



Project:	Not-for-Profit Private Sector Financial Reporting Framework	Meeting:	M179
Topic:	Scope of the NFP FRF project – Service Performance Reporting	Agenda Item:	5.4
		Date:	10 February 2021
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		Decision-Making:	High
		Project Status:	Decide scope of consultation document and key aspects of possible differential reporting framework

OBJECTIVE OF THIS PAPER

- 1 The objective of this agenda item is for the Board to:
 - (a) **decide** whether to consult on the service performance reporting (SPR) as part of the consultation on the Not-for-Profit Private Sector Financial Reporting Framework (NFP FRF project).

REASONS FOR BRINGING THIS PAPER TO THE BOARD

- 2 [AASB Staff Paper Improving Financial Reporting for Australian Charities](#) (November 2017) suggested various forms an Australian differential reporting framework could take. Some of the alternative frameworks contemplated a differential reporting framework similar to the framework applying to New Zealand NFP public benefit entities (PBEs). SPR requirements are integrated parts of the Tier 3 and Tier 4 NZ PBEs standards.
- 3 Feedback from subsequent outreach in November 2018, as communicated to the Board as part of the [project plan](#) for the NFP FRF project, suggested stakeholder support instead for a differential reporting Tier framework that might have as its bases:
 - (a) [i.e. Tier 1] full recognition, measurement and disclosure (for publicly accountable entities)
 - (b) [i.e. Tier 2] full recognition and measurement, reduced disclosure
 - (c) simplified recognition, measurement and disclosure (possibly based on NZ PBE Tier 3 reporting requirements)
 - (d) annual information statements for ACNC-registered entities / cash accounting financial statements (possibly based on NZ PBE Tier 4 reporting requirements)
- 4 In line with the [project plan](#) approved in November 2019, staff started the initial targeted consultations with staff of regulators and with Not-for-Profit Project Advisory Panel (PAP)

members on the high-level design of the multi-tier reporting framework in August 2020, including possible inclusion of the Service Performance Reporting (SPR) requirements. The feedback suggested tentative support for using NZ PBE Tier 3 and Tier 4 reporting requirements as a starting point to develop the Australian NFP private sector differential reporting framework.

- 5 At its September 2020 meeting, the Board instructed staff to continue with the targeted consultations to further inform the Board's deliberations on the next steps. Based on the feedback presented to the Board at its September 2020 ([agenda item 5.1](#)) and November 2020 meetings ([agenda item 3.1](#)), the Board decided to develop a public consultation document.
- 6 At its November meeting, the Board noted further feedback from the initial targeted consultations and decided to develop a Consultation Paper. The Board emphasised the importance and urgency of the financial reporting issues and agreed to review the project timeline after considering the scope of a working draft of the consultation paper at the February 2021 Board meeting.
- 7 One of the key aspects identified was whether to include SPR in the consultation document, given this topic has attracted diverse views from the stakeholders.
- 8 This paper responds to the Board's direction (informed by the feedback from initial targeted consultations) by assessing whether to include service performance reporting as part of the consultation for the NFP FRF project.

STRUCTURE

- 9 This Staff Paper is set out as follows:
 - (a) Background (paragraph 10-22)
 - (b) Summary of staff analysis (para. 23-36)
 - (c) Staff recommendations and Questions to the Board (para. 37-41)
 - (d) Appendix 1: Detailed staff analysis whether to consult on Service Performance Reporting as part of the NFP FRF project (para. 42-67)

BACKGROUND

- 10 In [November 2019](#), the Board approved the [project plan](#) for NFP Private Sector FRF with objective to develop simple, proportionate, consistent and transparent financial reporting framework for all NFP private sector entities in Australia. One of the possible features of the future framework is the development of standards addressing service performance reporting requirements and other information integral to financial reporting in the NFP sector.
- 11 Following the approval of the project plan, staff have taken the opportunities to consult with preparers, users, auditors and advisors, academics and staff of the regulators on possible changes to the NFP private sector FRF. Summary of the initial feedback was presented to the Board for consideration in its meetings in September ([agenda item 5.1](#)) and November 2020 meetings ([agenda item 3.1](#)).
- 12 In the targeted consultation, some stakeholders questioned the AASB's role in mandating non-financial information (see p.15 of agenda item 5.1 M177). They think that the disclosure of non-financial information should not be extended beyond companies limited by guarantee and the information disclosed in the Directors' Report in accordance with the *Corporations Act 2001* as it is not the AASB's role to mandate disclosure of non-financial information (but rather the relevant regulators' decision to mandate such disclosure).

