Australian Government
Australian Accounting Standards Board

Cover Memo

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M186
Topic:	**Project overview**	**Agenda Item:**	4.1
		Date:	22 March 2022
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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) Discussion Paper, 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) impairment (Agenda Paper 4.2); and

(ii) initial measurement of donated or granted non-financial assets (Agenda Paper 4.3).

Attachments

Agenda paper 4.2	Tier 3 – Impairment
Agenda paper 4.2.1	Supporting document: Detailed requirements of impairment in Australian Accounting Standards
Agenda paper 4.3	Tier 3 – Initial measurement of donated/granted non-financial assets
Agenda paper 4.4	Draft minutes to NFP Advisory Panel meeting held on 8 March 2022 (in Board only supplementary folder)

Background

2 At its 20-21 February 2021 meeting, the Board agreed to develop a further reporting Tier (Tier 3) for application by not-for-profit (NFP) private sector entities. 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. These decisions are summarised in *The Not-for-Profit Private Sector Financial Reporting Framework Project Summary*.

Tier 3 Impairment (Agenda Paper 4.2)

3 Agenda Paper 4.2 provides the Board with the staff analysis and recommendations on Tier 3 reporting requirements for impairment of non-financial assets and inventory, including which non-financial assets should be subject to impairment testing, when impairment testing should be required how impairment testing should be performed.

Tier 3 Initial measurement of donated or granted non-financial assets (Agenda Paper 4.3)

4 Agenda Paper 4.3 outlines staff analysis and recommendations on possible Tier 3 proposals for the accounting requirements for the initial measurement of assets acquired at significantly less than fair value, including inventory and volunteer services.

Project update

Stakeholder outreach update

5 The AASB NFP Project Advisory Panel met on 8 March 2022 (Agenda item 4.4). 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 April and May 2022 meetings:

(a) Tier 3 reporting requirements on impairment (as referenced in Agenda Paper 4.2 paragraph 26);

(b) Tier 3 reporting requirements on financial instruments; and

(c) staff preliminary thinking on revenue/income for commercial activities and the options for simplifying income/revenue for grants/donations/bequests.

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

6 Staff have also provided project updates to the HLB Mann Judd NFP Community and the Australian Charities and Not-for-Profits Commission (ACNC) Advisor Forum.

Project environmental update including interaction with cross cutting projects

Project and other Updates	Update
Discussion with regulators	Staff further engaged with regulators, provided an update and specifically discussed the interaction of the respective requirements in their jurisdiction. A summary of each discussion is as follows: Office of Registrar of Indigenous Corporation (ORIC) • *The Corporations (Aboriginal and Torres Strait Islander) Act 2006* (Cwlth) require ORIC corporations to prepare financial statements in accordance with the Australian Accounting Standards. • Whilst the Australian Accounting Standards may not specify reporting thresholds, the Registrar can provide further guidance to ORIC corporations about the types of financial statements that must be prepared.

