



Australian Government



Australian
Charities and
Not-for-profits
Commission

5 August 2019

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
COLLINS STREET VIC 8007

Our reference: EXT2019/81

Dear Ms Peach

AASB Exposure Draft 293 – Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements

The Australian Charities and Not-for-profits Commission (**ACNC**) welcomes the opportunity to comment on Exposure Draft 293 – **Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements** (ED 293).

The ACNC was established on 3 December 2012 by the Australian Charities and Not-for-Profits Commission Act 2012 (Cth) (ACNC Act). The objects of the ACNC Act are to:

- Maintain, protect and enhance public trust and confidence in the Australian not-for-profit (NFP) sector;
- support and sustain a robust, vibrant, independent and innovative Australian NFP sector; and
- promote the reduction of unnecessary regulatory obligations on the Australian NFP sector.

The ACNC maintains a free and searchable online public register of charities (the Charity Register). The Charity Register helps the public to understand the work of the charity sector and enables charities to be transparent by publishing information about their governance, activities, operations, and finances.

The ACNC regulates over 56,000 charities in Australia which are a sub-sector of the Not-for-profit (NFP) sector. It is with regard to the impact of the proposed change on the charities sub-sector within which we frame our response. [ACNC Commissioner's Policy Statement 2017/04: Financial reporting scaffolding policy guides ACNC participation in dialogue about financial reporting.](#)





The ACNC supports the additional disclosure requirement proposed in ED 293 as this provides more transparency to users of special purpose financial statements (SPFS) submitted on the ACNC Register. The disclosure may allow greater consistency and comparability in financial reports which underpins the trust and confidence in the sector. We believe the proposals are part of good governance for charities however this change may result in additional cost expected to be borne by the charity sector due to a slight increase in the regulatory burden that professional advisors will need to consider during their engagements with registered charities.

The attached appendix provides the ACNC's detailed response to the Specific Matters for Comment as set out in ED 293. Please note that these responses focus on the perspective of NFP private sector entities which are ACNC registered charities.

Please do not hesitate to contact Mel Yates, at Melville.Yates@acnc.gov.au or 03 927 59595 should you have any queries in relation to the above.

Sincerely,

Melville Yates

Director of Reporting and Red Tape Reduction
Australian Charities and Not-for-profits Commission

Enc:

Appendix – Response to Specific and General matters for Comment



Appendix – Response to Specific Matters for Comment – ED 293

1. *Do you agree that an amendment to AAS to require entities to disclose information about their SPFS, including whether or not the entity has complied with all R&M requirements in AAS, is needed to provide more transparency to users of publicly lodged SPFS and improve the comparability of SPFS?*

The ACNC agrees that the additional proposed disclosures about SPFS will increase transparency to the users and improve the comparability of those statements. However the need for the disclosure must be balanced with the AASB's work on the Not-for-profit Financial Reporting Framework which, if the proposed tiers and reporting requirements were set, could potentially result in the proposed disclosure in this ED to no longer being relevant.

2. *Do you agree that the proposed amendments should apply only to those entities lodging SPFS with a) ASIC under Part 2M.3 of the Corporations Act 2001; or the ACNC?*

If the purpose of the disclosures is to improve transparency and comparability of SPFS, the AASB may wish to consider whether other entities should be captured given there are other public registers, besides the ASIC and the ACNC that publish financial statements.¹

There are also a number of charities currently utilising the streamlined reporting arrangements provided while we continue our efforts to work with other Regulators to reduce unnecessary regulatory burden. For example, charities that are incorporated associations in Queensland can submit the same financial report prepared in accordance with the *Associations Incorporations Act 1981* (IA Act 1981) as meeting the ACNC reporting requirements. In such instances, these financial statements may not necessarily comply with AASB 1054 *Australian Additional Disclosures* as there is no mandatory Australian Accounting Standards specified in the IA Act 1981. Also, a similar arrangement is in place for non-government schools reporting directly to the Department of Education.

However the transitional provision for the ACNC to accept financial reports submitted to another Australian government agencies applies until the 2018/19 reporting period. At the time of this submission, the Government is yet to respond to the recommendation² for an ongoing provision to be implemented.

3. *Do you agree with the proposed amendments to AASB 1054 requiring disclosure as proposed in ED 293?*

We agree with the proposed amendments to AASB 1054. Based on our observations from reviews of annual financial reports submitted, charities that prepare SPFS are already making the disclosure about the basis on which the decision to prepare SPFS is made, with similar wording to the illustrative examples provided in the ED.

¹ Corporations that are registered under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* (Cth) which are regulated by the Office of the Registrar of Indigenous Corporation (ORIC) are required to prepare and lodge financial statements which are publicly available on the ORIC register. Incorporated associations that are not registered charities are required to prepare and lodge financial statements that may be inspected by the general public

² [Strengthening for Purpose: Australian Charities and Not-for-profits Commission Legislative Review 2018](#)



The proposal to require if an entity has not consolidated its subsidiaries, to disclose that fact and the reasons why is similar to the group condition we have in place for charities approved to report as a group (section 60-95 of the ACNC Act). We require that group financial reports comply with AASB 10 to the fullest extent possible. If a reporting group is not in full compliance with AASB 10, it must include a disclosure note in the annual financial report that provides reasons why and the extent to which compliance was impracticable.

