



<b>Project:</b>	<b>Not-for-Profit Private Sector Financial Reporting Framework (NFP FRF)</b>	<b>Meeting:</b>	M180
<b>Topic:</b>	<b>Scope of the discussion paper – proposal to withdraw SAC 1 and interaction with Revised Conceptual Framework: NFP Amendments project</b>	<b>Agenda Item:</b>	3.2
		<b>Date:</b>	6 April 2021
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Developing discussion paper

## Objectives of this paper

- 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* (SAC 1) for not-for-profit (NFP) private sector entities and the amendment of 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); and
  - consider** issues relating to the Revised Conceptual Framework: NFP Amendments (RCF:NFP) with implications (directly or indirectly) for the NFP FRF.

## Reasons for bringing this paper to the Board

- 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 entities<sup>1</sup>. 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 whether to consult on the withdrawal of SAC 1 for these entities. Although the Board did not make an explicit decision regarding removal of the ability of NFP entities to prepare special purpose financial statements (SPFS), it indicated its expectation that SPFS will be replaced by the new Financial Reporting Framework ([Action Alert #193](#)), subject to further consultation.
- This paper includes the staff view in paragraph 26 that, to avoid application of two different concepts of a 'reporting entity' to the same entities, it is necessary that, when the RCF:NFP is effective, SAC 1 is withdrawn for NFP private sector entities. Because the Board's Public Sector Financial Reporting Framework project is being undertaken separately from the Board's NFP private sector FRF project, this paper does not address the relative timing of any removal of

<sup>1</sup> See November 2019 Agenda item 5.1 NFP FRF [Project Plan](#), Section 2 Objectives and project outcomes; June 2020 item 5.1 RCF for NFP entities [Project Plan](#).

the option to prepare special purpose financial statements for NFP private sector entities and NFP public sector entities (however, in another context, this paper argues that the effective date of the RCF:NFP should be the same for all NFP entities: see paragraph 40). However, as noted in [Staff FAQs Replacing the reporting entity concept and removing the option for Special Purpose Financial Statements](#) (FAQ 15), the removal of special purpose financial statements is expected to have little impact in the public sector. Therefore, the [Public Sector Financial Reporting Project Plan](#) reflected the scenario that the RCF:NFP project would be completed prior to the finalisation of the public sector financial reporting framework.

- 4 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. Those issues potentially affect the sequencing of the Board's initial consultation documents for the two projects. At this stage, staff seek the Board's views on whether the Board agrees that those issues need addressing in the Board's NFP FRF DP, 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.

### Structure

- 5 This Staff Paper is set out as follows:
  - (a) Background (paragraphs 6 – 7); and
  - (b) Staff analysis and recommendations (paragraphs 8 – 44).

### Background

- 6 A DP is being prepared in relation to the Board's NFP FRF project. That DP is intended to include—or coincide with—questions about, and discussion of, some key aspects of the RCF:NFP (reflecting, at this stage, the working draft of an ED for the RCF:NFP broadly supported by the Board at its September 2020 meeting, [Action Alert #204](#)).
- 7 Due to the length of that working draft RCF:NFP, it is not part of the agenda papers for this meeting. An updated draft of the RCF:NFP will be available for Board members' reference at the June 2021 Board meeting. At that meeting, staff plan to ask Board members to consider the wording of draft questions (and background) on selected NFP-specific issues affecting the RCF:NFP, possibly for inclusion in the DP on the NFP FRF (see paragraphs 34 – 35).

### Staff Analysis and Recommendations

#### Withdrawing the applicability of SAC 1 to NFP private sector entities

- 8 This section asks the Board to consider whether to consult on the withdrawal of SAC 1 *Definition of the Reporting Entity* for NFP private sector entities and replace SAC 1's notion of a 'reporting entity' with an emphasis on general purpose financial reporting. It notes the Board's decision and reasoning on this issue in relation to for-profit private sector entities, followed by discussion of whether there are NFP-specific reasons not to take the same step in relation to NFP private sector entities.

