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Australian Financial Reporting Framework

AASB outreach session

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Maggie Man, Practice Fellow

**Tim Austin, Asst. Project
Manager**

What do we do

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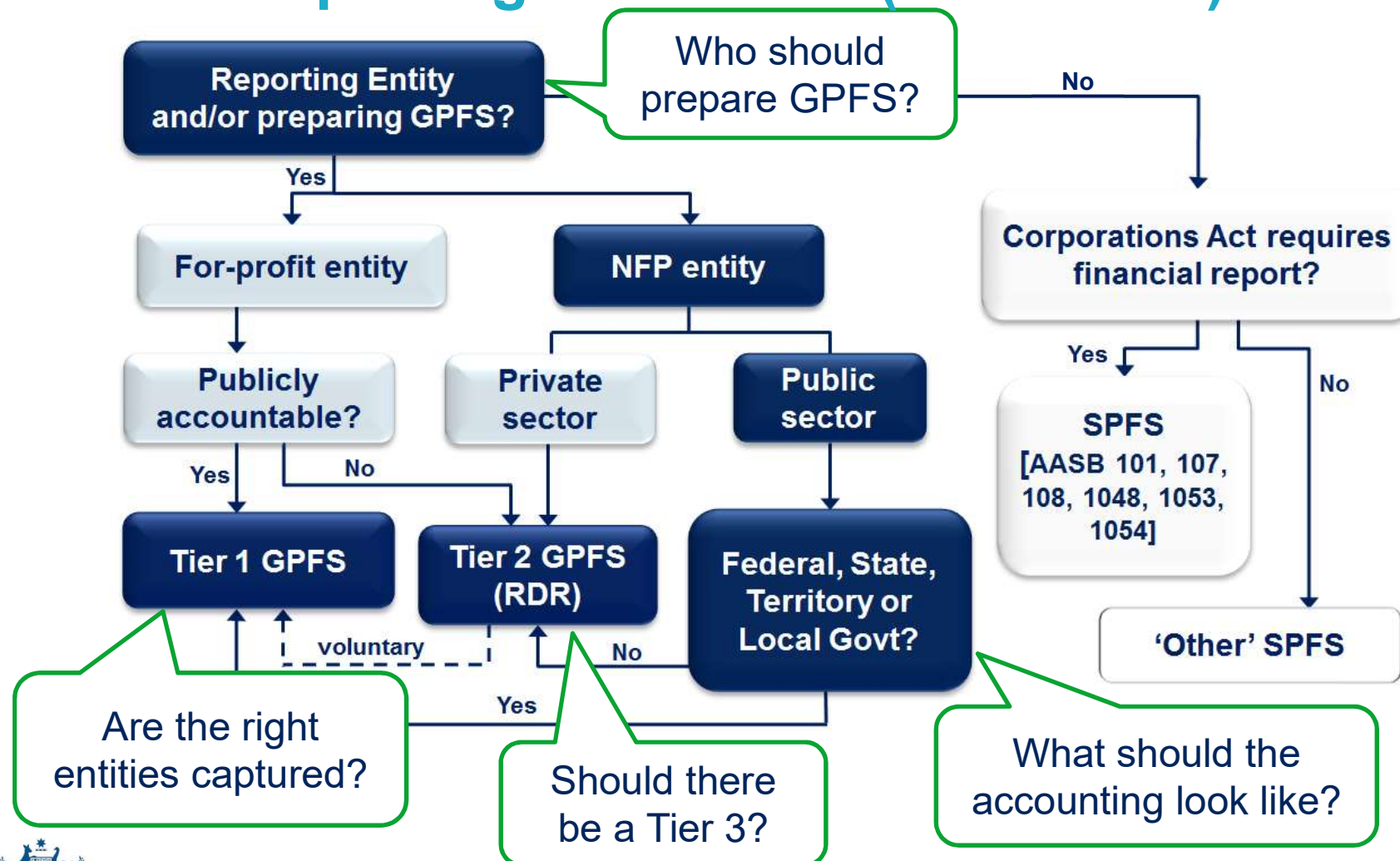
Project Overview



Financial Reporting Framework

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Current reporting framework (all sectors)



Objective

- Clarify and simplify the Australian financial reporting framework across all sectors

