



**Australian Government**

**Australian Accounting  
Standards Board**

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27 February 2012

Ms Susan Pascoe AM  
Interim Commissioner and Head  
Australian Charities and Not-for-profits Commission Implementation Taskforce  
Treasury Building  
Langton Avenue  
PARKES ACT 2600

Dear Susan

**Discussion Paper *Australian Charities and Not-for-profits Commission: Implementation design***

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the above named Discussion Paper (DP). Given its expertise in financial reporting matters, the AASB has limited its comments to those issues in the DP that relate to financial reporting rather than responding to each consultation question.

Some of the comments in this submission also relate to content in the Government Exposure Draft (ED) *Australian Charities and Not-for-profits Commission Bill 2012* issued by Treasury. Because of the interrelatedness of the ED and the ACNC Implementation Taskforce's DP, the AASB has not commented directly on the ED but rather considered the ED in the context of the DP. Accordingly, a copy of this submission has been provided to Treasury for it to consider in relation to the ED.

The AASB commends the Taskforce for its efforts in developing proposals relating to a new reporting framework for charities. However, the AASB has identified some issues for the Taskforce's consideration regarding the proposals in the DP and the ED, and made recommendations for addressing them, relating to:

- (a) requirements for preparing general purpose or special purpose financial statements;
- (b) tiered and proportional reporting requirements, including the use of revenue as the discriminator;
- (c) users of reported information by charities;
- (d) the annual information statement that all registered charities would be required to submit under the new reporting framework;
- (e) the definitions proposed;
- (f) the use of Standard Business Reporting and the Standard Chart of Accounts; and
- (g) the relevance of the AASB's project on Service Performance Reporting.

The AASB's comments relating to the above mentioned matters are set out in Appendix A.

Other specific AASB comments in relation to the annual information statement are set out in Appendix B and other AASB staff comments on the DP are set out in Appendix C.

The AASB remains very willing to work with the ACNC in relation to the financial reporting aspects of its not-for-profit (NFP) related projects.

If you have any queries regarding matters in this submission, please contact me or Mischa Ginns ([mginns@asb.gov.au](mailto:mginns@asb.gov.au)). Given the technical nature of many of the comments in this submission, the AASB would welcome the opportunity for its senior staff to meet with the Taskforce to explain in greater detail some of the matters raised. To that end, I have asked Mischa to contact you with a view to arranging a meeting for us to explain more fully some of the issues raised in this submission.

Yours sincerely

A handwritten signature in black ink that reads "K. M. Stevenson". The signature is written in a cursive style with a large, sweeping initial "K".

Kevin Stevenson  
*Chairman and CEO*

Copy to: Treasury  
Manager  
Philanthropy and Exemptions Unit  
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## APPENDIX A

### **AASB key comments relating to financial reporting matters in the Taskforce’s DP and Treasury’s ED**

#### *General purpose financial statements and special purpose financial statements*

##### *Current accounting requirements*

Paragraph 3 of Section 55-20 of the Treasury ED says “the financial statements and notes must comply with the accounting standards”. Given the current accounting standards, the AASB considers it likely that this requirement could be interpreted in different ways. Currently entities must determine under Statement of Accounting Concepts (SAC) 1 *Definition of the Reporting Entity*<sup>1</sup> whether they are a reporting entity and so required to prepare general purpose financial statements.

General purpose financial statements of reporting entities, whether AASB Tier 1 or Tier 2, must comply with all Australian Accounting Standards (i.e. full recognition and measurement). If a reporting entity is a AASB Tier 1 entity it must comply with all disclosure requirements. AASB Tier 2 entities need not comply with all the disclosures required of AASB Tier 1 entities, as they can comply with the reduced disclosure regime applicable to such entities – the reduction involved is significant.

A non-reporting entity that may prepare special purpose financial statements may choose the accounting standards with which it complies. ASIC’s Regulatory Guide 85 *Reporting requirements for non-reporting entities* indicates that all recognition and measurement requirements of the accounting standards should be complied with. Those entities that appropriately identify themselves as non-reporting entities disclose in their special purpose financial statements that they “comply with accounting standards, except for ...” and stipulate the excluded standards.

Accordingly, the requirement to “comply with the accounting standards” could result in some ACNC Tier 2 and Tier 3 charities considering it a requirement to prepare general purpose financial statements even if they were assessed not to be reporting entities. Paragraph 85 of the DP indicates that ‘standardisation’ is important. In this regard, the AASB considers entities that currently prepare special purpose financial statements are likely to use different recognition and measurement criteria unless specifically directed to apply all the recognition and measurement requirements in Australian Accounting Standards.

Therefore, the AASB recommends Treasury and the Taskforce clarify which ACNC Tier 2 and Tier 3 registered charities would be required to prepare general purpose financial statements (including which AASB Tier might apply – refer to the section *Tiered and proportional reporting* immediately below for an explanation of the AASB’s Tiers) and which charities would be permitted to prepare special purpose financial statements. For

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<sup>1</sup> Reporting entity is defined in paragraph 5 of SAC 2 *Objective of General Purpose Financial Reporting* as “an entity (including an economic entity) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.”

example, both ACNC Tier 2 and Tier 3 charities could be deemed to be reporting entities and so required to prepare at least AASB Tier 2 general purpose financial statements (or AASB Tier 1 if they elected to), leaving ACNC Tier 1 entities as deemed non-reporting entities (unless they hold out otherwise) freed from the responsibility to lodge general purpose financial statements. Alternatively, ACNC Tier 2 entities might be deemed to be non-reporting entities that should lodge financial statements albeit in special purpose mode (i.e. reporting in the same manner as the ASIC Regulatory Guide recommends).

#### *Future accounting standards issues*

The AASB considers the preparation of financial statements in accordance with Australian Accounting Standards to mean application of all applicable Australian Accounting Standards in a particular AASB Tier and not a subset of them. However, this issue is still a matter of debate and the subject of research being carried out by the AASB into the reporting practices of entities claiming to be non-reporting entities. That research could lead to one or more outcomes such as, further deregulation of reporting, greater enforcement of existing requirements or more use of deeming provisions to prevent entities lodging special purpose financial reports. The AASB recommends that Treasury, the Taskforce and the AASB work closely together, with the benefit of the empirical research being completed for the AASB, to ensure appropriate reporting is required and unwarranted reporting burden is avoided.

#### *Tiered and proportional reporting*

The AASB considers it appropriate for a regulator such as the ACNC to adopt a tiered and proportional approach for reporting by charities as it would provide smaller charities with some relief from otherwise onerous reporting requirements. In its process of establishing the requirements for the three ACNC Tiers contemplated in the DP, the AASB considers it may be helpful for the Taskforce to note the following considerations relating to general purpose financial reporting:

- (a) the AASB has established two Tiers of reporting requirements for preparing general purpose financial statements through AASB 1053 *Application of Tiers of Australian Accounting Standards*. AASB Tier 1 (comprising full recognition and measurement requirements of Australian Accounting Standards) applies to for-profit entities that are ‘publicly accountable’ (as defined) and Federal, State and Local Governments. AASB Tier 2 is significantly less onerous, comprising full recognition and measurement requirements of Australian Accounting Standards, but substantially reduced disclosure requirements. AASB Tier 2 of reporting is available to NFP (and other) entities immediately, unless the AASB Tier 1 requirements are imposed by other regulators (such as the ACNC) or they choose to apply those AASB Tier 1 requirements. Accordingly, the financial reporting framework in Australia contemplates general purpose financial reporting (complying with either AASB Tier 1 or Tier 2 within that framework) or, for now, special purpose financial reporting. If the Taskforce decides ACNC Tier 2 and Tier 3 registered charities should have common recognition and measurement requirements (i.e. required to prepare general purpose financial statements), it could specify whether those charities would be required to comply with AASB Tier 1 or Tier 2 reporting requirements (as noted in the section *Current accounting requirements* above); and

- (b) establishing ACNC Tiers for proportional reporting based on an entity’s revenue, may be difficult. In establishing AASB Tier 1 and Tier 2, the AASB considered revenue as a basis for distinguishing between the two Tiers. However, it proved problematic and therefore the AASB decided to use the more robust notion ‘public accountability’ to distinguish between its Tiers (refer to AASB 1053). In light of using revenue as a basis for establishing the ACNC Tiers, the AASB reminds the Taskforce, that in the AASB’s project *Income of Not-for-profit Entities* the revenue recognition requirements for NFP entities are expected to be revised, which may have significant implications for the amount of revenue recognised by entities. It would also be helpful for the Taskforce to clarify whether revenue is intended to be calculated based on consolidated information<sup>2</sup>. If revenue is used as a basis for determining which ACNC Tier to report under, Treasury should consider clarifying that the ‘revenue’ referred to in paragraph 4 of Section 210-10 of its ED is ‘recognised revenue’, and clarify what it means for entities allowed to adopt the cash basis of accounting.

The AASB also recommends the Taskforce and Treasury further consider the possible implications of using a tax status (i.e. deductible gift recipient (DGR) status) as one of the determinants for distinguishing between the proposed ACNC Tiers. Requiring all charities with DGR status to prepare a financial report in accordance with Australian Accounting Standards could result in superfluous reporting for many small charities that are currently not required to prepare general purpose financial statements.

Since charities that are reporting entities or otherwise prepare general purpose financial statements would be able to apply the AASB Tier 2 requirements (or Tier 1 if they choose to apply AASB Tier 1 requirements or are required by a relevant regulator to do so) that are based on consideration of ‘user needs’ and ‘cost-benefits’, the AASB considers it would also be helpful for the Taskforce to determine requirements for publishing information outside of general purpose financial statements, whether financial or non-financial, having regard to ‘user needs’ and ‘cost-benefit’ considerations. For example, there could be requirements for those applying AASB Tier 1, those applying AASB Tier 2 and those not preparing general purpose financial statements.

### ***Users of information***

The DP refers to different users in various parts of the paper. For example:

- (a) paragraph 32 refers to “their members, the regulator and the public”;
- (b) paragraph 33 refers to “the public, vulnerable beneficiaries, donors and members”;
- (c) paragraph 35 refers to “the regulator, other government agencies, the public and other stakeholders (such as members, volunteers and donors)”;
- (d) paragraph 98 refers to the general public, stakeholders, philanthropists, researchers and government policy makers; and

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In relation to consolidation – note the AASB’s project on Control in the NFP Public and Private Sector. Also note Australian Accounting Standards require entities that control one or more other entities to present consolidation financial statements [see AASB 127 *Consolidated and Separate Financial Statements*, which has since been superseded by AASB 10 *Consolidated Financial Statements* (which will be applicable to NFP entities once the AASB has developed appropriate guidance, which it is aiming to complete this year)].

- (e) paragraph 110 refers to “the public (including donors), academic researchers and government policy makers”.

The AASB considers it is unclear from the DP as to why different users are referred to in different parts of the DP and recommends the Taskforce identify users of reported information by charities and refer to these users consistently, where the users are intended to be the same. The Taskforce may wish to consider the principle in paragraph 10 of the AASB Conceptual Framework, which is to meet the ‘common information needs of users’. This principle suggests that all the information needs of users cannot be met by the information reported in financial statements, however, there are needs that are common to all users that could be met from a single information set. Identifying the main broad categories of users (for example, amongst others, the ACNC, users of general purpose financial statements, and resource providers) may assist in identifying the common information needs of these users. AASB Conceptual Framework provides guidance on the information needs of users of general purpose financial statements, which may be of use to the Taskforce in this regard.

The AASB’s Service Performance Reporting project team is in the process of developing a paper on *The identification of users and user needs in relation to service performance reporting* that might be relevant to the Taskforce’s work, and we would be willing to provide a copy of the paper to you.

### ***Annual Information Statement***

The AASB considers the proposed annual information statement would be a useful tool to collect consistent information from charities. However, the AASB is unable to deduce from the DP a principle for determining the different type of information that is proposed to be required by ACNC Tier 1, 2, and 3 charities. In determining the type of information that would be required for each ACNC Tier, the AASB recommends the Taskforce first establish the users of the information reported to the ACNC and their common information needs (see section *Users of information* immediately above), and then consider applying a similar principle to that used by the AASB in determining the AASB Tier 2 disclosure requirements (i.e. the ‘user need’ and ‘cost-benefit’ principle).

The AASB supports the proposal in paragraph 69 of the DP that the annual information statement should complement the financial report. However, the AASB suggests the Taskforce consider expanding this proposal to require all information within the annual information statement to be consistent with the information in a charity’s general purpose financial report (if prepared).

Other more specific AASB comments in relation to the annual information statement are set out in Appendix B.

### ***Definitions***

The definition of ‘accounting standard’ on page 28 of the DP is different from how it is described in Section 900-5 in the Treasury ED, which defines ‘accounting standards’ as having “the same meaning as in the *Corporations Act 2001*”. Because of the

interrelatedness of the ED and DP, the AASB recommends the definition of ‘accounting standard’ be the same in both consultation papers.

If the Taskforce decides not to use the same definition as in the Treasury ED, the AASB recommends it reconsider the use of the phrases ‘formal process’ and ‘accounting guidance’ as these do not accurately describe accounting standards. Australian Accounting Standards set out definition, recognition, measurement, presentation and disclosure requirements that are required to be applied by reporting entities in accounting for transactions and other events in general purpose financial statements.

### ***Standard Business Reporting and Standard Chart of Accounts***

The AASB considers aligning the annual information statement with Standard Business Reporting (SBR) and the Standard Chart of Accounts (SCOA) taxonomies is a worthwhile pursuit in trying to reduce the administrative burden for charities and assist with reporting consistent and standardised financial information by charities. Furthermore, the AASB supports the proposal in paragraph 76 of the DP, which says “the SBR taxonomy aligns with Australian Accounting Standards issued by the Australian Accounting Standards Board”. The AASB considers the SCOA should also align with Australian Accounting Standards, noting that this would mean the SCOA would need to be kept up to date with any changes to Australian Accounting Standards.

### ***Service Performance Reporting***

The following comments are provided by way of background and for the information of the Taskforce as it proceeds with its proposals that have implications for the reporting of service performance type information.

