in Sep 2022, May 2023 and Nov 2023 with final guidance expected April 2025. At its December 2021 meeting, the Technical Advisory Group considered the following feedback from Phase 2 consultation:</p> <ul style="list-style-type: none"> • There were general positive responses to the description of the issues raised and significant agreement with the preferred alternative options proposed for each technical topic as follows: <ul style="list-style-type: none"> ○ Reporting entity and control: Prepare additional NPO-specific guidance on the nature of reporting entities and pragmatic method for assessing control. ○ NPOs acting on behalf of other entities: to follow IFRS Standards for control with additional guidance and additional disclosure requirements. ○ Non-exchange revenue: to recognise non-exchange revenue using the principles in IPSAS 23 and introduce exceptions to the requirements for gifts in-kind based on some national standards. NPO-specific guidance to be provided. ○ Grant expenses: follow either IFRS Standards, <i>IFRS for SMEs</i> Standard or IPSAS with additional guidance on recognition, measurement incorporating the performance obligation approaches proposed in ED72 by IPSASB (where IPSAS is not used as a base). ○ Measurement of non-financial assets held for social benefit: subsequent measurement of PP&E follows either the cost model or the revaluation model with NPO-specific guidance. ○ Inventory held for use or distribution: measure all inventory at the lower of cost or net realisable value with NPO-specific guidance. ○ Presentation of financial statements: use <i>IFRS for SMEs</i> Standard and require NPOs to use fund accounting and disclosure of reserve policy. ○ Classification of expenses – function or nature: either to allow analysis by function or nature of expenses, or require analysis on both function and nature of expenses. ○ Fundraising costs: develop new NPO-specific guidance that requires disclosure of the amount and accounting policy for fundraising costs. ○ Narrative reporting: apply integrated reporting, following the IIRC Framework, tailored as appropriate for reporting in the NPO context. • The broad characteristics of NPOs are described as entities that are not controlled by government where:

