



Project:	Post-Implementation Reviews	Meeting:	M200
Topic:	Income of Not-For-Profit Entities	Agenda Item:	7.1
		Date:	13 November 2023
Contact(s):	Claire Thomson cthomson@asb.gov.au Fridrich Housa fhousa@asb.gov.au	Project Priority:	Medium
		Decision-Making:	Low
		Project Status:	Initial consideration stakeholder feedback

Objective of this paper

- 1 The objective of this agenda item is for the Board to continue considering the detailed summaries of the feedback received, staff analysis and preliminary views of three of the Invitation to Comment 50 *Post-implementation Review – Income of Not-for-Profit Entities* (ITC 50) topics. The Board will not be asked to make any decisions at this meeting but rather to provide feedback and suggestions to staff for further analysis. Following the discussion at this meeting staff will develop recommendations and ask the Board to decide on possible next steps¹ at a future meeting.

Attachments

- Agenda Paper 7.2 PIR of Income of Not-For-Profit Entities – Sufficiently specific criterion
- Agenda Paper 7.3 PIR Income of Not-For-Profit Entities – Capital grants
- Agenda Paper 7.4 PIR Income of Not-For-Profit Entities – Termination for convenience clauses

Background and reasons for bringing this paper to the Board

- 2 The objective of this agenda item is for the Board to continue considering the detailed summaries of the feedback received, staff analysis and preliminary views of three ITC 50 topics.

1 See post-implementation review decision-making process in Appendix A.

- 3 The following ITC 50 agenda papers were presented to the Board at the October 2023 meeting:
- (a) [Agenda Paper 3.2.0 Cover Memo Income of Not-for-Profit Entities](#) including overview of ITC 50, comment letters received and outreach activities² and academic research;
 - (b) [Agenda Paper 3.2.1 PIR of Income of Not-for-Profit Entities – Overview of the feedback received on ITC 50 by topic](#);
 - (c) [Agenda Paper 3.2.2 PIR Income of Not-for-Profit Entities – Differences between management accounts and statutory accounts and alternative revenue recognition models](#);
 - (d) [Agenda Paper 3.2.3 PIR of Not-for-Profit Entities – General matters for comment](#);
 - (e) [Agenda Paper 3.2.4 ITC 50 submission letters \(available on AASB website\)](#);
 - (f) [Agenda Paper 3.2.5 ITC 50 survey responses](#); and
 - (g) Agenda Paper 3.2.6 *ITC 50 virtual meeting notes* [in supplementary folder for Board only].
- 4 A Board member commented that alignment to IFRS Accounting Standards (i.e. AASB 15 *Revenue from Contracts with Customers*) should be maintained as much as possible, in relation to Agenda Paper 3.2.2 and staff's preliminary view that the Board could consider a project to explore potential amendments to the AASB 15 and AASB 1058 *Income of Not-for-Profit Entities* leveraging off the latest international standard-setting projects in this area such as IPSAS 47 *Revenue* and IFR4NPO International Financial Reporting for Non Profit Organisations (INPAG). This would include examining their compatibility with the Conceptual Framework applicable to NFP entities (including any anticipated changes from the AASB NFP Conceptual Framework project). Another Board member raised concerns that in Agenda Paper 3.2.2 the Tier 3 Not-for-Profit Private Sector Entities Standard the AASB is currently developing should not be seen as a solution to the issues being experienced by stakeholders applying the requirements of AASB 15 and AASB 1058.

International developments

- 5 Staff have been monitoring accounting standard international developments that may be relevant to the NFP Income PIR topics and may assist in developing possible responses such as INPAG forthcoming guidance and the implementation of IPSAS 47.

INPAG

- 6 At the [7 November 2023 INPAG Technical Advisory Group meeting](#), the group discussed the proposed fund accounting requirements which includes the presentation of funds with and without restrictions. Staff consider this could be a possible approach that could be adopted in response to stakeholder feedback received relevant to Topic 3: [Differences between management accounts and statutory accounts and alternative revenue recognition models](#)

2 See Appendix C for extract of the overview of comment letters and outreach activities from Agenda Paper 3.2.0 for October 2023 meeting

(presented to the Board at the October 2023 meeting (Agenda Paper 3.2.2)). Some stakeholders requested an alternative income recognition approach that would allow for the better alignment of income and expenses.