- 13 As stated in the Preface (p.7) of ED 270, the AASB's powers and functions are set out under Part 12 Section 227 of the *Australian Securities and Investments Commission Act 2001*. Section 227 (1)(c) allows the AASB to "formulate accounting standards for other purposes"¹ and it is under this function that the AASB has the mandate to develop an Australian Accounting Standard for reporting service performance information.
- 14 Some stakeholders also raised concerns regarding the balance between users' need and cost to implement the SPR requirements, whether to report SPR information as part of the financial statements, and the assurability of information about the service performance of NFP entities. Staff would like to take the opportunity for the Board to consider whether AASB should consult and if so, subsequently potentially develop requirements for SPR as part of the NFP FRF project, or whether to use the feedback from the initial targeted consultations to inform the next steps of the AASB's SPR project.
- 15 The Board's SPR project has been ongoing for several years. In 2015, the Board issued [AASB ED 270 Reporting Service Performance Information \(Aug 2015\)](#) which proposed a service performance reporting framework based on the IPSASB's non-mandatory guidance RPG 3 *Reporting Service Performance Information*. The project was initiated as part of the Board's response to concerns expressed by constituents that the disclosure requirements for private sector NFP entities by existing AAS are not sufficiently targeted to the needs of users (para. BC3, ED 270).
- 16 Service performance information in ED 270 includes information that relates to the organisation's performance objectives, inputs and outputs required to meet those objectives, outcomes from the organisation's activities, and effectiveness and efficiency in achieving organisational objective. ED 270 was issued with the view that service performance information (in conjunction with an entity's financial statements) can assist users of general purpose financial statements to assess an entity's performance (Preface, p.7, ED 270).
- 17 Feedback to ED 270 was supportive of the initiative, however, identified concerns with the proposed framework, including concerns for a potential increase in costs to provide service performance information, particularly for small and medium entities ([Agenda item 13.1, December 2016](#)).
- 18 The reporting of service performance information in ED 270 was intended to be applicable to all NFPs, in both public and private sectors, that are reporting entities. ED 270 allowed NFP reporting entities to have a choice as to how to present service performance information. For example, it may be provided as part of the financial statements or issued separately to the annual report.
- 19 In [December 2016](#), the Board lowered the priority of the SPR project and deferred its re-deliberations with further research and outreach in areas such as:
 - (a) consultation with users, preparers and regulators of service performance reporting;
 - (b) publishing any relevant academic research on user needs
 - (c) benchmarking existing frameworks and government reporting requirements;
 - (d) field-testing a number of large, not-for-profit entities already reporting service performance information;

¹ 'Other purposes' refers to purposes other than the purposes specified in section 227(1)(b) of *Australian Securities and Investments Commission Act 2001* that "to make accounting standards under section 334 of the Corporation Act for the purposes of corporations legislation (other than the excluded provisions)".

- (e) and using simpler language and providing a more overarching framework for the preparation of such reporting.
- 20 In response to the Board's direction from Dec 2016 (see para. 19(b) above), the AASB commissioned academics to undertake an independent literature review. [AASB Research Report 14 Literature Review: Service Performance Reporting for Not-for-Profits](#) was published in February 2020.
- 21 Another near-completed literature review describes and synthesises existing academic literature on financial reporting by public sector entities, private sector small and medium-sized entities (SMEs), not-for-profit entities including charities, and non-government organisations in Australia, New Zealand (NZ), the United Kingdom (UK), Europe and the United States of America (US). This literature review is now in the completion stages with expected publication in Q1 2021.
- 22 Staff have also undertaken a benchmarking exercise comparing how Australian current narrative reporting requirements compare to requirements in selected jurisdictions, in response to the Board direction as listed in para. 19(c). Staff will bring findings when the benchmarking is finalised for the Board to consider at a future meeting, to inform SPR project or the NFP FRF project, subject to the Board decision at this meeting.

SUMMARY STAFF ANALYSIS WHETHER TO CONSULT ON SERVICE PERFORMANCE REPORTING AS PART OF NFP FRF PROJECT

- 23 This section summarises the key considerations for whether to consult SPR as part of the NFP FRF project. Detailed staff analysis is included in [Appendix 1](#).

Overview of the reasons to consult on SPR as part of NFP FRF project

Users' needs and the gap in NFP reporting (para. 42-52)

- 24 A key objective of NFP entities is to provide services to members of the community, and the efficiency and effectiveness of the NFP entity in providing services would not be adequately reflected by 'financial' information alone. Based on the feedback from initial targeted consultation (para 42 in Appendix 1), analysis of users' needs for non-financial information (para. 43-46), and academic literature reviews (para. 48-49), it seems complementary to a reform of the NFP financial reporting framework that the service performance reporting project runs alongside this framework project to effectively dovetail into the broader reform of the reporting framework. The consultation document could be a good opportunity to engage with stakeholders and seek their comments on the need for SPR and the interaction between SPR and financial information.

Interaction with differential reporting framework (para. 53-56)

- 25 The SPR requirements are integrated parts of at least some of the possible starting points of current or future differential reporting framework (i.e. NZ Tier 3 and Tier 4 PBE standards, UK SORP, IFR4NPO) (para. 53-54). Particularly, when determining the possible options for tiers and each tier's reporting obligations, whether to include differentiated SPR requirements for the respective tiers is potentially an important aspect that could be consulted simultaneously to obtain a holistic perspective on the future shape of differential reporting including financial and non-financial information.

Opportunities to seek feedback for the existing SPR project (ED 270)

- 26 Proposals outlined in ED 270 can be considered as one of the possible options to serve as the basis based on which to develop future SPR requirements. Including SPR as part of the NFP FRF project also provide opportunities to undertake further consultation with users, preparers and

regulators of SPR, as mentioned in para 19(a) as the next steps of SPR project. The continuous engagement with stakeholders keeps the Board informed of any change in practice and/or new comments from the constituents towards the SPR project and help the Board to determine the plans forward for the project.

Overview of the risks and challenges associated with consultation on SPR as part of NFP FRF project

Complexities in developing requirements for SPR for NFPs (para. 57-63)

- 27 Some stakeholders during targeted consultations noted that the requirements for SPR may be complex to develop as the NFP sector is very diverse, with a variety of objectives, potentially complex operating models, and potentially limited measurement and reporting capabilities. Staff also noted that this the topic that appeared to attract the most diversity in the views during the initial targeted consultations. Additional time and resources would be required to enable sufficient research on the subject matter for a well-developed consultation document. This means that the NFP FRF project may be further deferred, which is not desirable.
- 28 Also, the cost for constituents to respond to SMCs related to both financial reporting and SPR requirements would be higher. The higher cost may discourage constituents to provide detailed and/or in-depth response, particularly for small entities whose resources are limited. Also, a longer consultation process and open for comment period may be required to ensure constituents have sufficient time to provide constructive comments for SMCs related to both financial reporting requirements and SPR. As a result, the project timeline could be further deferred.
- 29 Some stakeholders also questioned the assurability of SPR (see p.15 of [Agenda paper 5.1, M177](#)). Staff acknowledge the concerns for the assurability of SPR. However, the trade-off between information value provided, complexity and cost would be further exacerbated with the assurance considerations and it would likely further increase the complexity of NFP FRF project. Hence, staff consider it is not yet the time to consult on this issue in the NFP FRF consultation document.

On-going international developments (para. 64-67)

- 30 Some other possible options to consider as the basis to develop SPR requirements, other than the NZ PBE standards, including future revised *IFRS Practice Statement 1 Management Commentary* (MCPS) (see para. 64 below) and the guidance being developed by *International Financial Reporting for Non-Profit Organizations* (IFR4NPO) initiative (see para. 65-66), have been identified by the [AASB Staff Paper Improving Financial Reporting for Australian Charities](#) (p. 7) as a possible foundation to develop SPR for NFP entities.
- 31 IASB aims to publish an exposure draft of the revised MCPS in the second quarter of 2021. The [Consultation Paper International Financial Reporting for Non-Profit Organisations](#) was issued on 29th January 2020 and is currently open for comment, with targeted finalisation of the IFR4NPO guidance in 2025.²
- 32 The two projects above could be useful resources for the Board to consider in developing SPR requirements for Australian NFP private entities, and in line with AASB's *Not-for-Profit Entity Standard-Setting Framework* leveraging international when developing NFP guidance. Consistency in requirements to include non-financial information internationally would benefit stakeholders by providing additional information that might be useful for accountability and decision-making purposes. However, as the consultation on the proposals for the revised IASB

² The closing date for Part 1- General NPO financial reporting issues is on 30 July 2021 and the closing date for Part 2-Specific NPO financial reporting issue, including Issue 10: Narrative reporting, is 24th September 2021.

