AASB Invitation to Comment

ITC 37
October 2017

The AASB's Standard-Setting Frameworks for For-Profit Entities and Not-for-Profit Entities

Comments to the AASB by 17 January 2018

Australian Government

Australian Accounting Standards Board

How to Comment on this AASB Invitation to Comment

Constituents are strongly encouraged to respond to the AASB. The AASB is seeking comment by 17 January 2018. This will enable the AASB to consider Australian constituents' comments in the process of finalising its Standard-Setting Frameworks for for-profit and not-for-profit entities.

Formal Submissions

Submissions should be lodged online via the "Work in Progress – Open for Comment" page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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ISSN 1320-8713

AASB REQUEST FOR COMMENTS

Introduction

The AASB has prepared draft Standard-Setting Frameworks for for-profit entities and not-for-profit entities, which set out the assumptions underpinning the AASB's standard-setting approach for for-profit and not-for-profit entities and stipulate when modifications to IFRS Standards or Australian specific Standards or guidance might be justified.

The AASB is using the draft Standard-Setting Frameworks to develop AASB Standards and decide when specific guidance or modifications are needed. Constituents can use the Standard-Setting Frameworks to better formulate and justify their requests for changes in the AASB Standards. The AASB's draft *Standard-Setting Framework for Not-for-Profit Entities* replaces *The Process for Modifying IFRSs for NFP/PBE*, in response to findings from AASB's Research Report no 4: *Review of Adoption of International Financial Reporting Standards in Australia*.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. Is the term "not-for-profit" helpful to understand the nature of the entities in that sector? If not, what other term do you consider is more appropriate?

2. Irrespective of your response to question one, is there enough guidance about which entities are, for-profit entities and not-for-profit entities? The NZASB is commencing a project to improve its guidance. Should the AASB work with NZASB on this?

3. Do you have any other comments on the AASB's draft Standard-Setting Frameworks?

The AASB's For-Profit Entity Standard-Setting Framework

The AASB's For-Profit Entity Standard Setting Framework sets out how the AASB uses International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board to develop, issue and maintain Australian Accounting Standards for the for-profit sector and how the AASB assesses the appropriateness of IFRS Standards in the Australian context**.**

What are for-profit entities?

For-profit (FP) entities are those entities whose principal objective is the generation of profit[1].

A for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities it controls. FPs include listed companies, disclosing entities, some large and small proprietary companies, government business enterprises (GBEs) and some subsidiaries of not-for-profit (NFP) entities.

What role does the Australian Accounting Standards Board play in setting accounting standards for for-profit entities?

Other standard setters and regulators (eg Commonwealth and state governments), typically in legislation, determine which entities are required to prepare and lodge financial statements publicly.

The Australian Accounting Standards Board (AASB) establishes the type and nature of financial statements to be prepared by entities legislatively required to report in accordance with accounting standards.

The AASB is required, under s229 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), to consider the suitability of a proposed standard for different types of entities and to ensure there are appropriate accounting standards for each type of entity that must comply with accounting standards.[2]

General purpose financial statements

The AASB sets standards only for general purpose financial statements (GPFS). The objective of a GPFS is to provide financial information to existing or potential users that is useful in making decisions about providing resources.[3]

Users of a GPFS are not in a position to require an entity to prepare reports tailored to their particular information needs[4]. The AASB has established a differential reporting framework currently consisting of two tiers of reporting requirements for preparing GPFS.[5]

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[1] A not-for-profit (NFP) entity is defined in various various AASB Standards, including AASB 102 *Inventories*, paragraph Aus6.1 as"an entity whose principal objective is not the generation of profit". A NFP entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

2 For the text of s229, see the Appendix.

[3] *AASB Framework for the Preparation and Presentation of Financial Statements: Appendix Objective and Qualitative Characteristics*, paragraph OB2.

[4] AASB 101 *Presentation of Financial Statements* defines general purpose financial statements as "… those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs".

For entities not legislatively required to prepare financial statements, if the individuals preparing the financial statements are members of Chartered Accountants Australia and New Zealand, CPA Australia or Institute of Public Accountants,, APESB 205 *Conformity with Accounting Standards* requires them to take all reasonable steps to ensure an entity that has general purpose users prepares a GPFS.