We also support the proposal to allow Not-for-Profit (NFP) entities that have not made a determination about whether AASB 10 *Consolidated Financial Statements* and AASB 128 *Investment in Associates and Joint Ventures* may apply, to state that as fact, which will ensure no further burden is imposed on them to make that determination.

The requirement to provide an explicit statement about whether all recognition and measurement requirements (R&M) in the Australian Accounting Standards have been applied may provide comparability between SPFS. However, unlike the ASIC, ACNC does not have a similar requirement that R&M must be complied with as required by RG85 *Reporting requirements for non-reporting entities*. The ACNC however would require charities to disclose the legislative reporting framework, i.e. the ACNC Act and for SPFS, state the five mandatory Australian Accounting Standards required by section 60.30 of the *Australian Charities and Not-for-profits Regulation 2013* that underpin their financial statements preparation. We do not believe that the additional disclosure to state whether all R&M requirements have/have not been met would impose an onerous reporting burden on registered charities. However we believe it may have a flow on impact for some charities and accounting advisors to have greater consideration on the accounting standards being adopted.

4. *The proposed Amending Standard includes implementation guidance and illustrative examples illustrating the application of the proposed disclosure requirements. Do you agree it provides appropriate illustration of the application of the disclosure requirements?*

We believe the illustrative examples are sufficient to illustrate the application of the proposed disclosure requirements. However we have concerns with example 8 which provides the option either to list the significant accounting policies where R&M were not fully complied with, or to list the accounting policies that have been adopted which provides an indication where R&M have not been complied with. Both options upon initial reading appear to be negative statements and does not seem to provide the alternative option proposed in IG4, ie where instances of non-compliance are extensive, the charity can choose to disclose the Australian Accounting Standards that have been complied with which is a positive statement. Also the statement that R&M have not been complied with is repeated in the explicit statement and in both options.

Additionally, it needs to be clearer which paragraph the alternative option after 'OR' replaces, ie does it replace the explicit statement that SPFS do not comply with R&M or the paragraph relating to 'The significant accounting policies adopted...'

5. *If the Amending Standard is issued before December 2019, do you agree with the proposed effective date of annual period ending on or after 30 June 2020 (with early adoption permitted)?*

We agree with the proposed effective date to be applied for registered charities.



6. *Do you agree that an entity that has no subsidiaries, investments in associates or investments in joint ventures should not be required to make an explicit statement to this effect?*

We agree that an explicit statement should not be required if the entity has no subsidiaries, investments in associates or joint ventures. Given the proposed requirement is for an entity to state whether they have complied with AASB 10 and 128 accordingly or if no assessment was made to state that fact, then by not providing either of those statements would by deduction mean that the entity has no subsidiaries, investments in associates or joint ventures.

7. *Do you agree that a not-for-profit entity that has not determined whether or not its interest in other entities give rise to subsidiaries, associates or joint ventures should be permitted to disclose only that fact, and should not also be required to disclose the reasons why?*

The ACNC has received feedback from charities regarding the difficulties in applying the concepts in AASB 10 especially for smaller charities that may not have the resources or technical expertise to interpret the standard. As such it is important that these charities are given the option simply permitting them to state the fact that no assessments have been made in accordance with AASB 10 and 128. There are already significant changes in relation to financial reporting and legislative reform which are impacting charities and the ACNC is mindful of this in the broader environment to not impose further reporting burden to the sector.

8. *Do you have any other comments on the proposals?*

No.

Response to General matter for comment

9. *Whether the AASB's Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?*

The AASB's *Not-for-Profit Entity Standard-Setting Framework* notes that the AASB currently does not set standards for SPFS but ED 293 is developed in contrast to the Framework. However, we understand this is an interim measure to allow the AASB to undertake the broader Not-for-profit Reporting Framework Project. Given this position, we believe the Not-for-Profit Entity Standard-Setting Framework has been applied appropriately.

10. *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?*

We are not aware of any other issues that may affect the implementation.

11. *Whether, overall, the proposals would result in financial statements that would be useful to users?*

We believe the additional disclosure will increase transparency to the users and improve the comparability of SPFS.



12. *Whether the proposals are in the best interests of the Australian economy?*

The ACNC considers the proposals are in the best interest of the Australian economy and AASB's efforts to improving the financial report framework in Australia.

13. *Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.*

Although we cannot quantify the financial impact of the proposals, we have estimated that based on the information collected in the 2017 Annual Information Statement, 44% of financial reports submitted by medium and large charities (15,073 charities) were SPFS (based on self-declaration in their AIS) which will be impacted by the proposals in the ED.