



Project:	Conceptual Framework: Not-for-Profit Amendments	Meeting:	M201
Topic:	Proposed amendments to the <i>Conceptual Framework for Financial Reporting</i> and SAC 1	Agenda Item:	6.1
		Date:	20 February 2024
Contact(s):	Evelyn Ling eling@asb.gov.au Fridrich Housa fhousa@asb.gov.au	Project Priority:	High
		Decision-Making:	High
		Project Status:	Developing Exposure Draft

The objective of this paper

- The objective of this staff paper is for the Board to:
 - decide** whether to continue to progress Stage 1 of its Conceptual Framework: Not-for-Profit (NFP) Amendments project, by issue of an exposure draft (ED);
 - receive** an update on developments relevant to the project;
 - decide** whether to extend application of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* to NFP public sector entities at the same time as NFP private sector entities;
 - decide** whether to reconfirm its September 2020 decisions on the NFP modifications to make to the *Conceptual Framework*;
 - decide** whether to make NFP amendments as part of Stage 1 to address service performance reporting; and
 - decide** the next steps of the project.

Background and reasons for bringing this paper to the Board

- The objective of the Board's Conceptual Framework: NFP Amendments project, as set out in its June 2020 project plan,¹ is to extend application of the *Conceptual Framework* to all NFP entities and improve the consistency, comparability, transparency, and enforceability of financial reports prepared in accordance with Australian Accounting Standards. The *Conceptual Framework* currently applies only certain for-profit entities; the remaining Australian entities are under the aegis of the *Framework for Preparation and Presentation of Financial Statements*.
- At its 11 June 2020 meeting, the Board agreed to adopt a two-stage approach to address the project's objectives. The purpose of each stage is as follows:
 - Stage 1: The primary purpose of this stage is to extend the application of the *Conceptual Framework* to all NFP entities. This stage is expected to incorporate the NFP modifications

¹ Refer [Agenda Paper 5.1 Conceptual Framework – Not-For-Profit Private and Public Sector Entities Project Plan](#) of the AASB June 2020 meeting, and the related [11 June 2020 AASB meeting minutes](#).

detailed in the *Framework for the Preparation and Presentation of Financial Statements* into the *Conceptual Framework*, essentially unchanged.² Following this Stage, for a NFP entity, “reporting entity” will no longer be defined by SAC 1 *Definition of the Reporting Entity* (“SAC 1”) but will simply reference the entity preparing the financial statements; and

(b) Stage 2: The primary purpose of this stage is to address more significant and complex conceptual issues affecting NFP entities, including review of the objective of general purpose financial reports of NFP entities and the users of those financial statements. The Board has previously indicated that it intends to consider:

(i) the emphasis given to management stewardship (or accountability) as part of the objective of general purpose financial reporting of NFP entities; and

(ii) whether the ‘users’ of a NFP private sector entity’s general purpose financial statements should be more broadly regarded (for example, whether users always include regulators, similarly to advisors and members of parliament already identified in the *Framework for Preparation and Presentation of Financial Statements*).

4 Given the overlap between Stage 1 and the Board’s project to develop a further differential reporting tier for NFP private sector entities, the Board subsequently decided to conduct Stage 1 concurrently to the Board’s NFP Private Sector Financial Reporting Framework project,³ and formed a preliminary view that the effective dates of any outcomes would be aligned. Aligning the due process steps of the two projects is practical as it allows the Board to present stakeholders with a more comprehensive ‘package’ of related proposed requirements for their comment.

5 The June 2020 project plan proposed that an Exposure Draft (ED) would be sufficient due process with regards to any amendments to be made as part of Stage 1 of the Conceptual Framework: NFP Amendments project. Accordingly, the practical consequence of the decisions in paragraph 4 above is that the Board’s work on Stage 1 of the Board’s Conceptual Framework: NFP Amendments project was largely ‘paused’⁴ during 2021-2023 while the Board developed and exposed its preliminary views regarding a differential reporting framework for NFP private sector entities; having determined that the first consultation step in that project to be a discussion paper.

6 Before ‘pausing’ substantive work on Stage 1 of this project, the Board had decided to extend the scope of a revised *Conceptual Framework* to all NFP entities⁵ and, at its 16-17 September 2020 meeting, the Board tentatively approved:

2 This is subject to the Board’s decision as the project progresses e.g. if an urgent need for additional amendments is identified.

3 The objective of the [NFP Private Sector Financial Reporting Framework project](#) is to develop a reporting framework that is simple, proportionate, consistent, transparent and cost effective for all NFP private sector entities in Australia.

4 During this period, staff continued to monitor the IPSASB’s conceptual framework project, and conducted targeted outreach with public sector stakeholders to obtain further information on the extent to which special purpose financial statements are prepared. Staff also had regard to this Board project when progressing work on other cross-cutting Board projects, including its NFP Private Sector Financial Reporting Framework (in progress), Fair Value Measurement for NFP public sector entities (completed in 2022) and Service Performance Reporting projects (in initial stages).