Special purpose financial statements

The AASB does not set standards for special purpose financial statements (SPFS)[6], as these financial statements should only be prepared where the users can tailor the SPFS to their own information needs, and therefore do not need a standard setter or regulator to require the information for them.

Accordingly, those responsible for the preparation of SPFS, such as directors, determine to what extent, if at all, SPFS comply with accounting standards. Some individual accounting standards must be complied with, regardless of whether GPFS or SPFS are prepared[7]. In some instances regulators have recommended compliance with regulation and measurement requirements of standards[8].

Enforcement

Enforcement of preparation of financial statements and compliance with accounting standards is the responsibility of other regulators (eg Australian Securities and Investments Commission). It is not the responsibility of the AASB.

What assumptions underpin the for-profit standard-setting framework?

To maintain confidence in the Australian economy (including its capital markets), obtain the benefits of international competitiveness and comparability, and ensure the cost of complying with Australian Accounting Standards do not outweigh the benefits, the FP Standard Setting Framework is predicated on the assumptions below.

When there is evidence these assumptions are no longer appropriate for the Australian context, this framework will be reconsidered. The AASB and/or its oversight body, the Australian Financial Reporting Council (FRC), periodically consult to determine whether these assumptions remain appropriate.[9]

Publicly accountable entities

Publicly accountable entities must be able to claim compliance with International Financial Reporting Standards (IFRS) and must prepare Tier 1[10] GPFS.

These entities include those:

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[5] see AASB 1057 *Application of Australian Accounting Standards.*

[6] AASB 1054 *Australian Additional Disclosures* defines SPFS as financial statements other than GPFS.

[7] See AASB 1057 *Application of Australian Accounting Standards,* par 7.

[8] See ASIC Regulatory Guide 85: *Reporting requirements for non-reporting entities*.

[9] In 2015 the AASB commenced a review of the adoption of IFRS Standards to hear the views and experiences of Australian stakeholders, with the objective of assessing the ongoing relevance of IFRS Standards to Australian for-profit and not-for-profit (NFP) reporting entities (eg charities and public sector entities). *AASB Research Report No 4 Review of Adoption of International Financial Reporting Standards in Australia* summarises the stakeholder feedback received.

[10] AASB 1053 requires Tier 1 GPFS to comply with all recognition, measurement, presentationand disclosure requirements of Australian Accounting Standards.

- with debt or equity instruments (eg bonds or shares), traded in a public market (eg Australian Stock Exchange)
- holding assets in a fiduciary capacity (eg banks and insurance entities)[11].

These entities have the most significant individual and collective impact on the Australian economy, and accordingly, are subject to the highest level of accountability for and transparency of their financial information.

The benefits of IFRS compliance for these types of entities are set out in AASB Research Report 4 *Review of Adoption of International Financial Reporting Standards in Australia* [12].

IFRS Standards are appropriate as a base

IFRS Standards (including Interpretations) are appropriate as a base for the following reasons:

- they are developed by an expert standard-setting board, the International Accounting Standards Board (IASB), and its views represent international consensus on best practice for publicly accountable for-profit entities.
- they are developed following a stringent due process which encourages parties interested in financial reporting to express their views.
- the AASB is able to participate in the development of the IASB's proposals to the extent it considers appropriate[13].

Transaction neutrality

Like transactions and events should be accounted for in a like manner for all types of entities, reflecting their economic substance (transaction neutrality), unless there is a justifiable reason not to do so. The Not-for-profit Standard Setting Framework sets out circumstances where it may be appropriate to use a different approach.

Australia/New Zealand convergence

Differences between accounting standards issued in Australia and New Zealand (NZ) for FP entities should be minimised to reduce the costs for entities operating in both jurisdictions.[14]

What is the for-profit standard-setting framework?

The AASB develops, issues and maintains accounting standards for the FP sector as follows:

Publicly accountable entities

When developing accounting standards for publicly accountable entities, the AASB's objectives are to:

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[11] See AASB 1053 *Application of Tiers of Australian Accounting Standards Appendix A Defined Terms.*

[12] AASB Research Report No 4 *Review of Adoption of International Financial Reporting Standards in Australia* identifies the following benefits of using IFRS:

- cost savings for entities (with a foreign parent or with foreign-based subsidiaries) that previously required multiple national GAAPs to be applied across the group
- for larger private entities, adoption facilitated access to international capital markets
- for listed entities, adoption facilitated the activities of analysts by enhancing comparability of financial statements across borders
- the ability to readily assist subsidiaries in jurisdictions that have adopted IFRS Standards in recent years.

