



**Australian Government**  
**Australian Accounting  
Standards Board**

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**OFFICIAL**

Not-for-profit subordinate legislation review discussion paper  
Office of Regulatory Policy  
Department of Justice and Attorney-General  
Locked Bag 180  
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(by email: [nfpconsultation@justice.qld.gov.au](mailto:nfpconsultation@justice.qld.gov.au))

12 September 2022

Dear Office of Regulatory Policy,

**Not-for-profit subordinate legislation review discussion paper**

The Australian Accounting Standards Board (AASB) appreciates the opportunity to provide comments in relation to Priority consultation paper 2 and Priority consultation paper 3.

The AASB is a Commonwealth 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, with modifications for the not-for-profit private and public sectors when warranted. Such circumstances include addressing Australian-specific legislation, user needs or public interest issues relevant to financial or other external reporting and undue cost or effort considerations.

The AASB is supportive of the efforts of the Department of Justice and Attorney-General to facilitate greater transparency and accountability through financial disclosures of remuneration. However, we suggest that the remuneration disclosure requirements should align with the Australian Accounting Standards and as required by the Australian Charities and Not-for-profits Commission (ACNC), to ensure alignment with the reporting requirements to facilitate better consistency required by not-for-profit entities.

Although the AASB recognises that the reporting thresholds, including determining who should report under such standards, are the remit of other parties, including legislatures, we continue to highlight the importance of harmonisation of the criteria and thresholds for financial reporting requirements for not-for-profit entities.

We would like to take this opportunity to discuss the potential changes to the Not-for-Profit Financial Reporting Framework, which include the AASB's proposal to develop a further reporting tier ('Tier 3') and the removal of the ability for entities to prepare special purpose financial statements in the future.

The AASB expects to finalise its proposals 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 the *Associations Incorporation Act 1981* with the potential financial reporting requirements in Australian Accounting Standards applicable to Queensland associations.

We have provided our detailed recommendation and response to the specific questions for respondents in the Appendices to this letter.

If you have any questions regarding this letter, please contact Fridrich Housa, Deputy Technical Director ([fhousa@aab.gov.au](mailto:fhousa@aab.gov.au)) or me ([kkendall@aab.gov.au](mailto:kkendall@aab.gov.au)).

Yours faithfully,

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

Keith Kendall

AASB Chair

**Appendix A – AASB response to Priority consultation paper 2 – Disclosure of remuneration**

## Questions

1. Broadly, are there any other things that might be considered remuneration or benefits that are not listed above?
2. Are there considerations around any of the remuneration or particular benefits listed above (or any other benefits) that should prevent their disclosure?

The AASB considers that the items listed for remuneration and benefits are consistent with the definition of "compensation" within the Australian Accounting Standards under AASB 124 *Related Party Disclosures*.<sup>1</sup>

However, the AASB recommends that section 70D include a reference to the definition of "compensation" within AASB 124. We consider that the reference to Australian Accounting Standards would be helpful, especially for associations that prepare financial statements in accordance with the Australian Accounting Standards and may already be familiar with the definitions in AASB 124.

3. Should disclosure of salary, wages, bonuses and allowances be on an aggregate basis or an individualised basis?
4. If aggregated, is there a view that bonuses and rewards should nevertheless be disclosed on an individualised basis given these are likely to be of significant interest to the association's members?
5. Are there any other options, or any other matters that should be taken into account when considering individualised or aggregated disclosure?

The AASB does not have a view on whether the disclosure of remuneration should be based on an individualised or aggregated basis. The AASB considers determining which tier of general purpose financial statements, including the level of information that not-for-profit entities are required to prepare, is more appropriately within the remit of the relevant legislation or regulatory authority. Not-for-profit private sector entities that prepare Tier 1 (full general purpose financial statements [Tier 1 GPFS]) are required to comply with AASB 124 to disclose key management personnel in total

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1 Compensation is defined in AASB 124 as:  
*"...all employee benefits (as defined in AASB 119 Employee Benefits) including employee benefits to which AASB 2 Share-based Payment applied. Employee benefits are all form of consideration paid, or payable or provided by the entity, or on behalf of the entity, in exchange for the services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:*

- (a) short-term employee benefits, such as wages, salaries and social security contribution, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;*
- (b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;*
- (b) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;*
- (d) termination benefits; and*
- (e) share-based payment.*

for different categories of employee benefits.<sup>2</sup> Entities preparing Tier 2 General Purpose Financial Statements – Simplified Disclosures (Tier 2 Simplified Disclosures) are required to disclose key management personnel compensation in total only. The AASB has not yet discussed the Tier 3 reporting requirements for key management personnel compensation until it considers stakeholder feedback on its proposals in the Discussion Paper.

The AASB also notes that the Australian Charities and Not-for-profit Commission (ACNC) requires key management disclosure for large charities with two or more responsible persons and senior executives on an aggregated basis in their Annual Information Statement from 2022. As such, the AASB suggests that the ACNC requirements should be taken into account when considering the future requirements for Queensland's *Incorporated Associations Act*.

6. Do you support the reporting of benefits in the individualised manner referred to above? If not, what other options might be considered?
7. Should there be a disclosure thresholds for benefits, and if so, what should it be?

Per our response to questions 3 to 5 above, the AASB considers the level of information that a not-for-profit entity should disclose is more appropriately within the remit of the relevant legislation or regulatory authority.

