Australian Government
Australian Accounting Standards Board

AASB Not-for-Profit Entity Standard-Setting Framework

July 2021

Contents

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Introduction

What is the purpose of this Framework?

1 The *AASB Not-for-Profit Entity Standard-Setting Framework* sets out the principles used by the Australian Accounting Standards Board (AASB) to determine the content of Australian Accounting Standards (including Interpretations), including how the AASB uses International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) to develop, issue and maintain Australian Accounting Standards for the not-for-profit (NFP) sector.

2 This Framework operates in conjunction with the *AASB and AUASB Board Charter*, the AASB Strategy, the *AASB Due Process Framework for Setting Standards*, the *AASB For-Profit Entity Standard-Setting Framework* and *The AASB's Approach to International Public Sector Accounting Standards*.

3 In accordance with the Financial Reporting Council's broad strategic directions to the AASB, the AASB sets Standards that:

(a) enable 'publicly accountable' private sector entities to maintain IFRS compliance;

(b) for other entities, use IFRS Standards (where they exist) and the principle of transaction neutrality (modified as necessary), or develop Australian-specific Standards and guidance; and

(c) harmonise to the extent feasible with Government Finance Statistics requirements – the AASB applies this approach to requirements for Whole of Government and General Government Sector financial statements.

4 This Framework sets out how the AASB assesses the appropriateness of IFRS Standards in the Australian NFP context and outlines criteria for when the AASB may consider making modifications to IFRS Standards for NFP entities or developing Australian-specific NFP Standards, amendments, guidance or examples. This Framework provides transparency to this process and facilitates consistency in the AASB's future decision-making, including the form and extent of any modifications to IFRS Standards.

5 This Framework complements the *AASB For-Profit Entity Standard-Setting Framework* (July 2021), which sets out how the AASB uses IFRS Standards to develop, issue and maintain Australian Accounting Standards for for-profit entities.

What are not-for-profit entities?

6 An NFP entity is "an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls".[1]

7 NFP entities exist in both the private and the public sectors. Examples of NFP entities include, but are not limited to, many entities of the following types:

(a) government entities;

(b) charities;

(c) incorporated associations;

(d) co-operatives; and

(e) large and small proprietary companies.

What role does the AASB play in setting Accounting Standards for NFP entities?

8 The AASB establishes the type and nature of financial statements to be prepared by entities required to report in accordance with Australian Accounting Standards.

9 The AASB is required, under section 229 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), to consider the suitability of a proposed standard for different types of entities and to ensure there are appropriate accounting standards for each type of entity that must comply with Australian Accounting Standards.[2] NFP entities can be treated as a type of entity, when appropriate.

10 The extent of compliance required with Standards and Interpretations issued by the AASB is determined by the legislative or regulatory requirements of other regulators (eg the Australian Charities and Not-for-profits Commission (ACNC), public sector finance ministers and local government ministers) and/or an entity's constituting or other documents, in conjunction with the application paragraphs of Standards and Interpretations set by the AASB. Other guidance issued by the AASB is generally not authoritative (eg Illustrative Examples and Practice Statements).

General purpose financial statements

11 The AASB sets Standards for general purpose financial statements (GPFS). The objective of GPFS is to provide financial information about an NFP entity that is useful to existing and potential resource providers (such as investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (such as

1 A not-for-profit (NFP) entity is defined in various AASB Standards, including AASB 102 *Inventories*, paragraph Aus6.1.
2 For the text of section 229, see the Appendix.

beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament) in making resource allocation decisions in relation to the entity.[3]

12 Users of GPFS are not in a position to require an entity to prepare reports tailored to their particular information needs.[4] The AASB has established a differential reporting framework currently consisting of two tiers of reporting requirements for preparing GPFS.[5]

13 For entities not required by legislation to prepare financial statements, if the individuals involved in the preparation and/or presentation of the financial statements are members of Chartered Accountants Australia and New Zealand (CAANZ), CPA Australia or the Institute of Public Accountants, the professional standard APES 205 *Conformity with Accounting Standards* requires them to take all reasonable steps to ensure an entity that has general purpose users is preparing GPFS.

Special purpose financial statements[6]

14 The AASB currently does not set recognition and measurement requirements for special purpose financial statements (SPFS).[7] This is because SPFS should be prepared only where users can tailor the SPFS to their own information needs and therefore do not need a standard-setter or regulator to specify the accounting policies or require disclosure of the information for them. Accordingly, those responsible for the preparation of SPFS, such as directors or those charged with governance, determine the extent to which SPFS comply with Australian Accounting Standards.

15 The AASB has specified in AASB 1057 *Application of Australian Accounting Standards*[8] that some individual disclosure-focused Accounting Standards must be complied with by each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001*. Consequently, these entities are required to apply the specified Standards regardless of whether GPFS or SPFS are prepared. The AASB included this requirement in AASB 1057 as part of moving legacy regulations out of legislation and into Australian Accounting Standards and formed no view as to the suitability or otherwise of these requirements for users of SPFS.

16 The AASB has also set minimum disclosure requirements for SPFS, where those SPFS state that they have been prepared in compliance with Australian Accounting Standards.

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3 AASB *Framework for the Preparation and Presentation of Financial Statements*, paragraph AusOB2.1.

4 AASB 101 *Presentation of Financial Statements* defines general purpose financial statements as "… those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs".

5 See AASB 1053 *Application of Tiers of Australian Accounting Standards*.

6 The AASB is currently undertaking a project to make the AASB *Conceptual Framework for Financial Reporting* relevant to NFP entities. This would remove Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*, the current reporting entity concept and the ability of NFP entities to prepare SPFS when they are required to prepare financial statements in accordance with Australian Accounting Standards.

7 AASB 1054 *Australian Additional Disclosures* defines SPFS as financial statements other than GPFS.

8 See AASB 1057 paragraph 7.

17 Regulators may also require or recommend compliance with recognition and measurement requirements of Standards.[9]

Enforcement

18 Enforcement of the preparation of financial statements and compliance with Accounting Standards is the responsibility of other regulators (eg the ACNC). It is not the responsibility of the AASB.

What assumptions underpin the NFP entity standard-setting framework?

19 To maintain confidence in the Australian economy (including the NFP sector), obtain the benefits of comparability within and across sectors, facilitate movement of professionals across sectors and ensure the costs of complying with Australian Accounting Standards do not outweigh the benefits, this Framework is predicated on the assumptions in paragraphs 22 and 23.

20 When there is evidence these assumptions are no longer appropriate for the Australian context, this Framework will be reconsidered. The AASB and/or its oversight body, the Financial Reporting Council, periodically consult to determine whether these assumptions remain appropriate.

21 Applying this Framework may result in different requirements for the private NFP sector and the public NFP sector. It is also possible that NFP sector-specific Standards, amendments, guidance or examples may be developed.

IFRS Standards are appropriate as a base

22 IFRS Standards (including Interpretations) are appropriate as a base for the following reasons:

(a) they are developed by an expert standard-setting board, the IASB, and its views represent international consensus on best practice for publicly accountable for-profit entities;

(b) they are developed following a stringent due process which encourages parties interested in financial reporting to express their views;

(c) the AASB is able to participate in the development of the IASB's proposals to the extent it considers appropriate;[10] and

(d) IFRS Standards can be modified appropriately for NFP-specific issues, as demonstrated by the International Public Sector Accounting Standards Board

9 For example, see ASIC Regulatory Guide 85: *Reporting requirements for non-reporting entities*.
10 The AASB's typical involvement in the IASB standard-setting process is set out in the *AASB Due Process Framework for Setting Standards* (September 2019).

(IPSASB) using IFRS Standards as a base for their corresponding Standards, departing only to the extent appropriate for public sector issues.[11]

Transaction neutrality

23 Transaction neutrality means that like transactions and events are accounted for in a like manner by all types of entities, reflecting their economic substance, unless there is a justifiable reason not to do so. This Framework sets out circumstances where it may be appropriate to use a different approach for NFP entities versus for-profit entities (see paragraph 25).[12]

What is the NFP entity standard-setting framework?

24 The AASB develops, issues and maintains Accounting Standards for the NFP sector. When developing Accounting Standards for NFP entities, the AASB's objectives are to:

(a) use IFRS Standards and transaction neutrality as a starting point, however, when justified, make modifications to IFRS Standards or develop Australian-specific guidance to address:

(i) Australian-specific legislation, user needs or public interest issues relevant to financial reporting or other external reporting;

(ii) issues specific to the NFP sector of such prevalence and magnitude that the objectives and qualitative characteristics of financial reporting as set out in the *Framework for the Preparation and Presentation of Financial Statements* (Conceptual Framework) would not be met;[13] and/or

(iii) undue cost or effort considerations;

(b) make justified modifications to IFRS Standards via:

(i) 'Aus' paragraphs changing an IFRS Standard's scoping, recognition, measurement, presentation or disclosure requirements (eg AASB 15 *Revenue from Contracts with Customers*); and/or

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11 *The AASB's Approach to International Public Sector Accounting Standards* (October 2019) sets out the circumstances in which the AASB would consider moving from IFRS Standards to IPSASB Standards as the basis for NFP public sector accounting in Australia. These circumstances will be reviewed periodically.

12 AASB Research Report No 4 *Review of Adoption of International Financial Reporting Standards in Australia* (March 2017) sets out, based on the targeted outreach conducted, the common key benefits of the policy of transaction neutrality identified by NFP entities' stakeholders as:

- it facilitates the mobility of accounting professionals from one sector to another (ie moving from the for-profit sector to the NFP sector and vice versa) and facilitates access to reporting expertise across sectors; and
- where relevant, it enables benchmarking of financial performance and financial position across sectors.

13 See Chapters 1 and 3 in the Appendix to the Conceptual Framework.

(ii) Australian-specific guidance in additional appendices or accompanying material, such as illustrative examples (eg AASB 10 *Consolidated Financial Statements*);

(c) address in Australian-specific Standards, Interpretations or guidance, NFP issues that have not been comprehensively or appropriately dealt with in existing IFRS Standards, including where no relevant IFRS Standard exists (eg AASB 1054 *Australian Additional Disclosures*, AASB 1058 *Income of Not-for-Profit Entities*); and

(d) permit GPFS to be prepared using either Tier 1 (compliance with Australian Accounting Standards) or Tier 2 (compliance with Australian Accounting Standards – Simplified Disclosures via AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*).[14]

What triggers the AASB to consider NFP issues?

25 The AASB considers the need for NFP-specific Standards, amendments, guidance or examples when:

(a) a new IFRS Standard or pronouncement – or amendments to an existing IFRS Standard or pronouncement – is issued;

(b) a new IPSASB Standard or pronouncement – or amendments to an existing IPSASB Standard or pronouncement – is issued. This may include modifications to IFRS Standards for issues specific to NFP public sector entities;

(c) a post-implementation review (PIR) of an IFRS Standard or Australian Accounting Standard gives a compelling reason to do so;

(d) Australian constituents raise the need with the AASB (via agenda consultation, outreach activities, or written or verbal submissions);

(e) Australian-specific legislation with financial reporting implications is issued;

(f) parliamentary or other legislative enquiries contain recommendations for external reporting within the AASB's remit; and/or

(g) evidence of undue widespread and significant diversity in accounting practices exists (eg the results of AASB research or the ACNC's monitoring of financial reporting).

14 The AASB's project on improving the Australian Financial Reporting Framework for NFP entities may result in additional tiers of reporting requirements being developed for the NFP sector.

When might NFP-specific Standards or guidance be justified?

26 The primary objective of NFP-specific Standards, amendments, guidance or examples is to improve the information provided to users of an NFP entity's financial statements. NFP issues may affect NFP entities in either the public sector, the private sector, or both.

27 The AASB uses professional judgement in reaching its conclusions about NFP-specific Standards, amendments, guidance or examples.

28 As part of its normal standard-setting due process, reasons for conclusions are documented in the related Basis for Conclusions and the extent of differences to IFRS Standards and IPSASB Standards (where applicable) are documented in the material accompanying the Australian Accounting Standard.

29 The AASB disagreeing with the IASB's treatment is unlikely to provide a good reason, in and of itself, for changing the requirement in an IFRS Standard.

30 Justifiable circumstances for NFP-specific Standards, amendments, guidance or examples may include:

(a) Australian-specific legislation is not adequately addressed by the IFRS Standard and there has been, or is likely to be, diversity in practice warranting specific guidance;

(b) an existing optional treatment in the IFRS Standard is not consistent with Australian-specific legislation, not relevant or inappropriate and should therefore be eliminated;[15]

(c) financial reporting inadequately reflecting the objectives and qualitative characteristics of financial reporting as set out in the *Framework for the Preparation and Presentation of Financial Statements* (Conceptual Framework);[16]

(d) users requiring additional disclosures regarding Australian-specific issues that are not likely to be provided voluntarily. For example, the financial statements of NFP entities might not adequately reflect that:

(i) resource providers and service recipients are financial statement users[17] (eg AASB 1058);

(ii) users of an NFP entity's financial statements may require non-financial information about accountability and stewardship, in addition to

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15 If an option needs to be added, this generally means the issue is significant enough to warrant development of an Australian-specific NFP Standard.
16 See Chapters 1 and 3 in the Appendix to the Conceptual Framework.
17 The AASB Conceptual Framework identifies suppliers of resources as users, whereas the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* includes both suppliers of resources and service recipients.

information about financial returns (eg AASB 1055 *Budgetary Reporting* and service performance reporting addressing the quality of the goods and services produced and information about outputs and/or outcomes that may be non-financial); and

(iii) the assets of NFP entities are generally held for their service potential and not for the generation of cash (eg amendments to AASB 136 *Impairment of Assets* and AASB 140 *Investment Property*);

(e) issues specific to the NFP sector are of such prevalence and magnitude that NFP entities' financial statements do not reflect economic reality (eg assets transferred to NFP entities for significantly less than fair value primarily to enable the entity to achieve its objectives, and for NFP public sector entities, the provision of social benefits and related sustainability and sovereign power issues);

(f) Australian public interest issues relevant to financial reporting require additional disclosures (eg audit fees). Such disclosures must:

(i) meet the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework;

(ii) have strong user support;

(iii) deliver user benefits that outweigh any undue cost or effort for preparers, including impacts on international competitiveness; and

(iv) represent the most appropriate avenue to obtaining the information (eg no other existing legislative or voluntary reporting frameworks provide the information);

(g) NFP application issues resulting from terminology differences and current practice issues, differences in the accountability or regulatory framework, governance or financial management differences or alignment with other financial frameworks;

(h) an assessment indicates that the costs of preparing and disclosing information outweigh the benefits to users. Such considerations may arise from NFP application issues, replicating disclosures required by other existing legislation or the prevalence and magnitude of transactions in the NFP sector resulting in the IASB's considerations of undue cost or effort for for-profit entities not being valid for entities in the NFP sector. For example, this may be the case due to Government Finance Statistics, which require different but similar information for similar purposes, differences in resources available to NFP entities when implementing the requirements, or mixed groups with both for-profit and NFP entities needing to amend accounting on consolidation;[18] and

18 For the purposes of this Framework, a mixed group is an NFP group that includes at least one material for-profit subsidiary where that for-profit subsidiary applies accounting policies that differ from those of the mixed group and that may need to be adjusted on consolidation.

(i) IFRS Standards are not compatible with existing NFP-specific Standards or guidance.

31 Modifications to IFRS Standards may include:

(a) amending the scope of the Standard via 'Aus' paragraphs to maintain consistency with existing NFP Standards and guidance, reduce legislative conflict or avoid undue cost or effort;

(b) amending recognition and measurement requirements via 'Aus' paragraphs to better meet the objectives or qualitative characteristics of NFP entity financial reporting, avoid undue cost or effort, and/or maintain the coherence of the suite of NFP-specific Standards and guidance;

(c) amending or deleting disclosures where they relate to recognition and measurement modifications or to better meet the objectives or qualitative characteristics of NFP entity financial reporting, or to avoid undue cost or effort in preparing the disclosures;

(d) adding transitional relief via 'Aus' paragraphs to address recognition and measurement modifications or provide sufficient time for NFP entities to address implementation issues; and

(e) adding specific guidance and examples, generally in a separate Appendix or additional materials, to improve ease of use and consistency of application.[19]

Are the identified issues sufficiently significant to warrant NFP-specific Standards and/or guidance?

32 The AASB assesses issues in relation to each of the NFP private sector and the NFP public sector, and then together. The AASB employs the *AASB Evidence-Informed Standard-Setting Framework* to gather evidence related to any issues that are identified. The AASB also considers the following when deciding whether an identified NFP issue is so significant that Australian-specific NFP Standards, amendments, guidance or examples are warranted:

(a) the quantitative and qualitative significance of a transaction, event or circumstance for an entity's financial statements taken as a whole, and the likely effect on users' decision-making ability;

(b) the quantitative and qualitative significance of a transaction, event or circumstance for relevant sectors and the Australian economy as a whole, and the likely effect on users' decision-making ability;

(c) whether a modification would increase or decrease internal consistency within IFRS Standards, Australian Accounting Standards and the Conceptual Framework; and

19 The majority of IFRS Standards will require additional guidance and examples.

(d) the costs of the specific change relative to the benefits.

33 The effect of modifying IFRS Standards or developing NFP-specific Standards, amendments, guidance or examples needs to be considered in relation to the suite of Australian Accounting Standards as a whole, in addition to the implications for a specific area of financial reporting. Minimising differences between the financial statements of NFP entities and for-profit entities is beneficial for preparers and users of NFP financial statements whose familiarity with financial statements arises from experience in the for-profit sector, and for entities that are members of mixed groups. This is consistent with the AASB's policy of transaction neutrality.

How are Australian-specific NFP Standards and/or guidance developed?

34 Having determined that an Australian-specific NFP Standard, amendments, guidance or examples are required, the AASB considers whether to:

(a) modify the existing IFRS Standard through 'Aus' paragraphs, additional implementation or application guidance, or other additional guidance, such as illustrative examples; or

(b) develop an additional Australian-specific Standard or Interpretation.

35 In making this determination, the AASB considers:

(a) the extent and importance of Australian-specific legislation, user needs or public interest issues in maintaining confidence in the Australian economy;

(b) the impact on international perceptions of Australian Accounting Standards complying with IFRS Standards; and

(c) the extent of modifications required.

36 In developing proposals for new Standards or guidance, the AASB considers:

(a) consistency with the Conceptual Framework;

(b) consistency with existing Australian Accounting Standards (including Interpretations); and

(c) other authoritative material that is relevant, such as:

(i) pronouncements of other national standard-setters, including the New Zealand Accounting Standards Board; and

(ii) IPSASB Standards, Conceptual Framework and guidance.

37 The AASB follows its normal due process for setting new Standards and guidance, as outlined in the *AASB Due Process Framework for Setting Standards*.

What principles are applied in determining Tier 2 disclosure requirements?

38 The Simplified Disclosures framework for Tier 2 GPFS:

(a) can be applied only by entities that are not publicly accountable; and

(b) comprises the recognition and measurement requirements of Australian Accounting Standards (the same as for Tier 1) but substantially reduced disclosure requirements, as set out in AASB 1060.

39 The simplified disclosures are determined by using a bottom-up approach, starting with the disclosures in the IASB's *IFRS for SMEs* Standard, based on the premise that:

(a) the disclosures in the *IFRS for SMEs* Standard should be retained where the recognition and measurement requirements and options are the same or similar in the *IFRS for SMEs* Standard and full IFRS Standards (and therefore Tier 1);

(b) where recognition and measurement requirements or options in the *IFRS for SMEs* Standard are not available in full IFRS Standards (and therefore Tier 1), the related disclosures will be removed; and

(c) where the recognition and measurement principles in full IFRS Standards (and therefore Tier 1) are significantly different from those in the *IFRS for SMEs* Standard or certain topics are not addressed in the *IFRS for SMEs* Standard, disclosures may be added.

40 When determining whether to add disclosures to the Simplified Disclosures framework for Tier 2 GPFS through AASB 1060, the AASB uses the principles applied by the IASB in developing the disclosures in the *IFRS for SMEs* Standard. These principles are based on the view that users of the financial statements of for-profit entities that are not publicly accountable are particularly interested in information about:

(a) short-term cash flows and obligations, commitments or contingencies, whether or not recognised as liabilities;

(b) liquidity and solvency;

(c) measurement uncertainties;

(d) accounting policy choices; and

(e) disaggregation of amounts presented in the financial statements.

The IASB's principles further note that some disclosures in full IFRS Standards are more relevant to investment decisions in public capital markets than to transactions and other events and conditions encountered by entities without public accountability.

41 Although the *IFRS for SMEs* Standard has been developed by the IASB to apply to for-profit private sector entities, broadly the AASB considers that it is reasonable to rely on the judgements made in developing the *IFRS for SMEs* Standard in respect of both for-profit and NFP (including public sector) entities in Australia, given that IFRS Standards are generally applied to all types of Australian entities. The AASB considers that the IASB's principles also reflect matters of particular interest to users of the financial statements of NFP entities.

42 In addition to applying those principles, the AASB considers whether to add disclosures to address matters of public policy or to reflect Australian-specific issues.

43 Based on the principles in paragraph 39, the AASB uses the following approach when considering whether to add or amend disclosure requirements in AASB 1060 in relation to amendments made by the IASB to full IFRS Standards:

(a) if the amendments introduce significant recognition and measurement differences between full IFRS Standards and the *IFRS for SMEs* Standard, apply the principles applied by the IASB in developing the *IFRS for SMEs* Standard, as summarised in paragraph 40; and

(b) if the amendments do not introduce significant recognition and measurement differences, no further action is required unless:

(i) the disclosures address a matter of public policy;

(ii) the disclosures are of particular relevance in the Australian environment; or

(iii) the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.

Appendix

Extracts from the *Australian Securities and Investments Commission Act 2001*

s227 AASB's function and powers

(1) The functions of the AASB are:

(a) to develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards; and

(b) to make accounting standards under section 334 of the Corporations Act for the purposes of the corporations legislation (other than the excluded provisions); and

(c) to formulate accounting standards for other purposes; and

(d) to participate in and contribute to the development of a single set of accounting standards for world-wide use; and

(e) to advance and promote the main objects of this Part.

…

s229 Generic and specific standards

(1) Accounting standards made or formulated by the AASB may:

(a) be of general or limited application (including a limitation to specified bodies or undertakings); and

(b) differ according to differences in time, place or circumstance.

(2) In making and formulating accounting standards, the AASB:

(a) must have regard to the suitability of a proposed standard for different types of entities; and

(b) may apply different accounting requirements to different types of entities; and

(c) must ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards.