



Project:	Application of AASB 18 and AASB 107 by Superannuation Entities and Not-for-Profit Entities	Meeting:	AASB May 2026 (M220)
Topic:	NFP private sector entities and universities	Agenda Item:	3.4
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Contact(s):	Patricia Au pau@asb.gov.au Angus Thomson athomson@asb.gov.au Claire Thomson cthomson@asb.gov.au	Project Priority:	High
		Decision-Making:	High
		Project Status:	Consider ED 338 feedback

Objective of this paper

- The objectives of this paper are for the Board to:
 - consider** stakeholder feedback on the proposals in ED 338 regarding NFP private sector entities and universities preparing Tier 1 GPFS; and
 - decide** on whether further standard-setting work might be needed to address stakeholder feedback.
- The abbreviations noted in the Cover Memo apply to this paper.

Background

Overview of ED 338 proposals

- As mentioned in Agenda Paper 3.1, in developing ED 338, the Board received only limited feedback from targeted outreach relating to NFP private sector entities and universities preparing Tier 1 GPFS. That feedback did not reveal any substantive reasons to justify proposals that would depart from the requirements of AASB 18 or the revised AASB 107. Accordingly, ED 338 proposes clarifying certain AASB 18 principles in an NFP context (feedback on those proposals will be discussed at the June meeting), but otherwise proposes that these entities apply AASB 18 and the revised AASB 107 without modification.
- ED 338 included a Specific Matter for Comment (SMC 14) that asked stakeholders: “Do you have any comments on the suitability of applying AASB 18 or the revised AASB 107 to these entities [NFP private sector entities and universities preparing Tier 1 GPFS]? If you consider further modifications are needed, please explain your reasons.”

Outreach activities and feedback received

- 5 Nine comment letters received on ED 338 included responses to SMC 14. They are: Deloitte, PwC, KPMG, Grant Thornton, Institute of Public Accountants (IPA), CPA Australia (CPAA), Chartered Accountants Australia and New Zealand (CA ANZ), Australasian Council of Auditors-General (ACAG), and BDO. These letters are contained in Agenda Paper 3.6 in the supplementary folder.
- 6 As noted in Agenda Paper 3.1, during March–April 2026 staff undertook additional consultation on the application of the AASB 18 income and expenses categorisation requirements by NFP private sector entities and universities. Written feedback was received as part of the additional consultation, as outlined below:
- (a) three stakeholders – CPAA, University of New South Wales (UNSW), and BDO – provided written responses to the “Questions to stakeholders” set out in the [consultation document](#). The consultation document and related correspondence are presented as Agenda Paper 3.10 in the supplementary folder; and
- (b) 13 stakeholders completed the survey. A collation of the survey responses is presented as Agenda Paper 3.11 in the supplementary folder.¹
- 7 In addition, feedback was obtained through three virtual roundtables. The following table summarises participation in each roundtable.

	18 February	27 February	16 April
Targeted sector	NFP public and NFP private	University	NFP private and university
Peak number of attendees during the session	140	75	55
Number of attendees stayed for the duration of the roundtable	100	67	48
Number of attendees participated in polling questions	41–91	32–57	17–32

- 8 The notes of the three virtual roundtables are presented as Agenda Papers 3.7, 3.8 and 3.9 in the supplementary folder.

Structure of this paper

- 9 Unlike the SMCs relating to superannuation entities and NFP public sector entities, which seek feedback on specific aspects of AASB 18, SMC 14 (quoted in paragraph 4) posed a broader question on the suitability of applying AASB 18 and the revised AASB 107 to NFP private sector entities and universities preparing Tier 1 GPFS.

1 While 27 individuals commenced the survey, only 13 submitted usable responses.

- 10 As a result, rather than commenting on individual AASB 18 requirements, respondents primarily focused on:
- (a) the overall appropriateness of applying AASB 18 and the revised AASB 107 to NFP private sector entities and universities; and
 - (b) implementation challenges regarding categorising income and expenses into the operating, investing and financing categories.
- 11 The feedback on each of these matters is discussed in separate sections of this paper.
- 12 This paper is structured as follows:
- (a) [Section 1](#): Overall appropriateness of applying AASB 18 and the revised AASB 107;
 - (b) [Section 2](#): Implementation challenges regarding categorisation of income and expenses; and
 - (c) [Section 3](#): Staff recommendations.

Summary of staff recommendations

- 13 In respect to NFP private sector entities and universities preparing Tier 1 GPFS, based on the feedback received, staff recommend that the Board:
- (a) confirm its position, as set out in ED 338, to require these entities to apply AASB 18 and the revised AASB 107 without providing any forms of relief; and
 - (b) proceed to develop an Exposure Draft to consider additional guidance to clarify:
 - (i) how income recognised under AASB 1058 should be categorised; and
 - (ii) whether, and in what circumstances, an NFP private sector entity or university might be considered to be investing in assets or providing financing as a specified main business activity.