MCPS and future IFR4NPO guidance is in early-stages and will be on-going for some time, it would further put the timeline of the NFP FRF project at risk if SPR is part of the consultation paper and these projects are viewed as potentially suitable starting points to develop SPR in Australia.

- 33 To not further defer the consultation for NFP FRF, staff consider it is more time-efficient to focus on financial reporting requirements for this round of consultation and consult SPR separately at a later date as a continuation of the existing SPR project.

Conflicting scope between the NFP FRF project and the existing SPR project (ED270)

- 34 Admittedly, including SPR as part of the NFP FRF consultation document would help to obtain further feedback to inform the existing SPR project (ED 270). However, this additional feedback may be only limited to the NFP private entities, as the targeted consultation group for the NFP FRF project is private sector NFP entities. The existing SPR project was proposed for both private and public sector NFP entities. Public sector entities may miss out on the opportunity to provide further comment and feedback unless the scope of the consultation on this particular aspect would be extended to the public sector.

Interaction with Revised Conceptual Framework for NFPs project (para. 44-46)

- 35 A question arising in relation to the reporting information about service performance is whether such reporting is recognised and acknowledged sufficiently in the [Conceptual Framework for Financial Reporting](#) (May 2019) (the Revised Conceptual Framework or 'RCF').³ Paragraph 1.2 of the RCF describes the objective of the general purpose financial reporting as providing *financial* information about the reporting entity (emphasis added). While for the reasons outlined in para. 44-46 further below, the staff consider that information about service performance is within the scope of the RCF.
- 36 The interaction between the NFP FRF and RCF projects highlights the potential need to include consideration of this element in the consultation paper, which will further increase the complexity, time and effort required for the completion of the project.

STAFF RECOMMENDATION AND QUESTION TO THE BOARD

- 37 In summary, while the consultation on NFP FRF provides the opportunity to seek views publicly from the stakeholders on SPR, it is likely to require disproportionately more time and resources from both stakeholders and AASB compared to financial reporting elements of the NFP FRF.
- 38 Staff acknowledge the interaction between the differential reporting framework and SPR requirements. Some of the options for a potential basis to develop the SPR framework (i.e., revised IASB MCPS and IFR4NPO guidance) are still in drafting or early consultation stages and waiting for them would further defer the timeline for the NFP FRF project. Also, public sector stakeholders may miss the chance to provide further comments on SPR due to the scope of the NFP FRF consultation document focusing on NFP private sector entities.
- 39 On balance, **staff recommend to not include SPR as a separate section in the scope of the NFP FRF consultation document** as to not delay the NFP FRF project.⁴
- 40 Although staff are of the view to not include SPR as a separate section in the NFP FRF consultation document, staff recommends to reconfirm the importance and direction of the

³ The AASB's *Conceptual Framework for Financial Reporting* (the Revised Conceptual Framework or 'RCF') is applicable to for-profit entities. The Board is currently undertaking a project to modify this Conceptual Framework where necessary to enable application for not-for-profit entities.

⁴ The consultation document is expected to refer to SPR and outline Board's reasons to not include SPR in NFP FRF consultations as well as the expected next steps for SPR.

project in the proposed AASB Agenda Consultation (subject to Board's decision and further outreach as outlined in this meeting's Agenda Paper 4.1), and, subject to the result of the Agenda Consultation, to continue further research and outreach, such as leveraging the research referred in para. 20 and 21, benchmarking results exercise (see para. 22), feedback from initial targeted consultation, and field testing a number of NFP entities already reporting service performance information to continue with the SPR project.

41 If the Board does not agree with staff recommendation in para. 39 above, staff will bring the working draft for the SPR section to be included as part of the consultation document that will contain:

- proposed available options on which SPR for NFP FRF can be based on including consideration for any differential reporting needs across possible future reporting tiers, and
- factors considered for each option, including factors considered above;

for the Board's consideration at its next meeting.

