



Not-for-Profit Private Sector Financial Reporting Framework

Project summary

The objective of the project is to develop a reporting framework that is simple, proportionate, consistent, transparent and cost effective for all not-for-profit (NFP) private sector entities in Australia.

Features of such a framework could include additional reporting tiers with:

- simplified recognition and measurement requirements that are capable of being audited and enforced; and
- disclosure of service performance and other information integral to financial reporting in the NFP sector, such as fundraising and transactions with related parties to the extent justified by evidence.

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Project priority: High

Issued documents

- Research Report No.5 *Financial Reporting Requirements Applicable to Charities*
- AASB Discussion Paper: *Improving Financial Reporting for Australian Charities*
- Appendices to Charity Discussion Paper
- Research Report No. 7 *Financial Reporting Requirements Applicable to For-Profit Private Sector Companies*
- Research Report No. 11 *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities*
- Research Report No. 14 *Literature Review: Service Performance Reporting for Not-for-Profits*
- Research Report No. 16 *Financial Reporting By Non-Corporate or Small Entities*

Project Status

- Consultations with targeted stakeholders.
- Drafting Discussion Paper

Other

- [Consultation Paper](#) (ITC 39) *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (May 2018)
- Approved [project plan](#)

The staff of the AASB have prepared this summary for information purposes only. The Board decisions described are tentative and do not change current accounting pronouncements unless otherwise indicated. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is regularly updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

AASB outreach

- AASB Outreach: Australian Reporting Framework – Charities
- Roundtable sessions (NFP private)
- Initial targeted consultations
- Conceptual Framework (CF) Project Advisory Panel meeting (a joint meeting for both NFP Private Sector Financial Reporting Framework project and NFP CF project)

Board deliberations

- AASB Action Alert Update and AASB Board papers

AASB communications

- Differential Reporting Project Update (January 2015)
- AASB Submission to ACNC Legislative Review

Latest project news

| Date | News |
|----------------------|---|
| 20-21 April 2021 | AASB Action Alert (Issue No. 207) |
| 24-25 February 2021 | AASB Action Alert (Issue No. 206) |
| 11-12 November 2020 | AASB Action Alert (Issue No: 205) |
| 16-17 September 2020 | AASB Action Alert (Issue No: 204) |

AASB Action Alert Update, Minutes and Board Papers

| Meeting Date | Update |
|--------------|--|
| April 2021 | <p>The Board decided that a discussion paper on a possible differential financial reporting framework for not-for-profit (NFP private sector entities will propose:</p> <ul style="list-style-type: none">• The withdrawal of SAC 1 <i>Definition of the Reporting Entity for NFP private sector entities</i>, and the amendment of AASB 1054 <i>Application of Tiers of Australian Accounting Standards</i>, to remove the option for such entities to prepare special purpose financial statements; and• That subject to due processes, these steps should take effect concurrently with:<ol style="list-style-type: none">Stage 1 of the Board’s updated Revised Conceptual Framework for NFP Framework for NFP entities – to avoid simultaneous application of two different concepts of a ‘reporting entity’ by the same entities; andThe Board’s differential reporting requirements for NFP private sector entities – to make Tier 3 reporting requirements available immediately, where applicable, for those entities preparing general purpose financial statements for the first time.• In the discussion paper, the Board will also consult on the cross-cutting issues that could result in NFP modifications of its Revised Conceptual Framework, such as:<ol style="list-style-type: none">which parties should be identified as the primary users of general purpose financial reports of NFP private sector entities; andwhether the objective of general purpose financial reporting by NFP sector entities should give greater emphasis to stewardship (or accountability). <p>The Board decided on the following principles, against which it will form its views on Tier 3 accounting requirements, for inclusion in a discussion paper:</p> <ol style="list-style-type: none">the development of Tier 3 reporting requirements is subject to the AASB <i>Not for-Profit Entity Standard-Setting Framework</i>; |

- b) Tier 3 financial statements are general purpose financial statements. As such, Tier 3 financial statements provide useful information to users of the financial statements;
- c) consistency with the accounting principles specified by Tier 2: Australian Accounting Standards – Simplified Disclosures is desirable, but might not always be warranted, since Tier 3 requirements are being developed as a proportionate response to the costs incurred by certain entities whilst meeting the needs of users of the financial statements for the cohort of entities. For example, opportunities for deviation from Tier 2 accounting principles that could give a similar outcome to users while reflecting an appropriate cost/benefit balance could include disclosure requirements instead of a Tier 2 measurement requirement or an approach of specifying minimum ‘prescriptive’ disclosures;
- d) where possible within the context of its conceptual framework and user needs and cost/benefit considerations, in developing accounting requirements the aim is to maximise leveraging information that management uses to make decisions about the entity’s operations; and
- e) accounting requirements do not impose disproportionate costs to preparers, when compared to benefits of the information.