Section 1: Overall appropriateness of applying AASB 18 and the revised AASB 107

Introduction

- 14 With the exception of ACAG and one survey respondent – both of whom indicated that their comments related exclusively to universities – all other written submissions generally addressed NFP private sector entities and universities collectively. Accordingly, staff analysed the written submissions together with the feedback received from the three roundtables on a collective basis.
- 15 **Unless otherwise specified, for ease of reference in this paper, the term “NFP entities” refers to both NFP private sector entities and universities.**

Summary of stakeholder feedback

Statement of profit or loss presentation

- 16 AASB 18 requires entities to categorise income and expenses into operating, investing, and financing categories. While some stakeholders raised significant implementation challenges in applying this requirement – and some advocated for certain income and expenses to be categorised differently from the classifications set out in AASB 18 (as discussed in [Section 2](#)) – there was nonetheless broad support for applying this requirement to NFP entities. Specifically:
- (a) all nine comment letters received on ED 338, together with the supplementary responses from CPAA and BDO provided in April, indicated that there is insufficient evidence to justify exempting NFP entities from this requirement; and
 - (b) most survey respondents, as well as most roundtable participants, expressed agreement that NFP entities should be required to categorise income and expenses into operating, investing, and financing categories.
- 17 In contrast, UNSW supported extending to NFP private sector entities and universities the same accounting policy choice proposed for NFP public sector entities to elect whether to categorise income and expenses into the operating, investing and financing categories. This would permit the Australian Government Department of Education to determine a policy choice in prescribing the presentation formats for universities that best meet users’ information needs. Consistent with this view, one roundtable participant – while not objecting to NFP entities being required to categorise income and expenses into the AASB 18 categories – commented that providing an accounting policy choice would allow NFP entities to determine the most appropriate classifications and subtotals in the statement of profit or loss to better reflect user needs.
- 18 **Staff observation:** The evidence obtained to date does not support exempting NFP private sector entities and universities from the requirement to categorise income and expenses into operating, investing, and financing categories.

Management-defined performance measures

- 19 AASB 18 requires an entity to disclose in a single note information about all measures that meet the definition of ‘management-defined performance measures’ (MPMs), including a reconciliation between an MPM and the most directly comparable subtotal required to be presented or disclosed by Australian Accounting Standards.

- 20 Of the nine comment letters received on ED 338:
- (a) seven indicated that no relief from the MPM requirements is warranted;
 - (b) one [KPMG] recommended an exemption from the MPM requirements; and
 - (c) one [CPAA] reported mixed views from CPAA members, with concerns focused on the compliance burden and auditability.
- 21 Mixed views were also expressed in the roundtables, expressing concerns also relating to compliance burden and auditability.
- 22 None of the survey responses raised significant concerns regarding MPMs, while noting that MPM disclosures were of limited relevance for the NFP sector.
- 23 Overall:
- (a) Some respondents supported applying the requirements, noting that they would enhance transparency, comparability and discipline over performance measures already commonly disclosed outside GPFS. They also considered MPM disclosures would be decision-useful where investing and financing activities are material. ACAG also commented that only limited incremental costs would be incurred for universities as they already reconcile performance measures to statutory results.
 - (b) However, other stakeholders requested an exemption for NFP private sector entities and universities, arguing that the judgement and effort required to determine – and reach an agreement with auditors – whether a subtotal is used to “communicate to users of financial statements management’s view of an aspect of the entity’s financial performance as a whole” [AASB 18.121(b)] could outweigh the benefits. They noted this could also give rise to audit complexity and inconsistent application across entities, adversely affecting comparability.
 - (c) Several stakeholders indicated that additional guidance would be preferable to exemptions to mitigate concerns on how to identify MPMs.
- 24 Staff observed that stakeholders:
- (a) generally support requiring NFP entities preparing Tier 1 GPFS to apply the MPM requirements without modification, for the reasons noted in paragraph 23(a); but
 - (b) have concerns regarding compliance burden on entities preparing Tier 2 GPFS, including NFP entities.
- 25 The Board is undertaking a separate project to consider whether MPM requirements should be applied by entities preparing Tier 2 GPFS. Staff are expecting to present an analysis of stakeholder feedback received on ITC 56 in the second half of 2026.
- 26 **Staff observation:** The evidence obtained to date does not support exempting NFP private sector entities and universities from the requirement to identify and disclose MPMs in preparing Tier 1 GPFS.

Other aspects of AASB 18

- 27 None of the comment letters provided feedback on any other aspects of AASB 18 other than the two topics discussed above.

28 In relation to the classification of dividend and interest cash flows, a minority of roundtable participants and one survey respondent expressed disagreement with prohibiting NFP private sector entities and universities from classifying dividends received and interest paid and received as operating cash flows. This feedback reflects similar concerns raised in relation to the categorisation of income and expenses under AASB 18 (as discussed in [Section 2](#)), namely that rigid income, expense, and cash flow classification requirements may not faithfully represent the economics of certain NFP entities where investment or financing activities are central to their operations.

Staff conclusions

29 The [Appendix](#) to this paper contains, for the Board's information:

- (a) a summary of stakeholders' rationale for supporting no relief from the requirements of AASB 18 or AASB 107 for NFP private sector entities and universities; and
- (b) information about university financial reporting requirements.