Questions to the Board

1. Does the Board agree with the staff recommendation to not consult on the service performance reporting in the NFP FRF consultation document and outline the reasons in the consultation document including the next steps for the SPR project?
2. If the Board agrees with the staff recommendation in Question 1, does the Board agree with the staff recommendation to reconfirm the importance and direction of SPR project as part of the Agenda Consultation (subject to further outreach)?
3. If the Board does not agree with the staff recommendation, does the Board wish to consult on SPR for NFP private sector entities as part of NFP FRF consultation document across all tiers of future differential reporting framework? And if so, does the Board wish to consult on SPR for public sector NFP entities separately within the existing SPR project?

APPENDIX 1 – DETAILED STAFF ANALYSIS WHETHER TO CONSULT ON SPR AS PART OF NFP FRF PROJECT

Users' needs and the gap in NFP reporting

- 42 Some of the feedback from the initial targeted consultation suggests that service performance reporting has been noted as an important missing piece for users/donors. Financial information alone does not tell the full story and users would want to know more whether the entity is achieving its objective. Service performance information is not only relevant but also important for entities to discharge their accountability to the public, the largest funding source for many charities (p.15, [Agenda paper 5.1, M177](#)).
- 43 The primary objective of a for-profit entity is to obtain a return on investment for investors, therefore, to evaluate the entity's achievement of this objective, profit is frequently used as a measure of performance or as the basis for other measures. Generally, this information can be gained from the financial statements. However, in the NFP sector, an entity's primary objective is not the generation of profit, but rather the provision of goods and/or services for the community or social benefit (para. BC5 – BC6, ED 270). Information about the efficiency and effectiveness of management's use of the entity's economic resources is useful for predicting the financial consequences of how those resources are used. Therefore, to enable users to assess whether an NFP entity has met its objectives, it is necessary for such entities to report on its service performance (page 9, Preface to ED 270).
- 44 The comments noted in paragraph 42 are also consistent with the objective of financial reporting identified in the RCF. That objective (paraphrased) is to provide financial information about the reporting entity that is useful to the existing and potential resource providers in making decisions relating to providing resources to the entity (para. 1.2 of RCF). Staff consider that a key objective of NFP entities is to provide services to members of the community, and the efficiency and effectiveness of the NFP entity in providing services would not be adequately reflected by 'financial' information alone. An issue arising in relation to reporting information about service performance is whether such information is within the scope of the RCF, as stated in paragraph 1.2 of the RCF.
- 45 Staff observes that paragraph 1.4(b) of the RCF states that users of general purpose financial reports need information about "how efficiently and effectively the entity's management and governing board have discharged their duties to use the entity's economic resources". Paragraph 1.22 of the RCF adds that "Such information is ... useful for predicting how efficiently and effectively management will use the entity's economic resources in future periods ... [and] can be useful for assessing the entity's prospects for future net cash inflows". In short, information about the efficiency and effectiveness of management's use of the entity's economic resources is useful for predicting the financial consequences of how those resources are used. Although the examples of management's responsibilities to use the entity's economic resources given in paragraph 1.23 of the RCF do not include information about the efficiency and effectiveness of the entity's service delivery activities, staff consider that the efficiency and effectiveness of the entity's service delivery activities are inseparable from how efficiently and effectively management used the entity's economic resources. In addition, the staff consider that the efficiency and effectiveness of the entity's service delivery activities are likely to have financial consequences for the entity and its resource providers (and possibly also for other users of the entity's general purpose financial reports). Staff consider that information about service performance is within the scope of the RCF.
- 46 Regarding decisions made by providers of resources to NFP entities, paragraph AusOB2.1 of the Existing Conceptual Framework, [Framework for the Preparation and Presentation of Financial Statements](#), states that: "... parliaments decide, on behalf of constituents, whether to fund particular programmes for delivery by an entity, taxpayers decide who should represent

them in government, donors decide whether to donate resources to an entity, ...".⁵ The efficiency and effectiveness of the entity's service delivery activities are inseparable from how efficiently and effectively management used the entity's economic resources. Those who use financial reports to make decisions about allocating resources to a NFP entity would generally base those decisions on both the entity's performance in meeting its primary objective (i.e., service performance) and the entity's financial performance.

