Australian Government

Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M180
Topic:	**Principles for Tier 3 reporting requirements**	**Agenda Item:**	3.3
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Objective of this paper

1 The objective of this staff paper is for the Board to **decide** the principles for its decision-making on recognition, measurement, presentation and disclosure aspects of the proposed not-for-profit (NFP) private sector Tier 3 reporting requirements. As part of this, the Board is asked to decide the 'entity' the Board has in mind when developing the proposed Tier 3 reporting requirements.

2 This staff paper also seeks the Board's decisions on (1) whether AASB Tier 3 reporting requirements should be based on another jurisdiction's pronouncement (paragraphs 37 – 40); and (2) which definition of a NFP entity the Board will reference in its decision making (paragraphs 41 – 42).

Background and reasons for bringing this paper to the Board

3 In April 2018, AASB staff published *AASB Staff Paper: Comparison of Standards for Smaller Entities*. This document reported the results of a benchmarking exercise of AASB Tier 1 general purpose financial statements against six international pronouncements applying to smaller entities. The six pronouncements studied were the IASB's *IFRS for SMEs*, Financial Reporting Standards FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* issued by the UK Financial Reporting Council, *Accounting and Reporting by Charities: Statement of Recommended Practice* (Charities SORP) issued by the UK Charity Commission and the UK Office of the Scottish Charities Regulator,[1] and NZ XRB Public Benefit Entity Tier 3 and Tier 4 reporting requirements applying to NFP entities and public sector entities.[2] A purpose of the study was to benchmark various modified accrual and cash bases of accounting that are used

1 A revised Charities SORP was published in October 2019. The Charities SORP is based on FRS 102.

2 Per the AASB Staff Paper, pronouncements were selected on the basis of their applicability to smaller entities, on suggestion by Australian constituents, and having regard to the comparability of UK and NZ entity structures to those employed by Australian entities.

in different jurisdictions to identify what an additional tier of financial reporting in Australia might look like; the comparison was intended to identify modifications made to accommodate smaller entities in those jurisdictions in balancing the costs to preparers with the needs of users.

4 Subsequent to issue of the AASB staff paper, following a discussion at the Board's 13 November 2018 meeting, the Board began preliminary outreach with NFP regulators and other stakeholders in part to obtain feedback whether smaller Australian NFP entities should prepare financial statements based on New Zealand Tier 3 or NZ Tier 4 reporting requirements for NFP entities.[3] Reasons for preferencing basing the development of a possible further Australian reporting Tiers on the New Zealand reporting requirements included on consideration of:

(a) the complexity of UK FRS 102 and UK FRS 105 reporting requirements (which are arguably more closely aligned to IFRS) compared to those specified by the *IFRS for SMEs*;

(b) that *IFRS for SMEs* was developed for use by for-profit entities;

(c) the complexity of *IFRS for SME*, UK FRS 102 and UK FRS 105 reporting requirements compared to NZ Tier 3 and NZ Tier 4 reporting requirements;

Outreach to stakeholders on the basis noted immediately above continued in 2020 following the Board's decision to actively restart the project following the completion of its work on the for-profit private sector reporting framework.

5 As reported to the Board at its 16-17 September 2020 meeting, while stakeholders consulted as part of the preliminary outreach on the project were generally supportive of the AASB using NZ Tier 3 or NZ Tier 4 reporting requirements as a basis for further Australian reporting Tiers, the feedback on the proposed Tier 3 reporting requirements included an observation that the Board should articulate a clear rationale for, and the benefits of, basing proposed AASB Tier 3 reporting requirements on those adopted in New Zealand External Reporting Board (XRB) Accounting Standard *Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit)* (NZ NFP Tier 3 reporting requirements). A similar observation was made with regards to basing any AASB reporting requirements on the New Zealand XRB Accounting Standard *Public Benefit Entity Simple Format Reporting – Cash (Not-for-Profit)* (NZ Tier 4 reporting requirements).[4]

6 At its 24-25 February 2021 meeting, the Board agreed to develop a further reporting Tier (Tier 3) for application by NFP private sector entities. This reporting Tier is intended to serve as a proportionate response for application by some (but likely not all) NFP private sector entities that are currently preparing special purpose financial statements on the basis that the entity is not a reporting entity as defined in SAC 1 *Definition of the Reporting Entity*.[5] Staff think that to obtain useful feedback to inform a possible future exposure draft, it is necessary for the Board to form preliminary views on some specific aspects of the proposed Tier 3 reporting requirements for inclusion in its discussion paper. Staff's preliminary identification of aspects

3 As noted in [Agenda Paper 5.1](#) *Australian Financial Reporting Framework – NFP Private Sector Project Plan*, AASB 21 November 2019 meeting. Staff note: The Board was not asked to make a decision at its November 2018 meeting to base reporting requirements on those adopted by New Zealand; the relevant (Board only) agenda paper observed that more extensive analysis and outreach, including on the appropriateness of using the NZ frameworks, would be required before such question could be posed to the Board.

4 Staff note: The Board has not previously made a decision to base AASB Tier 3 reporting requirements on NZ Tier 3 and Tier 4 reporting requirements. However, having regard to previous staff research conducted, these reporting requirements were referred to as a starting point for the preliminary outreach discussions.

5 Tier 3 financial statements may not be sufficient to meet the needs of users of certain entities currently preparing special purpose financial statements. Such entities might instead prepare Tier 2 general purpose financial statements.

that might be addressed by the Board to provide stakeholders with clarity on what an eventual exposure draft might include were identified in Appendix B of Agenda Paper 3.1.

7 However, in advance of forming its preliminary views on specific Tier 3 reporting requirements, the Board may want to clearly establish the set of principles on which it will base its decision-making. This would be consistent with the approach the Board has taken on past projects, including when revising Tier 2 disclosures.[6] The set of principles will provide robustness to the Board's decision making and valuably, transparency to stakeholders when considering the Board's preliminary views set out in the forthcoming discussion paper.

Proposed Tier 3 principles

8 In developing AASB 1053 *Application of Tiers of Australian Accounting Standards* (which introduced Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements), the Board applied 'user needs' and 'cost/benefit' considerations to identify the extent to which disclosure requirements applicable to Tier 1 entities should be relaxed for Tier 2. 'User needs' and 'cost/benefit' considerations were also implicit in the development of the simplified disclosures in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Staff note that such considerations were also applied by the IASB to determine the less onerous recognition and measurement requirements of the IASB's *IFRS for SMEs*. Accordingly, staff consider that 'user needs' and 'cost/benefit' considerations are appropriate overarching principles that should form the basis of the Board's decisions in developing Tier 3 reporting requirements.