30 **Staff conclusion:** Other than the implementation issues discussed in [Section 2](#), the evidence obtained to date does not support exempting NFP private sector entities and universities preparing Tier 1 GPFS from any requirements in AASB 18 or the revised AASB 107.

Question for the Board

Q1: Do Board members have any comments on Section 1?

Section 2: Implementation challenges regarding categorisation of income and expenses

- 31 Stakeholders provided specific comments relating to the categorisation of income and expenses. Staff have grouped the feedback into three topics, as follows:
- (a) [Topic 1](#): Categorising income recognised under AASB 1058 and related investment returns
 - (b) [Topic 2](#): Specified main business activity assessment
 - (c) [Topic 3](#): Aggregation and disaggregation based on recurrent vs non-recurrent transactions or whether there are restrictions imposed on an item.

Topic 1: Categorising income recognised under AASB 1058 and related investment returns

Introduction

- 32 AASB 1058 is an Australian-specific NFP Standard that prescribes the recognition and measurement requirements for income generated from the following that are outside the scope of AASB 15 *Revenue from Contracts with Customers*:
- (a) transactions where the consideration to acquire an asset is significantly less than fair value principally to enable an NFP entity to further its objectives; and
 - (b) the receipt of volunteer services.
- 33 In respect to transferred assets, including cash, AASB 1058 requires an NFP entity to recognise immediately on receipt of the asset:
- (a) income measured at the fair value of the asset received, less any related liability recognised; or
 - (b) liability for a transfer of a financial asset to enable the entity to acquire or construct a recognisable non-financial asset to be controlled by the entity (for the purposes of this paper, such transfers are referred to as 'capital grants'). Income is recognised as the entity unwinds the liability throughout the construction period.
- 34 Three comment letters received on ED 338,² the three supplementary submissions,³ and a few roundtable participants and survey respondents requested clarification on how income recognised under AASB 1058 should be categorised when applying AASB 18. In particular, respondents identified the following matters:
- (a) [1.1](#): Ambiguity in AASB 18.53 and 54 regarding the categorisation of income arising from the initial recognition of donated assets;
 - (b) [1.2](#): Mixed preferences for the categorisation of income relating to the initial recognition of donated non-cash assets;
 - (c) [1.3](#): Preference for categorising income from the unwinding of a liability relating to capital grants as investing; and

2 Grant Thornton, CPAA, BDO

3 CPAA, BDO, UNSW

- (d) [1.4](#): Preference for categorising investment earnings that are to be used for charitable purposes as operating – to minimise mismatches between such investment earnings and the related charitable expense.

1.1: Ambiguity in AASB 18.53 and 54 regarding the categorisation of income arising from the initial recognition of donated assets

35 AASB 18.53 and 54 are reproduced below, with key text shaded in blue.

53	Except as required by paragraphs 55–58 for an entity that has a specified main business activity, an entity shall classify in the investing category income and expenses specified in paragraph 54 from:
	(a) investments in associates, joint ventures and unconsolidated subsidiaries (see paragraphs B43–B44);
	(b) cash and cash equivalents; and
	(c) other assets if they generate a return individually and largely independently of the entity’s other resources (see paragraphs B45–B49).
54	The income and expenses from the assets identified in paragraph 53 that an entity shall classify in the investing category comprise the amounts included in the statement of profit or loss for (see paragraph B47):
	(a) the income generated by the assets;
	(b) the income and expenses that arise from the initial and subsequent measurement of the assets , including on derecognition of the assets; and
	(c) the incremental expenses directly attributable to the acquisition and disposal of the assets – for example, transaction costs and costs to sell the assets.

36 In accordance with AASB 18, assets that generate a return individually and largely independently of the entity’s other resources, for example:

- (a) include investments in shares or other equity instruments, and investment property; and
- (b) exclude property, plant and equipment, and right-of-use assets arising from a lease.

37 There appear to be two interpretations of AASB 18.53 and AASB 18.54 when determining how income arising from the initial recognition of donated assets should be categorised. Most stakeholders who commented on this issue interpreted the requirements in the manner described as View 1 below.

38 **View 1:** AASB 18.54(b) requires income arising from the initial measurement of assets identified in paragraph 53 to be classified in the investing category. Under this view, income recognised on the initial recognition of donated assets would be categorised based on the nature of the asset received or how the recipient intends to use the asset. For example:

Donated asset received	Classification under View 1
Cash and cash equivalents	Investing
Shares	Investing
Investment property	Investing
Property, plant and equipment	Operating

39 Additionally, some stakeholders (e.g., Grant Thornton) questioned whether the income categorisation on initial recognition of donated assets would differ depending on whether the donation is subject to a condition requiring the assets to be held as an investment, with only the related investment earnings available for operating purposes.

40 **View 2:** An alternative interpretation is that the reference in AASB 18.54(b) “income and expenses that arise from the initial and subsequent measurement of the assets” is not intended to apply to the initial recognition of assets that will generate investment income after acquisition, regardless of whether those assets are subject to stipulations requiring their subsequent use as investments. This view is based on the following considerations:

- (a) the lead-in sentence in AASB 18.53 refers to income **from** the assets listed in subparagraphs (a)-(c), rather than from the receipt of the assets themselves; and
- (b) the lead-in sentence to AASB 18.54 indicates that the paragraph applies only to income and expenses identified in AASB 18.53.