Aim

- Develop objective criteria to determine which entities should be required to prepare and lodge general purpose financial statements (GPFSSs)
 - Public accountability vs. economic significance
 - Revenue, expenses, total assets, number of members, relative contribution to GDP, relative cost of compliance
 - Stratification based on population (e.g. Top 5% as Tier 1; quartiles)



Aim (continued)

- Determine the financial reporting requirements that would apply to the financial statements (perhaps even a simplified Tier 3)
 - R&M simplification, or financial summary

Status

- Research report & consultation paper for charities issued
- Public sector research to commence shortly (consultation paper expected April 2018)



Purpose of today

- Generate conversation to drive positive change
- Provide prompts for stakeholders to formulate submissions to make submissions to the ACNC legislative review starting 3 December 2017
- Ideas to improve the format and content of statements
- AASB to summarise feedback for the ACNC review



Financial Reporting Framework

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Illustrative financial reporting frameworks

	Option 1 (NZ PBE model)	Option 2 (public interest and economic significance represented by expenses)	Option 3 (public interest and economic significance represented by expenses and external users by external donations)	Option 4 (number of users)
Criteria underpinning thresholds	Expenditure/expenses are proxies for economic significance. All charities report, but cost/benefit differentiates what is to be reported	Expenditure/expenses are proxies for size/economic significance/public interest.	Expenditure/expenses are proxies for size/economic significance/public interest. Donations/bequests/government funds is a proxy for external users and public interest	Expenditure/expenses are proxies for size/economic significance/public interest. Total number of users is a proxy for user needs/public interest (and to the extent that number of beneficiaries includes social significance).
Thresholds	1: Operating payments ¹ <\$125,000 (66% of population) 2: Expenses ² ≤\$2,000,000 (26%) 3: Expenses ≤\$30,000,000 (7%) 4: Expenses (including grants) >\$30,000,000 (1%)	1: Operating payments <\$270,000 (75% of population) 2: Expenses greater than \$270,000 and ≤ \$4,500,000 (20%) 3: Expenses >4,500,000 (5%)	1: Operating payments = \$0 (first 25%) or donations/bequests/ government funds = \$0 (first 25%) 2: Expenses >\$0 <\$34,000 (next 25%) or donations/bequests/ government funds >\$0 <\$1,800 (next 25%) 3: Expenses >\$34,000 <\$260,000 (next 25%) or donations/bequests/ government funds >\$1,800 <\$87,000 (next 25%) 4: Expenses >\$260,000 (next 25%) or donations/bequests/ government funds >\$87,000 (next 25%)	1: Operating payments <\$X (first quartile) or number of users <X (first quartile – data currently not available) , having regard to some measure [not currently available] of total/number of: - creditors - lenders - donors - employees - beneficiaries - members - volunteers 2-4: Expenses >X or number of users >X; determined on each further quartile
Type of specified financial statements for each threshold above	1: Cash accounting financial statements, including a statement of outcomes and outputs ³ (service performance report) 2: Simplified recognition, measurement and disclosure 3: Full recognition and measurement, reduced disclosure 4: Full recognition, measurement and disclosure	1: Cash flow statement to support Annual Information Statement 2: Full recognition and measurement, reduced disclosure 3: Full recognition, measurement and disclosure	1: Cash flow statement to support Annual Information Statement 2: Simplified recognition, measurement and disclosure 3: Full recognition and measurement, reduced disclosure 4: Full recognition, measurement and disclosure	1: Cash flow statement to support Annual Information Statement 2: Simplified recognition, measurement and disclosure 3: Full recognition and measurement, reduced disclosure 4: Full recognition, measurement and disclosure



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Case Study



Case Study

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Research Report Findings

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How can the framework be improved?



What is a good framework?