- 47 The benefits that were expected to flow from a service performance reporting standard include (Preface, p.9, ED 270):
- users of not-for-profit entity reporting would be provided with more relevant and understandable information about the financial and non-financial aspects of the entity;
 - greater consistency of reporting by not-for-profit entities; and
 - not-for-profit entities could better satisfy their accountability obligations.
- 48 The use of narrative and discussions in the reporting of service performance information by NFPs, especially when reporting on outcomes, including long-term outcomes is also supported by the academic literature. [AASB Research Report 14](#) (p.7) suggests that efficiency information reported by private NFPs in Australia remains limited and has not changed over time. Hence, mandating the reporting of service performance information is warranted as this would narrow the gap between stakeholders' information needs and what is currently reported by private NFPs.
- 49 Research report 14 also shows that NFPs report more extensive information regarding accountability in documents that are required by regulators based on the review of international research literature. This finding further supports the recommendation to mandate the service performance reporting as it could be beneficial given the current voluntary environment for such information in Australia (p.7, [AASB Research Report 14](#)).
- 50 The preliminary findings from the other near-completed literature review (mentioned earlier in para. 21) also show that for NFPs, non-financial information is wanted, and narrative reporting is valued. For example, a study in the UK, which focuses specifically on the relevance of commonly disclosed information from formal charity communications to the information needs of donors as a key stakeholder group, found that donors appear to link accountability to a demonstration that the money donated to the charity has been spent appropriately according to the purpose of the charity. Accountability is also linked by donors to stewardship and appropriate spending.⁶ It is clear from the study that small donors surveyed prefer narrative to formal audited communications, even though audited financial reports are nevertheless considered important in the sense that they act as a legitimising discipline on the activities of the charity. Though this study was carried out in the UK, staff consider the findings and the need for narrative reporting for NFPs are relevant to the current Australian financial and non-financial reporting landscape.
- 51 As such, it seems complementary to a reform of the NFP financial reporting framework that the service performance reporting project runs alongside this framework project to effectively dovetail into the broader reform of the reporting framework. A key objective of NFP entities is to provide services to members of the community, and the efficiency and effectiveness of the

5 The AASB's *Framework for the Preparation and Presentation of Financial Statements* is applicable to not-for-profit entities.

6 Connolly, C. and Hyndman, N. (2016). "Charity Accountability in the UK: Through the Eyes of the Donor." [Qualitative Research in Accounting & Management](#) 10(3-4): 259-278.

NFP entity in providing services would not be adequately reflected by 'financial' information alone.

- 52 The [ACNC legislative review](#) (p. 59) also shown support to further consultation for changes to potential reporting in relation to service/social performance, where one of the suggestions by the Panel is that further work is undertaken by the ACNC, AASB and AUASB, in consultation with the sector and other stakeholders, to consider further changes to the financial reporting framework for registered entities.⁷ As such, the consultation document could be a good opportunity to engage with stakeholders and seek their comments on the need for SPR and the interaction between SPR and financial information.

Interaction with differential reporting framework

- 53 From the research and benchmarking exercises, at this stage staff have identified the NZ PBE standards as one of the options based on which the AASB could develop the Australian SPR requirements. These options preliminary identified to date are:
- **Option 1:** New Zealand Public Benefit Entity Standards (NZ PBE) – NZ PBE Tier 3/Tier 4 reporting requirements (however, the implication for T1/T2 NFP private sector entities in Australia would need to be considered)
 - **Option 2:** UK Charities SORP (FRS 102) – *Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland* (Second Edition, October 2019)
 - **Option 3:** IASB future revised IFRS Practice Statement 1 *Management Commentary* (MCPS)
 - **Option 4:** [The International Financial Reporting for Non Profit Organisations](#) (IFR4NPO) – an initiative to develop internationally applicable financial reporting guidance for non-profit organisations
 - **Option 5:** potentially revised AASB ED 270 *Reporting Service Performance Information*
- 54 The SPR requirements are integrated parts of at least some of the possible starting points of current or future differential reporting framework (i.e. NZ Tier 3 and Tier 4 PBE standards, UK SORP, IFR4NPO). For example, the NZ PBE Standards is also one of the options that have been considered for differential financial reporting framework for private sector NFP entities by the [AASB Staff Paper Improving Financial Reporting for Australian Charities](#). Currently in the NZ, SPR requirements are mandated for Tier 3 and Tier 4 PBEs. Tier 1 and Tier 2 PBEs can select and present service performance per PBE FRS 48.⁸
- 55 There are concerns that mandating SPR for NFP will lead to inconsistency between FP and NFP sectors, as SPR is not mandatory for FP entities ([p.4, Agenda paper 3.1, M178](#)). In fact, a differential reporting approach is applied for FP entities for narrative reporting. Listed entities are subject to mandatory narrative reporting requirements under Section 299A of the Corporations Act and ASIC Regulatory Guide 247: *Effective disclosures in an Operating and Financial Review 2019* (RG 247). There is also voluntary guidance for listed entities, i.e. ASX

7 P.59, [Final Report – Strengthening for Purpose: Australian Charities and Not-For-Profits Commission Legislative Review 2018](#).

⁸ PBE FRS 48 will be effective from 1 January 2022 and is available for early adoption. The NZ PBE Standards also include a non-integral guidance on service performance reporting in PBE IPSAS 1 *Presentation of Financial Statements*. standard on service performance information, and subsequently added a project on service performance reporting to its agenda.

Guidance Note 10: *Review of Operations and Activities: Listing Rule 4.10.17*. Non-listed private sector entities are subject to mandatory requirements under Section 299A of the *Corporations Act*.⁹

- 56 Considering the interaction between SPR and the design of differential reporting framework, it therefore may be more efficient to include and consult on SPR with financial reporting requirements when seeking constituents' feedback for the option to develop Australian NFP FRF. Some of the relevant questions for further consideration related to this option, for example, include:
- If the AASB is to develop the Australian FRF, should the AASB just focus on the requirements relating to financial reporting?
 - Should the SPR requirements be made mandatory for all Australian NFP private sector entities that prepare GPFS?
 - Would the tier-based SPR requirements be appropriate for the Australian NFP private sector?

Complexities in developing requirements for SPR for NFPs

- 57 In the targeted outreach, some stakeholders expressed concerns for the complexity of NFP entities' services precludes the preparation of concise meaningful summaries of their service performance. (p.4, [Agenda paper 3.1, M178](#)). Feedback suggests that emphasis should be put on outcome/impact reporting rather than outputs because output measures:
- may be difficult to implement for some NFPs (e.g., grant-making entities and entities that do not provide direct services but effect changes through policy influencing and advocacy);
 - could produce misleading information; and
 - may not necessarily help improve comparability and could inadvertently lead to unintended consequences (i.e., focus on quantity and not quality/impact);
- 58 Staff concur with these comments to the extent it signals a trade-off between the usefulness and conciseness of information about service performance for those NFP entities providing a wide range of services that are not individually significant. Although this trade-off places practical limits on the extent to which reporting of service performance information by some NFP entities can provide a 'full picture' of their performance in achieving their key objectives, staff nevertheless consider that this trade-off does not reduce the complexity of SPR requirements.
- 59 The [study](#) presented at the 2019 AASB Research Forum¹⁰ also suggests that an SPR standard can be complex to develop. Researchers questioned the assumptions made in ED 270 made the operating model of NFPs and their capacities to report on objective and outcomes and concerned that with more assumptions, there is greater risk that intended objectives of the proposed requirements will diverge radically from the circumstances of real donors and NFPs. The NFP sector is very diverse, with a variety of objectives, potentially complex operating

9 A small proprietary company that is controlled by a foreign company may have to comply with certain financial reporting and auditing requirements, as set out in <https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/preparers-of-financial-reports/small-proprietary-companies/small-proprietary-companies-controlled-by-a-foreign-company-and-are-not-disclosing-entities/>.

10 Hall et al. (2019), Standardising the reporting of service performance information in Australia: An in-depth study of the not-for-profit user and preparer communities, working paper, presented at the 2019 AASB Research Forum, Nov 2019. Presentation available at [https://www.aasb.gov.au/admin/file/content102/c3/Hall et al 2019.pdf](https://www.aasb.gov.au/admin/file/content102/c3/Hall_et_al_2019.pdf).

models, and potentially limited measurement and reporting capabilities. Researchers recommended standard-setter for further in-depth engagement with the NFPs and donors for a better understanding of the real-world issues. As such, staff consider that field testing a number not-for-profit entities already reporting service performance information is necessary, would require additional time and resources.

- 60 Some stakeholders also expressed concerns for assurability of SPR (see p.15 of [Agenda paper 5.1](#)) as an important aspect of the SPR disclosures. While *output* measures can be simple to implement, easy to be audited and can improve consistency and transparency, *outcome* measures could be difficult to measure, costly to implement for small entities and may not be auditable/assurable.
- 61 When issuing ED 270, the Board determined that the [draft] Standard would not require reported service performance information to be audited because reporting on service performance information does not form part of an entity's financial statements. The Board at the time noted that this is a matter for an entity's regulator (BC19, ED270).
- 62 Staff acknowledge the concerns for SPR assurance. However, the trade-off between information value provided, complexity and cost would be further exacerbated with the assurance considerations and it would likely further increase complexity of the NFP FRF project. Hence, staff consider it is not yet the time to consult on this issue in the NFP FRF consultation document.
- 63 Considering the complexities to develop requirements for SPR, disproportionately more time and resources may be required to enable sufficient research on the subject matter for a well-developed consultation document. This means that the NFP FRF project may be further deferred, which is not desirable.

On-going international developments

- 64 Management commentary is a narrative report that complements the financial statements and provides a context within which to interpret the financial position, financial performance and cash flows of an entity. The IASB has identified six main content areas to be included in the revised MCPS and tentatively agreed on the overall objective of management commentary in its March 2020 meeting¹¹. Disclosure objectives for each of the six content areas are identified respectively to support the four aspects of the overall objective of management commentary¹² and to provide a link between that objective and the supporting guidance on the areas of content. The key disclosures in management commentary are external environment, business model, strategy, resources & relationships, risks, financial performance & position. The outcome of the revised MCPS project could possibly be an appropriate base for the way forward on the SPR as there may be now significant overlap between the reporting objectives that these two projects aim to achieve. IASB aims to publish an exposure draft of the revised MCPS in the second quarter of 2021 (forthcoming ED).
- 65 The [Consultation Paper International Financial Reporting for Non-Profit Organisations](#) was issued on 29th January 2020 for stakeholders' comments. The overall objective is to develop internationally applicable financial reporting guidance for non-profit organisations (NPOs). The consultation paper includes SMCs on narrative reporting (Issue 10). The SMCs are seeking for better understanding of the users' need for narrative reporting and proposed three alternative accounting treatment for narrative reporting, namely:

11 IASB Update March 2020, available at <https://www.ifrs.org/news-and-events/updates/iasb-updates/march-2020/#3> for detail.

12 The four aspects of the overall objective of management commentary is to assist users' to assess prospects for future cash flows, assess management's stewardship, understand performance and position (i.e. what has affected the entity, and gain insights into the future (i.e. what might affect the entity.)

- (a) Alternative 1 – ‘Do nothing’ – leave organisations/jurisdictions to follow their existing guidance on narrative reporting by NPOs
 - (b) Alternative 2 – apply existing international guidance [listed below] on narrative reporting, tailored as appropriate for reporting in the NPO context.
 - IFRS Practice Statement *Management Commentary* (non-mandatory) (IASB MCPS)
 - IPSAS Recommended Practice Guidelines (non-mandatory):
 - RPG 2 *Financial Statement Discussion and Analysis* (2013)
 - RPG 3 *Reporting Service Performance Information* (2015)
 - Integrated Reporting, particularly the International Integrated Reporting Framework developed by the International Integrated Reporting Council (IIRC)
 - (c) Alternative 3 – apply integrated reporting, following the IIRC Framework, tailored as appropriate for reporting in the NPO context
- 66 The comments received on the Consultation Paper will guide the plans for the development of the Exposure Draft and ultimately the final guidance, which is targeted to be finalised in 2025.
- 67 As the consultation on the proposals for the revised IASB MCPS and future IFR4NPO guidance is in early-stages and will be on-going for some time, it would further put the timeline of the NFP FRF project at risk if SPR is part of the consultation paper and these projects are viewed as potentially suitable starting points to develop SPR in Australia. To not further defer the consultation for NFP FRF, staff consider it is more time-efficient to focus on financial reporting requirements for this round of consultation and consult SPR separately at a later date as a continuation of the existing SPR project.