



<b>Project:</b>	<b>Not-for-Profit Private Sector Financial Reporting Framework</b>	<b>Meeting:</b>	M195
<b>Topic:</b>	<b>Project update</b>	<b>Agenda Item:</b>	3.0
		<b>Date:</b>	18 April 2023
<b>Contact(s):</b>	Maggie Man <a href="mailto:mman@asb.gov.au">mman@asb.gov.au</a> Jia Wei <a href="mailto:jwei@asb.gov.au">jwei@asb.gov.au</a> Jim Paul <a href="mailto:jpaul@asb.gov.au">jpaul@asb.gov.au</a> Fridrich Housa <a href="mailto:fhousa@asb.gov.au">fhousa@asb.gov.au</a>	<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Consider stakeholder feedback and decide next steps of the project

## Objective of this agenda item

- The objective of this agenda item is for the Board to:
  - consider** an update on the Not-for-Profit Private Sector Financial Reporting Framework (NFP FRF) project, including interaction with cross-cutting projects and the timeline (this Agenda Paper);
  - consider** summary of feedback received on the NFP FRF Discussion Paper including the staff preliminary analysis and **decide** the recommended next steps of the project; and
  - decide** on the approach to drafting the Exposure Draft (ED) for the Tier 3 requirements.

## Attachments

- Papers for this agenda item are:
  - Agenda paper 3.1 Summary of the feedback on the Tier 3 Discussion Paper and next steps
  - Agenda paper 3.1.1 Attachments: Detailed summary of feedback on the Tier 3 Discussion Paper and next steps
  - Agenda paper 3.2 Tier 3 – Approach to drafting recognition and measurement requirements
  - Agenda paper 3.3 Supporting document - Written submissions received
  - Agenda paper 3.4 Supporting document – Survey results received
  - Agenda paper 3.5 Supporting document – Draft AASB Research Report 19: *Common Financial Statement Items: Charities with \$0.5m – \$3m in revenue* [Board only]

## Background

- At its 20 – 21 February 2021 meeting, the Board agreed to develop a further reporting Tier (Tier 3) for application by not-for-profit (NFP) private sector entities. The Board approved the

Discussion Paper in August 2022<sup>1</sup> and it was issued on September 2022 with a six-month consultation period to 31 March 2023.

- 4 [The Not-for-Profit Private Sector Financial Reporting Framework Project Summary](#) provides an overview of the Board's tentative decisions to date in respect of the project based on 'Appendix A – Approach to simplification' agreed by the Board at its 4 August 2021 Board meeting.<sup>2</sup>

Summary of feedback on Tier 3 Discussion Paper and next steps (Agenda Paper 3.1 and Agenda Paper 3.1.1)

- 5 Agenda Paper 3.1 provides the Board with a high-level summary of feedback received on the DP. The paper includes the staff analysis and recommendations on the feedback for the Board to decide on its next steps of the project (i.e. to proceed with an Exposure Draft in accordance with the AASB Standard-Setting Due Process Framework).
- 6 Agenda Paper 3.1.1 contains the detailed summary of feedback, preliminary staff analysis and recommended actions of next steps to Agenda Paper 3.1 including:
  - (a) Section A: Overview of the outreach activities;
  - (b) Section B: Quantitative summary of responses to the DP; and
  - (c) Section C: Detailed preliminary staff analysis of feedback on the DP and suggested action for next steps
- 7 Supporting Documents Agenda Paper 3.3 contains all the written submissions received and Agenda Paper 3.4 contains all responses to the online survey.

Approach to drafting the ED on Tier 3 requirements (Agenda Paper 3.2)

- 8 Subject to the Board's decision on Agenda Paper 3.1, Agenda Paper 3.2 outlines the staff recommended approach to drafting the Exposure Draft on the Tier 3 requirements.