- 7 The fund accounting proposals would require the tracking of funds with and without restrictions including the associated income, expenses, assets and liabilities and the movements in the fund. Staff consider, if this approach was adopted, consideration would need to be given as to whether NFP entities can commit resources to implement and continue accounting for funds using this approach.

Next steps

- 8 Staff will consider the feedback received from Board members in paragraph 4, as well as the feedback received at the November 2023 meeting on the three topics presented. Staff will also present the analysis of the feedback and preliminary views on the next steps on the remaining topics addressed by ITC 50 at a future meeting (see topic details and timeline in paragraph 10 below).
- 9 Following the Board’s initial consideration of the feedback on topics addressed by ITC 50, including at this meeting and future meetings, staff will develop recommendations and ask the Board to decide on possible next steps at a future meeting applying the post-implementation review decision-making process presented to the Board at the October meeting (see Appendix A and B for details).
- 10 The table below presents the steps and timeline of this post-implementation review.

Steps	Timeline
Issued Invitation to Comment 50 <i>Post-implementation Review – Income of Not-for-Profit Entities</i>	Completed
Present feedback received, staff analysis and preliminary views:	
<ul style="list-style-type: none"> • Topic 3: Differences between management accounts and statutory accounts and alternative revenue recognition models; and • AASB General Matters for Comment. 	Completed October 2023 meeting
<ul style="list-style-type: none"> • Topic 1: Sufficiently specific criterion; • Topic 2: Capital grants; and • Topic 6: Termination for convenience clauses. 	November 2023 meeting
<ul style="list-style-type: none"> • Topic 4: Principal v agent, including the - appropriate recognition of financial liabilities; • Topic 5: Grants received in arrears • Topic 7: Accounting for research grants • Topic 8: Statutory receivables 	Q1 2024
Finalisation of post-implementation review	
Staff will use the decision-making process to finalise recommendation for each topic and present to the Board to decide on next steps	Q1-Q2 2024
Publish feedback statement	Q2 2024

Appendix A: Post-implementation review decision-making process

- 11 A post-implementation review (PIR) evaluates whether the implemented pronouncement is operating as intended and is effectively and efficiently meeting the pronouncement objectives in addressing the original problem.
- 12 Consistent with the due process framework, in its September 2021 meeting, the Board agreed the following steps are generally undertaken when performing a PIR:
 - Step 1: review any relevant research, including that by AASB staff, academics, and other sources of evidence;
 - Step 2: collation of any issues notified to the AASB prior to the PIR commencing;
 - Step 3: consultation seeking feedback from stakeholders;
 - Step 4: consideration of feedback; and
 - Step 5: publication of the findings of the PIR and next steps.
- 13 To consider a framework for undertaking steps 4 and step 5, the Board discussed staff recommendations and provided feedback in its October 2023 meeting.
- 14 It is important to note that the framework be revisited and possibly refined in future Board meetings. The outcome is to include it in the future formal due process document when it is due to be revised.

Approach to determine next steps

- 15 The Board will use the following steps when determining the appropriate responses after taking feedback and evidence gathered into consideration as part of the PIR process:
 - (a) Step 1 – Consider feedback and evidence gathered to determine whether action is needed. If no action is needed, the Board will conclude the PIR and issue a final feedback statement; however, if action is needed, the Board will consider the appropriate response (Step 2 below).
 - (b) Step 2 – Determine the appropriate response(s).

Step 1: Consider feedback and evidence gathered to determine whether action is needed

- 16 To consider whether action is needed, the Board will consider whether feedback and evidence gathered indicate that there are fundamental concerns about the overall effectiveness and efficiency of a pronouncement in meeting its original or intended objectives, such as:
 - (a) there is a significant issue(s) or problem(s) that may require addressing by the Board. For example, there are significant differences in application, or transactions that fall within the scope of the pronouncement that were not contemplated when the pronouncement was developed; or

- (b) the ongoing costs of applying some or all of the requirements of a pronouncement outweigh the benefits.
- 17 If the answer is 'yes' to 16(a) or 5(b), the following factors (including but not limited to) would be considered before deciding whether any action is required:
- (a) the problem has, or is expected to have, a material effect on those affected;
 - (b) the prevalence of the problem and its magnitude in the Australian economy;
 - (c) if the issue can be resolved within the confines of the Standards in a reasonable timeframe;
 - (d) the interaction of the problem with other current or future projects; and
 - (e) the overall costs and benefits of resolving the problem.
- 18 It is important to note that stakeholders may raise significant issues outside the scope of a PIR. These issues should be dealt with separately.
- 19 If the Board determines that action is *not* required, the PIR will be concluded via issuing a feedback statement documenting the Board's decision. However, if the Board considers that action is required, the Board will determine the appropriate response (see Step 2 below).

Step 2: Determine the appropriate response(s)

- 20 [Appendix B](#) provides an overview of the various appropriate responses and due process that the Board can undertake, which includes:
- (a) refer the matter to the IFRS Interpretations Committee seeking clarification about how the IASB intended an IFRS Standard to be applied;³
 - (b) issue an Interpretation that clarifies how the Board intended a domestic pronouncement to be applied;⁴
 - (c) amend a pronouncement. This could involve clarifying existing requirements by adding new requirements, implementation guidance, or illustrative examples;⁵
 - (d) issue educational materials or similar guidance. This could include material such as AASB staff FAQs, "key facts" documents and webinars run by AASB staff. This material would not have the status of a Standard or Interpretation and cannot add or change requirements in the mandatory pronouncements. However, it may be useful in addressing differences in the application without the need for an Interpretation;⁶
 - (e) add the matter to the AASB research pipeline and perform further research to inform decision-making in line with the principles of the SSF. For example, additional research

3 See paragraphs 8.3.1 and 8.3.2 of the Due process framework

4 See paragraphs 8.4.1 to 8.4.4 of the Due process framework

5 See paragraphs 7.11.1 and 7.11.2 of the Due process framework

6 See paragraphs 9.3.1 to 9.3.4 of the Due process framework

may be required to better understand an issue's significance or prevalence, whether disrupting current practice is warranted, or whether further action could resolve a particular issue; or

(f) take other action(s) to appropriately respond to the specific facts and circumstances.

- 21 There are many factors to consider when determining which response is appropriate. [Appendix B](#) provides some examples of circumstances to help the Board consider and determine appropriate responses. For example, if the issue identified is widespread but it is not necessary to change or amend an existing pronouncement to address the issue, the Board may want to consider developing and issuing an Interpretation.
- 22 In some circumstances, the Board may also want to consider one or more responses if appropriate, such as issuing an Interpretation and education materials. On other occasions, an interim solution may be appropriate while amending the pronouncements, such as issuing education materials to resolve urgent issues. In summary, the Board is expected to use judgement to decide on the appropriate responses based on facts and circumstances.
- 23 After an appropriate response is determined, a feedback statement that includes the AASB's responses and next steps will be issued.