#### *For-profit private sector entities*

- 9 In issuing AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*, the Board decided it was necessary to withdraw SAC 1 for for-profit private sector entities and simultaneously remove the option for those entities to identify themselves as 'non-reporting entities' and therefore prepare special purpose financial statements (SPFS) instead of general purpose financial statements. SAC 1 defines a 'reporting entity' as an entity "in respect of which it is

reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources” (i.e. an entity with ‘dependent users’: SAC 1, para. 40).

- 10 Paragraph BC6 of the Board’s Basis for Conclusions on AASB 2020-2 notes that the Standard “remove[s] the ability of certain for-profit private sector entities to self-assess their financial reporting requirements and prepare SPFS when they are required to prepare financial statements that comply with AAS.” The Board’s Basis for Conclusions on that Standard summarises the problems with entities being able to self-assess as preparing SPFS as being that: “As is evident from empirical research and feedback from stakeholders ..., there is concern that SPFS lack consistency, comparability, transparency and enforceability.” (para. BC2) AASB Invitation to Comment ITC 39<sup>2</sup> notes that: “... in Australia, two similar entities can prepare very different sets of financial reports, one preparing ... GPFS ... using a robust and consistent framework and the other SPFS, with self-selected requirements. This reduces comparability for entities of similar economic circumstances and undermines the fundamentals of trust and transparency.” In addition, the Board’s Basis for Conclusions on AASB 2020-2 notes that, when entities are able to self-assess the preparation of SPFS, it is difficult for researchers and users of financial statements to understand the extent of alignment between an entity’s accounting policies and the recognition and measurement requirements in Australian Accounting Standards (para. BC22)<sup>3</sup>.
- 11 The Board concluded it was necessary to remove SAC 1 for those entities when the RCF of the IASB (as issued by the Board for Australian for-profit private sector entities) became operative, to avoid the application of two different concepts of a ‘reporting entity’ to the same entities. Paragraph BC45 of the Board’s Basis for Conclusions on AASB 2020-2 notes that, unlike the concept of a ‘reporting entity’ in SAC 1 (see para. 8), “the reporting entity concept in the RCF determines the boundary of what needs to be reported when an entity is required to report, eg consolidation, and it does not determine who should prepare GPFS, as it is assumed that legislation requiring the preparation of financial statements in accordance with accounting standards is requiring GPFS.” That statement is consistent with the statement in paragraph BC3.13 of the IASB’s Basis for Conclusions on the RCF that: “The 2018 *Conceptual Framework* provides a general description of a reporting entity, rather than stating who must, should or could prepare general purpose financial statements. The Board has no authority to determine who must, should or could prepare such statements.”
- 12 In developing AASB 2020-2, the Board rejected the notion of retaining the existing Conceptual Framework (including SAC 1 and its concept of a reporting entity) and the ability to self-assess whether to prepare SPFS for entities that neither are ‘publicly accountable’ nor wish to claim IFRS compliance. Paragraph BC48 of the Board’s Basis for Conclusions on AASB 2020-2 notes that: “this option was not feasible, as new and revised AAS will be based on the RCF ... . Therefore, if entities continued to apply the existing Conceptual Framework when developing accounting policies or interpreting AAS, they are likely to develop inappropriate accounting policies or incorrectly interpret AAS.”

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<sup>2</sup> Consultation Paper: *Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*, May 2018

<sup>3</sup> This observation is consistent with the finding in AASB Research Report 11 *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities* (principal author: Yitang (Jenny) Yang; August 2019) that, of the 407 large and medium charities that lodged SPFS with the Australian Charities and Not-for-profits Commission in 2016, it was unclear for 44% of them whether they complied with the recognition and measurement requirements in Australian Accounting Standards (pages (iii) and 2).

