



Australian Government

Australian Accounting Standards Board

AASB Webinar:

The Australian Financial Reporting Framework

Presented by:

Kris Peach – Chair

Maggie Man – Practice Fellow (ACNC)

Friday 9 February, 2018

Disclaimer

This presentation provides personal views of the presenter and does not necessarily represent the views of the AASB or other AASB staff. Its contents are for general information only and do not constitute advice.

The AASB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this presentation.

This presentation is not to be reproduced, distributed or referred to in a public document without the express prior approval of AASB staff.



Kris Peach, Chair
kpeach@asb.gov.au
+61 3 9617 7615

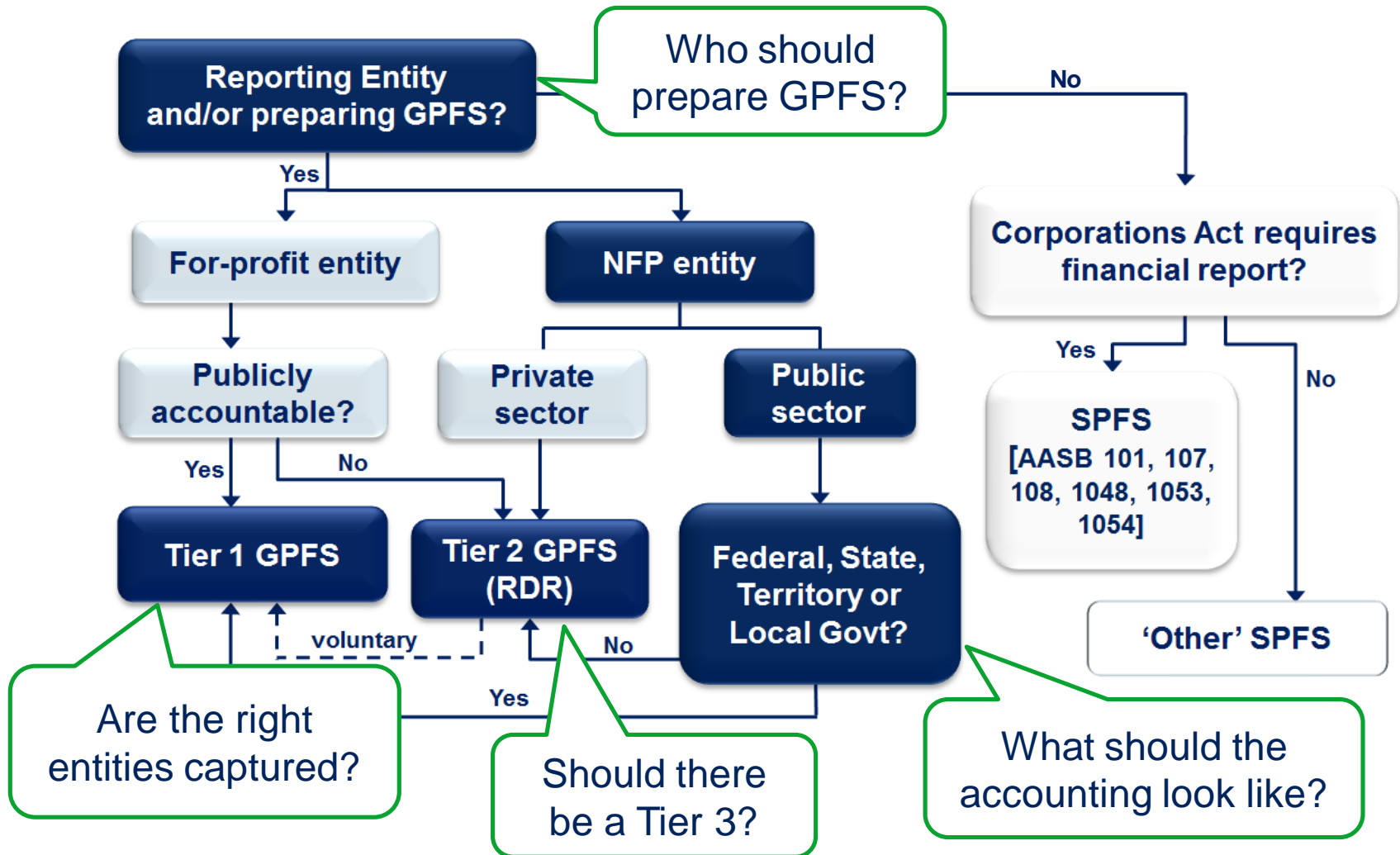


Maggie Man, Practice Fellow
mman@asb.gov.au
+61 3 9617 7646

Project Overview



Current reporting framework (all sectors)



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 (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 (eg Top 5% as Tier 1; quartiles).

Determine the financial reporting requirements that would apply to the financial statements (perhaps even a simplified Tier 3)

- R&M simplification, or financial summary.