5 Indirectly, as this is the objective of the project as set out in the project plan.

- (a) draft NFP-specific amendments that would be ‘transferred’, either unchanged or with minor amendments, from the *Framework for Preparation and Presentation of Financial Statements* into the *Conceptual Framework*; and
 - (b) the limited new NFP-specific amendments to make to the *Conceptual Framework*. In the main, these respond to changes introduced in the *Conceptual Framework*.⁶
- 7 At its 16-17 September 2020 meeting, the Board also decided to:
- (a) apply the *Conceptual Framework* chapters on Measurement (Chapter 6) and Concepts of Capital and Capital Maintenance (Chapter 8) to NFP entities, notwithstanding that they may be reviewed for further NFP considerations in Stage 2 of the project; and
 - (b) exclude the non-financial assets of NFP entities that are held primarily for their service potential from paragraphs 6.55 and 6.56 of the *Conceptual Framework*, on the basis that the relevance of different measurement bases to such assets does not depend on whether they produce cash flows directly or indirectly. The Board deferred a discussion of whether non-financial liabilities that arise in connection with the use of these non-financial assets should be similarly scoped out.
- 8 The Board was not asked to, and did not, finalise the drafting of the proposed amendments at its September 2020 AASB meeting. Following that meeting, staff continued to consider feedback from the AASB’s Conceptual Framework Project Advisory Panel to help inform the drafting of those proposed amendments, and to perform further outreach, with a view to bringing back revised text at a future meeting.
- 9 The Board’s preliminary views regarding a differential reporting framework for NFP private sector entities were exposed in the AASB Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* (September 2022) (‘Tier 3 DP’)⁷. Additionally, given the crossovers between the two Board projects, and as an amended first consultation step to its June 2020 project plan, the Board decided to seek feedback as part of the Tier 3 DP on certain matters that would also inform its work on its Conceptual Framework: NFP Amendments project. These matters pertain to the:
- (a) objective of general purpose financial reporting;
 - (b) primary users of general purpose financial statements;
 - (c) proposed supersede of the reporting entity concept; and
 - (d) timing of any amendments.
- 10 At its 4 May 2023 meeting, as part of its deliberations on its NFP Private Sector Financial Reporting Framework project and following consideration of stakeholder feedback on the Tier 3 DP, the Board decided to proceed with developing an ED of its proposals for a new, simpler, ‘tier’ of accounting requirements (‘Tier 3 accounting requirements’) and to remove the ability of certain NFP private sector entities to prepare special purpose financial statements under Australian accounting standards.⁸
- 11 The Board has also:
- (a) received a preliminary analysis of the stakeholder feedback on the Tier 3 DP questions relating to the *Conceptual Framework* (4 May 2023 AASB meeting); and

6 [Link to the minutes of the 16-17 September 2020 AASB meeting](#)

7 [Link to the Tier 3 DP](#)

8 [Link to the minutes of the 4 May 2023 AASB meeting](#)

- (b) decided not to develop a separate conceptual framework that would accompany an Australian Accounting Standard specifying Tier 3 accounting requirements (a 'Tier 3 Accounting Standard') (13-14 September 2023 AASB meeting).⁹
- 12 At its 29-30 November 2023 meeting, staff signalled their intention to bring analysis and recommendations in relation to the Board's proposals regarding removal of the ability of certain NFP entities to prepare special purpose financial statements, and other amendments to the *Conceptual Framework* (i.e. the Stage 1 conceptual framework proposals), to a meeting in H1 2024. This is to facilitate any resulting proposed amendments being exposed at the same time as a Tier 3 ED.

Structure of the paper

- 13 This paper is structured as follows:
- (a) [Part A: Decision to continue the Conceptual Framework: NFP Amendments project](#) (paragraphs 14 – 16);
 - (b) [Part B: Recent developments relevant to the project](#) (paragraphs 17 – 46)
 - (i) Stakeholder feedback on Tier 3 DP (paragraphs 18 – 26);
 - (ii) Feedback from Australian jurisdictions regarding the extent of special purpose financial statements (paragraphs 27 – 30);
 - (iii) IPSASB conceptual framework – 2023 revisions (paragraphs 31 – 38);
 - (iv) IFR4NPO developments – INPAG Exposure Draft ED1 (paragraphs 39 – 45); and
 - (v) Literature review (paragraph 46);
 - (c) [Part C: Confirmation of the Board's previous decisions](#) (paragraphs 47 – 91)
 - (i) Scope of the *Conceptual Framework* amendments – superseding SAC 1 for NFP public sector entities (paragraphs 49 – 55(f));
 - (ii) September 2020 *Conceptual Framework* amendments (paragraphs 57 – 87); and
 - (iii) Service performance reporting (paragraphs 88 – 91);
 - (d) [Part D: Next steps](#) (paragraphs 92 – 97); and
 - (e) [Appendix A: Detailed preliminary staff analysis of feedback on the Tier 3 DP.](#)