Appendix B: Possible responses to PIRs

Possible response(s)	Examples of circumstance(s)	Process
Refer the matter to the IFRS Interpretations Committee	When a domestic standard gives rise to an issue that pertains to IFRS guidance, the Board will direct the matter to the IFRS Interpretations Committee. This is done when there is a necessity for interpretative guidance on accounting issues that are likely to result in different or unacceptable treatments in the absence of authoritative IFRS guidance.	<p>A letter that is reviewed and approved by the Board, a subcommittee, or the Chair will be submitted to the IFRS Interpretations Committee (Interpretations Committee). If the Interpretation Committee does not resolve the matter, the Board will consider further action (see below).</p> <p>The Interpretations Committee process can be found on its website: IFRS - How we help support consistent application of IFRS Accounting Standards</p>
Issue an Interpretation	<p>The Board adds an interpretation issue to its agenda when:</p> <p>(a) the issue is widespread, and there is diversity in practice;</p> <p>(b) it is not necessary to change or amend an existing pronouncement to address the issue; and</p>	<p>The due process for an Interpretation is the same as for a Standard, except that the consultation document is a Draft Interpretation and the timeframes are typically shorter.</p> <p>As described above, before issuing a domestic Interpretation of an IFRS Standard, the AASB refers the issue to the Interpretations Committee. (Paragraph 8.3.1 of the AASB Due Process Framework for Setting Standards)</p>

Possible response(s)	Examples of circumstance(s)	Process
	<p>(c) the issue can be resolved efficiently within the confines of the existing pronouncements (including the Conceptual Framework). (Paragraph 8.4.2 of the Due process framework)</p>	<p>If the Interpretations Committee declines to address the issue and the agenda decision does not provide adequate guidance, the AASB proceeds with a domestic Interpretation if and only if:</p> <ul style="list-style-type: none"> (a) the issue relates to Australian-specific legislation or circumstances; and (b) the issue is widespread, with diversity in practice. (Paragraph 8.3.2 of the Due process framework) <p>A Draft Interpretation is issued for public comments. The comment period of a domestic Interpretation is generally 60 days; if narrow in scope and urgent, no less than 30 days. (Paragraph 6.5 of the Due process framework)</p> <p>The Board may also consider taking other action(s) to appropriately respond to the specific facts and circumstances (see below).</p>
<p>Amend a pronouncement</p>	<p>The Board amends a pronouncement when there is a problem identified with the existing requirements.</p> <p>The problem may require either a narrow-scope project for maintenance and consistent application (i.e. minor amendments) or a major amendment.</p>	<p>An Exposure Draft (ED) that contains a draft amendment to a Standard is exposed for public comment. The comment period of the ED is generally 90 days; if narrow in scope and urgent, no less than 30 days. (Paragraph 6.5 of the Due process framework)</p> <p>A domestic ED is issued only after the AASB votes to issue the ED. However, the Chair or a sub-committee of the AASB may be delegated authority to approve the ED. (Paragraph 7.4.4 of the Due process framework)</p>

Possible response(s)	Examples of circumstance(s)	Process
		<p>Domestic pronouncements are finalised in the same manner as IFRS-based Standards. However, domestic pronouncements are typically subject to both pre-ballot and ballot draft voting rounds. (Paragraph 7.6.6 of the Due process framework) Where there is some change from the ED but not enough to warrant re-exposure, a ‘fatal-flaw review’ version of a pronouncement may also be issued for a short period for public comment as a final opportunity to identify any further unintended consequences of the proposals, prior to voting by the Board. (Paragraph 7.6.7 of the Due process framework)</p> <p>As the Standards are generally legislative instruments, annual improvements and editorials must be made through another legislative instrument, i.e. amending Standards. Some proposed amendments to pronouncements are sufficiently minor or narrow in scope that they can be packaged together in one ED or pronouncement, even though the amendments are unrelated. Such amendments may be called annual improvements. Such amendments are limited to changes to clarify wording or to correct minor unintended consequences, oversights or conflicts between existing requirements. (Paragraph 10.1.1 of the Due process framework)</p>
<p>Issue education materials or similar</p>	<p>The Board provides education for various reasons, including the need to enhance stakeholders' understanding of amended pronouncements or</p>	<p>The AASB may publish educational material related to pronouncements on the website, including webcasts, podcasts, articles, presentations for conferences, training materials and Staff Frequently Asked Questions. These materials do not</p>