- **Research report & consultation paper for charities**
– *issued (November 2017)*
- **Public sector research**
– *to commence shortly (consultation paper expected April 2018).*

Purpose of today

- Generate conversation to drive positive change.
- Develop ideas to improve the format and content of statements.
- Provide prompts for stakeholders to formulate submissions to the ACNC legislative review (commenced 20 December 2017; written submissions due 28 February 2018).
- Development of summarised feedback for the AASB to submit to the ACNC review.



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	<ol style="list-style-type: none"> 1: Operating payments¹ <\$125,000 (66% of population) 2: Expenses² ≤\$2,000,000 (26%) 3: Expenses ≤\$30,000,000 (7%) 4: Expenses (including grants) >\$30,000,000 (1%) 	<ol style="list-style-type: none"> 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%) 	<ol style="list-style-type: none"> 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%) 	<ol style="list-style-type: none"> 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: <ul style="list-style-type: none"> - 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	<ol style="list-style-type: none"> 1: Cash accounting financial statements, including a statement of outcomes and outputs³ (service performance report) 2: Simplified recognition, measurement and disclosure 3: Full recognition and measurement, reduced disclosure 4: Full recognition, measurement and disclosure 	<ol style="list-style-type: none"> 1: Cash flow statement to support Annual Information Statement 2: Full recognition and measurement, reduced disclosure 3: Full recognition, measurement and disclosure 	<ol style="list-style-type: none"> 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 	<ol style="list-style-type: none"> 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



Why is it important to have this conversation now?



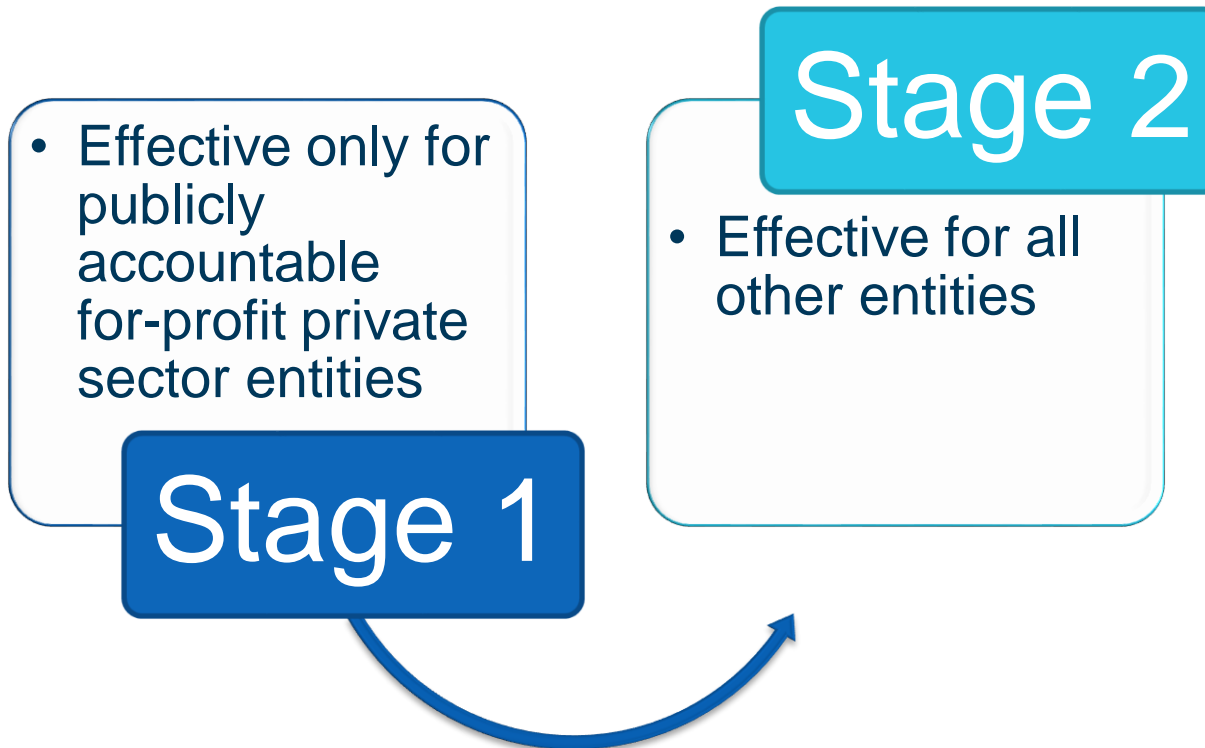
Inconsistencies in the use of Reporting Entity

	Australia (currently)	IASB (forthcoming)
Reference	AASB 1053, AASB 1057 & SAC 1	Conceptual Framework: Chapter 3
Purpose	Determines <u>who</u> has to prepare GPFS	Determines a boundary of <u>what</u> set of economic activities is to be included in GPFS