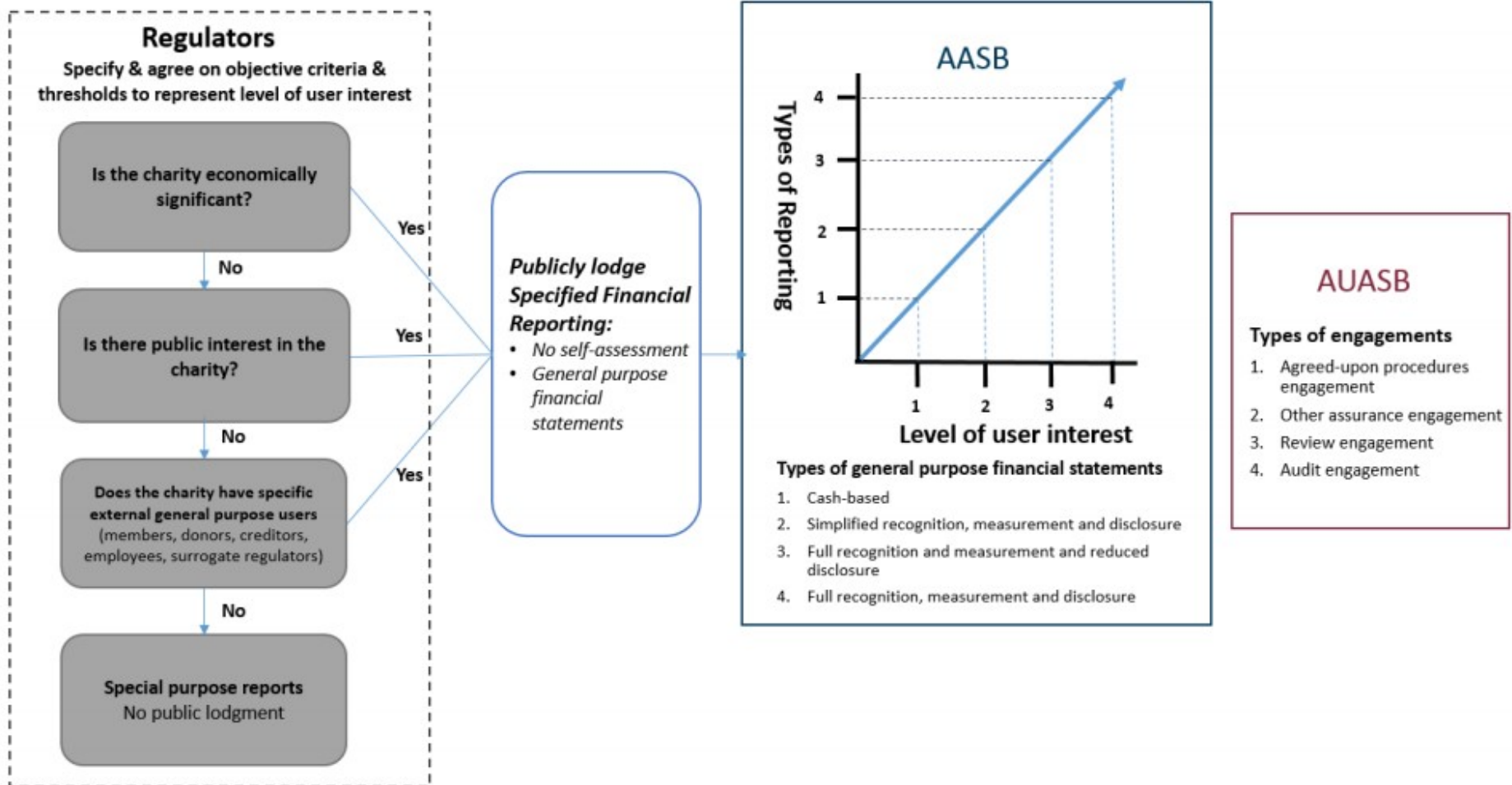
A good framework should have:

- Consistent, clear and objective criteria and thresholds that support transparency and openness
- Specified financial reporting requirements based on needs of users matched with the level of public interest and external users (proportionate and fair)
- Appropriate level of assurance matched with the reason why a charity is reporting



Charities Discussion Paper

DETERMINING WHO SHOULD REPORT AND WHAT LEVEL OF REPORTING



Which charities should report?



Which charities should report

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What principles should underpin who reports?



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Which charities should report

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What criteria best represent the principles?



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Exercise Time

On your tables, discuss what principle best underpins why a charity should be reporting and what criteria can be used to represent this principle?

****It can be a combination of principles and a combination of criteria****

Think **first** about the **principle** e.g. *Economic Significance* and **next** about the **criteria** that represents that principle e.g.. *Expenditure/Expenses*.