41 Under View 2, income from the receipt of a donated asset would not fall within the scope of AASB 18.53 and, accordingly, should not be categorised as investing.

42 **Staff observation:** Staff agree with stakeholders that there is ambiguity in the interaction between AASB 18.53 and AASB 18.54 when determining the appropriate categorisation of income arising from the initial recognition of donated assets.

1.2: Mixed preferences for the categorisation of income relating to the initial recognition of donated non-cash assets

43 Regardless of the interpretation applied to AASB 18.53 and 54, stakeholders expressed mixed preferences for categorising income relating to initial recognition of donated non-cash assets.

44 One survey respondent and a few roundtable participants expressed a preference for classifying income from initial recognition of donated assets as investing, rather than operating, on the basis that such income is not directly related to an NFP entity’s operations. These stakeholders are concerned that the “operating profit or loss” subtotal would not reflect an NFP entity’s operating performance if such one-off transactions are reflected in that subtotal.

45 In contrast:

- (a) a stakeholder commented in an interview that they disagreed with classifying such income as investing because some universities and large charities might regularly receive donated non-cash assets; and
- (b) CPAA commented that income recognised under AASB 1058 should generally be classified as operating, based on its nature at the point of receipt or recognition, not on how the related assets or funds might later be used. Income and expenses should be categorised as operating unless they meet the explicit definitions of investing or financing in AASB 18. BDO similarly supported classifying income from the initial recognition of donated assets as operating.

46 **Staff observation:** Regardless of the interpretation applied to AASB 18.53 and AASB 18.54, staff consider that, from a conceptual perspective, income arising from the receipt of a donated asset recognised under AASB 1058 may be viewed as being of the same nature—that is, transfer of an asset ‘principally to enable an NFP entity to further its objectives’. On this basis, there is an argument that such income should be categorised consistently, irrespective of how the recipient intends to use the asset.

1.3: Preference for categorising income from the unwinding of a liability relating to capital grants as investing

- 47 A roundtable participant argued that capital grants are inherently investing in nature and should be treated separately. They emphasised focusing on what the entity must do to obtain the grant (e.g. build an asset versus deliver services) and warned that including capital grants in operating results can distort performance and mislead users.
- 48 Staff consider that income arising from unwinding of a liability relating to capital grants does not meet the ‘investing’ description in AASB 18.53. This is because it is not **income from**:
- (a) investments in associates, joint ventures or unconsolidated subsidiaries;
 - (b) cash and cash equivalents; or
 - (c) assets that generate a return individually and largely independently of the entity’s other resources.
- 49 Accordingly, the staff view is that income from unwinding of a liability relating to capital grants should be categorised as operating (since such income also does not fit into other AASB 18 categories).
- 50 Staff observed that assets acquired or constructed using transfers received “to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity” would typically be recognised as property, plant and equipment, since income recognised under AASB 1058 is premised upon receiving a transfer “principally to enable an NFP entity to further its objectives” (AASB 1058.1). Under AASB 18, income and expenses relating to property, plant and equipment are classified within the operating category, rather than the investing category.
- 51 Staff considered whether income arising from the unwinding of a liability related to a capital grant is of a different nature from income arising from the receipt of a donated non-cash asset, such that different categorisation would be justified. In paragraph BC95 of the Basis for Conclusions to AASB 1058, in respect to “transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity”, the Board noted that (emphasis added):
- (a) the transferor’s intention is, **in substance**, to **provide a specific non-financial asset** to the recipient; and
 - (b) the cash received is merely the mechanism by which that asset is acquired or constructed.
- 52 **Staff observation:** Consistent with the Board view noted in paragraph 51, staff consider that income arising from the unwinding of a liability related to a capital grant is of the same underlying nature as income arising from the receipt of a donated non-cash asset. Accordingly, staff consider there is no conceptual basis to distinguish between these two types of income for the purposes of categorisation in the statement of profit or loss.

1.4 Preference for categorising investment earnings that are to be used for charitable purposes as operating

- 53 A small number of roundtable participants and one survey respondent – while supporting the proposal for NFP entities to categorise income and expenses into the operating, investing and financing categories – expressed a preference for investment earnings that will ultimately be used for charitable purposes to be classified as operating rather than investing. This was on the basis that the related charitable expense is operating. Adopting this approach would be a departure from AASB 18 (unless investing was a main business activity – refer [Topic 2](#)).

54 Additionally, UNSW noted that some grants are received well in advance of them being applied and the grantor will often stipulate the grant and any interest on the grant money be devoted to a specific operating purpose. In some cases, entities account for the interest as part of the grant applying AASB 15 *Revenue from Contracts with Customers*. If the interest is classified as investing under AASB 18 while the original grant money is classified as operating, this may be unhelpful to users (and the grant donor). Similar feedback was received in staff interviews with stakeholders. The same issue was also noted by some participants in the 27 February roundtable.