*NFP private sector entities (current project)*

- 13 Because the reporting entity concept in SAC 1 and related ability to self-assess whether to prepare SPFS have been affecting for-profit and NFP private sector entities alike, there is a prima facie case for adopting the view that SAC 1 and the option of preparing SPFS should also be withdrawn for NFP private sector entities. Before making a decision on that issue for NFP private sector entities, it is appropriate to consider the Board's reasons for excluding NFP private sector entities from the scope of AASB 2020-2, to identify whether there might be factors modifying the above-mentioned prima facie case. This is discussed in paragraphs 14 – 18.
- 14 Paragraph BC73 of the Board's Basis for Conclusions on AASB 2020-2 notes that: "separate later consideration of the NFP private sector was needed for the following reasons:
- (a) The removal of SPFS would have a significantly greater impact on the NFP private sector compared with the for-profit private sector. Of those NFP private sector entities that are required to prepare financial statements and lodge them with the ACNC, research indicates that of the 36% of large and medium charities preparing and lodging SPFS with the ACNC, only a small portion (26%) are complying with the R&M requirements in AAS as compared to approximately 76% of specified for-profit private sector entities lodging financial statements with ASIC ... ;
  - (b) specified for-profit private sector entities that are required to prepare financial statements that comply with AAS have greater levels of economic significance, size and resources compared to NFP private sector entities. ... ; and
  - (c) the [at that time] unpublished Government ... response to the ACNC legislative review which outlined the potential for change in reporting thresholds and obligations for affected entities. To proceed with NFP private sector financial reporting reform could be burdensome for certain NFP entities if the AASB would require them to comply with the R&M requirements in AAS, but the ACNC subsequently relieved them of any financial reporting obligations once the ACNC legislative review is finalised."
- 15 In addition, since (for the reason in paragraph 11) the Board has linked the withdrawal of the option to self-assess as an entity permitted to prepare SPFS with the withdrawal of SAC 1 and the issuance of the RCF, for NFP entities the withdrawal of SAC 1 logically would not precede the issuance of the RCF:NFP (including consideration of any NFP-specific modifications warranted to the RCF adopted in Australia for for-profit entities: this point was acknowledged by para. BC53(f) of the Board's Basis for Conclusions on AASB 2020-2).
- 16 Staff consider that the Board's reasons not to withdraw the applicability of SAC 1 to NFP private sector entities simultaneously with the issuance of AASB 2020-2 (set out in paragraphs 14 – 15) do not indicate a NFP private sector-specific reason against withdrawing the applicability of SAC 1 for NFP private sector entities at an appropriate later time.
- 17 The impediment to the AASB reforming reporting by NFP private sector entities mentioned in paragraph BC73(c) of the Board's Basis for Conclusions on AASB 2020-2 (see para. 14 above) would appear to be removed by the Board's decision not to specify which entities should apply Tier 3 reporting requirements (leaving such specification to appropriate regulators).
- 18 For the reasons in paragraphs 8 – 17, staff recommend that, in relation to NFP private sector entities, the Board consults on the withdrawal of SAC 1 and the replacement of SAC 1's notion of a 'reporting entity' with an emphasis on general purpose financial reporting, with the determination of which entities should prepare general purpose financial statements (and whether they should apply Tier 3 reporting requirements) made by appropriate regulators.

- 19 If the Board were not to support the staff recommendation in paragraph 18, upon issuing the RCF:NFP, two different concepts of a 'reporting entity' would apply to NFP private sector entities.

**Question 1 to the Board:**

- Q1** Do Board members agree with the staff recommendation in paragraph 18 that, in relation to NFP private sector entities, the Board should consult on the withdrawal of SAC 1 and replacement of SAC 1's notion of a 'reporting entity' with an emphasis on general purpose financial reporting?