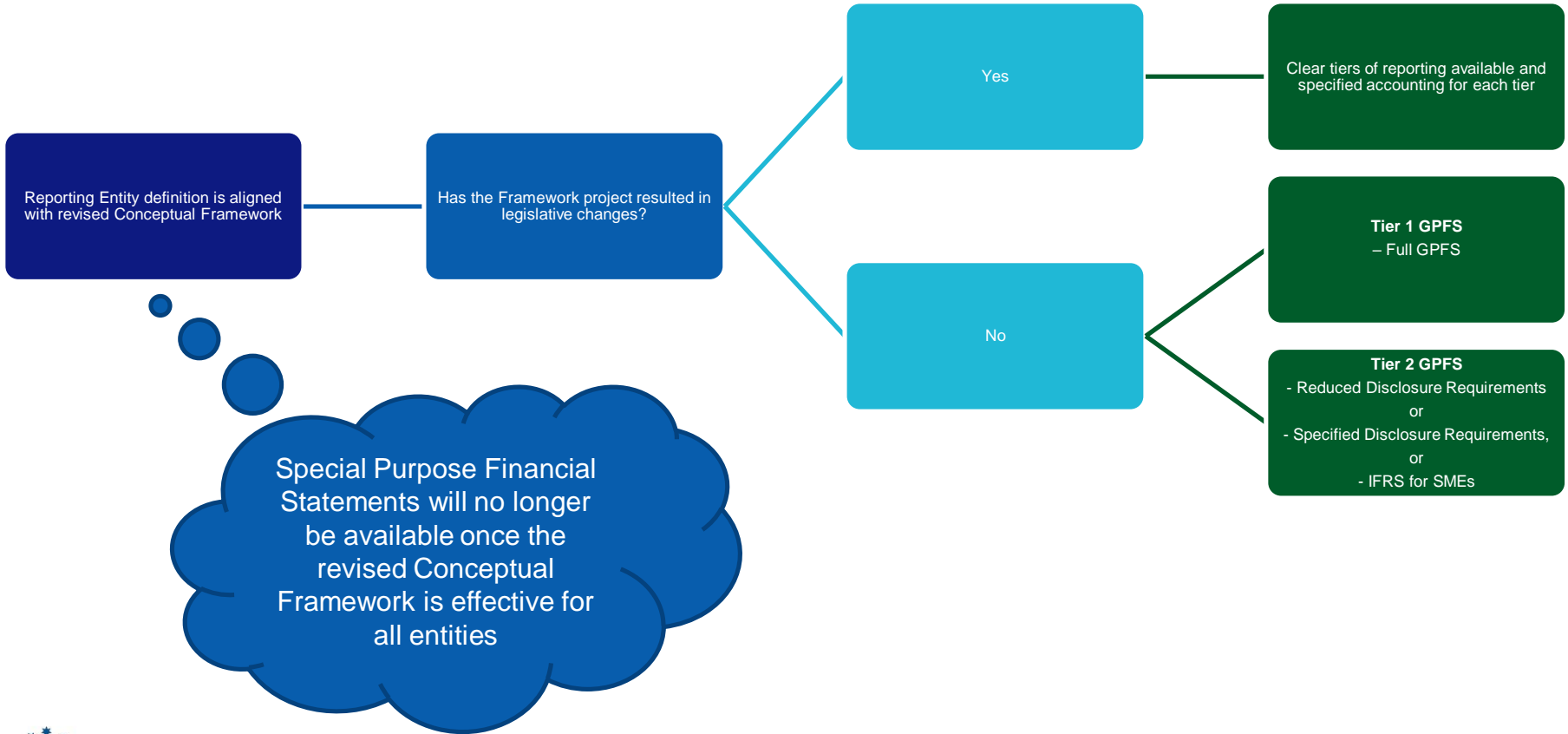
Consultation Paper identifying the potential impact on the financial reporting framework will be published by March 2018.



The AASB's staggered approach



The implications



What has the AASB done so far?