	• ORIC specifically noted one of the Tier 3 reporting proposals to allow the choice for Tier 3 entities to prepare consolidated financial statements or separate financial statements with disclosures of the entity's significant relationships. ORIC's preliminary view is that there are particular types of ORIC corporations where consolidated financial statements must be required. • While ORIC noted that service performance reporting does provide useful information, they did not consider this as a high priority. NSW Fair Trading • The *Associations Incorporation Act 2009* (NSW) requires Tier 1 associations (total revenue >= $250,000 or current assets >$500,000) to prepare financial statements in accordance with the Australian Accounting Standards, as such Tier 2 Associations (total revenue <$250,000 or current assets < $500,000) will not be impacted by the NFP FRF project. • NSW Fair Trading will assess the impact of AASB not specifying reporting thresholds in the Australian Accounting Standards for Tier 1 associations if the *Associations Incorporation Act 2009* remains unchanged, noting that current NSW incorporated associations can select the type of financial statements that an entity prepares (based on the reporting entity concept). • While noting ACNC thresholds have changed, NSW Fair Trading will continue to accept financial statements prepared in accordance with ACNC reporting requirements as meeting the NSW legislative requirements. Consumer Affairs Victoria (CAV) • The *Associations Incorporation Reform Act 2012* (VIC) requires Tier 2 (total revenue between $250,000 and $1 million) and Tier 3 (total revenue more than $1 million) associations to prepare financial statements in accordance with the Australian Accounting Standards. As such, Tier 1 Associations (total revenue less than $250,000) will not be impacted by the NPF FRF project. • CAV noted the impact of AASB not specifying reporting thresholds in the Australian Accounting Standards if their legislation remains unchanged, and noted that education guidance should be developed by the AASB on the different requirements between the tiers of general purpose financial statements. • While noting changes to ACNC thresholds, CAV will continue to accept financial statements prepared in accordance with ACNC reporting requirements as meeting the VIC legislative requirements.
NZASB's post-implementation review (PIR) of Tier 3 and Tier 4	At its NZASB Board meeting in February 2022, the NZASB Board considered and provided feedback on four draft exposure drafts and accompanying Invitations to Comment proposing amendments to the Tier 3 and Tier 4 PBE Standards for both the NFP and Public Sector versions of the Standards. At this meeting, it was tentatively decided: • At its NZASB Board meeting in February and March 2022, the NZASB Board considered and provided feedback on four draft Exposure Drafts and accompany Invitations to Comments proposing amendments to the Tier 3 and Tier 4 PBE Standards for both the NFP and Public Sector versions of the Standards. At these meetings, it was decided: • the revenue recognition model should be to recognise revenue as or when expectations over use are satisfied (either over time, or at point in time) with appropriate guidance to be developed and to clarify that expectation is documented when it has been agreed in writing (or there is some other form of evidence to demonstrate this agreement) and that expectation should specify how or when the funds will be used; • remove references to readily obtainable current value where entity subsequently revalue PP&E and instead require a valuation by a suitably qualified independent valuer or local council rateable value to be used for this purpose. Donated assets that are heritage or specialised assets can continue to be measured at readily obtainable current value (e.g. this maybe an insurance value) on initial recognition. For donated assets that is land/building is measured based on council rates valuation. • to remove reference to 'minimum' and require the listed categories in the Standard to be presented separately where applicable and emphasising further disaggregation should be provided in the notes to the financial statements • proposed effective date of Standard for periods beginning on or after 1 April 2024 • subject to editorial and other changes discussed at the March 2022 meeting, the NZASB Board approved the ITC and EDs for Tiers 3 and 4 for private and public sector entities.

	Staff note that the AASB Board, at its 23-24 February 2022 Board meeting, decided to propose in the DP to remain unchanged the current requirements to subsequently measure investment property and PP&E at fair value in accordance with AASB 13 *Fair Value Measurement* where an entity elects to revaluate their assets.

Second Comprehensive Review of the IFRS for SMEs Standard	IASB is currently in the process of assessing whether to align the *IFRS for SMEs* Standard with IFRS Standards, and is working towards publishing an exposure draft proposing amendments to the *IFRS for SMEs* Standard for new requirements that are in the scope of the review. The IASB met on [23 February 2022]() and tentatively decided:
	• to retain unchanged the incurred loss model in Section 11 *Basic Financial Instruments* of the *IFRS for SMEs* Standard for trade receivables and contract assets within the scope of Section 23 *Revenue* of the *IFRS for SMEs* Standard, and to propose amendments to require an SME to use an expected credit loss model for all other financial assets measured at amortised cost. Impairment of equity instrument measured at cost remains unchanged;
	• to propose amendments to align Section 23 of *IFRS for SMEs* Standard with IFRS 15 *Revenue from Contracts with Customers* with simplifications for:
	  o contract modifications – requirement to account for a contract modification on either prospective basis or cumulative catch up basis;
	  o series of distinct goods or services – permitted to account for the promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer as separate obligations if the amount of consideration varies in a way that corresponds with the value of the distinct goods or services transferred to the customer;
	  o performance obligation terminology – *IFRS for SMEs* Standard would require an SME to identify each 'promise to transfer a distinct good or service, or bundle of goods or services';
	  o constraining estimates of variable considerations – requirement to recognise variable considerations only if it is highly probable that the variable amount will be recovered;
	  o significant funding components – requirement to recognise the effects of any financing implicit in deferred payment by applying the requirements in Section 11 of the *IFRS for SMEs* Standard. No requirements if SMEs expect, at contract inception, that the period between when the entity transfers a promised good/service to a customer, or when customer pays for goods/service is one year or less;
	  o allocating discounts and variable consideration – requirement to allocate discounts and variable consideration to the performance obligations in the contract on a relative stand-alone selling price basis, unless an alternative method more faithfully depicts the amounts of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation;
	  o selecting a method for measuring progress towards compete satisfaction of performance obligation – IFRS for SMEs would include a list of methods frequently used by entities to measure progress and describe circumstances where those methods many be appropriate; and
	  o incremental cost of obtaining a contract – requirement to recognise as an asset the incremental cost of obtaining a contract with a customer if the SME expects to recover those costs, only when these costs can be identified and assessed as recoverable without undue cost or effort, otherwise these costs are expensed.
	• to remain unchanged *IFRS for SMEs* Standard for cryptocurrency and revisit the topic in the next comprehensive review;
	• to seek in the ED proposing amendments to the *IFRS for SMEs* Standard, feedback on introducing an accounting policy option permitting an SME to recognise intangible asset arising from development costs that meets the criteria as specified in IAS 38 *Intangible Assets*; and
	• to align the definition of business with the amended definition of a business issued in 2018, without introducing any rebuttable presumption; and retain unchanged *Business Combinations and Goodwill* of the *IFRS for SMEs* Standard to reflect additional guidance on reacquired rights.
	
