



Australian Government

**Australian Accounting
Standards Board**

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OFFICIAL

Director
Not-for-profit Unit
Treasury
Langton Cres
Parkes ACT 2600
(by email: charitiesconsultation@treasury.gov.au)

11 August 2022

Dear Director of the Not-for-profit Unit,

Remake of ACNC Regulations

The Australian Accounting Standards Board (AASB) appreciates the opportunity to provide comments to the Treasury in relation to Exposure Draft on *Australian Charities and Not-for-profits Commission Regulations 2022*.

The AASB is an Australian Government agency under the Australian Securities and Investments Commission Act 2001. The AASB develops, issues and maintains principles-based Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced.

The mission of the AASB also includes contributing to developing a single set of accounting and external reporting standards for worldwide use. In support of this, the Australian Accounting Standards (AAS) promulgated by the AASB incorporate the IFRS Standards issued by the independent International Accounting Standards Board. The AASB develops one set of accounting standards to cover all sectors. However, modifications are made for the not-for-profit private sector and the public sector when warranted. For example, to address Australian-specific legislation, user needs or public interest issues relevant to financial or other external reporting, and undue cost or effort considerations, to name a few.

Although the AASB develops accounting and external reporting standards to determine what information is reported by Australian entities, it is the remit of other parties, including legislatures, to determine who should report under such standards. Accordingly, although accounting and external reporting standards are not the focus of the consultation, determining which entities are required to report accounting information and what information is reported are inextricably linked.

In this context, the AASB provides the following comments to the consultation to outline the role of the AASB in the development of financial reporting frameworks and to highlight potential changes to these frameworks, including the interactions between such frameworks and reporting thresholds set by the respective regulators.

The AASB provided comments to:

- (a) The Australian Charities and Not-for-profits Commission Legislative Review (ACNC Legislative Review) in 2018 and made several recommendations relating to the financial reporting thresholds;¹ and
- (b) The Thresholds Working Group highlighting the importance of harmonisation of the criteria and thresholds for financial reporting requirements for not-for-profit entities.²

Since then, the AASB has made further progress on its work on the Not-for-Profit Financial Reporting Framework Project (NFP FRF Project).³ The primary object of the NFP FRF project is to develop simplified financial reporting requirements that meet the needs of users of financial statements of smaller not-for-profit entities. The NFP FRF Project proposals include developing a further reporting tier ('Tier 3') in addition to the existing Tier 1 (full general purpose financial statements) and Tier 2 (Simplified Disclosures) and the removal of the ability for entities to prepare special purpose financial statements in the future.

The proposed Tier 3 reporting requirements were developed after considering feedback from initial targeted consultation and the common transactions of not-for-profit private sector entities with revenue between \$500,000 to \$3 million. The AASB Board's tentative decision not to specify application thresholds has not changed. The Board considers determining which tier of general purpose financial statements not-for-profit private sector entities are required to prepare is more appropriately within the remit of the relevant legislation or regulatory authority.

Should the Board's proposals take effect, not-for-profit entities, including charities currently required to prepare financial statements in accordance with Australian Accounting Standards, will have the option to prepare Tier 3 general purpose financial statements in addition to the existing Tier 1 and Tier 2 general purpose financial statements. The Board also intends to, as part of its proposals, remove the ability for not-for-profit entities to prepare special purpose financial statements. As such, charities may be confused if the ACNC Regulations continue to reference the special purpose framework even though financial statements prepared in accordance with Australian Accounting Standards can only be general purpose financial statements.

The Board is expected to finalise its proposals for Tier 3 reporting requirements for public consultation in a Discussion Paper in early October 2022, with a consultation period of six months. Given the AASB will begin its consultation on the changes to the reporting framework for not-for-profit entities, we would welcome the opportunity to discuss the interaction of ACNC Regulations with the potential financial reporting requirements in Australian Accounting Standards applicable to registered charities.

1 [AASB submission to ACNC on Legislative Review, December 2018](#) included recommendations on:

- the tiers of financial reporting enabling differential reporting requirements between small, medium and large charities;
- transparent, clear and objective criteria and thresholds for public lodgement, with specified financial reporting and assurance requirements for each tier that are proportionate and fair, meeting the needs of users; and
- criteria for movement between financial reporting tiers.

2 [AASB submission to Threshold Working Group, March 2021](#) highlighted the AASB's objective to develop a reporting framework that is simple, proportionate, consistent and transparent for all not-for-profit private sector entities.

3 The Not-for-profit Financial Reporting Framework [project summary](#) contain the decisions made by the Board to date.

If you have any questions regarding this letter, please contact Fridrich Housa, Deputy Technical Director (fhousa@asb.gov.au), or myself (kkendall@asb.gov.au).

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Kendall', written in a cursive style.

Keith Kendall

AASB Chair