

AASB Exposure Draft

ED 3XY
[Month 202X]

Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements

Comments to the AASB by [Date Month Year]

Note for Board members:

The objective of this agenda paper is to seek the Board's feedback on the draft ED, including Board decisions on Questions 1 – 5 to Board Members raised within this draft ED.

The draft ED has been revised since the version considered by the Board at its 6-7 June 2024 meeting, including for changes to effect decisions the Board made at that meeting and for outstanding sections. To aid Board member review of the document, staff have included:

- (a) notes to Board members explaining substantive/significant changes to the version of the text seen by the Board at its 6-7 June 2024 meeting;
- (b) an indication that a section of text has been newly added, usually by way of a Note to Board members included at the beginning of the associated section; and
- (c) in the Basis for Conclusions – referencing in square parentheses to previous agenda papers and/or Board minutes, to remind the Board where/when the Board deliberation on the topic occurred.

In addition, in certain places, staff have made editorial and other minor amendments to the text previously seen by the Board – staff have not highlighted these to the Board in the draft ED given the nature of the amendment. In the main, these edits were made to correct referencing or improve the clarity of the text.

At this meeting, staff are also seeking the Board's direction as to how to progress finalising draft ED 3XY. As set out in Agenda Paper 5.1, the staff recommendation is for the Board to delegate the responsibility for finalisation and approval for issue of the ED to a subcommittee of AASB Board members, including the Chair. This will facilitate the issue of the ED, and progress of the project, out of session. The finalisation activity is expected to include further quality assurance, editorial and layout review, as well as update of the ED for any outstanding content and revision to address Board comments raised at its meeting.



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by [Date Month Year].

Formal submissions

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website (www.aasb.gov.au/current-projects/open-for-comment) as a PDF document and, if possible, a Word document (for internal use only).

Online survey

Although submitting a formal submission is the best way to express views to the AASB relating to a consultation document, preparing a formal submission may require a lot of time and effort from stakeholders. To assist stakeholders in providing timely responses to the AASB on the proposals included in this Exposure Draft, AASB staff have developed an online survey setting out the main areas for which stakeholders’ views are sought. Survey responses will not be attributed to individuals or organisations and will be presented to the AASB in an aggregated form.

To complete the survey, visit this page ([link TBU]) on a web browser and follow the on-screen instructions.

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.

COPYRIGHT

© Commonwealth of Australia 202X

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights should be addressed to The Managing Director, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

ISSN 1030-5882

Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards.

The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards. AASB Exposure Draft 3XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*, issued at the same time as this Exposure Draft, proposes a third tier of Australian Accounting Standards for not-for-profit private sector entities.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Why we are making these proposals

Note 1 to Board members:

This section has been added since the draft considered by the Board at its 6-7 June 2024 meeting.

In May 2019 and in furtherance of the Financial Reporting Council's broad strategic direction to the AASB to develop Standards using International Financial Reporting Standards, the AASB issued the *Conceptual Framework for Financial Reporting (Conceptual Framework)*. This pronouncement incorporated the International Accounting Standard Board's 2018 pronouncement of the same name, and provided updated guidance for the development of Australian Accounting Standards (Standards). When applicable, the *Conceptual Framework* superseded the *Framework for the Preparation and Presentation of Financial Statements*.

Following the feedback received on AASB Consultation Paper ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (May 2018), the AASB determined that it would adopt a phased approach to extending application of the *Conceptual Framework* to for-profit and not-for-profit Australian entities. In part, this approach accorded the AASB more time to consider the suitability of the *Conceptual Framework* for not-for-profit entities while ensuring that for-profit entities could continue to assert compliance with IFRS Standards. Resultantly, at present, the mandatory application of the pronouncement is limited to qualifying for-profit private sector entities and other for-profit entities that elect to prepare general purpose financial statements.

As part of the phased approach, the proposals in this Exposure Draft extend the applicability of the *Conceptual Framework* from these for-profit entities to include private sector and public sector not-for-profit entities (with some exceptions). The proposals are expected to bring a majority of Australian entities under the aegis of the same conceptual framework documents for guiding and developing accounting policies.

In conjunction with the proposals to extend application of the *Conceptual Framework* to not-for-profit entities, the Exposure Draft includes proposed amendments to the *Conceptual Framework* that the AASB considers necessary so that the pronouncement can – with regard to not-for-profit entities – meet its intended purpose of assisting:

- (a) the AASB to develop Standards that are based on consistent concepts;
- (b) preparers to develop consistent accounting policies when no Standard applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy; and
- (c) all parties to understand and interpret the Standards.

In addition to superseding the *Framework for the Preparation and Presentation of Financial Statements*, when applicable, the *Conceptual Framework* also supersedes SAC 1 *Definition of the Reporting Entity*. This Exposure Draft also proposes changes to AASB 1057 *Application of Australian Accounting Standards* to extend the applicability of Australian Accounting Standards to more not-for-profit entities on advent of the reporting entity concept formerly set out in SAC 1 no longer being valid for many not-for-profit entities.

These proposals are made in furtherance of the AASB's work to improve the quality of reporting by Australian entities as part of its staged review of the Australian financial reporting framework. In 2018, following earlier research conducted and recognising feedback received on its agenda consultation, the AASB added a project to its standard-setting work programme to review its financial reporting framework for Australian entities. The primary project driver was to address the stakeholder concern that the reporting entity concept, long embedded into the Australian accounting framework, was not working as originally envisaged. Rather, there remained a large population of Australian entities preparing special purpose financial statements, rather than the general purpose financial statements that facilitate comparability of financial reporting for entities of similar economic circumstances.

The effect of the proposals in this Exposure Draft is that more not-for-profit entities will be required to prepare general purpose financial statements when financial statements are prepared in accordance with a directive that they comply with Australian Accounting Standards.

The proposals exposed in this Exposure Draft should be considered in conjunction with the proposals in AASB Exposure Draft ED 3XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*. ED 3XX also results from the Board's review of the Australian financial reporting framework for not-for-profit private sector entities. In the main, ED 3XX proposes introducing a further reporting tier of general purpose financial statements in recognition of the demographic of certain not-for-profit private sector entities impacted by the proposals in this Exposure Draft.

What we are proposing

Note 2 to Board members:

This section has been added since the draft considered by the Board at its 6-7 June 2024 meeting.

This Exposure Draft proposes amendments to the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) and Australian Accounting Standards (including Interpretations) (via AASB 1057 *Application of Australian Accounting Standards*) so that the pronouncements apply to:

- (a) not-for-profit entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
- (b) other not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards; and
- (c) not-for-profit entities that elect to prepare general purpose financial statements.

For many of the pronouncements, a scope exemption is proposed where the relevant document was created and last amended before a specified future date.

So that the *Conceptual Framework*, once amended, is relevant to not-for-profit entities, as part of this Exposure Draft the AASB also proposes to add several 'Aus' paragraphs to the *Conceptual Framework*. These modifications recognise that the AASB develops accounting standards for both the for-profit and not-for-profit sector. The proposed modifications are limited to those the AASB considers necessary for the pronouncement to serve as an appropriate accounting framework for developing future Australian accounting standards, and include not-for-profit modifications carried forward from the *Framework for the Preparation and Presentation of Financial Statements*. The proposals include amendments to:

- (a) recognise that the users of the financial statements of not-for-profit entities are likely to differ to the primary users of the financial statements of for-profit entities;
- (b) recognise that the users of the financial statements of not-for-profit entities may not be interested in obtaining a financial return on their investment but are interested in the ability of the entity to achieve its objectives. Consistent with this, several of the proposed amendments reflect the notion that, distinct to for-profit private sector entities, the value of the assets of a not-for-profit entity is not necessarily strictly correlated to the generation of cash flows;
- (c) explain the predictive value and usefulness of information about a not-for-profit entity's past financial performance, its ability to generate net cash inflows through its operations and how management discharged its stewardship responsibilities; and
- (d) recognise that not-for-profit entities typically do not issue equity instruments or make distributions to investors.

As a result of the AASB's proposals to extend the application of the Australian Accounting Standards to a broader population of not-for-profit entities, should the AASB's proposals be finalised in their current form, certain not-for-profit private and public sector entities preparing special purpose financial statements on the basis that the entity is not a reporting entity (as defined by SAC 1 *Definition of the Reporting Entity*) may no longer continue to be able to do so. Instead, these entities may need to prepare general purpose financial statements in the future. To assist with the transition, this Exposure Draft proposes certain comparative information relief for entities preparing Tier 2 general purpose

financial statements for the first time. However, to incentivise early adoption of its proposals, the AASB proposes to make the relief available only to early adopters of the resulting Standard.

ED 3XX, issued at the same time as this Exposure Draft, includes proposals for a further reporting Tier. The proposals set out in ED 3XX could be expected to limit the transition and ongoing costs of certain not-for-profit entities that will need to prepare general purpose financial statements if the AASB's proposals in this Exposure Draft are finalised.

This Exposure Draft also proposes to:

- (a) make consequential amendments to various Australian Accounting Standards and Practice Statement 2 *Making Materiality Judgements* as a result of the proposals to extend the scope of the *Conceptual Framework* and Australian Accounting Standards noted above; and
- (b) amend AASB 1054 *Australian Additional Disclosures* to require information about the entity's accounting policies to be disclosed in the special purpose financial statements of not-for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards.

Note 3 to Board members:

Further detail about the proposed amendments to AASB 1054 is set out in Agenda Paper 5.1 and under the proposed amendments to AASB 1054 in this paper. Refer Agenda Paper 5.1 and pages 43 – 47 of this paper.

Application date

This Exposure Draft proposes that the amendments apply to annual periods beginning on or after a date that is at least three years after the issue of the proposed Standard, with earlier application permitted.

Who will be affected

Note 4 to Board members:

This section has been extended since the draft considered by the Board at its 6-7 June 2024 meeting. The text following the first paragraph is newly added.

These proposals will affect not-for-profit entities that:

- (a) are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; or
- (b) are required by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards; or
- (c) elect to prepare general purpose financial statements.

Entities affected by these proposals may be currently preparing general purpose financial statements or special purpose financial statements. These proposals will also affect entities that may continue to prepare special purpose financial statements if these proposals are finalised as exposed.

Examples of entities that will be affected by these proposals include not-for-profit private and public sector entities that are (this list is neither exhaustive nor mutually exclusive):

- (a) companies lodging financial statements under the *Corporations Act 2001*, e.g.:
 - (i) large proprietary companies;
 - (ii) unlisted public companies other than small companies limited by guarantee;
 - (iii) small proprietary companies controlled by a foreign company;
 - (iv) financial services licensees;
 - (v) small proprietary companies raising funds through crowd-sourced funding;
- (b) large and medium charities registered with the *Australian Charities and Not-for-profits Commission* (ACNC);
- (c) incorporated associations, co-operatives and other entities with financial reporting obligations under Federal or State/Territory legislation to prepare financial statements in accordance with Australian Accounting Standards or accounting standards;
- (d) federal, state and local governments and other public sector entities established pursuant to an Act or other legislative instrument with financial reporting obligations under that instrument to prepare financial statements in accordance with Australian Accounting Standards or accounting standards; and

- (e) trusts, partnerships, joint arrangements, self-managed superannuation funds and other entities required only by their constituting or other document to prepare financial statements that comply with Australian Accounting Standards.

Examples of entities that are unlikely to be affected by these proposals include (this list is neither exhaustive nor mutually exclusive):

- (a) for-profit private sector entities;
- (b) for-profit public sector entities;
- (c) small charities registered with the ACNC;
- (d) small not-for-profit proprietary companies preparing financial statements under an ASIC or stakeholder direction that does not require compliance with Australian Accounting Standards;
- (e) entities with financial reporting obligations under Federal or State/Territory legislation to prepare financial information or financial statements that provide a true and fair view, but which are not required to comply with Australian Accounting Standards or accounting standards; and
- (f) trusts, partnerships, joint arrangements, self-managed superannuation funds and other entities that are not required by their constituting or other document to prepare financial statements that comply with Australian Accounting Standards.

What happens next

The AASB will consider feedback on this Exposure Draft at future meetings and, based on the information received, will determine whether the proposals should be implemented, with or without amendment. Depending on the nature and extent of the feedback, the AASB may publish a Fatal-Flaw Review Draft to enable further consultation with stakeholders.

We need your feedback

Comments are invited on any of the proposals in this Exposure Draft by [date]. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Online survey

Although submitting a formal submission is the best way to express views to the AASB relating to a consultation document, preparing a formal submission may require a lot of time and effort from stakeholders. To assist stakeholders in providing timely responses to the AASB on the proposals included in this Exposure Draft, AASB staff have developed an online survey setting out the main areas for which stakeholders' views are sought. Survey responses will not be attributed to individuals or organisations and will be presented to the AASB in an aggregated form.

To complete the survey, visit this page ([link TBU]) on a web browser and follow the on-screen instructions.

Specific matters for comment

Note 5 to Board members:

This section has been added since the draft considered by the Board at its 6-7 June 2024 AASB meeting. Staff have identified the following aspects of the Exposure Draft for request for specific feedback. Staff recommend that ED 3XY include the specific matters for comment (SMC) below this Note.

Question 1 to Board members:

- (a) Do Board members agree with the proposed SMCs, including the ordering of the SMCs? If not, which SMCs are of concern and what is the concern?
- (b) Have Board members identified any further topics that should be posed as an SMC?

The AASB would particularly value comments on the following:

Applying the *Conceptual Framework* to not-for-profit entities

1. Paragraph Aus1.1 of the proposed amendments to the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) extends the applicability of the pronouncement to apply also to not-for-profit private and public sector entities that:

- (a) are required by legislation to comply with either Australian Accounting Standards or accounting standards; or
- (b) are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after a specified date; or
- (c) elect to prepare general purpose financial statements.

The *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 *Definition of the Reporting Entity* are superseded when the *Conceptual Framework* applies.

Do you agree with the proposed amendments to extend the application of the *Conceptual Framework* to not-for-profit entities, including the proposed amendments to the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1? If you disagree, please explain why.

2. The AASB is proposing to insert a number of Aus paragraphs into the *Conceptual Framework* so that the pronouncement is suitable for use as a conceptual framework document for not-for-profit entities.

- (a) Do you agree with the proposed Aus paragraphs to be added to Chapter 1 *The objective of general purpose financial reporting* and Chapter 2 *Qualitative characteristics of useful financial information* of the *Conceptual Framework*, including the amendments to:

- (i) distinguish donors from other funders (see proposed paragraph Aus1.2.1);
- (ii) clarify that transactions in equity instruments and distributions to investors typically do not occur in not-for-profit entities (see proposed paragraph Aus1.15.1);
- (iii) clarify that information about a not-for-profit entity's past financial performance and how management discharged its stewardship responsibilities is usually helpful for predicting the volume and cost of future services and the sustainability of future service delivery (see proposed paragraph Aus1.16.1); and
- (iv) delink, for not-for-profit entities, the results of confident user decision making to efficiently functioning capital markets and lower cost of capital (see proposed paragraph Aus2.41.1)?

If you disagree, please explain why.

- (b) Do you agree with the proposed Aus paragraphs to be added to Chapter 4 *The elements of financial statements*, including the amendments to:

- (i) clarify, for a not-for-profit entity, the relationship between the potential to produce economic benefits and service potential (see paragraph Aus4.4.1);
- (ii) clarify, for a not-for-profit entity, the relationship between cash inflows and the definition of an asset (see paragraphs Aus4.16.1 and Aus4.16.2); and
- (iii) explain how references in the *Conceptual Framework* to an equity claim should be interpreted, as a not-for-profit entity would not typically have equity claims over itself (see paragraph Aus4.67.1)?

If you disagree, please explain why.

- (c) Do you agree with the proposed Aus paragraphs to be added to Chapter 6 *Measurement*, including the amendments to:

- (i) clarify that for a not-for-profit entity the predictive value of historical cost information and current cost information is not limited to predicting future margin (see proposed paragraphs Aus6.30.1 and Aus6.41.1); and
- (ii) clarify that the selection of an appropriate measurement basis for non-financial assets held by a not-for-profit entity for their service potential rather than their potential to generate cash inflows is not necessarily informed by how those cash inflows are generated?

If you disagree, please explain why.

- (d) Do you agree, overall, with the limited proposed amendments to the *Conceptual Framework*? If you disagree, please explain why.
3. The Board is aware of a view that further consideration should be given to the identification of users of the financial statements of a not-for-profit entity and to the emphasis given to stewardship/accountability in a conceptual framework for not-for-profit entities, amongst other matters. However, the AASB has decided not to add a project to its work program to further develop the *Conceptual Framework* for these or other more significant or complex conceptual issues affecting not-for-profit entities. The Board has made this decision on consideration of the effort involved with undertaking a project in this regard versus the urgency of such project when considered against its existing other work program priorities.
- Do you agree with the AASB's decision to no longer undertake a project that would consider the more significant and complex conceptual issues affecting not-for-profit entities? If you disagree, please explain why.

Limiting the ability of certain not-for-profit entities to prepare special purpose financial statements

4. The AASB is proposing to extend the application of Australian Accounting Standards to more not-for-profit entities and no longer predicating the applicability of a Standard to an entity's identification as a reporting entity (as defined by SAC 1 *Definition of the Reporting Entity*). The proposals amend requirements for not-for-profit public sector entities but do not affect for-profit public sector entities, except where these entities are consolidated or otherwise incorporated into the not-for-profit public sector entity's financial statements.¹
- (a) Do you agree with the proposed amendments to AASB 1057 *Application of Australian Accounting Standards* to extend the application of Australian Accounting Standards to, in general, not-for-profit private sector entities that are required:
- (i) by legislation to comply with either Australian Accounting Standards or accounting standards; or
 - (ii) only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document is created or amended on or after a specified date;
- such that these entities resultantly need to prepare general purpose financial statements?
- In particular, do you agree with the proposal to not require a not-for-profit private sector entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards to present general purpose financial statements, provided that the relevant constituting or other document was created or amended before a specified date?
- If not, please explain what you suggest instead and why.
- (b) Do you agree with the proposed amendments to AASB 1057 to extend the application of Australian Accounting Standards to, in general, not-for-profit public sector entities that are required:
- (i) by legislation to comply with either Australian Accounting Standards or accounting standards; or
 - (ii) only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document is created or amended on or after a specified date;
- such that these entities resultantly need to prepare general purpose financial statements?
- In particular, do you agree with the proposal to not require a not-for-profit public sector entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards to present general purpose financial statements, provided that the relevant constituting or other document was created or amended before a specified date?
- If not, please explain what you suggest instead and why.
- (c) Do you agree with the proposed amendments to AASB 1057 to extend the application of AASB 1054 *Australian Additional Disclosures* to not-for-profit entities that are required:
- (i) by legislation to comply with either Australian Accounting Standards or accounting standards; or

¹ For-profit public sector entities will generally continue to refer to the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 *Definition of the Reporting Entity*, which may permit the entity to prepare special purpose financial statements. The AASB will consider the reporting requirements for these entities as part of a separate future project.

- (ii) only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards;

such that the disclosures specified by AASB 1054 apply also to special purpose financial statements?

5. The AASB is proposing that the *Conceptual Framework* and Australian Accounting Standards apply to not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document is created or amended on or after a specified date.

The AASB is proposing that the specified date is the first effective date of a Standard resulting from this Exposure Draft. For example, if the effective date of a final Standard is for annual periods beginning on or after 1 January 2029, the specified date will be 1 January 2029.

Do you agree with the proposed specified date for the relevant document? If you disagree, please explain why.

Disclosure in special purpose financial statements

6. The AASB is proposing to amend paragraph 2 of AASB 1054 *Australian Additional Disclosures* to require a not-for-profit private sector entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards to disclose the information specified by paragraphs 8 and 9 of AASB 1054 in special purpose financial statements (where prepared as permitted, because the relevant document was created before and not amended on or after a specified date).

Do you agree with the proposal? If you disagree, please explain why.

7. The AASB is proposing to amend paragraph 9A of AASB 1054 *Australian Additional Disclosures* to require a not-for-profit private sector entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, and that prepares special purpose financial statements, to disclose information that will help users understand the extent to which those financial statements comply with Australian Accounting Standards.

- (a) Do you agree with the proposed amendments to paragraph 9A of AASB 1054 to require a not-for-profit private sector entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, and that prepares special purpose financial statements (where prepared as permitted, because the relevant document was created before and not amended on or after a specified date), to disclose information that will help users understand the extent to which those financial statements comply with Australian Accounting Standards?

If you disagree, please explain why.

- (b) Do you agree with the proposed amendments to paragraph 9A of AASB 1054 to additionally require the identified not-for-profit private sector entity to disclose information about its adopted accounting policies (paragraphs 9A(b) and 9A(c) of AASB 1054)?

If you disagree, please explain why.

Transitional provisions

8. The AASB is proposing to provide limited transitional relief to an entity that is a first-time adopter of Australian Accounting Standards and that elects to apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.²

Do you agree with the proposals set out in Appendix F in AASB 1053 and paragraph Aus12.2 of AASB 1 *First-time Adoption of Australian Accounting Standards*? If you disagree, please explain why.

9. The AASB is proposing to amend paragraph 20A of AASB 1053 to allow not-for-profit entities transitioning from unconsolidated Tier 2 – Simplified Disclosures general purpose financial statements to consolidated Tier 2 – Simplified Disclosures general purpose financial statements to apply AASB 1 when preparing consolidated financial statements for the first time.

Do you agree with the proposed amendments to paragraph 20A of AASB 1053? If you disagree, please explain why.

² The AASB's proposals regarding transitional relief for entities transitioning from preparing special purpose financial statements to preparing Tier 3 general purpose financial statements is set out in AASB Exposure Draft ED 3XX. ED 3XX was issued at the same time as this Exposure Draft.

Effective date of the proposals

10. The AASB is proposing that the effective date of a final Standard be a date that is at least three years after issue of that pronouncement (for example, if the Standard is issued in December 2025, the effective date may be for annual periods beginning on or after 1 January 2029). Early adoption is permitted.

Do you agree with this proposal? If you disagree, please explain why.

General matters for comment

Note 6 to Board members:

This section has been added since the draft considered by the Board at its 6-7 June 2024 meeting.

The AASB would also particularly value comments on the following general matters:

11. Has the *AASB Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in this Exposure Draft?
12. Are there 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?
13. Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?
14. Would the proposals result overall in financial statements that are useful to users?
15. Are the proposals in the best interests of the Australian economy?
16. Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals 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.

Contents

PREFACE

[DRAFT] ACCOUNTING STANDARD

AASB 20XX-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – LIMITING THE ABILITY OF NOT-FOR-PROFIT ENTITIES TO PREPARE SPECIAL PURPOSE FINANCIAL STATEMENTS

from paragraph

[To be generated]

[DRAFT] BASIS FOR CONCLUSIONS ON AASB 20XX-X

[Draft] Australian Accounting Standard AASB 20XX-X *Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* is set out in paragraphs 1–y. All the paragraphs have equal authority.

Draft

Preface

Standards amended by AASB 20XX-X

This [draft] Standard makes amendments to the Australian Accounting Standards, Interpretations and other pronouncements listed in paragraph 1 of the Standard.

Main features of this [draft] Standard

Main requirements

Note 7 to Board members:

This section has been added since the draft considered by the Board at its 6-7 June 2024 meeting.

This Standard makes amendments to the *Conceptual Framework for Financial Reporting (Conceptual Framework)* and AASB 1057 *Application of Australian Accounting Standards* to:

- (a) extend the application of the *Conceptual Framework* and Australian Accounting Standards to not-for-profit entities (private and public sector) that:
 - (i) are required by legislation to comply with either Australian Accounting Standards or accounting standards;
 - (ii) are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards. In most instances, an exemption is available where the relevant document was created and last amended before [date]; and
 - (iii) elect to prepare general purpose financial statements;
- (b) introduce ‘Aus’ paragraphs to the *Conceptual Framework* to add guidance for not-for-profit entities.

This Standard also makes consequential amendments to various Australian Accounting Standards resulting from the amendments above, and to the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 *Definition of the Reporting Entity*. In addition, this Standard amends AASB 1054 *Australian Additional Disclosures* to revise the specified disclosures required in certain special purpose financial statements.

When the amendments are applicable, certain not-for-profit entities may need to prepare general purpose financial statements for the first time. Additional transitional relief is available to early adopters of the Standard preparing general purpose financial statements complying with Tier 2 Australian Accounting Standards – Simplified Disclosures reporting requirements.

Application date

This Standard applies to annual periods beginning on or after ... [date] (see paragraph 3). Earlier application is permitted.

[Draft] Accounting Standard AASB 20XX-X

The Australian Accounting Standards Board makes Accounting Standard AASB 20XX-X *Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall
Chair – AASB

[Draft] Accounting Standard AASB 20XX-X *Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*

Objective

1 This Standard amends:

- (a) the *Conceptual Framework for Financial Reporting* (May 2019);
- (b) the *Framework for the Preparation and Presentation of Financial Statements* (July 2004);
- (c) Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* (August 1990);
- (d) AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015);
- (e) AASB 2 *Share-based Payment* (July 2015);
- (f) AASB 3 *Business Combinations* (August 2015);
- (g) AASB 6 *Exploration for and Evaluation of Mineral Resources* (August 2015);
- (h) AASB 7 *Financial Instruments: Disclosures* (August 2015);
- (i) AASB 8 *Operating Segments* (August 2015);
- (j) AASB 9 *Financial Instruments* (December 2014);
- (k) AASB 10 *Consolidated Financial Statements* (July 2015);
- (l) AASB 12 *Disclosure of Interests in Other Entities* (August 2015);
- (m) AASB 14 *Regulatory Deferral Accounts* (June 2014);
- (n) AASB 17 *Insurance Contracts* (July 2017);
- (o) AASB 18 *Presentation and Disclosure in Financial Statements* (June 2024);
- (p) AASB 101 *Presentation of Financial Statements* (July 2015);
- (q) AASB 108 *Basis of Preparation of Financial Statements* (August 2015);
- (r) AASB 110 *Events after the Reporting Period* (August 2015);
- (s) AASB 112 *Income Taxes* (August 2015);
- (t) AASB 116 *Property, Plant and Equipment* (August 2015);
- (u) AASB 119 *Employee Benefits* (August 2015);
- (v) AASB 121 *The Effects of Changes in Foreign Exchange Rates* (August 2015);
- (w) AASB 124 *Related Party Disclosures* (July 2015);
- (x) AASB 128 *Investments in Associates and Joint Ventures* (August 2015);
- (y) AASB 132 *Financial Instruments: Presentation* (August 2015);
- (z) AASB 133 *Earnings per Share* (August 2015);
- (aa) AASB 134 *Interim Financial Reporting* (August 2015);
- (bb) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (August 2015);

- (cc) AASB 139 *Financial Instruments: Recognition and Measurement* (August 2015);
- (dd) AASB 140 *Investment Property* (August 2015);
- (ee) AASB 141 *Agriculture* (August 2015);
- (ff) AASB 1023 *General Insurance Contracts* (July 2004);
- (gg) AASB 1048 *Interpretation of Standards* (December 2017);
- (hh) AASB 1052 *Disaggregated Disclosures* (December 2007)
- (ii) AASB 1053 *Application of Tiers of Australian Accounting Standards* (June 2010);
- (jj) AASB 1054 *Australian Additional Disclosures* (May 2011);
- (kk) AASB 1056 *Superannuation Entities* (December 2023);
- (ll) AASB 1057 *Application of Australian Accounting Standards* (July 2015);
- (mm) AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020);
- (nn) Interpretation 16 *Hedges of a Net Investment in a Foreign Operation* (August 2015);
- (oo) Interpretation 132 *Intangible Assets – Web Site Costs* (August 2015);
- (pp) Interpretation 1003 *Australian Petroleum Resource Rent Tax* (November 2007);
- (qq) Interpretation 1031 *Accounting for the Goods and Services Tax (GST)* (July 2004); and
- (rr) AASB Practice Statement 2 *Making Materiality Judgements* (December 2017);

to extend the application of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* and Australian Accounting Standards to more not-for-profit entities and make consequential amendments. This Standard also makes amendments to the *Conceptual Framework* to address issues specific to the not-for-profit sector.

Note 8 to Board members:

Staff have edited the text following the listing of affected pronouncements to more appropriately reflect that the changes to extend the application of Australian Accounting Standards to more entities is not consequential to the *Conceptual Framework* amendments. Staff have also added a sentence to clarify that the amendments to the *Conceptual Framework* are not in the nature of consequential amendments.