Supporting Document: Draft Research Report 19: Common Financial Statement Items: Charities with \$0.5 m – \$3 million in revenue [Board only] (Agenda Paper 3.5)

- 9 Agenda Paper 3.5 is a supporting paper on Research Report 19 outlining the findings on common financial statement items of ACNC-registered charities with revenue from \$500,000 to \$3 million inclusive. A sample of 260 charities' annual financial reports for the 2020/2021 reporting period were analysed by reviewing the line items in the financial statements. The research aims to identify the transactions and balances that are common for the size of NFP private sector entities the Board has in mind when developing its preliminary views on future Tier 3 reporting requirements. The research findings are included in the staff analysis in Agenda Paper 3.1.

**High-level summary of feedback received on the Tier 3 Discussion Paper**

- 10 Staff have analysed the feedback received on the DP. More information on the overall feedback collected from the online survey, virtual outreach sessions, one-to-one meetings and written submission is provided in Agenda Paper 3.1.1.

---

1 [Minutes of the 189<sup>th</sup> meeting of the AASB](#)

2 [Minutes of the 182<sup>nd</sup> meeting of the AASB](#)

- 11 As highlighted in [Agenda Paper 8.2](#) at the March 2023 AASB meeting, staff analysis indicates that there is broad support from stakeholders on the:
- (a) the proposals to develop a stand-alone Tier 3 Standard with simplified accounting requirements for smaller not-for-profit entities; and
  - (b) extension of the Australian Accounting Standards to certain not-for-profit entities provided a Tier 3 Standard is available.

Staff have presented analysis and recommendations, based on all the feedback received, on the next steps of the project in Agenda Paper 3.1

## Project update — cross-cutting projects

- 12 Table 1 below provides an update on the cross-cutting projects.

Table 1: Update on cross-cutting projects and other developments *IFRS for SME*

Cross-cutting projects	Update
<p>NZASB's post-implementation review (PIR) of Tier 3 and Tier 4</p>	<p>NZASB staff discussed transitional provisions at the NZASB March 2023 Board meeting and decided that no further simplification is required with respect to initial application of 2023 amendments (i.e. no specific transactional provisions are required). However, further guidance on applying 2023 amendments could be helpful to preparers.</p> <p>AASB staff are actively monitoring the NZ Tier 3 Standard and will consider relevant sections when considering the drafting for those sections, if the Board decides to proceed to the next stage of the standard-setting process (refer <a href="#">Agenda Paper 3.1 of this meeting</a>)</p>
<p>Second comprehensive review of the <i>IFRS for SMEs</i> Standard</p>	<p>IASB issued ED/2022/1 in September 2022 and comment period closed on 7 March 2023. The IASB will be analysing the feedback from outreach events and comment letters. The IASB is also undertaking fieldwork on the proposals in Section 23 <i>Revenue from Contracts with Customers</i> of the Exposure Draft.</p> <p>The ED proposes to align Section 23 of the <i>IFRS for SMEs</i> Standard with the principles and language used in IFRS 15 <i>Revenue from Contracts with Customers</i>, with simplification. Accounting practitioners are being invited to participate in fieldwork to test the proposed requirements.</p> <p>AASB staff will consider whether to gather feedback by field testing the proposed Tier 3 Standard at a future stage.</p>
<p>IFR4NPO</p>	<p>The first of three Exposure Drafts, ED/2022/1 of the International Non-Profit Accounting Guidance (INPAG ED/2022/1) was issued in November 2022 with comment period until 31 March 2023.</p> <p>It is anticipated that Exposure Draft 2 will focus on revenue from grants and donations (non-exchange revenue) as well as the treatment of grant expenses.</p> <p>Exposure Draft 3 will focus on the classification of expenses, fundraising costs, transition to INPAG and inventory.</p> <p>At the February 2023 technical advisory group meeting, the first draft of Section 23 <i>Revenue</i> was provided to TAG members for comment. Section 23 has been developed as a single section but with separate parts for commercial revenue and revenue from grants and donations.</p> <p>At a high level, revenue from grants and donations will be based on the principles in the draft IPSAS presented to the IPSASB at its December 2022 meeting, while revenue from contracts with customers will be based on the <i>IFRS for SMEs</i> Accounting Standard Exposure Draft (IFRS for SMEs ED).</p> <p>The draft IPSAS has extensive disclosures which is not considered appropriate for INPAG. Consequently, the disclosure requirements for Part 1 are based on those in the IFRS for SMEs ED, adapted for the NPO context. Additional disclosures are included where there is no equivalent requirement, for example, grants and donations without restrictions or binding grant arrangements.</p> <p>Part 2 will be developed by adapting the text of Section 23 of IFRS for SMEs ED with terminology changes to reflect the NPO context and a table of guidance on applying the requirements to simpler transactions.</p>