AASB Research Report No 5

Financial Reporting Requirements Applicable to Charities



AASB Discussion Paper

Improving the Financial Reporting for Australian Charities



Five Outreach Sessions

- Melbourne
- Sydney
- Brisbane x2
- Adelaide



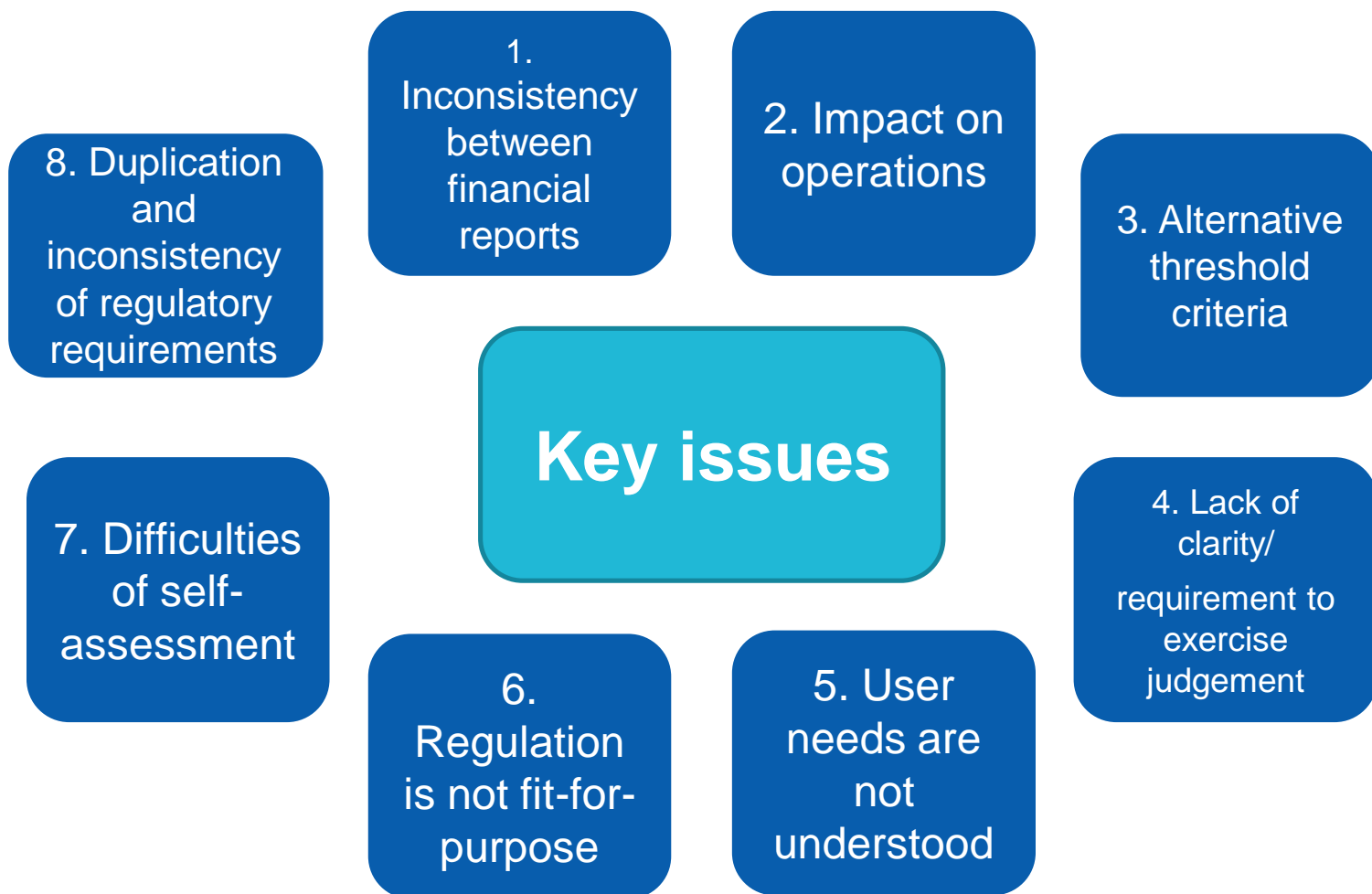
What's next?

- AASB Staff Paper *Comparison of Accounting Standards for Smaller Entities* (Feb 2018)
- AASB Staff Paper *Consolidation and Individual Financial Statements* (First Half 2018)



How can the framework be improved?





What is a good framework?

