



Project:	Not-for-Profit Private Sector Financial Reporting Framework	Meeting:	M201
Topic:	Cover memo and project update	Agenda Item:	4.1
		Date:	20 February 2024
Contact(s):	Maggie Man mman@asb.gov.au Fridrich Housa fhousa@asb.gov.au	Project Priority:	High
		Decision-Making:	High
		Project Status:	Developing Exposure Draft

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 other developments and the project timeline considerations (this Agenda Paper);
 - consider** the staff analysis of the feedback on the Board's preliminary views on the Tier 3 requirements and **decide** on the staff recommendations for the purpose of developing the Tier 3 Exposure Draft on the Tier 3 requirements regarding:
 - the initial measurement of non-financial assets acquired at significantly less than fair value; and
 - Tier 3 primary financial statements; and
 - consider** the staff analysis and **decide** on the staff recommendations for drafting of certain sections of the Tier 3 Exposure Draft.
- The Board will be also asked to consider the staff analysis and recommendations in relation to the Board's proposals regarding the *Conceptual Framework for Financial Reporting* amendments for not-for-profit entities and SAC 1 *Definition of the Reporting Entity* amendments and resulting removal of the ability of certain NFP entities to prepare special purpose financial statements in Agenda Paper 6.1 at this meeting.

Attachments

- Papers for this agenda item are:
 - Agenda Paper 4.2 Tier 3 Exposure Draft Proposals – non-financial assets acquired at significantly less than fair value and primary financial statements
 - Agenda Paper 4.3 [Working Draft] of sections of the Tier 3 Exposure Draft
 - Agenda Paper 4.4 Summary of the application of the Board's approach to drafting the Tier 3 Exposure Draft

The following Board-only papers are presented in the Supplementary Folder

 - Agenda Paper 4.5 Meeting minutes of the NFP Project Advisory Panel meeting held on 18 December 2023

(e)	Agenda Paper 4.6	Tier 3 – staff analysis and application of the drafting approach to cost as an estimate of the fair value of investments in equity instruments
(f)	Agenda Paper 4.7	Tier 3 – staff analysis and application of the drafting approach to impairment of assets
(g)	Agenda Paper 4.8	Tier 3 – staff analysis and application of the drafting approach to inventories
(h)	Agenda Paper 4.9	Tier 3 – staff analysis and application of the drafting approach to leases
(i)	Agenda Paper 4.10	Tier 3 – staff analysis and application of the drafting approach to other topics, based primarily on New Zealand Tier 3 Standard
(j)	Agenda Paper 4.11	Tier 3 – staff analysis and application of the drafting approach to opt-up policy, hierarchy approach, Tier 2 topic and maintenance cycle
(k)	Agenda Paper 4.12	Tier 3 – staff analysis and application of the drafting approach to property, plant and equipment, fair value and borrowing costs
(l)	Agenda Paper 4.13	Tier 3 – staff analysis and application of the drafting approach to revenue
(m)	Agenda Paper X.14	Tier 3 – staff analysis and application of the drafting approach to consolidated and separate financial statements
(n)	Agenda Paper 4.15	Tier 3 – staff analysis and application of the drafting approach to associates, joint ventures
(o)	Agenda Paper 4.16	Tier 3 – staff analysis and application of the drafting approach to related party transactions
(p)	Agenda Paper 4.17	Tier 3 – staff analysis and application of the drafting approach to financial instruments

Background

- 4 At its 20 – 21 February 2021 meeting, the Board decided 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 2022,¹ issued in September 2022, with a six-month consultation period to 31 March 2023.
- 5 After consideration of the preliminary analysis of the feedback on the Discussion Paper at its 4 May 2023 meeting, the Board decided to proceed with the development of an Exposure Draft on:
 - (a) a Tier 3 Accounting Standard with simplified accounting requirements for smaller NFP private sector entities; and
 - (b) removing the ability of certain NFP entities to prepare special purpose financial statements under Australian Accounting Standards