Project	Update
	<ul style="list-style-type: none"> ○ the primary objective is providing goods and/or services for public benefit; and ○ the direct profits or surplus for public benefit. <p>However, feedback received considered that more work may be required to define and amend the broad characteristics to also capture grant-giving NPOs and to introduce other indicators, and to make clear adoption of guidance is ultimately upon each jurisdiction.</p> <ul style="list-style-type: none"> ● Feedback relating to primary users are described as resource provides and the public to whom the NPO provides goods and services. Donors should be included as primary users, but internal government boards should be recognised instead as management having an interest in the entity’s financial information rather than a primary user, providing distinction between oversight and accountability. <p>Staff will consider implications of the consultation feedback on the respective topics expected to be included in the DP.</p>
<p>Second Comprehensive Review of the IFRS for SMEs Standard</p>	<p>IASB is currently in the process of assessing whether to align the <i>IFRS for SMEs</i> Standard with IFRS Standards and working towards publishing an exposure draft, proposing amendments to the <i>IFRS for SMEs</i> Standard for new requirements that are in the scope of the review. The IASB met on 19 Nov 2021 and 4 Dec 2021 and tentatively decided:</p> <ul style="list-style-type: none"> ● to retain Section 20 <i>Leases</i> of the <i>IFRS for SMEs</i> Standards unchanged and to consider aligning with IFRS 16 <i>Leases</i> in a future review of the Standard; ● not to pursue improving disclosure requirements for operating leases without changing the recognition and measurement requirements in Section 20 of the <i>IFRS for SMEs</i> Standard; ● To propose amendments to <i>IFRS for SMEs</i> Standard to align the recognition requirements for termination benefits in Section 28 of the <i>IFRS for SMEs</i> Standards with the 2011 amendments to IAS 19 <i>Employee Benefits</i>, and to retain the accounting policy option to present actuarial gains and losses either in profit or loss or in other comprehensive income; ● to propose removing paragraph 28.19 (simplifications in measuring its defined benefit with respect to current employees) and to seek feedback on an alternative proposal clarifying how to apply paragraph 28.19 in the ITC if stakeholders do not agree to remove paragraph 28.19; ● to retain unchanged the <i>IFRS for SMEs</i> Standard for borrowing cost and and to explore possible changes to the recognition and measurement of development cost in the <i>IFRS for SMEs</i> Standard at a future meeting; ● to align the definition of a business in the <i>IFRS for SMEs</i> Standard with the amended definition of a business in the amended IFRS 3 <i>Business Combinations</i> in a new appendix with application guidance. This also partially aligns Section 19 with the requirements for acquisition-related costs and contingent consideration as set out in IFRS 3. The requirement for an entity to measure any non-controlling interest in the acquiree at the non-controlling interest’s proportionate share of the recognised amounts of the acquiree’s identifiable net assets will remain unchanged; ● to propose amendments to Section 9 <i>Consolidated and Separate Financial Statements</i> to align partially with IFRS 10 <i>Consolidated Financial Statements</i>; ● to propose amendments to Section 15 <i>Investment in Joint Ventures</i> to align partially with IFRS 11 <i>Joint Arrangements</i>; ● to propose amendments to Section 11 <i>Basic Financial Instruments</i> by adding the definition of a ‘financial guarantee contract’ from IFRS 9 <i>Financial Instruments</i>; ● amongst other amendments, to align <i>IFRS for SMEs</i> Standard with <i>Agriculture: Bearer Plants</i> (Amendments to IAS 1 and IAS 41) with an exemption; and IAS 1 including <i>Definition of Material</i>, <i>Disclosure initiatives</i> and <i>Disclosure of Accounting Policies</i>; and ● to align with IFRS 15 <i>Revenue from Contracts with Customers</i>, to reflect the principles and language used in IFRS 15, and consider providing transition relief by permitting an entity to continue its current revenue recognition policy for any contracts in progress at transition date or for schedules to be completed within a set time after transition date (Decision from Oct 2021 Board meeting). <p>Staff will continue to monitor the project and consider implications for <i>IFRS for SMEs</i> as one of the reference points when analysing respective topics expected to be included in the DP.</p>

Research update

- 8 As noted at the November 2021 AASB meeting, the research on *Decision Usefulness: A re-examination of the information needs of nonprofit GPFR users* (D. Gilchrist, A. West, Y. Zhang, December 2021) (Agenda Paper 11.7.1) was presented at the AASB Research Forum 2021. This research pursued three questions including: 1) who is accountable? (Reporting Entity); 2) to whom are nonprofits accountable? (Users); and 3) what information do users need? (Decision usefulness).
- 9 The research findings reassured the need for financial reporting assurance for NFP users. The research also attempted to identify users of NFP financial statements which may include: regulators (including ACNC, ASIC and the ATO) and financial resource providers (government procurers and philanthropists); members; funders; directors; partner organisations where the reporting organisation works with those partners to deliver services;; other NFP organisations; and creditors users and staff.
- The research also highlighted areas of complexity in the accounting standards and financial literacy as hindering the usefulness of general purpose financial statements. Opportunities for improving the usefulness of NFP general purpose financial statements (GPFS) include:
- building financial literacy skills to improve the understandability of NFP GPFS;
 - providing nonprofit-specific accounting guidance; and
 - reduction in options for preparation and reporting to enhance comparability and addition of nonprofit-specific examples.
- 10 *The Effect of Capitalising Operating Leases on Charities* (N. Fahad, T. Scott, November 2021) (Agenda Paper 11.7.2) examines the effect of capitalising operating leases on the total liabilities to total assets and surplus to total asset ratios for a sample of New Zealand charities. It finds that both ratios have significantly increased post-capitalisation and that expenditure change. This paper also discusses the characteristics of charities' operating leases and how they differ from the for-profit sector based on research of a random sample of 100 selected New Zealand charities. In particular, the research suggests that:
- (a) over a third of charities would likely be unaffected by changes in lease accounting;
 - (b) finding an incremental cost of borrowing may be difficult due to not many charities having long-term debt; and
 - (c) an increase in total liability to total asset ratio as a result of capitalisation of leases will have a material effect on charities' recognition of liabilities and their leverage ratio. The surplus to total asset ratio also improves compared to for-profit literature that finds a decrease in return on assets suggesting that charities aim to break even or have a modest surplus rather than maximising profits.
- 11 *Morrison Government puts charity fundraising reform on national agenda* (Agenda item 11.7.3) was a joint media release published in December 2021 detailing a Commonwealth government announcement that it has agreed with all states and territories to develop a national fundraising framework to harmonise fundraising laws. This will be on top of the work undertaken by the Commonwealth and states adopting a cross-border model for fundraising registration and reporting by charities and other NFP entities.

Question 1 to the Board

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

- 12 Staff have brought to the Board the working draft of the Tier 3 Discussion Paper (Agenda item 11.5) for the Board to consider and provide feedback on the general layout of the current draft of the DP. Staff are conscious of the intended audience of the DP and have drafted the DP using;
 - (a) simplified language that is tailored for the intended stakeholders (for example, referring to complying with International Financial Reporting Standards as ‘full IFRS’).). However, staff note that the risk of overly simplifying the language may result in the loss of the intended meaning or requirement. Staff will continue to assess and refine the style of the language applied in future drafts of the DP;
 - (b) flowcharts/images and breakout examples to present information in another format to make it easier for stakeholders to understand the information; and
 - (c) tools and techniques (such as expandable buttons) to distinguish the content provided in the “more information” sections which contains the Board’s decision, and its considerations and rationale for its decisions . However, staff note that expandable buttons will not work as intended for printed PDF documents. Staff are currently exploring other ways to present these sections, such as presenting the information in a separate Appendix or in a columnar format with the main text presented on the left and more information is presented on the right.
- 13 Staff have drafted the DP with a focus being the Board’s proposals for a further reporting tier rather than the overall Board’s proposal in respect of the NFP private sector differential reporting framework. Staff think this will keep the focus on the Tier 3 proposals rather than shifting stakeholder’s focus on (not) setting reporting thresholds or retaining the existing Tier 1 and Tier 2 reporting requirements for NFP private sector entities.
- 14 In the current draft DP, staff have tentatively labelled Tier 3 reporting requirements as ‘Tier 3 Australian Accounting Standards – Simplified Accounting’. This is intended to remain consistent with the Tier 2 – reporting requirements being described as ‘Simplified Disclosures’. Alternatively other possible proposed titles could be:
 - (a) Tier 3 Australian Accounting Standards – Simplified Accounting (Not-for-Profit Private Sector Entities). This identifies the entities which the Standard is intended for and it will help to distinguish from any future development of a possible Tier 3 reporting requirements for public sector entities. However, staff note that this may be inconsistent with some existing Australian Accounting Standards that do not include their limited application in their titles (such as AASB 8 *Operating Segments* and 1004 *Contributions*);
 - (b) Tier 3 Australian Accounting Standards – Less Complex Entities. This corresponds to the description given by the International Auditing and Assurance Standards Board in respect of its proposed auditing standards;
 - (c) Tier 3 Australian Accounting Standards – Small and Medium-Sized Entities. This acknowledges the size of the entities for which the reporting Tier is being developed and provides a ‘link’ to IFRS as the basis for Australian accounting standard-setting. However, the reference to “small” entities may be confusing for some stakeholders, as such this title may omit the term small to convey that Tier 1 and Tier 2 General Purpose Financial Statements would be more appropriate for larger NFP entities; or
 - (d) Tier 3 Australian Accounting Standards – Simplified Accounting for Smaller Not-for-Profit Entities. This maintains consistency with the Tier 2 descriptor as well as identifies the intended user group.