9 Having regard to 'user needs' and 'cost/benefit' as overarching principles, staff consider that the following might serve as possible working principles against which the Board forms its preliminary views about Tier 3 reporting requirements for inclusion in a discussion paper. The proposed principles, and possible alternatives, are elaborated on in paragraphs 10 to 30:

(a) the entity population that the Board is concerned with are entities that might fall within the proposed revised ACNC 'medium' threshold had they been registered with the ACNC; being entities with revenues between $500,000 and $3 million;

(b) that financial statements developed by the Board under Tier 3 reporting requirements will be general purpose financial statements, the objective of which (per the *Framework for the Preparation and Presentation of Financial Statements*) is to provide financial information about the reporting entity that is useful to existing and potential resource providers, recipients of goods and services, and parties performing a review or oversight function on behalf of other users, in making decisions relating to providing resources to the entity.[7] Based on this:

(i) the Board has to presume that primary users (or potential primary users) of the Tier 3 financial statements exist. Staff think that this presumption is not unreasonable, given that in many instances the financial statements of an incorporated entity are required to be presented to members/ shareholders of the NFP private sector

6 Principles applied by the Board to determine Tier 2 disclosures are described in Appendix A.

7 The primary users of the financial statements of not-for-profit entities are subject to review as part of the Board's separate Not-for-Profit Conceptual Framework project, which is expected to result in the superseding for not-for-profit private sector entities of the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework*. Until such time as that project results in a revised user group or the Board decides to depart from the conceptual framework in this regard, this project will continue to make reference to the users above as the primary users of not-for-profit entity general purpose financial statements.

entity.[8] Further, while only a small part of the NFP private sector entity population,[9] at least the financial information (and for 'medium' and 'large' entities, also the financial statements) of entities that are registered as charitable organisations with the Australian Charities and Not-for-profits Commission (ACNC) are made publicly available on the ACNC's website, suggestive of there being users or potential users of that information;[10] and

(ii) the Board's decisions should recognise that the role of general purpose financial statements is to provide both information about an entity's past performance as well as information that allows users to assess the entity's prospects for future cash flows. Hence, 'Tier 3 general purpose financial statements' should provide information to users beyond that offered by a strict historical cost/cash bookkeeping exercise (that is, be more than a record of transactions offered by, for example, a statement of cash flows or listing of payables and receivables);

(c) information that reflects how efficiently and effectively management has managed the entity's resources, but which does not help existing and potential primary users in making decisions relating to providing resources to the entity, is **not** 'useful financial information', and therefore need not necessarily form part of the Tier 3 general purpose financial statements;

(d) where possible, accounting policies should reflect the information management uses to make decisions about the entity's operations so as to allow users to assess the entity's performance and financial position from the same perspective as management.[11] Such approach could be expected to alleviate some preparer costs. Adopting such an approach might mean the Board permits some accounting policy choices rather than requiring all Tier 3 entities to apply a consistent accounting policy. Hence, while comparability between entities may suffer, the resultant financial statements may be simpler for entities to prepare reducing preparer costs. (The loss of comparability may be less significant when considered in the context of possibly fewer users and having regard to accounting policy choices being available under Tier 1 or Tier 2 reporting requirements). However, such approach does not necessarily mean that management accounting policies should always be adopted by the Board; for example, in cases where the policies adopted by management are not relevant or a faithful representation of the substance of the economic phenomena it purports to represent;

(e) the development of Tier 3 reporting requirements should be subject to the AASB's *Not-for-Profit Entity Standard-Setting Framework* (revised October 2020);

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8 The underlying assumption is that the governing legislation would not require such action unless there is an expectation that the users must have access to the financial statements.

9 The ACNC website at 23 March 2021 notes that there are about 56,000 ACNC registered charities. The Productivity Commission *Research Report on Contribution of the Not-for-Profit Sector* (January 2010) observed that (at that time) there were roughly about 600,000 not-for-profit entities, the majority (440,000) of which were small, unincorporated organisations.

10 ACNC reporting statistics for the 2018 reporting period revealed that approximately 54% of the financial statements lodged with the ACNC for the 2018 reporting period were described as Tier 1 or Tier 2 general purpose financial statements (Tier 1 GPFS: 6762; Tier 2 GPFS: 1358; Special purpose financial statements: 7032; i.e. total medium or large charities: 15,152). However, the ACNC noted that of a sample of 207 annual information statements (AIS) and annual financial reports, 32% did not select the correct type of financial report to submit with their AIS; the ACNC reported that the most common error was that Tier 2 general purpose financial statements and special purpose financial statements were described as Tier 1 general purpose financial statements.

11 The proposed principle does not restrict the manner by which the Board might decide to specify such accounting policy: for example, by inclusion as part of a stand-alone Tier 3 accounting standard or allowed as an opt-up to an IFRS-compliant accounting policy (consistent with the approach taken by New Zealand).

(f) subject to cost/benefit considerations, to prioritise consistency with Tier 2 presentation, classification, recognition and measurement criteria, so as to limit unnecessary accounting differences between the reporting Tiers. For example, the Board might decide to continue distinguishing investment property from other property, plant and equipment and to continue to permit investment property to be valued on the fair value basis (with recognition of fair value changes through profit or loss) rather than the revaluation basis (with recognition of the revaluation increases in a reserve);

(g) to adopt a prescriptive 'checklist' approach to disclosures that recognises that existing and potential resource providers such as funders and donors may be more interested in information about the entity's actual service performance and planned outcomes (i.e. fewer disclosures may be warranted), than of a report of the entity's financial position and financial performance, and that interested member/shareholder users may be able to obtain further detail of reported financial information by other means;

(h) does not impose disproportionate costs to preparers, when compared to benefits of that information. Staff think that the preparer cost assessment should presume an entity has access to preparers holding an accounting certification such as those offered by CPA Australia or CAANZ as a proxy for a minimum knowledge of financial reporting and accounting standards, but acknowledge that NFP private sector entities preparing Tier 3 general purpose financial statements are unlikely to have (1) staff with in-depth familiarity with accounting standards or (2) the capacity to devote significant resources to the preparation of financial statements. Costs to preparers might include costs to understand the accounting requirements, to collect necessary information, and to apply the accounting requirements. However, staff think the cost assessment should not consider abnormal costs suffered arising as a result of an entity's attitude towards its financial reporting obligations. For example, this principle proposes that the Board considers the costs to Tier 3 preparers to understand and apply the accounting for an error (including costs due to limitations of generic software packages that might not allow for retrospective restatements), but disregards any costs suffered attributable to poor record-keeping practices.

The Tier 3 entity

10 In past staff papers, stakeholder and Board discussions, "Tier 3" reporting requirements have sometimes been discussed in the context of the reporting requirements applying to small/smaller NFP private sector entities. Following Board's decisions at its February 2021 meeting, for the purposes of the discussion paper and for forming Board views on Tier 3 reporting requirements, staff think that a more precise descriptor of the "Tier 3 entity" is necessary at this point of time so that all Board members have the same entity boundary in mind when forming the Board view.