1 [Minutes of the 189th meeting of the AASB](#)

- 6 [The Not-for-Profit Private Sector Financial Reporting Framework Project Summary](#) provides an overview of the Board’s decisions to date regarding the project based on Appendix A – ‘Approach to simplification’ adopted by the Board at its August 2021 meeting.²
- 7 At its May 2023 meeting, the Board decided, to the extent consistent with the project object to develop simplified and proportionate requirements for smaller NFP private sector entities and in line with the principles the Board applies in this regard, its approach to drafting the Tier 3 Standard illustrated in Appendix B – *Approach to drafting the Tier 3 Standard*, which sets out the approach to drafting the recognition and measurement requirements³ and the disclosure requirements.⁴

Tier 3 Exposure Draft Proposals – initial measurement of non-financial assets acquired at significantly less than fair value and primary financial statements (Agenda Paper 4.2)

- 8 Agenda Paper 4.2 provides the staff analysis and recommendations regarding the feedback on the Board’s preliminary views on the Tier 3 requirements presented in the Discussion Paper on:
- (a) initial measurement of non-financial assets acquired at significantly less than fair value; and
 - (b) primary financial statements.

Working Draft of sections of the Tier 3 Exposure Draft (Agenda Paper 4.3, Agenda Paper 4.4, and Agenda Papers 4.6-4.17)

- 9 Agenda Paper 4.3 provides a working draft of sections of the Tier 3 Exposure Draft based on the DP proposal that was supported by stakeholder feedback as summarised in [Agenda Paper 3.1](#) presented at the May 2023 Board meeting. The selected sections were categorised as Category A where the Board agreed for its proposals in the DP to proceed to drafting. The sections were then reviewed by, and feedback received from the Subcommittee. Agenda Paper 4.4 provides a summary of the approach applied to drafting the Tier 3 Exposure Draft presented in Agenda Papers 4.6 – 4.17 in the supplementary folder. Agenda Papers 4.6 – 4.17 provide the staff analysis and recommendations of sections of the draft Tier 3 ED and the feedback received from the Subcommittee for staff drafting. Staff have transferred the comments received from Subcommittee members for each selected section into the Working Draft of the Tier 3 Exposure Draft.

Project update

Stakeholder outreach update

- 10 The AASB NFP Project Advisory Panel met on 18 December 2023 (refer to meeting minutes in Agenda item 4.5). At that meeting, staff sought to obtain Panel members’ input into initial staff considerations on the accounting issues that staff plan to discuss with the Board at its March 2024 meeting, as referenced in paragraph 8 of Agenda Paper 4.2. Staff have incorporated the panel members’ feedback into the respective staff analysis. Staff will continue to seek feedback from the NFP Project Advisory Panel throughout the project.

Cross-cutting projects and other updates

- 11 Table 1 below provides an update on the cross-cutting projects and other developments.

2 [Minutes of the 182nd meeting of the AASB](#)

3 Refer to [Action Alert No: 222](#)

4 [Minutes of the 188th meeting of the AASB](#)

Table 1: Update on cross-cutting projects and other developments

Project and other updates	Update
<p>Second comprehensive review of the IFRS for SMEs Standard</p>	<p>The SME Implementation Group (SMEIG) met in December 2023 – refer to the meeting summary. During that meeting, the SMEIG discussed the feedback from the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard (the Exposure Draft) and provided advice to the IASB on the following topics:</p> <p>(a) <i>Proposed revised Section 23 Revenue from Contracts with Customers</i></p> <p>SMEIG members suggested to:</p> <ul style="list-style-type: none"> (i) revise various aspects of Section 23 for: <ul style="list-style-type: none"> (A) contract modifications – remove the proposed simplification option and instead require an SME to account for contract modification as a separate contract if modification meets specified criteria; (B) warranties – remove the proposed simplification and instead require an SME to account for a warranty as a separate promise only if the customer has the option to purchase the warranty separately; (C) customer options for additional goods or services – remove the proposed simplification and instead require an SME to account for an option that provides a material right to a customer as separate income unless doing so involves undue cost or effort, except for renewal options where undue cost or effort exemption is not available; (D) disclosures – revise by requiring SMEs to disaggregate revenue based on categories including but not limited to type of good or service or geographical region; (i) retain the proposed requirements for: <ul style="list-style-type: none"> (A) variable consideration; (B) contract balances; and (C) repurchase agreements; (ii) retain the proposed requirements, with drafting improvements for: <ul style="list-style-type: none"> (A) non-cash consideration – to include the item ‘barter’ in the description of non-cash considerations and require SMEs to measure the non-cash consideration indirectly by reference to the stand-alone selling prices of the goods or service promised to the customer separately from the requirement to measure the non-cash consideration (directly) at fair value; (B) allocating variable consideration – present the requirements for allocating variable consideration discounts together; (iii) remove the proposed requirements for customers’ unexercised rights (breakage); (iv) restructure the section, including length, for: <ul style="list-style-type: none"> (A) non-cash consideration by splitting the mandatory requirement between the section and an appendix to the section; and (B) allocating variable consideration to include non-mandatory guidance in educational materials on the Section. <p>SMEIG members generally agreed with the staff suggestions with some disagreements, including:</p> <ol style="list-style-type: none"> 1) the staff suggestion to remove the option for SMEs to account for a contract modification as a separate contract and prefer SMEs to have flexibility in how to account for contract modifications 2) requiring SMEs to account for a warranty as a separate promise as this could lead to SMEs inappropriately recognising revenue in some instances; 3) not extending the scope of undue cost or effort exemption from accounting for a customer option as a separate promise to customer renewal option and consider it is necessary for SMEs that have no system to record information about customer renewals because they are not fundamental to the SMEs business; 4) requiring SMEs to disaggregate their revenue into categories chosen from a list of types of categories in Section 23 because of the cost associated with the suggested requirement. 5) mixed views about staff suggestions to include no requirement for accounting for repurchase agreements in the IFRS for SMEs Accounting Standards 6) the staff suggestion for removal of the accounting for breakage and preferred the requirements to set out when to recognise breakage amounts as revenue

Project and other updates	Update
	<p>7) the staff suggestion to include requirements on principal versus agent consideration in an appendix rather than within Section 23;</p> <p>8) include the examples of factors that indicate a good or service is not distinct in the appendix but is preferred in the educational material instead.</p> <p>(b) <i>impairment of financial assets</i> SMEIG were asked for their views on estimating how many SMEs are the types of entities that could have significant exposure of credit risk in their jurisdictions. Some member noted it would be difficult to estimate how many SMEs there may be but consider entities that have significant exposure to credit risk, such as non-bank lenders, generally apply full IFRS Accounting Standards and some micro lenders (e.g. those involved in leasing), might have significant exposure to credit risk.</p> <p>The IASB met on 22-23 January 2024 (refer to meeting summary) to discuss the feedback on the IFRS for SMEs ED and decided on the following topics:</p> <p>(a) Reconciliation for liabilities arising from financing activities as per IFRS for SMEs ED proposals;</p> <p>(b) Agriculture: bearer plants as per IFRS for SMEs ED proposals;</p> <p>(c) Impairment of financial assets – SMEs that do not provide financing to customers as primary business continues to use the incurred loss model and SMEs that provide financing to customers to apply an expected credit loss model; and</p> <p>(d) Leases to align with IFRS 16 at the next comprehensive review of the <i>IFRS for SMEs</i> Accounting Standard.</p> <p>The IASB will be meeting in February 2024 (refer to meeting papers) to continue discussing the proposals in the IFRS for SMEs ED of the following:</p> <p>(a) Proposed amendments to Section 9 <i>Consolidated and Separate Financial Statements</i>;</p> <p>(b) Proposed amendments to Section 19 <i>Business Combinations and Goodwill</i>; and</p> <p>(c) Proposed revised Section 23 <i>Revenue from Contracts with Customers</i>.</p> <p>Staff will continue to monitor the development of the IFRS for SMEs Standard and consider its impact on drafting the Tier 3 Standard as referenced in Agenda Papers 4.6 – 4.17 at this meeting.</p>
INPAG consultation Exposure Draft 2	<p>The INPAG Technical Advisory Group met on 12 December 2023 to discuss the approach to developing the following:</p> <ul style="list-style-type: none"> • Fund Accounting – including criteria for the existence of a fund and characteristics of a fund with restrictions, taking into account the feedback from previous TAG meeting (<i>AASB staff comments: Fund accounting is not proposed in the Tier 3 ED</i>); • Classification of expense – with updated draft authoritative guidance which includes a rebuttable presumption that a natural classification will provide most reliable and relevant information to users, provisions of whole of entity information based on supplementary statement expense categories and other minor amendment (<i>the Board did not make any changes to the classification of expenses for the Tier 3 requirements. Supplementary statement is not proposed in the Tier 3 ED</i>); • Amendments to the draft guidance on fundraising cost, predominately requiring different categories of fundraising cost including those relating to commercial and trading activities and investments and minor amendments on the calculation of fundraising cost and disclosures (<i>guidance on fundraising cost is not proposed in the Tier 3 ED</i>); • Guidance on Supplementary Statement developed as Recommended Practice Statement with amendments to draft guidance in relation to inventory cost and requirements to provide information supporting the disclosure of a whole of entity supplementary statement (<i>Supplementary Statement is not proposed in the Tier 3 ED</i>); and • Equity – amendments to Section 2 <i>Concepts and Pervasive</i> and Section 22 <i>Liabilities and Equity</i>. Net assets are defined in INPAG as “the residual available to the NPO to achieve its objectives of providing a benefit to the public after deducting all its liabilities from its assets.” As the definition of equity is based on

Project and other updates	Update
	<p>IFRS for SMEs, INPAG considered the need to redefine equity for the NFP content to “a claim that provides a financial interest in the net asset of an NFO arising from equity arrangements”. <i>(Tier 3 ED will not include a summarised/abbreviated conceptual framework. Staff will consider the definition of equity as part of the amendments to the conceptual framework)</i>; and</p> <ul style="list-style-type: none"> • Other minor amendments relating to authoritative guidance or core text including but not limited to: <ul style="list-style-type: none"> ○ Donated assets that are freely disposed of (i.e. no restrictions) should be measured at their highest and best use, and other donated assets measured with respect to their service potential; ○ Replacing the term cash-generating unit in relation to impairment with ‘operating unit’ <i>(staff are proposing further simplifications in the Tier 3 ED not to include guidance in relation to cash-generating unit or value in use – refer to Agenda Paper 4.3 at this meeting)</i>; ○ Exemption to disclose transactions made by key management personnel made on the same terms as any other party in relation to donations and the receipt of services <i>(the Board decided to include a similar exemption to disclose donations from a related party unless there is evidence that the donations could influence the entity’s activities or use of resources – refer to the November 2023 Action Alert)</i>; ○ Clarification on properties held for social benefit (e.g. social housing) are not investment properties <i>(no feedback was received on the DP for the need to provide guidance relating to investment property. At this stage, staff proposed no additional NFP guidance would be needed in relation to investment properties other than simplifying the language when drafting Tier 3 ED on the accounting of investment properties)</i>; <p>Staff will consider the INPAG ED as part of the approach to drafting Tier 3 ED where consistent with the Tier 3 requirements agreed by the Board.</p>