However, we note the proposed individualised disclosures to require the identification of who received the benefit, details of what the benefit was and the cost incurred by the association in providing the benefit is more than what is currently required in AASB 124. The proposed disclosure requirements are similar to those required by listed entities in Australia.<sup>3</sup> Should the Department of Justice and Attorney-General require these individualised disclosures, not-for-profit entities should be given sufficient time to appropriately apply the requirements.

As mentioned in our response to questions 3 to 5 above, the ACNC requires only large charities with two or more responsible persons and senior executives to disclose key management personnel remuneration on an aggregated level. The AASB considers any difference in legislative reporting requirements may lead to complexity for not-for-profit entities.

8. Is the proposed level of disclosure for related-party transactions appropriate?
9. Are there any other consideration that need to be taken into account? For example, could the value of such arrangements be considered commercial-in-confidence? If so, are there any circumstances where a related-party transaction could be disclosed without a dollar value, along with a declaration that the consideration paid by the association is equivalent fair market value for the service (or better than fair market value)?

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2 Paragraph 17 of AASB 124 requires an entity to disclose key management personnel compensation in total and for each of the following categories including:

- (a) short-term employee benefits;
- (b) post-employment benefits;
- (c) other long-term benefits;
- (d) termination benefits; and
- (e) share-based payments.

3 The ASX listing rules require listed entities to disclose the remuneration of key management personnel on an individualised basis disclosing categories of remuneration including salary or fees, bonuses, share base rewards, option based awards, long term incentives, pension benefits and any other compensation.

Under AASB 124 and Tier 2 simplified disclosures, an entity must disclose the nature of the related party relationship and information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.<sup>4</sup> However, the AASB considers the proposed level of disclosure for related party transactions would be in addition to what is required by the Australian Accounting Standards.

Additionally, an entity may disclose whether the related party transaction was made on terms equivalent to those that prevail in arm's length transactions only if such terms can be substantiated. An entity can make additional disclosures if the entity's management considers the information material and can influence the decisions of the primary users of financial statements.

We recommend that the disclosure requirements for related party transactions align with the requirements in AASB 124 and Tier 2 Simplified Disclosures. NFP entities preparing Tier 1 or Tier 2 GPFS would already be familiar with the related party disclosures required under the Australian Accounting Standards.

10. Is it appropriate for associations to have the option of making the necessary disclosure either within their annual financial statement, or in a separate statement of remuneration and benefits?
11. If the disclosure is made in a separate statement of remuneration and benefits, should the statement be subject to the same level of external professional verification (audit or review)?

Not-for-profit entities that prepare financial statements that comply with AASB 124 or Tier 2 Simplified Disclosures would disclose the information within their financial statements. These financial statements may be required to be audited or reviewed if legislatively required. We also note that entities that may not be required by legislation to prepare annual financial statements, the proposed disclosure will need to be provided in a separate statement.

Any information or disclosures made outside of the financial statements will not be subject to the same level of external professional verification unless there are legislative requirements to do so.

12. Should management committees be required to make a formal statement or declaration that no remuneration or benefits were received by or paid to the relevant persons?
13. Could the statement or declaration that no remuneration or benefits were received be given verbally at the AGM (and recorded in the minutes) – at least for small associations?

The AASB does not express a view whether management committees should be required to make a formal statement or declaration that no remuneration or benefits were received or paid to the

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4 Paragraph 18 of AASB 124 requires an entity, at a minimum, include disclosures on:  
(a) the amount of transactions;  
(b) the amount of of outstanding balances, including commitments, and:  
(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and  
(ii) details of any guarantees given or received;  
(c) provisions for doubtful debts related to the amount of outstanding balances; and  
(d) the expenses recognised during the period in respect of bad or doubtful debts due from related parties.

relevant persons. However, the proposed disclosure will be additional to the disclosures required in AASB 124 or Tier 2 Simplified Disclosures.

In addition, the objective of GPFS is to provide financial information about the reporting entity that is useful to users. GPFS is prepared on the basis that only material information is included in the financial statements. As such, we recommend that any proposed disclosures should be required only if users require the information to inform their financial decisions of the entity. We also note that the ACNC does not require additional disclosures beyond the requirements in the Australian Accounting Standards. Therefore, the AASB considers the difference in legislative reporting requirements may lead to complexity for not-for-profit entities.

## Appendix B – AASB response to Priority consultation paper 3 – Reporting Requirements and Thresholds

The AASB provided comments to the Thresholds Working Group, highlighting the importance of harmonising the criteria and thresholds for financial reporting requirements for not-for-profit entities.<sup>5</sup> In line with these comments, we express continued support for harmonising reporting requirements across all States and Territories in order to enable consistent criteria and thresholds for financial reporting requirements as the AASB progresses with the development of a financial reporting framework

Such harmonisation is increasingly important as the AASB has made further progress on its work on the Not-for-Profit Financial Reporting Framework Project (NFP FRF Project).<sup>6</sup> 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 GPFS 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 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 AASB's proposals take effect, not-for-profit entities, including incorporated associations currently required to prepare financial statements in accordance with Australian Accounting Standards, will have the option to prepare Tier 3 GPFS in addition to the existing Tier 1 and Tier 2 GPFS. The Board also intends to, as part of its proposals, remove the ability for not-for-profit entities to prepare special purpose financial statements.

The AASB 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. The AASB would welcome the opportunity to discuss the interaction of the *Associations Incorporations Act 1981* with the potential financial reporting requirements in Australian Accounting Standards applicable to incorporated associations in Queensland. We also recommend that the Department of Justice and Attorney-General reach out to the (Australian) Auditing and Assurance Standards Board regarding any proposals for assurance requirements to ensure that future assurance requirements are appropriately set out.

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5 [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.

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