



Project:	Not-for-Profit Private Sector Financial Reporting Framework	Meeting:	M194
Topic:	Project update	Agenda Item:	8.1
		Date:	20 February 2023
Contact(s):	Maggie Man mman@asb.gov.au Jia Wei jwei@asb.gov.au Fridrich Housa fhousa@asb.gov.au	Project Priority:	High
		Decision-Making:	Low
		Project Status:	Analysis of Discussion Paper feedback

Objective of this agenda item

- The objective of this agenda item is for the Board to **consider**:
 - an **update** on the Not-for-Profit Financial Reporting Framework (NFP FRF) project, including interaction with cross-cutting projects and the timeline (this Agenda Paper);
 - a **summary** of feedback received from the outreach on the NFP FRF Discussion Paper up to 31 January 2023; and
 - a **summary** of the findings of the draft research report on common transactions of smaller not-for-profit private sector entities (charities).

No decisions are required from the Board on this agenda item.

Attachments

- Papers for this agenda item are:
 - Agenda paper 8.1.1 Supporting document – Preliminary feedback from regulators (Board only)
 - Agenda paper 8.2 Summary of the feedback from outreach to 31 January 2023.
 - Agenda paper 8.3 Summary of preliminary research findings on common transactions of smaller not-for-profit private sector entities (charities)

Background

- 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. Staff presented a number of papers, including the approach to simplification approved by the Board at its 4 August 2021 Board meeting.¹ The Board approved the Discussion Paper in August 2022² and it was issued on September 2022 with a six months consultation period to 31 March 2023. [The Not-for-Profit Private Sector Financial Reporting Framework Project Summary](#) provides the overview of the Board's tentative decisions to date in respect of the project.

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

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

Supporting document – Preliminary feedback from regulators (Agenda Paper 8.1.1)

- 4 Agenda Paper 8.1.1 is a supporting document to provide the Board with a summary of the preliminary feedback from regulators on the proposals in the Discussion Paper that regulate not-for-profit private sector entities that may be in the scope of the project.

Preliminary summary feedback from outreach to 31 January 2023 (Agenda Paper 8.2)

- 5 Agenda Paper 8.2 provides the Board with an overview of the preliminary summary of the feedback received from online surveys, virtual outreach sessions and other stakeholder meetings on the proposals in the NFP FRF Discussion paper received before 31 January 2023. The paper outlines in further details the feedback for the topics with the support rate from the stakeholders below 90% (i.e. for those questions in the DP where less than "almost all" stakeholders agreed with the Board's proposals).

Preliminary findings from the research on common transactions of smaller not-for-profit private sector entities (charities) (Agenda Paper 8.3)

- 6 Agenda Paper 8.3 provides a summary of preliminary findings from the research on common transactions of ACNC-registered charities with revenue between \$500,000 to \$3 million. Staff analysed a sample of 260 annual financial reports for the 2020/2021 reporting period by observing the line items in the financial statements. The research attempts to identify and provide confirmation of the transactions and balances that are common for the size of NFP entities that the Board has in mind when developing its preliminary views on future Tier 3 reporting requirements. The research reviews publicly available data and financial statements of ACNC registered charities and, therefore, does not include other smaller not-for-profit private sector entities not registered with the ACNC.

Summary of outreach to date

- 7 As at 31 January 2023, staff have completed five virtual outreach sessions, five virtual meetings with various accounting professional bodies NFP committees and discussion groups and several one-to-one individual meetings. More information on the feedback from these outreach activities, including feedback collected from the online survey is presented in Agenda Paper 8.2. Staff have also held eight meetings with different regulators to discuss their feedback on the proposals from the DP, as presented in Agenda Paper 8.1.1. Staff noted there was broad agreement for the regulators' staff on the proposals from the DP, noting that the preliminary feedback from these discussions may not represent the final and official position of the regulator.
- 8 Based on the preliminary feedback, staff consider there is broad support from stakeholders on the proposals to develop a stand-alone Tier 3 Standard with simplified accounting requirements for smaller not-for-profit entities. Most stakeholders also supported extending the Australian Accounting Standards to certain not-for-profit entities as long as the Tier 3 Standard is available. Staff will further consider and analyse the feedback received to date by the end of the comment period. Staff will bring recommendations on the next steps to a future Board meeting, e.g. whether to proceed to the next stage of a standard-setting process.