Whether the first consultation step for withdrawing SAC 1 should be a DP or an ED

- 20 If the Board agrees with the staff recommendation in paragraph 18, the next issue is whether the Board's first consultation step in relation to the withdrawal of SAC 1 for NFP private sector entities should be a DP or an ED. If the Board were to select consulting first through a DP, its options would include either issuing a stand-alone DP or including the Board's proposal in the NFP FRF DP. The relative merits of the first consultation step being a DP or an ED are discussed in paragraphs 21 – 24.
- 21 Staff observe that, in the process of forming its conclusions about the withdrawal of SAC 1 for for-profit private sector entities (via AASB 2020-2), the Board:
- (a) conducted significant targeted outreach (including more than 250 formal meetings) with key stakeholders, including numerous users of financial statements;
  - (b) received feedback from 37 users of financial statements documented in AASB Staff Paper *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements – For-profit User and Preparer Survey Results* (December 2018), of whom 78% expressed concern that SPFS do not consistently apply recognition and measurement requirements in Australian Accounting Standards; and
  - (c) noted other evidence indicating clearly the existence of users who would benefit from having access to GPFS rather than SPFS (AASB Basis for Conclusions on AASB 2020-2, paragraphs BC25 and BC38 – BC40).
- 22 In contrast, the Board has not yet obtained a comparable amount of evidence of user needs in relation to NFP private sector entities. In this regard, it should be borne in mind that the extensive research in AASB Research Report 11 *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities* is a survey of SPFR financial reporting practices by charities.
- 23 Staff consider that the EDs for the NFP FRF and RCF:NFP (Stage 1) should be issued concurrently (see paragraph 44). The first consultation step for the NFP FRF will be a DP. If the Board agrees with that staff view, there would be time for the first consultation step in relation to withdrawing SAC 1 to be a DP without delaying the finalisation of the NFP FRF or Stage 1 of the RCF:NFP.
- 24 In light of the lesser amount of evidence obtained to date in relation to user needs regarding NFP private sector entities (referred to in paragraphs 21 – 22), the inherent difficulties in engaging directly with many users of financial statements of NFP private sector entities, and the opportunity to consult with stakeholders in advance of finalising an ED of the RCF:NFP (referred to in paragraph 23), staff recommend that the Board's first consultation step in relation to the withdrawal of SAC 1 for NFP private sector entities should be a DP. In addition, because the withdrawal of SAC 1 is closely related to the development of the NFP FRF, staff

recommend including the Board's proposal in the NFP FRF DP. (See also paragraphs 34 – 44 regarding other issues staff recommend making the subject of specific matters for comment as part of the NFP FRF DP.)

- 25 If, instead, the Board's first consultation step in relation to the withdrawal of SAC 1 for NFP private sector entities were to be an ED, and fresh issues were identified in responses to that ED, it might be necessary to issue a revised ED. This might not result in a delay to finalising the project (because, either way, at least two consultation documents would be issued). However, it might involve wasted resources in drafting an ED (compared with the likely simpler drafting of a DP) as the first due process step. A possible advantage of issuing an ED without a preceding DP on this issue is that, potentially, re-exposure would not be necessary, and there might be cost savings as a result.

**Questions 2 and 3 to the Board:**

- Q2** If Board members agree with the staff recommendation in Question 1, do Board members agree with the staff recommendation in paragraph 22 that the Board's first consultation step in relation to the withdrawal of SAC 1 for NFP private sector entities should be a DP?
- Q3** If Board members agree with the staff recommendation in Question 2, do Board members agree with the related staff recommendation in paragraph 24 to include the Board's proposal in the NFP FRF DP?

*Timing of the withdrawal of SAC 1*

*Should SAC 1 be withdrawn concurrently with issuing the Revised Conceptual Framework for not-for-profit entities?*