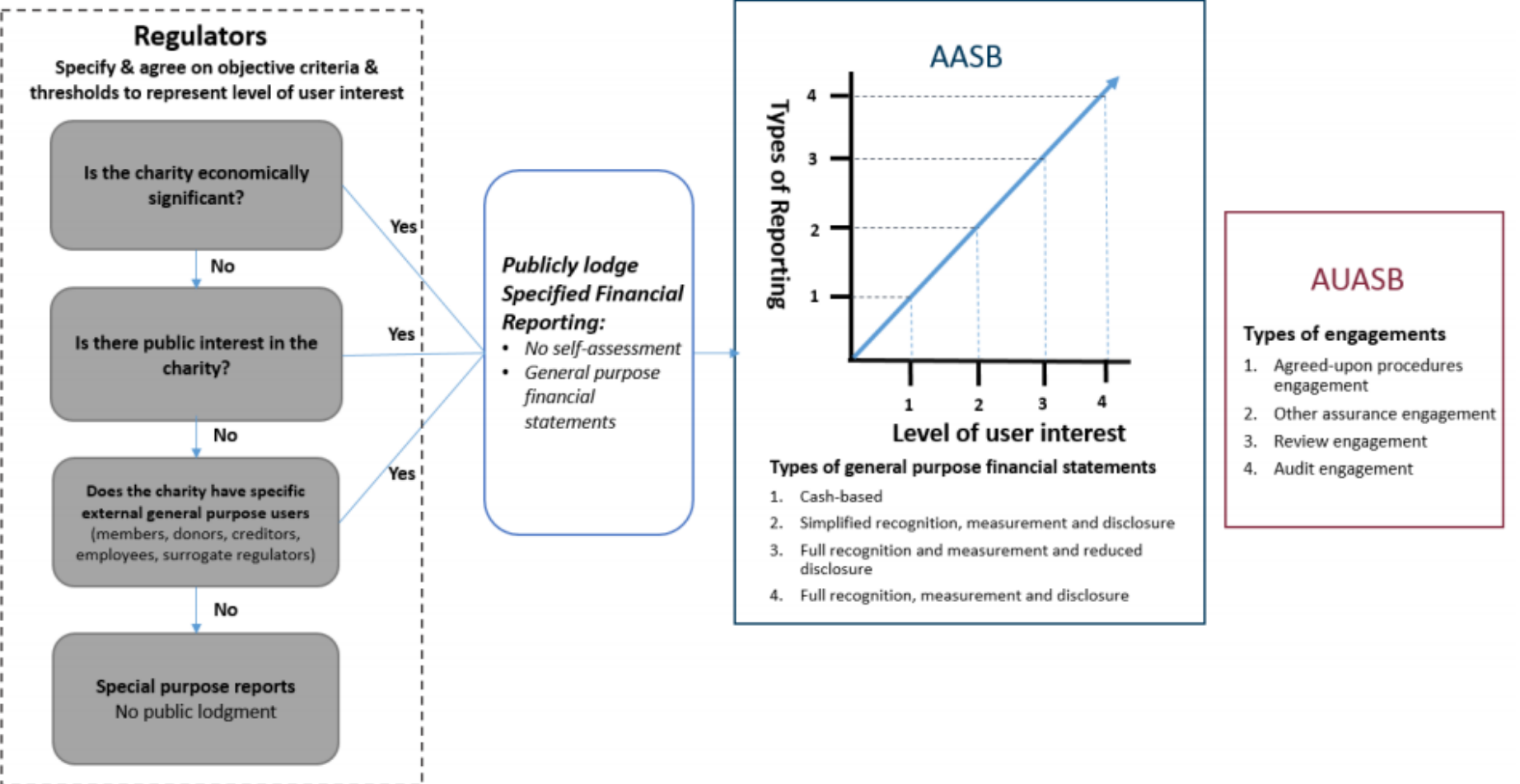
A good framework should have:

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



Who should report? At what level?

DETERMINING WHO SHOULD REPORT AND WHAT LEVEL OF REPORTING



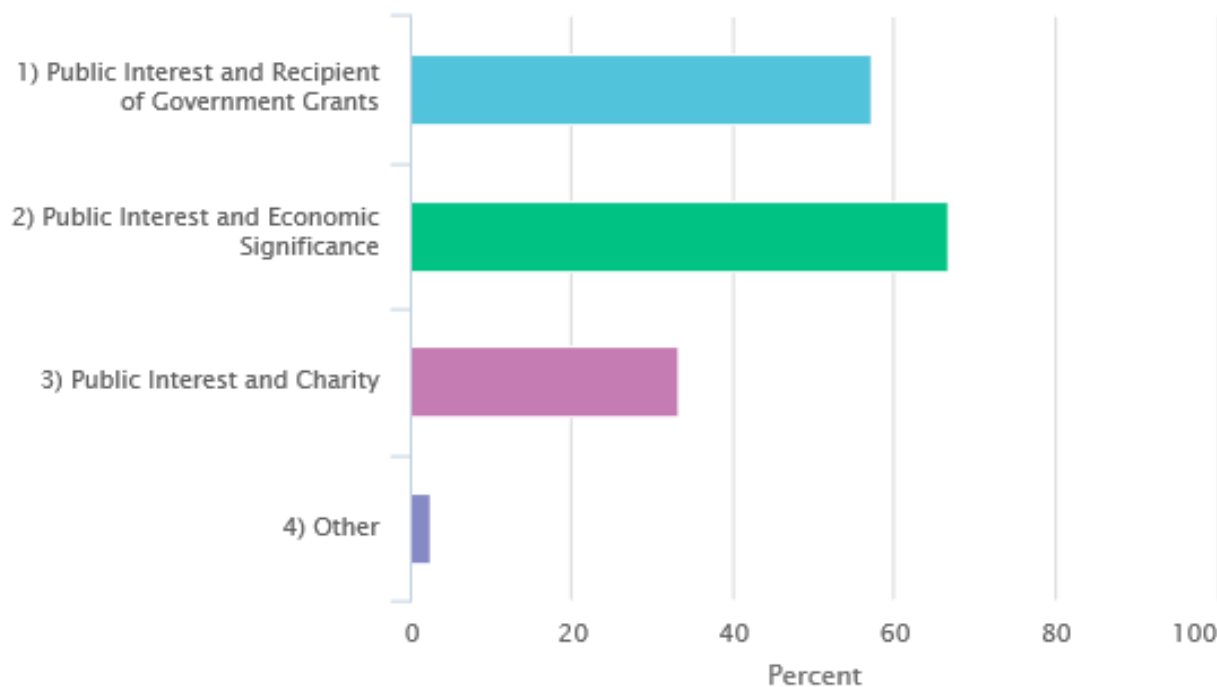
Which charities should report?