Project timeline and milestones

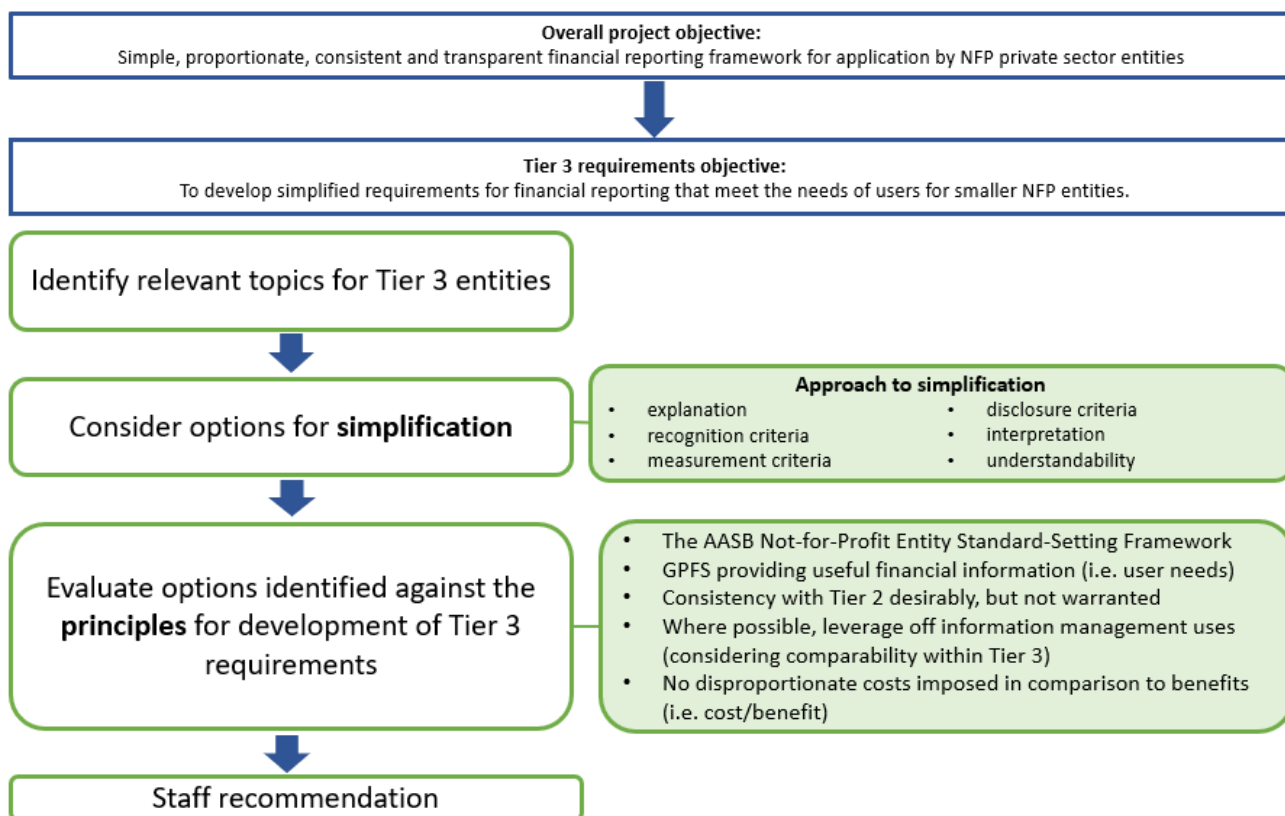
- 12 There are some changes to the project timeline presented in [Agenda Paper 3.1](#) Table 2 at the August 2023 Board meeting where staff previously indicated to bring the draft Tier 3 ED containing category A topics and topics that the Board had deliberated further for the Board’s consideration at this meeting. Due to resourcing and the level of analysis required in the drafting process, staff have not yet drafted some sections (e.g. employee benefits and investment property). Further staff’s proposed timeline was based on hypothetical dates of potential Board meeting dates in 2024. Staff have since reflected on the timeline based on confirmed 2024 Board meeting dates. While there may be some delays in bringing certain topics that staff have yet to seek drafting directions and delay in drafting sections of the Tier 3 ED, staff are still aiming to release the Tier 3 ED in Q4 2024.