Staff analysis

55 Staff considered that:

- (a) a for-profit entity may similarly use investment earnings to fund its operations; however, unless holding investments constitutes a main business activity, AASB 18 requires investment income to be classified separately from operating income and expenses. Accordingly, classification mismatches of this nature are not unique to NFP entities;
- (b) if a majority or all of an NFP entity's investment earnings are used to fund its operations (being charitable purposes), this may indicate that the entity is investing in assets as a main business activity. In such circumstances, AASB 18 requires the related investing income and expenses to be classified as operating. Assessment of whether an NFP entity has a main business activity of investing is discussed further in [Topic 2](#);
- (c) in respect to the issue noted in paragraph 54, staff noted the following:
 - (i) there might be an argument that, where grant agreements explicitly require both the principal and any interest earned to be applied to a specific operating purpose, the interest does not represent a "return" of the entity's asset, but instead forms part of the overall funding provided to support the entity's operations. On this basis, it could be considered more appropriate to classify such interest income as operating. However, adopting this treatment would be a departure from AASB 18; and
 - (ii) notwithstanding point (i), staff consider that a disclosure note describing the nature of grants received in advance of expenditure, the restrictions imposed by grantors (including the requirement that any associated interest be applied for specific operating purposes), and how related interest income has been classified in the statement of profit or loss and statement of cash flows may mitigate concerns. This is because it would assist users in understanding the economic linkage between the grant funding and the associated interest income, while preserving the integrity and consistency of the presentation requirements.

Staff observations

56 Based on the feedback received relating to the income and expenses categorisation requirements, staff make the following observations.

- (a) Stakeholder feedback indicated that AASB 18.53 and 54 (and related paragraphs) may not provide sufficient clarity on the categorisation of income recognised under AASB 1058.
- (b) Based on the Board's views in the Basis for Conclusions to AASB 1058, income recognised under AASB 1058 – whether cash donations, non-cash donations or capital grants – are of the same nature and should be categorised consistently in the statement of profit or loss.

- (c) As noted by a small number of ED respondents (e.g., BDO), some stakeholders appear to interpret the operating category as encompassing income and expenses arising from an NFP entity’s ordinary or principal activities, rather than treating the operating category as the default category as required by AASB 18. In that context, some of those respondents questioned whether categorising grants and donations in the investing category could have implications for how “revenue” is determined for the purposes of assessing a charity’s reporting obligations under the ACNC guidelines, which describe revenue as inflows arising in the course of a charity’s “ordinary activities”.
- (d) Some stakeholders appear to apply the definition of investing cash flows in AASB 107 when classifying income and expenses in the statement of profit or loss, leading them to conclude that income arising from donated non-cash assets and the unwinding of a liability related to capital grants should be classified as investing. However, that is not the case and the IASB noted in paragraph BC86 of the Basis for Conclusions to IFRS 18 that “... The IAS 7 definition of ‘investment activities’ includes investments in operating assets, such as property, plant and equipment. However, in the statement of profit or loss, an entity classifies in the operating category income and expenses from its operating assets.”

Staff conclusions

57 Staff consider that:

- (a) to address the ambiguity in AASB 18.53 and 54, further standard-setting work is needed to analyse the issue and develop guidance to clarify how income recognised under AASB 1058 should be categorised when applying AASB 18; and
- (b) educational materials (for example, staff FAQs) might also be needed to clarify the presentation requirements for the statement of profit or loss, particularly in relation to the matters described in paragraphs 56(c)–(d).

Question for the Board

Q2: Do Board members have any comments on Topic 1?

Topic 2: Specified main business activity assessment

AASB 18 requirements

- 58 AASB 18.49 and 50 require an entity to determine whether it has a specified main business activity (SMBA); and if so, to categorise related investing and financing income and expenses as operating in the statement of profit or loss.
- 59 AASB 18.49 and 50 are reproduced below, with relevant text highlighted in blue.

Entities with specified main business activities

- 49 To classify income and expenses in the operating, investing and financing categories, an entity shall assess whether it has a specified main business activity – that is a **main business activity** of (see paragraphs B30–B41):
 - (a) investing in particular types of assets, referred to hereafter as investing in assets (see paragraph 53); or

50	<p>(b) providing financing to customers.</p> <p>Applying paragraphs 55–58 and 65–66, an entity with a specified main business activity classifies in the operating category some income and expenses that would have been classified in the investing or financing category if the activity were not a main business activity.</p>
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60 AASB 18.B30–B37 provides guidance on how an entity assess whether it has an SMBA. They are reproduced below, with relevant text highlighted in blue.

