



<b>Project:</b>	<b>Not-for-Profit Private Sector Financial Reporting Framework</b>	<b>Meeting:</b>	M181
<b>Topic:</b>	<b>Staff analysis and recommendations on certain topics to be included in Tier 3 discussion paper</b>	<b>Agenda Item:</b>	3.1
		<b>Date:</b>	7 June 2021
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Initial deliberations

### Objective of this agenda item

- 1 The objective of this agenda item is, for the purposes of the NFP Financial Reporting Framework (NFP FRF) discussion paper (DP), for the Board to:
  - (a) **decide** on the proposal for Tier 3 reporting requirements to be contained in a single stand-alone pronouncement and whether entities applying Tier 3 requirements will be able to apply some or all Tier 1 or Tier 2 requirements;
  - (b) **decide** its preliminary views on Tier 3 accounting for subsidiaries, associates and joint arrangements;
  - (c) **decide** whether to develop Tier 3 reporting requirements for separate financial statements and business combinations;
  - (d) **receive** project update including interaction with cross-cutting projects, **review** the project timeline and **decide** the next steps.

### Reasons for bringing this paper to the Board

- 2 At its 20-21 February 2021 meeting, the Board agreed to develop a further reporting Tier (Tier 3) for application by not-for-profit (NFP) private sector entities. Tier 3 is intended to be a proportionate response for application by certain (but not all) NFP private sector entities that are currently preparing special purpose financial statements (SPFS) on the basis that the entity is not a reporting entity as defined in SAC 1 *Definition of the Reporting Entity*. In addition, this reporting Tier might be applied by some (but not all) NFP private sector entities that are currently preparing Tier 1 or Tier 2 general purpose financial statements.
- 3 At its 20-21 April 2021 meeting, the Board decided on the principles against which it will form its views on Tier 3 accounting requirements, for inclusion in a discussion paper. [The Not-for-Profit Private Sector Financial Reporting Framework Project Summary](#) provides the details of those agreed principles. Board's tentative decisions to date (beginning February 2021) with respect to the discussion paper are summarised in [Appendix A](#).

- 4 At this meeting, staff bring proposals on some of the reporting aspects to be included in the Discussion Paper (Tier 3 DP) outlined in paragraph 16, specifically:
  - (a) Setting of Tier 3 reporting requirements in the context of Australian Accounting Standards; and
  - (b) Reporting controlled and related entities.

*Setting of Tier 3 reporting requirements in the context of Australian Accounting Standards (Agenda paper 3.2)*

- 5 Staff consider it is important for the Board to form a view on the overarching approach to the design of Tier 3 reporting requirements to support the development of the proposals for the discussion paper including consideration of the setting of the Tier 3 possible future requirements within the context of Australian Accounting Standards, based on the feedback from the targeted staff outreach conducted between August – October 2020 and from a recent AASB NFP Project Advisory Panel meeting with stakeholders putting emphasis on the user-friendliness of the possible future requirements as well as having regard to the importance of the overarching approach to the setting of the Tier 3 reporting requirements to provide the direction for the staff when developing future staff papers for the Board's considerations on the topics to be included in the DP.
- 6 This staff paper summarises aspects of the pronouncements applied by selected other jurisdictions that staff consider as useful reference points to assist the Board in assessing the proposals for the DP:
  - (a) whether Tier 3 requirements should be presented as a stand-alone accounting standard or in some other format and to consider other aspects such as the inclusion of cross-references to other AASB Standards and the approach to the maintenance of the Tier 3 requirements;
  - (b) how Tier 3 requirements will be applied, including the ability of the entities in scope to apply the requirements of other AASB Standards.