11 This is because in various cases, the relevant legislation (see Appendix B) specifies that "small" or the lowest band of NFP private sector entities are not required to prepare financial statements that comply with Australian Accounting Standards. However, the boundary of 'small' differs. For example, legislation governing co-operatives classifies the entities as either being 'large' or 'small' while the ACNC classifies registered charities as 'large', 'medium' or 'small'. Having regard to Appendix B, a small co-operative might have been classified as a medium or large charity, had it been classified using the ACNC thresholds.

12 Having regard to the information summarised in Appendix B, staff propose, for the purposes of the Board's discussions, the Board develops requirements that might apply to entities that

might fall within the proposed revised ACNC 'medium' threshold had the entity been registered as a charity; being entities with revenues between $500,000 and $3 million. This boundary has been suggested only for practicality reasons. Staff intend to conduct further research to understand whether such boundary could result in inadvertent limitations to the Board's decision-making. (In the project plan, the "middle tier" boundary was envisaged as entities with revenues between $500,000 and either $5 million or $10 million. The proposed $5 million upper boundary references the revised threshold for a medium charity recommended in the report on the review of the Australian Charities and Not-for-profits Commission legislation.[12])

Management stewardship and useful financial information

13 The proposed principle in paragraph 9(c) acknowledges that the *Conceptual Framework* links useful information about management's stewardship of the entity to its ability to help users in making decisions relating to providing resources to the entity.[13] Paragraph 2.4 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) states that if financial information is to be useful, it must "… be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable." Paragraphs 2.6 and 2.7 explain that relevant financial information is capable of making a difference in the decisions made by users, and that financial information is capable of making a difference in decisions if it has predictive value and/or confirmatory value.[14] Put another way, under the proposed principle, the Board might accord less importance to benefits of information that is arguably necessary to demonstrate management's stewardship of the entity or discharge of its accountability, but which is not used by users for making resource allocation decisions. For example, the Board might form a view not to allow remeasurement of investment properties at fair value if it concludes that users of Tier 3 financial statements do not commonly rely on current property valuations to make their resource allocation decisions.

14 Accordingly, Board decisions might recognise that:

(a) users of the financial statements of NFP entities, similar to users of Tier 2 general purpose financial statements of non-publicly accountable for-profit entities, are particularly interested in information about the entity's liquidity and solvency, including information about its short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities;

(b) some Tier 1 or Tier 2 reporting requirements are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical NFP entities. Consequently, the Board might not develop requirements or guidance on all topics for which corresponding detail exists under Tier 1 or Tier 2 reporting requirements (e.g. securitisation of receivables). Rather, the Board

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12 The final report of the review, *Strengthening for Purpose*, recommended that registered entities be required to report based on size, determined on rolling three-year revenue, with thresholds of less than $1 million for a small entity, from $1 million to less than $5 million for a medium entity, and $5 million or more for a large entity.

13 While the *Conceptual Framework* does not yet apply to not-for-profit private sector entities, consistent content is included as Appendix A of the *Framework for the Preparation and Presentation of Financial Statements* (which currently applies to not-for-profit private sector entities).

14 Paragraphs 2.8 and 2.9 of the *Conceptual Framework* explains that "Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. … Financial information with predictive value is employed by users in making their own predictions." and "Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations."

might focus only on providing guidance for common stocks and flows of Tier 3 NFP entities.

15 Staff note that the IASB's *IFRS for SMEs* does not similarly explicitly link stewardship to decision-making information in a similar manner. It merely acknowledges that financial statements also show the results of the stewardship of management (paragraph 2.3 of *IFRS for SMEs*).

Not-for-Profit Standard-Setting Framework

16 The *Not-for-Profit Entity Standard-Setting Framework* is predicated on two assumptions: (1) that IFRS Standards are appropriate as a base for developing Australian accounting standards and (2) that like transactions and events should be accounted for in a like manner by all types of entities, reflecting their economic substance, unless there is a justifiable reason not to do. Consequently, the *Not-for-Profit Entity Standard-Setting Framework* states that modifications to IFRS requirements are justified only where necessary to address (1) Australian-specific legislation, user needs or public interest issues relevant to financial reporting or other external reporting; (2) issues specific to the NFP sector of such prevalence and magnitude that the objectives and qualitative characteristics of financial reporting as set out in the *Framework for the Preparation and Presentation of Financial Statements* would not be met; or (3) undue cost or effort considerations.

17 In staff's view, modification of Tier 1 reporting requirements for Tier 3 is only possible under (3) undue cost or effort considerations – staff think that (1) and (2) above are not 'reporting Tier-specific' matters. Some staff think that any Tier 3 modification to IFRS requirements are not made to address NFP-specific user needs; rather, the revised requirement – which will provide information that meets user needs – is justified on grounds of the undue costs to the Tier 3 preparer.

18 Other staff take the view that modification for Tier 3 reporting requirements is possible under the *Not-for-Profit Entity Standard-Setting Framework* both because of undue cost or effort considerations, and because the NFP entity has users who have different information needs to users associated with a larger entity.

Prioritising consistency with Tier 2 presentation, classification, recognition and measurement criteria

19 Staff think that the goal should be to maintain high-quality financial statements, with largely consistent numerical outcomes achieved in a more straightforward manner (for example, through the way the requirement is drafted). Ideally, Tier 3 reporting requirements should require recognition and measurement of the same resources and obligations as Tier 1 reporting requirements, but – where appropriate – be based on less onerous measurement and/or recognition criteria that might generally be expected to return a result not materially different to that had Tier 1 reporting requirements been applied. For example, the Board might form a preliminary view to require property, plant and equipment to be measured at purchase price plus transport and installation costs but not also qualifying borrowing costs in Tier 3 reporting requirements. In practice, because of the type of transactions commonly undertaken by Tier 3 entities, this may return a result that is materially consistent with the measurement result had the requirements of AASB 116 *Property, Plant and Equipment* applied. Importantly, staff think that the Board's 'simplification' project objective does not mean the

Board will develop requirements aimed at removing volatility from the financial statements (e.g. through 'matching' or income smoothing policies).

20 The underlying assumption to this principle is that users of Tier 3 financial statements are not different to users of Tier 1 and Tier 2 financial statements in that they also require information that is that is relevant and faithfully representative of the economic phenomena. Implicit in the issue of AASBs is that the recognition and measurement criteria specified in Tier 1 reporting requirements provides a relevant and faithful representation of the economic phenomena. Consequently, staff think that in many cases, having regard to the cost constraint, it is only the 'completeness' of the recognition or measurement that should be sacrificed when simplifying Tier 1 reporting requirements.[15]

21 Maintaining consistency with Tier 1 and Tier 2 recognition and measurement requirements to the extent possible is important:

(a) because various articles of legislation classify entities into groupings based on financial thresholds calculated in accordance with accounting standards. It would be undesirable if the requirements resulted in an outcome where an entity would be classified into a grouping (e.g. 'large') based on compliance with Tier 1 reporting requirements, but a different grouping (e.g. 'small') based on compliance with Tier 3 reporting requirements, as this introduces uncertainty for preparers, auditors and regulators; and

(b) to facilitate the preparation of financial statements of mixed groups (groups including small NFP private sector subsidiaries or groups including both for-profit and NFP private sector entities).

22 Alternatively, the Board might take the view that the cost constraint on useful financial reporting justifies departing from presentation, classification, recognition and measurement criteria specified by Tier 1 or Tier 2 reporting requirements. This alternatively stated principle regards consistency with Tier 1 reporting requirements as a bonus, rather than a goal. This view considers that the costs incurred, and needed information of Tier 3 financial statements users, are different, and therefore different accounting may be warranted.

23 The view is supported by paragraphs 2.40 and 2.43 of the *Conceptual Framework*, which note:

"Providers of financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial information, but users ultimately bear those costs in the form of reduced returns. Users of financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it." [paragraph 2.40]

and

"…[T]he Board seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities. That does not mean that assessments of costs and benefits always justify the same reporting requirements for all entities. Differences may be appropriate because of different sizes of entities, different ways of raising capital (publicly or privately), different users' needs or other factors." [paragraph 2.43]

15 Paragraph 2.13 of the Conceptual Framework explains that a perfectly faithful representation of an economic phenomenon is one that is complete, neutral and free from error. Paragraph 2.14 of the Conceptual Framework states "A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. …".

24 Additionally, staff note that the *IFRS for SMEs* – which includes different recognition and measurement criteria to full IFRS – was developed in acknowledgement that small and medium enterprises had different users' needs and cost-benefit considerations (paragraphs BC44 – BC47 of *IFRS for SMEs*).

Proposed Tier 3 approach to disclosures

25 Some amount of effective communication will be sacrificed (providing comparability, if possibly less relevance) under the proposed principle in paragraph 9(g). However, staff note a prescriptive 'checklist' approach could be expected to satisfy user needs (at least, partly)[16] while providing clarity to preparers, and is in keeping with the Board's objectives for the project. While this is an apparent departure from the *Conceptual Framework*[17] and also appears inconsistent with the approach proposed by the IASB as part of IASB ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)*, staff think it is supported by paragraph 7.3 of the *Conceptual Framework* which acknowledges that:

"Just as cost constrains other financial reporting decisions, it also constrains decisions about presentation and disclosure. Hence, in making decisions about presentation and disclosure, it is important to consider whether the benefits provided to users of financial statements by presenting or disclosing particular information are likely to justify the costs of providing and using that information."

26 In executing a prescriptive approach to disclosures that acknowledges user needs and cost/benefit considerations, staff propose the Board consider the Tier 2 general purpose financial statements as the cap for possible Tier 3 disclosure requirements, except as necessary to acknowledge differences between Tier 3 recognition and measurement requirements and Tier 2 recognition and measurement requirements. Such approach would be consistent with recognising that the Board has already concluded, in effect, that the costs of Tier 1 disclosures not included as part of Tier 2 reporting requirements outweighs the benefits of presenting that information for NFP private sector entities (and consequently, a similar conclusion should be reached with respect to Tier 3 NFP private sector entities). To provide clarity for users, staff propose that under this approach, the Board considers but does not incorporate Tier 2 disclosure objectives as part of Tier 3 reporting requirements, but instead specify disclosures – limited by the Tier 2 cap – that in part provide information that to meet that objective. That is, the Tier 3 set of specified disclosures will not necessarily be sufficient to fully meet the identified disclosure objective.

27 Under the proposed principle, except with regards to modified accounting policies, NFP-specific disclosures that might provide useful information to users of Tier 3 general purpose financial statements – and, possibly also users of Tier 1 and Tier 2 general purpose financial

16 Staff think this assumption can be made having regard to existing Australian accounting standards, which historically require some extent of prescriptive information to be provided.

17 Paragraph 7.2 of the *Conceptual Framework* states "Effective communication of information in financial statements requires: (a) focusing on presentation and disclosure objectives and principles rather than focusing on rules; …" and paragraph 7.5 notes "Including presentation and disclosure objectives in Standards supports effective communication in financial statements because such objectives help entities to identify useful information and to decide how to communicate that information in the most effective manner." Paragraph 7.4 of the *Conceptual Framework* recognises that effective communication of information in financial statements is facilitated when developing presentation and disclosure requirements in Standards by a balance between (1) giving entities the flexibility to provide relevant information that faithfully represents the entity's assets, liabilities, equity, income and expenses; and (2) requiring information that is comparable, both from period to period for a reporting entity and in a single reporting period across entities.

statements – will not be developed as part of this project (e.g. service performance information). Staff propose that decisions on additional Tier 3 disclosures should be made having regard to the principles adopted by the Board in making decisions about the Simplified Disclosures regime (see bullet points (b) and (c) in Appendix A to this staff paper). This would maintain consistency in the decision-making thinking between the reporting Tiers.

28 The approach for disclosures proposed in paragraph 9(g) and 25 above differs from the ‘bottom up’ approach taken by the Board in developing AASB 1060, where which the Board justified adding disclosures to those specified by the *IFRS for SME*. When developing AASB 1060, the Board considered that approach to be a more rigorous and targeted way of reducing Tier 1 disclosures to an appropriate level, and which allowed for more flexibility in identifying disclosures to suit circumstances (versus being limited to Tier 1 disclosures only).[18] Staff have not proposed a similar approach for developing Tier 3 disclosure requirements because of:

(a) the challenges in identifying users and user needs in the NFP private sector. Staff think it would be more difficult for the Board to justify developing a disclosure requirement (having regard to (b) above) compared to specifying a disclosure that is already required by existing reporting requirements but which in practice may not be made having regard to the materiality of that disclosure; and

(b) challenges in identifying an appropriate base from which to ‘build up’. Based on the AASB research conducted to date, there are limited accounting pronouncements targeted at smaller entities; identified pronouncements include FRS 102 and FRS 105 issued by the UK Financial Reporting Council and *Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)* and *Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)* issued by the NZ External Reporting Board (XRB). However, staff think it would not be appropriate to start with any of these as a base to the extent the Board is not basing its Tier 3 reporting requirements on any of these pronouncements in their entirety.

29 As noted earlier, the *Conceptual Framework* considers that effective communication requires a focus on presentation and disclosure objectives and principles, rather than rules. Alternative to the prescriptive approach proposed by staff, the Board could instead elect to adopt as a principle:

(a) in recognition of the cost constraint, to adopt Tier 2 disclosure objectives but further reduce the disclosure set specified in Tier 2 reporting requirements. New disclosures should be introduced only where necessary to recognise differences in recognition or measurement from Tier 2 recognition and measurement criteria. Under this approach, an entity should provide information that meets that disclosure objective, including the specified disclosures; or

(b) to develop new Tier 3 overall and specific disclosure objectives and non-mandatory information that may enable the entity to meet the disclosure objective; or

(c) to adopt a prescriptive approach, but to develop disclosure requirements tailored to meet the common information needs of expected users of Tier 3 financial statements. This includes developing additional requirements in recognition that users of Tier 3 financial statements may need information that is not ordinarily presented in Tier 1 or Tier 2 financial statements. This assumes the users of the Tier 3 financial statements differ to the users of Tier 1 and Tier 2 financial statements, and that such information would **not** be needed had the same entity elected to prepare Tier 1 or Tier 2 financial

18 Refer Basis for Conclusions paragraph BC29(c)-(d) and BC37 of AASB 1060.

statements (that is, the cost/benefit decision differs in respect of the disclosure between Tier 2 and Tier 3; the benefits outweigh the costs for Tier 3, but the costs outweigh the benefits in Tier 2).