Assessment of specified main business activities	
B30	Paragraph 49 requires an entity to assess whether it invests in assets or provides financing to customers as a main business activity. An entity may have more than one main business activity. For example, an entity that manufactures a product and also provides financing to customers may determine that both its manufacturing activity and customer-finance activity are main business activities. To classify income and expenses into the categories of operating, investing and financing as required by this Standard, an entity need only determine whether either of, or both, investing in assets and providing financing to customers are main business activities.
B31	<p>Examples of entities that might invest in assets as a main business activity include:</p> <p>(a) investment entities as defined by AASB 10 <i>Consolidated Financial Statements</i>;</p> <p>(b) investment property companies; and</p> <p>(c) insurers.</p>
B32	<p>Examples of entities that might provide financing to customers as a main business activity include:</p> <p>(a) banks and other lending institutions;</p> <p>(b) entities that provide financing to customers to enable those customers to buy the entity’s products; and</p> <p>(c) lessors that provide financing to customers in finance leases.</p>
B33	Whether investing in assets or providing financing to customers is a main business activity of the entity is a matter of fact and not merely an assertion. An entity shall use its judgement to assess whether investing in assets or providing financing to customers is a main business activity and that assessment shall be based on evidence.
B34	In general, investing in assets or providing financing to customers is likely to be a main business activity of an entity if the entity uses a particular type of subtotal as an important indicator of operating performance. The particular type of subtotal is a subtotal similar to gross profit (see paragraph B123) that includes income and expenses that would be classified in the investing or financing categories if investing in assets or providing financing to customers were not main business activities.
B35	<p>Evidence that subtotals similar to gross profit described in paragraph B123 are important indicators of operating performance includes using such subtotals to:</p> <p>(a) explain operating performance externally; or</p> <p>(b) assess or monitor operating performance internally.</p>
B36	<p>Information about segments may provide evidence that investing in assets or providing financing to customers is a main business activity if an entity applies AASB 8 <i>Operating Segments</i>. Specifically:</p> <p>(a) if a reportable segment comprises a single business activity, this indicates that the performance of the reportable segment is an important indicator of the entity’s operating performance and that the business activity of the reportable segment is a main business activity of the entity; and</p> <p>(b) if an operating segment comprises a single business activity, this indicates that the business activity might be a main business activity of the entity if the performance of the operating segment is an important indicator of the entity’s operating performance as described in paragraph B34.</p>
B37	An entity shall assess whether investing in assets or providing financing to customers is a main business activity for the reporting entity as a whole. Accordingly, the assessment of whether investing in assets or providing financing to customers is a main business activity by a reporting entity that is a consolidated group and a reporting entity that is one of the subsidiaries in the consolidated group could have different outcomes.

Stakeholder feedback

- 61 Three of the nine comment letters [Deloitte, CPAA, BDO] and some roundtable participants and survey respondents commented that there are NFP entities that invest heavily in assets in addition to their charitable activities. They sought guidance to assist NFP entities in determining whether they invest in assets or provide financing as a main business activity. Their comments are summarised as follows.
- (a) The definition of a charity in Section 5 of the *Charities Act 2013* states that a charity must have only **charitable purposes that are for the public benefit**. Some stakeholders questioned whether a charity can, in principle, invest in assets or provide financing as a main business activity.
 - (b) NFP entities may have multiple “main” activities, for example, charitable purposes and funds management, and there is uncertainty about whether investing would constitute a main business activity when funds are invested to support charitable activities.
 - (c) There is a risk that similar NFP entities may be classified inconsistently due to the application of judgement by entities and differing views taken by auditors.
 - (d) AASB 8 is referenced in AASB 18.B36 as useful guidance for assessing whether investing in assets or providing financing constitutes a main business activity. However, AASB 8 applies only to for-profit entities, and there is no equivalent guidance for NFP entities.
- 62 One stakeholder [BDO] provided examples of circumstances in which there may be uncertainty as to whether an NFP entity has an SMBA for the purposes of AASB 18, including where the NFP entity:
- (a) provides micro-finance loans for the purpose of delivering social benefits;
 - (b) does not provide any goods or services, but holds a portfolio of investments, the income from which is distributed as grants to other NFP entities;
 - (c) does not provide any goods or services, but holds investment properties for the purposes of renting them to the community as part of a social housing arrangement; and
 - (d) provides goods or services, while also providing financing or investing in assets as part of its operations.

Staff analysis

- 63 The IASB noted the following views in the Basis for Conclusions to IFRS 18:
- (a) For entities whose main business activity is investing in assets or providing financing to customers, the related returns (investment returns or net interest margin) are key indicators of operating performance. Excluding those items from operating would misrepresent operating performance. The IASB’s starting point is that operating profit should faithfully represent the results of an entity’s operations (paragraph BC94–BC102).
 - (b) If investing is a main business activity, classifying returns in the investing category could result in an operating category consisting largely (or only) of expenses, which would not faithfully represent performance (paragraph BC145).

- (c) Similarly, for entities providing financing to customers, the spread between interest income and interest expense is a primary performance metric; excluding those items from operating would undermine the operating profit subtotal (paragraph BC180).