- 26 As noted in paragraph 11, the Board previously concluded it was necessary to remove SAC 1 for for-profit private sector entities when the RCF became operative for those entities, to avoid application of two different concepts of a 'reporting entity' to the same entities. Staff consider that this imperative applies equally to NFP private sector entities as it does for for-profit private sector entities. Therefore, staff consider it is necessary that, when the RCF:NFP is issued, SAC 1 is withdrawn for NFP private sector entities.
- 27 An alternative to consider is whether SAC 1 could be withdrawn for NFP private sector entities before either the completion of the RCF:NFP or the NFP FRF. It might be argued there should be no impediment to doing so because it would merely leave such entities without a reporting entity concept. However, there would appear to be no practical purpose in withdrawing SAC 1 on a stand-alone basis. This is because the SAC 1 definition of a 'reporting entity' remains operative in paragraphs 5(a) and 5(b), and the Appendix, of AASB 1057 *Application of Australian Accounting Standards*; the amendment of those aspects of AASB 1057 is a necessary companion step to issuing the RCF:NFP (i.e. the SAC 1 principle for 'reporting entity' would otherwise live on at a standards level despite being withdrawn as a concept).

*Should SAC 1 be withdrawn when the Financial Reporting Framework for NFP private sector entities is issued?*

- 28 The other issue for the Board to consider is whether withdrawing SAC 1 and issuing the RCF:NFP could realistically precede the completion of the NFP FRF.
- 29 If the permissibility of issuing special purpose financial statements were to be removed when SAC 1 is withdrawn, and NFP private sector entities were therefore required to prepare general purpose financial statements that comply with Australian Accounting Standards whenever required to by a regulator or the entity's constituting document, or whenever the entity elects to prepare general purpose financial statements, the entity would need to apply Tier 1 or

Tier 2 requirements referred to in AASB 1053 (with Tier 2 disclosure requirements reflecting the issuance of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*). That is, there would be a hiatus between the permissibility of preparing special purpose financial statements and being able to access the simpler (yet useful as defined in the RCF:NFP) Tier 3 recognition, measurement and disclosure requirements.

- 30 For the reason in paragraph 29, staff consider it is necessary that the FRF Tier 3 reporting requirements for NFP private sector entities are effective when the permissibility of those entities preparing special purpose financial statements is removed.
- 31 Conversely, staff consider that the effective date of the NFP FRF should not precede the effective date of the RCF:NFP. This is because the NFP FRF is premised on superseding the reporting entity concept in SAC 1 through the issuance of the RCF:NFP and thus removing the opportunity of NFP private sector entities to elect to prepare special purpose financial statements.
- 32 Consistent with the staff views in paragraphs 30 and 31, staff consider that early adoption by a NFP private sector entity of either of the following requirements should entail early adoption of the other:
- (a) a NFP private sector entity equivalent of AASB 2020-2 (prohibiting such entities from preparing special purpose financial statements); and
  - (b) NFP FRF Tier 3 reporting requirements.
- 33 For the reasons in paragraphs 29–31, staff recommend that the effective dates (including early adoption dates) for the NFP FRF and RCF:NFP should coincide.

**Question 4 to the Board:**

**Q4** Do Board members agree with the staff recommendation in paragraph 33 that the effective dates (including early adoption dates) for the NFP FRF and RCF:NFP should coincide?

*Does the Board need to consider how its tentatively agreed concepts for the RCF:NFP would be applied at Tier 3 of the NFP FRF before issuing an ED of the RCF:NFP?*

- 34 Two subject areas (highlighted in February 2021 [Agenda item 5.1](#) and September 2020 [Agenda item 10.1](#)) of the RCF:NFP that members of the Board’s NFP:RCF Project Advisory Panel identified as warranting examination from a NFP-specific perspective are:
- (a) in relation to the primary users of general purpose financial reports of NFP entities:
    - (i) whether the users identified in the existing Framework for the Preparation and Presentation of Financial Statements are appropriate (including whether advisers of members of parliament should continue to be identified as users);
    - (ii) whether regulators should be identified as users in some contexts (despite paragraph 1.10 of the unmodified RCF excluding regulators from the primary user group); and
    - (iii) whether a primary user group should be identified and, if so, the implications for the identification of relevant information that should be included to meet the objective of general purpose financial reporting (e.g. does identifying a primary user group narrow the information that should be reported?);

