



Project:	Not-for-Profit Private Sector Financial Reporting Framework (NFP FRF)	Meeting:	M180
Topic:	SAC 1 for NFP entities and principles for Tier 3 reporting requirements	Agenda Item:	3.1
		Date:	6 April 2021
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		Decision-Making:	High
		Project Status:	Developing discussion paper

Objectives of this agenda item

- The objectives of this agenda item are for the Board to:
 - decide** whether to consult on the withdrawal of SAC 1 *Definition of the Reporting Entity* for not-for-profit (NFP) private sector entities and amend AASB 1053 *Application of Tiers of Australian Accounting Standards* to remove the option for such entities to prepare special purpose financial statements in the NFP FRF discussion paper (DP);
 - consider** issues relating to the Revised Conceptual Framework (RCF) for NFP Entities with implications (directly or indirectly) for the NFP FRF;
 - decide** the principles on which to base decision making on recognition, measurement, presentation, disclosure and other aspects of the proposed Tier 3 reporting requirements; and
 - receive** an update on interaction with cross-cutting projects and with regulators, **review** the project timeline and **decide** the next steps.

Background and reasons for bringing this agenda item to the Board

- At its February meeting, the Board made decisions for some key aspects of the NFP FRF public discussion paper, including¹:
 - to develop a further reporting tier ('Tier 3');
 - not to specify application thresholds for the tiers;

¹ [Appendix A](#) provides further details on the Board's tentative decisions to date.

- (c) not to include service performance reporting proposals in the consultation, subject to clear communication of how the Board would address this topic and feedback (see [Action Alert No. 206](#)); and
- (d) input from relevant regulators on the interaction of this decision with their priorities.

The Board also decided to make submission on the Australian Government Treasury consultation paper *Increasing financial reporting thresholds for ACNC-registered charities* (included for noting at this meeting in Agenda item 13 *Other business*).

- 3 Following the Board's tentative decision at its February 2021 meeting, staff believe that the Board should establish a set of principles on which to base its decision-making when forming preliminary views on some specific aspect of proposed Tier 3 reporting requirements; these principles would also be intended to ensure staff have a clear direction when developing options for the Board to consider. Staff consider that 'user needs' and 'cost/benefit' considerations are appropriate overarching principles to apply, and the aim of Tier 3 is also to serve as a proportionate response for some NFP private sector entities currently preparing special purpose financial statements. Therefore, staff consider that the Board should also consider now SAC 1 application for NFP private sector entities and cross-cutting matters affecting both this project and Conceptual Framework: NFP Amendments project (such as users and their needs).

Proposal to withdraw SAC 1 and interaction with Conceptual Framework: NFP Amendments (Agenda paper 3.2)

- 4 Withdrawing SAC 1 for NFP private sector entities is implicit in the Board's project to develop a Financial Reporting Framework for those entities, and to adopt the RCF (with appropriate modifications) for NFP entities². However, an explicit decision has not yet been made by the Board to withdraw SAC 1 for NFP private sector entities. The Board will be asked to consider at this meeting (see agenda paper 3.2) whether to consult on the withdrawal of SAC 1 for these entities.
- 5 As outlined in [February 2021 agenda item 5.1](#), there are cross-cutting issues affecting both the Board's project to develop a NFP FRF for NFP private sector entities, and to adopt the RCF for NFP entities (RCF:NFP). Those issues potentially affect the sequencing of the Board's initial discussion papers for the two projects. At this stage, in agenda paper 3.2, staff seek the Board's views on whether the Board agrees that those issues need addressing, and on the implications of those issues for the timing (including sequencing) of the Board's initial DPs for those projects. An important aspect of the Board's decision making is deciding whether (and, if so, which) questions should be asked in the NFP FRF DP about issues affecting the RCF:NFP.