What should charities report



What should charities report

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The options for GPFSs

Cash-based (with service performance)

Simplified recognition, measurement and disclosure

Full recognition, measurement and reduced disclosure

Full recognition, measurement and disclosure



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What should charities report

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Assurance considerations

- Assurance piece can only come after determining **What** is to be reported by charities.
- Assurance is flexible and can match what users want



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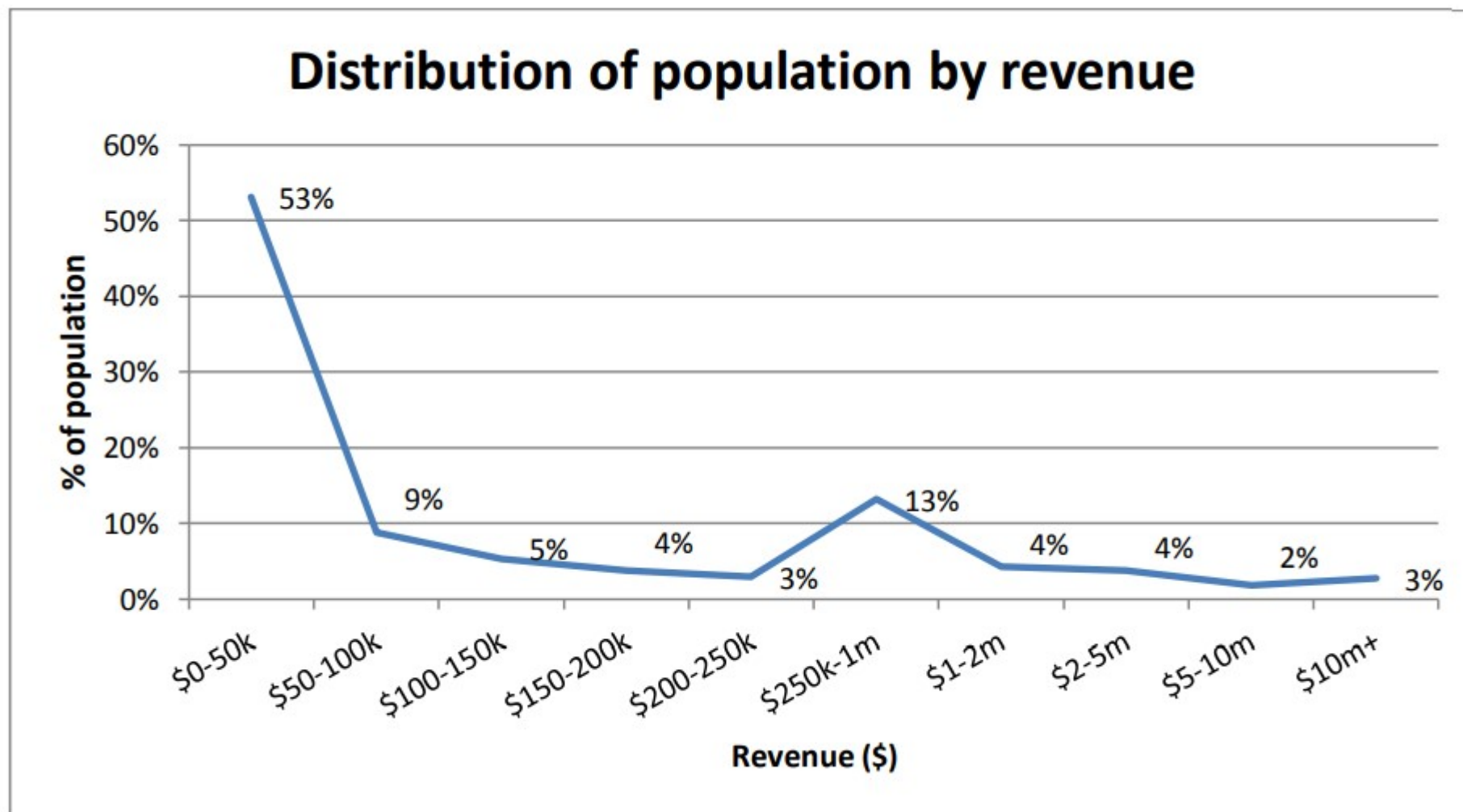
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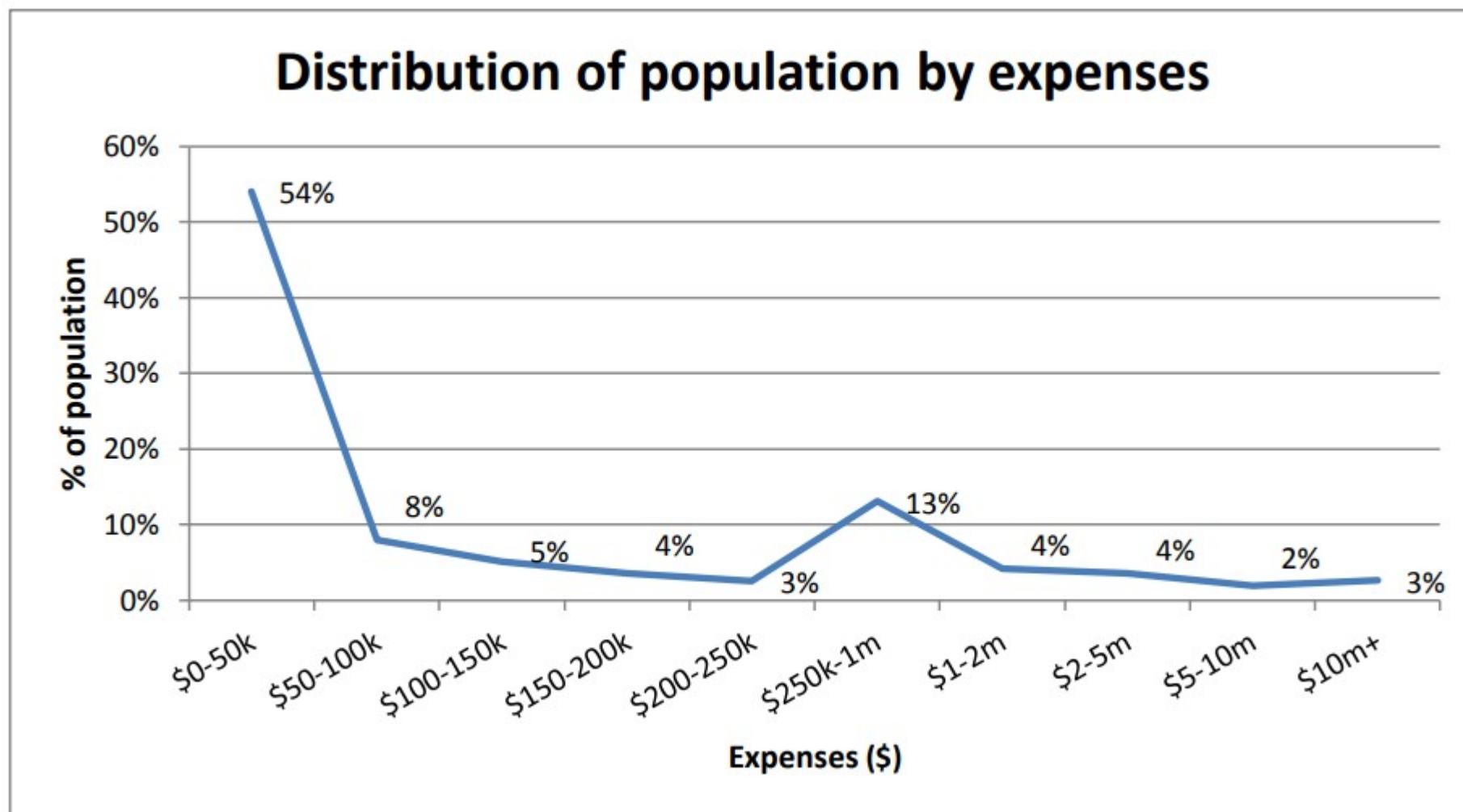
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Exercise Time