The text formerly read:

... to extend the application of the *Conceptual Framework for Financial Reporting to not-for-profit entities and make consequential amendments to other Standards and pronouncements.*

Additionally, AASB 18 has been added to the listing of affected pronouncements and the title of AASB 108 has been updated.

AASB 101 is presently retained in the listing of affected pronouncements. Further detail affecting whether it should be included is set out under the proposed amendments to AASB 101 – refer page 29 of this paper.

Application

Note 9 to Board members:

The working draft before the Board at its 6-7 June 2024 meeting contemplated that early adoption of this Standard would be predicated on the entity also early adopting a final Tier 3 Standard. On further consideration, staff think it is not necessary to link the early adoption of this Standard to the early adoption of a final Tier 3 Standard. This is because the Tier 3 Standard may not be applicable or may not be relevant to an entity that applies this Standard (e.g. a large charity). As a result, staff have removed the early adoption condition from the text in paragraph 3.

Also, staff note that the Board had not been previously asked a specific question regarding permitting the early adoption of the proposals set out in this ED. However, a decision in this regard was implicit in the Board's decision to propose transitional provisions that are limited to instances of early adoption of a final Standard.

- 2 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards and Interpretations set out in AASB 1057 *Application of Australian Accounting Standards* and the other pronouncements.

- 3 An entity shall apply this Standard for annual reporting periods beginning on or after ... [a date at least three years after the issue of this Standard]. This Standard may be applied to annual periods beginning before [date]. When an entity applies this Standard to such an annual period, it shall disclose that fact.
- 4 This Standard uses underlining, striking out and other typographical material to identify the amendments to a Standard or an Interpretation, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to the Conceptual Framework for Financial Reporting

- 5 Paragraph Aus1.1 is amended and paragraph Aus1.2A is added as follows. Paragraphs Aus1.2 and Aus1.3 are unamended but have been included for ease of reference:

Aus1.1 ~~This~~ The Conceptual Framework for Financial Reporting (Conceptual Framework) applies to:

- (a) for-profit private sector entities and not-for-profit entities that are required by legislation to comply with either Australian Accounting Standards or accounting standards;
- (b) other for-profit private sector entities and not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after:
 - (i) for a for-profit private sector entity – 1 July 2021; and
 - (ii) for a not-for-profit entity – [date]; and
- (c) other ~~for-profit~~ entities (private or public sector) that elect to prepare general purpose financial statements.

Aus1.2 This *Conceptual Framework* applies to periods beginning on or after 1 July 2021. Earlier application is permitted if at the same time an entity also applies the amendments made by AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* and AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

Aus1.2A AASB 20XX-X *Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* amended paragraph Aus1.1 and the Appendix and added ‘Aus’ paragraphs. An entity shall apply these amendments from [date]. Earlier application by not-for-profit entities is permitted if at the same time the entity also applies all the other amendments made by AASB 20XX-X.

Aus1.3 When applicable, this *Conceptual Framework* supersedes:

- (a) the *Framework for the Preparation and Presentation of Financial Statements* (July 2004); and
- (b) Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* (August 1990);

except as otherwise required by Australian Accounting Standards.

- 6 Paragraph AusSP1.5.1 is added after paragraph SP1.5 as follows. Paragraph SP1.5 is unamended but has been included for ease of reference:

SP1.5 The *Conceptual Framework* contributes to the stated mission of the Board, including developing Standards that bring transparency, accountability and efficiency to financial markets in Australia. The Board’s work serves the public interest by fostering trust, growth and long-term financial stability in the Australian economy. The *Conceptual Framework* provides the foundation for Standards that:

- (a) contribute to transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.
- (b) strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Standards based on the *Conceptual Framework* provide information needed to hold management to account. As

a source of globally comparable information, those Standards are also of vital importance to regulators around the world.

- (c) contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language derived from Standards based on the *Conceptual Framework* lowers the cost of capital and reduces international reporting costs.

AusSP1.5.1 In respect of not-for-profit entities, the *Conceptual Framework* also contributes to the stated mission of the Board, including developing Standards that bring transparency and accountability of those entities to their resource providers and beneficiaries, and efficiency to the allocation of scarce resources to not-for-profit entities in Australia. The *Conceptual Framework* also, in respect of not-for-profit entities, provides the foundation for Standards that:

- (a) strengthen accountability by reducing the information gap between the providers of resources and the people to whom they have entrusted those resources. Standards based on the *Conceptual Framework* contribute to providing information needed to hold management to account.
- (b) contribute to better deployment of scarce resources by helping resource providers and beneficiaries to compare the efficiency and effectiveness of service delivery by different entities, and the capacity of entities to provide services in the future, thus assisting the allocation of resources and the identification of future resource needs.

7 Paragraphs Aus1.2.1 and Aus1.3.1 are added as follows. Paragraphs 1.2 and 1.3 are unamended but have been included for ease of reference. Footnotes to the text are not reproduced:

Objective, usefulness and limitations of general purpose financial reporting

1.2 The objective of general purpose financial reporting¹ is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.² Those decisions involve decisions about:

- (a) buying, selling or holding equity and debt instruments;
- (b) providing or settling loans and other forms of credit; or
- (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

Aus1.2.1 Among the users of financial information about a not-for-profit reporting entity are existing and potential resource providers (such as donors and other funders, taxpayers, lenders and other creditors, and investors), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament). Such users may make resource allocation decisions in relation to not-for-profit entities that differ from those identified in paragraph 1.2. For example, donors and other funders decide whether to commit resources to an entity, taxpayers decide who should represent them in government, recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers, and parliaments decide, on behalf of constituents, whether to support particular programmes for delivery by an entity. In relation to not-for-profit entities, where pertinent, all references in the *Conceptual Framework* to 'existing and potential investors, lenders and other creditors' (and related terms) should be read as a reference to this broader range of users.

1.3 The decisions described in paragraph 1.2 depend on the returns that existing and potential investors, lenders and other creditors expect, for example, dividends, principal and interest payments or market price increases. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity and on their assessment of management's stewardship of the entity's economic resources. Existing and potential investors, lenders and other creditors need information to help them make those assessments.

Aus1.3.1 In respect of not-for-profit entities, users (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash inflows and management's stewardship of the entity's economic resources (see also paragraph Aus1.18.1). Users will, for example, be interested in the capability of the entity's resources to provide goods and services in the future. Accordingly, in relation to not-for-profit entities, where pertinent, references in this *Conceptual Framework* to 'assessing prospects for future net cash

inflows to the entity’, ‘assessing prospects for how future cash flows will be distributed among those with a claim against the reporting entity’ and ‘assessing management’s stewardship of the entity’s economic resources’ (and related terms) should be read in the context of the common information needs of users of general purpose financial reports of not-for-profit entities described in this paragraph.

- 8 Paragraphs Aus1.15.1, Aus1.16.1, Aus1.18.1 and a footnote are added as follows. Paragraphs 1.15, 1.16 and 1.18 are unamended but have been included for ease of reference:

Changes in economic resources and claims

- 1.15 Changes in a reporting entity’s economic resources and claims result from that entity’s financial performance (see paragraphs 1.17–1.20) and from other events or transactions such as issuing debt or equity instruments (see paragraph 1.21). To properly assess both the prospects for future net cash inflows to the reporting entity and management’s stewardship of the entity’s economic resources, users need to be able to identify those two types of changes.

Aus1.15.1 In respect of not-for-profit entities, transactions in equity instruments and distributions to investors typically do not occur (however, exceptions may occur, such as where a not-for-profit entity controls a for-profit subsidiary with equity instruments, possibly including non-controlling equity interests, that generates surpluses to subsidise the service-delivery activities of that not-for-profit parent entity).⁶

6 See paragraph Aus4.67.1, which refers to the typical absence of defined equity interests in not-for-profit entities and states that each reference to an ‘equity claim’ in this *Conceptual Framework* should, in relation to not-for-profit entities, be read as a reference to a residual interest in the entity.

- 1.16 Information about a reporting entity’s financial performance helps users to understand the return that the entity has produced on its economic resources. Information about the return the entity has produced can help users to assess management’s stewardship of the entity’s economic resources. Information about the variability and components of that return is also important, especially in assessing the uncertainty of future cash flows. Information about a reporting entity’s past financial performance and how its management discharged its stewardship responsibilities is usually helpful in predicting the entity’s future returns on its economic resources.

Aus1.16.1 In respect of a not-for-profit entity, information about its past financial performance and how its management discharged its stewardship responsibilities is usually helpful for predicting:

- (a) the volume and cost of future services; and
- (b) the sustainability of future service delivery through managing the resources needed to deliver those services, and through recovering the cost of those future services from taxes, appropriations, donations and other income.

Financial performance reflected by accrual accounting

- 1.18 Information about a reporting entity’s financial performance during a period, reflected by changes in its economic resources and claims other than by obtaining additional resources directly from investors and creditors (see paragraph 1.21), is useful in assessing the entity’s past and future ability to generate net cash inflows. That information indicates the extent to which the reporting entity has increased its available economic resources, and thus its capacity for generating net cash inflows through its operations rather than by obtaining additional resources directly from investors and creditors. Information about a reporting entity’s financial performance during a period can also help users to assess management’s stewardship of the entity’s economic resources.

Aus1.18.1 In respect of not-for-profit entities, information useful for assessing an entity’s past and future ability to generate net cash inflows through its operations and management’s stewardship of the entity’s economic resources is, in turn, useful for assessing whether income from taxpayers, donors and other sources was sufficient, and is likely to remain sufficient, to meet the cost of a given volume and quality of goods and services the entity provides. These assessments are in addition to others mentioned in paragraph Aus1.16.1.

- 9 Paragraph Aus2.41.1 is added as follows. Paragraphs 2.39 – 2.41 are unamended but have been included for ease of reference:

The cost constraint on useful financial reporting

- 2.39 Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider.
- 2.40 Providers of financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial information, but users ultimately bear those costs in the form of reduced returns. Users of financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.
- 2.41 Reporting financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. This results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. An individual investor, lender or other creditor also receives benefits by making more informed decisions. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant.
- Aus2.41.1 In respect of not-for-profit entities, reporting financial information that is relevant and faithfully represents what it purports to represent similarly helps users to make decisions with more confidence and make more informed decisions. Information that helps users understand how management have discharged their responsibilities results in more efficient allocation of scarce resources to not-for-profit entities throughout the economy.
- 10 Paragraphs Aus4.4.1, Aus4.16.1, Aus4.16.2, Aus4.25.1 and Aus4.67.1 are added as follows. Paragraphs 4.3, 4.4, 4.16, 4.25 and 4.67 are unamended but have been included for ease of reference:
- Definition of an asset**
- 4.3 An asset is a present economic resource controlled by the entity as a result of past events.
- 4.4 An economic resource is a right that has the potential to produce economic benefits.
- Aus4.4.1 In respect of not-for-profit entities in the public or private sector, in pursuing their objectives, goods and services are provided that have the capacity to satisfy human wants and needs. Assets provide a means for entities to achieve their objectives. The potential to produce economic benefits is the essence of assets and is synonymous with the notion of service potential, and is used in the Conceptual Framework as a reference also to service potential. The potential to produce economic benefits can be described as the scarce capacity to provide benefits to the entities that use them in pursuing their objectives, and is common to all assets irrespective of their physical or other form.
- ...
- Potential to produce economic benefits**
- ...
- 4.16 An economic resource could produce economic benefits for an entity by entitling or enabling it to do, for example, one or more of the following:
- (a) receive contractual cash flows or another economic resource;
 - (b) exchange economic resources with another party on favourable terms;
 - (c) produce cash inflows or avoid cash outflows by, for example:
 - (i) using the economic resource either individually or in combination with other economic resources to produce goods or provide services;
 - (ii) using the economic resource to enhance the value of other economic resources; or
 - (iii) leasing the economic resource to another party;
 - (d) receive cash or other economic resources by selling the economic resource; or
 - (e) extinguish liabilities by transferring the economic resource.
- Aus4.16.1 In respect of not-for-profit entities, whether in the public or private sector, the potential to produce economic benefits is also used to provide goods and services in accordance with the entities' objectives. However, since the entities do not have the generation of profit as a principal objective, the provision of goods and services may not result in cash inflows to the entities, because the recipients of the goods and services may not transfer cash or other benefits to the entities in exchange.
- Aus4.16.2 In respect of not-for-profit entities, the fact that they do not charge, or do not charge fully, their beneficiaries or customers for the goods and services they provide does not deprive those

outputs of utility or value; nor does it preclude the entities from benefiting from the assets used to provide the goods and services. For example, assets such as monuments, museums, cathedrals and historical treasures provide needed or desired services to beneficiaries, typically at little or no direct cost to the beneficiaries. These assets benefit the entities by enabling them to meet their objectives of providing needed services to beneficiaries.

...

Control

...

- 4.25 Sometimes one party (a principal) engages another party (an agent) to act on behalf of, and for the benefit of, the principal. For example, a principal may engage an agent to arrange sales of goods controlled by the principal. If an agent has custody of an economic resource controlled by the principal, that economic resource is not an asset of the agent. Furthermore, if the agent has an obligation to transfer to a third party an economic resource controlled by the principal, that obligation is not a liability of the agent, because the economic resource that would be transferred is the principal's economic resource, not the agent's.

Aus4.25.1 In respect of not-for-profit entities, rather than to arrange sales of goods, a principal may engage an agent to arrange the distribution of goods controlled by the principal to eligible beneficiaries.

...

Definition of equity

...

- 4.67 Business activities are often undertaken by entities such as sole proprietorships, partnerships, trusts or various types of government business undertakings. The legal and regulatory frameworks for such entities are often different from frameworks that apply to corporate entities. For example, there may be few, if any, restrictions on the distribution to holders of equity claims against such entities. Nevertheless, the definition of equity in paragraph 4.63 of the *Conceptual Framework* applies to all reporting entities.

Aus4.67.1 In respect of not-for-profit entities, residual interests in the entity's assets are not necessarily held in the form of equity claims. In a not-for-profit entity in the private sector, there is typically an absence of defined financial interests of an ownership group conveying entitlement to the rights described in paragraph 4.65. However, some party or parties would be entitled to any assets remaining after the liabilities have been satisfied. In the case of not-for-profit entities in the public sector, it is normally the community, through its elected representatives in government, that holds the ultimate residual interest. Each reference to an 'equity claim' in this *Conceptual Framework* should, in relation to not-for-profit entities, be read as a reference to a residual interest in the entity, whether held as an equity claim or otherwise.

- 11 Paragraphs Aus6.30.1 and Aus6.41.1 are added as follows. Paragraphs 6.30 and 6.41 are unamended but have been included for ease of reference:

Historical cost

...

- 6.30 Information about the cost of assets sold or consumed, including goods and services consumed immediately (see paragraph 4.8), and about the consideration received, may have predictive value. That information can be used as an input in predicting future margins from the future sale of goods (including goods not currently held by the entity) and services and hence to assess the entity's prospects for future net cash inflows. To assess an entity's prospects for future cash flows, users of financial statements often focus on the entity's prospects for generating future margins over many periods, not just on its prospects for generating margins from goods already held. Income and expenses measured at historical cost may also have confirmatory value because they may provide feedback to users of financial statements about their previous predictions of cash flows or of margins. Information about the cost of assets sold or consumed may also help in an assessment of how efficiently and effectively the entity's management has discharged its responsibilities to use the entity's economic resources.

Aus6.30.1 The cost of assets sold or consumed by a not-for-profit entity may have predictive value because that cost is useful as an input in predicting the cost of goods or services to be provided to customers and beneficiaries in the future (including through sales) in pursuing its not-for-profit objectives, and the extent to which that cost will be recovered from future income.

...

Current cost

...

- 6.41 Like historical cost, current cost provides information about the cost of an asset consumed or about income from the fulfilment of liabilities. That information can be used to derive current margins and can be used as an input in predicting future margins. Unlike historical cost, current cost reflects prices prevailing at the time of consumption or fulfilment. When price changes are significant, margins based on current cost may be more useful for predicting future margins than margins based on historical cost.

Aus6.41.1 For not-for-profit entities, using current cost to measure the cost of an asset consumed or income from the fulfilment of liabilities provides information that can also be used to derive current margins and be used as an input in predicting future margins; however, margins might be assessed at a higher level of aggregation of income and expenses within the entity than is the case for for-profit entities. For example, when the cost of goods and services provided to customers and beneficiaries is recovered from sales revenues and financial support in the form of rates, taxes, appropriations or donations, margins on the cost of goods and services provided might be assessed at a whole-of-entity level. In addition, for not-for-profit entities, using current cost to measure the cost of an asset consumed or income from the fulfilment of liabilities provides information that can be used as input in predicting the cost of goods and services provided to customers and beneficiaries in the future, which is useful information in its own right (not just as an input to predicted margins). When price changes are significant, using current cost to measure the cost of an asset consumed or income from the fulfilment of liabilities may be more useful for predicting the cost of goods and services provided in the future (and, consequently, future margins) than measures of those items based on historical cost.

- 12 Paragraph Aus6.56.1 is added as follows. Paragraphs 6.54-6.56 and 6.57 are unamended but have been included for ease of reference:

Contribution to future cash flows

- 6.54 As noted in paragraph 1.14, some economic resources produce cash flows directly; in other cases, economic resources are used in combination to produce cash flows indirectly. How economic resources are used, and hence how assets and liabilities produce cash flows, depends in part on the nature of the business activities conducted by the entity.

- 6.55 When a business activity of an entity involves the use of several economic resources that produce cash flows indirectly, by being used in combination to produce and market goods or services to customers, historical cost or current cost is likely to provide relevant information about that activity. For example, property, plant and equipment is typically used in combination with an entity's other economic resources. Similarly, inventory typically cannot be sold to a customer, except by making extensive use of the entity's other economic resources (for example, in production and marketing activities). Paragraphs 6.24–6.31 and 6.40–6.42 explain how measuring such assets at historical cost or current cost can provide relevant information that can be used to derive margins achieved during the period.

- 6.56 For assets and liabilities that produce cash flows directly, such as assets that can be sold independently and without a significant economic penalty (for example, without significant business disruption), the measurement basis that provides the most relevant information is likely to be a current value that incorporates current estimates of the amount, timing and uncertainty of the future cash flows.

Aus6.56.1 Notwithstanding paragraph 6.55, historical cost or current cost may or may not provide relevant information about the activity of non-financial assets that produce cash flows indirectly when those economic resources are held by a not-for-profit entity for its service potential rather than its potential to produce economic benefits in the form of cash inflows. Similarly, notwithstanding paragraph 6.56, a current value measurement basis may or may not provide the most relevant information about the activity of non-financial assets that produce cash flows directly when the asset is held by a not-for-profit entity for its service potential rather than its potential to produce economic benefits in the form of cash inflows.

- 6.57 When a business activity of an entity involves managing financial assets and financial liabilities with the objective of collecting contractual cash flows, amortised cost may provide relevant information that can be used to derive the margin between the interest earned on the assets and the interest incurred on the liabilities. However, in assessing whether amortised cost will provide useful information, it is also necessary to consider the characteristics of the financial asset or financial

liability. Amortised cost is unlikely to provide relevant information about cash flows that depend on factors other than principal and interest.

13 The Appendix is amended as follows:

The following defined terms are extracted or derived from the relevant paragraphs of the Conceptual Framework for Financial Reporting.

...

| | | |
|-------------------|--|--------|
| economic resource | A right that has the potential to produce economic benefits. | CF.4.4 |
|-------------------|--|--------|

| | |
|--|--------------------|
| <u>A right that has the potential to produce economic benefits (including a right to service potential).</u> | <u>CF.Aus4.4.1</u> |
|--|--------------------|

...

| | | |
|--------------|---|---------|
| equity claim | A claim on the residual interest in the assets of the entity after deducting all its liabilities. | CF.4.64 |
|--------------|---|---------|

| | |
|---|---------------------|
| <u>A residual interest in the entity, whether held as an equity claim or otherwise.</u> | <u>CF.Aus4.67.1</u> |
|---|---------------------|

...

| | | |
|--|--|--------|
| primary users (of general purpose financial reports) | Existing and potential investors, lenders and other creditors. | CF.1.2 |
|--|--|--------|

| | |
|--|--------------------|
| <u>Existing and potential resource providers (such as donors and other funders, taxpayers, lenders and other creditors, and investors), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament).</u> | <u>CF.Aus1.2.1</u> |
|--|--------------------|

Amendments to the *Framework for the Preparation and Presentation of Financial Statements*

14 Paragraphs Aus1.2A and Aus1.2B are amended and paragraph Aus1.2AA is added as follows. Paragraphs Aus1.1 and Aus1.3 – Aus1.5 are unamended but have been included for ease of reference:

Application

Aus1.1 The concepts in this *Framework* are not set out as requirements for the purpose of preparing general purpose financial statements. This is consistent with the:

- (a) [deleted]
- (b) [deleted]
- (c) *Australian Securities and Investments Commission Act 2001*, section 227(1).

Aus1.2 This *Framework* applies to periods beginning on or after 1 January 2005.

Aus1.2A With respect to for-profit entities, ~~and~~ this *Framework* does not apply in relation to reporting periods beginning on or after 1 July 2021 to:

- (a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards;
- (b) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2021; and
- (c) other for-profit entities (private sector or public sector) that elect to prepare general purpose financial statements;

except as otherwise required by Australian Accounting Standards.

Aus1.2AA With respect to not-for-profit entities, this *Framework* does not apply in relation to reporting periods beginning on or after [date] to:

- (a) not-for-profit entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards;
- (b) other not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after [date]; and
- (c) other not-for-profit entities (private sector or public sector) that elect to prepare general purpose financial statements;

except as otherwise required by Australian Accounting Standards.

Aus1.2B If an entity identified in paragraph Aus1.2A or Aus1.2AA elects to apply the *Conceptual Framework for Financial Reporting* to an annual reporting period prior to its mandatory application for the entity, the entity shall not apply this *Framework* to that period, except as otherwise required by Australian Accounting Standards.

Aus1.3 This *Framework* shall not be applied to annual reporting periods beginning before 1 January 2005.

Aus1.4 When applicable, this *Framework* supersedes:

- (a) Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting* as issued in August 1990;
- (b) Statement of Accounting Concepts SAC 3 *Qualitative Characteristics of Financial Information* as issued in August 1990; and
- (c) Statement of Accounting Concepts SAC 4 *Definition and Recognition of the Elements of Financial Statements* as issued in March 1995.

Aus1.5 SAC 2, SAC 3 and SAC 4 remain applicable until superseded by this *Framework*.

Amendments to Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*

15 Paragraphs 2A and 2B are amended and paragraph 2AA is added as follows. Paragraph 2 is unamended but has been included for ease of reference:

2 This Statement applies to each reporting entity in relation to its first reporting period that ends on or after 31 August 1990, and in relation to subsequent reporting periods.

2A With respect to for-profit entities, this Statement does not apply in relation to reporting periods beginning on or after 1 July 2021 to:

- (a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards;
- (b) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2021; and
- (c) other for-profit entities (private sector or public sector) that elect to prepare general purpose financial statements.

2AA With respect to not-for-profit entities, this Statement does not apply in relation to reporting periods beginning on or after [date] to:

- (a) not-for-profit entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards;
- (b) other not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after [date]; and

- (c) other not-for-profit entities (private sector or public sector) that elect to prepare general purpose financial statements.
- 2B If an entity identified in paragraph 2A or 2AA elects to apply the *Conceptual Framework for Financial Reporting* to an annual reporting period prior to its mandatory application for the entity, the entity shall not apply this Statement to that period.

Amendments to AASB 1 *First-time Adoption of Australian Accounting Standards*

- 16 Paragraph Aus12.2 is added as follows. Paragraph Aus12.1 is unamended but has been included for ease of reference:
- Aus12.1 Entities that elect to apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to periods beginning before 1 July 2021 (ie early application) may also elect to apply the short-term exemptions from restating comparative information set out in AASB 1053 *Application of Tiers of Australian Accounting Standards* Appendix E, where applicable. For entities that apply that relief, references to the ‘date of transition to Australian Accounting Standards’ in this Standard shall mean the beginning of the first Australian-Accounting-Standards reporting period.
- Aus12.2 A not-for-profit entity that is a first-time adopter and that elects to apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to periods beginning before [date] may also elect to apply the short-term exemptions from restating comparative information set out in AASB 1053 *Application of Tiers of Australian Accounting Standards* Appendix F, where applicable. For entities that apply that relief, references to the ‘date of transition to Australian Accounting Standards’ in this Standard shall mean the beginning of the first Australian-Accounting-Standards reporting period.

Amendments to AASB 2 *Share-based Payment*

- 17 Paragraph AusCF1 is amended and paragraph Aus63E.1 is added as follows. Paragraph 63E is unamended but has been included for ease of reference. Footnotes to the text are not reproduced:
- AusCF1 AusCF paragraphs and footnotes included in this Standard apply only to:
- (a) ~~not for profit entities; and~~
 - (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).
- Such entities are referred to as ‘AusCF entities’. For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit~~ Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.
- 63E AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*, issued in 2019, added paragraph AusCF1 and amended the footnote to the definition of an equity instrument in Appendix A. An entity shall apply the amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 2019-1. An entity shall apply the amendments to AASB 2 retrospectively, subject to (in the case of the amendment to Appendix A) the transitional provisions in paragraphs 53–59 of this Standard, in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.^{4B} However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendments to AASB 2 by reference to paragraphs 23–28, 50–53 and 54F of AASB 108.
- Aus63E.1 AASB 20XX-X *Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*, issued in [Month Year], amended paragraph AusCF1. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 20XX-X. An entity shall apply the amendments to AASB 2 retrospectively, subject to (in respect of the change in the definition of a liability) the transitional provisions in paragraphs 53–59 of this Standard, in accordance with AASB 108 *Basis of Preparation of Financial Statements*. However, if an entity determines that retrospective application

would be impracticable or would involve undue cost or effort, it shall apply the amendments to AASB 2 by reference to paragraphs 23–27, 28, 50–53 and Aus54F.1 of AASB 108.

Note 10 to Board members:

Draft paragraph Aus63E.1 seeks to replicate for NFP entities the transitional provisions that applied to the consequential amendments to AASB 2 introduced on issue of the *Conceptual Framework* in 2019. These consequential amendments were made in AASB 2019-1.

As noted in the working draft considered by the Board at its 6-7 June 2024 meeting, staff were continuing to refine the drafting. In addition, staff have updated the drafting of proposed paragraph Aus63E.1 above to reflect consequential amendments to AASB 108 arising from the issue of AASB 18 through the changing of the title of the AASB 108 and applicable paragraph references.

The text of the paragraph considered by the Board at its June 2024 meeting read (marked up to show changes):

... An entity shall apply the amendments to AASB 2 retrospectively, subject to (in respect of the change in the definition of a liability) the transitional provisions in paragraphs 53–59 of this Standard, in accordance with AASB 108 ~~Accounting Policies, Changes in Accounting Estimates and Errors~~ Basis of Preparation of Financial Statements. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendments to AASB 2 by reference to paragraphs 23–27, 28, 50–53 and Aus54F.1 of AASB 108.

Staff have additionally deleted an ‘information’-type paragraph previously included in the working draft ED that noted that paragraph Aus63E.1 provides not-for-profit entities with access to the same transitional relief as available to for-profit private sector entities on initial application of the *Conceptual Framework* (refer paragraph 18 in Agenda Paper 7.2 of the 6-7 June 2024 AASB meeting). This is because a similar paragraph is not proposed to be included in the ED each time where the AASB 2019-1 consequential amendments included specific transitional provisions, as staff think it would be overly repetitive to do so.

Amendments to AASB 3 *Business Combinations*

18 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF paragraphs and footnotes included in this Standard apply only to:

(a) ~~not for profit entities; and~~

(b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as ‘AusCF entities’. For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.

19 Paragraph Aus64Q.1 is added as follows. Paragraph 64Q is unamended but included for ease of reference:

64Q AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*, issued in June 2020, amended paragraphs 11, 14, 21, 22 and 23 and added paragraphs AusCF11, 21A, 21B, AusCF21B, 21C and 23A. An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*, issued in May 2019.

Aus64Q.1 AASB 20XX-X *Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*, issued in [Month Year], amended paragraph AusCF1. An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after [date]. Earlier application is permitted if at the same time the entity also applies all other amendments made by AASB 20XX-X.