64 Staff have formed the following views:

- (a) Consistent with the guidance in AASB 18.B34 and B35, if investing or financing is an important indicator of an NFP entity's operating performance, then, conceptually, an NFP entity could have investing or financing as a main business activity and should be required to classify the related investing and financing income and expenses as operating in accordance with AASB 18. This staff view is consistent with the IPSASB's preliminary views noted in paragraphs 4.20–4.22 of its Consultation Paper [Presentation of Financial Statements](#), and paragraphs 87 and AG68 of the accompanying illustrative Exposure Draft.⁴
- (b) Although this assessment is not specified explicitly in the body of AASB 18, whether investing constitutes a main business activity is assessed by reference to groups of assets with shared characteristics, as explained in paragraph BC146 of the Basis for Conclusions to IFRS 18. Paragraph BC146 illustrates that an entity may invest in investment property as a main business activity, while also holding financial assets that do not constitute a main business activity.
- (c) When all or the majority of investment returns are used to fund charitable activities, and those charitable expenses are classified as operating, classifying the related investment returns as operating would avoid an operating category that consists largely of expenses. This is consistent with the sentiments noted in IFRS 18 paragraph BC145.

Staff observations and conclusions

- 65 Unlike many for-profit entities, NFP entities often hold investments to support the achievement of their charitable or service objectives rather than to generate profit as an end in itself. As a result, applying the guidance in AASB 18 – such as whether investment returns are an important indicator of operating performance – may be more difficult for NFP entities to judge and could lead to inconsistent outcomes in practice. Without clearer guidance, NFP entities with similar facts and circumstances may reach different conclusions about whether investing or financing constitutes a main business activity, reducing comparability.
- 66 **Staff conclusion:** Staff consider that further standard-setting work is needed to develop guidance tailored to NFP circumstances to support consistent application of the SMBA assessment requirement.

Question for the Board

Q3: Do Board members have any comments on Topic 2?

4 The IPSASB Consultation Paper is open for comment until 14 September 2026. The IPSASB anticipates approving the final IPSAS at its December 2028 meeting.

Topic 3: Aggregation and disaggregation based on recurrent vs non-recurrent transactions or whether there are restrictions imposed on an item

Stakeholder feedback

- 67 Some roundtable participants and survey respondents expressed a preference for distinguishing between recurrent and non-recurrent transactions in the statement of profit or loss. Some of those stakeholders suggest that non-recurrent transactions should be reflected outside of the 'operating profit or loss' subtotal (i.e. outside the operating category) to improve the visibility of recurring operating performance and to reduce volatility arising from non-recurrent items.
- 68 Some stakeholders supported the use of subtotals within the operating category to distinguish recurrent and non-recurrent items, while others prefer non-recurrent items, such as donated assets and capital grants, to be categorised as investing. However, others cautioned that introducing additional categories or mandated subtotals within the statement of profit or loss could create confusion and comparability challenges – they suggested that any distinction between recurrent and non-recurrent, or restricted and non-restricted, income or expenses is better addressed through note disclosures, or management-defined performance measures, rather than changes to classification requirements.
- 69 Several stakeholders favoured non-mandatory guidance, such as illustrative examples, to demonstrate how such distinctions could be presented in the statement of profit or loss without prescribing new presentation requirements.
- 70 One roundtable participant supported extending to NFP private sector entities and universities the same accounting policy choice proposed for NFP public sector entities to elect whether to categorise income and expenses into the operating, investing and financing categories, and to permit the entity to decide the appropriate subtotals to include in the statement of profit or loss.

Staff observations and conclusions

- 71 Paragraph BC89(b) of the Basis for Conclusions to IFRS 18 states that “income and expenses should be included in the operating category **regardless of whether they are volatile or unusual** in some way. The IASB acknowledged that such income and expenses might not have predictive value. However, in the IASB’s view, **predictive value is not a characteristic that determines whether to include income or expenses in the operating category or in another category**. An entity’s operations can be volatile; therefore, such income and expenses arise from an entity’s operations. Moreover, **excluding volatile or unusual income or expenses from operating profit would not faithfully represent the results of an entity’s operations for the period ...**” [emphasis added].
- 72 Staff observed that:
- (a) consistent with the IASB view noted in paragraph 71, there does not appear to be a conceptual basis for permitting income or expenses to be excluded from the operating category solely because they arise from non-recurrent transactions;
 - (b) AASB 18 does not prohibit an entity from distinguishing, within a category, between income and expenses arising from recurrent transactions and those arising from non-recurrent transactions. However, additional subtotals and clear labelling would be needed to ensure the financial statements are understandable and that the information is a faithful representation;

- (c) if the distinction between recurrent and non-recurrent transactions, or between restricted and unrestricted items, is important, such information can be included in a disclosure note rather than the statement of profit or loss; and
- (d) with respect to the stakeholder suggestion noted in paragraph 70 – to consider providing the same accounting policy choice proposed for NFP public sector entities to elect whether to categorise income and expenses into the operating, investing and financing categories – as discussed in [Section 1](#) of the paper, all nine comment letters and most roundtable participants indicated that there is insufficient evidence to support exemption from the requirement to categorise income and expenses into operating, investing and financing categories.

73 **Staff conclusion:** Staff consider that no further standard-setting action is necessary with respect to the stakeholder feedback noted in paragraphs 67–70.

Question for the Board

Q4: Do Board members have any comments on Topic 3?

Section 3: Staff recommendations

Applying the Standard-setting and Due Process Frameworks

74 The staff conclusions noted in Section 2 are that additional standard-setting work is needed to consider developing guidance to clarify:

- (a) how income recognised under AASB 1058 should be categorised; and
- (b) whether, and in what circumstances, an NFP private sector entity or university might be considered to be investing in assets or providing financing as a specified main business activity.

