



Project:	Australian Financial Reporting Framework	Meeting	AASB June 2017 (M158)
Topic:	Not-for-profit private sector benchmarking report	Agenda Item:	6.0
Contact(s):	Tim Austin taustin@asb.gov.au (03) 9617 7638 Stella Yun syun@asb.gov.au (03) 9617 7618 Ann Tarca atarca@asb.gov.au (03) 9617 7636	Project Priority:	High
		Decision-Making:	High
		Project Status:	In progress

Introduction and objective of this paper

- 1 The objective of this paper is:
 - (a) to obtain the Board's preliminary views on the scoping and staff's approach to the draft not-for-profit private sector benchmarking research report;
 - (b) update the Board on the progress of the Australian Reporting Framework Project; and
 - (c) inform the Board about recent legislative developments regarding crowd source funding.

Attachment

Agenda Paper 6.1 Draft Research Report – Reporting Requirements for Not-for-Profit Entities – An International Comparison **[BOARD ONLY]**

Background

- 2 At its May 2017 meeting, the Board considered the Australian Financial Reporting Framework project plan and directed staff to draft a report that outlines the reporting requirements of the not-for-profit (NFP) private sector in Australia and other jurisdictions.
- 3 The objective of the Reporting Framework project is to clarify and simplify the financial reporting framework, so that objective criteria determine:

- (a) which entities are required to prepare general purpose financial statements (GPFS) and;
 - (b) the reporting requirements applicable to entities.
- 4 To achieve the objectives of this project staff will work in conjunction with Australian policymakers and regulators.
- 5 Staff have commenced the research investigating reporting requirements of NFP private entities in various jurisdictions that determine (a) when an entity is required to lodge financial statements (or other financial information), and (b) the reporting requirements that dictate how those financial statements are to be prepared.
- 6 The scope of the report is limited to legislation and other regulatory requirements that require NFP private sector entities registered as ‘charities’ to prepare and lodge financial statements. The focus is on charity entities because these entities are one of the most common NFP private entities worldwide. There is a wide range of legal entity structures able to be registered as a charity in Australia including incorporated associations, unincorporated associations and co-operatives. The different legal entity structures comply with a variety of reporting requirements.
- 7 The draft report outlines the reporting requirements in various jurisdictions. In addition to Australia, the following jurisdictions were investigated:
- Canada.
 - Hong Kong;
 - New Zealand;
 - Singapore;
 - the United Kingdom; and
 - the United States of America.

Next steps

- 8 Staff plan to finalise the benchmarking research reports on the reporting requirements for entities in the following sectors:
- (a) for-profit private sector;
 - (b) public sector; and
 - (c) NFP private sector
- 9 The research reports will be provided to Board members for the August 2017 meeting for review and feedback.
- 10 Following is the updated project plan for the Reporting Framework project:

Timeline

Phase 1 – Research Reporting Criteria		
	Project step	Expected completion
1.1	<p>Benchmark reporting requirements and thresholds to other jurisdictions, identifying potential alternative thresholds for public lodgement of financial statements. Develop comparison research reports to inform discussion:</p> <p>(a) for-profit private sector (b) not-for-profit public sector (c) not-for-profit private sector</p>	August 2017
1.2	<p>Research topics</p> <p>- Research on consolidation reports and the need of having individual financial statements for subsidiaries (wholly owned verses partially owned) (e.g. church and church owned schools)</p> <p>- Research ‘economic significance’ and other reporting criteria for public financial reporting (and, with AUASB, auditing requirements)</p> <p>(a) discuss with constituent groups:</p> <ul style="list-style-type: none"> • preparers – AICD, BCA, G100, HoTARAC • accountants and auditors – Big 4 and medium-sized firms, CA ANZ, CPAA, IPA, ACAG • users – lenders, credit reporting agencies • insolvency experts – CAANZ, ARITA <p>(b) discuss with regulators:</p> <ul style="list-style-type: none"> • Commonwealth – Treasury, Finance, ASIC, ACNC, APRA, ATO, RBA, AUASB • State/Territory – treasury and finance departments, consumer affairs departments (non-corporate entities) <p>(c) academic research:</p> <ul style="list-style-type: none"> • University of Melbourne – research paper on operationalising tests for economic significance • Other research, including consultation with research teams from Monash/ANU (Kober, Ng & Lee); Macquarie (Johansen, Carey & Tanewski); and Macquarie/Newcastle (Evans, Handley & Wright) 	November 2017
1.3	Discuss findings to date with the AASB	December 2017