Amendments to AASB 6 *Exploration for and Evaluation of Mineral Resources*

20 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF paragraphs included in this Standard apply only to:

(a) ~~not for profit entities; and~~

(b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as 'AusCF entities'. For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs.

21 Paragraph Aus26A.1 is added as follows. Paragraphs 10, AusCF10 and 26A are unamended but have been included for ease of reference. Footnotes to the text are not reproduced:

10 Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*) and AASB 138 *Intangible Assets* provide guidance on the recognition of assets arising from development.

AusCF10 Notwithstanding paragraph 10, in respect of AusCF entities, expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 *Interpretation of Standards*) and AASB 138 *Intangible Assets* provide guidance on the recognition of assets arising from development.

...

26A AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*, issued in 2019, added AusCF paragraphs and amended paragraph 10. An entity shall apply the amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 2019-1. An entity shall apply the amendments to AASB 6 retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.¹ However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendments to AASB 6 by reference to paragraphs 23–28, 50–53 and 54F of AASB 108.

Aus26A.1 AASB 20XX-X *Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*, issued in [Month Year], amended paragraph AusCF1. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 20XX-X. An entity shall apply the amendment to AASB 6 retrospectively in accordance with AASB 108 *Basis of Preparation of Financial Statements*. However, if the entity determines that retrospective application of paragraph 10 would be impracticable or would involve undue cost or effort, it shall apply the paragraph by reference to paragraphs 23–27, 28, 50–53 and Aus54F.1 of AASB 108.

Note 11 to Board members:

Draft paragraph Aus26A.1 seeks to replicate for NFP entities the transitional provisions that applied to the consequential amendments to AASB 6 introduced on issue of the *Conceptual Framework* in 2019. These consequential amendments were made in AASB 2019-1.

As signalled in the working draft considered by the Board at its 6-7 June 2024 meeting, staff were continuing to refine drafting. In addition, staff have updated the drafting of the proposed paragraphs above to reflect consequential amendments to AASB 108 arising from the issue of AASB 18 through the changing of the title of the AASB 108 and applicable paragraph references.

The effective date and transitional provisions text considered by the Board at its June 2024 meeting was previously set out in paragraph Aus26A.1 and Aus26A.2, and read (text marked up to show changes):

Aus26A.1 AASB 20XX-X Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements, issued in [Month Date], amended paragraph AusCF1. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier

application is permitted if at the same time an entity also applies all other amendments made by AASB 20XX-X.

~~Aus26A.2 Notwithstanding paragraph 26A, a not for profit entity applying AASB 20XX X and paragraph 10 as amended by AASB 2019-1 for the first time shall apply paragraph 10. An entity shall apply the amendment to AASB 6 retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors Basis of Preparation of Financial Statements. However, if an entity determines that retrospective application of paragraph 10 would be impracticable or would involve undue cost or effort, it shall apply the paragraph by reference to paragraphs 23–27, 28, 50–53 and Aus54F.1 of AASB 108.~~

Amendments to AASB 7 Financial Instruments: Disclosures

22 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 8 Operating Segments

23 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 9 Financial Instruments

24 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 10 Consolidated Financial Statements

25 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF paragraphs included in this Standard apply only to:

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

- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as 'AusCF entities'. For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs.

Amendments to AASB 12 *Disclosure of Interests in Other Entities*

26 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 14 *Regulatory Deferral Accounts*

27 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF paragraphs and footnotes included in this Standard apply only to:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as 'AusCF entities'. For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.

Amendments to AASB 17 *Insurance Contracts*

28 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 18 *Presentation and Disclosure in Financial Statements*

Note 12 to Board members:

This section has been added since the draft considered by the Board at its 6-7 June 2024 meeting, in recognition of the issue of AASB 18.

In developing the draft amendments, staff considered the proposed amendments to AASB 101, including proposed paragraph Aus136.1.

Staff note that AASB 18.BC18 indicated that the Board intends to undertake further due process to consider potential not-for-profit entity modifications of AASB 18. Consequently, staff considered whether or not to include proposed paragraph Aus129.1 (replicating AASB 101.Aus136.1), as this paragraph is in effect a not-for-profit modification of AASB 18.

- 29 Staff have determined that it would be appropriate to do so, as AASB 18 included paragraph AusCF129.2. Proposed paragraph Aus129.1 merely replicates the relief offered by AusCF129.2 for not-for-profit entities that no longer qualify as an AusCF entity under the proposals. Paragraph AusCF1 is amended as follows:

AusCF1 AusCF paragraphs and footnotes included in this Standard apply only to:

(a) ~~not for profit entities; and~~

(b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as ‘AusCF entities’. For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit~~ Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.

- 30 Paragraph Aus129.1 is added. Paragraphs 129, AusCF129.1 and AusCF129.2 are unamended but have been included for ease of reference:

...

Capital

...

- 129 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or would distort a financial statement user’s understanding of an entity’s capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Aus129.1 A not-for-profit entity need not present the disclosures required by paragraphs 126–129.

AusCF129.1 In respect of AusCF entities, an entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is not a reporting entity need not present the disclosures required by paragraphs 126–129.

AusCF129.2 Notwithstanding paragraph AusCFAus129.1, in respect of AusCF entities, a not-for-profit entity need not present the disclosures required by paragraphs 126–129.

- 31 In Appendix A, the preamble under the heading “Australian defined terms” is deleted as follows:

~~In respect of public sector entities, local governments, governments and most, if not all, government departments are reporting entities.~~

Amendments to AASB 101 *Presentation of Financial Statements*

Note 13 to Board members:

In June 2024, the Board made AASB 18. The Standard is effective for not-for-profit entities for annual reporting periods beginning on or after 1 January 2028, with early adoption permitted. AASB 18 supersedes AASB 101 when operative.

At its 6-7 June 2024 meeting, the Board decided that its Tier 3 proposals would have an implementation period of no less than 3 years. Consequently, assuming that the issue of a final pronouncement resulting from ED 3XY (this ED) will have the same effective date, it is likely that AASB 101 will no longer be operative when the Board’s proposals to require more not-for-profit entities to prepare general purpose financial statements become mandatorily applicable.

However, as the Board has decided to allow early adoption of an eventual Standard (as reflected by its decision to propose transitional provisions that apply to early adopters of the Standard), it is possible that AASB 101 could be applicable for a period before a not-for-profit entity applies AASB 18. Hence, the amendments to AASB 101 shown below could still apply unless the Board decides to require AASB 18 to be early adopted at the same time as a Standard resulting from the Board’s proposals in this ED.

Staff have added a new paragraph to the draft ED to note when the amendments to AASB 101 would apply – refer new paragraph 32 below.

Question 2 to Board members:

Does the Board agree with the staff recommendation for ED 3XY (this ED) to propose consequential amendments to AASB 101?

32 For not-for-profit entities, AASB 101 is fully superseded by AASB 18 for annual reporting periods beginning on or after 1 January 2028. Accordingly, the amendments set out in paragraphs 33 – 35 apply only if an entity applies AASB 20XX-X early – to a period for which AASB 101 is applicable to the entity.

33 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF paragraphs and footnotes included in this Standard apply only to:

(a) ~~not for profit entities; and~~

(b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as ‘AusCF entities’. For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.

34 Paragraph Aus136.1 is added. Paragraphs 136, AusCFAus136.1 and AusCFAus136.2 are unamended but have been included for ease of reference:

...

Capital

...

136 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user’s understanding of an entity’s capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Aus136.1 ~~[Deleted by the AASB]~~ A not-for-profit entity need not present the disclosures required by paragraphs 134–136.

AusCFAus136.1 In respect of AusCF entities, an entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is not a reporting entity need not present the disclosures required by paragraphs 134–136.

AusCFAus136.2 Notwithstanding paragraph AusCFAus136.1, in respect of AusCF entities, a not-for-profit entity need not present the disclosures required by paragraphs 134–136.

35 Appendix A (Australian defined terms) is amended as follows:

Aus7.2 In respect of public sector entities, ~~local governments, governments and most, if not all, government departments are reporting entities:~~

government means the Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia.

government department means a government controlled entity, created pursuant to administrative arrangements or otherwise designated as a government department by the government which controls it.

local government means an entity comprising all entities controlled by a governing body elected or appointed pursuant to a Local Government Act or similar legislation.

Amendments to AASB 108 *Basis of Preparation of Financial Statements*

36 Paragraphs AusCF1 is amended and paragraphs Aus54.1 and Aus54.2 are added as follows. Paragraphs 11, AusCF11 and 54F are unamended but have been included for ease of reference. Footnotes to the text are not reproduced:

AusCF1 AusCF paragraphs and footnotes included in this Standard apply only to:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as 'AusCF entities'. For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit~~ Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.

...

Selection and application of accounting policies

...

11 In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

- (a) the requirements in Australian Accounting Standards dealing with similar and related issues; and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework*.²

AusCF11 Notwithstanding paragraph 11, in respect of AusCF entities, in making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

- (a) the requirements in Australian Accounting Standards dealing with similar and related issues; and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*.

...

Effective date and transition

...

54F AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*, issued in 2019, added AusCF paragraphs and amended paragraph 11(b). An entity shall apply those amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 2019-1. An entity shall apply paragraph 11 retrospectively in accordance with this Standard. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply paragraph 11 by reference to paragraphs 23–28 of this Standard. If retrospective application of any amendment in AASB 2019-1 would involve undue cost or effort, an entity shall, in applying paragraphs 23–28 of this Standard, read any reference except in the last sentence of paragraph 27 to 'is impracticable' as 'involves undue cost or effort' and any reference to 'practicable' as 'possible without undue cost or effort'.

Aus54F.1 AASB 20XX-X *Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*, issued in [Month Year], amended paragraph AusCF1. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 20XX-X. If a not-for-profit entity applying AASB 20XX-X determines that retrospective application of paragraph 11 would be impracticable or would involve undue cost or effort, it shall apply paragraph 11 by reference to paragraphs 23–27 and 28 of this Standard. In addition, if retrospective application of any amendment in AASB 2019-1 would involve undue cost or effort, an entity shall, in applying paragraphs 23–27 and 28 of this Standard, read any reference except in the last sentence of paragraph 27 to 'is impracticable' as 'involves undue cost or effort' and any reference to 'practicable' as 'possible without undue cost or effort'.

Note 14 to Board members:

Draft paragraph Aus54F.1 seeks to replicate for NFP entities the transitional provisions that applied to the consequential amendments to AASB 108 introduced on issue of the *Conceptual Framework* in 2019. These consequential amendments were made in AASB 2019-1.

As signalled in the working draft considered by the Board at its 6-7 June 2024 meeting, staff were continuing to refine drafting. In addition, staff have updated the drafting of the proposed paragraphs above to reflect consequential amendments to AASB 108 arising from the issue of AASB 18. The AASB 18 amendments to AASB 108 include limited amendments to paragraphs 11 and AusCF11 and the introduction of new paragraphs 27A-27L.

The effective date and transitional provisions text considered by the Board at its June 2024 meeting was previously set out in paragraph Aus54F.1 and Aus54F.2, and read (marked up to show changes):

Aus54F.1 AASB 20XX-X Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements, issued in [Month Date], amended paragraph AusCF1. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 20XX-X.

Aus54F.2 Notwithstanding paragraph 54F, if a not-for-profit entity applying AASB 20XX-X and paragraph 11 as amended by AASB 2019-1 for the first time determines that retrospective application of paragraph 11 would be impracticable or would involve undue cost or effort, it shall apply paragraph 11 by reference to paragraphs 23–27 and 28 of this Standard. If retrospective application of any amendment in AASB 20XX-X AASB 2019-1 would involve undue cost or effort, an entity shall, in applying paragraphs 23–27 and 28 of this Standard, read any reference except in the last sentence of paragraph 27 to ‘is impracticable’ as ‘involves undue cost or effort’ and any reference to ‘practicable’ as ‘possible without undue cost or effort’.

Amendments to AASB 110 Events after the Reporting Period

37 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 112 Income Taxes

38 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 116 Property, Plant and Equipment

39 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies.

Entity also applies. ~~For-profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 119 Employee Benefits

40 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 121 The Effects of Changes in Foreign Exchange Rates

41 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 124 Related Party Disclosures

42 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 128 Investments in Associates and Joint Ventures

43 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 132 *Financial Instruments: Presentation*

44 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

(a) ~~not for profit entities; and~~

(b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 133 *Earnings per Share*

45 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

(a) ~~not for profit entities; and~~

(b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 134 *Interim Financial Reporting*

46 Paragraph AusCF1 is amended and paragraph Aus58.1 is added as follows. Paragraphs 31, AusCF31, 33, AusCF33, 58 and B23 are unamended but have been included for ease of reference. Footnotes to the text are not reproduced:

AusCF1 AusCF paragraphs and footnotes included in this Standard apply only to:

(a) ~~not for profit entities; and~~

(b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as 'AusCF entities'. For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.

...

Same accounting policies as annual

...

31 Under the *Conceptual Framework for Financial Reporting (Conceptual Framework)* (as identified in AASB 1048 *Interpretation of Standards*), recognition is the process of capturing, for inclusion in the statement of financial position or the statement(s) of financial performance, an item that meets the definition of one of the elements of the financial statements. The definitions of assets, liabilities, income, and expenses are fundamental to recognition, at the end of both annual and interim financial reporting periods.

AusCF31 Notwithstanding paragraph 31, in respect of AusCF entities, under the *Framework for the Preparation and Presentation of Financial Statements (the Framework)* (as identified in AASB 1048 *Interpretation of Standards*)^{AusCF3}, recognition is the 'process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition'. The definitions of assets, liabilities, income, and expenses are fundamental to recognition, at the end of both annual and interim financial reporting periods.

AusCF3 In December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements*.

...

- 33 An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they are not recognised. The *Conceptual Framework* does not allow the recognition of items in the statement of financial position which do not meet the definition of assets or liabilities.

AusCF33 Notwithstanding paragraph 33, in respect of AusCF entities, an essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they are not recognised. The *Framework* says that 'expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably ... [The] Framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.'

...

Effective date

...

- 58 AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*, issued in 2019, added AusCF paragraphs and amended paragraphs 31, 33 and B23. An entity shall apply those amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 2019-1. An entity shall apply the amendments to AASB 134 retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.^{3B} However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendments to AASB 134 by reference to paragraphs 43–45 of this Standard and paragraphs 23–28, 50–53 and 54F of AASB 108.

Aus58.1 AASB 20XX-X Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements, issued in [Month Year], amended paragraph AusCF1. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 20XX-X. If a not-for-profit entity applying AASB 20XX-X determines that retrospective application of paragraphs 31 and 33 would be impracticable or would involve undue cost or effort, it shall apply the amendments to paragraphs 31 and 33 by reference to paragraphs 43–45 of this Standard and paragraphs 23–27, 28, 50–53 and Aus54F.1 of AASB 108.

...

Contractual or anticipated purchase price changes

- B23 Volume rebates or discounts and other contractual changes in the prices of raw materials, labour, or other purchased goods and services are anticipated in interim periods, by both the payer and the recipient, if it is probable that they have been earned or will take effect. Thus, contractual rebates and discounts are anticipated but discretionary rebates and discounts are not anticipated because the resulting asset or liability would not satisfy the conditions in the *Framework*⁴ that an asset must be a resource controlled by the entity as a result of a past event and that a liability must be a present obligation whose settlement is expected to result in an outflow of resources.

4 The reference to the *Framework* is to the *Framework for the Preparation and Presentation of Financial Statements* adopted by the AASB in 2004.

Note 15 to Board members:

Draft paragraph Aus58.1 seeks to replicate for NFP entities the transitional provisions that applied to the consequential amendments to AASB 108 introduced on issue of the *Conceptual Framework* in 2019. These consequential amendments were made in AASB 2019-1.

As signalled in the working draft considered by the Board at its 6-7 June 2024 meeting, staff were continuing to refine drafting. In addition, staff have updated the drafting of the proposed paragraphs above to reflect consequential amendments to AASB 108 arising from the issue of AASB 18.

The effective date and transitional provisions text considered by the Board at its June 2024 meeting was previously set out in paragraph Aus58.1 and Aus58.2, and read (changes shown in mark up):

Aus58.1 AASB 20XX-X Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements, issued in [Month Date], amended paragraph AusCF1. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 20XX-X.

~~Aus58.2 Notwithstanding paragraph Aus58.1, if a not-for-profit entity applying AASB 20XX-X and paragraphs 31 and 33 as amended by AASB 2019-1 for the first time determines that retrospective application of paragraphs 31 and 33 would be impracticable or would involve undue cost or effort, it shall apply the amendments to paragraphs 31 and 33 by reference to paragraphs 43–45 of this Standard and paragraphs 23–27, 28, 50–53 and Aus54F.1 of AASB 108.~~

Amendments to AASB 137 Provisions, Contingent Liabilities and Contingent Assets

47 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 139 Financial Instruments: Recognition and Measurement

48 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 140 Investment Property

49 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 141 Agriculture

50 Paragraph AusCF1 is added before paragraph 1 as follows:

AusCF1 AusCF entities are entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*). For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 1023 *General Insurance Contracts*

Note 16 to Board members:

AASB 1023 (and AASB 4 *Insurance Contracts*) apply to the general purpose financial statements of public sector entities only in respect of annual reporting periods beginning before 1 July 2026. At its 6-7 June 2024 meeting, the Board decided that its Tier 3 proposals would have an implementation period of no less than 3 years. Consequently, assuming that the issue of a final pronouncement resulting from ED 3XY (this ED) will have the same effective date, it is likely that AASB 1023 will no longer be operative when the Board’s proposals to require more not-for-profit entities to prepare general purpose financial statements become mandatorily applicable.

However, as the Board has decided to allow early adoption of an eventual Standard (as reflected by its decision to propose transitional provisions that apply to early adopters of the Standard), it is possible that AASB 1023 could be applicable for a period before the entity applies AASB 17. Hence, the amendments to AASB 1023 shown below could still apply.

Staff have added a new paragraph to the draft ED to note when the amendments to AASB 1023 would apply – refer new paragraph 51 below.

Question 3 to Board members:

Does the Board agree with the staff recommendation for ED 3XY (this ED) to propose consequential amendments to AASB 1023? If not, staff will remove these amendments from the ED.

51 AASB 1023 applies to public sector entities for annual reporting periods beginning before 1 July 2026. Accordingly, the amendments set out in paragraph 52 apply only if an entity applies AASB 20XX-X early – to a period for which AASB 1023 is applicable to the entity.

52 Paragraph AusCF1 is amended as follows.

AusCF1 AusCF paragraphs included in this Standard apply only to:

(a) ~~not for profit entities; and~~

(b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as ‘AusCF entities’. For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit~~ Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs.

Amendments to AASB 1048 *Interpretation of Standards*

Note 17 to Board members:

This section has been added since the draft considered by the Board at its 6-7 June 2024 meeting.

AASB 1048 provides an up-to-date listing of Australian Interpretations and gives legal status to Interpretations and to the *Framework for the Preparation and Presentation of Financial Statements* and the *Conceptual Framework for Financial Reporting*, which are treated as ‘external documents’ by the *Acts Interpretation Act 1901* and *Legislation Act 2003*.

The established process for issuing AASB 1048 to update the listing of Australian Interpretations and Australian conceptual framework pronouncements is that no exposure draft is necessary. This is because AASB 1048 merely gives legal status to updates to Interpretations and the conceptual framework documents as a result of consequential amendments from the issuance of Standards, which have already gone through the appropriate due processes.

For the 5-6 September 2024 meeting, staff have not included in this draft ED proposed amendments to update both versions of Table 3 in AASB 1048. The proposed amendments to AASB 1048 are limited to those amendments necessary

to recognise the change in which entities are considered to be AusCF entities. However, staff will reconsider including these amendments when finalising the ED.

53 Paragraph AusCF1 is amended as follows.

AusCF1 AusCF paragraphs included in this Standard apply only to:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in this Standard).

Such entities are referred to as 'AusCF entities'. For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs.

Amendments to AASB 1052 *Disaggregated Disclosures*

54 Paragraph AusCF2 is added as follows:

AusCF2 AusCF entities are entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*). For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB 1053 *Application of Tiers of Australian Accounting Standards*

Note 18 to Board members:

The draft considered by the Board at its 6-7 June 2024 meeting presented only draft amendments to AASB 1053.AusCF1 and proposed new Appendix F. The remainder of the draft text of this section is new since the June 2024 meeting. This section contains a number of Notes to Board members explaining the staff recommended amendments to be proposed to AASB 1053.

There are no differences between AASB 1053.AusCF1 as previously seen by the Board and this draft.

There are only minor differences between Appendix F as previously seen by the Board and this draft – these are explained in a Note to Board members at Appendix F.

55 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

56 Paragraph 20A is amended as follows. The related heading is unamended but included here for ease of reference:

Reapplication of Tier 2 Reporting Requirements in Initial Consolidated Financial Statements

20A An entity that is either a ~~A~~ for-profit private sector entity or a not-for-profit entity and that:

- (a) prepared its most recent previous annual financial statements in compliance with Tier 2 reporting requirements, including an explicit and unreserved statement of compliance with Tier 2 reporting requirements;
- (b) did not present consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity (as defined in AASB 1057); and

- (c) is preparing consolidated financial statements for the first time in compliance with Tier 2 – Simplified Disclosures;

shall apply either:

- (d) all the relevant requirements of AASB 1; or
(e) Tier 2 reporting requirements directly using the requirements in AASB 108.

Note 19 to Board members:

At the 6-7 June 2024 meeting, staff noted that a potential amendment to existing paragraph 20A of AASB 1053 might be required. Staff have now further considered the need for an amendment in this regard.

Paragraph 20A was added to AASB 1053 by AASB 2022-2 *Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1*. The amendment was made to allow for-profit private sector entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements general purpose financial statements to consolidated Tier 2 – Simplified Disclosures general purpose financial statements to apply AASB 1 when preparing consolidated financial statements for the first time. (Per AASB 2022-2.BC16-BC19, some parent entities may have not previously consolidated their subsidiaries as the entity determined that neither the parent nor the group was a reporting entity as defined by SAC 1. These entities considered that they were able to not present consolidated financial statements, in accordance with the exemption in AASB 10.)

At the time, the Board considered whether the scope of the relief should extend also to not-for-profit entities that might similarly transition from unconsolidated Tier 2 – Reduced Disclosure Requirements general purpose financial statements to consolidated Tier 2 – Simplified Disclosures general purpose financial statements when AASB 1060 became operative. The Board’s thinking in this regard was summarised in the Basis for Conclusions accompanying AASB 2022-2, as follows:

“BC38 Two stakeholders also provided feedback suggesting that the proposed paragraph 20A of AASB 1053 should also be available to NFP entities. The stakeholders suggested that broadening the scope of the amendment would avoid any unforeseen effects on NFP entities that are currently preparing unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS and that might decide to transition to consolidated Tier 2 – Simplified Disclosures GPFS.

BC39 The Board acknowledged this feedback but reconfirmed its view that as NFP entities are not affected by the removal of SPFS and the ‘reporting entity’ definition in Australian Accounting Standards at this stage, they can continue to consider themselves to be non-reporting entities and prepare single-entity Tier 2 – Simplified Disclosures GPFS, applying the exemption in AASB 10, if appropriate. For this reason, the Board decided no changes to the proposed AASB 1053 amendment were necessary.”

On reflection of the Board’s rationale for limiting the relief at that time to for-profit private sector entities and noting that more not-for-profit entities may be required to prepare consolidated general purpose financial statements if the Board’s proposals are finalised, staff recommend that the requirements set out in AASB 1053 paragraph 20A be extended to apply also to not-for-profit entities as part of the Board’s current project.

Staff think that doing so would be consistent with the principle of transaction neutrality, and note a reason given in AASB 2022-2.BC37 for the Board making paragraph 20A – that providing clarity that AASB 1 is available is helpful – is compelling also in respect of not-for-profit entities. However, staff note that an argument in support of not amending the paragraph is identified in AASB 2022-2.BC35-36: that the relief is not strictly necessary due to the requirements in AASB 1.D17 which would enable the same outcome to be achieved.

The staff recommendation is reflected in the drafting of this section of the ED.

Question 4 to Board members:

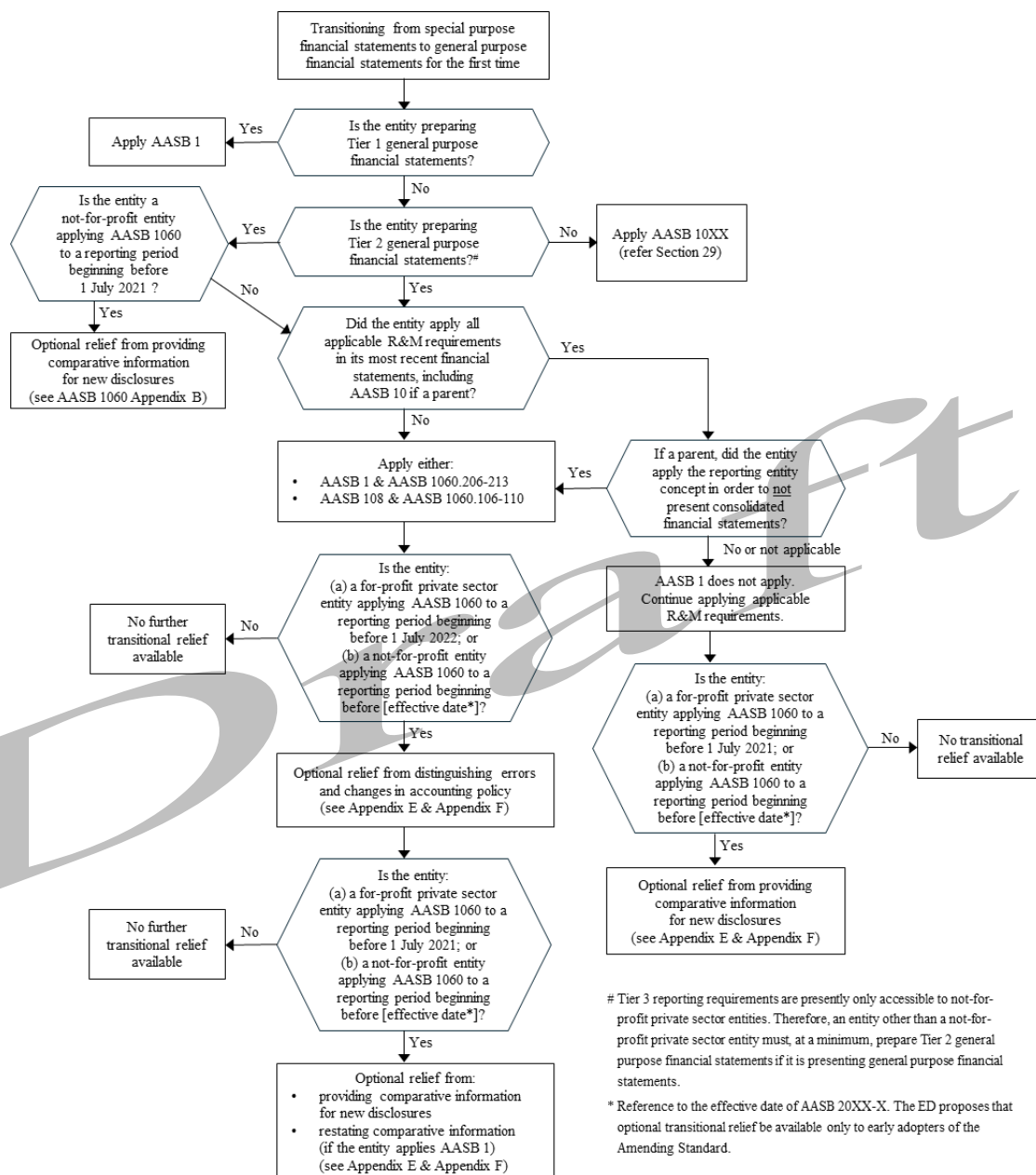
Do Board members agree with the staff recommendation for the requirements set out in existing AASB 1053 paragraph 20A to be extended to apply also to not-for-profit entities?

In Appendix C, Chart 1: First-time Adoption of Tier 1 or Tier 2 Reporting Requirements is renamed and replaced as follows:

Note 20 to Board members:

Staff recommend revising Chart 1 in Appendix C to incorporate the optional relief available to early adopters of the Board's proposals, and to recognise the proposed Tier 3 reporting requirements. In addition, staff have made minor other changes to the flowchart. (Appendix C accompanies, but is not part of, AASB 1053.)