Possible response(s)	Examples of circumstance(s)	Process
	existing requirements that do not require further action.	<p>have authoritative status and cannot add or change requirements in the pronouncements. (Paragraph 9.3.2 of the Due process framework)</p> <p>Educational materials are subject to review as follows:</p> <p>(a) if the material interprets pronouncements – the AASB Board reviews the material prior to finalisation;</p> <p>(b) illustrative examples – the AASB Chair and at least one other Board member; and</p> <p>(c) in any other case – the AASB Chair. (Paragraph 9.3.5 of the Due process framework)</p>
Add the matter to the AASB research pipeline and perform further research to inform decision-making	The Board adds a matter to the AASB research pipeline to gather sufficient evidence to make decisions.	The AASB Evidence-Informed Standard-Setting Framework provides the principles and process for implementing evidence-informed standard-setting, including literature review. It leads to the gathering of evidence and embedding it in AASB projects.
Take other action(s) to appropriately respond to the specific facts and circumstances	When a circumstance is not addressed above, the Board can take other action. For example, the Board decides to collaborate with other standard-setters if the problem is similar to other jurisdictions.	The AASB is expected to deliberate and decide the appropriate action in meetings.

Appendix C: Overview of comment letters received and outreach activities

1 Following the issue of ITC 50, staff conducted various outreach activities as summarised below.

Outreach activity	Number of stakeholders	Profile of stakeholder (where possible)
Written comment letters	15	<ul style="list-style-type: none"> (a) Six <u>professional services</u> firms <ul style="list-style-type: none"> (i) Pitcher Partners (PP) (ii) PwC (iii) RSM (iv) BDO (v) Deloitte (vi) KPMG (b) Two <u>professional bodies</u> (joint submission) <ul style="list-style-type: none"> (i) CPA Australia and Chartered Accountants Australia and New Zealand (c) Two <u>auditors</u> <ul style="list-style-type: none"> (i) Australasian Council of Auditors General (ACAG) (ii) Corporate Audit and Assurance Services (d) One <u>regulator</u> <ul style="list-style-type: none"> (i) Australian Charities and Not-for-Profits Commission (e) One <u>treasury department</u> <ul style="list-style-type: none"> (i) Government of Western Australia Department of Treasury on behalf of the Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) (f) One <u>preparer</u> <ul style="list-style-type: none"> (i) Sydney University Sport & Fitness Ltd (g) Two <u>others</u> <ul style="list-style-type: none"> (i) Stuart Brown (ii) Dr Mark Shying CA, Swinburne University School of Business, Law and Entrepreneurship (academic)
Survey responses	22 respondents ⁷	<ul style="list-style-type: none"> (a) Preparer (13) (b) Auditor (3) (c) Regulator (2) (d) User (2) (e) Other (2)⁸ <p>Respondents noted their experience as:</p> <ul style="list-style-type: none"> (a) Public sector NFP (14) (b) Private sector NFP (4)

⁷ The survey had a 36% completion rate indicating that not all who began the survey completed it and not all questions were answered. The survey was set up to allow respondents to skip through questions, to acknowledge that some ITC topics may not be relevant to all respondents.

⁸ These respondents identified as "Accounting firm auditing and assisting clients with preparing" and "Auditor, user and advisor (technical accountant)"

Outreach activity	Number of stakeholders	Profile of stakeholder (where possible)
		(c) Both (4)
Virtual outreach sessions	123 stakeholders over four sessions	Session 1 – NFP project advisory panel members (13) Session 2 – NFP private sector entities (17) Session 3 – NFP local government entities (53) Session 4 – NFP State, Territory and Commonwealth Government entities (40)
One-on-one meetings ⁹	10	These included meetings with preparers, accounting experts within audit offices, accounting advisors (including professional services firms) and an academic.
Other		Stakeholder forums: (a) Two ACNC Forums (Advisor and Sector); (b) South Australian Local Government committee meeting Other feedback was received from 6 stakeholders, including via email.

9 During the virtual outreach sessions, a polling question was used to ask attendees if they would like staff to contact them to discuss any topics in further detail. Respondents to the survey were also asked this. Stakeholders who that advised they were unable to attend one of the virtual outreach sessions were also offered the opportunity to meet with staff and provide their feedback. Generally, only selected topics were discussed during these meetings.