[13] The AASB's typical involvement in the IASB standard setting process is set out in the *AASB Standard Setting Process*.

[14] [Protocol reference to be inserted?]

a) define 'publicly accountable' to include those meeting the IASB's *IFRS for SMEs* definition of 'publicly accountable' and those deemed by the AASB to have public accountability (see below)[15]
b) ensure they can make an unreserved statement of compliance with IFRS and prepare Tier 1 GPFS in compliance with Australian Accounting Standards.
c) in rare and exceptional circumstances, subject to (b), require recognition and measurement interpretations or disclosures additional to IFRS to address Australian-specific legislation, user needs, or public interest issues relevant to financial reporting (see below)
d) make justified additional requirements via 'Aus' paragraphs, additional standards or interpretations, or specific examples (eg. AASB 1054 *Additional Australian Disclosures*, Interpretation 1003 *Australian Petroleum Resource Rent Tax*, AASB 10 *Consolidated Financial Statements* paragraph Aus 4.2).

Other FP entities:

When developing accounting standards for other FP entities, the AASB's objectives are to:

a) use IFRS and transaction neutrality as a starting point, however when justified, make modifications to IFRS or develop Australian specific guidance to address:
   - Australian-specific legislation, user needs, or public interest issues relevant to financial reporting
   - issues specific to the public sector of such prevalence and magnitude that users are likely to make inappropriate decisions based on the financial statements; where the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework would not be met[16]
   - undue cost or effort considerations.
b) make justified modifications to IFRS via:
   - 'Aus' paragraphs changing an IFRS scoping, recognition, measurement, presentation or disclosure requirement (eg AASB 10 *Consolidated Financial Statements* paragraph Aus4.1); and/or
   - Australian-specific guidance in additional Appendices or specific examples
c) address in Australian specific standards, interpretations or guidance, FP issues that have not been comprehensively or appropriately dealt with in existing IFRS Standards, including where no relevant IFRS Standard exists (eg AASB 1054 *Australian Additional Disclosures*, AASB 1056 *Superannuation Entities*, AASB 1059 *Service Concesssion Arrangements: Grantors*)
d) permit GPFS to be prepared using either Tier 1 (compliance with Australian Accounting Standards) or Tier 2 (compliance with Australian Accounting Standards – Reduced Disclosure Requirements).

When will entities be deemed publicly accountable?

The AASB will deem categories of entities as publicly accountable in order to provide clarity regarding those entities required to prepare Tier 1 GPFS.

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[15] See AASB 1053.

[16] See Chapter 1 and Chapter 3 in the Appendix to the AASB Conceptual Framework.

Factors considered by the AASB include:

- similarity with entities captured by the IFRS for SMEs definition
- similarity with entities already deemed publicly accountable by the AASB
- widespread ownership with widespread changes in ownership of the entity's equity or debt instruments, regardless of whether listed (i.e. a user's most realistic recourse if not satisfied with management is to sell the investment rather than influence management to change) and/or
- fiduciary nature of the business.

Given the objective of minimising differences with NZ for FP entities, any proposals for additional deeming of entities as publicly accountable are discussed with the New Zealand Accounting Standards Board (NZASB) and require a justifiable Australian-specific legislative or other rationale for differences.

What triggers the AASB to consider Australian-specific for-profit standards or guidance?

The AASB considers the need for Australian-specific standards, amendments, guidance or examples when:

- a new IFRS Standard – or amendments to an existing IFRS Standard – is issued
- a post-implementation review (PIR) of an IFRS Standard or AASB Standard gives a compelling reason to do so
- Australian constituents raise the need with the AASB (via agenda consultation, outreach activities, or written or verbal submissions)
- a new International Public Sector Accounting Standards Board (IPSASB) Standard is issued (for public sector FP entities)
- Australian-specific legislation with financial reporting implications is issued
- Senate or other legislative enquiries contain financial reporting recommendations
- evidence of diversity in accounting practices exists, and the prevalence and magnitude of the issue results in entities' reported performance or financial position not reflecting economic reality (eg ASIC surveillance program results).

When might Australian-specific standards or guidance be justified?

The AASB uses professional judgment in reaching its conclusions about FP-specific standards, amendments, guidance or examples.