30 Staff do not support any of these approaches. While (a) could be expected to be largely consistent with the prescriptive approach supported by staff, staff think that disclosure objectives introduce unnecessary complexity especially where the reduced set of 'minimum disclosures' does not provide all the information that helps users to evaluate the asset, liability or other financial statement element. Staff do not support (b) as staff think this introduces unnecessary complexity for preparers and is not in keeping with the project objectives. Staff could support (c) but think that further research would first be necessary to identify whether the information needs of users of Tier 3 financial statements are not also information needs of users of Tier 2 or Tier 1 financial statements. In addition, staff note that additional requirements could be developed by the Board in the future, rather than as part of this project.

Question to Board members

Question 1 Do Board members agree that the Board should form its preliminary views for inclusion in a discussion paper about Tier 3 reporting requirements based on the following principles (identified in paragraph 9)?

(a) the entity population that the Board is concerned with are entities that might fall within the proposed revised ACNC 'medium' threshold; being entities with revenues between $500,000 and $3 million;

(b) that financial statements developed by the Board under Tier 3 reporting requirements will be general purpose financial statements;

(c) information that reflects how efficiently and effectively management has managed the entity's resources, but which does not help existing and potential primary users in making decisions relating to providing resources to the entity, is not 'useful financial information', and therefore need not necessarily form part of the Tier 3 general purpose financial statements;

(d) where possible, accounting policies should reflect the information management uses to make decisions about the entity's operations so as to allow users to assess the entity's performance and financial position from the same perspective as management;

(e) the development of Tier 3 reporting requirements should be subject to the AASB's *Not-for-Profit Entity Standard-Setting Framework*;

(f) subject to cost/benefit considerations, to prioritise consistency with Tier 2 presentation, classification, recognition and measurement criteria, so as to limit unnecessary accounting differences between the reporting Tiers;

(g) to adopt a prescriptive 'checklist' approach to disclosures that recognises that existing and potential resource providers such as funders and donors may be more interested in information about the entity's actual service performance and planned outcomes (i.e. fewer disclosures may be warranted), than of a report of the entity's financial position and financial performance, and that interested member/shareholder users may be able to obtain further detail of reported financial information by other means; and

(h) does not impose disproportionate costs to preparers, when compared to benefits of that information.

Other possible principles on which the Board's decision-making might be based

31 In addition, staff considered the following as potential principles on which the Board might base its decisions about Tier 3 reporting requirements:

(a) consistency with the Australian conceptual frameworks;

(b) Tier 3 recognition and measurement proposals must be less complex compared to Tier 1 recognition and measurement criteria;

(c) consistency with Tier 3 or Tier 4 NZ reporting requirements; and

(d) consideration of the appropriateness of any developed Tier 3 reporting requirement for application by NFP public sector entities.

32 Staff do not think that consistency with the *Conceptual Framework* or the *Framework for the Preparation and Presentation of Financial Statements* should be a principle by which the Board makes is decisions about Tier 3 reporting requirements. As highlighted by paragraphs 9(b) and 9(c) above, this is not to say that consistency with the conceptual framework should be disregarded; but rather, in acknowledgement that the conceptual frameworks should be an aspirational framework. Therefore, while consistency with the conceptual framework should be valued, this does not preclude the Board from making decisions at a standards-setting level that departs from it (for example, with regards to focusing on disclosure objectives). The Board's development of Tier 3 reporting requirements is at a standards-setting level. For this reason, staff do not support this as a principle.

33 The Board's discussions to date suggest that the Board is keen to develop less onerous reporting requirements as part of its Tier 3 reporting Tier where such are sufficient to serve the needs of users. However, staff think that it might continue to be appropriate to retain various recognition and measurement criteria or concepts specified in Tier 1 and Tier 2 reporting requirements, even if less onerous recognition and measurement requirements could be developed. Staff think, to the extent possible, it would be beneficial to practitioners, preparers, users and others if differences between Tier 3 reporting requirements and other types of general purpose financial statements were limited, so as to avoid maintenance and knowledge transfer costs. For example, it might be 'easier' and less costly for preparers if all post-reporting date events were considered to be non-adjusting events subject only to disclosure; however, this modification might not be sufficient meet the needs of users of the financial statements. For this reason, staff do not recommend that the Board base its decision-making on a principle that Tier 3 recognition and measurement proposals must always be less onerous compared to Tier 1 recognition and measurement counterparts.

34 The Board has on various occasions previously discussed using New Zealand Tier 3 or Tier 4 NFP reporting requirements as a starting point from which to develop Australian Tier 3 reporting requirements (see also paragraphs 37 – 40 below). While staff acknowledge that harmonisation with New Zealand reporting requirements should be sought and intend to have regard to the New Zealand Tier 3 or Tier 4 NFP reporting requirements in suggesting alternatives to the Board, staff do not propose the Board make its decisions based on the consistency of the outcome with NZ Tier 3 or Tier 4 reporting requirements. This is because the NZ reporting requirements are (1) developed having regard to a different international accounting standard and conceptual basis, and (2) exist as a 'package' including non-financial

information that complements the more basic financial statements. Further, at its 24-25 February 2021 meeting, the Board decided not to develop requirements about service performance information as part of this project; consequently, such information will not be present to provide a counterbalance to any information gap introduced by less onerous reporting requirements. For these reasons, staff do not support this as a principle.

35 Staff note consideration of the appropriateness of any developed Tier 3 reporting requirement for application by public sector entities might be a possible principle, in recognition of the Board's transaction neutrality position. However, staff do not support this being identified as a working principle for making decisions on this project because the Board has not yet having sufficiently progressed its project on revising the differential reporting framework for public sector entities. Consequently, whether a similar further reporting Tier will be developed is unknown at this time. (However, given the Board's views on transaction neutrality, staff think – while not identified as a principle – this should be a consideration of the Board when forming its preliminary views, especially with regards to recognition and measurement.)

36 Staff note that additional principles against which the Board will form its preliminary views for inclusion in a discussion paper about Tier 3 reporting requirements, or amendment to the above suggested principles, may become apparent or be developed only as the Board analyses specific matters. Therefore, it may be necessary to revisit and update any agreed set of principles as the project progresses.