Principles for Tier 3 reporting requirements (Agenda paper 3.3)

- 6 At this meeting, the Board is asked to consider design principles for the development of Tier 3 and consider Tier 3 requirements applicable for an entity's interests in subsidiaries. Possible reporting bases could include those listed in paragraph 29 in February 2021 meeting [agenda paper 5.2](#). In advance of forming its preliminary views on specific Tier 3 reporting requirements, the Board should clearly establish the set of principles on which it will base its decision making. This would be consistent with the approach the Board has taken on past projects, including when revising Tier 2 disclosures. The set of principles will provide

2 November 2019 Agenda item 5.1 NFP FRF [Project Plan](#), Section 2 Objectives and project outcomes; August 2020 Agenda item 5.1 RCF for NFP entities [Project plan](#)

robustness to the Board's decision making and, valuably, transparency to stakeholders when considering the Board's preliminary views set out in the forthcoming NFP FRF DP.

- 7 Subject to the Board's decisions at this meeting, staff will bring further considerations on possible requirements of differential reporting to future Board meetings. In [Appendix B](#), staff have identified a preliminary list of matters on which staff think the Board will need to form tentative views for the purposes of developing Tier 3 reporting requirements for inclusion in a DP and allocated these to discussions at future Board meetings as outlined in par. 12.

Attachments

The attached agenda papers contain staff analysis, recommendations and questions to the Board in respect of the matters outlined in paragraphs 3 – 5 above:

- Agenda paper 3.2 Scope of the discussion paper – proposal to withdraw SAC 1 and interaction with Conceptual Framework: NFP Amendments project
- Agenda paper 3.3 Principles for Tier 3 reporting requirements

Update on the cross-cutting projects and engagement with regulators

- 8 Staff have summarised the current status of the cross-cutting projects and implications below:
- Conceptual Framework: NFP Amendments (including amendment to SAC 1 *Definition of the Reporting Entity* and other consequential amendments) - as outlined in agenda paper 3.2, subject to the Board's decisions at this meeting, staff will bring further consideration of issues cross-cutting RCF:NFP and NFP FRF to include in the NFP FRF DP.
 - Not-for-Profit Entity Definition and Guidance – in Agenda item 4.1 of this meeting, staff have analysed further feedback from respondents on ED 291, including cross-cutting considerations with NFP FRF project – including the fact that the NFP/FP distinction determines the entities in the scope of the NFP FRF project; flow-on implications of the effective date of the proposed amendments (subject to the Board decision to proceed with the amendments); and initial considerations for transitional relief.
 - Reporting Service Performance Information – following the Board's tentative decision not to include service performance reporting proposals in the NFP FRF DP, subject to clear communication of how the Board would address this topic and feedback from relevant regulators on the interaction of this decision with their priorities, staff recommend to seek stakeholders' feedback on the project (refer this meeting's Agenda item 8, AASB Agenda Consultation) and will include the topic in the discussion with regulators (see par. 9 below).
 - Other NFP private sector-specific considerations (Fundraising, Remuneration Reporting) - these projects do not necessarily need to be addressed as part of the differential reporting NFP FRF project; however, staff will suggest to note in the NFP FRF DP that the Board continues to work on NFP-specific disclosures (outside discussion of the NFP FRF), subject to the Board's decisions during the course of the development of the DP. Feedback from constituents on these projects will be also sought in the upcoming Agenda Consultation (refer this meeting's Agenda item 8, AASB Agenda Consultation)
 - Changes recommended by an independent review of the ACNC Legislation *Strengthening for Purpose: Australian Charities and Not-for-profits Commission Legislation Review 2018* – the Board's submission on the Australian Government Treasury consultation paper *Increasing financial reporting thresholds for ACNC-registered charities* expressed continued support for harmonising charities' reporting requirements across all States and Territories

to enable consistent criteria and thresholds for financial reporting requirements, and highlighted the potential interaction between the reporting thresholds set by regulators and the possible future differential financial reporting framework for NFP private sector entities. The submission also sought to discuss these matters with the Thresholds Working Group.

- NZASB's post-implementation review (PIR) of Tier 4 and Tier 4 standards and IFR4NPO – staff continues monitoring progress of these projects. At the most recent IFASS meeting, some additional jurisdictions highlighted their simplified requirements for some NFP entities that staff will consider when developing options for Tier 3 requirements.

- 9 At its February 2021 meeting, when making its tentative decisions on not including the tiers' application thresholds and reporting of service performance information in the discussion paper, the Board requested staff to engage further with regulators on these matters.
- 10 Further to seeking opportunity to engage with the Thresholds Working Group expressed in the submission referred in paragraph 8 above, staff are also investigating how to engage with the Council on Federal Financial Relations (CFFR) given its possibly broader reach beyond charities and incorporated associations (which are the focus of the working group).

With the aim to identify other entity types (beyond charities registered with the ACNC and incorporated associations) that may need to be considered to identify (especially unintended) interaction of the NFP FRF with the requirements of relevant legislation and regulations, staff have prepared a summarised initial list using information in [Research Report 10 Legislative and Regulatory Financial Reporting Requirements](#), and are in the process of refining this initial list of the entities and confirming respective applicable legislation to engage with respective regulators:

- Companies limited by guarantee (*Corporations Act 2001*)
 - Regulated compensation scheme funds (*Corporations Act 2001*)
 - Co-operatives (respective state and territory co-operatives legislation)
 - Charitable investment fundraisers (*Corporations Act 2001/ASIC Corporations (Charitable Investment Fundraising) Instrument 2016/813*)
 - Private and public ancillary funds (*Taxation Administration Act 1953 (Cwth)/Private Ancillary Fund Guidelines 2009/Public Ancillary Fund Guidelines 2011*)
 - NSW: Registered political parties (*Electoral Funding Act 2018 (NSW)*)
 - Trade unions and employer associations (*Fair Work (Registered Organisations) Act 2009*)
 - Higher education providers (*Higher Education Support Act 2003/Tertiary Education Quality and Standards Agency Act 2011*)
 - Aged care entities (*Aged Care Act 1997*)
 - RSL clubs (*RSL NSW Act 2018*)
- 11 Staff will also consider evidence from further research as it becomes available, for example findings of soon-to-be-published AASB research report on financial reporting by non-corporate or small entities.

Question to the Board

Question 1: Do Board members have any concerns or comments about the interactions with other projects and engagement with regulators summarised above?

Updated project timeline and milestones

12 Subject to the Board’s decisions at this meeting, the following table provides an updated timeline and key milestones for the project. This table has been revised since the version presented to the Board at its February 2021 meeting. In particular:

- Following the Board’s tentative decisions, staff have allocated matters related to the development of potential Tier 3 requirements identified in Appendix B to future meetings;
- Given the breadth and width of the topics to be discussed, it is likely that at least one more Board meeting will be needed for technical discussion (September meeting), which extends the expected issue date of the DP into late Q4 (as opposed to early Q4 targeted by previous versions of the plan);
- for the same reason, depending on the other projects to be brought to the Board in September, staff will consider whether there is a need to convene an out-of-cycle Board meeting between June and September (e.g. August), subject to Board members’ availability. In the absence of an August meeting (and assuming insufficient time on the agenda available for extended NFP FRF discussion on the September meeting agenda), the topics not discussed at the September meeting would need to carry over into the November meeting, which would extend the timeline further (due to the need to bring back the final draft of the DP to the first meeting in the 2022 calendar year).

Note that the timeline below is subject to sufficient staff resources available throughout the project.

Staff will also continue to seek feedback from NFP Project Advisory Panel throughout the project.

MEETING	PROJECT MILESTONES
APR 2021 (THIS MEETING)	Board’s deliberations on: <ul style="list-style-type: none"> • Underlying principles for Tier 3 • Inclusion of proposal to remove SAC 1 applicability for NFP private sector entities • RCF:NFP cross-cutting considerations including timeline implications
JUN 2021	Board’s deliberations on the working draft of the DP reflecting decisions made at previous meetings (<u>subject to those decisions</u>) and including following matters identified in Appendix B (which also include the key matters identified during initial targeted consultations): <ul style="list-style-type: none"> • Primary financial statements • Disclosure principles • Single standard • Errors and changes in accounting policies • Offsetting • Subsidiaries • Joint arrangements and associates • Separate financial statements • Further analysis and staff recommendations on RCF:NFP cross-cutting matters
SEP 2021	Board’s deliberations on the working draft of the DP reflecting decisions made at previous meetings (<u>subject to those decisions</u>) and including the following matters identified in Appendix B (which also include the key matters identified during initial targeted consultations): <ul style="list-style-type: none"> • Financial instruments • Fair value

	<ul style="list-style-type: none"> • Foreign currency transactions and balances • Leases • Property, plant and equipment and investment property • Intangible assets • Impairment of non-current assets • Provisions • Employee benefits • Revenue/Income • Income taxes and GST • Fundraising and other matters identified to the Board previously • Other matters, for example: <ul style="list-style-type: none"> ○ transition between the tiers; ○ reassess whether Tier 4 entities and the application thresholds need to be included in the DP in the light of the draft Tier 3 requirements and the results of engagement with stakeholders, including regulators); and ○ transitional provisions.
NOV 2021	<ul style="list-style-type: none"> • Board to make decisions about exposure period and on any remaining sweep issues • Board to review final draft discussion paper and appoint subcommittee to finalise out of session
DEC 2021	<ul style="list-style-type: none"> • Discussion paper exposed for public comment • Development of communication materials to accompany issue of DP

Question to the Board

Question 2: Do Board members have any concerns or comments about the proposed project timeline presented above, including the matters and their preliminary scope identified by staff in Appendix B to be considered in the DP?

Appendix A: Board’s tentative decisions

The table below sets out the Board’s tentative decisions to date (beginning February 2021) with respect to its forthcoming discussion paper (DP) on a proposed revised differential reporting framework for not-for-profit private sector entities.

Meeting	Subject of Agenda Papers	Tentative Board decisions	Link to Board minutes
24-25 Feb 21	<ul style="list-style-type: none"> • Whether certain NFP private sector entities should be required to prepare Tier 1 general purpose financial statements • Whether Tier 2 reporting requirements for NFP private sector entities should be the same as the Tier 2 reporting requirements for for-profit private sector entities • Whether the Board should specify reporting thresholds, and if so, whether those thresholds should be based on qualitative or quantitative factors • Whether service performance information proposals should be developed as part of this project 	<ul style="list-style-type: none"> • The existing two tiers of reporting requirements (Tier 1 and Tier 2) will continue to be available for NFP private sector entities preparing general purpose financial statements. • A further reporting tier (‘Tier 3’) will be developed in response to stakeholder concerns that Tier 2 reporting requirements are not proportionate for certain NFP private sector entities, including those which might no longer be able to prepare special purpose financial statements should the Board decide to remove the ‘reporting entity’ definition currently applicable to NFP entities. • The Board will not develop application thresholds for the tiers, but will hopefully be able to provide clarity for stakeholders in the forthcoming DP as to how legislative requirements for entities to prepare financial statements in accordance with Australian Accounting Standards or otherwise would interact with the proposed differential reporting framework. • The DP will not include any service performance reporting proposals (subject to feedback from relevant regulators on the interaction of this decision with their priorities), but will include clear communication of how the Board plans to address this topic. 	Not yet available (agenda)

Appendix B: Matters that the Board might need to consider for inclusion in the discussion paper

The following is a preliminary listing of matters that staff think the Board will need to form tentative views on for the purposes of developing Tier 3 reporting requirements for inclusion in a discussion paper (DP). Staff intend to develop papers on these topics for discussion at future Board meetings.

Topic	Board consideration
Financial statements / Concise financial statements	Develop preliminary views as to the set of financial statements – e.g. whether a statement of changes in equity or cash flow statement should be a necessary component of a complete financial report, or whether the financial statements should be presented in a manner consistent with AASB 101
Disclosure	Build on the proposed principles in Agenda paper 3.3 to develop disclosures at ED level, and develop preliminary views on: <ul style="list-style-type: none"> - the extent of related party disclosures - disclosures about commitments and contingencies
Single standard	Form a view whether Tier 3 should be contained within a single standard and, if so, develop the framework for a single standard. This might include developing preliminary views on matters including: <ul style="list-style-type: none"> - language and whether consistency with Tier 1 and Tier 2 terminology should be maintained - whether the single standard should be static - whether to cross-reference to Tier 1 recognition and measurement/ accounting policies - the approach the Board intends to take with regard to topics such as the ability to cross-reference out of the financial statements into an external document, post reporting date events, inventories, discontinued operations, non-current assets held for sale, current/non-current classification of liabilities, defined benefit obligations, securitisation of financial assets, guidance on special purpose vehicles, interim financial statements, borrowing costs, agriculture, service concession arrangements, insurance contracts, classification of member shares (Interpretation 2), embedded derivatives and hedge accounting
Employee benefits	Develop preliminary views on the accounting for employee benefits of NFP private sector entities – e.g. whether to require employee benefits to be measured at their present values, or recognise unvested long service leave
Errors and changes in accounting policies	Develop a preliminary view on whether the Board should require only limited retrospective application
Fair value	Develop preliminary view whether to develop guidance on “fair value” for Tier 3 entities
Financial instruments	Develop preliminary views on the accounting for common financial instruments – e.g. whether to require the amortised cost model, simplify impairment requirements, or allow fair value through profit or loss or OCI accounting treatments
Foreign currency transactions and balances	Develop preliminary views whether to simplify requirements regarding foreign currency transactions and balances – e.g. whether to presume that an entity’s local currency is its functional currency and its presentation currency

Topic	Board consideration
GST	Develop preliminary views on whether the accounting for GST should be simplified
Income taxes	Develop preliminary view on whether to develop requirements regarding accounting for income taxes
Intangible assets	Develop preliminary views on the accounting for intangible assets – e.g. whether to simplify requirements through permitting only acquired assets to be recognised
Impairment of non-current assets	Develop preliminary views on when and how to assess impairment and the write-down amount, including possibly for non-cash generating specialised assets
Joint arrangements and associates	Develop preliminary views whether to require joint arrangements and associates to be equity accounted
Leases	Develop preliminary views on the accounting for leases of NFP private sector entities – e.g. how to treat concessionary leases [this may need to extend to Tier 1 and Tier 2], whether lessor and lessee accounting should be consistent, or whether to require recognition of the leased asset
Offsetting	Develop a preliminary view whether offsetting should be permitted, required, or not allowed
Property, plant and equipment and investment property	Develop preliminary views on the accounting for property, plant and equipment and investment properties – e.g. whether to simplify measurement requirements by requiring immediate expensing of certain costs, or allow the revaluation/fair value model
Provisions	Develop preliminary views on the accounting for provisions of NFP private sector entities – e.g. whether to require a provision to be measured at present value and, if so, how to treat the unwinding of the discount, or whether to develop requirements about restructuring obligations
Revenue / Income	Develop preliminary views on the accounting for income and revenue – e.g. whether to depart from AASB 1058 requirements and whether to retain distinction between revenue and income
Separate financial statements	Develop preliminary views whether to develop requirements for separate financial statements
Subsidiaries	Develop preliminary views whether to require subsidiaries to be consolidated and business combination accounting
Fundraising and other matters identified to the Board previously	Form views on whether to develop requirements about fundraising, and how the Board intends to address the other ‘key matters’ previously identified by staff during initial targeted consultations (paragraph 10 of agenda item 3.1 November 2020 meeting) to the extent they are not addressed in the matters listed above
Transition to other Tiers	Develop preliminary views on transition requirements