Chart 1: First-time Adoption of Reporting Requirements



In Appendix C, Chart 3: Re-application of Tier 2 Reporting Requirements is replaced as follows:

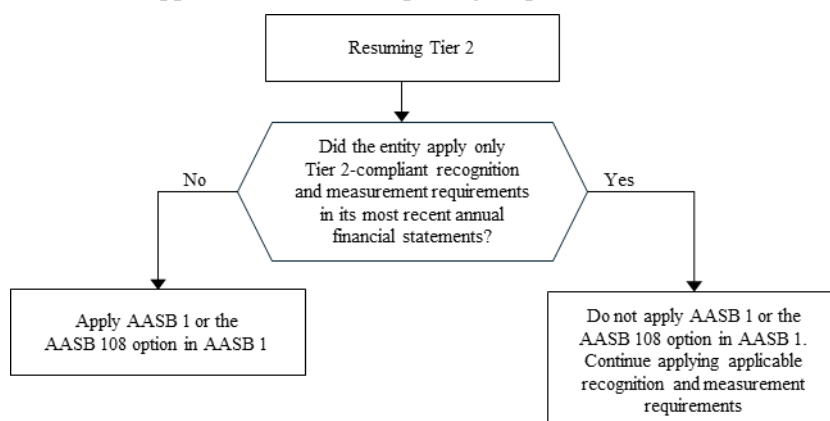
Note 21 to Board members

Chart 3 has been revised to acknowledge that proposed Tier 3 recognition and measurement requirements differ from those intended by this Chart. The chart now references 'Tier 2-compliant recognition and measurement requirements' rather than 'all applicable recognition and measurement requirements'.

Staff note that the amendments to this Chart could have been proposed as part of ED 3XX instead as they are consequential on the issue of amendments to AASB 1053 to introduce Tier 3 reporting requirements.

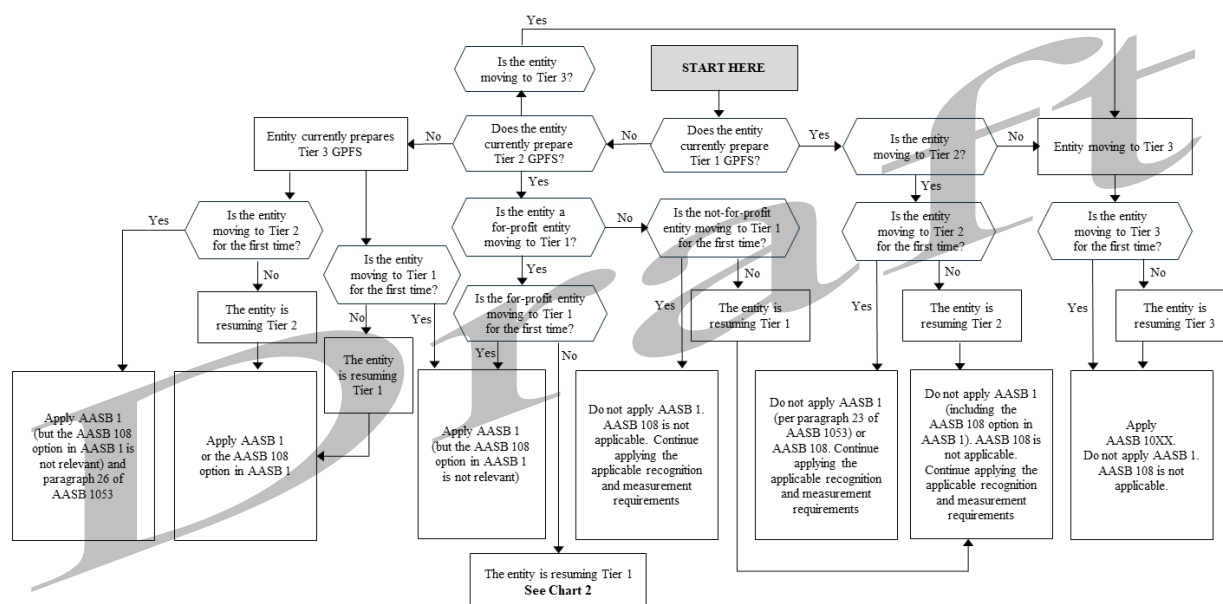
However, staff have proposed the amendments as part of ED 3XY (this ED) to keep all the amendments to the Charts in a single location.

Chart 3: Re-application of Tier 2 Reporting Requirements



59 In Appendix C, Chart 4: Moving between Tiers is replaced as follows:

Chart 4: Moving between Tiers



60 Appendix D is replaced as follows:

Appendix D

Transition Scenarios

This appendix accompanies, but is not part of AASB 1053. It summarises which paragraphs of AASB 1053 would apply in particular common scenarios and whether the entity would apply AASB 1.

| A previous reporting period | The most recent previous reporting period | Current reporting period | Applicable paragraph of AASB 1053 | Consequence |
|-----------------------------|---|----------------------------|-----------------------------------|-------------|
| | | <i>First time adopt T1</i> | | |
| SPFSs | SPFSs using R&M | T1 IFRS | 18 | AASB 1 |
| SPFSs | SPFSs using R&M | T1 non-IFRS | 18 | AASB 1 |
| SPFSs | SPFSs not using R&M | T1 IFRS | 18 | AASB 1 |
| SPFSs | SPFSs not using R&M | T1 non-IFRS | 18 | AASB 1 |
| SPFSs | T2 | T1 IFRS | 21(a) | AASB 1 |
| SPFSs | T2 | T1 non-IFRS | 21(b) | Not AASB 1 |
| SPFSs | T3 | T1 IFRS | 25 | AASB 1 |
| SPFSs | T3 | T1 non-IFRS | 25 | AASB 1 |

| A previous reporting period | The most recent previous reporting period | Current reporting period | Applicable paragraph of AASB 1053 | Consequence |
|-----------------------------|---|----------------------------|-----------------------------------|--|
| | | <i>First time adopt T2</i> | | |
| SPFSs | SPFSs using R&M | T2 | 18A(b) | Not AASB 1 |
| SPFSs | SPFSs not using R&M | T2 | 18A(a) | AASB 1 or directly through AASB 108 |
| SPFSs | T1 IFRSs | T2 | 23 | Not AASB 1 |
| SPFSs | T1 non-IFRS | T2 | 23 | Not AASB 1 |
| SPFSs | T3 | T2 | 25A & 26 | AASB 1 or directly through AASB 108 |
| | | <i>First time adopt T3</i> | | |
| SPFSs | SPFSs using R&M | T3 | 18E | Not AASB 1 (refer AASB 10XX) |
| SPFSs | SPFSs not using R&M | T3 | 18E | Not AASB 1 (refer AASB 10XX) |
| SPFSs | T1 IFRS | T3 | 18E | Not AASB 1 (refer AASB 10XX) |
| SPFSs | T1 non-IFRS | T3 | 18E | Not AASB 1 (refer AASB 10XX) |
| SPFSs | T2 | T3 | 18E | Not AASB 1 (refer AASB 10XX) |
| | | <i>Resume T1</i> | | |
| T1 IFRS | SPFSs using R&M | T1 IFRS | 19 | AASB 1 or AASB 108 option in AASB 1 |
| T1 IFRS | SPFSs using R&M | T1 non-IFRS | 19 | AASB 1 or AASB 108 option in AASB 1 |
| T1 IFRS | SPFSs not using R&M | T1 IFRS | 19 | AASB 1 or AASB 108 option in AASB 1 |
| T1 IFRS | SPFSs not using R&M | T1 non-IFRS | 19 | AASB 1 or AASB 108 option in AASB 1 |
| T1 IFRS | T2 | T1 IFRS | 21(a) | AASB 1 or AASB 108 option in AASB 1 |
| T1 IFRS | T2 | T1 non-IFRS | 21(b) | Not AASB 1 |
| T1 IFRS | T3 | T1 IFRS | 19 | AASB 1 or AASB 108 option in AASB 1 |
| T1 IFRS | T3 | T1 non-IFRS | 19 | AASB 1 or AASB 108 option in AASB 1 |
| T1 non-IFRS | SPFSs using R&M | T1 IFRS | 19A | AASB 1 (but not AASB 108 option in AASB 1) |
| T1 non-IFRS | SPFSs using R&M | T1 non-IFRS | 19 | AASB 1 or AASB 108 option in AASB 1 |
| T1 non-IFRS | SPFSs not using R&M | T1 IFRS | 19A | AASB 1 (but not AASB 108 option in AASB 1) |
| T1 non-IFRS | SPFSs not using R&M | T1 non-IFRS | 19 | AASB 1 or AASB 108 option in AASB 1 |
| T1 non-IFRS | T2 | T1 IFRS | 19A & 21(a) | AASB 1 (but not AASB 108 option in AASB 1) |
| T1 non-IFRS | T2 | T1 non-IFRS | 21(b) | Not AASB 1 |
| T1 non-IFRS | T3 | T1 IFRS | 19A | AASB 1 (but not AASB 108 option in AASB 1) |
| T1 non-IFRS | T3 | T1 non-IFRS | 19 | AASB 1 (but not AASB 108 option in AASB 1) |
| | | <i>Resume T2</i> | | |
| T2 | SPFSs using R&M | T2 | 19B(e) | Not AASB 1 or AASB 108 option in AASB 1 |
| T2 | SPFSs not using R&M | T2 | 19B(d) | AASB 1 or AASB 108 option in AASB 1 |
| T2 | T1 IFRS | T2 | 23 | Not AASB 1 or AASB 108 option in AASB 1 |
| T2 | T1 non-IFRS | T2 | 23 | Not AASB 1 or AASB 108 option in AASB 1 |
| T2 | T3 | T2 | 19B(d) | AASB 1 or AASB 108 option in AASB 1 |
| | | <i>Resume T3</i> | | |
| T3 | SPFSs using R&M | T3 | 20B & 20C | Not AASB 1 (refer AASB 10XX) |
| T3 | SPFSs not using R&M | T3 | 20B & 20C | Not AASB 1 (refer AASB 10XX) |
| T3 | T1 IFRS | T3 | 20B & 20C | Not AASB 1 (refer AASB 10XX) |
| T3 | T1 non-IFRS | T3 | 20B & 20C | Not AASB 1 (refer AASB 10XX) |
| T3 | T2 | T3 | 20B & 20C | Not AASB 1 (refer AASB 10XX) |

Legend:

SPFS: special purpose financial statements

R&M: recognition and measurement in Australian Accounting Standards

T1: Tier 1 general purpose financial statements

T2: Tier 2 general purpose financial statements

T3: Tier 3 general purpose financial statements

IFRS: the financial statements contain an explicit and unreserved statement of compliance with IFRS Standards

non-IFRS: the financial statements do not contain an explicit and unreserved statement of compliance of IFRS Standards

Note 22 to Board members:

Staff propose replacing the existing Table in Appendix D with the Table above. Besides new rows (shaded in the Table for ease of Board member review only: the shading will not be retained in a final ED) to acknowledge transition/ adoption scenarios involving proposed Tier 3 reporting requirements, the key change between the existing Table in Appendix D and this Table is the proposed deletion of the table columns headed 'Rationale' and 'Basis for Conclusions paragraph accompanying AASB 2014-2'. The 'Rationale' column in the main identifies the reason for the Consequence as either

IFRS adoption/ Continue recognition and measurement, cost/benefit considerations or Consistent with IFRS – in certain rows, the Rationale column also directs readers to a Basis for Conclusions paragraph in AASB 1053 (June 2010).

Staff propose deleting those columns to remove references to the Board’s Basis for Conclusions from the Appendices of the AASB pronouncement and on consideration that the table may start to get overly busy if it were to additionally reference a further Standard resulting from the proposals in this Exposure Draft and ED 3XX (Agenda Paper 3.2).

Staff note that the amendments to this Chart could have been proposed as part of ED 3XX instead as they are in part consequential on the issue of amendments to AASB 1053 to introduce Tier 3 reporting requirements. However, staff have proposed the amendments as part of ED 3XY (this ED) for the following reasons:

- (a) Appendix D warrants revision also to reflect NFP scenarios only involving Tier 1 and Tier 2 reporting requirements;
- (b) to present these amendments and the proposed amendments to the Charts in a single location, as they address similar aspects; and
- (c) in recognition that ED 3XX (the Tier 3 ED) is already over 100 pages long.

61 The title of Appendix E is amended to “Short-term exemptions for for-profit private sector entities applying Tier 2 – Simplified Disclosures for periods beginning before 1 July 2022”

62 Appendix F is added as follows:

Note 23 to Board members:

Following the Board’s decisions at its 6-7 June 2024 meeting regarding the transitional provisions to propose to aid implementation of its proposals, in this draft staff have made only minor changes to Appendix F as previously considered by the Board at its 6-7 June 2024 meeting. These are not shown in markup in the text below, but were to:

- (a) update the title of the Appendix with a reference to ‘not-for-profit’ so as to distinguish it from Appendix E;
- (b) update the title of AASB 108 to its revised title;
- (c) update erroneous cross-references in paragraph F5;
- (d) update a reference in paragraph F5 from ‘not-for-profit private sector entities’ to ‘not-for-profit entities’; and
- (e) delete references in paragraphs F4 and F5 to “(ie early application)” – this deletion is appropriate as AASB 1060 is not itself being early adopted.

Appendix F

Short-term exemptions for not-for-profit entities applying Tier 2 – Simplified Disclosures for periods beginning before [date]

This appendix is an integral part of AASB 1053

Short-term exemptions for not-for-profit entities

F1 This appendix sets out optional short-term exemptions for not-for-profit entities applying AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to periods beginning before [date], as follows:

- (a) relief from distinguishing the correction of errors and changes in accounting policy, for periods beginning before [date] (see paragraph F3);
- (b) relief from providing comparative information not previously disclosed in the notes, for periods beginning before [date] (see paragraph F4); and
- (c) relief from restating comparative information, for periods beginning before [date] (see paragraphs F5–F7).

F2 If an entity applies one or more of the exemptions set out in this appendix, it shall disclose that fact.

Relief from distinguishing the correction of errors and changes in accounting policy

F3 For periods beginning before [date], notwithstanding AASB 1060 paragraph 211 (for entities applying AASB 1 *First-time Adoption of Australian Accounting Standards* to the period) and AASB 1060 paragraph 110 (for entities applying AASB 108 *Basis of Preparation of Financial Statements* instead of AASB 1), an entity applying paragraph 18A(a) or (b) need not distinguish the correction of errors and changes in accounting policies if the entity becomes aware of errors made in its most recent previous special purpose financial statements.

Relief from presenting comparative information not previously disclosed in the notes

F4 Notwithstanding AASB 1060 paragraph 20, entities that elect to apply AASB 1060 to periods beginning before [date] need not present comparative information in the notes if the entity did not

disclose the comparable information in its most recent previous special purpose financial statements.

Relief from restating comparative information for certain not-for-profit entities

- F5 Paragraphs F6–F7 apply to a not-for-profit entity that elects to apply AASB 1060 to periods beginning before [date] and also applies AASB 1 in preparing its first Australian-Accounting-Standards financial statements (Tier 2) for the period.
- F6 Notwithstanding AASB 1 paragraph 7, comparative information need not be restated in the entity’s first Australian-Accounting-Standards financial statements (Tier 2). Under this approach, references to the ‘date of transition to Australian Accounting Standards’ in AASB 1 shall mean the beginning of the first Australian-Accounting-Standards reporting period. Consequently, consistent with AASB 1 paragraph 11, the entity shall recognise adjustments arising from any differences between the carrying amounts in its previous special purpose financial statements and its opening carrying amounts based on the retrospective application of Australian Accounting Standards directly in retained earnings (or, if appropriate, another category of equity) at the beginning of the first Australian-Accounting-Standards reporting period.
- F7 An entity that elects to not restate comparative information in its first Australian-Accounting-Standards financial statements (Tier 2) in accordance with paragraph F6 need not provide the reconciliations required by AASB 1060 paragraphs 210(b) and (c). The entity shall:
- (a) present two statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity and related notes, as follows:
 - (i) the statements and related notes as at the end of the first Australian-Accounting-Standards reporting period, compliant with Australian Accounting Standards; and
 - (ii) the statements and related notes presented in its most recent previous special purpose financial statements (not necessarily compliant with Australian Accounting Standards);
 - (b) disclose a reconciliation of its equity presented in its most recent previous special purpose financial statements to its equity determined in accordance with Australian Accounting Standards – Simplified Disclosures at the date of transition to Australian Accounting Standards – Simplified Disclosures;
 - (c) disclose a description of the main adjustments that would have been required to make the comparative statement of profit or loss and other comprehensive income and separate statement of profit or loss (if presented) compliant with Australian Accounting Standards. The entity need not quantify those adjustments; and
 - (d) prominently label the comparative information that is not compliant with Australian Accounting Standards as such.

Amendments to AASB 1054 Australian Additional Disclosures

Note 24 to Board members:

This section has been added since the draft considered by the Board at its 6-7 June 2024 meeting. It reflects the staff recommendations regarding paragraphs 2 and 9A, as included in Agenda Paper 5.1.

63 The table in paragraph 2 is amended, and a footnote added, as follows:

2 The following table identifies the disclosure requirements that, in accordance with this Standard, apply to each type of entity to which this Standard applies:

| Type of entity to which the paragraph is applicable | Subject of paragraphs | Paragraph numbers |
|---|---|-------------------|
| <i>Entities preparing general purpose financial statements</i> | | |
| For-profit entities and not-for-profit entities, whether in the private sector or the public sector | Compliance with Australian Accounting Standards | 7 |
| | Reporting framework | 8 |

| Type of entity to which the paragraph is applicable | Subject of paragraphs | Paragraph numbers |
|--|--|-------------------|
| | General purpose or special purpose financial statements | 9 |
| | Audit fees | 10, 11 |
| | Imputation credits | 12-15 |
| | Operating cash flow reconciliation | 16 |
| | IFRS Standard not yet issued in Australia | 17 |
| <i>Entities preparing special purpose financial statements¹</i> | | |
| For-profit private sector entities required only by their constituting document or another document (created before 1 July 2021 and not amended on or after that date) to prepare financial statements that comply with Australian Accounting Standards | Reporting framework | 8 |
| | General purpose or special purpose financial statements | 9 |
| | Information about special purpose financial statements | 9C, 9D |
| Not for profit private sector entities required to comply with this Standard Not-for-profit private sector entities required only by their constituting document or another document (created before [date] and not amended on or after that date) to prepare financial statements that comply with Australian Accounting Standards | Compliance with Australian Accounting Standards | 7 |
| | Reporting framework | 8 |
| | General purpose or special purpose financial statements | 9 |
| | Information about special purpose financial statements | 9A, 9B |
| | Audit fees | 10, 11 |
| | Imputation credits | 12-15 |
| | Operating cash flow reconciliation | 16 |
| | IFRS Standard not yet issued in Australia | 17 |

1 These entities may elect to prepare general purpose financial statements instead

64 Paragraph 9A is amended as follows:

Information about special purpose financial statements

9A ~~A not for profit private sector entity that prepares special purpose financial statements~~ The special purpose financial statements of a not-for-profit private sector entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards shall:

- (a) disclose the basis on which the decision to prepare special purpose financial statements was made;
- (b) disclose the following about the material accounting policies applied in the special purpose financial statements, if not already required by another Australian Accounting Standard:
 - (i) the measurement basis (or bases) applied in preparing the special purpose financial statements; and
 - (ii) the other accounting policies applied that are relevant to an understanding of the special purpose financial statements;
- (c) when a change in a material accounting policy has an effect on the current period or any prior period, disclose the following, if not already required by another Australian Accounting Standard:
 - (i) the nature of the change in accounting policy;
 - (ii) the reasons why applying the new accounting policy provides reliable and more relevant information;

- (iii) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:
 - (A) for the current period;
 - (B) for each prior period presented; and
 - (C) in the aggregate for periods before those presented; and
- (iv) an explanation if it is impracticable to determine the amounts to be disclosed under paragraph (iii).

Financial statements of subsequent periods need not repeat these disclosures;

- (b*d*) where the entity has interests in other entities – disclose either:
 - (i) whether or not its subsidiaries and investments in associates or joint ventures have been consolidated or equity accounted in a manner consistent with the requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*, as appropriate. If the entity has not consolidated its subsidiaries or equity accounted its investments in associates or joint ventures consistently with those requirements, it shall disclose that fact, and the reasons why; or
 - (ii) that the entity has not determined whether its interests in other entities give rise to interests in subsidiaries, associates or joint ventures, provided it is not required by legislation to make such an assessment for the purpose of assessing its financial reporting requirements and has not made such an assessment;
- (e*e*) for each material accounting policy applied and disclosed in the financial statements that does not comply with all the recognition and measurement requirements in Tier 1: Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), disclose an indication of how it does not comply; or if such an assessment has not been made, disclose that fact; and
- (d*f*) disclose whether or not the financial statements overall comply with all the recognition and measurement requirements in Tier 1: Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) or that such an assessment has not been made.

Note 25 to Board members:

As NFP private sector entities will be able to access Tier 3 reporting requirements, staff propose clarifying, in paragraphs 9(e) and 9(f) above (and elsewhere in AASB 1054, where relevant), that the recognition and measurement requirements of interest are those specified by Tier 1: Australian Accounting Standards. Staff think that such edit would be consistent with the original requirement and the Board's objective in developing these disclosures (being to provide more transparency to the users of publicly lodged SPFS of NFP private sector entities and to increase the comparability of SPFS with other SPFS and GPFS).

Staff considered whether an entity should be allowed to, alternatively, provide the disclosure specified by paragraphs 9(e) and 9(f) by reference to Tier 3 recognition and measurement requirements. Staff do not recommend this for the following reasons:

- (a) the proposed Tier 3 Standard allows an entity to apply Tier 1 accounting policies. As such, the entity preparing SPFS would be required to be familiar with both Tier 3 and Tier 1 recognition and measurement requirements to be able to conclude whether or not an applied accounting policy does not comply with the recognition and measurement requirements of the Tier 3 Standard. This appears burdensome; and
- (b) assuming that the entity does not use the 'not assessed' option, it is uncertain whether users of the SPFS will find information about the extent of difference between the SPFS and the Tier 3 Standard to be significantly useful enough such that the benefits of providing that disclosure exceeds the costs of doing so.

65 Paragraphs IG1 – IG3 are amended as follows:

- IG1 The AASB has prepared this guidance and examples to explain and illustrate the application of the requirements in paragraph 9A of this Standard ~~and their relationship to the requirements in AASB 18 *Presentation and Disclosure in Financial Statements* for the disclosure of a not for profit private sector entity's material accounting policy information. These requirements apply to entities applying this Standard, including those required by legislation to comply. An entity preparing special purpose financial statements that is not specifically required to comply with AASB 1054 may elect not to comply with these requirements, however, is encouraged to do so.~~

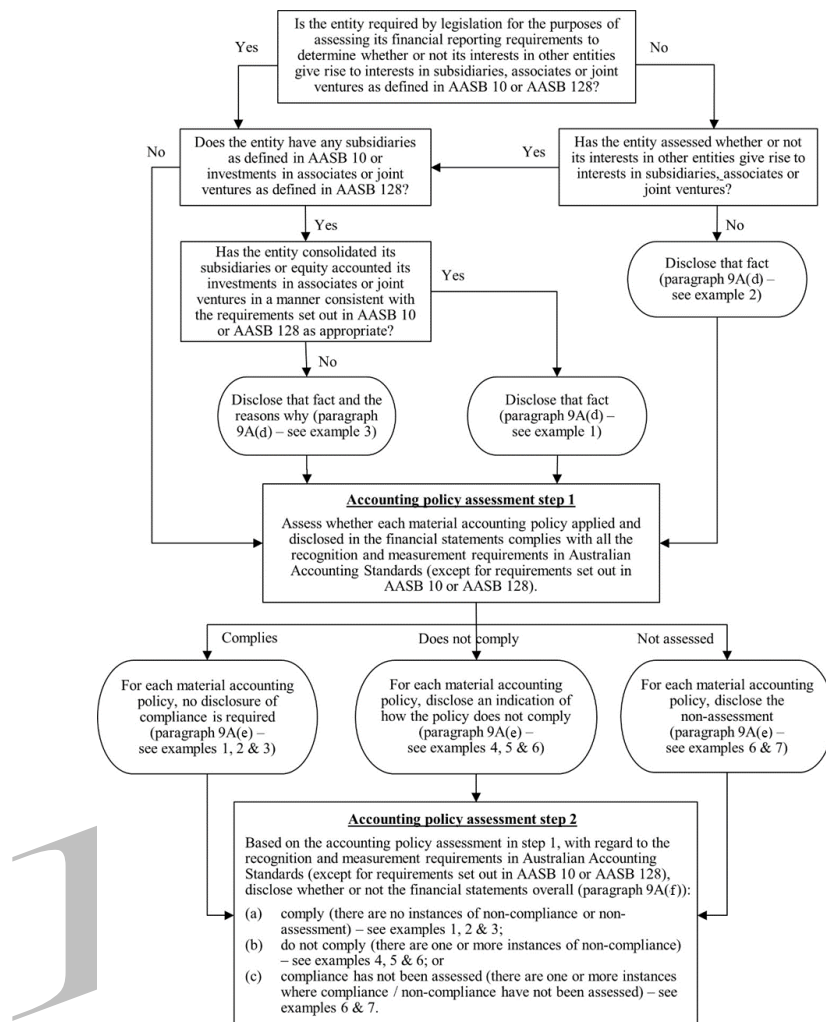
IG2 The table below has been provided for ease of reference to illustrate the types of entities that would be generally be within or outside the scope of the requirements in paragraph 9A of this Standard, but some entities may have different specific requirements.

| # | Entity | In scope/out of scope of paragraph 9A |
|---|---|--|
| 1 | For-profit private and for-profit public sector entities preparing special purpose financial statements | Not in scope |
| 2 | <u>Not-for-profit private sector entities preparing special purpose financial statements</u> | |
| | <u>Not-for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards – provided that the relevant document was created before [operative date of AASB 10XX] and not amended on or after that date</u> <i>e.g. a trust, other than a charitable trust, that is established in 2024</i> | <u>In scope. Additionally, paragraphs 8-9 apply</u> |
| | <u>Not-for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards – but the relevant document was created or amended on or after [operative date of AASB 10XX]</u> <i>e.g. a trust, other than a charitable trust, that is established in 2031</i> | <u>Not in scope – compliance with Australian Accounting Standards results in the entity preparing general purpose financial statements</u> |
| | <u>Not-for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with accounting standards or generally accepted accounting principles or practices</u> <i>e.g. a limited partnership whose partnership agreement does not clearly require the preparation of financial statements that comply with Australian Accounting Standards</i> | <u>Not in scope – these entities are not within the scope of AASB 1054 (refer paragraph 18A of AASB 1057)</u> |
| | <u>Not-for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards</u> | <u>Not in scope – compliance with the Standards requires general purpose financial statements</u> |
| | <i>Charities registered with the Australian Charities and Not for profits Commission (ACNC)</i> | |
| | — medium and large charities preparing special purpose financial statements and required to comply with the ACNC reporting requirements for such financial statements | <u>In scope, must comply with AASB 1054</u> |
| | — small charities | <u>Not in scope</u> |
| | — medium and large charities preparing special purpose financial statements and not required to comply with the ACNC reporting requirements for such financial statements | <u>Not in scope</u> |
| | <i>Not for profit entities not registered with ACNC</i> | |
| | — lodging special purpose financial statements with the Australian Securities and Investments Commission (ASIC) under the <i>Corporations Act 2001</i> (eg companies limited by guarantee) | <u>In scope, must comply with AASB 1054</u> |
| | — required by Federal or State/Territory legislation to prepare financial statements in accordance with Australian Accounting Standards or accounting standards (eg incorporated associations, co-operatives and charitable fundraising organisations), that are preparing special purpose financial statements and not specifically required to comply with AASB 1054 | <u>Not in scope</u> |
| 3 | <u>Other not for profit entities, including not for profit public sector entities, entities not specified above and entities not required to comply with AASB 1054 by legislation or otherwise</u> <u>Not-for-profit</u> | <u>Not in scope</u> |

public sector entities preparing special purpose financial statements

IG3 The following flowchart summarises some of the key decisions in determining how to apply the disclosure requirements in paragraph 9A(d)-(f) of this Standard in relation to special purpose financial statements.