	Staff will continue to monitor the project and consider implications for *IFRS for SMEs* as one of the reference points when analysing respective topics expected to be included in the DP (e.g. Revenue/Income and Financial Instruments to be considered in May 2022).

Research update

7 *Annual Reports of Australian Not-for-Profit Organisations: Insights from internal and external stakeholders* (Judd C., Muir J., Pathirange N. & Shying M., February 2022) is a research study conducted by CPA Australia which examined how NFP organisations use the annual report, including financial statements, to show accountability to their stakeholders. The research was conducted via focus group discussions and communicated the research participants' view on nine themes including the importance of annual reports as a means of providing accountability and links to stewardship, in particular that:

(a) production of financial statements gave comfort that an NFP was 'doing the right thing'. However, some participants consider regulation and accounting standards as a burden in the form of red tape, and many NFPs do not have the necessary knowledge to prepare financial statements compliant with the Australian Accounting Standards. While AASB 9 *Financial Instruments* was quoted as useful for boards and management to make important operational decisions, AASB 15 *Revenue from Contracts with Customers,* AASB 1058 *Income of Not-for-Profit Entities* and AASB 10 *Consolidated Financial Statements* were seen as being problematic for some charities and not aligned with user expectations within the sector;

(b) management owes a duty of accountability to its members, but some research participants consider that NFP accountability is broader than for-profits because it includes donors and society at large; and

(c) challenges with tracking the level of activity in order to report outputs, the ability of NFP organisations to articulate outcomes and different approaches to measurement compounded the challenges in measuring outcomes. Research participants also viewed that requiring service performance information poses a significant challenge to auditors to form an opinion and warned against mandating impact reporting.

Staff consider the research supports other previous research findings that accounting standards such as AASB 15 and AASB 1058 add to the complexity. There are users of financial statements of NFP entities, and these financial statements are a means for management to discharge their accountability to users. Whilst service performance information may be useful; there are difficulties with how this information should be prepared and the cost involved. Staff will continue to engage with relevant regulators in developing service performance reporting aligned with their priorities and be informed by the stakeholder feedback collected as part of ITC 46 *AASB Agenda Consultation 2022 – 2026* which staff will present in the May 2022 Board meeting.

Project timeline and milestones

8 There have been no changes to the project timeline and milestones since the February 2022 meeting.

TIMELINE	PROJECT MILESTONES	TOPIC
APR 2022	Board's deliberations on DP preliminary views	**Key topics** • Revenue/Income • Impairment of non-current assets
MAY 2022	Board's deliberations on DP preliminary views Sub-committee (appointed in Feb 2022) to review draft DP and provide feedback to staff in the week beginning 16 May	• Financial instruments • Revenue/Income
JUN 2022	Board's deliberations on DP preliminary views Board's 2nd review of working draft of the DP	• Any outstanding matters, including any sweep issues • Disclosures for the key topics to be included in the DP • Consider 2nd working draft of DP

TIMELINE	PROJECT MILESTONES	TOPIC
AUG 2022	Board to review final draft DP and appoint subcommittee to finalise out of session	• Consider final draft of DP
SEP 2022	DP exposed for public comment	
SEP 2022 – FEB 2023	Outreach	

Question 1 to the Board

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

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