- 13 The Subcommittee has provided feedback on the staff’s analysis and initial drafting of the Tier 3 Exposure Draft on selected topics presented in Agenda Papers 4.6 – 4.17 at this meeting. Staff is expected to provide the Subcommittee with the drafting of selected topics reflecting the Board’s decisions regarding ED proposals in Q1-Q3 of 2024.

Question to Board members

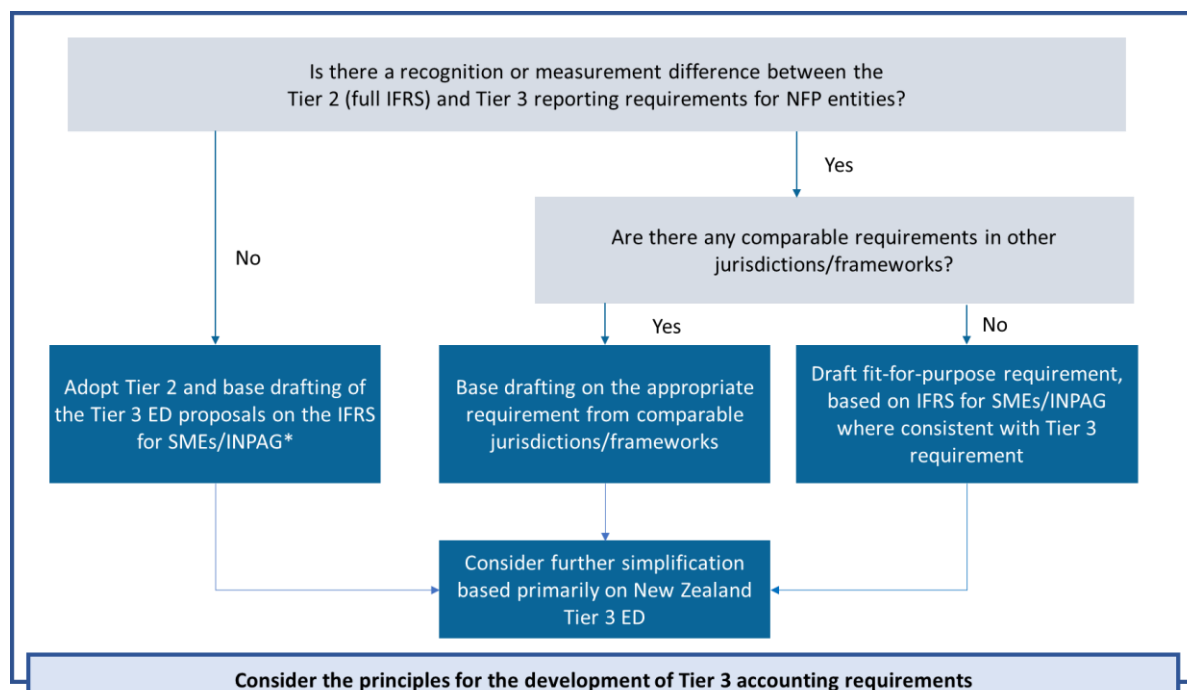
Do Board members have any comments on the information summarised above?

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



Appendix B – Approach to drafting the Tier 3 Exposure Draft

Approach to drafting recognition and measurement requirements for Tier 3 NFP private sector entities (each topic/issue) agreed by the Board at its 4 May 2023 Board meeting



Approach to developing disclosure requirements for Tier 3 not-for-profit private sector entities for each topic/issue agreed by the Board at its 22 – 23 June 2022 Board meeting