66 The paragraph references in Chart 1 (following paragraph IG4) are amended as follows:



67 Paragraph IG5 is replaced and paragraph IG5A is added as follows:

IG5 Not-for-profit private sector entities preparing special purpose financial statements are required to include sufficient information to enable users of those special purpose financial statements to obtain an understanding of the material accounting policies applied in the preparation of the special purpose financial statements, including changes in those policies.

IG5A The disclosure of this information may be required by another Australian Accounting Standard, such as AASB 18 *Presentation and Disclosure in Financial Statements* or AASB 108 *Basis of Preparation of Financial Statements*. Where this is the case, the entity also complies with the requirements of that other Standard.

68 Paragraphs IG6 and IG9-IG12 are amended as follows:

IG6 Paragraph 9A(e)(e) of this Standard requires an entity, for each material accounting policy applied and disclosed in the financial statements to first assess, based on already known information, whether that policy complies with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), does not comply, or compliance has not been assessed. An entity is not expected to perform a detailed assessment of recognition and measurement differences if that has not already been performed.

- IG9 Based on the assessment in paragraph 9A(e)(e), paragraph 9A(d)(f) then requires an entity to disclose whether or not overall the material accounting policies applied and disclosed in the financial statements comply (that is there are no instances of non-compliance or non-assessment) (see Examples 1, 2 and 3 below) or do not comply (there are one or more instances of non-compliance) with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) (see Examples 4, 5 and 6 below), or that an assessment has not been made (there are one or more instances of compliance / non-compliance not having been assessed) (see Examples 6 and 7 below).
- IG10 ~~Based on the AASB's research, some of the most frequent~~ Some common examples of non-compliance with recognition and measurement requirements in Tier 1: Australian Accounting Standards include:
- (a) ...
- IG11 In relation to paragraph 9A(b)(d) of this Standard, information about the accounting for subsidiaries and investments in associates and joint ventures is fundamental for a user's understanding of the scope of the financial statements. Some entities are required to determine their financial reporting requirements based on the application of recognition and measurement requirements in Australian Accounting Standards, including consolidation, ~~for example a proprietary company subject to section 45A of the Corporations Act 2001 is required to determine whether it is a small or large proprietary company on a consolidated basis (ie the parent and the entities it controls (subsidiaries)) in accordance with the accounting standards even if the standards do not otherwise apply to some or all of the companies concerned.~~ Other entities, typically lodging financial reports with the ACNC, make their assessments based on individual entity circumstances only. In instances where legislation does not require assessment on a consolidated basis, and an entity has not made an assessment of whether its interests in other entities are subsidiaries, associates or joint ventures, an entity shall make a statement that they have not been assessed (see Example 2 below).
- IG12 Exemptions from consolidation of subsidiaries are provided in AASB 10, paragraphs 4(a) and Aus4.1 (as modified by paragraph Aus4.2), including when the entity is a wholly-owned subsidiary and its ultimate parent produces consolidated financial statements that are available for public use and comply with accounting standards. ~~Directors~~ Those charged with governance preparing special purpose financial statements might have other reasons for non-consolidation of some or all of an entity's subsidiaries, and paragraph 9A(b)(d) requires these reasons to be disclosed (see Example 3 below).

69 A heading 'Illustrative Examples' is added above paragraph IG13, and the table in IG13 is amended as follows:

| Scenario/Example | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|--------------|---|-----|-----|-----|-----|
| Reporting Framework | <u>ACNC Trust deed</u> | ✓ | ✓ | ✓ | | ✓ | | ✓ |
| | <u>Corporations Act 2001</u> <u>Other document</u> | ✓ | | | ✓ | | ✓ | |
| Subsidiaries | Yes | ✓ | Not assessed | ✓ | | | | |
| | No | | | | ✓ | ✓ | ✓ | ✓ |
| Consolidated | Yes | ✓ | n/a | | n/a | n/a | n/a | n/a |
| | No | | | | | | | |
| | Partially | | | ✓ | | | | |
| Associates / Joint Ventures | Yes | ✓ | Not assessed | ✓ | | | | |
| | No | | | | ✓ | ✓ | ✓ | ✓ |
| Equity accounted | Yes | ✓ | | | n/a | n/a | n/a | n/a |
| | No | | ✓ | | | | | |
| | Partially | | | ✓ | | | | |
| Material accounting policies comply with all recognition and measurement requirements | Yes | ✓ | ✓ | ✓ | | | | |
| | No | | | | ✓ | ✓ | ✓ | |

| Scenario/Example | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|--------------|---|---|---|---|---|---|---|
| (except for AASB 10 or AASB 128) | Not assessed | | | | | | ✓ | ✓ |
| Financial statements overall comply with all recognition and measurement requirements (except for AASB 10 or AASB128) | Yes | ✓ | ✓ | ✓ | | | | |
| | No | | | | ✓ | ✓ | ✓ | |
| | Not assessed | | | | | | | ✓ |

70 Paragraph IG14 and the illustrative examples that follow the paragraph are amended as follows:

IG14 The following examples illustrate how an entity might apply the disclosure requirements in paragraph 9A of this Standard ~~within the context of the requirements in AASB 101 and AASB 108 referred to in paragraph IG5 above to the special purpose financial statements they prepare~~, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern need to be evaluated when applying ~~disclosure requirements of this~~ the Standard.

Note 26 to Board members:

Staff aimed to limit the amendments to these illustrative examples to those necessary to address the change of the entity required to make these disclosures (consistent with the proposed changes to the entities to whom paragraph 9A of AASB 1054 applies). These illustrative examples may be further amended and refined during the finalisation of the Exposure Draft.

| # | Example | Illustrative disclosure |
|---|--|---|
| 1 | <p><i>Compliance with all recognition and measurement requirements in Australian Accounting Standards including AASB 10 and AASB 128</i></p> <p>Charity A Inc ABC Building Fund, a not-for-profit parent, prepares consolidated special purpose financial statements that:</p> <ul style="list-style-type: none"> consolidate all its subsidiaries in a manner consistent with the requirements set out in AASB 10; equity account all its investments in associates and joint ventures in a manner consistent with the requirements set out in AASB 128; and apply accounting policies that comply with all the recognition and measurement requirements in Australian Accounting Standards. | <p>ABC Building Fund is a not-for-profit entity. The Members of the Governing / Management Committee Responsible Officers of the Fund are of the opinion that there are unlikely to be users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs the Association is not a reporting entity as users may obtain the financial information they require upon request. These special purpose financial statements have therefore been prepared in order to meet the requirements of the terms that established the Fund [Australian Charities and Not for profits Commission Act 2012/ insert further details of the not for profit reporting framework under which the financial statements are prepared].</p> <p>ABC Building Fund has consolidated all its subsidiaries consistent with the requirements set out in AASB 10 <i>Consolidated Financial Statements</i> and equity accounted for its investments in associates and joint ventures in a manner consistent with the requirements set out in AASB 128 <i>Investments in Associates and Joint Ventures</i>.</p> <p>These consolidated special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> |

| # | Example | Illustrative disclosure |
|---|--|---|
| 2 | <p><i>Compliance with all recognition and measurement requirements in Australian Accounting Standards except for AASB 10 and AASB 128 (interests in other entities not assessed)</i></p> <p><u>Charity B Inc DEF Trust</u>, a not-for-profit entity, prepares special purpose financial statements that:</p> <ul style="list-style-type: none"> do not consolidate or equity account any entities as <u>Charity B Inc DEF Trust</u> did not determine whether its interests in other entities give rise to interests in subsidiaries or investments in associates or joint ventures; and apply accounting policies that comply with all the recognition and measurement requirements in Australian Accounting Standards. <p>The legislative framework in which <u>Charity B Inc DEF Trust</u> operates does not require it to identify subsidiaries, associates or joint ventures to determine its financial reporting requirements.</p> | <p><u>Charity B Inc DEF Trust</u> is a not-for-profit entity. It has prepared special purpose financial statements as in the opinion of the Management Committee Trustee, <u>Charity B Inc is not a reporting entity as its users may</u> it is unlikely that there are users of these financial statements who are not in a position to request the financial information they need. These special purpose financial statements have been prepared to satisfy the Trustee's reporting requirements under the Trust Deed for distribution to members and for the purposes of fulfilling the reporting requirements under the [Australian Charities and Not for profits Commission Act 2012/ insert further details of the not for profit reporting framework under which the financial statements are prepared].</p> <p><u>Charity B Inc DEF Trust</u> has not assessed whether it has relationships with other entities which, for financial reporting purposes, might be considered subsidiaries, associates or joint ventures as it is not required by the [Australian Charities and Not for profits Commission Act 2012] any relevant legislative framework to do so.</p> <p>These special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (except for the requirements set out in AASB 10 <i>Consolidated Financial Statements</i> or AASB 128 <i>Investments in Associates and Joint Ventures</i>).</p> |
| 3 | <p><i>Compliance with all recognition and measurement requirements in Australian Accounting Standards except for AASB 10 and AASB 128 (some subsidiaries not consolidated and some associates and joint ventures not equity accounted)</i></p> <p>MNO Ltd, a parent that is a charity, <u>GHI as Trustee of the GHI Alumni Association</u> prepares partially consolidated special purpose financial statements that:</p> <ul style="list-style-type: none"> consolidate some but not all of its subsidiaries (and are therefore inconsistent with the requirements set out in AASB 10); do not equity account all its investments in associates and investments in joint ventures in a manner consistent with the requirements set out in AASB 128; and apply accounting policies to those partially consolidated financial statements that comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128). | <p>MNO Ltd <u>GHI as Trustee of the GHI Alumni Association</u>, a not-for-profit entity, has prepared special purpose financial statements consolidating the GHI Alumni Association, as, in the opinion of the Directors Trustee, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Directors' Trustee's reporting requirements under the [Australian Charities and Not for profits Commission Act 2012/ insert further details of the not for profit reporting framework under which the financial statements are prepared] trust deed.</p> <p>These financial statements do not consolidate all of MNO Ltd's <u>GHI's</u> subsidiaries or equity account all its investments in associates and investments in joint ventures as the Directors <u>Trustee</u> [did not perform a detailed assessment of all of MNO Ltd's relationships with other entities, and instead Trustee has elected to only consolidate those entities MNO Ltd GHI has a 100% ownership interest in / insert an explanation of why some subsidiaries, associates and joint ventures are not consolidated / equity accounted.]</p> <p>MNO Ltd's <u>The</u> partially consolidated special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (except for the requirements set out in AASB 10 <i>Consolidated Financial Statements</i> or AASB 128 <i>Investments in Associates and Joint Ventures</i>).</p> |
| 4 | <p><i>Known non-compliance with all recognition and measurement requirements in Australian Accounting Standards that is not extensive</i></p> <p><u>XYZ Twins Ltd</u>, a not-for-profit entity that is not a charity partnership, determined that it does not have any subsidiaries, associates or joint ventures (and therefore requirements set out in AASB 10 and AASB 128 are not applicable) and prepares special purpose financial statements that apply material</p> | <p><u>XYZ Ltd</u>, a not-for-profit entity, has prepared special purpose financial statements as, in the opinion of the Directors, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Directors' Partners' reporting requirements under the Corporations Act 2001 partnership agreement.</p> <p>These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> |

| # | Example | Illustrative disclosure |
|---|---|---|
| | accounting policies that do not comply with all the recognition and measurement requirements in Australian Accounting Standards. The differences are not extensive. | The recognition and measurement requirements that have not been complied with are those specified in AASB 15 <i>Revenue from Contracts with Customers</i> and AASB 1058 <i>Income of Not-for-Profit Entities</i> as, in accounting for income, recognition of all grant income has been deferred [[until the related expenses are incurred without assessing whether there are enforceable performance obligations to transfer a good or service to a third party which are sufficiently specific to know when the performance obligation has been satisfied] / [where the grant is for multi-years without assessing whether there is a performance obligation or the grantor retains control of the remainder of the grant at the end of each year] / insert further details including an indication of how material recognition and measurement requirements in Australian Accounting Standards have not been complied with]. |
| 5 | <p><i>Known non-compliance with all recognition and measurement requirements in Australian Accounting Standards that is extensive</i></p> <p>Charity D Inc JKL Family Trust, a not-for-profit entity, does not have any subsidiaries, associates or joint ventures (and therefore requirements set out in AASB 10 and AASB 128 are not applicable) and prepares special purpose financial statements that apply material accounting policies that do not comply with all the recognition and measurement requirements in Australian Accounting Standards. Although the differences have not been quantified, they are extensive and an indication of the differences are presented with the appropriate note disclosing the accounting policy.</p> | <p>Charity D Inc JKL Family Trust, a not-for-profit entity, has prepared special purpose financial statements as, in the opinion of the Management Committee Trustees', it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Management Committee's Trustees' reporting requirements under the [Australian Charities and Not-for-profits Commission Act 2012 / insert further details of the not for profit reporting framework under which the financial statements are prepared] Trust Deed.</p> <p>These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>[The material accounting policies adopted in the special purpose financial statements are set out in notes X-Y and indicate how the recognition and measurement requirements in Australian Accounting Standards have not been complied with.</p> <p>...</p> <p>Note X: Revenue</p> <p>...</p> <p>All grant income has been deferred upon receipt and not recognised as revenue until the related expenses are incurred, without assessing whether enforceable performance obligations exist Trust income is recognised on a cash basis. This does not comply with AASB 15 <i>Revenue from Contracts with Customers</i> or AASB 1058 <i>Income of Not-for-Profit Entities</i>.</p> <p>...</p> <p>Note Y: Employee Benefits</p> <p>...</p> <p>Long-term provision recognised for long service leave has been measured on the undiscounted basis which does not comply with AASB 119 <i>Employee Benefits</i>.</p> <p>...]</p> |
| 6 | <p><i>At least one material accounting policy not assessed for compliance with recognition and measurement requirements in Australian Accounting Standards (combined with known non-compliance with recognition and measurement requirements in Australian Accounting Standards)</i></p> <p>MLK Pty Ltd, a not-for-profit entity <u>small proprietary company</u>, does not have any subsidiaries, associates or joint ventures (and therefore requirements set out in AASB 10 and AASB 128 are not applicable) and <u>is required by its company charter to prepare financial statements for distribution to its</u></p> | <p>MLK Ltd is a not-for-profit entity. In the opinion of the Directors Charity E Ltd is not a reporting entity as its users may request the financial information they need it is unlikely that there are users of <u>these financial statements who are not in a position to require the preparation of reports tailored to their information needs</u>. These special purpose financial statements have been prepared for distribution to members and for the purposes of fulfilling the requirements of the Corporations Act 2001 <u>shareholders consistent with the requirement in the company charter</u>.</p> <p>These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>The material accounting policies adopted in the special purpose financial statements include:</p> <ul style="list-style-type: none"> - [deferring all grant income upon receipt and not recognising as revenue until the related expenses are incurred, without |

| # | Example | Illustrative disclosure |
|---|---|--|
| | shareholders. MLK Ltd prepares special purpose financial statements that apply some material accounting policies that do not comply with the recognition and measurement requirements in Australian Accounting Standards and some material accounting policies that have not been assessed for compliance with the recognition and measurement requirements in Australian Accounting Standards. | <p>assessing whether enforceable performance obligations exist, which does not comply with AASB 15 <i>Revenue from Contracts with Customers</i> or AASB 1058 <i>Income of Not-for-Profit Entities</i>;</p> <ul style="list-style-type: none"> - insert further details including an indication of how material recognition and measurement requirements in Australian Accounting Standards have not been complied with]. <p>The material accounting policies disclosed in note X that have not been assessed for compliance with the recognition and measurement requirements of Australian Accounting Standards include:</p> <ul style="list-style-type: none"> - Long-service leave; and - Impairment of assets. |
| 7 | <p><i>At least one material accounting policy not assessed for compliance with recognition and measurement requirements in Australian Accounting Standards (all other material accounting policies comply with recognition and measurement requirements in Australian Accounting Standards)</i></p> <p><u>Trust MNO</u> Charity F Inc, a not-for-profit entity, does not have any subsidiaries, associates or joint ventures (and therefore requirements set out in AASB 10 and AASB 128 are not applicable) and prepares special purpose financial statements that apply some material accounting policies that have not been assessed for compliance with the recognition and measurement requirements in Australian Accounting Standards. All other material accounting policies comply with the recognition and measurement requirements in Australian Accounting Standards.</p> | <p>Charity F Inc <u>Trust MNO</u>, a not-for-profit entity, has prepared special purpose financial statements as, in the opinion of the Management Committee <u>Trustee</u>, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Management Committee's <u>Trustee's</u> reporting requirements under [the Australian Charities and Not-for-profits Commission Act 2012 / insert details of the not for profit reporting framework under which the financial statements are prepared] <u>Trust Deed</u>.</p> <p>Charity F Inc <u>Trust MNO</u> has not assessed whether these special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>[The material accounting policies disclosed in note X that have not been assessed for compliance with Australian Accounting Standards include:</p> <ul style="list-style-type: none"> - Recognition of income; and - Long-service leave.] <p>OR</p> <p>[The material accounting policies adopted in the special purpose financial statements are set out in notes X-Y and indicate how they have not been assessed for compliance with the recognition and measurement requirements in Australian Accounting Standards.</p> <p>...</p> <p>Note X: Revenue</p> <p>All grant income has been deferred upon receipt and not recognised as revenue until the related expenses are incurred, and <u>Trust income is recognised when receivable. This accounting policy</u> has not been assessed for compliance with the recognition and measurement requirements in Australian Accounting Standards.</p> <p>...</p> <p>Note Y: Employee Benefits</p> <p>...</p> <p>Long-term provision recognised for long service leave has been measured to reflect the directors' <u>trustee's</u> best estimate of the amounts payable for those employees expected to achieve seven years of service at the reporting date, and has not been assessed for compliance with the recognition and measurement requirements in Australian Accounting Standards.]</p> |

Amendments to AASB 1056 *Superannuation Entities*

71 Paragraph AusCF1 is amended as follows.

AusCF1 AusCF paragraphs included in this Standard apply only to:

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

- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as ‘AusCF entities’. For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit~~ Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs.

72 Paragraphs AG28 and AusCFAG28 are amended as follows.

AG28 A receivable meeting the definition and recognition criteria for an asset in the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*) would be measured at its intrinsic value. That is, the difference between the defined benefit member liabilities and the amount of the other recognised assets held to meet those liabilities, unless the amount of the receivable is capped in some manner.

AusCFAG28 Notwithstanding paragraph AG28, in respect of AusCF entities, a receivable meeting the definition and recognition criteria for an asset in the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 *Interpretation of Standards*) would be measured at its intrinsic value. That is, the difference between the defined benefit member liabilities and the amount of the other recognised assets held to meet those liabilities, unless the amount of the receivable is capped in some manner.

Amendments to AASB 1057 *Application of Australian Accounting Standards*

Note 27 to Board members:

The draft amendments to AASB 1057 extend the application of Australian Accounting Standards to not-for-profit entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards, and to not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after the specified date.

The text of paragraphs 5 and 7 (and other paragraphs) of AASB 1057, as last amended, do not scope in for-profit public sector entities (except where the for-profit public sector entity (voluntarily) elects to prepare general purpose financial statements). The draft amendments do not change the existing requirements for for-profit public sector entities. Staff have not proposed such amendments as the focus of the project is on NFPs, but note that the Board may want to revisit the priority to place on a project to review the public sector financial reporting framework, including to clarify how for-profit public sector entities apply Australian Accounting Standards. However, staff think that the previous revisions of AASB 1057 are unlikely to have caused for-profit public sector entities preparing general purpose financial statements to change their existing practices.

To effect this and as reflected in the draft ED before the Board at its 6-7 June 2024 meeting, staff have struck through the existing specific not-for-profit clauses. In so doing, in most instances, the explicit tie to the *Corporations Act 2001* will now be removed from the application clause of a Standard (as subsumed within “required by legislation”).

1. Staff have revised the draft amendments viewed by the Board at its 6-7 June 2024 meeting on further reflection and internal review of the section, to address the following:
 - (a) in several locations, update text to reflect that the constituting document or other document creation/last amendment date of a not-for-profit entity is different to the date applicable to for-profit private sector entities;
 - (b) wholly remove redundant clause (a) in AASB 4 and AASB 1023;
 - (c) update the application of AASB 1058 so that the Standard is applicable to entities that are required by legislation other than the *Corporations Act 2001* to comply with Australian Accounting Standards; and
 - (d) revise the application clauses of Interpretation 1038, to reflect that for-profit public sector entities have not yet been addressed by the Board.
2. In reviewing the draft amendments for consistency against Board decisions, staff note that the analysis in paragraphs 49-56 of Agenda Paper 6.1 of the 7-8 March 2024 meeting (link: [Agenda Paper 6.1](#)) contemplated the amendment of Australian Accounting Standards to remove the ability of certain not-for-profit public sector entities to prepare special purpose financial statements. For example, paragraph 55 of Agenda Paper 6.1 stated:

“Consequently, staff think that the Board should reconfirm its decision to also remove the ability of certain NFP public sector entities to prepare special purpose financial statements under Australian Accounting Standards as part of Stage 1 of its Conceptual Framework: NFP Amendments project. This is because: ...”

However, the question that was posed to the Board was [emphasis added]:

“Do Board members agree with the staff recommendation ... for the **Conceptual Framework** to be amended to apply to NFP public sector entities as part of Stage 1 of its Conceptual Framework: NFP amendments project (i.e. at the same time as NFP private sector entities)?”

The minutes of the 7-8 March 2024 AASB meeting (link: [March 2024 minutes](#)) state [emphasis added]:

“The Board decided that a revised **Conceptual Framework for Financial Reporting** would apply to both private sector and public sector not-for-profit entities and confirmed its previous decisions on the not-for-profit modifications to propose for the Conceptual Framework for Financial Reporting.”

Consequently, for completeness, staff are seeking confirmation from Board members that this ED should propose amending relevant application paragraphs of Australian Accounting Standards (by amending AASB 1057) to remove the ability of certain not-for-profit public sector entities to prepare special purpose financial statements, consistent with the Board’s decision to extend the application of the *Conceptual Framework* to more not-for-profit entities.

Question 5 to Board members:

Do Board members agree for this ED to propose amending relevant application paragraphs of Australian Accounting Standards (by amending AASB 1057) to remove the ability of certain not-for-profit public sector entities to prepare special purpose financial statements?

73 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit entities that are not applying the Conceptual Framework for Financial Reporting (as identified in AASB 1048 Interpretation of Standards).~~

For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

74 Paragraphs 2, 5, 5A, 7, 9, 10, 11A, 18, 18A, 19, 20, 20A, 22, 24, 25 are amended as follows:

Application of this Standard

2 This Standard applies to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
- (b) ~~general purpose financial statements of each not for profit reporting entity;~~
- (c) ~~each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements;~~
- (d) ~~financial statements of General Government Sectors (GGSs) prepared in accordance with AASB 1049 Whole of Government and General Government Sector Financial Reporting;~~
- (ea) for-profit private sector entities and not-for-profit entities that are required by legislation[*] to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; ~~and~~
- (fb) other for-profit private sector entities and not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards;
- (c) each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements; and
- (d) financial statements of General Government Sectors (GGSs) prepared in accordance with AASB 1049 Whole of Government and General Government Sector Financial Reporting.

* References in this Standard to ‘legislation’ mean legislation of a government in Australia.

Application of Australian Accounting Standards

5 Unless specified otherwise in paragraphs 5A–21, Australian Accounting Standards apply to:

- (a) ~~each not for profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;~~
- (b) ~~general purpose financial statements of each other not for profit entity that is a reporting entity;~~
- (c) ~~each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements;~~
- (da) for-profit private sector entities and not-for-profit entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; ~~and~~
- (eb) other for-profit private sector entities and not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after:
 - (i) for a for-profit private sector entity – 1 July 2021; and
 - (ii) for a not-for-profit entity – [date]; and-
- (c) each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements.

5A AASB 4 *Insurance Contracts* applies to:

- (a) ~~general purpose financial statements of each public sector reporting entity; and~~
- (b) ~~financial statements of each public sector entity that are, or are held out to be, general purpose financial statements;~~

in respect of annual periods beginning before 1 July 2026. However, a public sector entity may elect to apply AASB 17 *Insurance Contracts* instead of AASB 4.

...

7 Except as specified in paragraph 20C, AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB 1048 *Interpretation of Standards* apply to:

- (a) ~~each not for profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;~~
- (b) ~~general purpose financial statements of each not for profit entity that is a reporting entity;~~
- (c) ~~each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements;~~
- (da) for-profit private sector entities and not-for-profit entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; ~~and~~
- (eb) other for-profit private sector entities and not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after:
 - (i) for a for-profit private sector entity – 1 July 2021; and
 - (ii) for a not-for-profit entity – [date]; and-
- (c) each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements.

...

9 AASB 133 *Earnings per Share* applies to:

- (a) each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act ~~and that is a reporting entity~~ or that discloses earnings per share; and
- (b) for-profit private sector entities that are required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act or disclose earnings per share.

10 AASB 134 *Interim Financial Reporting* applies to:

- (a) each disclosing entity required to prepare half-year financial reports in accordance with Part 2M.3 of the Corporations Act;
- ~~(b) interim financial reports that are general purpose financial statements of each not-for-profit entity that is a reporting entity;~~
- ~~(c) each entity that elects to prepare interim financial reports that are, or are held out to be, general purpose financial statements;~~
- ~~(d)~~ interim financial reports of for-profit private sector entities and not-for-profit entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; ~~and~~
- ~~(e)~~ interim financial reports of other for-profit private sector entities and not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after:
 - (i) for a for-profit private sector entity – 1 July 2021; and
 - (ii) for a not-for-profit entity – [date]; and
- ~~(d) each entity that elects to prepare interim financial reports that are, or are held out to be, general purpose financial statements.~~

...

11A AASB 1023 *General Insurance Contracts* applies to:

- ~~(a) general purpose financial statements of each public sector reporting entity; and~~
- ~~(b) financial statements of each public sector entity that are, or are held out to be, general purpose financial statements;~~

in respect of annual periods beginning before 1 July 2026. However, a public sector entity may elect to apply AASB 17 *Insurance Contracts* instead of AASB 1023.

...

18 AASB 1053 *Application of Tiers of Australian Accounting Standards* applies to:

- ~~(a) each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;~~
- ~~(b) general purpose financial statements of each not-for-profit entity that is a reporting entity;~~
- ~~(c) each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements; and~~
- ~~(d) financial statements of GGSs prepared in accordance with AASB 1049;~~
- ~~(e)~~ for-profit private sector entities and not-for-profit entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; ~~and~~
- ~~(f)~~ other for-profit private sector entities and not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after:
 - (i) for a private sector entity – 1 July 2021; and
 - (ii) for a not-for-profit entity – [date];
- ~~(c) each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements; and~~
- ~~(d) financial statements of GGSs prepared in accordance with AASB 1049.~~

18A AASB 1054 *Australian Additional Disclosures* applies to:

- ~~(a) each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;~~
- ~~(b) general purpose financial statements of each not-for-profit entity that is a reporting entity;~~
- ~~(c) each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements;~~

- (~~da~~) for-profit private sector entities and not-for-profit entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; ~~and~~
 - (~~eb~~) other for-profit private sector entities and not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards; ~~and~~
 - (c) each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements.
- 19 AASB 1055 *Budgetary Reporting* applies to:
- (a) whole of government general purpose financial statements of each government;
 - (b) financial statements of each government's GGS;
 - (c) general purpose financial statements of each not-for-profit ~~reporting~~ entity within the GGS; and
 - (d) financial statements of each not-for-profit entity within the GGS that are, or are held out to be, general purpose financial statements.
- 20 AASB 1056 *Superannuation Entities* applies to:
- (a) ~~general purpose financial statements of each not for profit superannuation entity that is a reporting entity;~~
 - (b) ~~each superannuation entity that elects to prepare financial statements that are held out to be general purpose financial statements;~~
 - (~~ea~~) for-profit private sector and not-for-profit superannuation entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; ~~and~~
 - (~~eb~~) other for-profit private sector and not-for-profit superannuation entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after:
 - (i) for a private sector entity – 1 July 2021-; and
 - (ii) for a not-for-profit entity – [date]; and
 - (c) each superannuation entity that elects to prepare financial statements that are held out to be general purpose financial statements.
- 20A AASB 1058 *Income of Not-for-Profit Entities* applies to:
- (a) each not-for-profit entity that is required ~~to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity~~ by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards;
 - (b) ~~general purpose financial statements of each other not for profit entity that is a reporting entity~~ each not-for-profit entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after [date]; and
 - (c) financial statements of a not-for-profit entity that are, or are held out to be, general purpose financial statements.