As part of its normal standard-setting due process, reasons for conclusions are documented in the related *Basis for Conclusions* and the extent of differences to IFRS Standards are documented in the material accompanying the AASB Standard.

Publicly accountable entities

Only in rare and exceptional circumstances will additions to IFRS Standards be justified. AASB's disagreement with the IASB's treatment is unlikely to provide a good reason, in and of itself, for changing the requirement in an IFRS Standard.

Justifiable circumstances may include:

- Australian-specific legislation is not adequately addressed by the IFRS Standard and there has been, or is likely to be, diversity in practice warranting specific guidance, eg Australian petroleum resource rent tax.
- An existing optional treatment in the IFRS Standard is not consistent with Australian-specific legislation and should therefore be eliminated.
- Users require additional disclosures regarding Australian-specific issues that are not likely to be provided voluntarily, eg franking credits.
- Australian public interest issues relevant to financial reporting require additional disclosures (eg audit fees). Such disclosures must:
  - meet the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework;
  - have strong user support;
  - deliver user benefits that outweigh any undue cost or effort for preparers, including impacts on international competitiveness; and
  - no other existing legislative or voluntary reporting frameworks provide the information or are more appropriate avenues to obtain the information.
- Current Australian practices will impose additional costs and/or time to transition to a new IFRS Standard when compared with international counterparts, warranting deferral of the application date.

Other for-profit entities

For other FP entities, in addition to the justifiable circumstances outlined for adding to IFRS for publicly accountable entities, other justifiable circumstances for Australian-specific amendments, standards or guidance include:

- Issues specific to the public sector are of such prevalence and magnitude that users are likely to make inappropriate decisions based on the financial statements. Consistency across the public sector, rather than consistency with other FP entities, is more important to users. The NFP Standard Setting Framework provides more details.
- Undue cost or effort assessment indicates that the costs of preparing and disclosing information outweigh the user benefits. Such considerations may arise from application issues due to unfamiliar terminology, current practice issues, or replicating disclosures required by other existing legislation.

New Zealand convergence – for-profit entities

Given the objective of minimising differences with NZ, any proposals for modifying IFRS Standards – or providing additional Australian-specific standards, amendments, guidance or examples –requires discussion with NZASB and a justifiable specific legislative or other rationale for differences.

Are the identified issues sufficiently significant to warrant for-profit-specific standards and/or guidance?

The AASB assesses the following when deciding whether the identified FP issue is so significant that specific Australian standards and/or guidance is warranted:

- the quantitative and qualitative significance of a transaction, event or circumstance on an entity's financial statements taken as a whole, and the likely impact on a user's decision making ability

- the quantitative and qualitative significance of a transaction, event or circumstance on relevant sectors and the Australian economy as a whole and the likely impact on users' decision making ability
- whether a modification will increase or decrease internal consistency within IFRS and/or Australian Accounting Standards, including the Conceptual Frameworks
- the costs of the specific change relative to the benefits
- impact on publicly accountable entities.

Publicly accountable entities

The AASB assesses the likely impact of an IFRS on confidence in the Australian economy – at both the individual IFRS Standard level and at the level of IFRS Standards as a whole – before adopting the IFRS Standard as an Australian Accounting Standard.

For publicly accountable FP entities to gain the benefits of international credibility, and for users to gain the benefits of comparability, IFRS Standards issued by the IASB have to be applied in full.

The consequences of not adopting an IFRS or modifying an IFRS (such that publicly accountable FP entities are not IFRS-compliant) would detrimentally impact international competitiveness and likely impose additional costs of raising capital for all Australian entities.

The highly unlikely exceptional circumstances in which the AASB contemplates non-compliance with IFRS Standards as a whole for publicly accountable FP entities would require all of the following criteria to be present:

- substantive evidence, including a detailed cost/benefit analysis that IFRS as a whole framework would result in a loss of investor confidence in the Australian economy (assessing financial stability, economic growth, cost of capital implications, investment of international capital, change in behaviour by investors and other key stakeholders)
- the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework[17] are no longer adequately met
- significant and consistent feedback from investors, preparers and accounting professionals that IFRS is no longer appropriate in the Australian context
- NZASB is making a similar assessment
- a significant number of major countries currently applying IFRS decide to no longer apply IFRS
- a demonstrably more appropriate alternative is available.