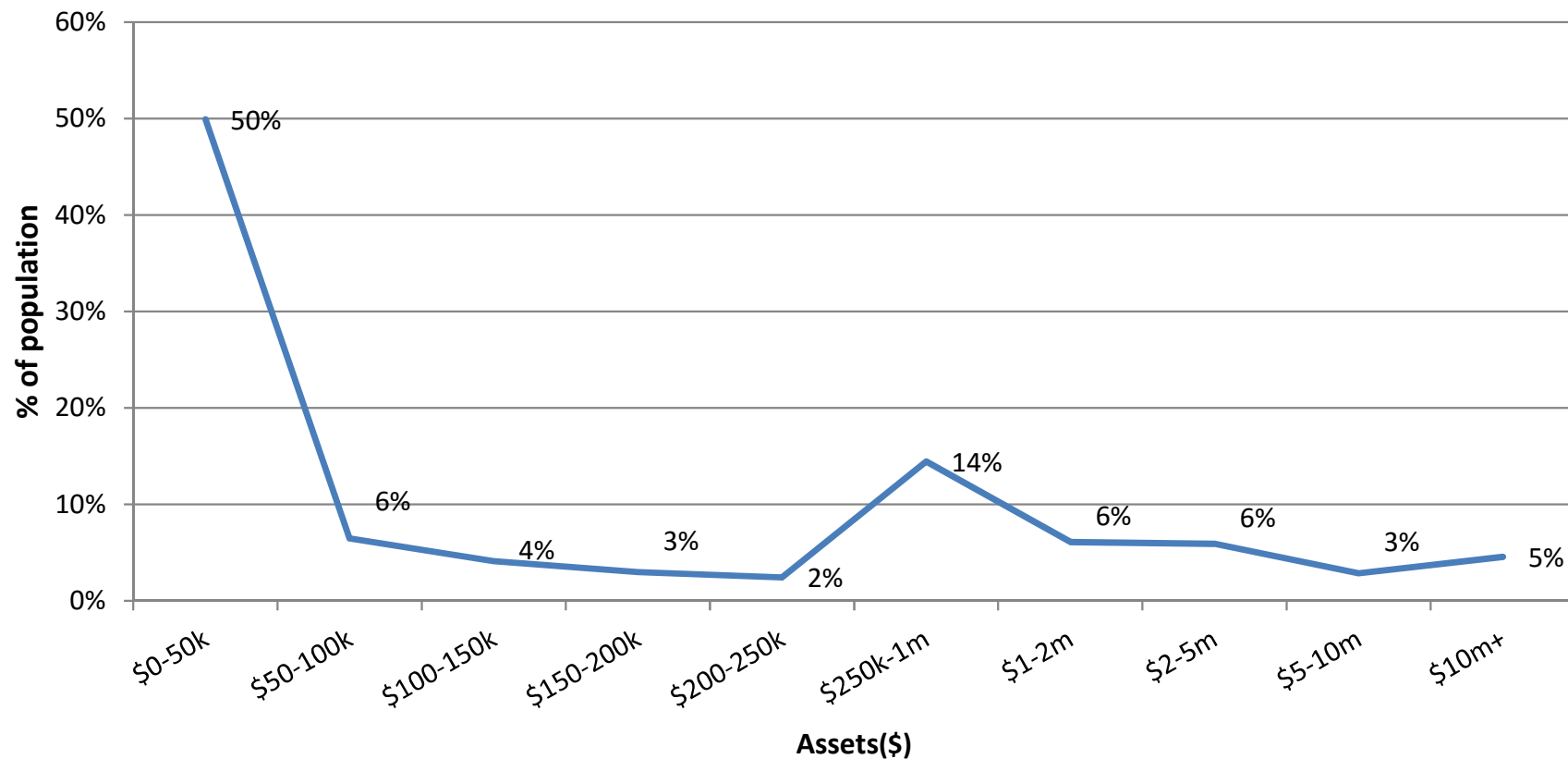
On your tables, discuss do we need different types of GPFSs appropriate for each type of charity and how can the population of charities be split most effectively and appropriately?