...

Application of Australian Interpretations

- 22 Unless specified otherwise in paragraphs 23–26, Interpretations apply to:
- (a) ~~each not for profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;~~
 - (b) ~~general purpose financial statements of each other not for profit entity that is a reporting entity;~~
 - (c) ~~each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements;~~

- (~~da~~) for-profit private sector entities and not-for-profit entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards, ~~and~~
- (~~eb~~) other for-profit private sector entities and not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after:
 - (i) for a private sector entity – 1 July 2021-; and
 - (ii) for a not-for-profit entity – [date]; and
- (c) each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements.

...

24 Interpretation 1019 *The Superannuation Contributions Surcharge* applies to:

- (a) ~~each not for profit superannuation plan that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;~~
- (b) ~~general purpose financial statements of each other not for profit superannuation plan that is a reporting entity;~~
- (c) ~~each superannuation plan that elects to prepare financial statements of a superannuation plan that are, or are held out to be, general purpose financial statements;~~
- (~~da~~) for-profit superannuation plans that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; ~~and~~
- (~~eb~~) other ~~for-profit~~ superannuation plans that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after:
 - (i) for a private sector entity – 1 July 2021-; and
 - (ii) for a not-for-profit entity – [date]; and
- (c) each superannuation plan that elects to prepare financial statements of a superannuation plan that are, or are held out to be, general purpose financial statements.

25 Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* applies to public sector entities as follows:

- (a) each for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
- (b) each not-for-profit entity that is required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards;
- (c) each not-for-profit entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after [date];
- (~~bd~~) general purpose financial statements of each other reporting entity; and
- (ee) financial statements that are, or are held out to be, general purpose financial statements.

75 In the Appendix, the definition ‘reporting entity’ is amended as follows:

An entity in respect of which it is reasonable to expect the existence of users who rely on the entity’s general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries. This reporting entity definition is not relevant to:

- (a) for-profit private sector entities and not-for-profit entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards;
- (b) other for-profit private sector entities and not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after;

- (i) ~~for a private sector entity~~ – 1 July 2021; and
- (ii) ~~for a not-for-profit entity~~ – [date].
- (c) other ~~for-profit~~ entities (private sector or public sector) that elect to prepare general purpose financial statements.

Amendments to AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

Note 28 to Board members:

This section has been added since the draft considered by the Board at its 6-7 June 2024 meeting.

76 Paragraph 7 is amended as follows:

7 AusCF paragraphs and footnotes included in this Standard apply only to:

- (a) ~~not for profit entities; and~~
- (b) ~~for-profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as ‘AusCF entities’. For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit e~~Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.

Amendments to Interpretation 16 Hedges of a Net Investment in a Foreign Operation

77 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for-profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to Interpretation 132 Intangible Assets – Web Site Costs

Note 29 to Board members:

This section has been added since the draft considered by the Board at its 6-7 June 2024 meeting.

78 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF paragraphs and footnotes included in this Interpretation apply only to:

- (a) ~~not for profit entities; and~~
- (b) ~~for-profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as ‘AusCF entities’. For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit e~~Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.

79 Paragraph Aus10.4A is inserted as follows. Paragraph Aus10.4 is unamended but has been included for reference. Footnotes to the text are not reproduced:

Aus10.4 AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*, issued in 2019, added AusCF paragraphs and amended paragraph 5. An entity shall apply the amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 2019-1. An entity shall apply the amendments to Interpretation 132 retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.² However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendments to Interpretation 132 by reference to paragraphs 23–28, 50–53 and 54F of AASB 108.

...

Aus10.4A *AASB 20XX-X Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*, issued in [Month Year], amended paragraph AusCF1. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 20XX-X. An entity shall apply the amendments to Interpretation 132 retrospectively in accordance with AASB 108 *Basis of Preparation of Financial Statements*. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendments to Interpretation 132 by reference to paragraphs 23–27, 28, 50–53 and Aus54F.1 of AASB 108.

Note 30 to Board members

Draft paragraph Aus10.4A seeks to replicate for NFP entities the transitional provisions that applied to the consequential amendments to Interpretation 132 introduced on issue of the *Conceptual Framework* in 2019. These consequential amendments were made in AASB 2019-1.

Staff note that the draft Aus10.4A paragraph excludes referencing paragraph 27A-27I of AASB 108 as these paragraphs, introduced by AASB 18, are not relevant here. A version of the requirements set out in these paragraphs was formerly located in AASB 101.

Amendments to Interpretation 1003 *Australian Petroleum Resource Rent Tax*

80 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to Interpretation 1031 *Accounting for the Goods and Services Tax (GST)*

81 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF entities are:

- (a) ~~not for profit entities; and~~
- (b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For-profit e~~Entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

Amendments to AASB Practice Statement 2 *Making Materiality Judgements*

Note 31 to Board members:

This section has been added since the draft considered by the Board at its 6-7 June 2024 meeting.

82 Paragraph AusCF1 is amended as follows:

AusCF1 AusCF paragraphs and footnotes included in this Practice Statement apply only to:

(a) ~~not for profit entities; and~~

(b) ~~for profit~~ entities that are not applying the *Conceptual Framework for Financial Reporting (as identified in AASB 1048 Interpretation of Standards)*.

Such entities are referred to as 'AusCF entities'. For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. ~~For profit e~~Entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.

83 Paragraphs Aus13.1 and Aus18.1 are amended, and paragraphs AusCFAus13.1 and AusCFAus18.1 are added, as follows:

Aus13.1 The primary users of not-for-profit entity financial statements are existing and potential resource providers (such as ~~donors and other funders, taxpayers investors~~, lenders and other creditors, ~~donors and taxpayers and investors~~), recipients of goods and services (such as beneficiaries, for example members of the community) and parties performing a review or oversight function on behalf of other users (such as advisors and members of parliament).¹² Not-for-profit entities should read all references in this Practice Statement to 'existing and potential investors, lenders and other creditors' as a reference to this broader range of users.

12 See paragraph AusOB2.1 of the *Framework* See paragraph Aus1.2.1 of the *Conceptual Framework*.

AusCFAus13.1 Notwithstanding paragraph Aus13.1, in respect of not-for-profit AusCF entities, the primary users of not-for-profit entity financial statements are existing and potential resource providers (such as investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (such as beneficiaries, for example members of the community) and parties performing a review or oversight function on behalf of other users (such as advisors and members of parliament).^{AusCF12} Not-for-profit entities should read all references in this Practice Statement to 'existing and potential investors, lenders and other creditors' as a reference to this broader range of users.

AusCF12 See paragraph AusOB2.1 of the *Framework*.

Aus18.1 In respect of not-for-profit entities, primary users are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash inflows and management's stewardship of the entity's economic resources. Primary users will, for example, be interested in the capability of the entity's resources to provide goods and services in the future ~~(service potential)~~. Such primary users may make resource allocation decisions in relation to not-for-profit entities in addition to, or that differ from, those related to for-profit entities. ~~For example, parliaments decide, on behalf of constituents, whether to fund particular programmes for delivery by an entity, taxpayers decide who should represent them in government, donors decide whether to donate resources to an entity, and recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers~~ For example, donors and other funders decide whether to commit resources to an entity, taxpayers decide who should represent them in government, recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers, and parliaments decide, on behalf of constituents, whether to support particular programmes for delivery by an entity.¹⁸

18 See paragraphs AusOB2.1 and AusOB3.1 of the *Framework* See paragraphs Aus1.2.1 and Aus1.3.1 of the *Conceptual Framework*.

AusCFAus18.1 Notwithstanding paragraph Aus18.1, in respect of not-for-profit AusCF entities, primary users are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash inflows. Primary users will, for example, be interested in the capability of the entity's resources to provide goods and services in the future. Such primary users may make resource allocation

decisions in relation to not-for-profit entities in addition to, or that differ from, those related to for-profit entities. For example, parliaments decide, on behalf of constituents, whether to fund particular programmes for delivery by an entity, taxpayers decide who should represent them in government, donors decide whether to donate resources to an entity, and recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers.¹⁸

¹⁸ See paragraphs AusOB2.1 and AusOB3.1 of the *Framework*.

Note 32 to Board members:

Staff think adding paragraphs AusCFAus13.1 and AusCFAus18.1 would be consistent with the approach taken in other Australian Accounting Standards regarding the use of AusCF paragraphs. This draft therefore includes proposed paragraphs in this regard (i.e. retained a version of existing paragraphs Aus13.1 and Aus18.1, which reference guidance from the *Framework for the Preparation and Presentation of Financial Statements*).

In addition, staff propose deleting the reference to service potential currently in paragraph Aus18.1 to avoid any potential inconsistency with proposed paragraphs Aus1.3.1 and Aus4.4.1 of the *Conceptual Framework*. Staff note that paragraph AusOB3.1 of the *Framework for the Preparation and Presentation of Financial Statements* does not itself summarise the ‘capability of the entity’s resources to provide goods and services in the future’ as service potential.

Proposed paragraph Aus4.4.1 of the *Conceptual Framework* states “... *The potential to produce economic benefits is the essence of assets and is synonymous with the notion of service potential, and is used in the Conceptual Framework as a reference also to service potential. ...*” (refer page 18 of this ED)

84 Footnotes AusCF15 and AusCF17 are deleted.

Note 33 to Board members:

Footnotes AusCF15 and AusCF17 noted that the Board will review the guidance in the *Conceptual Framework* concerning what are primary users’ resource allocation decisions and stewardship, including the relationship between stewardship and expectations about returns, as part of its deliberations on the revised *Conceptual Framework*. Staff think these footnotes are no longer necessary following completion of this project as the Board will have completed its deliberations in this regard for for-profit private sector entities and not-for-profit entities. The Board amendments to *Conceptual Framework* pertinent to these footnotes is reflected in the amendments to paragraph Aus18.1 of the Practice Statement – see paragraph 83 above.

85 Paragraph Aus38.1 is amended as follows:

Aus38.1 In respect of not-for-profit entities, primary users need information about the ~~service potential of existing resources~~ capability of the entity’s resources to provide goods and services in the future, as noted in paragraph Aus18.1. For example, a significant impairment ~~in the service potential~~ of an entity’s assets could result in the entity needing either to obtain additional resources in order to maintain the level or scope of its activities in providing goods or services or to reduce its activities. Donors to the entity might seek explanation of the significant impairment in considering whether to continue to provide resources to the entity or to withdraw their support.

86 Appendix B is amended as follows:

Extracts from the *Conceptual Framework for Financial Reporting*

Paragraph 1.2

...

Paragraph Aus1.2.1

Referred to in paragraphs Aus13.1 and Aus18.1 of the Practice Statement.

Among the users of financial information about a not-for-profit reporting entity are existing and potential resource providers (such as donors and other funders, taxpayers, lenders and other creditors, and investors), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament). Such users may make resource allocation decisions in relation to not-for-profit entities that differ from those identified in paragraph 1.2. For example, donors and other funders decide whether to commit resources to an entity, taxpayers decide who should represent them in government, recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers, and parliaments decide, on behalf of constituents, whether to support particular programmes for delivery by an entity. In relation to not-for-profit entities, where pertinent, all references in the

Conceptual Framework to 'existing and potential investors, lenders and other creditors' (and related terms) should be read as a reference to this broader range of users.

Paragraph 1.3

...

Paragraph Aus1.3.1

Referred to in paragraph Aus18.1 of the Practice Statement.

In respect of not-for-profit entities, users (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash inflows and management's stewardship of the entity's economic resources (see also paragraph Aus1.18.1). Users will, for example, be interested in the capability of the entity's resources to provide goods and services in the future. Accordingly, in relation to not-for-profit entities, where pertinent, references in this *Conceptual Framework* to 'assessing prospects for future net cash inflows to the entity', 'assessing prospects for how future cash flows will be distributed among those with a claim against the reporting entity' and 'assessing management's stewardship of the entity's economic resources' (and related terms) should be read in the context of the common information needs of users of general purpose financial reports of not-for-profit entities described in this paragraph.

Commencement of the legislative instrument

87 For legal purposes, this legislative instrument commences on [date].

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 20XX-X Amendments to Australian Accounting Standards – Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements

Introduction

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Exposure Draft (ED). It sets out the reasons why the Board developed the Exposure Draft, the approach taken to developing the Exposure Draft and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.
- BC2 In March 2018, the International Accounting Standards Board (IASB) issued a revised *Conceptual Framework for Financial Reporting*. This pronouncement uses the term ‘reporting entity’ to describe the entity preparing general purpose financial reports including establishing the boundary of what needs to be reported when an entity is required to report. This posed a concern for the AASB, as at that time the term ‘reporting entity’ was deployed subtly differently in the Australian conceptual framework and in Australian Accounting Standards. A ‘reporting entity’ was understood to instead reference the entity holding one or more specified characteristics that were considered to make the entity of interest to the Australian public (‘the reporting entity concept’). When required to prepare financial statements that complied with Australian Accounting Standards, an Australian reporting entity was required to prepare general purpose financial statements. That is, the term ‘reporting entity’ references a broader set of entities in the IASB *Conceptual Framework for Financial Reporting*.
- BC3 The Board was not desirous to have two uses of the term in the Australian standard-setting environment as this could be expected to result in confusion. Consequently, the Board considered how to best comply with the Financial Reporting Council’s broad strategic direction to the AASB to develop Standards using International Financial Reporting Standards with regards to the IASB *Conceptual Framework for Financial Reporting*.
- BC4 At the same time as the IASB was working on its conceptual framework, the AASB was continuing to assess the effectiveness of the reporting entity concept set out in SAC 1 *Definition of the Reporting Entity*. The effectiveness of the reporting entity concept relies on appropriate self-assessment, and the Board was concerned that it was not working as intended.
- BC5 The Board observed that resolving the reporting entity ‘clash’ required removing the Australian definition of reporting entity. Removing the Australian definition of reporting entity would also remove the ability of an entity to conclude that it is not a reporting entity as defined by SAC 1; providing avenue for the application clauses of Australian Accounting Standards to be revisited to limit more entities from preparing special purpose financial statements if it is required to prepare financial statements in accordance with Australian Accounting Standards.
- BC6 The Board set out its concerns and proposals to address both the clashing use of the term ‘reporting entity’, and how it could springboard improvements to the standard of reporting by Australian entities by reducing the population of entities preparing special purpose financial statements, in AASB Consultation Paper ITC 39 *Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (May 2018). Further background to addressing adoption of the IASB *Conceptual Framework for Financial Reporting* and the effectiveness of the reporting entity concept, including the various approaches considered by the Board, is detailed in ITC 39 and the Bases for Conclusions accompanying AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* and AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.
- BC7 Following the feedback received on ITC 39, the AASB determined that it would adopt a phased approach to extending application of the IASB *Conceptual Framework for Financial Reporting* to for-profit and not-for-profit Australian entities and, at the same time, addressing its concerns about the effectiveness of the reporting entity concept. A phased approach was considered necessary when considering the population of not-for-profit entities that might potentially be impacted by the Board’s proposals, compared to for-profit entities. In part, this approach also accorded the AASB more time to consider the suitability of the IASB document for not-for-profit entities while ensuring that for-profit entities could continue to assert compliance with IFRS Standards.
- BC8 In May 2019 and consistent with the phased approach, the AASB issued the *Conceptual Framework for Financial Reporting (Conceptual Framework)*. This pronouncement incorporated the International Accounting Standard Board’s 2018 pronouncement of the same name, and provided updated guidance for the development of Australian Accounting Standards. Consistent with the phased approach, the application of the

Conceptual Framework and extension of the scope of Australian Accounting Standards has been limited in the first instance to qualifying for-profit private sector entities and other for-profit entities that elect to prepare general purpose financial statements (refer AASB 2019-1 and AASB 2020-2).

- BC9 This Exposure Draft is a continuation of the planned phased approach to extending application of the IASB *Conceptual Framework for Financial Reporting* to Australian entities. The proposals in this Exposure Draft extend the applicability of the *Conceptual Framework* to include also private sector and public sector not-for-profit entities. The proposals in this Exposure Draft are expected to bring a majority of Australian entities under the aegis of the same conceptual framework documents for guiding and developing accounting policies.
- BC10 In addition to superseding the *Framework for the Preparation and Presentation of Financial Statements*, when applicable, the *Conceptual Framework* also supersedes SAC 1 *Definition of the Reporting Entity*. Consistent with its phased approach to reviewing the Australian financial reporting framework to improve the quality of reporting by Australian entities, this Exposure Draft also proposes changes to AASB 1057 *Application of Australian Accounting Standards* to extend the applicability of Australian Accounting Standards to more not-for-profit entities on advent of the reporting entity concept formerly set out in SAC 1 no longer being valid for many not-for-profit entities.
- BC11 The effect of the proposals in this Exposure Draft is that more not-for-profit entities will be required to prepare general purpose financial statements when financial statements are prepared in accordance with a directive that they comply with Australian Accounting Standards.

Interaction with the AASB Not-for-Profit Financial Reporting Framework project

- BC12 The proposals set out in this Exposure Draft extend the population of not-for-profit entities to which Australian Accounting Standards apply, resulting in more entities required to prepare general purpose financial statements. The implementation costs of the proposals in this Exposure Draft are alleviated by the proposals in AASB ED 3XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* for not-for-profit private sector entities.
- BC13 In October 2022 the Board published a Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)* setting out and inviting comments on the Board's preliminary views about an additional third reporting tier for use by not-for-profit private sector entities with key features of that further reporting tier based on reporting requirements that are simpler to understand and apply compared to existing accounting requirements. After consideration of the feedback from the Discussion Paper, based on the broad support from stakeholders, the Board decided to proceed with the development of an Exposure Draft on a Tier 3 Accounting Standard with simplified recognition, measurement and disclosure requirements for smaller NFP private sector entities. (At the same time, the Board decided to proceed with developing this Exposure Draft.)
- BC14 In the main, ED 3XX proposes introducing a further reporting tier of general purpose financial statements in recognition of the demographic of certain not-for-profit private sector entities impacted by the proposals in this Exposure Draft. Some of the ED 3XX proposals are reflected in amendments to Australian Accounting Standards made in this Exposure Draft (see the proposed amendments to AASB 1053) and some of the Board's decisions about this Exposure Draft (for example, the effective date) were made in the context of its decisions on ED 3XX. Consequently, the proposals exposed in this Exposure Draft should be considered in conjunction with the proposals in ED 3XX.

Extending application of the *Conceptual Framework* and Australian Accounting Standards

- BC15 Paragraphs BC17 –BC61 set out the Board's deliberations on significant issues regarding its proposals to extend the application of the *Conceptual Framework* and Australian Accounting Standards to not-for-profit entities.
- BC16 The Board observed that there are different approaches it could take to drafting the amendments to the *Conceptual Framework*, *Framework for the Preparation and Presentation of Financial Statements*, SAC 1 and other pronouncements to reflect its proposals. However, the Board considered that the approach currently reflected in the Australian Accounting Standards remains an efficient way of scoping in entities while still retaining the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 in support of the reporting entity concept for those entities for whom it is still relevant. So, the Board decided to adopt a drafting approach that limits amendments of the current text, to better reflect that the impact of this Exposure

Draft is to not-for-profit entities. The Board considered that such approach is appropriate for the present as this approach best serves its project needs and objectives.

Suitability of a conceptual framework developed primarily having regard to private sector for-profit entities

[ref: M201 AP6.1 & M201 Minutes (Mar 2024)]

- BC17 When scoping this project, the Board originally envisaged undertaking a further related project to consider fundamental constituent concerns about the suitability and adequacy of a conceptual framework that was developed primarily having regard to private sector for-profit entities. The scope of that further future project may have included reviewing the primary users of a not-for-profit entity's general purpose financial statements and the emphasis given to management stewardship (or accountability) as part of the objective of general purpose financial reporting.
- BC18 The Board has since decided not to actively progress such a further project in the foreseeable future having regard to its resource constraints and noting that it is undertaking other projects (including sustainability reporting) that may develop information relevant to a further project regarding a conceptual framework for not-for-profit entities. In forming its decision, the Board also had regard to the relative urgency of such a further project. The Board observed that stakeholders will have the opportunity to comment on the priority, if any, to be given to undertaking such a further project as part of the Board's agenda consultation process on its 2027 – 2031 work programme.
- BC19 Consistent with the AASB's *Approach to International Public Sector Accounting Standards* policy document, the Board is not at this time proposing to adopt the IPSASB conceptual framework document for application by certain Australian not-for-profit public sector entities. However, the Board had regard to the International Public Sector Accounting Standards Board's (IPSASB) conceptual framework document³ as part of its deliberations in determining the extent of amendments to propose to the *Conceptual Framework*. The IPSASB considered the IASB's conceptual framework document in developing its conceptual framework document. The IPSASB's decisions as to whether to add to, diverge from, or maintain consistency with, the IASB's pronouncement – as reflected in its conceptual framework document and accompanying Basis for Conclusions – provided input to the AASB's decision making.

Scope to include not-for-profit public sector entities

[ref: M201 AP6.1 & M201 Minutes (Mar 2024). See also Question 5 of this paper]

- BC20 In conjunction with extending the application of the *Conceptual Framework* to certain not-for-profit public sector entities, this Exposure Draft proposes removing the ability of these public sector entities to prepare special purpose financial statements that are prepared 'in accordance with Australian Accounting Standards'. In contrast to private sector entities, this reporting 'shift' will occur in advance of the finalisation of a Board project on reviewing its financial reporting framework for public sector entities.⁴ Should the Board's proposals in this Exposure Draft and ED 3XX be finalised as exposed, these not-for-profit public sector entities may instead need to prepare general purpose financial statements that comply with Tier 1: Australian Accounting Standards or Tier 2: Australian Accounting Standards – Simplified Disclosures reporting requirements.⁵
- BC21 The Board exposed its preliminary view to extend the application of the *Conceptual Framework* to not-for-profit public sector entities as part of its current project in AASB Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)* and sought feedback from some public sector stakeholders through targeted outreach. The Board did not receive any significant stakeholder objection in relation to the preliminary view, including feedback that would suggest that the costs of the proposal to public sector entities would exceed the benefits of doing so. Consequently, the Board decided to confirm its view to do so.
- BC22 In forming its view, the Board:
- (a) considered that the disadvantages of doing otherwise would outweigh any benefit of further delay of developing Standards under a single conceptual framework for Australian entities. The Board's view brings all not-for-profit entities (other than to the extent an exception applies) on to a consistent platform for developing accounting policies and interpreting Standards;
 - (b) noted that several stakeholders responding to the AASB Discussion Paper observed that bringing consistency between the for-profit and not-for-profit sector in the way it is determined who must

3 The *Conceptual Framework For General Purpose Financial Reporting By Public Sector Entities*, issued 2014 and revised in December 2023.

4 The Board is undertaking a Public Sector Financial Reporting Framework project on a separate timeline.

5 ED 3XX proposes limiting the availability of Tier 3: Australian Accounting Standards – Simplified Accounting to only not-for-profit private sector entities.

comply with accounting standards, and in terminology, would reduce complexity for not-for-profit entities. While these comments were made in relation to not-for-profit private sector entities, the comment appears similarly valid for the not-for-profit public sector entity population;

- (c) observed that not delaying reducing the population of entities that prepare special purpose financial statements will improve the accountability and transparency of Australian not-for-profit entities' financial position and performance. Specific transition support can be developed, if shown by feedback on this Exposure Draft to be necessary, to assist not-for-profit public sector entities impacted by the proposals.
- BC23 In forming its view, the Board also considered the potential impact its proposals would have for the not-for-profit public sector. The Board observed that the public sector financial reporting considerations are different to those in for-profit and not-for-profit private sector. The outcome of AASB Invitation to Comment ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (May 2018) suggested that the removal of special purpose financial statements is expected to have limited impact in the public sector. Therefore, the current Public Sector Financial Reporting Framework project plan contemplates that the Board's work to extend the *Conceptual Framework* to apply to not-for-profit public sector entities would be completed prior to the finalisation of a review of the public sector financial reporting framework.
- BC24 In addition, before issue of this Exposure Draft, the Board conducted additional targeted outreach to further understand the costs of removing the reporting entity concept for the not-for-profit public sector before such time as the Board completes its Public Sector Financial Reporting Framework project. The findings from the Board's outreach activity suggested that it is possible a not insignificant portion of not-for-profit public sector entities will be impacted by the proposals. For example, the Board heard that there exists public sector entities that are trusts or controlled entities required by legislation or their constituting document to prepare financial statements that comply with Australian accounting standards, and which might currently prepare special purpose financial statements in satisfaction of the requirement on the basis that the entity is not a reporting entity. However, overall, the Board considered that its targeted outreach did not change its expectation that the use of special purpose financial statements being less prevalent in the public sector compared to the not-for-profit private sector.
- BC25 That is, while some entities may be adversely affected by the ED's proposals, the Board thinks it is likely that the overall costs to the sector are unlikely to be so extensive as to recommend the Board delay application of the *Conceptual Framework* and Australian Accounting Standards to not-for-profit public sector entities. However, the Board has limited data on which to base its assessment. The feedback received on this Exposure Draft is therefore very important to assisting the Board to make an informed decision.
- BC26 The Board did not discuss the application of the *Conceptual Framework* to for-profit public sector entities, consistent with its project foci being the reporting frameworks applying to not-for-profit entities. As such, the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 *Definition of the Reporting Entity* remain the relevant conceptual framework documents for such entities when the entity is a for-profit public sector entity that is required to prepare general purpose financial statements. However, in accordance with paragraph Aus1.1(c) of the *Conceptual Framework* and as noted in paragraphs BC93 and BC161 to AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*, a for-profit public sector entity that voluntarily elects to prepare general purpose financial statements is required to apply the revised *Conceptual Framework*.

Exemption from having to prepare general purpose financial statements in certain circumstances

[ref: M204 AP7.1 & M204 Minutes (June 2024)]

- BC27 The Board observed that it had previously decided to exempt certain for-profit private sector entities from applying the *Conceptual Framework* and Australian Accounting Standards, with the effect that these entities – to which SAC 1 remained operative – could continue to prepare special purpose financial statements if the entity was not a reporting entity. The Board discussed whether it should propose developing a similar exemption for similar not-for-profit entities.
- BC28 As set out in the Basis for Conclusions accompanying AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Entities* (refer paragraphs BC81-BC92), when making its decision to scope out certain for-profit private sector entities from application of the *Conceptual Framework*, the Board had regard to discussions with legal advisors and outreach indicating that the constituting documents of many trusts contain a requirement for them to prepare financial statements in compliance with Australian Accounting Standards. The Board heard that these financial statements are prepared for a specific purpose and a specific user (e.g. beneficiaries) and that many such

entities, particularly ‘non-corporate’ trusts, prepare special purpose financial statements. The Board also considered that the compliance documents of partnerships, joint arrangements and self-managed superannuation funds (SMSFs), as well as entities subject to other requirements such as lending agreements, may also contain a requirement for the entity to prepare financial statements in compliance with Australian Accounting Standards. As these entities also have specific users, the Board decided that the issues identified above would be equally relevant to such entities.

BC29 The Board was persuaded that the benefits of general purpose financial reporting in these cases would not exceed the costs of the additional reporting burden to the entity on expectation that the users of the for-profit private sector entity’s financial statements were likely to be limited. Paragraph BC85 of AASB 2020-2 observed that:

- (a) as the financial statements are prepared for specific users, those users have the ability to command whatever information they require from the entity;
- (b) there is no external regulator of financial reporting for trusts; and
- (c) the financial statements of trusts are not lodged on public record.

The Board also noted that these for-profit private sector entities would suffer transitional costs to change constitutional documents to remove the requirement to comply with Australian Accounting Standards (and might incur tax obligations, if not done correctly).

BC30 The Board observed that not-for-profit private sector entities also use trusts and other similar structures to conduct their activities. Similarly, some not-for-profit public sector entities may be established under a constituting document such as memorandum of understanding, rather than legislation. Consequently, there are likely to be not-for-profit entities that likewise are required “only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards”.