Before any decision impacting IFRS compliance is made, the AASB would conduct specific and widespread consultation, with parties including the FRC, Treasury, relevant ministers and the NZASB.

How is Australian-specific for-profit standards and/or guidance developed?

Having determined that Australian-specific standards and/or guidance is required, the AASB:

- If an interpretive issue for publicly accountable FP entities, consults with the IFRS Interpretation Committee, proceeds only if the Committee has declined to consider the issue, and consults with IASB staff to ensure that IFRS compliance is maintained

[17] See Chapter 1 and Chapter 3 in the Appendix to the AASB Conceptual Framework.

- considers whether to:
  - modify the existing IFRS through 'Aus' paragraphs, additional appendices for implementation guidance, additional examples, or
  - develop an additional Australian-specific standard or interpretation.

In making this determination the AASB considers the:

- extent and importance of Australian-specific legislative, user needs or public interest issues in maintaining confidence in the Australian economy
- impact on international perceptions of Australian Accounting Standards complying with IFRS Standards
- inadvertent or inappropriate use of additional guidance by publicly accountable FP entities that may result in non-IFRS compliance
- extent of modifications required.

In developing the proposals for new standards or guidance, the AASB considers:

- consistency with the AASB Conceptual Framework
- consistency with existing AASB standards and interpretations
- other authoritative material that is relevant, such as:
  - other national standard-setter pronouncements, including NZASB
  - for public sector issues, IPSASB Standards, guidance and Conceptual Framework

The AASB follows its normal due process for setting new standards and guidance.

Appendix

Australian Securities and Investments Commission Act 2001

s229 Generic and specific standards

(1) Accounting standards made or formulated by the AASB may:
   (a) be of general or limited application (including a limitation to specified bodies or undertakings); and
   (b) differ according to differences in time, place or circumstance.

(2) In making and formulating accounting standards, the AASB:
   (a) must have regard to the suitability of a proposed standard for different types of entities; and
   (b) may apply different accounting requirements to different types of entities; and
   (c) must ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards.

Australian Government
Australian Accounting Standards Board

The AASB's Not-for-Profit Entity Standard-Setting Framework

The AASB's Not-for-Profit Entity Standard Setting Framework sets out how the AASB uses International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board to develop, issue and maintain Australian Accounting Standards for the not-for-profit sector and the factors considered by the AASB in determining justified modifications to IFRS Standards for the NFP sector and when NFP specific standards, interpretations or guide are required.

What are not-for-profit entities?

A not-for-profit (NFP) entity is "an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls".[1] NFP entities include public sector entities, such as governments, and private sector entities, such as charities and incorporated associations.

What role does the Australian Accounting Standards Board play in setting accounting standards for for-profit entities?

Other standard setters and regulators (e.g. the Australian Charities and Not-for-profits Commission (ACNC) and public sector finance ministers), typically in legislation, determine which entities are required to prepare and lodge publicly financial statements.

The Australian Accounting Standards Board (AASB) establishes the type and nature of financial statements to be prepared by entities legislatively required to report in accordance with accounting standards.

The AASB is required, under s229 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), to consider the suitability of a proposed standard for different types of entities, including NFP entities, and to ensure there are appropriate accounting standards for each type of entity that must comply with accounting standards.[2]

General purpose financial statements

The AASB sets standards only for general purpose financial statements (GPFS). The objective of a GPFS is to provide financial information to existing or potential users that is useful in making decisions about providing resources.[3]

Users of a GPFS are not in a position to require an entity to prepare reports tailored to their particular information needs[4]. The AASB has established a differential reporting framework currently consisting of two tiers of reporting requirements for preparing GPFS.[5]

1 Defined in various AASB Standards, including AASB 102 *Inventories*, paragraph Aus6.1.
2 For the text of s229, see the Appendix.

[3] *AASB Framework for the Preparation and Presentation of Financial Statements: Appendix Objective and Qualitative Characteristics*, paragraph OB2.

[4] AASB 101 *Presentation of Financial Statements* defines general purpose financial statements as "… those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs".

For entities not legislatively required to prepare financial statements, if the individuals preparing the financial statements are members of Chartered Accountants Australia and New Zealand, CPA Australia or Institute of Public Accountants, APESB 205 *Conformity with Accounting Standards* requires them to take all reasonable steps to ensure an entity that has general purpose users prepares a GPFS.