- 15 Staff have further considered the proposed outreach plan to accompany the release of the DP planned for H2 of 2022. Possible engagement strategies could include:
- (a) early engagement with targeted focus groups comprising financial statement preparers of smaller NFP entities, representatives of the professional accounting bodies, users such as philanthropic trusts, and regulators such as the ACNC to 'road test' the DP prior to its release;
 - (b) developing factsheets on specific topics presented in the DP providing high-level overviews to ensure less resourced stakeholders have access to the information presented in the DP; and
 - (c) A planned road show including webinar, face to face and virtual roundtables in November 2022 to February 2023 with various stakeholders including the NFP committees of the professional accounting bodies across all states and territories.

Staff will bring further discussion of the outreach plan to future Board meeting.

Questions to the Board

- 2a) Do Board members have any comments on the general layout of the working draft DP including the language used and flowcharts/images and examples presented in the DP?
- 2b) Do Board members support the staff approach to focus the DP on Tier 3 proposals rather than the overall NFP private sector differential reporting framework? If not, do Board members want the DP to more fully reflect the Board's decision about a revised NFP private sector differential reporting framework in its entirety?
- 2c) Do Board members support the proposed naming of Tier 3 reporting requirements as Tier 3 Australian Accounting Standards – Simplified Accounting? If not, do Board members support any of the other proposed titles listed in paragraph 14(a) – 14(d) above?
- 2d) Do Board members have any other comments in relation to the working draft Tier 3 DP?

Preliminary staff analysis on sweep and other issues

- 16 Since the Board meeting in November 2021, staff have reviewed the possible sweep and other issues captured to date and provided preliminary staff analysis and the staff's approach when drafting the DP as presented in **Table 1** below. Staff will bring any remaining sweep and other issues for the Board's consideration at a future meeting, as presented in the project timeline in paragraph 17.

Table 1: Sweep and other issues collected to date

SWEEP AND OTHER ISSUES	PRELIMINARY STAFF ANALYSIS
<p>Scope of the NFP legislation that will be impacted by this project:</p> <p>While the Board has tentatively decided not to specify any reporting thresholds in which entities may apply the Tier 3 reporting requirements, the Board may need to consider any implications where the governing legislation does not require that the financial statements prepared for regulatory purpose comply with the Australian Accounting Standards, but are otherwise required to:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial performance and financial position; or • prepare income statement and balance sheet. 	<p>Expanding on Research Report 10, staff may need to perform additional analysis to consider the extent to which the NFP governing legislation is impacted, and the interaction of AASB 1053 to ensure the application of tiers is sufficiently clear for entities to understand what reporting requirements are relevant to them.</p> <p>Staff consider that regulatory legislation that does not specify financial statements to be prepared in accordance with the Australian Accounting Standards would not be considered as GPFS. Staff do not plan to cover where legislation requires to give a true and fair view of the financial performance and financial position or prepare income statement and balance sheet to be GPFS. Staff will also clarify in the DP that a GPFS must consist of a complete set of financial statements. Staff will also actively engage with relevant regulators to consider the interactions between the regulatory requirements which requires specific financial statements to be prepared rather than a set of financial statements and the scope of this project.</p>