BC31 Proposing a similar scope exemption from the *Conceptual Framework* and Australian Accounting Standards for not-for-profit entities would be consistent with the transaction neutrality assumption underpinning the *AASB Not-for-Profit Standard-Setting Framework*. The Board had regard to the following considerations in its deliberations as to whether it would be appropriate to apply this assumption in this instance:

- (a) the Board has not been able to obtain good visibility of the extent of entities that might be impacted by a decision in this regard;
- (b) the users of the financial statements of some not-for-profit entities could conceivably be a broader set of parties compared to the users of the financial statements of a for-profit private sector entity. For example, the current and potential beneficiaries of a not-for-profit trust could be expected to likely be a larger number than that of a for-profit trust;
- (c) there are likely to be users of the financial statements of some not-for-profit entities that are unable to command whatever information they want from the entity. For example, the primary users of the financial statements of a not-for-profit private sector entity might include potential donors and other funders who may not necessarily be able to obtain more insight into the not-for-profit entity beyond any publicly available information;
- (d) similar to for-profit private sector entities, the financial statements of a not-for-profit entity may or may not be publicly available. For example, the financial statements of a not-for-profit private sector entity that does not have an Australian Business Number (and so, is not a charity subject to regulation by the Australian Charities and Not-for-Profits Commission) is unlikely to be publicly available, and further, are likely to be small or non-operating in nature. Similarly, the financial statements of a not-for-profit public sector entity which are prepared only in satisfaction of a constituting or other document requirement to do so, may or may not necessarily be made publicly available;
- (e) the ACNC operates as an external regulator over trusts and other similar structures where these entities are registered charities. Possibly, these are the not-for-profit private sector entities of more significance as they fundraise;
- (f) there may not be an external regulator of the financial statements of the not-for-profit public sector entities that fall into the described category. However, these entities – and their financial statements – may be subject to parliamentary or other government oversight; and
- (g) feedback from its Not-for-Profit Project Advisory Panel supporting a scope exemption. Panel members commented that an exemption makes sense when it is unclear how many not-for-profit entities will be affected, provides relief for smaller charities and other entities that are not required by legislation to prepare financial statements that comply Australian Accounting Standards, and as it could help spread the transition impact over time.

- BC32 Improving the quality of financial reporting by Australian entities is a gradual process. Hence, on balance, the Board decided to propose a similar scope exemption to that developed for for-profit private sector entities. The Board has formed this view for the following reasons:
- (a) the scope exemption would not apply to medium and large-sized not-for-profit entities that are registered charities – expected to be the more significant fundraising entities for which improving the standard of reporting would be desirable – as these entities are required to prepare financial statements that comply with Australian Accounting Standards under the *Australian Charities and Not-for-profits Commission Act 2012*. Similarly, large not-for-profit entities other than charities (such as incorporated associations or cooperatives) would generally be required by the respective legislation or regulation to prepare such financial statements;
 - (b) besides an uneven playing field, not providing a similar scope exemption could impose costs on economically insignificant not-for-profit entities (such as small registered charities and certain not-for-profit entities without ABNs) that are not matched or outweighed by additional benefits;
 - (c) qualifying not-for-profit private sector entities that do not fundraise may be accountable only to its ‘owners’. Whether there are ‘other’ primary users of the financial statements of such entities is not relevant to the type of financial statements that the entity should be required to prepare because these parties have no say in the decisions of the entity. An owner is more likely to have the ability to command whatever information they require from the entity; and
 - (d) there may not exist many primary users of the financial statements of a specified not-for-profit public sector entity that meets the conditions of the proposed scope exemption who are not able to command more information from the entity.
- BC33 The Board decided that the ‘specified date’ from which constituting documents should be last amended or created for the exclusion to apply should be the effective date of the eventual amending pronouncement. This mirrors the timing given to the scope exclusion applying to for-profit private sector entities. The Board noted that the choice of such date provides qualifying not-for-profit entities a longer lead time to continue to amend their constituting or other documents compared to that previously available to for-profit private sector entities given the Board’s proposal for at least a three-year period between the issue and implementation of any final amendments. However, this is a decision for each entity; the AASB’s role does not extend to responsibility for the governance of these entities.
- BC34 Following implementation, it is possible that some entities may accidentally (or necessarily) breach the condition that the constituting or other document that requires the preparation of Australian Accounting Standards-compliant financial statements is not amended following the specified date. The Board noted that as such, it may not be desirable for a potential scope exemption to be developed on this basis. However, as the condition mirrors that applying to for-profit private sector entities, the Board considered that a review of the operability of the scope condition and any issues arising thereof is a matter to be addressed as part of the post-implementation review of AASB 2020-2, rather than as part of this project.

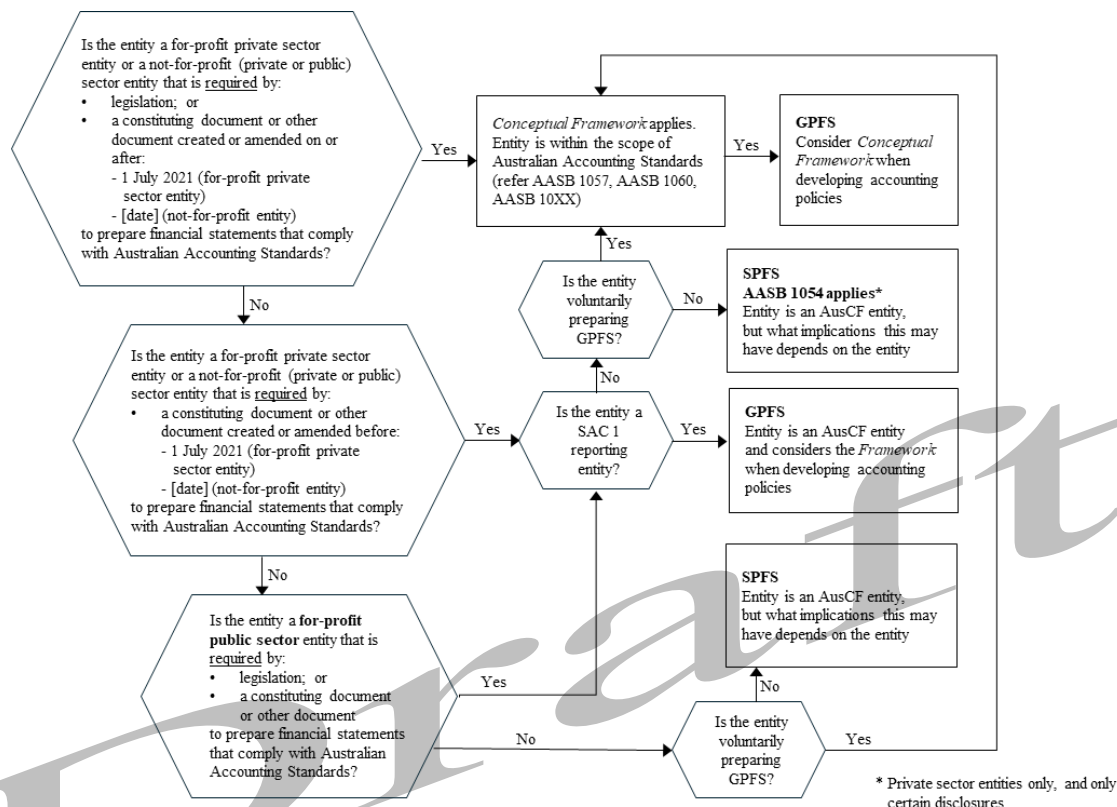
Legislative references to Australian Accounting Standards

- BC35 When considering how to amend the application clauses of the various Standards and Interpretations to extend the application of Australian Accounting Standards to more not-for-profit entities, the Board had regard to its rationale for its previous decision to scope in an entity that is subject to a legislative requirement to prepare financial statements that comply with ‘accounting standards’ (in addition to ‘Australian Accounting Standards’), but not to similarly scope in entities that are required only by their constituting document or another document to prepare financial statements that comply with ‘accounting standards’.
- BC36 Paragraph BC79 of AASB 2020-2 explains the Board, from its review of legislative references, noted that in some instances legislation referred to ‘accounting standards’, rather than ‘Australian Accounting Standards’. The Basis for Conclusions paragraph states:
- “... The Board decided that the application paragraphs of Australian Accounting Standards should include entities that are required by legislation to comply with ‘accounting standards’ as well as ‘Australian Accounting standards’. In making this decision, the Board noted that it is reasonable to expect that legislators intended compliance with accounting standards as issued by the AASB when that term is used under Australian legislation. For these same reasons, legislative references to other similar terms such as ‘accounting principles’ or ‘generally accepted accounting practice’ are more broad, and therefore the Board did not think it was reasonable to infer they were intended to require compliance with accounting standards issued by the AASB. Further, the Board decided that the application paragraphs would only capture references to Australian Accounting Standards for entities with a non-legislative requirement, as in those cases it is less clear as to whether the constituting document or other document would have intended to refer to accounting standards as issued by the AASB, when the term ‘accounting standards’ is used ...”*

- BC37 As this rationale is equally valid for not-for-profit entities, the Board has reflected this in the proposed amendments to the various application paragraphs. Whether a constituting document or other document is intended to refer to accounting standards as issued by the AASB when it uses the term ‘accounting standards’ is a matter for the entity, not the AASB, to determine.

Summary of scope

- BC38 The following diagram summarises the applicability of the Australian Accounting Standards to for-profit and not-for-profit entities following the Board’s proposals:



- BC39 Examples of entities that will be affected by the proposals in this Exposure Draft include not-for-profit private and public sector entities that are (this list is neither exhaustive nor mutually exclusive):

- (a) companies lodging financial statements under the Corporations Act 2001, e.g.:
 - (i) large proprietary companies;
 - (ii) unlisted public companies other than small companies limited by guarantee;
 - (iii) small proprietary companies controlled by a foreign company;
 - (iv) financial services licensees;
 - (v) small proprietary companies raising funds through crowd-sourced funding;
- (b) large and medium charities registered with the Australian Charities and Not-for-profits Commission (ACNC);
- (c) incorporated associations, co-operatives and other entities with financial reporting obligations under Federal or State/Territory legislation to prepare financial statements in accordance with Australian Accounting Standards or accounting standards;
- (d) federal, state and local governments and other public sector entities established pursuant to an Act or other legislative instrument with financial reporting obligations under that instrument to prepare financial statements in accordance with Australian Accounting Standards or accounting standards; and
- (e) trusts, partnerships, joint arrangements, self-managed superannuation funds and other entities required only by their constituting or other document to prepare financial statements that comply with Australian Accounting Standards.

- BC40 Examples of entities that are unlikely to be affected by the proposals in this Exposure Draft include (this list is neither exhaustive nor mutually exclusive):
- (a) for-profit private sector entities;
 - (b) for-profit public sector entities;
 - (c) small charities registered with the ACNC;
 - (d) small not-for-profit proprietary companies preparing financial statements under an ASIC or stakeholder direction that does not require compliance with Australian Accounting Standards;
 - (e) entities with financial reporting obligations under Federal or State/Territory legislation to prepare financial information or financial statements that provide a true and fair view, but which are not required to comply with Australian Accounting Standards or accounting standards; and
 - (f) trusts, partnerships, joint arrangements, self-managed superannuation funds and other entities that are not required by their constituting or other document to prepare financial statements that comply with Australian Accounting Standards.
- BC41 The AASB has not performed a full assessment of the costs of transition from special purpose financial statements to general purpose financial statements, along with ongoing compliance costs resulting from the application of the proposals in this Exposure Draft at this time, as this assessment will depend on the final proposals, if any, resulting from this consultation. This assessment may further depend on actions that regulators and other parties take before and in the period following issue of the final proposals that may limit the form of, or extent to which, general purpose financial statements must be prepared by a not-for-profit entity.

Not-for-profit specific modifications to the *Conceptual Framework*

[ref: M201 AP6.1 & M201 Minutes (Mar 2024), M204 AP 7.2 (June 2024)]

- BC42 In conjunction with the Board's phased approach to extending application of the *Conceptual Framework* to not-for-profit entities (refer paragraphs BC2 – BC9), this Exposure Draft includes proposed amendments to the *Conceptual Framework* that the AASB considers necessary so that the pronouncement can – with regard to not-for-profit entities – meet its intended purpose of assisting:
- (a) the AASB to develop Standards that are based on consistent concepts;
 - (b) preparers to develop consistent accounting policies when no Standard applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy; and
 - (c) all parties to understand and interpret the Standards.
- BC43 The Board decided that its project focus should be on extending the application of the *Conceptual Framework* to not-for-profit entities in a timely manner. In keeping with this, the Board has decided to propose only limited amendments to the *Conceptual Framework*. This is consistent with the approach the Board took in December 2013 with revisions to the *Framework for the Preparation and Presentation of Financial Statements* to preserve the pronouncement's relevance to not-for-profit entities.
- BC44 In accordance with the AASB's *Not-for-Profit Entity Standard-Setting Framework*, a not-for-profit modification might be appropriate to address not-for-profit 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. Further, an IASB treatment may be modified where the prevalence and magnitude of not-for-profit specific transactions or circumstances or events would result in a failure to reflect economic reality if the IASB treatment was applied. Table 1 below describes the Board's rationale for each paragraph this Exposure Draft proposes to add to the *Conceptual Framework*. In the main, the proposed not-for-profit modifications are to address not-for-profit specific matters or provide not-for-profit specific context to the document:

Note 34 to Board members: This table has been edited from Table 2 in M201 AP6.1 (Mar 2024), and includes revisions to reflect the changes to the Aus paragraphs set out in M204 AP7.2 (June 2024)]

Table 1: Proposed not-for-profit modifications to the *Conceptual Framework*

| Proposed paragraph | Purpose of the new paragraph | Rationale for the new paragraph |
|--------------------|---|--|
| AusSP1.5.1 | To explain that the <i>Conceptual Framework</i> contributes to the stated mission of the Board with | Proposed paragraph AusSP1.5.1 provides a counterbalance to the commentary in paragraph SP1.5, which is targeted at the private sector. |

| Proposed paragraph | Purpose of the new paragraph | Rationale for the new paragraph |
|--------------------|--|--|
| | regards to not-for-profit entities, and to describe how the pronouncement provides the foundation for Standards that strengthen accountability and contribute to economic efficiency in the not-for-profit sector | |
| Aus1.2.1 | To clarify that users of financial information about a not-for-profit entity may differ from those of a for-profit entity, and to identify the users | Other than an amendment to acknowledge that ‘donors’ may not adequately describe other contributors funding a not-for-profit entity, and some reordering, proposed paragraph Aus1.2.1 replicates paragraph AusOB2.1 of the <i>Framework for the Preparation and Presentation of Financial Statements</i> . The paragraph provides relevant not-for-profit specific commentary against paragraph 1.2 of the <i>Conceptual Framework</i> . |
| Aus1.3.1 | To clarify that users of the financial statements of a not-for-profit entity are concerned with the ability of the entity to achieve its objectives, rather than primarily on a financial return | Proposed paragraph Aus1.3.1 replicates paragraph AusOB3.1 of the <i>Framework for the Preparation and Presentation of Financial Statements</i> , amended to: (a) refer also to ‘stewardship’; mirroring the reference to ‘stewardship’ in paragraph 1.3 of the <i>Conceptual Framework</i> ; and (b) refer also to “assessing prospects for how future cash flows will be distributed among those with a claim against the reporting entity”, to provide a not-for-profit context to the fourth sentence in paragraph 1.3 of the <i>Conceptual Framework</i> . The paragraph provides relevant not-for-profit specific commentary against paragraph 1.3 of the <i>Conceptual Framework</i> . |
| Aus1.15.1 | To clarify that transactions in equity instruments and distributions to investors typically do not occur in not-for-profit entities | Proposed paragraph Aus1.15.1 provides a counterbalance to the commentary in paragraphs 1.15 and 1.20 of the <i>Conceptual Framework</i> regarding transactions in equity instruments and distributions to investors. These transactions are not as relevant to not-for-profit entities. Except for references to stewardship, paragraphs 1.15 and 1.20 of the <i>Conceptual Framework</i> are the same as paragraphs OB15 and OB20 of the <i>Framework for the Preparation and Presentation of Financial Statements</i> . However, the <i>Framework for the Preparation and Presentation of Financial Statements</i> does not include an Aus paragraph similar to proposed paragraph Aus1.15.1. The proposed paragraph reflects the Board’s reassessment of the extent to which not-for-profit specific commentary is needed in the <i>Conceptual Framework</i> for a balanced coverage of all sectors. |
| Aus1.16.1 | To clarify that information about a not-for-profit entity’s past financial performance and how management discharged its stewardship responsibilities is usually helpful for predicting the volume and cost of future services and the sustainability of future service delivery | Proposed paragraph Aus1.16.1 provides a counterbalance to the commentary in paragraphs 1.15 – 1.16 of the <i>Conceptual Framework</i> regarding references to returns on resources and future cash flows. These references are not as relevant to not-for-profit entities. Except for references to stewardship, paragraphs 1.15 – 1.16 of the <i>Conceptual Framework</i> are the same as paragraphs OB15 and OB16 of the <i>Framework for the Preparation and Presentation of Financial Statements</i> . However, the <i>Framework for the Preparation and Presentation of Financial Statements</i> does not include an Aus paragraph similar to proposed paragraph Aus1.16.1. The proposed paragraph reflects the Board’s reassessment of the extent to which not-for-profit specific commentary is |

| Proposed paragraph | Purpose of the new paragraph | Rationale for the new paragraph |
|--------------------|--|--|
| | | needed in the <i>Conceptual Framework</i> for a balanced coverage of all sectors. |
| Aus1.18.1 | To clarify that users of a not-for-profit entity's financial statements need information that helps them understand the ability of the entity to achieve its objectives | <p>The proposed paragraph provides relevant not-for-profit specific commentary against paragraph 1.18 of the <i>Conceptual Framework</i>.</p> <p>Proposed paragraph Aus1.18.1 includes the text of paragraph AusOB18.1 of the <i>Framework for the Preparation and Presentation of Financial Statements</i>, augmented by the addition of references to stewardship to mirror the reference in paragraph 1.18 of the <i>Conceptual Framework</i> and to provide a cross-reference to the more general comments about stewardship in proposed paragraph Aus1.16.1.</p> |
| Aus2.41.1 | To delink, for not-for-profit entities, the results of confident user decision making to efficiently functioning capital markets and lower cost of capital | <p>Proposed paragraph Aus2.41.1 provides a counterbalance to the commentary in paragraph 2.41 regarding capital markets and a lower cost of capital. These references are not usually relevant to not-for-profit entities.</p> <p>Paragraph 2.41 is the same as paragraph QC37 of the <i>Framework for the Preparation and Presentation of Financial Statements</i>. However, the <i>Framework for the Preparation and Presentation of Financial Statements</i> does not include an Aus paragraph similar to proposed paragraph Aus2.41.1. The proposed paragraph reflects the Board's reassessment of the extent to which not-for-profit specific commentary is needed in the <i>Conceptual Framework</i> for a balanced coverage of all sectors.</p> |
| Aus4.4.1 | To clarify that for a not-for-profit entity, the potential to produce economic benefits is synonymous with the notion of service potential | <p>Proposed paragraph Aus4.4.1 provides relevant not-for-profit specific commentary against paragraph 4.4 of the <i>Conceptual Framework</i>.</p> <p>The proposed paragraph is drawn from paragraph Aus49.1 of the <i>Framework for the Preparation and Presentation of Financial Statements</i>, modified to be consistent with the asset definition in paragraph 4.4 of the <i>Conceptual Framework</i>.</p> |
| Aus4.16.1 | To clarify that for a not-for-profit entity, the provision of goods and services may not result in cash inflows to the entity | <p>Proposed paragraph Aus4.16.1 provides relevant not-for-profit specific commentary against paragraph 4.16 of the <i>Conceptual Framework</i>.</p> <p>The proposed paragraph is drawn from paragraph Aus54.1 of the <i>Framework for the Preparation and Presentation of Financial Statements</i>, modified to be consistent with the asset definition in the <i>Conceptual Framework</i>.</p> |
| Aus4.16.2 | To clarify that for a not-for-profit entity the absence of cash inflows does not mean that the goods or services have no utility or value, or preclude the entity from benefiting from the assets used to provide the goods and services | Proposed paragraph Aus4.16.2 replicates paragraph Aus54.2 of the <i>Framework for the Preparation and Presentation of Financial Statements</i> . It provides relevant not-for-profit specific commentary against paragraph 4.16 of the <i>Conceptual Framework</i> . |
| Aus4.25.1 | To acknowledge a not-for-profit specific example of an agent-principal relationship | Proposed paragraph Aus4.25.1 provides a not-for-profit counterbalance to paragraph 4.25 of the <i>Conceptual Framework</i> , particularly in view of the prevalence and importance of agency relationships in the not-for-profit sector |
| Aus4.67.1 | To explain how references in the <i>Conceptual Framework</i> to an equity claim should be | Proposed paragraph Aus4.67.1 provides not-for-profit context to the term 'equity claim' as in the not-for-profit |

| Proposed paragraph | Purpose of the new paragraph | Rationale for the new paragraph |
|--------------------|--|--|
| | interpreted as a not-for-profit entity would not typically have equity claims over itself | sector a 'residual interest' often is not – or is not regarded as – an equity claim. |
| Aus6.30.1 | To clarify that for a not-for-profit entity the predictive value of historical cost information is not limited to predicting future margins | Proposed paragraph Aus6.30.1 provides not-for-profit context to paragraph 6.30 of the <i>Conceptual Framework</i> as in the not-for-profit sector the predictive value of historical cost for assessing future costs is not limited to predicting future margins but applies to decision making about those costs in their own right. |
| Aus6.41.1 | To clarify that for a not-for-profit entity the predictive value of current cost information is not limited to predicting future margins | Proposed paragraph Aus6.41.1 provides not-for-profit context to paragraph 6.41 of the <i>Conceptual Framework</i> as in the not-for-profit sector the predictive value of historical cost for assessing future costs is not limited to predicting future margins but applies to decision making about those costs in their own right. The proposed paragraph also provides a not-for-profit counterbalance to paragraph 6.41 by acknowledging that 'margins' might be assessed more broadly in not-for-profit entities as cost recoveries could occur through income received at an entity-wide level. |
| Aus6.56.1 | To signal that a different measurement basis may provide more relevant information about the activity of non-financial assets held by a not-for-profit entity for their service potential rather than their potential to produce economic benefits in the form of cash inflows | Proposed paragraph Aus6.56.1 provides a not-for-profit counterbalance to paragraphs 6.55 and 6.56 of the <i>Conceptual Framework</i> . These paragraphs provide guidance on the selection of a measurement basis that is based on an asset's ability to produce cash flows directly or indirectly. However, how an asset is able to produce cash flows is less relevant to the measurement of a non-financial asset of a not-for-profit entity held primarily for its service potential. |
| Appendix | To add proposed Aus paragraph references to the listing of defined terms to clarify how the terms 'equity resources', 'equity claim' and 'primary users' apply in a not-for-profit context | The additions to the listing of defined terms signal that there is a not-for-profit context to various defined terms. This avoids confusion between the Appendix and the body of the pronouncement. |

BC45 The Board considered that the proposed paragraphs in Table 1 sufficiently balance the for-profit and not-for-profit aspects of the *Conceptual Framework* such that the pronouncement is suitable as a baseline conceptual framework for Australian not-for-profit entities. While the Board is conscious that there are aspects of the *Conceptual Framework* that could be potentially reviewed or further improved, the Board has not identified any further not-for-profit modifications that must be made, at this time, before making the *Conceptual Framework* applicable to not-for-profit entities. These include the potential aspects described in paragraphs BC46–BC61 below.

BC46 In addition to the potential aspects described in paragraphs BC46–BC61 below, other potential topics include adding to the going concern guidance for not-for-profit entities (for example, to acknowledge restructure scenarios) and address of application differences that could arise if the IPSASB conceptual framework guidance applied instead of the *Conceptual Framework*. The Board also observed that further consideration of the definitions of asset and liability and accompanying guidance in the *Conceptual Framework* could potentially be determined to be necessary following an assessment of IPSAS 47 *Revenue* (planned work stemming from its post-implementation review of AASB 1058 *Income of Not-for-Profit Entities* and the not-for-profit Australian implementation guidance to AASB 15 *Revenue from Contracts with Customers*). [ref: M177 AP10.2 (Sep 2020), M201 AP6.1 (Mar 2024), M204 8.1 (Mar 2024)]

Note 35 to Board Members:

Paragraph 70 of Agenda Paper 6.1 of the 7-8 March 2024 AASB meeting noted "... Depending if and how the Board decide to address the feedback from the [AASB 1058 PIR], is possible that further consideration of the definitions of asset and liability and accompanying guidance in the *Conceptual Framework* could be determined to be necessary following decisions resulting from the PIR. ..."

The Board discussed its response to the feedback received on ITC 50 *Post-Implementation Review – Income of Not-for-Profit Entities* at its 6-7 June 2024 AASB meeting. Staff have acknowledged the Board’s decision in drafting paragraph BC46 above.

The role of accountability in a *Conceptual Framework* for not-for-profit entities

[ref: M177 AP10.1, AP10.2 (Sep 2020), M201 AP6.1 (Mar 2024)]

- BC47 The Board is aware from its research and outreach activity that some stakeholders contend that accountability needs to be given more prominence in a conceptual framework for not-for-profit entities, and that its positioning may need to be reconsidered. The positioning of management stewardship or accountability in a conceptual framework could be important as it could affect the decisions the Board or preparers make in deciding what information to require or disclose in general purpose financial reports.
- BC48 Other than the limited amendments described in Table 1 above, the Board is not proposing to make any changes to the *Conceptual Framework* in this regard for the foreseeable future. In forming its decision, the Board acknowledged the benefits of having the *Conceptual Framework* supersede the *Framework for the Preparation and Presentation of Financial Statements* for not-for-profit entities as soon as possible, current developments that are likely to advance thinking on this aspect in the medium term (including its current project on Service Performance Reporting and advancements in sustainability reporting), its work program priorities and resourcing constraints. The costs of not undertaking work in this regard are the opportunity costs of maintaining the status quo.
- BC49 The Board noted that it had previously sought feedback in AASB Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)* on the appropriateness of the objective of general purpose financial reporting for not-for-profit private sector entities depicted in the *Framework for the Preparation and Presentation of Financial Statements*. This objective is carried forward into the *Conceptual Framework*. As the Board received only comparatively limited feedback to its question, of which a majority of those responded affirmatively, the Board has some comfort against considering the role of accountability in a conceptual framework for not-for-profit entities as a matter of urgency.
- BC50 Given these reasons, the Board is not seeking, and in general does not intend to address, feedback received on this Exposure Draft on the role of accountability or management stewardship in a conceptual framework for not-for-profit entities. An exception to this stance could be if the Board receives feedback that the treatment of accountability in the *Conceptual Framework* is so egregious that extending the *Conceptual Framework* to not-for-profit entities would overall not result in financial statements that are useful to users or will not be in the best interests of the Australian economy.

Note 36 to Board Members:

At its 7-8 March 2024 AASB meeting, the Board decided to refocus its *Conceptual Framework* project on extending the application of the *Conceptual Framework* to not-for-profit entities. In effect, the contemplated Stage 2 of the project is no longer planned to be progressed.

Staff have drafted paragraphs BC47 – BC50 above to provide context to the Board decision, and to additionally signal that the Board is not seeking feedback on this aspect which would have otherwise potentially been part of the scope of Stage 2 of the project.

Users of general purpose financial reports of not-for-profit entities

[ref: M201 AP6.1 (Mar 2024)]

- BC51 The Board observed feedback from research and outreach activity that some stakeholders contend that the users of general purpose financial reports of not-for-profit entities should be more broadly regarded; for example, whether regulators, members, government bodies and government officials should also be specifically identified as users of the general purpose financial reports of not-for-profit entities. The identification of the primary users of general purpose financial reports of not-for-profit entities is important as it could affect the decisions the Board makes in deciding what information to require in setting Standards.
- BC52 Other than an amendment to acknowledge that the term ‘donors’ may not appropriately describe all similar funders of a not-for-profit entity (for example, philanthropists may be distinguished from other ‘donors’ and government funders may not be best described as ‘donors’), and re-ordering of the identified users, the Board is not proposing to update the guidance in the *Framework for the Preparation and Presentation of Financial Statements* in this regard for the foreseeable future. In forming its decision, the Board considered the benefits of having the *Conceptual Framework* supersede the *Framework for the Preparation and Presentation of Financial Statements* for not-for-profit entities as soon as possible, developments that could advance thinking on this aspect in the medium term (including its Public Sector Financial Reporting Framework project, current

projects of the International Financial Reporting by Non-Profit Organisations (IFR4NPO) and advancements in sustainability reporting), its work program priorities and resourcing constraints.