Questions to Board members

Question 2 Do Board members agree with the staff view that the following principles (identified in paragraph 31) should not form part of the principles against which the Board forms its preliminary views for inclusion in a discussion paper about Tier 3 reporting requirements?

(a) consistency with the Australian conceptual frameworks;

(b) Tier 3 recognition and measurement proposals must be less complex compared to Tier 1 recognition and measurement criteria;

(c) consistency with Tier 3 or Tier 4 NZ reporting requirements; and

(d) consideration of the appropriateness of any developed Tier 3 reporting requirement for application by NFP public sector entities.

Question 3 Are there any other principles that Board members consider should form part of the set of principles against which the Board forms its preliminary views for inclusion in a discussion paper about Tier 3 reporting requirements?

Using New Zealand Tier 3 (or Tier 4) as a starting point from which to develop AASB Tier 3 reporting requirements

37 Staff note that the preliminary outreach to stakeholders on a revised Australian financial reporting framework for NFP private sector entities suggested potential alignment with NZ Tier 3 reporting requirements. However, staff have developed the proposed principles discussed in paragraphs 8 – 30 of this staff paper on the assumption that the Board will not be using NZ Tier 3 (or Tier 4) reporting requirements as the base from which to develop proposed AASB Tier 3 reporting requirements. Staff have made this assumption for the reasons specified in paragraph 38 and 39 below. Should the Board determine otherwise, staff think that the

principles above will need to be reconsidered, and include principles justifying modification from NZ reporting requirements.

38 Now that the Board is forming its views on possible Tier 3 reporting requirements, staff note (in line with project plan) that the proposed Tier 3 reporting requirements need not be (or, be based on) an adoption of another jurisdiction's pronouncement in its entirety (or its recognition and measurement requirements in their entirety), noting that project plan outlined use of NZ Tier 3 to base off the initial consultations to further assess its suitability and identify necessary modifications. Adopting another jurisdiction's pronouncement in its entirety (or using it as a starting base) – while useful to obtain feedback to shape the framework, for references, and for assessing the completeness of the Board's decision-making topics – might not be suitable for reasons including:

(a) the proposed AASB Tier 3 reporting requirements would form part of a differential reporting framework applying to all NFP private sector entities. Hence, consideration must be given to the implications of any Tier 3 decisions for consistency or operationability within that framework. For example, NZ Tier 3 reporting requirements do not include "income" as a concept, referring only to "revenue"; the Board would need to consider how to address the inconsistency between the NZ reporting requirements, AASB Tier 1 reporting requirements (e.g. AASB 1058 *Income of Not-for-Profit Entities*), and the Australian conceptual framework if it were to develop AASB Tier 3 reporting requirements from such base; and

(b) the recognition, measurement, presentation and disclosure decisions of other jurisdictions have been made having regard to their own standard-setting and conceptual frameworks, which might differ to the AASB's *Not-for-Profit Entity Standard-Setting Framework*, *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) and *Framework for the Preparation and Presentation of Financial Statements*. For example, the New Zealand XRB's accounting requirements for NFP entities are based on International Public Sector Accounting Standard (IPSASB) pronouncements and the IPSASB conceptual framework, and do not include a concept of other comprehensive income (although some NZ standards refer to 'other comprehensive revenue and expense').

39 Using NZ Tier 3 (or Tier 4) reporting requirements as a starting basis may also be no longer as appropriate having regard to the Board's tentative decision at its 24-25 February 2021 meeting not to develop new service performance information requirements as part of this project. This is because such disclosures are a necessary complement to the financial information in NZ Tier 3 (and Tier 4) performance reports.[19] Additionally, as the Board has tentatively decided not to specify the form of the financial statements that NFP entities prepare (through its tentative decision not to develop requirements about reporting thresholds), it is unclear whether it is NZ Tier 3 reporting requirements or NZ Tier 4 reporting requirements that would provide the starting basis. (Staff note that while the Board's discussions have generally implied that the proposed Tier 3 reporting requirements will be accruals-based, rather than cash-based proposals, the Board has not yet made any decisions in this regard.)

40 When considering the areas in which the Board might decide to develop a preliminary view, staff had (and will continue to have) regard the topics addressed by NZ Tier 3 and NZ Tier 4 reporting requirements. Appendix B to Agenda Paper 3.1 included staff's initial analysis of topics for the Board's future consideration, following this approach. Staff expect to include the

19 Per AASB Action Alert No. 206 (issued 1 March 2021), "… The Board also tentatively decided not to include any service performance reporting proposals in this consultation document, subject to clear communication of how it would address this topic and feedback from relevant regulators on the interaction of this decision with their priorities. …"

NZ reporting requirement as a possible alternative for the Board's consideration (alongside consideration of the NFP reporting requirement adopted by other jurisdictions), when considering specific topics.

Question to Board members

Question 4 Do Board members agree with the staff proposal that NZ Tier 3 (or NZ Tier 4) reporting requirements should not form a base from which to develop proposed AASB Tier 3 reporting requirements?

Definition of a not-for-profit entity

41 Agenda Item 4 sought the Board's direction on how to finalise its project on a revised definition of a not-for-profit entity. While the staff proposal in Agenda Item 4 is for the definition to not yet be effective until its NFP Private Sector Financial Reporting Framework project (this project) is complete, as early adoption is possible, staff think that the Board should have regard to the revised definition when developing its proposals on its NFP financial reporting framework project. This is because the entities impacted by the Board's proposals will be those qualifying under the revised definition. Staff note that the revised definition is not expected to significantly impact the manner in which the majority of entities currently classify themselves for the purposes of financial reporting.

42 Staff observe that the Board could be seen as re-exposing the definition of a not-for-profit entity for comment as part of this project. However, staff note that the Board could, if it wishes, note as part of its discussion paper that it is not seeking feedback on the definition of a not-for-profit entity.

Questions to Board members

Question 5 Do Board members agree with the staff view that the Board should have regard to the revised definition of a not-for-profit entity (refer Agenda Item 4) when developing its proposals as part of its financial reporting framework project?

Question 6 Do Board members want to explicitly note that the Board is not seeking feedback on the revised definition as part of its discussion paper on a proposed revised financial reporting framework?

APPENDIX A: Determining Tier 2 presentation and disclosure requirements for for-profit private sector entities

The Board, when determining the presentation and disclosure requirements that would form part of its Tier 2 reporting requirements for for-profit private sector entities, decided to adopt a bottom-up approach, beginning with the presentation and disclosure requirements specified by the IASB's *IFRS for SMEs*. The Board adopted the following broad principles in developing AASB 1060 *General Purpose Financial. Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities*:

(a) to not require disclosures specified by the *IFRS for SMEs* where the requirement had been removed from 'full' IFRS after the *IFRS for SMEs* Standard had been finalised;

(b) to require disclosures in addition to those specified by *IFRS for SMEs*, as assessed against the following broad principles:

  (i) users of the financial statements of for-profit entities that are not publicly accountable entities are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities. Thus disclosures in full IFRS Standards that provide this sort of information are necessary;

  (ii) users of the financial statements of for-profit entities that are not publicly accountable entities are particularly interested in information about liquidity and solvency. Thus disclosures in full IFRS Standards that provide this sort of information are necessary;

  (iii) information on measurement uncertainties is important;

  (iv) information about an entity's accounting policy choices is important;

  (v) disaggregations of amounts presented in the financial statements of for-profit entities that are not publicly accountable entities are important for an understanding of those statements;

  (vi) some disclosures in full IFRS Standards are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical for-profit entities that are not publicly accountable entities;

  (vii) disclosures should be added where addressing a matter of public policy or reflect Australian specific issues;

(c) to determine disclosures that are relevant for Tier 2 entities having regard to user needs and cost/benefit considerations. This could result in the non-inclusion of a disclosure specified by *IFRS for SMEs*; and

(d) having regard to an existing IASB project that might result in further amendment being required, to limit tailoring of disclosure requirements to the absolute minimum (i.e. to avoid differences to the *IFRS for SMEs Standard* as far as possible).

Further detail is included in paragraphs BC34 – BC50 of AASB 1060.

APPENDIX B: High-level summary of financial reporting obligations of NFP private sector entities

The table below summarises at a high level the reporting requirements applicable to common legal structures employed by NFP entities. It has been compiled primarily from data collected for the purposes of preparing AASB Research Report 10 *Legislative and Regulatory Financial Reporting Requirements* (September 2019).

Entity structure	Requirement	Classification criteria
Proprietary companies	A large proprietary company must prepare a financial report that is in accordance with accounting standards. Small proprietary companies are generally not required to prepare a financial report except on (1) direction by ASIC, (2) on request of at least 5% of shareholders, (3) if it is controlled by a registered foreign company, or (4) if it has at least one crowd-sourced funding (CSF) shareholder.	A large proprietary company satisfies 2 of the following 3 criteria: • (consolidated) revenue ≥ \$50 million • (consolidated) gross assets ≥ \$25 million • (consolidated entity) employees ≥ 100 Revenue and gross assets are to be calculated in accordance with accounting standards.
Public companies	A public company must prepare a financial report that is in accordance with accounting standards. Exemptions apply to (1) small public companies limited by guarantee and (2) companies where relief is available under ASIC Corporations (Wholly owned-Companies) Instrument 2016/785.	A company is a small company limited by guarantee for the financial year if: • (consolidated) revenue is < \$250,000; and • it is a company limited by guarantee for the whole of the financial year; and • is not a deductible gift recipient at any time during the financial year; and • is not a building society, credit society or credit union. The entity must also not be a public sector entity identified in s45B of the Corporations Act 2001. Revenue is calculated in accordance with accounting standards.
Aboriginal and Torres Strait Islander corporations	The following entities must prepare a financial report that is in accordance with accounting standards (whether or not the corporation is, or would be, regarded as a reporting entity, and to the extent AASBs are able to be applied to an Aboriginal and Torres Strait Islander corporation): • a large Aboriginal and Torres Strait Islander corporation; and • a medium or small Aboriginal and Torres Strait Islander corporation that has consolidated gross operating income ≥ \$5 million;	An Aboriginal and Torres Strait Islander corporation is a large corporation for a financial year if it satisfies at least 2 of the following criteria: • consolidated gross operating income ≥ \$5 million • consolidated gross assets ≥ \$2.5 million • consolidated entity employees ≥ 25

Entity structure	Requirement	Classification criteria
	• a medium Aboriginal and Torres Strait Islander corporation that has consolidated gross operating income < $5 million; and • a small Aboriginal and Torres Strait Islander corporation that has consolidated gross operating income of > $100,000 and < $5 million. However: • a medium Aboriginal and Torres Strait Islander corporation that has consolidated gross operating income < $5 million; and • a small Aboriginal and Torres Strait Islander corporation that has consolidated gross operating income of > $100,000 and < $5 million, do not have to prepare the AASB-compliant financial report if the entity: • is not required by the accounting standards to prepare consolidated financial statements; and • ≥ 90% of its gross operating income consists of funding provided by one or more funding bodies; and • as a condition of the provision of funding, the entity is required to prepare and submit to the funding body/bodies, an annual report(s) accounting for the expenditure of the funding by the entity over the full financial year. The entity may instead prepare instead the annual report prepared for the funding body, and a balance sheet and income and expenditure statement for any assets and liabilities and income and expenditure of the entity in the financial year which has not already been included in any of the annual reports.	An Aboriginal and Torres Strait Islander corporation is a medium corporation for a financial year if it satisfies at least 2 of the following criteria: • consolidated gross operating income ≥ $100,000 • consolidated gross assets ≥ $100,000 • consolidated entity employees ≥ 5
Registered schemes, including charitable investment fundraisers	A registered scheme must prepare a financial report that is in accordance with accounting standards. (A registered scheme may be an ACNC-registered entity. In the event ACNC requirements do not require a financial report to be lodged because the entity is a small charity, a charitable investment fundraiser must, if it has issued debentures or interests under the exemptions provided by ASIC Regulatory Guide 87 *Charitable schemes and School Enrolment Deposits*, lodge its financial report with the ASIC. RG87 requires the financial report of a non-reporting entity to comply with AASB recognition and measurement requirements that apply to reporting entities.)	

Entity structure	Requirement	Classification criteria

Co-operatives (other than NSW and VIC housing societies)
 	
(Co-operatives are governed by state legislation, but the requirements are generally aligned across jurisdictions)
	A large co-operative must prepare a financial report (or a concise report) that is in accordance with accounting standards.
	
	Small co-operatives must either:
	• if a direction from shareholders or the Registrar is given, prepare a financial report in accordance with those directions. This may require the financial report be prepared in accordance with accounting standards (the default position).
	• otherwise, prepare a financial report that gives a true and fair view of the entity. A small co-operative that has consolidated revenue < $750,000 and consolidated gross assets < $250,000 need not present a cash flow statement as part of the financial report.
		A co-operative is small if it:
		• satisfies at least 2 of the following criteria:
		  • (consolidated) revenue < $8 million;
		  • (consolidated) gross assets < $4 million
		  • (consolidated entity) employees < 30; and
		• has no securities on issue to non-members during that year, other than securities issued to former members after cancelling their membership; and
		• has not issued shares to more than 20 members in a financial year or, if it is has done this, the amount raised by issuing those shares does not exceed $2 million.