Phase 2 – Research User Needs		
	Project step	Expected completion
2.1	Complete literature review that addresses evidence of user needs for financial information prepared by for-profit private entities, not-for-profit private entities and public sector entities	September 2017
2.2	Identify gaps in the literature and determine the scope of research to be conducted	September 2017
2.3	Identify research teams to conduct research (staff, consultants, academics)	September 2017
2.4	Work on research projects	October 2017 - February 2018
2.5	Draft report on results of work in progress	February 2018
2.6	Present to the AASB. Obtain feedback	March 2018
2.7	Complete research and publish final report	April 2018

Question for Board members

- 1 Do Board members have any comments on the draft research report?
- 2 Do Board members agree with the proposed next steps outlined above?

Crowd-sourced funding

- 11 In order to keep pace with international development, Australian legislation has made significant progress in removing barriers for entities raising funds through crowd-sourced equity. The following sections provide information on *Corporations Amendment (Crowd-sourced Funding) Act 2017* and *Corporations Amendment (Crowd-sourced Funding for Proprietary Companies) Bill 2017* and their implications on the financial reporting requirements of relevant entities.

Corporations Amendment (Crowd-sourced Funding) Act 2017

- 12 On 28 March 2017 the Australian Parliament has passed the *Corporations Amendment (Crowd-sourced Funding) Bill 2016 (Cth)*, now *Corporations Amendment (Crowd-sourced Funding) Act 2017*, which will come into effect in September 2017.
- 13 The legislation permits crowd-sourced equity funding (CSF). CSF is where entrepreneurs raise funds for a project or venture from investors via internet platforms (called “online portals”), mail-order subscriptions and benefit events. It enables a broad group of investors to fund startup companies in return for an equity investment in the company.
- 14 The legislation applies to unlisted public companies limited by shares, with an annual turnover or gross assets of less than \$25 million, which are not a subsidiary of, or

related to, a listed company. Private companies and large public companies remain ineligible for CSF under the legislation.

- 15 The legislation provides relief from corporate governance and reporting requirements for newly formed public companies for five years (from the date on which the company was incorporated or converted from a proprietary company), subject to the company completing a valid CSF Offer within 12 months of their conversion. These companies will:
- (a) not be required to hold an AGM each financial year;
 - (b) not be required to appoint an auditor where the company has raised less than \$1 million in capital and has not raised capital under other offers requiring disclosure; and
 - (c) be allowed to distribute their financial statements to members by making an annual report available to shareholders online each year.
- 16 As such, these companies are temporarily not disclosing entities and are not required to comply with all requirements in Part 2M.3 of the Corporations Act. Other public companies that raise funds through CSF and do not fall into this category are expected to comply fully with the Corporations Act, ie they are disclosing entities.

Corporations Amendment (Crowd-sourced Funding for Proprietary Companies) Bill 2017

- 17 In May 2017, the Government released draft legislation and associated explanatory materials to extend CSF to proprietary companies.¹
- 18 The draft legislation will amend the Corporations Act 2001 to extend the CSF regime to proprietary companies. The amendments allow proprietary companies to raise funds through CSF without having to convert to public companies. However additional obligations will be imposed on these proprietary companies including: (1) financial statements are to be prepared in accordance with Australian Accounting Standards and; (2) the company's financial statement must be audited each year by a registered company auditor.
- 19 Therefore, proprietary companies engaged in CSF will be expected to prepare and provide ASIC with copies of their annual reports. A private company that raises more than \$1 million from CSF must audit their financial statements annually. There is, however, no requirement for the company to make the reports public but they can elect to do so.
- 20 The Bill is silent on whether proprietary companies engaging in CSF activities will be expected to prepare general purpose or special purpose financial statements.

¹ <http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2017/Extending-CSEF-to-proprietary-companies>

Further action by staff

- 21 Staff will investigate and consider further the implications of the legislation and proposed legislation discussed above for the Reporting Framework project. In particular, we will investigate the reporting requirements of relevant companies in other jurisdictions. The findings will be included in the draft research report on the benchmarking of the reporting requirements for for-profit private sector companies.

Question for Board members

- 3 Do Board members agree with the further actions to be undertaken by staff?