- BC53 The Board noted that it had previously sought feedback in AASB Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)* on the appropriateness of the set of primary users of the general purpose financial statements of a not-for-profit entity identified in the *Framework for the Preparation and Presentation of Financial Statements*. These users are carried forward into the *Conceptual Framework*. As the Board received only comparatively limited feedback to its question, of which a majority of those responding responded affirmatively, the Board has some comfort against reviewing the set of users of the general purpose financial reports of a not-for-profit entity in its conceptual framework as a matter of urgency.
- BC54 Given these reasons, the Board is not seeking, and in general does not intend to address, feedback received on this Exposure Draft on the sufficiency or appropriateness of the identified set of users in a conceptual framework for not-for-profit entities. However, the Board intends to consider feedback on its proposed changes from the wording and phrasing set out in the *Framework for the Preparation and Presentation of Financial Statements*. That is, its proposed amendments to acknowledge that the term ‘donors’ may not appropriately describe all similar funders of a not-for-profit entity and to re-order the identified users.

Note 37 to Board Members:

At its 7-8 March 2024 AASB meeting, the Board decided to refocus its Conceptual Framework project on extending the application of the *Conceptual Framework* to not-for-profit entities. In effect, the contemplated Stage 2 of the project is no longer planned to be progressed.

Staff have drafted paragraphs BC51–BC54 above to provide context to the Board decision, and to additionally signal that the Board is not seeking feedback on this aspect which would have otherwise potentially been part of the scope of Stage 2 of the project.

Describing further types of useful information in Chapter 1

[ref: M201 AP6.1 (Mar 2024)]

- BC55 The Board observed that there are other types of information that some users of the general purpose financial statements of a not-for-profit entity might consider to be relevant to their decision-making because, for example, the information assists them in interpreting financial information in the general purpose financial statements. For some users, such ‘other information’ may include information about the entity’s service performance. The Board noted that the International Public Sector Accounting Standards Board’s (IPSASB) conceptual framework document explicitly comments on the relevance of service performance information.
- BC56 The Board considered whether to similarly propose an amendment to the *Conceptual Framework* to explicitly acknowledge the relevance of information about a not-for-profit entity’s service performance to users of its general purpose financial statements. The Board decided not to do so, noting that there is no urgency to do so, and that such amendment might be premature in advance of decisions that the Board may make on its separate Service Performance Reporting project. Additionally, the Board observed that some users of for-profit entity financial reports may also consider information about the entity’s service performance, or information about the entity’s targets and outcomes, to be important to their decision-making.

Extending Chapter 6 and Chapter 8 to not-for-profit entities

[ref: M177 AP10.1 & M177 Minutes (Sep 2020), M201 AP6.1 & M201 Minutes (Mar 2024), M204 AP7.1 & M204 Minutes (June 2024)]

- BC57 The Board observed that until the Board completes consideration of all the not-for-profit specific issues potentially affecting the application of Chapter 6 *Measurement* by a not-for-profit entity, there is a risk that in the absence of a Standard covering a measurement issue, a not-for-profit entity might need to apply concepts that do not take adequate account of the not-for-profit environment and consequently might produce measurements that result in sub-optimal attainment of the qualitative characteristics, or result in undue cost and effort in trying to apply for-profit-focused concepts in a not-for-profit environment. Consequently, the Board deliberated whether the applicability of Chapter 6 should, for the interim, continue to be limited to only for-profit private sector entities.
- BC58 The Board decided to propose extending Chapter 6 to not-for-profit entities applying the *Conceptual Framework* for the following reasons:
- (a) the importance of guidance on measurement to a conceptual framework. Further, the Chapter is generally non-prescriptive as it focuses on factors to consider in making decisions about measurement. Therefore, much of the Chapter sets out useful guidance for not-for-profit entities;

- (b) the measurement requirements for assets and liabilities of a not-for-profit entity are fairly comprehensively covered by existing Australian Accounting Standards. Consequently, the 'user' of this chapter of the *Conceptual Framework* is likely to only be the Board, who, in setting Standards, can depart from the *Conceptual Framework*. Extending the Chapter to not-for-profit entities is unlikely to result in any undesirable changes in practice; and
- (c) the practical challenges, otherwise, for practitioners who deal with both for-profit and not-for-profit entities.
- BC59 However, notwithstanding their decision above and having regard to its Fair Value Measurement for Not-for-Profit Public Sector Entities project finalised in AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*, the Board considered that paragraphs 6.55 and 6.56 of the *Conceptual Framework* – with their focus on cash flows – may not always provide useful guidance regarding the selection of a measurement basis for assets of a not-for-profit entity that are not held primarily to generate net cash inflows. As such, the Board decided to propose a not-for-profit modification to the *Conceptual Framework* to acknowledge this. The Board is of the view that the conditions for modification of an IASB treatment set out in its *Not-for-Profit Standard-Setting Framework* are met given the prevalence of revaluations of non-financial assets in the not-for-profit public sector.
- BC60 The Board acknowledged that conceptual differences remain between the IPSASB conceptual framework and the *Conceptual Framework* regarding suitable measurement bases of assets of not-for-profit entities, and observed that further work is being undertaken by the IPSASB regarding the applicability of current operational value at a standards-level. However, the Board noted that it has recently reconfirmed fair value as an appropriate measurement basis over current operational value for assets primarily held for their operational capacity (refer AASB 2022-10). The Board further observed that Australian stakeholders responding to its project exposure draft supported fair value as a sole appropriate measurement basis over current operational value. That is, the Board has recently made decisions that differ from those that the IPSASB might have made for similar assets. Consequently, the Board decided that any further work on measurement bases should not delay or otherwise affect its decision to extend Chapter 6 to not-for-profit entities.
- BC61 The Board observed that similar considerations to those set out in paragraphs BC57–BC58 above apply also to Chapter 8 *Concepts of Capital and Capital Maintenance*. Consequently, and on further noting that the content of Chapter 8 is largely unchanged from that set out in the *Framework for the Preparation and Presentation of Financial Statements*, the Board decided that Chapter 8 is also relevant for not-for-profit entities applying the *Conceptual Framework*.

Consequential amendments to Australian Accounting Standards

Amendments to AusCF paragraphs

[ref: M204 AP7.1 (June 2024)]

- BC62 An AusCF 'signpost' paragraph explaining the entities to which AusCF paragraphs were applicable was previously added into those Australian Accounting Standards that needed to maintain a reference to the *Framework for the Preparation and Presentation of Financial Statements* and/or referred to a 'reporting entity' in the text of the pronouncement. These AusCF paragraphs are revised to reflect that, under the proposals, many not-for-profit entities will no longer qualify as an AusCF entity. As such, AusCF paragraphs within the Australian Accounting Standards will no longer apply to these entities.
- BC63 While the cohort of entities that are AusCF entities will be limited following the proposals, the Board decided to retain the AusCF 'signpost' paragraph, largely unamended. The Board made this decision so as to concentrate its proposals on amendments affecting only not-for-profit entities (see also paragraph **Error! Reference source not found.** above).

Transitional provisions – references to the *Conceptual Framework*

[ref: M204 AP7.2 (June 2024), M209 AP5.2 (this paper – see Notes 10, 11, 14, 15 and 28)]

- BC64 AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (May 2019) and AASB 2020-3 *Annual Improvements 2018–2020 and Other Amendments* made amendments to Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the *Conceptual Framework* and to recognise the Board's decision to adopt a staged approach to applying the *Conceptual Framework* to Australian entities. The consequential amendments to some pronouncements included transitional provisions that recognise that the concepts set out in *Conceptual Framework* now apply, rather than those set out in the *Framework for the Preparation and Presentation of Financial Statements*.

- BC65 The Board considered that not-for-profit entities should not be disadvantaged from accessing those transitional provisions compared to their for-profit private sector entity counterparts because of the Board decision to defer applying the *Conceptual Framework* to not-for-profit entities. Consequently, the Board decided to replicate these transitional provisions for not-for-profit entities that will no longer be an AusCF entity subsequent to enact of the proposals.

Australian additional disclosures for special purpose financial statements

[ref: M209 AP5.1]

Note 38 to Board members:

This section is subject to the Board's decisions on Questions 2-4 in Agenda Paper 5.1 and will be updated following the Board meeting.

Disclosures in special purpose financial statements about compliance with the recognition and measurement policies specified by Australian Accounting Standards

- BC66 Paragraph 9A of AASB 1054 requires not-for-profit private sector entities preparing financial statements in accordance with Part 2M.3 of the *Corporations Act 2001* and preparing special purpose financial statements to disclose information about the financial statements' extent of compliance with Australian Accounting Standards. The Board observed that, under its proposals, not-for-profit private sector entities preparing financial statements in accordance with Part 2M.3 of the *Corporations Act 2001* requirements to do so will be required to prepare general purpose financial statements, and as such, paragraph 9A will no longer be relevant to these entities.
- BC67 The Board also noted that other entities may also be required to provide these disclosures due to a requirement imposed on the entity by their relevant regulator or other body; for example, the Australian Charities and Not-for-profits Commission requires charities lodging special purpose financial statements with the ACNC to comply with paragraph 9A of AASB 1054 in those financial statements. Where such entities are required by legislation to prepare financial statements that comply with Australian Accounting Standards, these entities will similarly be required to prepare general purpose financial statements. Paragraph 9A of AASB 1054 will also no longer be relevant to these entities.
- BC68 Consequently, the Board discussed how, if at all, it should amend paragraph 9A of AASB 1054. The Board considered whether to propose:
- (a) deleting the paragraph;
 - (b) retaining paragraph 9A without amendment to the entities to which it applies; or
 - (c) requiring not-for-profit private sector entities required only by their constituting or other document to comply with Australian Accounting Standards to provide the disclosures specified by paragraph 9A of AASB 1054 in special purpose financial statements.
- BC69 The Board rejected deleting the requirement altogether, noting that the requirement in place could still provide useful information to the users of financial statements of entities subject to a directive from a constituting document or other document to comply with AASB 1054 in special purpose financial statements. The Board also observed that developing disclosures in special purpose financial statements is not inconsistent with the *AASB Not-for-Profit Entity Standard-Setting Framework*.
- BC70 The Board observed that financial statement transparency and comparability does not take a 'backward step' if the Board were to, as part of this project, retain paragraph 9A of AASB 1054 without amendment to the entities to which it applies. The entities of original consideration by the Board – being those required by Part 2M.3 of the *Corporations Act 2001* or by the ACNC to prepare financial reports that comply with Australian Accounting Standards – will need to prepare general purpose financial statements under the proposals. Similarly, any other not-for-profit private sector entity currently preparing financial statements in accordance with a legislative directive will also need to prepare general purpose financial statements under the proposals. Further, any entities required only by their constituting or other document to specifically comply with AASB 1054 in special purpose financial statements, would continue to be required by that relevant document – regardless of the scope of AASB 1054 – to make the disclosures.
- BC71 Hence, retaining paragraph 9A without amendment to the entities to which it applies has the effect of maintaining the status quo for the present. The Board considered that this might be prudent as its work on its post-implementation review of these disclosures (refer ITC 51 *Post-implementation Review of Not-for-Profit*

Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements) and to remove the ability for certain entities to prepare special purpose financial statements is not yet complete. Further, the Board noted that it will in the next few years begin a post-implementation review of the similar disclosures specified of for-profit private sector entities (refer paragraph 9C of AASB 1054), and that that review may inform the breadth and scope of proposals for a different cohort of not-for-profit entities.

- BC72 However, on balance, the Board decided that it would not be useful to retain paragraph 9A without amendment to the entities to which it applies, given its limited applicability and on consideration of the resulting reporting differences for not-for-profit and for-profit entities. Also, as this project is expected to complete the Board's work on revising the financial reporting framework for private sector entities – being the entities to which the current disclosures apply – it is not necessary to defer the decision-making on this to a future time.
- BC73 Consequently, the Board decided to propose revising the applicability of the disclosure requirement: to instead require that not-for-profit private sector entities required only by their constituting or other document to comply with Australian Accounting Standards provide the disclosures specified by paragraph 9A of AASB 1054 in special purpose financial statements (where prepared, as permitted in instances where the relevant document was created or last amended before issue of the final proposals). The Board observed that such action:
- (a) is consistent with transaction neutrality, as it effects consistency with the cohort of for-profit private sector entities for which such information is required;
 - (b) improves the transparency of the financial statements to users of the special purpose financial statements of a not-for-profit private sector entity required only by its constituting or other document to comply with Australian Accounting Standards; and
 - (c) is unlikely to be onerous for entities to implement, if the “not assessed” option is retained.
- BC74 In forming their view, the Board acknowledged that the comparability benefits of the disclosure are likely to be more limited as the applicable financial statements are less likely to be publicly available. Also, the Board does not have empirical or other data that concludes that such information is useful information to the users of the special purpose financial statements of not-for-profit private sector entities that are required only by their constituting document or other document to prepare financial statements that comply with Australian Accounting Standards. However, the Board decided that overall, these limitations do not outweigh the potential benefits of the disclosure for users – especially in light of the “not assessed” option in paragraph 9A.
- BC75 Having decided to propose requiring a new cohort of not-for-profit private sector entities to disclose information about the extent of their compliance with the recognition and measurement policies specified by Australian Accounting Standards in special purpose financial statements, the Board then considered whether the disclosures specified by paragraph 9A of AASB 1054 remain useful.
- BC76 The Board observed its preliminary feedback from ITC 51 does not indicate any concern about the existing disclosures. Further, the Board observed that (in the main and excepting the ‘not assessed’ option) the disclosures specified by paragraph 9C of AASB 1054 and applying to for-profit private sector disclosures are consistent with those specified by paragraph 9A. Both of these findings suggested to the Board that the disclosures presently specified by paragraph 9A of AASB 1054 remain useful. Therefore, the Board decided that it should require the new cohort not-for-profit private sector entities to provide these disclosures.
- BC77 The Board also considered whether further disclosures were warranted, especially since its initial consideration of the feedback from ITC 51 does not indicate that there is a gap or concern that needs addressing. To this end, the Board had regard to its deliberations in developing paragraph 9C of AASB 1054. Paragraph 9C(b) and (c) of AASB 1054 requires for-profit private sector entities subject to the paragraph to additionally disclose information about the accounting policies applied in the special purpose financial statements. This requirement provides context to the other specified disclosures about the extent of an entity's compliance with Australian Accounting Standards, so that the information set is more complete.
- BC78 An enhancing qualitative characteristic of useful financial information is verifiability: verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Paragraph 2.30 of the *Conceptual Framework* explains that “... Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. ...” The value of financial statements may be limited if users cannot interpret or understand it. Observing that the additional disclosure is not onerous for entities to provide as the disclosure is a detailing of actual practice and impact, the Board was persuaded that this information it is warranted when considering that an entity might not be otherwise subject to a requirement to disclose such information.
- BC79 Consequently, this Exposure Draft proposes requiring a not-for-profit private sector entity that is required only by its constituting document or other document to prepare financial statements that comply with Australian

Accounting Standards to disclose also the information as specified by paragraphs 9C(b) and (c) in special purpose financial statements, where prepared.

- BC80 In its deliberations about the disclosures specified by paragraph 9A of AASB 1054, the Board considered, but rejected eliminating the current “not assessed” option available to entities. The Board observed that while there are benefits of doing so – including transaction neutrality, improved transparency and fostering knowledge – the ‘not assessed’ option was originally introduced as the Board was concerned the paragraph 9A disclosure requirements would be too burdensome to not-for-profit private sector entities. The Board considered that this is likely to still be true, especially when considering the new cohort of entities that the Board are proposing to require make these disclosures. For-profit private sector entities are less likely to be resource constrained, and there is an expectation that good governance should include consideration of the topics addressed by the disclosures.

Disclosures in special purpose financial statements about the reporting framework and whether the financial statements are general purpose or special purpose

- BC81 The Board observed that the interaction between AASB 1054 and AASB 1057 is such that, if paragraph 2 of AASB 1054 is not amended, the special purpose financial statements of not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards will need to provide the information specified by paragraphs 7 – 17 of AASB 1054. This includes information about audit fees and IFRS Standards not yet issued in Australia.
- BC82 It is not the Board’s intention to require an entity preparing special purpose financial statements to disclose the same extent of information as an entity preparing general purpose financial statements. Consequently, the Board considered what information it should specify, if any, beyond the disclosures to help users understand the extent of the financial statements’ compliance with Australian Accounting Standards.
- BC83 AASB 1054 requires for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, and which are preparing special purpose financial statements, to comply only with paragraphs 8 and 9 (in addition to paragraphs 9C and 9D) of AASB 1054. The Board considered its reasons for requiring these disclosures for for-profit private sector entities – that they provide useful information at minimal cost (as the information is expected to be readily available), and could be already expected to be a part of the entity’s consideration in identifying the basis on which it made the decision to prepare special purpose financial statements (refer paragraph BC40 of AASB 2022-4 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities*). The Board observed that these reasons are equally valid with respect to the financial statements of not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standard, and that the disclosure of this information is consistent with improving the transparency and comparability of reporting by not-for-profit entities. Hence, the Board proposed to require not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standard to also comply with these disclosures where special purpose financial statements are prepared.
- BC84 However, the Board decided to limit the applicability of its proposal, at least for the interim, to only not-for-profit private sector entities. The Board observed that while some not-for-profit public sector entities may have previously been required to provide certain disclosures in special purpose financial statements, limiting the cohort to which the proposed disclosures apply provides consistency in reporting between public sector entities that are for-profit and not-for-profit in nature and recognises that the Board’s project to review the financial reporting framework for public sector entities is being undertaken on a separate timeline.
- BC85 The Board decided that limiting additional disclosures in special purpose financial statements to only the information specified by paragraphs 8 and 9 of AASB 1054 (in addition to disclosures about the entity’s extent of compliance with Australian Accounting Standards) would be consistent with transaction neutrality. Therefore, the Board has not proposed for not-for-profit entities preparing special purpose financial statements to comply with any further disclosures specified by AASB 1054.

Effective date and early adoption

[ref: M204 AP3.4, AP7.1 & M204 Minutes (June 2024)]

- BC86 The Board decided that the effective date of a final Standard will be at least three years after the issue of a final pronouncement. For example, if the Board were to issue a Standard in December 2025, the effective date of the Standard is not expected to be earlier than annual reporting periods beginning on or after 1 January

2029. (Likewise, in this example, a constituting document or other document would need to be created before 1 January 2029 and not amended on or after that date.)

- BC87 While the Board’s proposals in this Exposure Draft could be made effectively immediately, the Board decided to align the effective date of these proposals to the effective date of its proposed Tier 3 reporting requirements set out in ED 3XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*. This decision acknowledges stakeholder feedback on AASB Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)* and the proposals’ practical implications for some not-for-profit entities.
- BC88 The Board decision ensures that not-for-profit private sector entities that may resultantly have to prepare general purpose financial statements if the Board’s proposals are finalised as exposed will have access to a ‘simpler’ form of general purpose financial statements on implementation of its proposals. The length of the proposed transition period also accords entities that will transition from preparing special purpose financial statements to preparing Tier 1 or Tier 2 general purpose financial statements sufficient time to prepare for the change. Each entity will need to itself determine which Tier of general purpose financial statements are sufficient and appropriate to satisfy the legislative (or other) requirement under which they are prepared.
- BC89 In identifying a suitable effective date that would give stakeholders adequate time to prepare for implementation of the requirements, the Board had regard to its considerations in setting an effective date for AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* and stakeholder feedback and learnings from implementation of that Standard, the implementation period of AASB 1 *First-time Adoption of Australian Accounting Standards* when first issued in 2004, the size of the population of potentially impacted not-for-profit entities and the nature of its proposals. The Board also had regard to the status of regulator efforts to improve the consistency in the reporting ‘ask’ for various types of not-for-profit entities.
- BC90 A staggered effective date approach was considered and rejected by the Board as being unnecessarily complex.
- BC91 The Board decided to propose permitting early adoption of its proposals, if finalised. Permitting early adoption is consistent with the nature of the proposals being to advance the conceptual thinking for not-for-profit entities and to improve the standard and quality of reporting by not-for-profit entities overall (by requiring more entities to prepare general purpose financial statements).

Note 39 to Board Members

Staff have identified that the Board has not previously been asked a specific question regarding permitting the early adoption of its project proposals set out in this ED, although early adoption was envisaged in the draft ED considered by the Board at its 6-7 June 2024 meeting (refer Note 9). However, staff think a decision in this regard was implicit in the Board’s decision to propose transitional provisions that are limited to instances of early adoption of a final Standard.

Transitional provisions for entities preparing general purpose financial statements for the first time

[ref: M204 AP7.1 & M204 Minutes (June 2024)]

- BC92 In accordance with AASB 1053 *Application of Tiers of Australian Accounting Standards*, a not-for-profit entity that currently presents special purpose financial statements will, in its first general purpose financial statements, be required to:
- (a) if preparing Tier 1 general purpose financial statements – apply AASB 1 *First-time Adoption of Australian Accounting Standards*; or
 - (b) if preparing Tier 2 general purpose financial statements – apply all the relevant requirements of AASB 1, or Tier 2 reporting requirements directly using the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- BC93 Stakeholders responding to the AASB Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)* commented on the need for the Board to develop appropriate transitional provisions for not-for-profit entities that will be required to prepare general purpose financial statements for the first time as a result of the Board’s proposal to extend the applicability of Australian Accounting Standards to more entities. Consequently, the Board considered what further transitional provisions, if any, might be appropriate in the following scenarios:
- (a) entity transitioning from preparing special purpose financial statements to preparing Tier 1 general purpose financial statements;
 - (b) entity transitioning from preparing special purpose financial statements to preparing Tier 2 general purpose financial statements; and

- (c) entity transitioning from preparing special purpose financial statements to preparing Tier 3 general purpose financial statements.
- BC94 The Board decided not to develop any further transitional provisions to assist not-for-profit entities preparing Tier 1 general purpose financial statements for the first time as a consequence of this Board project. In forming this view, the Board considered the following:
- (a) the Board did not develop specific transitional requirements to assist for-profit private sector entities preparing Tier 1 general purpose financial statements for the first time as a result of the Board's project to extend Australian Accounting Standards to more for-profit private sector entities;
 - (b) the Board expects that a significant majority of the impacted not-for-profit entities would not need to commence preparing Tier 1 general purpose financial statements when the ability to prepare special purpose financial statements is removed. In forming this conclusion, the Board noted that no regulators researched for the purposes of AASB Research Report No. 5 *Financial Reporting Requirements Applicable to Charities* (October 2017) required not-for-profit private sector entities to lodge Tier 1 general purpose financial statements. Also, the Board's previous research and feedback from its targeted outreach to public sector stakeholders suggested that the use of special purpose financial statements in the public sector is expected to be limited; and
 - (c) AASB 1 already includes specific additional provisions for not-for-profit entities, most recently in respect of certain leases held by not-for-profit entities.
- BC95 With regards to entities transitioning from preparing special purpose financial statements to preparing Tier 2 general purpose financial statements, the Board noted that AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* included transitional relief in the form of optional short-term exemptions from the requirements of AASB 1060 for for-profit private sector entities preparing their first general purpose financial statements (consequential to the Board's project to extend Australian Accounting Standards to more for-profit private sector entities). It provides for-profit private sector entities applying AASB 1060 optional relief from:
- (a) distinguishing the correction of errors and changes in accounting policy;
 - (b) presenting comparative information not previously disclosed in the notes; and
 - (c) restating comparative information, provided certain conditions are met
- BC96 This relief was given on regard of the anticipated quantum of for-profit private sector entities that would become first-time adopters of Australian Accounting Standards when AASB 2020-2 became effective. The sacrifice of useful comparative information in exchange for the early adoption of AASB 1060 was considered, overall, to be warranted when balanced against the expected costs – which were expected to be aggravated by the available lead time between the issue of AASB 2020-2 and its implementation – for the impacted population.
- BC97 The Board observed its expectation that its proposals set out in this Exposure Draft will similarly eventuate in a significant number of not-for-profit entities that are compelled to become first-time adopters of Australian Accounting Standards. The Board expects that, similar to the for-profit private sector entity cohort, some not-for-profit entities may encounter challenges to collecting the financial information necessary to transition from the previously applied accounting policies to those specified by Australian Accounting Standards. Consistent with the Board's reasons previously (and as set out in this Exposure Draft – see paragraph BC80) for making available to not-for-profit entities a "not assessed" option for the disclosure of information in special purpose financial statements about the entity's extent of compliance with the recognition and measurement policies specified by Australian Accounting Standards, not-for-profit entities may find this task to be more challenging – and consequently, more costly – than would a for-profit entity.
- BC98 Consequently, the Board decided that not-for-profit entities should similarly have access to some transition relief, and that the relief should mirror that made available to for-profit private sector entities – this is consistent with a transaction neutrality policy. Also, limiting the availability of the proposed relief to only early adopters of a Standard may incentivise entities to transition early to general purpose financial statements.
- BC99 The Board's considerations in respect of a not-for-profit entity transitioning from preparing special purpose financial statements to preparing Tier 3 general purpose financial statements are set out in its Basis for Conclusions accompanying ED 3XX.
- BC100 ED 3XX also sets out the Board's proposals, and basis for those proposals, for the requirements that apply when a not-for-profit entity that is not a first-time adopter of Australian Accounting Standards begins or ceases to prepare Tier 3 general purpose financial statements. In respect of similar movements between Tier 1 and Tier 2 general purpose financial statements, there is no case for developing further transitional relief because:
- (a) AASB 1053 already specifies requirements for movements between Tier 1 and Tier 2 general purpose financial statements;

- (b) while the project proposals compel some entities to unavoidably incur costs of starting to prepare general purpose financial statements, the proposals do not obligate entities to change the reporting Tier when the Board's proposals become effective (or in the future); and
- (c) relief to assist an entity that is not a first-time adopter of Australian Accounting Standards to transition from Tier 1: Australian Accounting Standards (and Tier 2: Australian Accounting Standards – Reduced Disclosure Regime) to Tier 2: Australian Accounting Standards – Simplified Disclosures was made available to not-for-profit entities in AASB 2021-1. Proposing further relief in this regard now that AASB 1060 is effective would not be consistent with improving the quality of financial reporting of not-for-profit entities (as this aspect concerns entities moving from preparing Tier 1 general purpose financial statements to preparing Tier 2 general purpose financial statements).

Accordingly, this Exposure Draft makes no proposals in this regard.

Transition from unconsolidated Tier 2 general purpose financial statements to consolidated Tier 2 general purpose financial statements

[ref: M209 AP5.1 (this paper)]

Note 40 to Board members:

This section is subject to the Board's decision on Question 4 on page 38 of this Agenda Paper and will be updated following the Board meeting.

- BC101 AASB 2022-2 *Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1* added paragraph 20A to AASB 1053 to allow for-profit private sector entities transitioning from unconsolidated general purpose financial statements to consolidated Tier 2 – Simplified Disclosures general purpose financial statements to apply AASB 1 when preparing consolidated financial statements for the first time. These parent entities may not have previously consolidated their subsidiaries on their determination that the consolidation exemption in AASB 10 was available as neither the parent nor the group was a reporting entity as defined by SAC 1.
- BC102 At the time, the Board considered whether the scope of the relief should extend also to not-for-profit entities that might similarly transition from unconsolidated general purpose financial statements to consolidated general purpose financial statements when AASB 1060 became operative. The Board at that time decided it was not necessary to do so, as not-for-profit entities were not at that time affected by the Board's work to supersede SAC 1 for for-profit private sector entities, and as such, the Board concluded that the entity could carry forward its interpretation of how AASB 10 applies to the entity (such that the entity could prepare single-entity Tier 2 – Simplified Disclosures general purpose financial statements, applying the exemption in AASB 10, if appropriate). Further, the Board observed that the relief offered by paragraph 20A of AASB 1053 is not strictly necessary due to the requirements in paragraph D17 of AASB 1, which enables the same outcome to be achieved.
- BC103 Under the Board's proposals, more not-for-profit parent entities formerly not preparing consolidated Tier 2 general purpose financial statements might find themselves now needing to prepare consolidated financial statements. Consequently, the Board revisited whether paragraph 20A of AASB 1053 should apply also to not-for-profit entities. The Board decided to propose amendments to paragraph 20A to extend the relief specified by that paragraph to not-for-profit entities in recognition of its proposals changing the reporting landscape, noting that providing clarity that AASB 1 is available would be helpful to not-for-profit entities, and that making the amendments is consistent with transaction neutrality.