What principles should underpin who reports?



What principle or principles best underpins why a charity should be reporting?



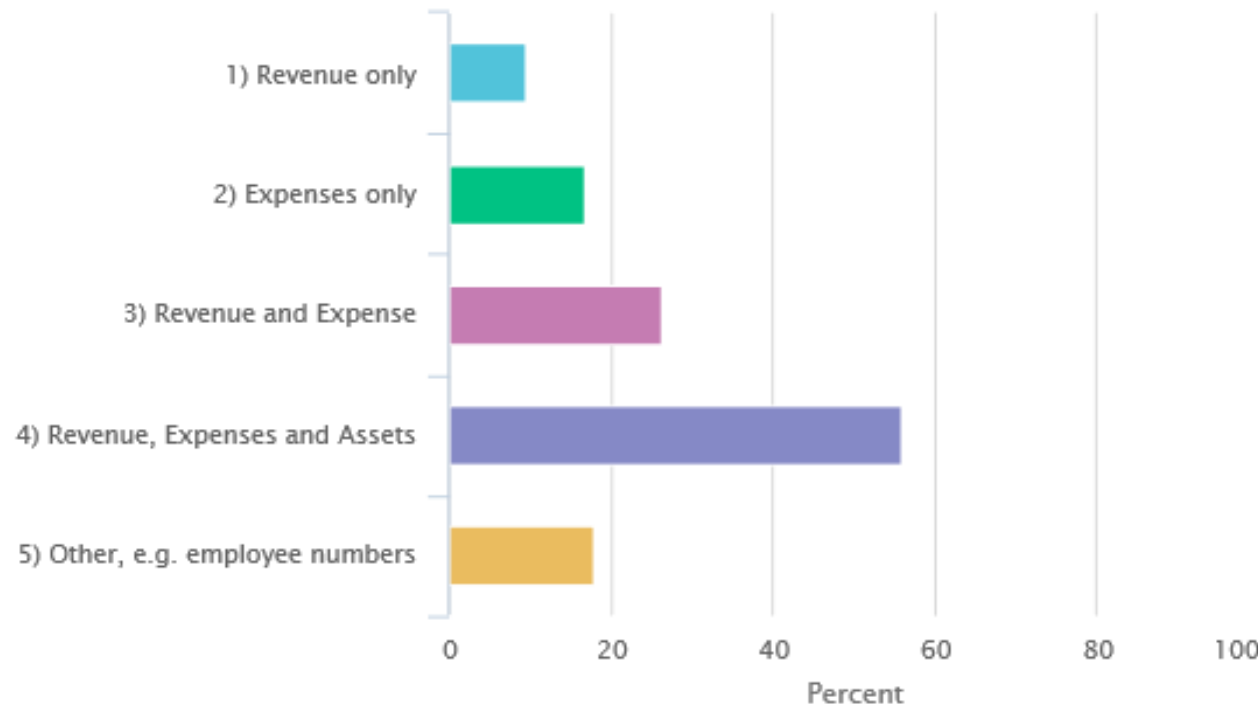
Which charities should report

What criteria best represent the principles?



Webinar Poll 2 results

What criterion or criteria can be used to represent public interest?*



What should charities report?



The options for GPFSSs

Cash-based (with service performance)

Simplified recognition, measurement and disclosure

Full recognition, measurement and reduced disclosure

Full recognition, measurement and disclosure



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



2016 AIS Data

% of charities meet X or below	Income				Expense			Total assets	Total liabilities	# of charities
	Total Revenue	Government Grants	Donations and bequests received	Grants/donations received	Total Expenses	Employee expenses	Grants/donations made			
5%	-	-	-	-	-	-	-	-	-	2,366
10%	-	-	-	-	-	-	-	-	-	4,732
15%	-	-	-	-	-	-	-	-	-	7,097
20%	-	-	-	-	-	-	-	-	-	9,463
25%	1,095	-	-	-	1,290	-	-	-	-	11,829
30%	5,950	-	-	-	5,893	-	-	4,271	-	14,195
35%	12,846	-	-	-	12,460	-	-	12,978	-	16,560
40%	22,647	-	-	66	21,967	-	-	26,017	-	18,926
45%	36,761	-	-	1,650	34,932	-	-	46,591	-	21,292
50%	57,566	-	54	5,498	53,502	-	-	77,344	-	23,658
55%	85,584	-	758	12,450	79,929	-	-	126,966	694	26,023
60%	126,433	-	2,250	24,587	118,056	876	-	204,855	3,594	28,389
65%	185,305	-	5,345	47,035	171,620	25,586	-	322,221	10,928	30,755
70%	277,416	-	10,535	84,803	255,175	65,357	50	503,307	29,055	33,121
75%	437,203	7,430	20,000	148,501	399,773	132,984	2,075	795,605	64,496	35,486
80%	731,995	50,727	38,362	266,105	677,174	269,899	7,693	1,292,293	138,769	37,852
85%	1,343,274	229,170	73,886	548,506	1,260,229	574,576	20,000	2,290,313	288,015	40,218
90%	2,821,378	875,707	152,598	1,400,136	2,639,913	1,358,074	50,000	4,712,426	695,799	42,584
95%	7,665,189	3,386,526	424,441	4,008,110	7,196,446	3,923,128	157,823	13,833,199	2,882,545	44,949

Small charities: <\$250k (69% or 32,600 charities)

Medium charities: \$250k - <\$1M (11% or 6,529 charities)

Large charities: >\$1M (20% or 8,186 charities)



What should the framework look like?



Financial Reporting Framework

Option 2 – Public Interest – Top Quarter Reporting Model implications (2016 data)

Current size					New reporting
New Tier	Small	Medium	Large	Total	
Tier 1	31,154	3,898	437	35,489	Cashflow statement
Tier 2	211	3,596	5,654	9,461	RDR GPFS
Tier 3	3	4	2,358	2,365	Full GPFS
	31,368	7,498	8,449	47,315	

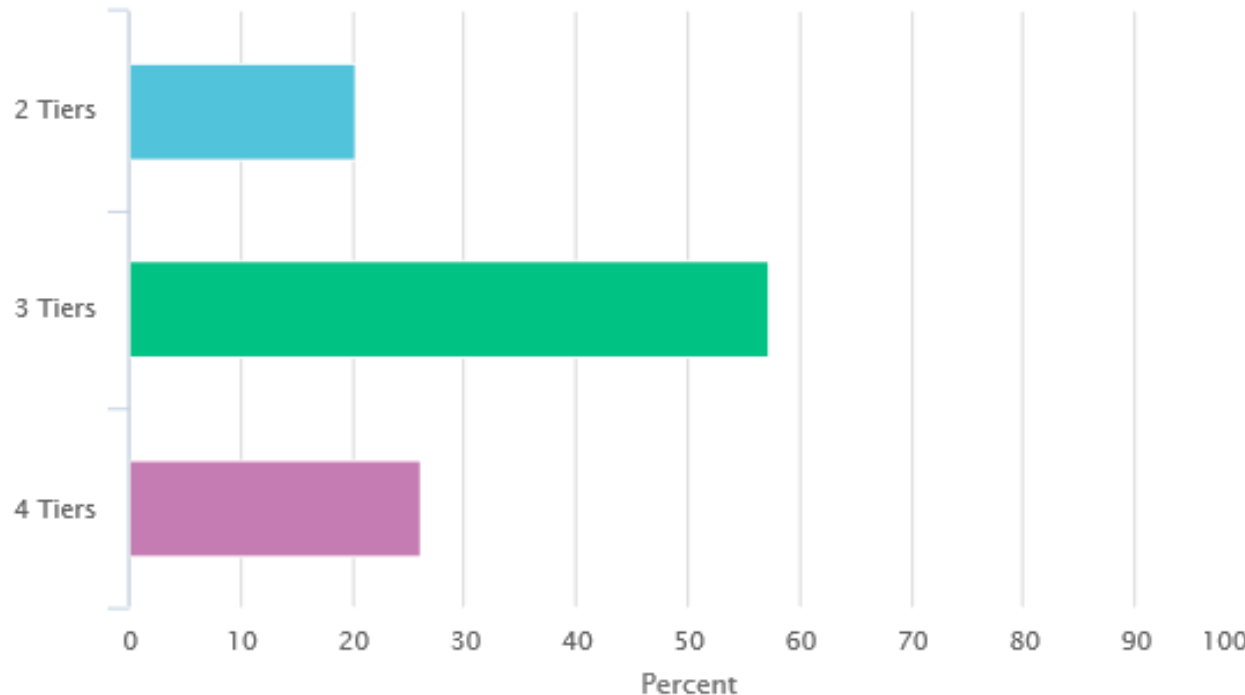
Currently reporting				
New Tier	AIS only	SPFS	GPFS	Total
Tier 1	32,252	1,493	1,744	35,489
Tier 2	746	3,843	4,872	9,461
Tier 3	383	568	1,414	2,365
	33,381	5,904	8,030	47,315