To some extent, the type of information that would be required in the annual information statements as proposed by the DP is similar in nature to service performance information that some entities currently chose to report. This type of information is relevant in relation to the AASB’s project on *Service Performance Reporting*. In this regard, the AASB has undertaken considerable research to date, which is available through the AASB’s website, on existing service performance reporting in various jurisdictions. This research provides a basis for benchmarking the development of possible principles for service performance reporting by NFP entities. Furthermore, the AASB has started to consider issues related to the reporting of inputs, outputs, outcomes and performance measures and is considering what role it should play in perhaps developing mandatory or non-mandatory disclosures that would provide input for users of general purpose financial reporting.

Given the common interests of the AASB and the ACNC in this topic, the AASB project team will be in touch with the Taskforce shortly to invite the ACNC to nominate a member to participate through the AASB’s Service Performance Reporting project Sub-committee.

## APPENDIX B

### Other AASB comments

The following additional comments relate specifically to Attachments B, C and D that accompany the DP:

Section/ Attachment number	Comments
Section A1 of Attachment B	Section A1 asks whether a charity uses cash or accrual accounting. However, the format of section A2 indicates an accrual approach. It is unclear whether charities that use cash accounting would be required to complete the accrual based information in paragraphs A2 and A3.
Section C2 of Attachment D	Section C2 includes a line item ‘loans and borrowings’. Consistent with paragraph 60 of AASB 101 <i>Presentation of Financial Statements</i> , which says “An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66-76 except when a presentation based on liquidity provides information that is reliable and more relevant.”, the AASB suggests splitting ‘loans and borrowings’ into two line items ‘current loans and borrowings’ and ‘non-current loans and borrowings’.
Section C3 of Attachment D	Section C3 lists ‘sale of capital assets’ under gross income. We note paragraphs 68 and 71 of AASB 116 <i>Property, Plant and Equipment</i> say “The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised...” and “The gain or loss arising from derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item”. Accordingly, the AASB would expect ‘gain on sale of capital assets’ to be presented as income, rather than ‘sale of capital assets’, consistent with AASB 116.
Attachments B, C and D	It is unclear whether the forms need to be completed for each individual charity and for consolidated groups. The AASB suggests that this should be clarified.
Attachments B, C and D	The attachments require rounding to the dollar, which may be onerous for some charities. Paragraphs 51 and 53 of AASB 101 say “... an entity shall display ... the level of rounding used in presenting amounts in the financial statements” and “an entity often makes financial statements more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.” Furthermore, ASIC’s class order [CO 98/100] <i>Rounding in financial reports and directors’ reports</i> sets out requirements for rounding of amounts in financial reports and directors’ reports prepared under Chapter 2M of the Corporations Act.

<b>Section/ Attachment number</b>	<b>Comments</b>
Attachments B, C and D	The AASB suggests for the financial information required in the attachments the date of that financial information also be required. The AASB notes in Attachment D (section C3) the accounting period is required, however, this only relates to the Income Statement and not the Balance Sheet. Furthermore, no dates are required in sections A2 and A3 in Attachment B and sections B1 and B2 of Attachment C.

## APPENDIX C

### Other AASB Staff Comments

<u>Paragraph/ Section/ Attachment/ Page number</u>	<u>Comments</u>
Paragraph 33	We suggest explaining what is meant by “non-compliance” (would it include leaving out mandatory fields in the annual information statement or not completing the annual information statement?) and also clarifying that ‘non-compliance’ relates to registered charities.
Paragraph 34	It is not clear to us what is meant by a “risk-based approach”. A definition in the glossary may be useful.
Paragraph 85	Paragraph 85 of the DP says “This necessitates a standardisation.” It is not clear to us what needs standardising. We suggest making it clear what the ACNC intends on standardising.
Section 4.3.7	We suggest replacing ‘accounting years’ with ‘reporting period’.
Section 4.4	It may be useful to provide transitional arrangements for those entities that grow in size and transition from one ACNC Tier to another and would be required to report additional information in another form.
Attachments A, B, C and D	We suggest capturing in the annual information statements for each ACNC Tier – what the charity’s objectives were for the last financial year? Although this may be partially covered in Question 8 of Attachment A, which requires information about the charity’s main purpose, and in the question in Attachments B, C, and D – How did your entity achieve your charitable objects in the last 12 months?, it may be useful to ask a more specific question (i.e. to list the charity’s objectives for the last 12 months) on an annual basis in order to provide information for users to assist them in assessing whether the charity has achieved its objectives and whether the charity’s objectives have changed.
Page 28	Glossary of terms and definitions <ul style="list-style-type: none"> <li>• The list of terms is not complete. For example, BAS, GST and ABN are not listed; and</li> <li>• Attachment A refers to related parties. We suggest defining this term. We note it is a defined term in AASB 124 <i>Related Party Disclosures</i>.</li> </ul>