Distribution of population by assets



What should the framework look like?



Financial Reporting Framework

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Illustrative financial reporting frameworks

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Financial Reporting Framework

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Option 1 – New Zealand PBE Model implications

New Tier	Current size				New reporting
	Small	Medium	Large	Total	
Tier 1	31,273	292	71	31,636	Cashflow statement
Tier 2	4,190	6,012	2,170	12,372	Simplified accrual
Tier 3	32	39	3,407	3,478	RDR GPFS
Tier 4	1	2	423	426	Full GPFS
	35,496	6,345	6,071	47,912	

New Tier	Currently reporting					
	AIS only	Small	Transitional	SPFS	GPFS	Total
Tier 1	22,723	5,228	77	2,713	895	31,636
Tier 2	2,519	1,687	1	2,967	5,198	12,372
Tier 3	20	15	-	995	2,448	3,478
Tier 4	-	1	-	52	373	426
	25,262	6,931	78	6,727	8,914	47,912

Reporting under new tier	Reporting Relief	Increased Reporting	Comment
Cashflow statement	3,685		Moved from SPFS or GPFS to AIS only.
Simplified accrual	8,166	2,519	Moved from SPFS or GPFS to GPFS Accrual.
RDR GPFS		1,015	Moved from SPFS to GPFS RDR.
Full GPFS		52	Moved from SPFS to Full GPFS.
	11,851	3,586	

Figure 1 – Reporting outcomes using the NZ PBE model



Financial Reporting Framework

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Option 2 – Public Interest – Top Quarter Reporting Model implications

New Tier	Current size				New reporting
	Small	Medium	Large	Total	
Tier 1	34,872	1,141	126	36,139	Cashflow statement
Tier 2	611	5,193	3,635	9,439	RDR GPFS
Tier 3	13	11	2,310	2,334	Full GPFS
	35,496	6,345	6,071	47,912	

New Tier	Currently reporting					Total
	AIS only	Small	Transitional	SPFS	GPFS	
Tier 1	25,004	6,617	77	3,072	1,369	36,139
Tier 2	247	305	1	3,128	5,758	9,439
Tier 3	11	9	-	527	1,787	2,334
	25,262	6,931	78	6,727	8,914	47,912

Reporting under new tier	Reporting Relief	Increased Reporting	Comment
Cashflow	4,518		Moved from SPFS or GPFS to AIS only.
RDR		3,376	Moved from SPFS to GPFS RDR.
Full GPFS		538	Moved from SPFS to Full GPFS.
	4,518	3,914	

Figure 3 – Reporting outcomes using the Top Quarter approach



Financial Reporting Framework

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Option 3 – Public Interest Model (Expenses plus Public Money) implications

New Tier	Currently reporting				New reporting
	Small	Medium	Large	Total	
Tier 1	13,119	2	3	13,124	Cashflow statement
Tier 2	5,502	12	3	5,517	Simplified accrual
Tier 3	13,602	321	30	13,953	RDR GPFS
Tier 4	3,273	6,010	6,035	15,318	Full GPFS
	35,496	6,345	6,071	47,912	

New Tier	Currently reporting					Total
	AIS only	Small	Transitional	SPFS	GPFS	
Tier 1	9,376	386	77	2,517	768	13,124
Tier 2	4,316	1,174	-	14	13	5,517
Tier 3	9,624	3,994	-	171	164	13,953
Tier 4	1,946	1,377	1	4,025	7,969	15,318
	25,262	6,931	78	6,727	8,914	47,912

Reporting under new tier	Reporting Relief	Increased Reporting	Comment
Cashflow statement	3,362		Moved from SPFS or GPFS to AIS only.
Simplified accrual	27	4,316	Moved from AIS to GPFS Accrual.
RDR GPFS		9,795	Moved from AIS and SPFS to GPFS RDR
Full GPFS		5,972	Moved from AIS and SPFS to Full GPFS
	3,389	20,083	

Figure 5 – Reporting outcomes using Expenses plus Public Money



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Exercise Time

Now that you have seen how all the pieces can be put together, on your tables, what do you think are the most appropriate components for a better framework?



Wrap Up

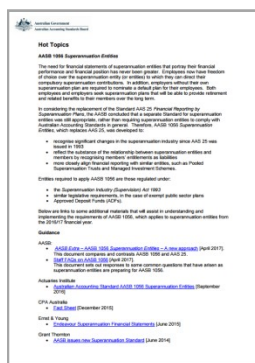


AASB Resources

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- Staff papers and research reports



- Hot Topics – guidance and reference material on the latest developments in standard setting



- YouTube channel – view AASB webinars & other recordings



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Getting Involved: Initial Steps

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Pronouncements

- ✓ identify Standards or Interpretations applicable to a reporting period

News & Alerts

- ✓ news alerts & media releases
- ✓ weekly newsletter

Outreach Events

- ✓ forums, roundtables, webcasts
- ✓ international guests & key experts

Work Program & Project Summaries

- ✓ the latest developments on AASB projects

Work in Progress

- ✓ see Exposure Drafts & AASB submissions



Engage with the AASB

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AASB Discussion group
Australian Accounting
Standards Board



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@krispeachAASB

Your input is important

You don't have to be technical

Let us know how we can better engage with you

standard@aasb.gov.au



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Your Presenters

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