



Australian Government



Australian
Charities and
Not-for-profits
Commission

13 November 2017

Our ref: EXT2017/131

Ms Kris Peach
Chair
Australian Accounting Standards Board (AASB)
PO Box 204
COLLINS STREET VIC 8007

Dear Ms Peach

AASB EXPOSURE DRAFT ED 282 September 2017
Definition of Material – Proposed amendments to AASB 101 and AASB 108

The Australian Charities and Not-for-profits Commission (ACNC) appreciates the opportunity to comment on Exposure Draft 282 *Definition of Material – Proposed amendments to AASB 101 and AASB 108* (ED 282). We understand our comments will help inform the Australian Accounting Standards Board's (AASB) response to the International Accounting Standards Board (IASB) on Exposure Draft ED/2017/6 *Definition of Material – Proposed amendments to IAS 1 and IAS 8*.

We understand the AASB's policy is to incorporate International Financial Reporting Standards into Australian Accounting Standards (Standards). Accordingly, we provide this letter which includes general comments and the attached appendix in which we address the specific questions raised by the IASB and AASB. The scope of our review and commentary includes the following standards: AASB 101, AASB 108, while also considering the broader issues raised in ED 282.

The ACNC regulates over 55,000 charities in Australia which are a subset of the not-for-profit sector. It is with regard to the impact of the proposed change on the charities subset within which we frame our response.

The ACNC is the national regulator for charities with a focus on the following key statutory objectives. These legislated objectives are outlined in Part 1-2 of the *Australian Charities and Not-for-Profits Commission Act 2012* and requires the ACNC to:

- maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency;
- support and sustain a robust, vibrant, independent and innovative not-for-profit sector; and



- promote the reduction of unnecessary regulatory obligations on the sector.

Based on our objects, the ACNC support the proposed changes to the definition of material and the accompanying explanation and believe this would help charities in making materiality judgements. We agree:

- the proposed amendments will improve understanding of the concept of materiality which is pervasive through all Standards; and
- the refinements make the existing definition easier to understand and do not alter the underlying concept of materiality in the Standards.

We note the revised definition, read literally, would not include non-reporting entities preparing Special Purpose Financial Statements that are being accepted by regulators at Commonwealth and State/ Territory level.

As you may be aware, each registered charity must provide the ACNC with certain information annually depending on the size of the entity. In relation to financial reporting requirements, the ACNC accepts three types of financial statements as prescribed in our legislative framework:

- General Purpose Financial Statements (GPFS);
- General Purpose Financial Statements - Reduced Disclosure Regime (GPFS – RDR); and
- Special Purpose Financial Statements (SPFS)

A charity registered with the ACNC is required to determine if it is a reporting entity, and therefore whether it is required to prepare GPFS in accordance with the Standards. If the charity determines itself not to be a reporting entity, the charity can prepare and lodge SPFS to satisfy ACNC reporting requirements.

The breakdown of charities submitting GPFS and SPFS is as follows:

	2014	2015	2016
GPFS	66.7%	63.6%	57.0%
SPFS	33.3%	36.4%	43.0%

The ACNC notes the AASB's Financial Reporting Framework project proposes changes to reporting requirements for charities. Before any legislative changes of the framework that the ACNC administers is agreed, we suggest that it is important to clarify how the proposed changes to the definition of material would apply to non-reporting entities preparing SPFS.

We note also the revised definition replaces the term 'users' with 'primary users'. As indicated in our previous ED responses, in the context of charities, there remains an inadequate understanding of who the users are and what their needs are. We reiterate these questions need to be explored more.



We consider that the objective of the standard setter should be to simplify the reporting requirements as far as possible to reduce complexity, preparation, plus assurance costs. We feel that the objectives within this ED are consistent with our view of the role of the standard setter.

The attached appendix provides the ACNC's detailed responses to the AASB's request for comments as set out in ED 282. Please note that these responses focus on the perspective of private not-for-profit entities registered with the ACNC and we have not considered issues that relate to other entities.

Please do not hesitate to contact Mel Yates, at Melville.Yates@acnc.gov.au should you have any queries in relation to the above.

Best wishes

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Acting Commissioner

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Appendix – Response to specific questions for comment - International Accounting Standards Board (IASB) ED/2017/6

1. *The Board proposes amendments to IAS 1 and IAS 8 to align the definition of material between IFRS Standards and the Conceptual Framework, and to include in the definition some of the existing requirements in IAS 1. The Board also proposes to clarify the explanation accompanying the definition using existing guidance in IAS 1 and the Conceptual Framework.*

(a) *Do you agree that the definition of material and the accompanying explanation should be clarified as proposed in this Exposure Draft? If you do not agree, what changes do you suggest and why?*

Overall, we agree proposed changes to the definition of material and the accompanying explanation would provide useful clarification for stakeholders, especially preparers, reviewers and auditors.

However, we note the revised definition:

*‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific **reporting entity’s general purpose financial statements** make on the basis of those financial statements’ [emphasis added]*

read literally, would not, in the Australian financial reporting context, include non-reporting entities preparing special purpose financial statements (SPFS). Given the high percentage of SPFS preparers in the Australian charity sector, we ask how the revised definition of material, if adopted, should be applied for non-reporting entities preparing SPFS.

For the charity sector, we note also the difficulty in ‘assessing whether information could reasonably be expected to influence decisions of the primary users’ by considering the ‘characteristics of those users’ where there remains an inadequate understanding of who the users are and what their needs are.

(b) *Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?*

The term ‘obscuring’ in the revised definition of material in both the Draft Amendments to IAS 1 and IAS 8:

‘Material information can be obscured if it is not communicated clearly – for example, if it is obscured by immaterial information’



could be better explained. Whilst consistent with the meaning of 'obscuring' in the English language, without the example, the current explanation is difficult to understand.

We note paragraph 6A in the Draft Amendments to IAS 8 (also included in paragraph 7 in the Draft Amendments to IAS 1) is based on paragraphs OB5 and C32 of the *Conceptual Framework for Financial Reporting (2010)*. However, we feel the last sentence 'At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about **complex economic phenomena**' [emphasis added] does not read well.

2. *The Board issued the Materiality Practice Statement in September 2017 and expects to issue a revised Conceptual Framework in the second half of 2017. If any changes are made to IFRS Standards as a result of the proposals in this Exposure Draft, the Board will make amendments to these two documents.*

The Board believes that the guidance in both the Materiality Practice Statement and the forthcoming revised Conceptual Framework will not be affected by the proposed amendments in this Exposure Draft, other than to update the definition of material (see paragraphs BC22-BC24).

Do you have any comments on the proposed amendments to the Materiality Practice Statement or the forthcoming revised Conceptual Framework?

We note the guidance offered in the Materiality Practice Statement 2017 is specific to making materiality judgements for preparing general purpose financial statements. As above, we would ask how the Practice Statement (assuming an equivalent Practice Statement is adopted in Australia) should be applied for charities that are non-reporting entities preparing SPFS.

We also believe more examples and practical guidance on the application of materiality, particularly in addressing disclosures and assessing qualitative factors when considering whether information is material for inclusion in the financial statements for the charity sector, would be helpful.

We are unable to comment on the revised *Conceptual Framework* as, at the time of this response, it had not been released.



Appendix – Response to Specific Matters for Comment – ED 282

1. *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:*

(a) *not-for-profit entities; and*

(b) *public sector entities, including GAAP/GFS implications*

We note the revised definition, read literally, would not, in the Australian financial reporting context, include non-reporting entities preparing SPFS. Given the high percentage of SPFS preparers in the Australian charity sector, we would ask how the revised definition of material, if adopted, should be applied for non-reporting entities preparing SPFS.

For the charity sector, we note also the difficulty in ‘assessing whether information could reasonably be expected to influence decisions of the primary users’ by considering the ‘characteristics of those users’ where there remains an inadequate understanding of who the users are and what their needs are.

If more detailed definitions are to be included within AASB 101 and AASB 108, perhaps additional specific NFP specific guidance (i.e.: beyond paragraphs 2.1 and OB3.1 in the *Conceptual Framework*) should also be provided.

2. *Whether, overall, the proposals would result in financial statements that would be useful to users;*

Overall, we believe proposed changes to the definition of material and the accompanying explanation could result in financial statements that would be more useful to users provided they can be applied to all (i.e.: reporting and non-reporting) entities.

Read together with the *Materiality Practice Statement* (assuming an equivalent Practice Statement is adopted in Australia) and with practical guidance or examples, the changes should promote a greater understanding of the role of materiality in making judgements in the preparation of financial statements and help to improve their usefulness and understandability.

Correct application of the proposals would promote positive changes in behaviour, for example:

- Discourage rigid adherence to checklists;
- Encourage charities to exercise more judgement leading to a reduction in boilerplate disclosures and immaterial information;



- Encourage more effective dialogue about materiality judgements between preparers, auditors and regulators in the preparation, audit and review of financial statements

noting however, for the charity sector, there is still a need explore who the users are and what their needs are.

3. *Whether the proposals are in the best interests of the Australian economy; and*

Overall, we believe proposed changes to the definition of material and the accompanying explanation, applied correctly, would be in the best interests of the Australian economy. This is on the understanding the changes could be applied to all (i.e.: reporting and non-reporting) entities.

4. *Unless already provided in response to specific matters for comment 1-3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements*

We believe preparers, reviewers and/or auditors would be better positioned to respond to this question.

However, we do not expect any significant costs associated with the application of the proposed changes, noting charities that have previously relied on a checklist approach may face some implementation costs when exercising judgement in preparing financial statements.

However, we believe the benefits of higher-quality disclosures and easier access to information for primary users of financial statements would exceed the implementation costs charities might incur when applying judgement in preparing financial statements.