SWEEP AND OTHER ISSUES	PRELIMINARY STAFF ANALYSIS
<p>Scope of entities that will be impacted by the withdrawal of SAC 1:</p> <p>The Board has tentatively decided at its April 2021 Board meeting that the DP will propose the withdrawal of SAC 1 <i>Definition of the Reporting Entity</i> for NFP private sector entities, and the amendment of AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i>, to remove the option for such entities to prepare special purpose financial statements. While it is out of scope of this project, the Board has yet decided when and how the withdrawal of SAC 1 will impact NFP public sector entities.</p>	<p>The Public Sector Financial Reporting Framework Project is currently on hold pending further discussion at a future meeting of the reformed FRC Working Group, however it was previously discussed with principal stakeholders in June 2018 and it was agreed that the then FRC's Public Sector Working Group will lead this project.</p> <p>While the Board will need to consider the interaction of the Revised Conceptual Framework for both the for-profit and NFP public sector entities, staff do not think the DP should seek feedback regarding the public sector because:</p> <ul style="list-style-type: none"> the DP is the first phase of the consultation process, therefore it would be more appropriate to focus seeking feedback relevant to NFP private sector entities only. Any questions relating to the public sector can be included at a later stage, if the Board decides to proceed with an ED; it may cause confusion if some questions related to public sector were included within the DP especially for smaller or less resourced private sector entities; while there may be some public sector entities that continue to prepare special purpose financial statements, this would be rare based on Research Report 6: <i>Financial Reporting Requirements Applicable to Australian Public Sector Entities</i> (May 2018). Staff will likely have more clarity of the extent of SPFS preparers amongst the public sector at the ED stage, should the Board decide to proceed to develop an ED; and the FAQ to AASB 2020-2 explicitly stated that the public sector will not be impacted by the Revised Conceptual Framework and the financial reporting framework will be considered via separate targeted consultations. <p>Staff consider that the DP should make clear that the DP is relevant to NFP private sector entities only. However, any feedback obtained during the consultation of this project will be considered as part of the Public Sector Financial Reporting Framework Project.</p>
<p>Inclusion of the conceptual framework:</p> <p>The Board has tentatively decided that Tier 3 reporting requirements are developed as a single stand-alone pronouncement (refer to minutes of 21-22 June 2021 Board meeting) that will have minimal cross-referencing to requirements of other Australian Accounting Standards. However, the Board did not decide whether the Conceptual Framework should be included within Tier 3 reporting requirements as this is subject to the outcome of the consultation on any further NFP amendments potentially needed to the Conceptual Framework.</p>	<p>Staff paper 3.2 presented at the 21-22 June 2021 Board meeting noted there are some selected jurisdictions that included a 'simplified' conceptual framework within the stand-alone standards whilst other selected jurisdictions make cross references to their conceptual framework. As outlined in the staff paper, including a 'simple' conceptual framework would ensure that the Tier 3 reporting requirements remain a stand-alone standard, however it may also increase the length of the stand-alone standard, and many smaller NFP entities may be unlikely to refer to the conceptual framework.</p> <p>Staff consider that the Board should, as part of the DP, include as part of the Board's preliminary views that the Tier 3 reporting requirements will operate within the aegis of a single conceptual framework applying to all not-for-profit entities.</p>