Cross-cutting projects	Update
	AASB staff will consider the proposals in the INPAG ED/2022/1 for the 'Concepts and principles' section and other relevant sections when considering the drafting for those sections (refer to Agenda Paper 3.1.1, page 12), if the Board decides to proceed to the next stage of the standard-setting process.
Post-implementation reviews of domestic NFP pronouncements	<p>The AASB approved the issue of <a href="#">ITC 50</a> Post-implementation Review – <i>Income of Not-for-Profit Entities</i>; and <a href="#">ITC 51</a> <i>Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements</i> with comment period until 31 March 2023.<sup>3</sup> AASB staff are concurrently seeking feedback on these ITCs to assist its assessment of whether certain requirements of Australian Accounting Standards apply to not-for-profit public and private sector entities continue to meet its original objectives, including whether the requirements remain appropriate. Staff are currently undertaking analysis of the feedback from the ITCs and will bring the results of this analysis to the Board for consideration at a future Board meeting.</p> <p>Staff will monitor the feedback from stakeholders on these ITCs, given the cross-cutting nature of the topics with the development of simplified accounting requirements.</p>
Conceptual Framework: NFP Amendments (including amendments to SAC 1 <i>Definition of the Reporting Entity</i> and other consequential amendments)	<p>The <a href="#">NFP Conceptual Framework project plan</a>, as presented to the Board in June 2020, noted the project will run simultaneously with the NFP FRF project to ensure the IASB's revised <i>Conceptual Framework for Financial Reporting</i> (RCF) amended for NFP entities is available when new differential reporting framework becomes effective.</p> <p>At its September 2021 meeting, the Board tentatively approved incorporating, with minor changes, Aus paragraphs applicable to NFP entities that are in the existing <i>Framework for the Preparation and Presentation of Financial Statements</i> and other relevant changes, and directed staff to continue to analyse issues raised through further research and outreach activities and to report back to the Board during the first half of 2021.<sup>4</sup></p> <p>AASB staff have analysed the feedback on the question relating to the Conceptual Framework as part of Agenda Paper 3.1 Q3 at this meeting.</p> <p>AASB staff intend to complete further analysis and recommendations and an updated working draft of NFP amendments to Conceptual Framework in H2 2023.</p>

**Question to Board members**

Do Board members have any comments on the cross-cutting projects summarised above?

### Project timeline and milestones

- 13 Staff will further consider the project timeline being informed by the time and effort needed for:
- the preparation of the staff analysis for the Board discussion to date;
  - further deliberations by the Board on the direction of certain topics yet to be decided by the Board as presented in Agenda Paper 3.1;
  - further time needed, subject to the Board's decisions, on the drafting of the Exposure Draft including consultation with the NFP Project Advisory Panel; and
  - further planning of outreach activities for the release of the ED.

At this stage, staff anticipate that the ED could be released late 2024 and staff will bring a more detailed project timeline to the June Board meeting. Staff will assess and develop further details on the project milestones once the Board decides on its next steps. Staff will consider and make any necessary updates to the timeline prior to each Board meeting.

3 [Minutes of the 190<sup>th</sup> meeting of the AASB](#)

4 [Minutes of the 177<sup>th</sup> meeting of the AASB](#)

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