Co-operatives (NSW and VIC co-operative Housing Societies)	A NSW co-operative housing society regulated under the *Co-operative and Starr-Bowkett Societies Act 1998* must prepare a statement of financial position and statement of financial performance that gives a true and fair view of the profit and loss and state of affairs of the entity for the financial year. A VIC co-operative housing society regulated under the *Co-operative Housing Societies Act 1958* must allow members and creditors to inspect a copy of the last audited balance sheet and final accounts. The Act does not specify how these are to be prepared.	
Incorporated associations (ACT)	All incorporated associations must prepare an annual statement of accounts that gives a true and fair account of (a) the income and expenditure of the association during the most recently ended financial year of the association; and (b) the assets and liabilities of the association at the end of that financial year; and (c) any mortgages, charges or other securities of any description affecting any property of the association at the end of that financial year; and (d) specified information about each trust of which the association was the trustee during a period in that financial year; and (e) any prescribed matters. The governing Act contemplates that the Australian accounting standards may not result in a 'true and fair' account (refer s.76(3) of the *Associations Incorporation Act 1991*).	
Incorporated associations (NSW)	Tier 1 NSW incorporated associations must prepare financial statements that are in accordance with Australian accounting standards. Tier 1 NSW incorporated associations with revenue <$2 million are relieved from full compliance with Australian accounting standards as long as they comply certain conditions, including that the financial statements must comply with recognition,	A Tier 1 NSW incorporated association has either: • gross receipts (revenue) > $250,000; or • current assets (assets other than property and depreciable assets) > $500,000

Entity structure	Requirement	Classification criteria
	measurement and classification of Australian accounting standards and consolidate subsidiaries other than trustees for which the entity is a trustee (Class Order 11/01 *Financial reporting requirements*). A statement of cash flows is not required. Tier 2 NSW incorporated associations must prepare financial statements that give a true and fair view of the entity's affairs. Neither a statement of changes in equity nor a statement of cash flows is required.	A Tier 1 incorporated association with revenue < $2 million may obtain reporting relief under Class Order 11/01. The reporting relief enables the entity to prepare financial statements that do not fully comply with AASB Tier 1 or Tier 2 reporting requirements.
Incorporated associations (NT)	Tier 3 NT incorporated associations must prepare financial statements that comply with Australian accounting standards. Tier 2 and Tier 1 NT incorporated associations must prepare financial statements that either comply with Australian accounting standards and certain other information or a specified special purpose financial statement template (balance sheet, profit or loss statement and limited notes).	A Tier 3 NT incorporated association • gross receipts > $250,000; or • gross assets > $500,000; or • is an incorporated trading association [i.e. a for-profit entity]. A Tier 2 NT incorporated association has: • gross receipts > $25,000 and ≤ $250,000; or • gross assets > $50,000 and ≤ $500,000; or • holds a licence under the *Gaming Machine Act*; or • is a prescribed incorporated association or a member of a class of prescribed incorporated associations.
Incorporated associations (Qld)	An incorporated association must prepare a financial statement for the financial year. The Act does not specify how these are to be prepared but does defines a 'financial statement' as "a statement containing the following particulars – (a) the association's income and expenditure during the financial year to which the statement relates; (b) the association's assets and liabilities as at the end date of the financial year to which the statement relates; (c) the mortgages, charges and securities affecting the association's property as at the end date of the financial year to which the statement relates.	Queensland incorporated associates are classified as 'level 1', 'level 2' or 'level 3' for the purposes of the entity's audit obligations. 'Level 1' incorporated associations are the largest, being those that have current assets >$100,000 or total revenue >$100,000.
Incorporated associations (SA)	A prescribed association must prepare accounts in respect of the financial year. The Act allows the accounts of an incorporated association to be prepared under the cash basis or accrual basis of accounting. It does not require compliance with Australian accounting standards. Other associations are not required to prepare accounts.	A prescribed association has either prior year gross receipts > $500,000 or is an identified by regulation as a prescribed association. Gross receipts include grants or subsidies but excludes fees, subscriptions and levies paid by a member, bequests, and receipts from asset sales (unless bought to resell).

Entity structure	Requirement	Classification criteria
Incorporated associations (TAS)	An association with revenue > $250,000 must keep accounting records that enable the preparation from time to time of true and fair accounts of the association. The financial affairs of the entity must be audited after each financial year end.	
Incorporated associations (VIC)	Tier 3 and Tier 2 incorporated associations must prepare financial statements in accordance with Australian accounting standards. A Tier 1 incorporated association must prepare financial statements that give a true and fair view of the financial position and performance of the association. There is no requirement for these to comply with Australian accounting standards. Neither a statement of changes in equity nor a statement of cash flows is required.	Tier 3 incorporated association: Revenue (total income) > $1 million during the last financial year Tier 2 incorporated association: Revenue (total income) between $250,000 – $1 million during the last financial year Tier 1 incorporated association: Revenue (total income) > $250,000 during the last financial year
Incorporated associations (WA)	Tier 3 and Tier 2 incorporated associations must prepare a financial report that is in accordance with Australian accounting standards. A Tier 1 incorporated association must prepare financial statements that give a true and fair view of the financial position and performance of the association. The Act allows the financial statements to be prepared under the cash basis or accrual basis of accounting and identifies required financial statements.	Tier 3 incorporated association: Revenue > $1 million Tier 2 incorporated association: Revenue between $250,000 – $1 million Tier 1 incorporated association: Revenue < $250,000

Note: The table above references financial reports that must be prepared in accordance with accounting standards. In certain cases, the governing legislation generally also references that the financial report must comply with any further requirements set out in related Regulations, which may allow for modification of the accounting standards.

The table below summarises at a high level the reporting requirement applicable of several entity natures, and has been compiled primarily from data collected for the purposes of preparing AASB Research Report 10 *Legislative and Regulatory Financial Reporting Requirements* (September 2019).

Entity nature	Requirement	Classification criteria
Charity registered with the ACNC	Medium and large charities must lodge a financial report that complies with Australian accounting standards with the ACNC. However, the Act allows for certain entities to lodge together one or more financial report as a reporting group. The Commissioner may allow that financial report to be prepared on a basis other than an entity-by-entity basis (e.g. by functions). Small charities are required only to complete an annual information statement.	Large: Revenue > $1 million Medium: Revenue between $250,000 and $1 million Small: Revenue < $250,000 [Proposed revised thresholds: Large: Revenue > $3 million Medium: Revenue between $500,000 and $3 million Small: Revenue < $500,000]

Entity nature	Requirement	Classification criteria
Friendly society/ life insurance entity	Requires specified forms to be completed by reference to the basis specified by AASB accounting standards.	n/a
Aged care entity	An approved non-governmental provider of residential care services must prepare a general purpose financial report as though the provider were a SAC 1 reporting entity.	n/a
Higher education provider	The *Tertiary Education Quality and Standards Agency Act 2011* (TEQSA Act) requires a registered higher education provider to give TEQSA an annual financial statement. For non-Table providers, TEQSA will accept a AASB-compliant general purpose financial statement, a special purpose financial statement that complies with specified AASBs (if the entity is not required by the Corporations Act or the AASB to prepare GPFS). Table A providers can submit financial statements prepared in accordance with the Department of Education and Training's Financial Statement Guidelines.	n/a