Project update

- 9 Table 1 below provides an update on the cross-cutting projects.

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

Cross-cutting projects	Update
<p>NZASB's post-implementation review (PIR) of Tier 3 and Tier 4</p>	<p>In May 2022, the XRB issued two exposure drafts with proposed amendments to the Tier 4 Standards. At its Board meeting in December 2022, the NZASB Board considered and approve, in principle, the draft New Zealand Tier 4 (NFP) Standard presented at the meeting. In particular the main amendments made based on the issued ED for NZ Tier 4 (NFP) Standard, amongst other amendments, include:</p> <ul style="list-style-type: none"> • Reduce reporting requirements for small Tier 4 (NFP/PS) entities; • Remove the concept of a small Tier 4 entity and make further simplifications to the Tier 4 Standards – which may involve extending disclosure concessions to all Tier 4 entities; • Amend the required cash received and cash paid categories; • required categories (e.g no to disaggregate between employee remuneration and other employee costs); • remove the Statement of Resources and Commitments and instead require note disclosure about any significant assets and liabilities. <p>The NZASB Board also agreed with the proposed effective date of 1 April 2024 with early adoption permitted.</p> <p>NZASB staff are continuing to analyse the Tier 3 feedback and expect to seek final approval for the amendments to the Tier 3 Standard in April 2023. Amongst other amendments, the proposed amendments include:</p> <ul style="list-style-type: none"> • align the accounting treatment of revaluation gains for property, plant and equipment and financial investments. For PPE to recognise revaluation gains directly in accumulated funds as revaluation reserves, and provide an option for revaluation gains for financial investments in P&L or directly in accumulated funds as revaluation reserves; • Updating the required categories of revenue and expense; • Restore the requirements to optionally disclose restricted and discretionary reserves; • Explicitly not allowing aggregation of individually insignificantly; and donations/grants/bequests for the purpose of applying the new revenue recognition approach. <p>Transitional provisions will be discussed in the April 2023 meeting. Staff noted that from the preliminary staff analysis of the feedback received as at 30 January 2023, almost all stakeholders agree with the proposal for the Board not to develop a further fourth reporting tier that would be based on cash accounting. Staff will consider the relevant sections when considering the drafting for those sections if the Board decides to proceed to the next stage of the standard-setting process.</p>
<p>Second comprehensive review of the IFRS for SMEs Standard</p>	<p>IASB issued ED/2022/1 in September 2022, with comments due to the IASB by 7 March 2023. ED/2022/1 proposes substantial changes to the requirements of six sections of the IFRS for SMEs Accounting Standard to align with IASB pronouncements, including:</p> <ul style="list-style-type: none"> • The <i>Conceptual Framework for Financial Reporting</i> (with simpler language); • IFRS 3 <i>Business Combinations</i>; • IFRS 9 <i>Financial Instruments</i>; • IFRS 10 <i>Consolidated Financial Statements</i>; • IFRS 11 <i>Joint Arrangements</i>; and • IFRS 15 <i>Revenue from Contracts with Customers</i>; • Add new section, <i>Fair Value Measurement</i>; and • Other minor and editorial amendments to other sections. <p>Staff will consider the sections, including the <i>Conceptual Framework for Financial Reporting</i>, <i>Fair value</i> and other relevant sections, when considering the drafting for those sections if the Board decides to proceed to the next stage of the standard-setting process.</p>
<p>IFR4NPO</p>	<p>The first of three Exposure Draft ED/2022/1 of the International Non-Profit Accounting Guidance (INPAG ED/2022/1) was issued in November 2022, focusing on the overarching framework for NFO financial reporting. It includes:</p> <ul style="list-style-type: none"> • A description of NPOs and the reporting entity which prepares and users will benefit from INPAG <ul style="list-style-type: none"> ○ A descriptive approach to cater for the global diversity in NPOs a broad characteristics approach where all of the following applies: <ul style="list-style-type: none"> ▪ They have the primary objective of providing a benefit to the public; ▪ They direct financial surpluses for the benefit of the public;