75 Additionally, educational materials (for example, staff FAQs) might also be needed to clarify the presentation requirements for the statement of profit or loss in respect to income recognised under AASB 1058.

76 AASB 1058 applies only to NFP entities and has no IFRS counterpart. Staff consider that additional guidance and possible staff FAQs are justified under paragraph 30(e) of the [AASB Not-for-Profit Entity Standard-Setting Framework](#), as the AASB 1058-related matters addressed are specific to the NFP sector and are of sufficient prevalence.

77 In accordance with paragraph 6.4 of the [AASB Due Process Framework for Setting Standards](#), any mandatory application guidance that the Board may decide to introduce would need to be exposed for public consultation in the form of an Exposure Draft.

Staff recommendations

78 In respect to NFP private sector entities and universities preparing Tier 1 GPFS, staff recommend that the Board:

- (a) confirm its position, as set out in ED 338, to require these entities to apply AASB 18 and the revised AASB 107 without providing any forms of relief; and
- (b) proceed to develop an Exposure Draft to consider additional guidance to clarify:
 - (i) how income recognised under AASB 1058 should be categorised; and

- (ii) whether, and in what circumstances, an NFP private sector entity or university might be considered to be investing in assets or providing financing as a specified main business activity.

Question for the Board

Q5: Do Board members agree with the staff recommendation noted in paragraph 78? If not, what do Board members propose instead?

Appendix: Stakeholder rationale for supporting no relief for NFP entities and university reporting considerations

Stakeholder rationale for supporting no relief for NFP entities

- A1 Stakeholders' rationale for supporting no relief for NFP private sector entities and universities included the following points.
- (c) Sector neutrality – Tier 1 NFP private sector entities and universities are typically large and complex; there is no persuasive basis to depart from sector-neutral application of AASB 18 and the revised AASB 107. Potential concerns about the compliance burden were not seen as sufficient to warrant exemptions.
 - (d) AASB 18 requirements would improve transparency and comparability – structured presentation and clearer disaggregation of operating, investing and financing activities are expected to enhance transparency, particularly for entities with diverse and material revenue streams.
 - (e) Universities are considered well-placed to apply AASB 18 without relief. ACAG and one survey respondent emphasised that maintaining comparability across all universities – public, private NFP and for-profit – was more important than aligning universities with other NFP public sector entities. On this basis, it is not necessary or appropriate to provide universities with the same relief as proposed for other NFP public sector entities.
 - (f) Implementation challenges are best addressed through guidance rather than exemptions – issues such as classification of grants, investment income and identification of SMBA were acknowledged. Stakeholders generally favoured additional guidance or illustrative examples rather than relief, to avoid reducing comparability. Some roundtable participants commented that providing relief could introduce inconsistencies and dilute the usefulness of GPFS.

University reporting considerations

- A2 The 27 February 2026 roundtable was specifically convened to obtain feedback from universities on the application of AASB 18. At that roundtable, several participants emphasised the importance of maintaining and enhancing the comparability of universities' GPFS. Participants noted that universities are frequently analysed and funded on a sector-wide basis and that inconsistent presentation, classification choices, or judgment-intensive applications of AASB 18 could undermine users' ability to compare financial performance and financial position across institutions. The UNSW's submission also highlighted the importance of comparability in universities' GPFS.
- A3 Most universities are required by the *Higher Education Support Act 2003* to prepare their GPFS in accordance with the *Financial Statement Guidelines for Australian Higher Education Providers*, issued annually by the Australian Government Department of Education. The Guidelines prescribe the specific line items and subtotals that a university must present in the primary financial statements, as well as the specific disclosure notes. Therefore, comparability among universities' GPFS has not been a significant concern. The Guidelines for the 2025 financial period is presented as Agenda Paper 3.12 in the supplementation folder for the Board's reference.
- A4 As noted in Agenda Paper 3.3, one reason the Board proposed providing relief from certain AASB 18 requirements to other NFP public sector entities is to allow Treasury Offices and Offices of Local Government to continue prescribing presentation formats for federal, state, territory and local government entities that best meet users' information needs. In light of these considerations, and in view of the implementation issues discussed in [Section 2](#), staff considered whether a similar

accounting policy choice should be extended to universities – specifically, whether universities should be permitted to elect whether to categorise income and expenses into operating, investing, and financing categories.

- A5 Support for extending such relief to universities was limited. UNSW and one roundtable participant supported providing universities with an accounting policy choice. However, all other respondents – including ACAG, which represents auditors responsible for auditing universities' GPFS – supported requiring universities to apply AASB 18 and the revised AASB 107 without relief.
- A6 In addition, representatives of the Department of Education have informally advised staff that they do not have significant concerns with requiring universities to apply AASB 18 and the revised AASB 107, subject to the Board addressing the implementation issues discussed in [Section 2](#).
- A7 **Staff conclusion:** Based on the feedback received, staff conclude that there is insufficient evidence to justify providing relief to universities from the requirements of AASB 18 or the revised AASB 107.