and

- (b) whether the objective of general purpose financial reporting by NFP entities should give greater emphasis to stewardship (or accountability) and, if so, how this would be likely to affect assessments of user needs for NFP entities generally.
- 35 The Board's views on these issues are not sought at this meeting; at the Board's June 2021 meeting, it is intended that the Board considers the wording of the draft questions (and background) about these issues to include in (or coincide with) the NFP FRF DP. For further details about the next RCF:NFP project step, see Agenda Paper 3.1.
- 36 This paper asks the Board whether it agrees that these issues warrant examination (and consultation with stakeholders), and whether the Board needs to consider how its tentatively agreed concepts for the RCF:NFP<sup>4</sup> (as a set of concepts sufficiently complete to be issued in Stage 1) would be applied at Tier 3 of the NFP FRF before issuing an ED of the RCF:NFP. The two main possibilities are:
- (a) the Board develops and exposes in an ED proposals about the issues in paragraph 34 without needing to assess how those proposals would affect the application of the RCF:NFP to Tier 3 of the NFP FRF through seeking feedback via the NFP FRF DP. Any lessons learned through the development of the NFP FRF (if completed after Stage 1 of the RCF:NFP) can be reflected in either:
    - (i) an update of the RCF:NFP effected through consequential amendments in the NFP FRF; or
    - (ii) amendments of the RCF:NFP effected within the amendments resulting from Stage 2 of the project;

or

  - (b) the Board defers finalising its decision-making about these issues until it obtains and considers feedback on them through the inclusion of questions in the NFP FRF DP (or asking those questions in another consultation document issued at the same time). Development and finalisation of EDs of the NFP FRF and RCF:NFP could occur concurrently in this context (if the Board decides to proceed to this stage of the standard-setting process). This approach would not preclude the Board making tentative working decisions about these issues in the interim.
- 37 Questions 1 and 4 above are threshold questions for this issue. If the staff recommendations on those questions are supported, the effective dates for the NFP FRF and RCF:NFP would need to coincide. This would imply concurrent EDs for both projects (in relation to the RCF:NFP project, this means the ED for Stage 1 of the project; Stage 2 would involve a subsequent ED culminating in the issuance of an amended RCF:NFP – subject to the Board's future decision in this respect).
- 38 If EDs were to be issued concurrently for both the NFP FRF and RCF:NFP projects, this would (at face value) imply deferring the issue of an ED for Stage 1 of the RCF:NFP<sup>5</sup>, and using the opportunity created by the NFP FRF DP to obtain stakeholder feedback on the issues in paragraph 34 in the process of developing the RCF:NFP ED. This opportunity is important

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<sup>4</sup> The Board considered an initial draft of the RCF:NFP in September 2020 and made some tentative decisions regarding NFP modifications to the RCF ([Action Alert #204](#)).

<sup>5</sup> Without deferral, a draft ED that updates the draft considered by the Board in September 2020 could be (from a project management perspective, and subject to the Board's deliberation and decision) approved in principle by the Board at its June 2021 meeting and balloted out of session shortly thereafter.



because the issues in paragraph 34 are central to identifying whether, and to what extent, NFP modifications should be made to the existing RCF above and beyond carrying forward with modest amendment the NFP modifications to the existing Framework for the Preparation and Presentation of Financial Statements. (This is not meant to imply the significant potential modifications would end there: Stage 2 of the Board's RCF:NFP project would consider whether to make other significant potential modifications in line with the Project Plan.)

- 39 The aspect that potentially complicates this sequencing of due process steps is that, logically, questions about the issues in paragraph 34 would only be asked from those with an interest in financial reporting by NFP private sector entities (in keeping with the focus of the NFP FRF DP). This means feedback on those issues from those with an interest in financial reporting by NFP public sector entities would not be obtained until after the RCF:NFP ED is issued. This brings the attendant risk that public sector-specific issues and solutions that need addressing in the RCF:NFP are not identified until after the ED is issued, and consequently that the issuance of the RCF:NFP might be delayed. And, based on the staff view in paragraph 33 that the effective dates for the NFP FRF and RCF:NFP should coincide, any delay in the effective date of the RCF:NFP (Stage 1) would logically delay the effective date of the NFP FRF.
- 40 One option for the Board to consider if this situation arose would be to adopt the RCF:NFP for NFP private sector entities before adopting the RCF:NFP for NFP public sector entities. However, similarly to the Board's reason (noted in paragraph 12) not to retain the existing Conceptual Framework for some entities, staff consider that the option above would be inappropriate because:
- (a) the Board's decision making about requirements in new and revised Standards applying to NFP entities would be based on the RCF:NFP, regardless of the sector in which those entities operate, because the accounting response to most NFP-specific issues should be the same regardless of the NFP entity's sector; and, therefore
  - (b) if NFP public sector entities continued to apply the existing Conceptual Framework when developing accounting policies or interpreting Australian Accounting Standards, they would be likely to develop inappropriate accounting policies or incorrectly interpret those Standards.
- 41 Moreover, staff note that, regarding the risk (noted in paragraph 39) that public sector-specific issues and solutions are not identified until after the RCF:NFP ED is issued, the ameliorating factor is that, to avoid delaying the implementation of the NFP FRF, any issues that cannot be addressed in a timely manner in Stage 1 of the RCF:NFP project could be addressed in Stage 2.
- 42 In addition, based on the preliminary staff analysis of the NFP-specific conceptual issues in paragraph 34, staff consider that it should be unlikely that decisions the Board makes about those issues for NFP entities in general would need to be amended in light of lessons learned through applying those decisions in developing Tier 3 of the NFP FRF. The issues that arise in applying the draft RCF:NFP to Tier 3 of the NFP FRF would seem likely to be Tier 3-specific. That initial assessment would need to be reviewed as work on developing the NFP FRF progresses.
- 43 At this stage, it seems likely that the NFP-specific conceptual issues in paragraph 34 would be of interest to stakeholders commenting on the NFP FRF DP. Accordingly, staff consider that (as a working decision, subject to review and possible amendment) those issues should be raised within that DP. However, staff note the risk that, once that DP is drafted, including the NFP-specific conceptual issues in paragraph 34 might make the DP unwieldy—therefore, staff consider that any decision about the location of questions on those issues should be provisional.

- 44 For the reasons discussed in paragraphs 34 – 43, staff recommend that:
- (a) the NFP-specific conceptual issues in paragraph 34 warrant examination and consultation with NFP private sector stakeholders as part of—or coinciding with—the NFP FRF DP, notwithstanding the risks described in paragraph 39;
  - (b) the (private sector) NFP FRF DP should invite NFP private sector stakeholder feedback on the issues in paragraph 34 (except for the public-sector-specific issue described within paragraph 34(a)(i)) to support the development of the RCF:NFP ED; and
  - (c) the EDs for the NFP FRF and RCF:NFP (Stage 1) should be issued concurrently (if the Board decides to issue EDs for these projects).

**Questions 5 – 8 to the Board:**

- Q5** Do Board members agree with the staff recommendation in paragraph 44 that the NFP-specific conceptual issues in paragraph 34 warrant examination and consultation with NFP private sector stakeholders as part of—or coinciding with—the NFP FRF DP?
- Q6** If Board members agree with the staff recommendation in Question 5, do Board members agree with the related provisional staff recommendation in paragraph 44 that comment should be invited on these conceptual issues in the NFP FRF DP, rather than in a separate DP?
- Q7** Are there any other NFP-specific conceptual issues Board members consider should be raised with stakeholders in (or coinciding with) the NFP FRF DP?
- Q8** Do Board members tentatively agree with the staff recommendation in paragraph 44 that the EDs for the NFP FRF and RCF-NFP (Stage 1) should be issued concurrently (if the Board decides to issue EDs for these projects)?