Cross-cutting projects	Update
	<ul style="list-style-type: none"> ▪ They are not government or public sector entities that should prepare general-purpose financial reports under public sector financial reporting standards. ○ Primary users of NPO general purpose financial statements are the public receiving services and goods, resource providers and those fulfilling oversight functions. These primary users were determined based on the GPFS, including non-financial information to meet users' broader needs and expectations. INPAG is intended to be used primarily by those that need to prepare financial information on an accrual basis. ○ NPO is assessed based on a single economic entity or other complete set of activities that are related to its purposes and guidance on the application of control principles which includes a rebuttable presumption that control exists where the majority of the voting rights of another entity are owned or in other situations, such as having the power to govern financial and operating policies, or having the power to appoint or remove the majority of the members of a governing body. • Framework for INPAG – concepts and pervasive principles that underpin financial reporting; <ul style="list-style-type: none"> ○ The INPAG concepts and principles have been adapted from the IFRS for SMEs Accounting Standard and take account of the conceptual frameworks used in the development of IFRS Accounting Standards and IPSASB standards. • Financial statement presentation – the structure and scope of the financial statements with information of funds with restrictions; <ul style="list-style-type: none"> ○ The proposed statements included a: <ul style="list-style-type: none"> ▪ Statement of Income and Expenses (separate column for income with restrictions and income without restrictions and related expenses and not presenting OCI); ▪ Statement of Financial Position (Balances of the funds with restrictions and funds without restrictions) ▪ Statement of Changes in Net Assets (in year movements on restricted and unrestricted funds and OCI to be reflected); ▪ Disclosure of material funds (in statement of financial position and statement of changes in net assets). ▪ Statement of Cashflows – showing categories of donation and grants separating into grants with restrictions, grants without restrictions, cash donations and grants for the purchase of non-current assets. • Narrative reporting – non-financial reporting requirements <ul style="list-style-type: none"> ○ Information cover the same reporting period and entity as the financial statements permitting non-disclosure of aspects of performance information that are sensitive. • Service potential – including the concept of service potential to recognise that NPOs operate for the benefit of the public rather than to make profit and included in the consideration of measurement and separated from concept of economic benefit. <p>It is anticipated that Exposure Draft 2 will focus on revenue from grants and donations (non-exchange revenue) as well as the treatment of grant expenses. Exposure Draft 3 will focus on the classification of expenses, fundraising costs, transition to INPAG and inventory.</p> <p>Staff will consider the proposals in the INPAG ED/2022/1 for the Concepts and principles section and other relevant sections when considering the drafting for those sections if the Board decides to proceed to the next stage of the standard-setting process.</p>
Post-implementation reviews of Income (PIR) of Not-for-profit pronouncements	<p>The Board approved the issue of ITC 50 Post-implementation Review – <i>Income of Not-for-Profit Entities</i>; and ITC 51 Post-implementation Review of <i>Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements</i> with comment period until 31 March 2023.³AASB staff are concurrently seeking feedback on these ITCs to assist its assessment of whether certain requirements of Australian Accounting Standards apply to not-for-profit public and private sector entities continue to meet its original objectives, including whether the requirements remain appropriate.</p>