*Tier 3 - Reporting controlled and related entities (Agenda paper 3.3)*

- 7 The staff paper primarily addresses the accounting for an NFP private sector entity's controlled entities. Staff think the Board should form preliminary views for inclusion in the discussion paper on the accounting for such related parties having regard to feedback from the targeted staff outreach conducted between August – October 2020 and from a recent AASB NFP Project Advisory Panel meeting suggesting that consolidation is one of the areas of challenges for NFP entities and that avoiding consolidation accounting may be a reason for entities electing to prepare special purpose financial statements over general purpose financial statements. While it is not obvious how many NFP private sector entities control another entity, staff note that the Australian Charities and Not-for-profit Commission 2019 AIS datasets indicate there are at least 373 Tier 3-sized charitable organisations that are parent entities, suggesting that groups are not wholly uncommon in the sector at the contemplated Tier 3 entity size, thereby providing reason for the Board to consider the accounting in this regard.
- 8 Staff also note that, having regard to cost/benefit considerations, whether a parent entity should be required to consolidate its controlled entities was a subject of discussion as part of the Board's deliberations on its revised Tier 2 reporting requirements. Given that the Board is now discussing a further 'simpler' reporting Tier, staff think it appears relevant to assess this topic for the purposes of Tier 3 DP, analysing the requirement now against the principles determined at the Board's April 2021 meeting.

- 9 While the stakeholder feedback pertained to concerns about the preparation of consolidated financial statements, staff think that it would be useful to discuss at the same time as the Board preliminary decision on the accounting for controlled entities, the complementary topics of the accounting for interests in associates and joint arrangements, business combinations and accounting for these interests in separate financial statements, where presented.
- 10 Subject to the Board's decisions at this meeting, staff will bring further considerations on possible requirements of NFP private Tier 3 differential reporting to future Board meetings. Staff also intends to bring a working draft of the Discussion Paper to the next meeting after Board has deliberated on initial topics that staff brought to this meeting. Staff have identified a preliminary list of matters on which staff think the Board will need to form tentative views for the purposes of developing Tier 3 reporting requirements for inclusion in a DP and allocated these to discussions at future Board meetings as outlined in par. 16.

### **Attachments**

The attached agenda papers contain staff analysis, recommendations and questions to the Board in respect of the matters outlined in paragraphs 4 – 10 above:

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|------------------|--|
| Agenda paper 3.2 | Setting of Tier 3 reporting requirements in the context of Australian Accounting Standards |
| Agenda paper 3.3 | Reporting controlled and related entities  |
| Agenda paper 3.4 | Not-for-Profit Project Advisory Panel minutes from 18 May 2021 meeting                     |

### **Project update**

- 11 The AASB NFP Project Advisory Panel met on 18 May 2021 (refer Agenda Paper 3.4 in supplementary folder). At that meeting, staff seeking to obtain Panel members' feedback as an early input into identifying potential cost vs. benefit/user needs considerations for topics to be included in the DP. In summary, the topics suggested (by those panel members that expressed opinion) as being of most concern for NFP stakeholders were accounting for revenue and income, leases, financial instruments (specifically FVTOCI), consolidation and related party disclosures.

Staff also asked for panel member's input into initial staff considerations on the topics that staff planned to discuss with the Board at its June and August 2021 meetings:

- Setting of Tier 3 in the context of AAS
- Controlled and related entities accounting;
- Income recognition;
- Accounting for changes in accounting policies and corrections of errors;

and incorporated the feedback into the respective staff analyses. Staff will continue to seek feedback from NFP Project Advisory Panel throughout the project.

- 12 Staff have summarised the current status of the cross-cutting projects and implications below:
  - Conceptual Framework: NFP Amendments - staff will include considerations on cross-cutting issues that could result in NFP modifications of its Revised Conceptual Framework in the draft of the DP to be considered by the Board at the future meetings, such as:
    - (a) which parties should be identified as the primary users of general purpose financial reports of NFP private sector entities; and

(b) whether the objective of general purpose financial reporting by NFP private sector entities should give greater emphasis to stewardship (or accountability).

- Not-for-Profit Entity Definition and Guidance – this project was discontinued at Board’s April 2021 meeting and the Board decided to retain the current ‘not-for-profit entity’ definition in Australian Accounting Standards.
- Reporting Service Performance Information and Other NFP private sector-specific considerations (Fundraising, Remuneration Reporting) – as noted at April’s meeting’s Agenda item 8, AASB Agenda Consultation will seek comments on these topics and staff will include reference to these on-going considerations by the Board in the draft DP.
- IFR4NPO – project outreach is on-going with the closing date 30 July 2021 for feedback on the Consultation Paper – Part 1 (Part 2 – 24 September 2021). Staff will provide an overview of the feedback when becomes available at a future meeting. Staff have considered analysis in the Consultation Paper to the extent applicable to the topics brought for the Board’s discussion at this meeting.
- NZASB’s post-implementation review (PIR) of Tier 4 and Tier 4 standards – comment period on the PIR ended 31 March 2021 and NZASB staff provided at May 2021 NZASB meeting a high-level analysis of the comments received on the RFI. Most respondents consider that the Simple Format Reporting Standards are working well overall. Specifically, the feedback on Tier 3 noted that the standard has appropriate coverage of topics, easy to understand and use and the cost of using Tier 3 standard are about what stakeholders expected. Some respondents consider the XRB should take on a more educative role in relation to these standards. Some raised concerns around the length and complexity of the standards and the reports produced in accordance with these standards. Specific concerns and topics in relation to T3 were:
  - service performance reporting,
  - asset valuation,
  - minimum categories of income and expenditure,
  - revenue recognition,
  - accumulated funds and reserves,
  - statement of cash-flows,
  - opting-up.

Many respondents note that there are ongoing compliance issues among Tier 4 not-for-profit entities. These respondents support reducing the length and complexity of the Tier 4 standard to help address this. A few respondents do not consider the Tier 4 standard should be simplified any further. A few respondents had mixed views about the appropriateness of retaining a cash-based standard.

A detailed analysis of all the feedback received will be considered by NZASB at its meeting on 23 June 2021 and staff have considered implications of the PIR feedback on the respective topics expected to be included in the DP and will continue to do so.

- 13 Staff continue to review the applicable legislation to identify and engage with regulators to discuss interaction of the NFP FRF with the requirements of relevant legislation and regulations beyond those represented at the Thresholds Working Group involved in the Australian Government Treasury consultation on financial reporting thresholds for ACNC-registered charities.
- 14 [Research Report 16](#) (for the Board’s noting in Agenda item 18 *Other business*) presents an overview of the academic literature on financial reporting by non-corporate and small entities. Key findings from the literature review relevant for this project include:

- (a) some consensus on mismatch between the needs of users and the information that is reported (often for compliance purposes) by non-corporate and small entities;
- (b) difficulties applying a conceptual framework targeted at for-profit entities to the reporting of not-for-profit entities;
- (c) highlighted the importance of both financial and non-financial information, mandatory reporting requirements and oversight by large donors, auditors and government authorities;
- (d) some authors raise concerns regarding the compliance burden that detailed reporting requirements will place on small entities;
- (e) little research available on the question of whether general purpose financial reports are required by users and resource providers in these sectors. It is recognised by several studies that large donors are able to obtain the information required, whereas other users are restricted to financial reports.

Staff have considered relevant literature identified in this research for the topics for this meeting and will continue to leverage the research in future meeting. Staff will also consider evidence from further research as it becomes available.

- 15 Staff have outlined the planned approach for analysing topics listed in paragraph 16 for the Discussion Paper to ensure consistency in the approach to the extent practicable.

**Question to the Board**

Question 1: Do Board members have any concerns or comments on the project summarised above?

**Updated project timeline and milestones**

- 16 Subject to the Board’s decisions at this meeting, the following table provides an updated timeline and key milestones for the project. This table has been revised since the version presented to the Board at its April 2021 meeting. In particular:
  - allocation of the topics was updated to include out-of-cycle August Board meeting; and
  - informed by the feedback from the Project Advisory Panel members, staff attempted to distinguish topics into those where staff expect the Board to consider in detail and those that may be considered only for a narrow-scope amendment to Tier 2 requirements for the purposes of DP.

Staff is actively considering the project timeline being informed by the time and effort needed for the preparation of the staff analysis for the Board discussions to date and recognising the extent and complexity of the topics yet to be discussed by the Board, further time needed for the drafting of the Discussion Paper document and staff time needed to plan outreach activities well before the release of the DP. Staff will make any necessary updates to timeline prior to the Board’s August meeting, especially noting that the number of topics currently allocated to September meeting is unlikely to be feasible considering other projects on the AASB work program.

MEETING	PROJECT MILESTONES
JUN 2021	<p><b>Board’s</b> deliberations on following matters identified in Appendix B (which also include the key matters identified during initial targeted consultations):</p> <ul style="list-style-type: none"> <li>• Setting of Tier 3 requirements in the context of AAS</li> <li>• Subsidiaries</li> </ul>

	<ul style="list-style-type: none"> <li>• Joint arrangements and associates</li> <li>• Separate financial statements</li> <li>• Business combinations</li> </ul>
<b>AUG 2021</b>	<p><b>Board's</b> deliberations on the working draft of the DP reflecting decisions made at previous meetings (<u>subject to those decisions</u>) and including following topics:</p> <ul style="list-style-type: none"> <li>• Revenue/Income</li> <li>• Accounting for errors and changes in accounting policies</li> <li>• Primary financial statements</li> </ul>
<b>SEP 2021</b>	<p><b>Board's</b> deliberations on the working draft of the DP reflecting decisions made at previous meetings (<u>subject to those decisions</u>) and including the following topics:</p> <ul style="list-style-type: none"> <li>• Disclosure principles</li> <li>• Leases</li> <li>• Financial instruments</li> </ul> <p>Other topics to be considered for the DP for which significant or overarching amendments might not be proposed (other than potential simplification of the language and terminology):</p> <ul style="list-style-type: none"> <li>• Fair value</li> <li>• Foreign currency transactions and balances</li> <li>• Property, plant and equipment and investment property</li> <li>• Intangible assets</li> <li>• Impairment of non-current assets</li> <li>• Provisions</li> <li>• Employee benefits</li> <li>• Income taxes and GST</li> <li>• Further analysis and staff recommendations on RCF:NFP cross-cutting matters</li> <li>• Fundraising and other matters identified to the Board previously</li> <li>• Other matters, for example: <ul style="list-style-type: none"> <li>○ additional matters identified during the deliberations (e.g. fund accounting)</li> <li>○ transition between the tiers;</li> <li>○ reassess whether Tier 4 entities and the application thresholds need to be included in the DP in the light of the draft Tier 3 requirements and the results of engagement with stakeholders, including regulators;</li> <li>○ transitional provisions; and</li> <li>○ any assurance-related considerations.</li> </ul> </li> </ul>
<b>NOV 2021</b>	<ul style="list-style-type: none"> <li>• Board to make decisions about exposure period and on any remaining sweep issues</li> <li>• Board to review final draft discussion paper and appoint subcommittee to finalise out of session</li> </ul>
<b>DEC 2021</b>	<ul style="list-style-type: none"> <li>• Discussion paper exposed for public comment</li> <li>• Development of communication materials to accompany issue of DP (staff to start developing the draft materials and outreach plans &amp; content in Q3 2021 tailored to the targeted audience)</li> </ul>

### Question to the Board

Question 2: Do Board members have any concerns or comments about the proposed project timeline presented above, including the topics identified by staff to be considered in the DP?

## Appendix A: Board's tentative decisions

The table below sets out the Board's tentative decisions to date (beginning February 2021) with respect to its forthcoming discussion paper (DP) on a proposed revised differential reporting framework for not-for-profit private sector entities.

Meeting	Subject of Agenda Papers	Tentative Board decisions	Link to Board minutes
24-25 Feb 2021	<ul style="list-style-type: none"> <li>Whether certain NFP private sector entities should be required to prepare Tier 1 general purpose financial statements</li> <li>Whether Tier 2 reporting requirements for NFP private sector entities should be the same as the Tier 2 reporting requirements for for-profit private sector entities</li> <li>Whether the Board should specify reporting thresholds, and if so, whether those thresholds should be based on qualitative or quantitative factors</li> <li>Whether service performance information proposals should be developed as part of this project</li> </ul>	<ul style="list-style-type: none"> <li>The existing two tiers of reporting requirements (Tier 1 and Tier 2) will continue to be available for NFP private sector entities preparing general purpose financial statements.</li> <li>A further reporting tier ('Tier 3') will be developed in response to stakeholder concerns that Tier 2 reporting requirements are not proportionate for certain NFP private sector entities, including those which might no longer be able to prepare special purpose financial statements should the Board decide to remove the 'reporting entity' definition currently applicable to NFP entities.</li> <li>The Board will not develop application thresholds for the tiers, but will hopefully be able to provide clarity for stakeholders in the forthcoming DP as to how legislative requirements for entities to prepare financial statements in accordance with Australian Accounting Standards or otherwise would interact with the proposed differential reporting framework.</li> <li>The DP will not include any service performance reporting proposals (subject to feedback from relevant regulators on the interaction of this decision with their priorities), but will include clear communication of how the Board plans to address this topic.</li> </ul>	<a href="https://www.aasb.gov.au/admin/file/content102/c3/AASBApprovedMinutesM179_24-25Feb21.pdf">https://www.aasb.gov.au/admin/file/content102/c3/AASBApprovedMinutesM179_24-25Feb21.pdf</a>
20-21 April 2021	<ul style="list-style-type: none"> <li>Whether to use the DP to consult on the withdrawal of SAC 1</li> <li>Discussion and management of issues pertaining to the Revised Conceptual</li> </ul>	<ul style="list-style-type: none"> <li>The DP will reflect the Board's preliminary view to withdraw SAC 1, and amend AASB 1053, to remove the option for NFP private sector entities to prepare special purpose financial statements. Subject to due process, the withdrawal of SAC 1 and amendment of AASB 1053 will take effect concurrently with:</li> </ul>	<a href="https://www.aasb.gov.au/admin/file/content102/c3/207-ActionAlert.pdf">https://www.aasb.gov.au/admin/file/content102/c3/207-ActionAlert.pdf</a> [Link to approved Board

Meeting	Subject of Agenda Papers	Tentative Board decisions	Link to Board minutes
	<p>Framework for NFP Entities that have implications for the Board's differential reporting framework project;</p> <ul style="list-style-type: none"> <li>• Establish principles on which to base decision making on recognition, measurement, presentation, disclosure and other aspects of the proposed Tier 3 reporting requirements</li> </ul>	<ul style="list-style-type: none"> <li>(i) Stage 1 of the Board's updated Revised Conceptual Framework for NFP entities – to avoid simultaneous application of two different concepts of a 'reporting entity' by the same entities; and</li> <li>(ii) the Board's differential reporting requirements for NFP private sector entities – to make Tier 3 reporting requirements available immediately, where applicable, for those entities preparing general purpose financial statements for the first time.</li> </ul> <ul style="list-style-type: none"> <li>• The DP will be used to also consult on cross-cutting issues that could result in NFP modifications of its Revised Conceptual Framework, such as: <ul style="list-style-type: none"> <li>(a) which parties should be identified as the primary users of general purpose financial reports of NFP private sector entities; and</li> <li>(b) whether the objective of general purpose financial reporting by NFP private sector entities should give greater emphasis to stewardship (or accountability).</li> </ul> </li> <li>• Proposals on Tier 3 accounting requirements will be developed having regard to 'user needs' and 'cost/benefit' as overarching principles, and having regard to balances and transactions commonly undertaken by NFP private sector entities with revenues between \$500,000 and \$3 million. This size indication provides the Board with an indicative boundary for identifying common transactions and forming views on requirements applying to Tier 3 financial statements, but is not intended to identify or limit the entities that might prepare Tier 3 general purpose financial statements in the future.</li> </ul>	<p>minutes not yet available]</p>



Meeting	Subject of Agenda Papers	Tentative Board decisions	Link to Board minutes
		<ul style="list-style-type: none"> <li>• The following principles will be used to form the Board’s views on Tier 3 accounting requirements: <ul style="list-style-type: none"> <li>(a) the development of Tier 3 reporting requirements is subject to the <i>AASB Not-for-Profit Entity Standard-Setting Framework</i>;</li> <li>(b) Tier 3 financial statements are general purpose financial statements. As such, Tier 3 financial statements provide useful financial information to users of the financial statements;</li> <li>(c) consistency with the accounting principles specified by Tier 2: Australian Accounting Standards – Simplified Disclosures is desirable, but might not always be warranted, since Tier 3 requirements are being developed as a proportionate response to the costs incurred by certain entities whilst still meeting the needs of users of the financial statements for this cohort of entities. For example, opportunities for deviation from Tier 2 accounting principles that could give a similar outcome to users while reflecting an appropriate cost/benefit balance could include disclosure requirements instead of a Tier 2 measurement requirement or an approach of specifying minimum ‘prescriptive’ disclosures;</li> <li>(d) where possible within the context of its conceptual framework and user needs and cost/benefit considerations, in developing accounting requirements the aim is to maximise leveraging information that management uses to make decisions about the entity’s operations; and</li> <li>(e) accounting requirements do not impose disproportionate costs to preparers, when compared to benefits of the information.</li> </ul> </li> </ul>	

Meeting	Subject of Agenda Papers	Tentative Board decisions	Link to Board minutes
		<ul style="list-style-type: none"> <li data-bbox="824 236 1724 375">• In forming its views on Tier 3 reporting requirements, the Board decided it would consider, and be informed by, reporting requirements of other jurisdictions applying to similar-sized NFP private sector entities, including New Zealand.</li> <li data-bbox="824 414 1691 550">• Future decisions on Tier 3 reporting requirements will be evaluated against the conceptual framework and the similarity of the proposed requirements to existing AASB reporting requirements and New Zealand’s Tier 3 reporting requirements.</li> </ul>	

## APPENDIX B: Approach to identifying Tier 3 reporting requirements

At its 20-21 April 2021 meeting, the Board agreed the set of principles that it will use to form its preliminary views on Tier 3 reporting requirements for not-for-profit (NFP) private sector entities. The steps below describe the approach staff intend to take to, as best and practicable as possible, ensure that the Board will have formed preliminary views on all necessary aspects of the content of a Tier 3 reporting standard for inclusion in the discussion paper.

- (a) **Step 1:** Identify the set of pronouncements that the Board could have reference to in developing its accounting policies for Tier 3. In identifying reporting requirements adopted by other jurisdictions, staff had regard to whether the requirement would apply to the equivalent of the proposed Tier 3 entity;
- (b) **Step 2:** Identify the transactions and balances addressed by the NZ External Reporting Board's *Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit) Accounting Standard*, and capture these in a listing of topics to be addressed by the Board to consider for development of its Tier 3 reporting requirements for the purposes of the DP;
- (c) **Step 3:** Develop a staff paper for each identified topic. In general, the staff paper might be expected to:
  - (i) identify the existing AASB requirement;
  - (ii) identify whether there is any stakeholder feedback that this is an area of concern. This might include feedback from research and outreach in Australia available to date and for example, evidence from the New Zealand post-implementation review of its differential reporting framework;
  - (iii) identify the reporting requirements required by the identified set of other jurisdictions below;
  - (iv) identify how the NFP entities currently account for the economic phenomena (i.e. any evidence of diversity in practice and deviation from AAS by entities preparing SPFS);
  - (v) identify whether there are other relevant considerations (e.g. legislative);
  - (vi) suggest possible other accounting treatments if applicable (e.g. superseded IFRS/AASB, other frameworks or specific guidance etc.)
  - (vii) analyse the existing AASB requirement and alternatives against the agreed principles and form a staff recommendation.
- (d) **Step 5:** When identifying sweep issues, staff may review the existing suite of Australian Accounting Standards (including Interpretations) and a limited non-statistically representative sample of the financial statements of Tier 3 sized entities across different fields and different legal structures, and determine whether there are any outstanding aspects not yet addressed that should also be addressed by the Board in developing its proposed Tier 3 reporting requirements for the discussion paper. This step should reveal whether it is necessary to further add to the topics to be addressed, if common financial statement transactions and balances are not already captured by the initial listing from Step 2 and whether it is necessary to bring analyse the topic following approach outlined in Step 3 for the topic.
- (e) **Step 6:** Review Board decisions on Tier 3 reporting requirements as a whole, and evaluate them against the Tier 3 principles, the project objectives, existing AASB requirements and NZ Tier 3 reporting requirements.

Further actions will be necessary to address other aspects of the discussion paper, for example, to form the Board's views on transitioning between this Tier and another reporting Tier.

## *Pronouncements of selected other jurisdictions*

Staff have listed below an overview of the selected other jurisdictions and their relevant requirements and guidance that staff intend to reference in the staff papers for the purposes of development of Tier 3 proposals to be included in the DP. Staff note that not all pronouncements may be relevant for all topics and therefore staff will refer to these as practicable and as needed basis while maintaining consistency of the approach as much as possible.

The list is based on the international pronouncements compared in the Staff Paper: [Comparison of Standards for Smaller Entities](#) and also includes requirements in other jurisdictions that were reviewed in Research Report 5 [Financial Reporting Requirements Applicable to Charities](#), acknowledging that there are significant differences in the approach to the scope of the application and the accounting requirements across these jurisdictions which however, in turn, may provide useful overview of the spectrum of different approaches that already exist for a particular area of financial reporting.

- IASB (*IFRS for SMEs*) - the IFRS for SMEs is based on full IFRS with modifications to reflect the needs of users of SMEs' financial statements and cost-benefit considerations. IFRS for SMEs applies to general purpose financial statements of, and other financial reporting by, entities that in many countries are referred to by a variety of terms, including small and medium-sized entities (SMEs), private entities and non-publicly accountable entities. Staff also note that ongoing project to review IFRS for SMEs may change the current status and content of the standard. Staff also observe that the IASB received stakeholder feedback during its Request for Information seeking guidance for NFP entities applying the IFRS for SMEs.
- New Zealand (*Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit) Accounting Standard*) – the requirements are applicable to Public Benefit Entities (PBE) with no public accountability and with expenses no more than NZ\$2m that elected to apply Tier 3 (rather than Tier 1 or 2). The Tier 3 accounting standard is based on a simple format reporting approach using accrual accounting.
- United Kingdom (*FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, Accounting and Reporting by Charities: Statement of Recommended Practice*) - charities preparing financial reports based on accrual accounting follow the *Statement of Recommended Practice: Accounting and Reporting for Charities (SORP)*. The SORP provides guidance for charities on how to apply Financial Reporting Standard FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, which is based on IFRS for SMEs and designed to apply to the general purpose financial statements and financial reporting of entities including those that are not constituted as companies and those that are not profit-oriented. FRS 102 will be subject to periodic review in 2021/22.
- Canadian *Accounting Standards for Not-for-Profit Organizations* are standards applicable to NFP organisations. These requirements are located in Part III of the CPA Canada Handbook and are mandatory for NFP organisations.- Canadian *Not-for-profit Corporations Regulations* specify that the comparative financial statements are to be prepared in accordance with the generally accepted accounting principles set out in the CPA Canada Handbook – Accounting or the CPA Canada Public Sector Accounting Handbook.
- Hong Kong (*Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard*) - Hong Kong charities or other NFP entities may incorporate as a Hong Kong limited company (by shares or by guarantee). The Hong Kong Companies Ordinance (Cap.622) requires all Hong Kong companies to prepare financial statements. Some entities, including those of the size contemplated by the Board that Tier 3 could be applicable to, are able to prepare financial statements that comply with the *HKFRS for Private Entities* (consistent

to IFRS for SMEs, except for income taxes) or Hong Kong *Small and Medium-sized Entity Financial Reporting Framework* and *Financial Reporting Standard* (HK SME-FRF & SME-FRS).

- Singapore (*Charities Accounting Standard*) – NFPs that are charities can be prepare financial statements using either the Singapore national accounting standards for public companies Financial Reporting Standards (FRS) or the Charities Accounting Standard (CAS). However, if a charity holds significant investments in any subsidiary, associate or joint venture that is not a charity, it is required to use FRS. Both FRS and CAS are issued by Accounting Standards Council (ASC) of Singapore. Specifically, FRS is a set of accounting standards and interpretations that are based on IFRS Standards with some local amendments. The CAS is developed based on the requirements of the FRS, taking into account the context and circumstances that are relevant and unique to the charity sector.
- United States - whether a US non-profit organisation is required to prepare financial statements varies depending on the governing regulation. A US non-profit organisation preparing financial statements prepares them in compliance with the accounting standards issued by the US Financial Accounting Standards Board (FASB). To staff's knowledge, these pronouncements do not contain any differential accounting requirements applying to smaller NFP entities applying these standards. Authoritative generally accepted accounting principles (GAAP) are contained in the FASB's Accounting Standards Codification (the Codification), which the FASB updates regularly through the issuance of Accounting Standards Updates (ASUs). Besides applying all relevant general guidance within the Codification, not-for-profit entities have extensive incremental guidance within Topic 958, on non-exchange transactions, financial statement presentation, and various other not-for-profit-specific matters. There is no separate, simplified set of standards in GAAP that is equivalent to the IFRS for SMEs Standard; rather, the Codification contains various simplified accounting alternatives and many disclosure exemptions for business enterprises without public equity or debt. In most cases, these also apply to some or all not-for-profit entities.

The US guidance has not been included in the AASB literature mentioned above, however staff consider it as useful reference point as it contains NFP specific accounting standards that non-governmental organisations are required to apply in the US and based on staff limited research the FASB requirements apply to NFP entities of similar size as that contemplated by the Board in this project. The US has been one of the jurisdictions used as a comparison with Australia in terms of financial reporting issues in the past AASB research therefore staff have included the guidance to ensure a more comprehensive view is provided to the Board, acknowledging it may not always be a relevant reference because US GAAP is based on a framework that differs significantly to IFRS.

South Africa was one of the jurisdictions surveyed in Research Report 5. In South Africa, following the withdrawal of South African Statements of Generally Accepted Accounting Practice, the Public Interest score (PI) determines whether a not-for-profit entity applies IFRS or IFRS for SMEs. For this reason, staff did not include South Africa into the referenced jurisdiction.

Staff may also refer to the requirements of NZ Accounting Standard *Public Benefit Entity Simple Format Reporting – Cash (Not-for-Profit)* and the United Kingdom's FRS 105 *Accounting for Micro Entities* if deemed appropriate for an accounting topic. Having regard to the principles agreed by the Board at its April 2021 meeting, whilst these pronouncements may be not applicable to the most of the entities and their general purpose financial statements within the indicative size boundary the Board has in mind when developing its proposals on Tier 3 requirements, they may provide useful reference points for the accounting treatment tailored to the entities at the lower end of the indicative range for some topics.