In forming its views on Tier 3 reporting requirements, the Board decided it would consider, and be informed by, reporting requirements of other jurisdictions applying to similar-sized NPF private sector entities, including New Zealand.

The Board intends to evaluate its future decisions on Tier 3 reporting requirements against its conceptual framework and the similarity of the proposals to existing AASB reporting requirements and New Zealand’s Tier 3 reporting requirements.

February 2021

The Board made the following tentative decisions for future consultation on a possible differential financial reporting framework for not-for-profit (NFP) private sector entities:

- the existing two tiers of reporting requirements (Tier 1 and Tier 2) would continue to be available for NFP private sector entities preparing general purpose financial statements;
- develop a further reporting tier (‘Tier 3’) in response to stakeholder concerns that Tier 2 reporting requirements are not proportionate for certain NFP private sector entities, including those which might no longer be able to prepare special purpose financial statements should the Board decide to remove the ‘reporting entity’ definition currently applicable to NFP entities; and
- not to specify application thresholds for the tiers, but directed staff to engage with regulators on how their requirements for entities to prepare financial statements in accordance with Australian Accounting Standards or otherwise would interact with future financial reporting requirements to ensure clarity in the future consultation document.

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. The Board reiterated that it considers reporting of service performance information useful to users of the financial statements of NFP private sector entities but acknowledged that complexities in developing proposals in this regard might disproportionately delay progress on the differential reporting framework.

The Board will consider proposals for Tier 3 reporting requirements for the consultation document at future meetings.

- [5.1](#) Cover memo-Scope of the public consultation document
- [5.2](#) Possible differential reporting Tiers for not-for-profit private sector entities
- [5.3](#) Applicability of the different tiers to not-for-profit private sector entities
- [5.4](#) Scope of NFP FRF project – Service Performance Reporting

November 2020 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 will review the project timeline after considering the scope of a working draft of the Consultation Paper at the February 2021 Board meeting, including whether service performance information reporting should be included in the Consultation Paper.

- [3.1](#) Summary of initial targeted consultation and next steps

September 2020 The Board noted the feedback from the initial targeted consultations with stakeholders, including issues raised on the scope and nature of the initial design of the framework based on the New Zealand Tier 3 and Tier 4 Standards for not-for-profit private sector entities: Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit) and Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit). The Board asked staff to continue with the targeted consultations with stakeholders to further inform the Board’s deliberations on the next steps at a future meeting.

- [5.1](#) Summary of initial targeted consultation and key matters identified

November 2019 **Project plan**

The Board approved an updated project plan.

- [5.1](#) Project Plan – NFP Private Sector Financial Reporting Framework

Disclosure of Compliance with R&M in SPFS of Not-for-Profit Private Sector Entities

The Board finalised requirements for not-for-profit private sector entities preparing and lodging special purpose financial statements (SPFS) with ASIC and ACNC – and other entities complying with AASB 1054 – to disclose information regarding compliance with the recognition and measurement (R&M) requirements in Australian Accounting Standards by making [AASB 2019-4 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements](#).

AASB 2019-4 applies to annual reporting periods ending on or after **30 June 2020**.

September 2019 **Disclosure of Compliance with R&M in SPFS - AASB 1054 (ED 293)**

The Board decided:

- (a) NFP entities required by legislation or otherwise to comply with AASB 1054 *Australian Additional Disclosures*, such as medium and large charities with revenue greater than \$250,000, registered with the Australian Charities and Not-for-profits Commission (ACNC) and companies limited by guarantee lodging financial reports with ASIC will be required to make the disclosures about compliance with recognition and measurement

(R&M) requirements of Australian Accounting Standards (AAS) in their special purpose financial statements (SPFS) for annual reporting periods ending on or after 30 June 2020.

The Board noted the ACNC expressed support for increased transparency of the financial reporting in the sector. Also, the work is on-going to consider further changes to the financial reporting framework for NFP entities.

- (b) for each material disclosed accounting policy disclose whether it does not comply with AAS R&M requirements or the compliance has not been assessed.
- (c) on the basis of the assessment in (b), disclosure is made as to whether overall the AAS R&M requirements are complied with (no instances of non-compliance or non-assessment), not complied with (1 or more instances of non-compliance) or not assessed (1 or more instances of non-assessment). Where there is known non-compliance an indication of the non-compliance should be disclosed.
- (d) disclosure of compliance with the R&M requirements in AAS excludes consolidation and the equity method of accounting as these are the subject of separate disclosures;
- (e) relief from determining whether or not its interests in other entities give rise to interests in subsidiaries, associates or joint ventures is only available where there is no legislative requirement to make this determination; and
- (f) the proposed implementation guidance and illustrative examples in ED 293 will be updated to reflect the above decisions.

The Board noted its amended proposals do not require more information than the NFP entities already provide, as they may indicate they have not made an assessment of compliance with AAS R&M. The Board acknowledged that there is less clarity in SPFS R&M requirements for charities and the new disclosures provide appropriate information for users without undue cost to preparers. Although the scope of the proposals has been limited to NFP entities, the Board decided that a fatal-flaw review version for public comment was not required as the proposals are less onerous.

February 2019 The Board noted that State and Territory consumer protection agencies are supportive of working with the Board and other not-for-profit (NFP) regulators on the issue of simplifying financial reporting in the NFP private sector.

November 2018 The Board welcomed ACNC Commissioner Dr Gary Johns to the meeting. The Board and Dr Johns agreed on the importance of consistent and appropriate external reporting for NFP private sector entities (including non-ACNC regulated entities). The Board will begin consulting with a wide range of stakeholders on the reporting framework options for the NFP private sector.

August 2018 **The impact of the AASB's revised Conceptual Framework proposals on not-for-profit private sector entities**

The Board decided to issue a frequently asked question (FAQ) to help charities, companies limited by guarantee, incorporated associations, cooperatives and other not-for-profit private sector (NFP) entities understand the impact of the proposals in AASB's Consultation Paper ITC 39.

The FAQ will outline the Board's expectation that it will, in consultation with the Australian Charities and Not-for-profits Commission's (ACNC) and state and territory regulators, explore three tiers of reporting for NFP entities; each with consistent, comparable and

transparent reporting requirements – dependent on recommendations from the recent ACNC legislative review. It will explain how special purpose financial statements (SPFS) are expected to be replaced for NFP entities with reporting requirements that are proportionate, fair and balance user needs with costs to preparers as outlined below:

- (a) Bottom tier – most likely be cash accounting, with a statement of resources and commitments (for ACNC NFP’s voluntary basis only, supporting completion of the Annual Information Statement);
- (b) Middle tier either Tier 2 General Purpose Financial Statements (GPFS) [full recognition and measurement with simplified disclosure] or a modified accrual framework [simplified recognition, measurement and disclosure]; and
- (c) Top tier –either Tier 1 [full recognition, measurement and disclosure] or Tier 2 GPFS framework (depending on where the middle tier lands).

The Board also decided to explore the possibility of putting NFP thresholds and requirements into the existing AASB 1053 Application of Tiers of Australian Accounting Standards. This would ensure that all NFPs required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards would prepare comparable, consistent and transparent financial statements using the Bottom, Middle or Top tiering requirements.

The FAQ will also explain that the Board will perform extensive consultation on a broader range of proposals for NFPs compared to what was contained in ITC 39. In addition to looking at the three tiers of reporting, the Board will be looking at service performance reporting (also known as impact reporting), remuneration reporting, fundraising and related party disclosures. Transitional relief for NFP entities would also be explored at that time.

The Board noted that NFP entities could still assist with the proposals in ITC 39 by providing feedback on whether they prefer the existing Tier 2 GPFS framework – Reduced Disclosure Requirements or the newly proposed Tier 2 GPFS framework – Specified Disclosure Requirements for the Top or Middle tiers. This will help to inform the AASB which option they should pursue in further consultation.

December 2017

The Board will provide the summary of the feedback from the outreach sessions held in November regarding the financial reporting framework for charities to the ACNC legislative review.

8.0 Cover Memo – Financial Reporting Framework

8.1 Staff Collation of Feedback from Outreach Sessions – Improving the financial reporting framework for Australian charities

The Board approved the project plan for considering the financial reporting framework for public sector entities, with minor amendments. The Board also supported a field work proposal from an academic research group as the research may help inform decisions about the reporting framework.

8.2 Project plan for the Financial Reporting Framework for public sector entities

8.3 Staff Paper – Research Project Facilitation

October 2017

The Board noted the Consultation Paper is to assist charities to provide input to the legislative review of the ACNC, commencing 3 December 2017. Accordingly regulators

including the ACNC and relevant State regulators will be engaged to participate in the consultation process. The Board is particularly interested in consulting with users of charity financial statements.

7.0 Cover Memo Australian Financial Reporting Framework

7.1 AASB Research Report No X Financial Reporting Requirements for Charities – an Intranational and International Comparison [WORKING DRAFT]

August 2017

Australian Financial Reporting Framework – Draft Research Report on Charities

Staff provided a progress report on the AASB Research Report on financial reporting requirements for charities. The Board decided the research to date was sufficient as a basis for identifying (a) issues with the current reporting framework in Australia for charities and (b) the findings and implications from the research relevant to improving the reporting framework. Accordingly, the Board decided the Research Report (together with an executive summary) should be published as soon as possible. The Research Report will provide a context for the subsequent Consultation Paper on possible options for improving the financial reporting framework applicable to charities registered with the Australian Charities and Not-for-profits Commission (ACNC), an early draft of which was also discussed by the Board (see below).

Australian Financial Reporting Framework – Draft Consultation Paper on Charities

In relation to the Consultation Paper referred to above, the Board decided:

- (a) the Paper should clearly explain the basis for considering changing the current financial reporting framework for charities and the respective roles of the AASB and regulators in developing a revised framework;
- (b) to issue the Paper to enable adequate input into the legislative review of the ACNC, which is due to commence in December; and
- (c) key stakeholders should be engaged early in the process, with outreach planned jointly with the ACNC to discuss possible options for improving the framework.

The Board and the ACNC Commissioner, Susan Pascoe, agreed the ACNC should have significant input into the Paper.

4.0 Cover Memo Australian Financial Reporting Framework

4.1 WORKING DRAFT AASB Research Report No. X Financial Reporting Requirements for Charities – an Intranational and International Comparison

June 2017

The Board noted progress on the staff's NFP benchmarking report "*Reporting Requirements for Not-for-Profit Entities – An International Comparison*" as well as a revised plan for the project. A consultative document will also be developed to facilitate discussions on reporting thresholds and requirements for not-for-profit entities.

6.0 Staff Paper: Not-for-profit private sector benchmarking report

May 2017

The Board considered an updated project plan. In particular, staff will work in conjunction with other key regulatory bodies and stakeholders to determine user needs for information and to consider the costs and benefits of the financial reporting requirements for all Australian entities. Extensive research work, including comparing the existing reporting requirements with other jurisdictions, and consultation activities are underway to better

understand and assess the criteria for determining (a) which entities are required to prepare general purpose financial reports and (b) the reporting requirements applicable to entities.

[7.1](#) Staff Paper: Australian Financial Reporting Framework

June 2016

Staff outlined the continuing development of benchmarking reports regarding financial reporting requirements for for-profit and not-for-profit entities in the private and public sectors. These reports will provide a basis for further consultation with regulators and other stakeholders.

[7.0](#) Cover memo – Australian Financial Reporting Framework

[7.2](#) Updated project plan

April 2016

Staff outlined the continuing work to develop benchmarking reports regarding financial reporting requirements for for-profit and not-for-profit entities in the private and public sectors. These reports will support further consultation with regulators and other stakeholders. No decisions were made.

February 2016

The Board supported the general view expressed at roundtables held in January that there is scope for improving the application of financial reporting requirements for not-for-profit entities in the private and public sectors. The roundtables discussed many aspects, including reporting thresholds and the possibility of adding a third tier of reporting requirements. Summaries of the roundtable discussions will be published on the AASB website. The Board noted the importance of ongoing consultation with a broad range of stakeholders as the project progresses. No decisions were made.

[9.0](#) Memorandum – Financial Reporting Framework

[9.3](#) Extracts from the Final Report of the Royal Commission into Trade Union Governance and Corruption relating to financial reporting by trade unions

December 2015

The Board received an update on the project addressing the Australian financial reporting framework in terms of which entities should prepare and lodge general purpose financial statements and the content of such financial statements. No decisions were made.

[7.1](#) Staff Paper – Financial Reporting Framework

May 2015

The Board supported the project to reconsider the Australian financial reporting framework in terms of which entities should prepare financial statements and the content of those financial statements.

The Board noted the project plan, which raises the possibility of a third tier of reporting requirements for the not-for-profit sector.

[11.1](#) Memorandum – Financial Reporting Framework

[11.2](#) Project Plan