Cross-cutting projects	Update
	<p>Staff will monitor the feedback from stakeholders on these ITCs given the cross-cutting nature of the topics with the development of simplified accounting requirements.</p>
<p>Conceptual Framework: NFP Amendments (including amendments to SAC 1 Definition of the Reporting Entity and other consequential amendments)</p>	<p>The NFP Conceptual Framework project plan, as presented to the Board in June 2020, noted the project will run simultaneously with the NFP FRF project to ensure RCF amended for NFP entities is available when new differential reporting framework becomes effective. At its September 2021 meeting, the Board tentatively approved incorporating with minor changes Aus paragraphs applicable to NFP entities that are in the existing <i>Framework for the Preparation and Presentation of Financial Statements</i> and other relevant changes and directed staff to continue to analyse issues raised through further research and outreach activities and to report back to the Board during the first half of 2021.⁴</p> <p>The Discussion Paper included the question of whether stakeholders agree with the objective of general-purpose financial reporting and the primary users of NFP entities as depicted in the <i>Framework for the Preparation and Presentation of Financial Statements</i> (including the modifications for not-for-profit entities) to allow the Board to consider options how to proceed with the NFP Conceptual Framework project after considering feedback received from the Discussion Paper.</p> <p>Given the interactions of the project, staff intends to bring further analysis, including any feedback collected as part of the Discussion Paper, and recommendations and updated working draft of NFP amendments to Conceptual Framework in H2 2023.</p>
<p>ACNC reporting requirements</p>	<p>ACNC has recently published guidance on charities and crypto-assets in response to a heightened interest in how charities engage with crypto-assets. The guidance includes definitions of terms, accounting for crypto assets as donations, investing in crypto-assets and recording and reporting in the Annual Information Statements.</p> <p>ACNC is also consulting on the inclusion questions in their Annual Information Statement (AIS) on related party disclosures as part of its review of the ACNC legislation.</p> <p>Staff will monitor feedback from ACNC's consultation on related party disclosures in the AIS when considering drafting any future Exposure Draft.</p>

Question 1 to Board members

Do Board members have any comments on the project update summarised above?

Project timeline and milestones

- 10 There have been no changes to the project timeline and milestones since the August 2022 meeting as the Board has not yet decided whether to proceed with the next steps of the standard-setting process, for example, whether to proceed with an Exposure Draft. Subject to the Board's decisions after considering the Discussion Paper feedback in May 2023, the following table provides an expected timeline for the project. Staff are actively considering the project timeline being informed by the time and effort needed for:
- (a) the preparation of the staff analysis for the Board discussion to date;
 - (b) further deliberations by the Board on the direction of certain topics yet to be decided by the Board; and
 - (c) further time needed for the drafting of, subject to the Board's decisions, the Exposure Draft;
 - (d) further planning of outreach activities for the release of the ED.

Staff will assess and develop further details on the project milestones once the Board decides on its next steps. Staff will consider and make any necessary updates to the timeline prior to each Board meeting.

MEETING	PROJECT MILESTONES
MAY 2023	Board to consider feedback and decide on the next steps, e.g. whether to progress to the next stage of standard-setting process and if so, the basis of drafting of the pronouncement for the topics where the simplification: <ul style="list-style-type: none"> • for the recognition and measurement (R&M) for topics were not developed based on any jurisdiction; or • is only the language without explicit departure from Tier 1 R&M.
Q2 – Q4 2023	Subject to the Board's deliberation and decision on the next steps, Board deliberation on a draft pronouncement, eg. a draft Exposure Draft (ED) of Tier 3 Standard informed by targeted outreach and discussions with Project Advisory Panel.
Q1 – Q2 2024	<ul style="list-style-type: none"> • Approval of pronouncements for public consultation, e.g. ED of Tier 3 Standard and ED of the NFP amendments to Conceptual Framework, SAC 1 amendments and other consequential amendments exposed for public • Development of communication materials

Question 2 to Board members

Do Board members have any comments on the project timeline presented in paragraph 10 above?