Special purpose financial statements

The AASB does not set standards for special purpose financial statements (SPFS)[6], as these financial statements should only be prepared where the users can tailor the SPFS to their own information needs, and therefore do not need a standard setter or regulator to require the information for them.

Accordingly, those responsible for the preparation of SPFS, such as directors, determine to what extent, if at all, SPFS comply with accounting standards. Some individual accounting standards must be complied with, regardless of whether GPFS or SPFS are prepared[7]. In some instances regulators have recommended compliance with regulation and measurement requirements of standards[8].

Enforcement

Enforcement of preparation of financial statements and compliance with accounting standards is the responsibility of other regulators (eg ACNC). It is not the responsibility of the AASB.

What assumptions underpin the NFP standard-setting framework?

To maintain confidence in the Australian economy (including the NFP sector), obtain the benefits of comparability within and across sectors, facilitate movement of professionals across sectors, and ensure the cost of complying with Australian Accounting Standards do not outweigh the benefits, the NFP Standard Setting Framework is predicated on the assumptions below.

Applying the framework may result in different requirements for the private and public NFP sectors. It is also likely that NFP-specific examples and guidance will be provided. However, this framework will not always result in NFP-specific standards, amendments, guidance or examples.

When there is evidence these assumptions are no longer appropriate for the Australian context, this framework will be reconsidered. The AASB and/or its oversight body, the Australian Financial Reporting Council (FRC), periodically consult to determine whether these assumptions remain appropriate.[9]

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[5] see AASB 1057 *Application of Australian Accounting Standards.*

[6] AASB 1054 *Australian Additional Disclosures* defines SPFS as financial statements other than GPFS.

[7] See AASB 1057 *Application of Australian Accounting Standards,* par 7.

[8] See ASIC Regulatory Guide 85: *Reporting requirements for non-reporting entities*.

[9] In 2015 the AASB commenced a review of the adoption of IFRS Standards to hear the views and experiences of Australian stakeholders, with the objective of assessing the ongoing relevance of IFRS Standards to Australian for-profit and not-for-profit

IFRS Standards are appropriate as a base

IFRS Standards (including Interpretations) are appropriate as a base for the following reasons:

- they are developed by an expert standard-setting board, the International Accounting Standards Board (IASB), and its views represent international consensus on best practice for publicly accountable for-profit entities.
- they are developed following a stringent due process which encourages parties interested in financial reporting to express their views.
- the AASB is able to participate in the development of the IASB's proposals to the extent it considers appropriate10.
- IFRS can be modified appropriately for NFP issues, as demonstrated by the International Public Sector Standards Board (IPSASB) continuing to base its standards on IFRS, departing only to the extent appropriate for public sector issues.[11]

Transaction neutrality

Like transactions and events should be accounted for in a like manner for all types of entities, reflecting their economic substance (transaction neutrality), unless there is a justifiable reason not to do so (see below). [12]

What is the NFP standard-setting framework?

The AASB develops, issues and maintains accounting standards for the NFP sector. The AASB's objectives are to:

(a) use IFRS and transaction neutrality as a starting point,however, when justified, make modifications to address:
1. user needs;
2. Australian specific legislation;
3. prevalence and magnitude of issues specific to the NFP sector;
4. NFP application issues;,
5. public interest issues relevant to financial reporting; and
6. undue cost or effort considerations.

(b) Make justified modifications to IFRS via:

(i) 'Aus' paragraphs amending, adding or deleting an IFRS scoping, recognition, measurement, presentation or disclosure requirement (eg AASB 15 *Revenues from Contracts with Customers*); and/or

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(NFP) reporting entities (eg charities and public sector entities). [AASB Research Report No 4] *Review of Adoption of International Financial Reporting Standards in Australia* summarises the stakeholder feedback received.

[10] The AASB's typical involvement in the IASB standard setting process is set out in the *AASB Standard Setting Process*.

[11] See also AASB's Approach to International Public Sector Accounting Standards, which sets out the circumstances in which it would be appropriate for the FRC and the AASB to agree to move to IPSASB. These circumstances are reviewed periodically.

[12] [AASB Research Report No 4] *Review of Adoption of International Financial Reporting Standards in Australia* identifies from the targeted outreach conducted, the common key benefits of the policy of transaction neutrality identified by NFP entities stakeholders are:

- it facilitates the mobility of accounting professionals from one sector to another (ie moving from the for-profit sector to the NFP sector and vice versa) and facilitates access to reporting expertise across sectors
- where relevant, it enables benchmarking of financial performance and position across sectors.

(ii) Australian specific guidance in additional Appendices or specific examples (eg AASB 10 *Consolidated Financial Statements*);

(c) address in NFP-specific standards, interpretations or guidance, NFP issues that have not been comprehensively or appropriately dealt with in existing IFRS, including where no relevant IFRS Standard exists (eg AASB 1054 *Australian Additional Disclosures*, AASB 1058 *Income of Not-for-Profit Entities*) and

(d) permit GPFS to be prepared using either Tier 1 (compliance with Australian Accounting Standards) or Tier 2 (compliance with Australian Accounting Standards – Reduced Disclosure Requirements).

What triggers the AASB to consider NFP issues?

The AASB considers the need for NFP-specific standards, amendments, guidance or examples when:

- a new IFRS Standard – or amendments to an existing IFRS Standard – is issued
- a new International Public Sector Accounting Standards Board (IPSASB) Standard is issued
- IPSASB amends an IFRS Standard
- a post-implementation review (PIR) of an IFRS Standard or AASB Standard gives a compelling reason to do so
- Australian constituents raise the need with the AASB (via agenda consultation, outreach activities, or written or verbal submissions)
- Australian-specific legislation with financial reporting implications is issued
- Senate or other legislative enquiries contain financial reporting recommendations
- evidence of diversity in accounting practices exists, and the prevalence and magnitude of the issue results in entities' reported performance or financial position not reflecting economic reality (eg ACNC surveillance program results).

When might NFP-specific standards, or guidance be justified?

The primary purpose and benefit of NFP-specific standards, amendments, guidance or examples is to improve the information provided to users of NFP entity financial statements. NFP issues may affect NFP entities in either the public sector or the private sector or in both sectors.

The AASB uses professional judgment in reaching its conclusions about NFP-specific standards, amendments, guidance or examples. As part of it normal standard-setting due process, reasons for conclusions in relation to NFP-specific standards, amendments, guidance or examples will be documented in the related Basis for Conclusions and the extent of differences to IFRS Standards and IPSASB Standards will be documented in the material accompanying the AASB Standard.

AASB disagreement with the IASB's treatment is unlikely to provide a good reason, in and of itself, for changing the requirement in an IFRS Standard.

Justifiable circumstances may include:

(a) financial reporting inadequately reflecting the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework[13];

(b) user information needs not addressed – e.g. NFP reporting not adequately reflecting:

13 See Chapter 1 and Chapter 3 in the Appendix to the AASB Conceptual Framework.

- resource providers and service recipients are users[14] (eg AASB 1058 *Income of Not-for-Profit Entities*);
- NFP entity purposes and objectives with focus on accountability and stewardship and not just financial returns (e.g. AASB 1055 *Budgetary Reporting*, and for all NFP entities, service performance reporting, addressing the quality of the goods and services produced and information about outputs/outcomes that may be non-financial); and
- NFP entity assets are held for their service potential not cash generation (eg amendments to AASB 136 *Impairment of Assets*, AASB 140 *Investment Property*);

(c) the prevalence and magnitude of specific NFP transactions, circumstances and events results in NFP entities' reported performance or financial position not reflecting economic reality (e.g. transfers of assets at significantly less than fair value primarily to enable a NFP entity to achieve its objectives, and for public sector entities, the provision of social benefits and related sustainability and sovereign power issues);

(d) Australian public interest issues relevant to financial reporting require additional disclosures (eg audit fees). Such disclosures must:

- meet the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework
- have strong user support
- deliver user benefits that outweigh any undue cost or effort for preparers, including impacts on international competitiveness
- no other existing legislative or voluntary reporting frameworks provide the information or are more appropriate avenues to obtain the information.

(e) NFP application issues resulting from terminology differences and current practice issues, differences in the accountability or regulatory framework, governance or financial management differences or alignment with other financial frameworks;

(f) undue cost or effort of preparing and disclosing information outweigh the benefits. For example, when there are existing legislative requirements for different but similar information for similar purposes (e.g. government finance statistics in the public sector), differences in resources available to NFP entities when implementing the requirements, mixed groups with both for-profit and NFP entities needing to amend accounting on consolidation, or the prevalence and magnitude of the transactions in the NFP sector mean the basis for the IASB's considerations of undue cost or effort for for-profit entities is not valid for NFPs; and

(g) incompatibility with existing NFP standards – applying the IFRS Standards results in inconsistency with other existing NFP-specific standards and guidance or the Conceptual Framework.

14 The AASB Conceptual Framework identifies users as suppliers of resources, whereas the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* includes both suppliers of resources and service recipients.

Are the identified issues sufficiently significant to warrant NFP-specific standards, amendments, guidance or examples?

The AASB assesses the following for each of the NFP private sector and the NFP public sector, and then together, when deciding whether the identified NFP issue is so significant that a modification to an IFRS Standard is warranted:

- the quantitative and qualitative significance of a transaction, event or circumstance on an entity's financial statements taken as a whole, and the likely impact on a user's decision making ability
- the quantitative and qualitative significance of a transaction, event or circumstance on relevant sectors and the Australian economy as a whole and the likely impact on users' decision making ability
- whether a modification will increase or decrease internal consistency within IFRS Standards and/or Australian Accounting Standards, including the Conceptual Frameworks
- the costs of the specific change relative to the benefits.

The impact of modifying IFRS or developing NFP-specific standards or guidance needs to be considered in relation to the suite of standards as a whole, in addition to the implications for a specific area of financial reporting. Minimising differences between the financial statements of NFP entities and for-profit entities is beneficial for preparers and users of NFP financial statements whose familiarity with financial statements arises from experience in the for-profit sector, and for entities that are members of mixed groups.[15]

How is NFP specific standards and/or guidance developed?

Having determined that NFPspecific standards and/or guidance is required, the AASB considers whether to:

- modify the existing IFRS through 'Aus' paragraphs, additional appendices for implementation guidance, additional examples, or
- develop an additional Australian-specific standard or interpretation.

In making this determination the AASB considers the:

- extent and importance of Australian-specific legislative, user needs or public interest issues in maintaining confidence in the Australian economy
- impact on international perceptions of Australian Accounting Standards complying with IFRS
- inadvertent or inappropriate use of additional guidance by publicly accountable FP entities that may result in non-IFRS compliance
- extent of modifications required

In developing the proposals for new standards or guidance, the AASB considers:

15 For the purposes of this framework, a mixed group is a NFP group that includes at least one material for-profit subsidiary where that for-profit subsidiary applies accounting policies that differ from those of the mixed group and that may need to be adjusted on consolidation.

- consistency with the AASB Conceptual Framework
- consistency with existing AASB standards and interpretations
- other authoritative material that is relevant, such as:
    - other national standard-setter pronouncements, including NZASB
    - IPSASB Standards, Guidance and Conceptual Framework

The AASB follows its normal due process for setting new standards and guidance.

Modifications to IFRS Standards include:

(a) increasing or reducing scoping through ‘Aus’ paragraphs to maintain consistency with existing NFP standards and guidance, reduce legislative conflict or avoid undue cost or effort;

(b) amending recognition and measurement through ‘Aus’ paragraphs to better meet the objectives or qualitative characteristics of NFP financial reporting, avoid undue cost or effort in applying the requirements, and the coherence of the NFP suite of standards and guidance is maintained;

(c) eliminating options in accounting treatments if not relevant or inappropriate[16];

(d) disclosures added, amended or deleted where they relate to recognition and measurement modifications or to better meet the objectives or qualitative characteristics of NFP sector financial reporting, or to avoid undue cost or effort in preparing the disclosures;

(e) specific guidance and examples, generally in a separate Appendix or additional materials, to improve ease of use and consistency of application[17]; and

(f) transitional relief ‘Aus’ paragraphs to address recognition and measurement modifications or provide sufficient time for the NFP sector to address implementation issues.

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16 If an option needs to be added, this generally means the issue is significant enough to warrant development of an Australian-specific NFP standard.

17 The majority of IFRS Standards will require additional guidance and examples.

Appendix

Australian Securities and Investments Commission Act 2001

s229 Generic and specific standards

(1) Accounting standards made or formulated by the AASB may:
- (a) be of general or limited application (including a limitation to specified bodies or undertakings); and
- (b) differ according to differences in time, place or circumstance.

(2) In making and formulating accounting standards, the AASB:
- (a) must have regard to the suitability of a proposed standard for different types of entities; and
- (b) may apply different accounting requirements to different types of entities; and
- (c) must ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards.