



Project:	Not-for-Profit Private Sector Financial Reporting Framework	Meeting:	M200
Topic:	Cover memo and project update	Agenda Item:	5.1
		Date:	13 November 2023
Contact(s):	Maggie Man mman@asb.gov.au Fridrich Housa fhousa@asb.gov.au	Project Priority:	High
		Decision-Making:	High
		Project Status:	Developing Exposure Draft

Objective of this agenda item

- 1 The objective of this agenda item is for the Board to:
 - (a) **consider** an update on the Not-for-Profit Private Sector Financial Reporting Framework (NFP FRF) project, including interaction with cross-cutting projects and other developments and the project timeline considerations (this Agenda Paper); and
 - (b) **consider** the staff analysis of the feedback on the Board's preliminary views on the Tier 3 requirements and **decide** on the staff recommendations for the purpose of developing the Tier 3 Exposure Draft on the Tier 3 requirements regarding:
 - (i) the approach to consolidation;
 - (ii) separate financial statements of the parent entity;
 - (iii) associates and joint ventures;
 - (iv) related party disclosures;
 - (v) financial instruments;
 - (vi) employee benefits; and
 - (vii) changes in accounting policies and estimates and correction of prior period accounting errors.

Attachments

- 2 Papers for this agenda item are:
 - (a) Agenda Paper 5.2 Tier 3 Exposure Draft Proposals – consolidation, separate financial statements, associates and joint ventures and related party disclosures
 - (b) Agenda Paper 5.3 Tier 3 Exposure Draft Proposals – financial instruments, employee benefits, changes in accounting policies and estimates and correction of prior period accounting errors
 - (c) Agenda Paper 5.4 Meeting minutes of the NFP Project Advisory Panel meeting held on 20 September 2023 (in Board-only supplementary folder)

- (d) Agenda Paper 5.5 Meeting minutes of the NFP Project Advisory Panel meeting held on 31 October 2023 (in Board-only supplementary folder)

Background

- 3 At its 20 – 21 February 2021 meeting, the Board decided to develop a further reporting Tier (Tier 3) for application by not-for-profit (NFP) private sector entities. The Board approved the Discussion Paper in August 2022,¹ issued in September 2022, with a six-month consultation period to 31 March 2023.
- 4 After consideration of the preliminary analysis of the feedback on the Discussion Paper at its 4 May 2023 meeting, the Board decided to proceed with the development of an Exposure Draft on:
- (a) a Tier 3 Accounting Standard with simplified accounting requirements for smaller NFP private sector entities; and
 - (b) removing the ability of certain NFP entities to prepare special purpose financial statements under Australian Accounting Standards
- 5 [The Not-for-Profit Private Sector Financial Reporting Framework Project Summary](#) provides an overview of the Board's decisions to date regarding the project based on Appendix A – 'Approach to simplification' adopted by the Board at its August 2021 meeting.²
- 6 At its May 2023 meeting, the Board decided, to the extent consistent with the project object to develop simplified and proportionate requirements for smaller NFP private sector entities and in line with the principles the Board applies in this regard, its approach to drafting the Tier 3 Standard illustrated in Appendix B – *Approach to drafting the Tier 3 Standard*, which sets out the approach to drafting the recognition and measurement requirements³ and the disclosure requirements.⁴

Tier 3 Exposure Draft Proposals – consolidation, separate financial statements, associates and joint ventures and related party disclosures (Agenda Paper 5.2)

- 7 Agenda Paper 5.2 provides the staff analysis and recommendations regarding the feedback on the Board's preliminary views on the Tier 3 requirements presented in the Discussion Paper on:
- (a) the approach to consolidation;
 - (b) separate financial statements of the parent entity;
 - (c) associates and joint ventures; and
 - (d) related party disclosures.

Tier 3 Exposure Draft Proposals – financial instruments, employee benefits, changes in accounting policies and estimates and correction of prior period accounting errors (Agenda Paper 5.3)

- 8 Agenda Paper 5.3 provides the staff analysis and recommendations regarding the feedback on the Board's preliminary views on the Tier 3 requirements presented in the Discussion Paper on:
- (a) financial instruments;
 - (b) employee benefits; and

1 [Minutes of the 189th meeting of the AASB](#)

2 [Minutes of the 182nd meeting of the AASB](#)

3 Refer to [Action Alert No: 222](#)

4 [Minutes of the 188th meeting of the AASB](#)

- (c) changes in accounting policies and estimates and correction of prior period accounting errors.

Project update

Stakeholder outreach update

- 9 The AASB NFP Project Advisory Panel met on 20 September 2023 (refer to meeting minutes in Agenda item 5.4) and 31 October 2023 (refer to meeting minutes in Agenda item 5.5). At that meeting, staff sought to obtain Panel members' input into initial staff considerations on the accounting issues that staff plan to discuss with the Board at its November 2023 meeting, as referenced in paragraph 8 of Agenda Paper 5.2 and Agenda Paper 5.3. Staff have incorporated the panel members' feedback into the respective staff analysis. Staff will continue to seek feedback from the NFP Project Advisory Panel throughout the project.
- 10 Staff have also contacted a forum established by state and territory regulators looking after Incorporated Associations. Staff will continue to seek opportunities to discuss the NFP FRF project. Staff also contacted the representative of the Blueprint Expert Reference Group (for further details see Table 1 below) seeking an opportunity to discuss the NFP FRF project.

Cross-cutting projects and other updates

- 11 Table 1 below provides an update on the cross-cutting projects and other developments.

Table 1: Update on cross-cutting projects and other developments

Project and other updates	Update
<p>Second comprehensive review of the IFRS for SMEs Standard</p>	<p>The SME Implementation Group (SMEIG) met on 13 July 2023. During that meeting, the SMEIG discussed the feedback on the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard (the Exposure Draft) and provided advice to the IASB on the following topics:</p> <p>(a) <i>guidance in the IFRS for SMEs Accounting Standard (Standard) versus in educational material</i> SMEIG members suggested two indicators that should be considered when developing guidance/examples within/outside the Standard, including (a) pervasiveness and (b) operability. Non-mandatory guidance should be included in separate educational material, not in the Standard.</p> <p>(b) <i>impairment of financial assets;</i> Some SMEIG members suggested retaining the incurred loss model for all financial assets for cost-benefit reasons. Other SMEIG members suggested widening the scope of the incurred loss model proposed in the ED to include intercompany financial assets. However, SMEs with more complex lending arrangements should apply expected credit loss (ECL) model.</p> <p>(c) <i>revenue from contracts with customers;</i> SMEIG considers the IASB should retain requirements for constraining estimates of variable consideration proposed in the ED. SMEIG members also discussed various related matters and had mixed views on terminology and requirements in IFRS for SMEs and alignment with IFRS 15, particularly:</p> <ul style="list-style-type: none"> • Identifying unit of account for goods and services in a contract with a customer using the term 'promise' rather than 'performance obligation'; • Determining principal vs agent; and • Determining whether the promise is satisfied over time. <p>(d) <i>control model;</i> SMEIG members generally supported the retention of the rebuttable presumption contained in the control model. However, they suggested clarification on how the rebuttable presumption fits into the control model.</p> <p>(e) <i>joint arrangements;</i></p>

Project and other updates	Update
	<p>Some SMEIG members preferred full alignment with IFRS 11, with simplifications, rather than retaining the three classifications in the ED. However, the outcome of the proposals will not result in materially different outcomes. While some SMEIG supported the simplification of retaining the three classifications.</p> <p>(f) <i>requirement to offset equity instruments</i>; Mixed feedback was received from SMEIG members on removing paragraph 22.7(a) (i.e. requiring an entity to present the amount receivable from unpaid issued equity instruments as an offset to equity in the statement of financial position).</p> <p>(g) <i>international tax reform—Pillar Two model rules</i>; SMEIG members suggested clarifying that the proposed disclosure requirements are not applicable to SMEs unaffected by Pillar 2 legislation.</p> <p>The IASB met on 25-26 October 2023 (refer to meeting summary) to discuss the feedback on the IFRS for SMEs Exposure Draft and decided on the following topics:</p> <p>(a) proposed revised Section 23 Revenue from Contracts with Customers – to reflect the principles in IFRS 15 <i>Revenue from Contracts with Customers</i>;</p> <p>(b) simplification of the control model in Section 9 <i>Consolidated and Separate Financial Statements</i> – to clarify how an entity applies the rebuttable presumption in paragraph 9.5 of the Standard;</p> <p>(c) recognition of development costs – to retain the requirements in the Standard for recognising development costs; and</p> <p>(d) recent amendments to full IFRS Accounting Standards – to align the IFRS for SMEs Standard with:</p> <ol style="list-style-type: none"> a. <i>Supplier Finance Arrangements</i>, which amended IAS 7 <i>Statements of Cash Flows</i> and IFRS 7 <i>Financial Instruments: Disclosures</i>; and b. <i>Lack of Exchangeability</i>, which amended IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>. <p>The IASB will be meeting on 13 – 15 November to discuss feedback on the IFRS for SMEs Exposure Draft to decide on the following topics:</p> <p>(a) Proposed amendments to Section 15 Investments in Joint Ventures (renamed Joint Arrangements) – the IASB staff recommend the proposals in the Exposure Draft on the accounting for joint ventures, that is:</p> <ol style="list-style-type: none"> i. aligning the definition of joint control with IFRS 11, as a consequence of aligning the definition of control in Section 9 of the IFRS for SMEs Standard with IFRS 10; ii. retaining the three classifications of joint arrangements in Section 15 being: jointly controlled operations, jointly controlled assets and jointly controlled entities; and iii. aligning with IFRS 11 for a party that does not have joint control of a jointly controlled operation or a jointly controlled assets to recognise and measure its interest according to the classification of that jointly controlled operation/asset. <p>(b) Simplification in paragraph 28.19 relating to the measurement of a defined benefit plan obligation – the IASB staff recommend that an SME would assume all its employees terminate their employment at the reporting date, therefore, it shall not discount its obligations from defined benefit plans (and not to consider future salary increases given the inputs in the assumption for future salary increase can overlap with the inputs to the discount rate).</p> <p>Staff will continue to monitor the development of the IFRS for SMEs Standard and consider its impact on drafting the Tier 3 Standard as referenced in paragraph 78 of Agenda Paper 5.3 at this meeting.</p>
<p>NZ Consultation on Public Benefit Entity Tier Sizes</p>	<p>The External Reporting Board has issued a consultation document to seek feedback on its proposal to amend the Public Benefit tier sizes in its Accounting Standards Framework to increase the tier 2 and tier 3 thresholds:</p> <ul style="list-style-type: none"> • for Tier 2 entities with no public accountability: <ul style="list-style-type: none"> ○ from total expenses of ≤ \$30 million to ≤ \$33 million; and • for Tier 3 entities with no public accountability:

Project and other updates	Update
	<ul style="list-style-type: none"> ○ from total expense of ≤ \$2 million to ≤ \$ 5 million. <p>The changes were proposed as a result of recent factors, including:</p> <ul style="list-style-type: none"> ● legislative changes relating to financial reporting (<i>Financial Reporting Act 2013</i> changed the definition of 'large' in the Financial Reporting Act 2013 from \$30 million to \$33 million); ● balance of costs and benefits; and ● inflationary pressure. <p>The consultation is open until 26 January 2024.</p> <p>The Board's preliminary proposal as noted in paragraphs 1.3 – 1.8 of the DP is not to establish reporting thresholds in the Australian Accounting Standards. As presented in Agenda Paper 3.1.1, the stakeholder feedback on the DP indicated that most stakeholders agree (84%) with not establishing reporting thresholds within the Australian Accounting Standards, but the written submissions (11 submissions) emphasised the need to continue engagement with regulators to ensure consistent application of the requirements. Some stakeholders disagreed (16%), including (3 written responses), citing that judgement is required to determine the type of financial statements to prepare will result in reduced comparability if NFP entities can freely determine the type of general purpose financial statements to prepare. Staff will monitor the NZ developments (noting the differences in financial and regulatory environment)⁵ and consider as part of the analysis how best to address stakeholders' concerns on applying the Tier 3 Standard at a future meeting in Q2 2024 per the project timeline presented in Agenda Paper 3.1 at the September 2023 Board meeting.</p>
INPAG consultation Exposure Draft 2	<p>IFR4NPO published its INPAG Part 2 Exposure Draft (ED2) on 26 September 2023 following ED1 (relating to framework related topics such as reporting entity, concepts and pervasive principles). ED 2 contains key accounting transactions relevant to non-profit organisations (NPO) financial reporting, built on equivalent sections from the IFRS for SMEs Accounting Standard where these exist but with new sections for NPO specific transactions and removing sections irrelevant to NFPs. The sections included in ED2 for consultation include:</p> <ul style="list-style-type: none"> (a) Financial instruments – proposing no significant alignment changes from IFRS for SMEs; (b) Inventories – to include guidance on inventory held for internal use, fundraising or distribution. An exception permitted allowing for certain donated inventories and work-in-progress comprising services to be provided for no or nominal consideration not to be recognised – and those that are required to be recognised are measured at lower of cost adjusted for loss of service potential and replacements cost. For other donated inventory, measured at fair value. (c) Provisions and contingencies removing illustrative example on warranties and including new example on onerous contracts. (d) Revenue – new terminology relating to grant arrangement introduced and section broken into 2 parts. Part 1 focuses on grants and donations and Part 2 focuses on revenue with contracts with customers, specifically some areas for noting include: <ul style="list-style-type: none"> a. revenue is only deferred where the grant recipient has a present obligation in relation to the revenue received and allocation of revenue is required if there is more than one enforceable grant obligation; b. exception permitted to recognise some gifts in kind either when sold, used, or distributed, except if received as part of an enforceable grant agreement; c. services in kind are not required to be recognised unless they are mission critical; d. donations in-kind measured at fair value; and e. Part 2 includes a paragraph for simpler contracts with customers. (e) Expenses on grants – introducing a new topic on expenses and terminologies of enforceable grant arrangements and enforceable grant obligations, and other note-worthy proposals include: <ul style="list-style-type: none"> a. all expense on grants and donations can be classified as an enforceable grant arrangements or as an other funding arrangement;

5 Refer to Agenda Paper [5.3](#) at the February 2021 Board meeting.

Project and other updates	Update
	<p>b. enforceable grant agreements are required to be enforceable through legal or equivalent, including regulatory oversight and customary practices may be sufficient to create enforceable arrangements;</p> <p>c. full amount of the grant should be recognised as an expense if the grant provider has no realistic means to avoid the expenses;</p> <p>d. capital grants expensed by the grantor using the same principles as other grants; and</p> <p>e. an exemption to disclose sensitive information.</p> <p>(f) Borrowing cost – no significant alignment changes to IFRS for SMEs (i.e. expense immediately)</p> <p>(g) Share-based payments – removing topic from the INPAG guidance;</p> <p>(h) Employee benefits – removing profit sharing and share-based payments and in-year changes to the value for post-employment benefits can be shown either in the Statement of Income and Expenses or Statement of Changes in Net Assets.</p> <p>(i) Foreign currency translation – to consider grants and donations when setting the functional currency.</p> <p>(j) Events after the end of the reporting period – no significant changes to IFRS for SMEs.</p> <p>The INPAG Technical Advisory Group met on 7 November 2023 to discuss the proposed fund accounting requirements which include the presentation of funds with and without restrictions (and require the tracking of those funds). Staff have noted the proposal as possible consideration on the post-implementation review of income of not-for-profit entities in paragraphs 6 – 7 of Agenda Paper 7.1 for this meeting.</p> <p>Staff will consider the INPAG ED as part of the approach to drafting Tier 3 ED agreed by the Board as noted in paragraph 6 and Agenda Paper 10.1 at this meeting seeking the Board’s view not to comment on ED 2.</p>
The Blueprint Expert Reference Group	<p>The Government announced in the 2022-23 October Budget the measure of Development of Not-for-profit (NFP) Sector Development Blueprint (the NFP Blueprint) and doubling philanthropic giving by 2030, particularly:</p> <ul style="list-style-type: none"> • The Department of Social Services is working with the Community Service Advisory Group (CSAG) to develop the NFP Blueprint. • The Productivity Commission will review the current framework to incentivise philanthropy in the NFP sector. <p>The NFP Blueprint is to provide a roadmap to Government reforms and sector led initiatives that will provide NFP and charity sector organisations with sustainable solutions and business models, including options for reform to strengthen social capital and to build a vibrant sector.</p> <p>BERG will be consulting with the sector and with CASG members, to develop an NFP Sector Development Blueprint Issues Paper for public consultation from late October 2023 to December 2023. High level issues covered by the Paper include:</p> <ul style="list-style-type: none"> • Measurement, outcomes, and quality of services – e.g. outcome reporting; • Governance, organisation structures and legal environment – e.g. streamline reporting obligations; • Leadership and staff development – e.g. workforce sustainability, critical sector skill shortage and recognition of volunteers in sector workforce capacity; • Policy, advocacy, communications and engagement – e.g. formalise role of the sector in policy development; • Philanthropy and volunteers – e.g. DGR status of organisation; • Government Funding, contracting and tendering – e.g. greater flexibility in contracts, and opportunities for expert inputs into grant program and funding design; • IT, Communication and Marketing – e.g. improve efficiency and effectiveness of data set; • Impact investing and leveraging assets – e.g. defining sector assets <p>The recommendations in the Blueprint will focus on charities regulated by the ACNC but it is expected to have flow-on effects for the broader NFP sector, regardless of size.</p> <p>The Productivity Commission is expected to deliver an inquiry into philanthropy by May 2024. The draft report is expected by the end of November 2023.</p>

Project and other updates	Update
	<p>Staff will continue to monitor the development of the Blueprint and Productivity Commission’s Philanthropy Inquiry, given the issues will cover reporting obligations and service performance reporting. Staff had discussion with the Productivity Commission (focusing on providing overview of Service Performance Reporting project) and initiated contact with the representative of the Department of Social Services regarding the NFP Blueprint development. Agenda Paper 10.1 for this meeting includes staff recommendation for the Board to comment on the BERG Issues Paper.</p> <p>Staff will continue to seek opportunities to discuss the NFP projects with relevant stakeholders.</p>

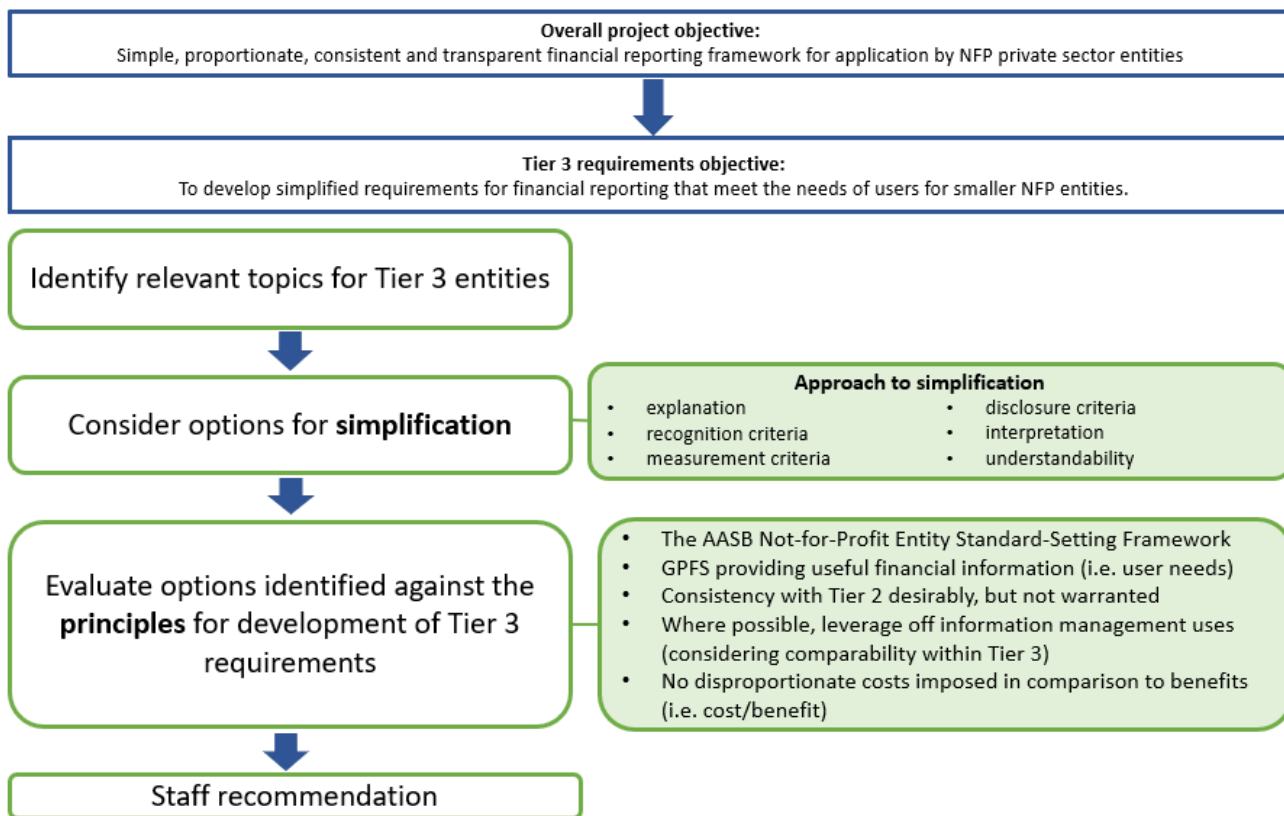
Project timeline and milestones

- 12 There are no significant changes to the project timeline presented in Agenda Paper 3.1 Table 2 at the August 2023 Board meeting except staff have reflected on and decided not to seek feedback from the NFP PAP panel on the draft ED prior to bringing it to the Board for consideration in Q1 2024 given there is a subcommittee already reviewing the drafting of the ED. Staff is also planning to bring the analysis and recommendations in relation to the Board’s proposals regarding removal of the ability of certain NFP entities to prepare special purpose financial statements and the Conceptual Framework amendments in H1 2024 with the plan to expose those proposals at the same time as the Tier 3 ED.
- 13 The Subcommittee has provided feedback on the staff’s analysis and initial drafting of the Tier 3 Exposure Draft on selected topics in three batches. Staff is expected to provide the Subcommittee with drafting of selected topics reflecting Board’s decisions regarding ED proposals to date for review in the week beginning 7 December 2023.

Question to Board members

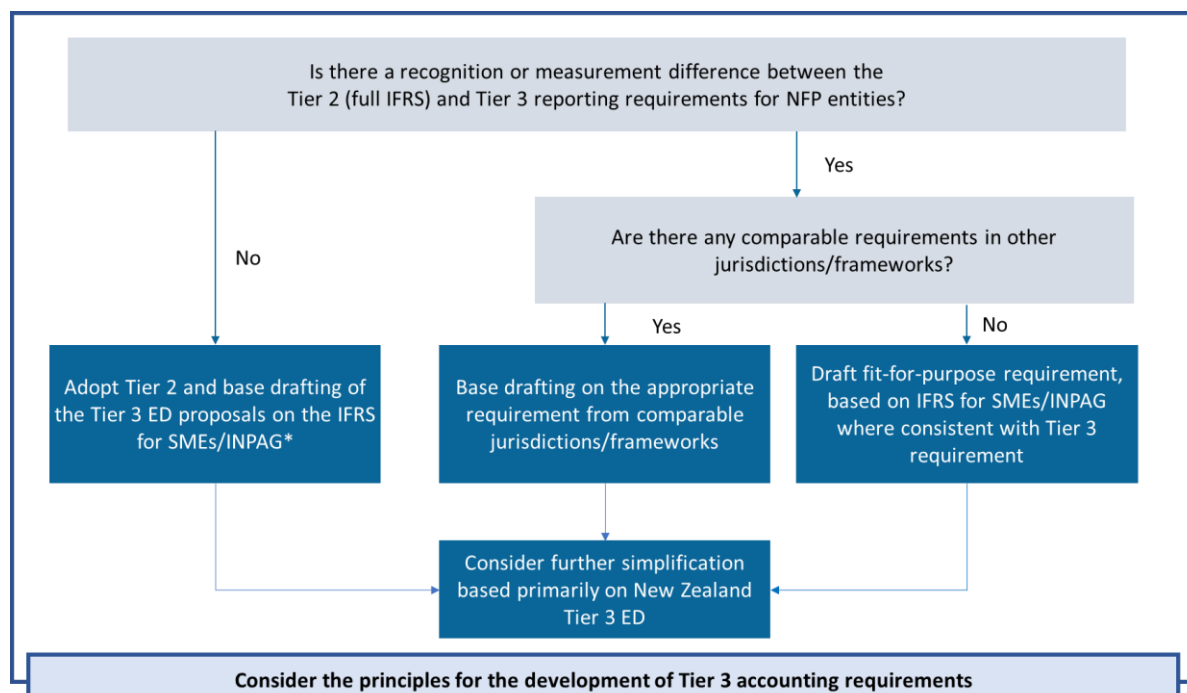
Do Board members have any comments on the information summarised above?

Appendix A – Approach to simplification agreed by the Board at its 4 August 2021 Board meeting



Appendix B – Approach to drafting the Tier 3 Exposure Draft

Approach to drafting recognition and measurement requirements for Tier 3 NFP private sector entities (each topic/issue) agreed by the Board at its 4 May 2023 Board meeting



Approach to developing disclosure requirements for Tier 3 not-for-profit private sector entities for each topic/issue agreed by the Board at its 22 – 23 June 2022 Board meeting

