



Project:	Australian Financial Reporting Framework	Meeting	AASB December 2017 (M161)
Topic:	Project Update and Outreach Feedback	Agenda Item:	8.0
Contact(s):	Stella Yun syun@asb.gov.au 03 9617 7618 Maggie Man mman@asb.gov.au 03 9617 7646 Tim Austin taustin@asb.gov.au 03 9617 7638	Project Priority:	High
		Decision-Making:	High
		Project Status:	Consultation and planning

Introduction and objective of this meeting

- 1 The objective of this paper is to update the Board in relation to the following matters:
 - (a) the summary of feedback received from the November 2017 outreach sessions for Discussion Paper - *Improving the financial reporting framework for Australian charities*;
 - (b) the project plan for a research report and discussion paper on financial reporting framework for public sector entities; and
 - (c) work currently being undertaken by staff to draft staff publication on (i) Consolidation and Individual Financial Statements and (ii) *Comparison of Accounting Standards for Smaller Entities*

Attachments

- Agenda Paper 8.1 Staff Collation of Feedback Received on the Discussion Paper - *Improving the financial reporting framework for Australian charities*;
- Agenda Paper 8.2 Project Plan for the research report and discussion paper on Financial Reporting Framework for public sector entities;
- Appendix A.4 Written submissions received on Discussion Paper - *Improving the financial reporting framework for Australian charities*.

Overview of agenda papers

Agenda Paper 8.1 Staff Collation of Feedback Received for the Outreach Sessions on the Discussion Paper - Improving the financial reporting framework for Australian charities;

Appendix A4 Comment letter received on the Charities Discussion Paper

- 2 Staff organised four outreach sessions on Discussion Paper - *Improving the financial reporting framework for Australian charities* in Brisbane, Sydney, Adelaide and Melbourne with representatives from each State regulator and the ACNC attending all outreach sessions. These outreach sessions were aimed at obtaining constituents' feedback on the principles and criteria that should be applied in determining which charities should be reporting, the number of Tiers of reporting preferred and the thresholds for reporting in the charity sector.
- 3 Consistent feedback was provided by participants from all sessions which is summarised below:
 - (a) the top key issues impacting the charity sector are duplicate reporting requirements and self-assessment;
 - (b) the principles that should determine which charities report were generally agreed to be public interest. A charity receiving most of its funds from the public should be required to lodge financial information publicly and be accountable to the public.
 - (c) to operationalise the principles, participants agree that a combination of criteria should be used to best represent the principles. Criteria considered by most to be relevant were revenue, expenses and assets. Some participants suggested 'number of employees' could also be a criteria.
 - (d) the majority of participants viewed having three Tiers of reporting for general purpose financial statements (GPFS) to be appropriate with most agreeing that the lowest Tier should be some form of cash reporting rather than accruals accounting. Most also agreed that the highest Tier should be the current Tier 1 reporting requirements. Participants also agreed that an entity should be assessed over a period of more than one year to determine whether it has reached the threshold set to move to the next Tier up. However participants could not express a clear view in relation to the reporting requirements for the middle Tier. Most expressed a view that some form of simplified recognition and measurement requirements compared to Tier 1 would be cost beneficial but did not specify what those simplifications should be. The planned staff publication on *Comparison of Accounting Standards for Smaller Entities* would help constituents provide informed feedback on the simplifications in recognition and measurement requirements that would be appropriate for the middle Tier.
 - (e) it was generally agreed that, based on the 2015 Annual Information Statement data from ACNC, that 75% of charities registered with ACNC, which is roughly equal to those charities with less than \$250,000 in revenue and/or

expenses, should be in the Cash Reporting Tier. The top 3% charities with \$5 to \$10 million in revenue and/or expenses should be doing Tier 1 reporting.

Agenda Paper 8.2 Project Plan for Public Sector Reporting Framework

- 4 Staff have drafted a project plan on Financial Reporting Framework for public sector entities with proposed timelines to issue (i) a Research Report benchmarking the current reporting requirements for public sector entities in Australia and internationally; and (ii) a Discussion Paper similar to that issued for the charities sector; by April and June/July 2018 respectively. Staff also plan to have outreach events for the Discussion Paper on Public Sector Financial Reporting Framework.

Staff publications related to the Financial Reporting Framework project

- 5 Staff are currently undertaking work on to draft two staff publications on:

- (i) Consolidation and Individual Financial Statements; and
- (ii) *Comparison of Accounting Standards for Smaller Entities*

to support the Financial Reporting Framework Project.

- i) Consolidation and Individual Financial Statements

- a) The objective of this publication is to consider the usefulness of consolidated financial statements versus single-entity information. The publication will also attempt to address whether subsidiaries' individual financial statements should be prepared and lodged publicly if their financial information has been included in the consolidated financial statements, which is available publicly. The project will attempt to identify if there are users of subsidiary individual financial statements across sectors, and the users' needs for those financial statements including whether their needs can be met by additional disclosures or preparation of extracts within the consolidated financial statements. The paper will also include research on the legal implications of preparing or not preparing subsidiary individual financial statements.
- b) Staff anticipates that findings from the publication will be shared at the Accounting Standards Advisory Forum meeting in H1 2018.

- ii) Comparison of Accounting Standards for Smaller Entities

- c) The objective of this publication is to compare modified accrual accounting standards for smaller entities and perform an international benchmarking exercise. Staff will use AASB Tier 1 reporting requirements as the base and compare the key differences between:
 - i. *IFRS for SMEs*;
 - ii. Standards for small and micro entities in the UK
 - 1. *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland*;
 - 2. *FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime*;

- iii. Tier 3 reporting requirement for Public Benefit Entities in New Zealand:
 - 1. Public Benefit Entity Simple Format Reporting Accrual for public sectors; and
 - 2. Public Benefit Entity Simple Format Reporting Accrual for not-for-profit sectors.
- d) The outcome is to issue a staff paper that:
 - i. benchmarks and summarises key features of modified accrual reporting requirements for smaller entities in other jurisdictions;
 - ii. compare accounting requirement of common topics for smaller entities and identify any modifications made to tailor for smaller entities; and
 - iii. identify any rationales and principles used for modifications (in appendixes) to help inform Board decisions on this topic in the future.
- e) Staff anticipates the staff paper will be completed by the end of January 2018.

Staff questions to the Board

6 Staff particularly seek feedback on the following:

Agenda paper 8.1: Staff Collation of Feedback Received on the Charities Financial Reporting Framework Discussion Paper

- (a) Does the Board agree that the summary from the outreach session be provided to the ACNC?

Agenda paper 8.2: Project Plan for the Financial Reporting Framework for public sector entities

- (b) Do Board members agree with the project plan and proposed timelines?
- (c) Do Board members agree that the public sector research report should cover the same jurisdictions as covered in the Research Report No. 5 for the charities sector as well as the United States of America?
- (d) Do Board members think there is any other countries that staff should consider for the public sector research report?

Staff publications related to the Financial Reporting Framework project

- (e) Do Board members have any comments on the staff publications planned in relation to the Financial Reporting Framework project?