SWEEP AND OTHER ISSUES	PRELIMINARY STAFF ANALYSIS
<p>Assurance related matters:</p> <p>The issues collected to date relate to whether there are any implications for an auditor providing an audit opinion where an entity has prepared GPFS using an inappropriate reporting tier (e.g. auditor disagrees with a large charity preparing Tier 3 GPFS).</p>	<p>The Board may need to consider the assurance implications (if any) of the Board’s decision for the audit of NFP private sector entities’ GPFS. While the focus of the Tier 3 DP should be the proposed reporting requirements, staff consider it worthwhile to develop some accompanying materials developed in conjunction with the AUASB covering any assurance implications that may arise from the proposed Tier 3 reporting requirements. Any feedback received relating to assurance matters will be shared with AUASB staff and would be provided to the Board for future consideration.</p>
<p>Other outstanding reporting requirement matters:</p> <ul style="list-style-type: none"> - investment in associates and joint ventures <p>The outstanding reporting requirements came about from previous discussions of proposals for Tier 3 reporting requirements for consolidated financial statements (refer to meeting minute for the June 2021 Board meeting).</p>	<p>At the June 2021 Board meeting, the Board decided to allow a NFP private sector entity presenting Tier 3 GPFS the choice of presenting either consolidated financial statements as specified by AASB 10 <i>Consolidated Financial Statements</i>, or separate financial statements as its only financial statements. The Board has yet to determine the accounting for investments in associates and joint ventures in consolidated financial statements and the accounting for investments in subsidiaries, associates and joint ventures in separate financial statements.</p> <p>Staff note that the Board has subsequently decided that the accounting requirements for investment in associates and joint ventures will be primarily based on the NZ External Reporting Board’s <i>Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit) Accounting Standard</i> at its August 2021 Board meeting (refer to AP 4.1).</p> <p>Staff will continue to analyse the implications of the Board’s decisions having regard to the Board’s preliminary view on consolidation. Staff plan to include text in the DP reflecting the Board’s decision.</p>
<p>Definitions:</p> <p>The Board has tentatively decided, at its June 2021 Board meeting, that where an entity presents separate financial statements as its only financial statements, disclosures of the entity’s ‘significant relationships’ should be required. The definition of ‘significant relationships’ has not yet been discussed.</p>	<p>At the June 2021 Board meeting, the Board formed a tentative view that, where an entity presents separate financial statements as its only financial statements, disclosures of the entity’s ‘significant relationships’ should be required to provide users of the financial statements with information about the other entities that could significantly affect the entity’s future financial position and performance.</p> <p>The Board could direct staff to conduct further analysis to inform the Board proposals for Tier 3 reporting requirements on what the proposed definition could be. The associated disclosure requirements will still be considered as part of staff analysis on disclosure of the key topics at a future board meeting.</p> <p>However, staff considers the Board should explicitly state that the Board could explicitly state that the Board has not yet formed a view on the definition of ‘significant relationships’. This will allow the Board to address the definition following feedback received from the DP whether stakeholders support to allow a choice for Tier 3 reporting requirements to present consolidated financial statements or separate financial statements.</p>

SWEEP AND OTHER ISSUES	PRELIMINARY STAFF ANALYSIS
<p>Development of a fourth reporting tier</p> <p>The Board has not yet explicitly decided whether to develop a fourth reporting tier for very small NFP private sector entities that are required to prepare general purpose financial statements.</p>	<p>During the initial outreach in 2020, the Board received mixed feedback whether to develop a suite of accounting requirements for very small entities that are required by legislation to prepare financial statements or provide financial information based on cash-basis reporting requirements. Staff noted that the Board has previously formed a preliminary view not to develop a fourth differential reporting tier because:</p> <ul style="list-style-type: none"> (a) general purpose financial statements should be based on accrual principles in order to present fairly the results and financial position of an entity; and (b) it may add to further complexity for entities when determining which recognition and measurement basis would be applicable when determining the applicable thresholds that are based on quantitative numbers (e.g. revenue and assets) unless changes to legislation are made. <p>Staff plan to explicitly state in the DP that the Board will not develop a fourth reporting tier based on the reasons listed above.</p>
<p>Fundraising, volunteer services, remuneration reporting and further related party disclosures</p> <p>At the Nov 2020 meeting, staff presented the summary of feedback from the initial targeted consultation including the key matters identified for future consideration (refer to A.P 3.1). One of the key matters, Key matter 8 – Fundraising accounting, was identified that may need additional guidance including on the definition and accounting for fundraising costs would be beneficial to improve consistency of financial reporting across the sector. The Board has also not yet discussed whether to develop Tier 3-specific requirements in respect of volunteer services, remuneration reporting and other related party disclosures.</p>	<p>The Board has tentatively decided at its February 2021 Board meeting not to include any service performance reporting proposals in the DP, subject to clear communication of how it would address this topic and feedback from relevant regulators on the interaction of this decision with their priorities.</p> <p>The Board would also be informed by the stakeholder feedback collected as part of ITC 46 <i>AASB Agenda Consultation 2022 – 2026</i> as to whether the AASB should add service performance reporting project and other related reporting areas as part of its five-year work program.</p> <p>Staff also plan to begin discussion with relevant Regulators (e.g. ACNC, state and territory NFP regulators, ORIC and ASIC) to gather feedback on the interaction of developing service performance reporting with their priorities.</p> <p>Staff consider that the DP should clarify that service performance reporting and any other non-IFRS information such as the definition of fundraising will not be included as part of the development of Tier 3 General Purpose Financial Statements. Staff is cognisant of the government’s work on the reform of fundraising as referred in paragraph 11. Staff will continue to monitor the progress and its impacts on this project.</p>

SWEEP AND OTHER ISSUES	PRELIMINARY STAFF ANALYSIS
<p>Transitional provisions/moving between Tiers</p> <p>During our outreach and feedback from panel members, stakeholders have discussed potential transition issues for entities moving between tiers.</p>	<p>Staff note the Board has yet considered whether and, if so, how an entity might transition to or from Tier 3 accounting standards to other reporting tiers. This extends to other considerations such as the transitional provisions for first-time adoption of Tier 3 GPFS and whether it may change an existing accounting policy to a Tier 3-compliant accounting policy when it first prepares Tier 3 GPFS.</p> <p>Given the stage of the project, staff consider that it is premature to form decisions on the appropriate transitional provisions to be introduced for entities adopting Tier 3 accounting standards. Staff note that this decision will depend on stakeholder's feedback whether they support the proposals of Tier 3 accounting requirements. Staff recommend that the DP clarify that any transitional provisions, including transitioning between reporting tiers, will be considered at a later stage after feedback is collected from the DP.</p>

Question 3 to the Board

Staff will include drafting of the DP based on the staff's preliminary analysis. Do Board members agree with the staff's approach to draft DP based on the staff's preliminary analysis in **Table 1**?

If not, what approaches do Board members support?

Updated project timeline and milestones

- 17 As noted at the August 2021 AASB meeting ([Agenda Paper 4.1](#)), staff are actively considering the project timeline. Subject to the Board's decisions at this meeting, staff have allocated the remaining key topics to be discussed at each Board meeting in the project timeline and milestones as follows:

TIMELINE	PROJECT MILESTONES	TOPIC
FEB 2022 (THIS MEETING)	Board's deliberations on DP preliminary views Board to review working draft of the DP and appoint subcommittee	<p>Key topics</p> <ul style="list-style-type: none"> Revenue/Income (preliminary discussion) Investment property Employee benefits <p>Consider working draft of DP</p>
APR 2022	Board's deliberations on DP preliminary views	<p>Key topics</p> <ul style="list-style-type: none"> Revenue/Income Impairment of non-current assets
MAY 2022	Board's deliberations on DP preliminary views	<ul style="list-style-type: none"> Financial instruments Revenue/Income (final discussion)
JUN 2022	Board's deliberations on DP preliminary views Board's 2 nd review of working draft of the DP	<ul style="list-style-type: none"> Any outstanding matters, including any sweep issues as presented in paragraph 16. Disclosures for the key topics to be included in the DP Consider 2nd working draft of DP
AUG 2022	Board to review final draft DP and appoint subcommittee to finalise out of session	<ul style="list-style-type: none"> Consider final draft of DP
SEP 2022	DP exposed for public comment	

TIMELINE	PROJECT MILESTONES	TOPIC
SEP 2022 – FEB 2023	Outreach	

Question 4 to the Board

Do Board members agree with the project timeline and milestones presented in paragraph 17 above?

- 18 Staff are conscious of the timeline and outstanding matters yet to be discussed by the Board. As such staff recommend that a subcommittee should be appointed to review the drafting of the DP.

Question 5 to the Board

Do Board members agree with staff’s recommendation to appoint a subcommittee to review the drafting of the DP now? If yes, which Board members would like to be part of the subcommittee?

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