Reporting under new tier	Reporting Relief	Increased Reporting	Comments
Cashflow	3,237		Moved from SPFS or GPFS to AIS only.
RDR		4,589	Moved from SPFS to GPFS RDR.
Full GPFS		951	Moved from SPFS to Full GPFS.
	3,237	5,540	



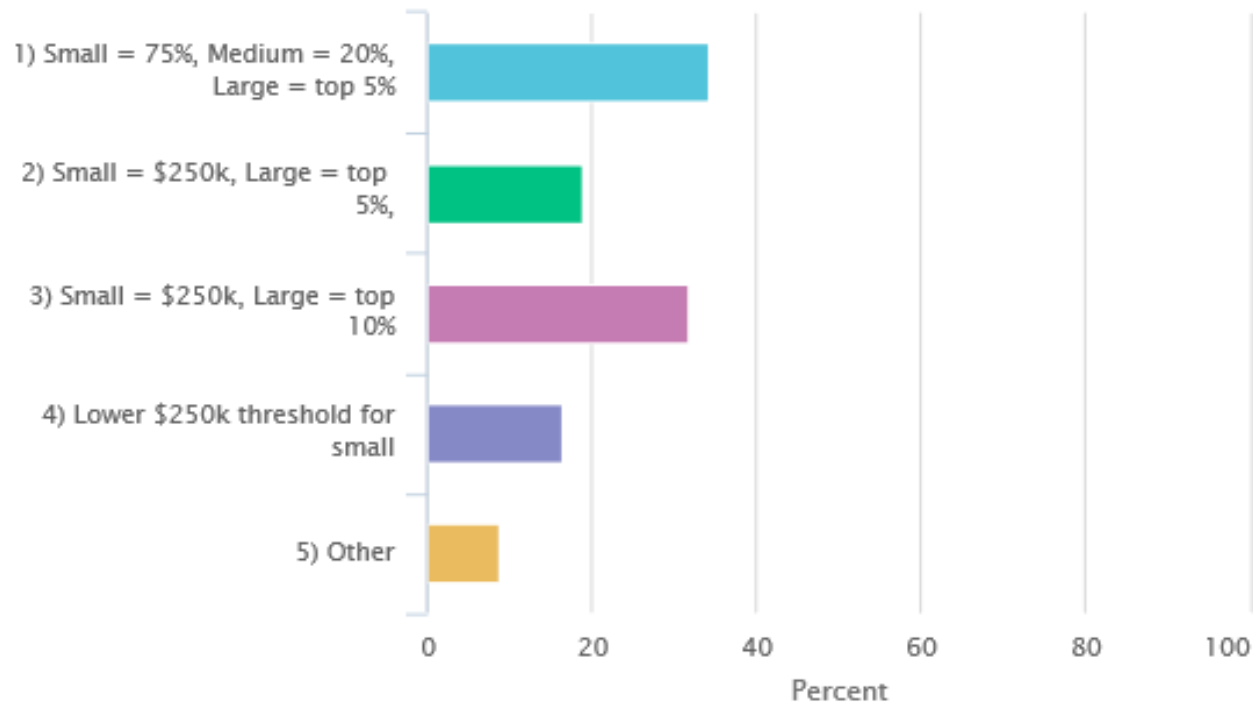
Webinar Poll 3 results

How many tiers of reporting do you think is appropriate?



Webinar Poll 4 results

How should the population of charities be split most effectively and appropriately?



- ✓ Clear criteria and thresholds objective.
- ✓ The financial reporting thresholds should be set in the Regulation rather than Legislation.
- ✓ Movement between financial reporting thresholds should be assessed on a two-year average.
- ✓ A different reporting tier should be applied to the middle tier to differentiate the reporting requirements for the lowest and highest tier.

All charity stakeholders should take the opportunity to make a submission to the ACNC Legislative review.

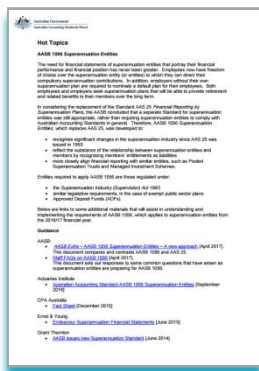


Wrap Up





- 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



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 us

Your input is important.

You don't have to be technical.

Let us know how we can best engage with you.



- AASB Discussion group
- Australian Accounting Standards Board



@AASBAustralia
@krispeachAASB

standard@aab.gov.au