PART A: Decision to continue the Conceptual Framework: NFP Amendments project

- 14 Proceeding with developing an ED of its Stage 1 proposals on the Conceptual Framework: NFP Amendments project is implicit in the Board's decision to continue its NFP Private Sector Financial Reporting Framework project by developing an ED. However, an explicit decision has not yet been made by the Board to continue its Conceptual Framework: NFP Amendments project, the scope of which is broader than the amendments cross cutting the two projects.
- 15 As noted in paragraph 5 above, this project was slowed down to align the timing of consultation of the two projects, rather than for any other reason. Consequently, staff think that it is now appropriate to recommence work on the Conceptual Framework: NFP Amendments project by continuing to develop Stage 1 proposals for exposure as part of an ED.
- 16 Part C of this paper analyses possible proposals for exposure as part of that ED, assuming the Board decides to continue to develop Stage 1 proposals. In the main, the Board is asked to

9 [Link to the minutes of the 13-14 September 2023 meeting](#)

reconfirm their Board decisions to date, having regard to the developments summarised in Part B.

Question for Board members:

Q1 Do Board members agree with the staff recommendation in paragraph 15 for the Conceptual Framework: NFP Amendments project to continue towards the development of an ED?

PART B: Recent developments relevant to the project

17 The Board last specifically discussed its Conceptual Framework: NFP Amendments project at its 20-21 April 2021 AASB meeting (as part of its discussion on its NFP Private Sector Financial Reporting Framework project).¹⁰ Paragraphs 18– 46 below provide an update of developments in the accounting landscape, and findings from outreach since that time, to help inform the Board’s decision making in Part C and Part D of this agenda paper.

Stakeholder feedback on the Tier 3 DP

18 As noted in paragraph 9 above, the Board sought stakeholder feedback as part of the Tier 3 DP on certain matters that inform its work on the Conceptual Framework: NFP Amendments project. Tier 3 DP Questions 3 to 5 are relevant to this project. Paragraphs 19 – 26 below summarise the stakeholder feedback received.¹¹

Tier 3 DP Question 3

19 Question 3 of the Tier 3 DP sought feedback on the appropriateness of the objective of general purpose financial reporting for NFP private sector entities and the identified primary users of NFP general purpose financial statements depicted in the *Framework for the Preparation and Presentation of Financial Statements*.¹² As it was not included in the online survey or virtual outreach sessions conducted as part of the outreach on the Tier 3 DP, comparatively limited feedback in the form of 9 formal submissions was received. Three respondents disagreed with the ‘objective’ and ‘primary’ users depicted in the *Framework for the Preparation and Presentation of Financial Statements*.

10 Notwithstanding this, the Board received an update or made decisions that relevant to this project as part of its deliberations on its NFP Private Sector Financial Reporting Framework project at its 4 May 2023 and 13-14 September 2023 meetings (see paragraphs 10 – 11 above).

11 The Board first received a summary of this feedback at its 4 May 2023 meeting. An extract of [Agenda Paper 3.1.1](#) of the 4 May 2023 AASB meeting is included as Appendix A to this paper.

12 Tier 3 DP Question 3 is as follows:

The ‘objective’ and ‘primary users’ incorporated in the *Framework for the Preparation and Presentation of Financial Statements* include modifications for not-for-profit entities. Paragraphs 1.14 to 1.16 [of the Tier 3 DP] discuss the Board’s Conceptual Framework: Not-for-Profit Amendments project and how it interacts with this project. Do you agree that the *Framework for the Preparation and Presentation of Financial Statements* (including the modifications for not-for-profit entities) appropriately:

- (a) depicts the objective of general purpose financial reporting for not-for-profit private sector entities; and
- (b) identifies the set of primary users of the financial statements of a not-for-profit entity.

Why or why not? If you disagree, what is your reasoning?

The Board plans to extend the application of the *Conceptual Framework for Financial Reporting* to all not-for-profit entities once the modifications for not-for-profit entities are included and on the release of a Tier 3 Standard. Do you have any other concerns about applying the *Conceptual Framework for Financial Reporting* to smaller not-for-profit private sector entities that have not already been noted in paragraph 1.14 [of the Tier 3 DP]? If so, please describe them.

20 The comments received to the question included:

- (a) paragraph AusOB3.1 of the *Framework for the Preparation and Presentation of Financial Statements* does not sufficiently recognise that users are interested in the extent to which those charged with governance are acting in the interest of the mission of the entity via reporting on their stewardship of the entity's resources and accountability;
- (b) the description of the primary users of general purpose financial statements should be reordered and extended. Philanthropists (separately from donors), members, government bodies and government officials, professional advisors, and researchers and journalists were identified as other possible primary users of NFP general purpose financial statements.¹³ A reason given for identifying some of these parties as users is the public availability of ACNC-registered charity financial statements;
- (c) the users of NFP general purpose financial statements are those are financially affected by the entity achieving its objectives;
- (d) the population of users of the NFP general purpose financial statements should not become so broad as to be non-operational; and
- (e) the IFR4NPO project may be a useful resource in identifying the primary users of NFP general purpose financial statements.

Tier 3 DP Question 4

- 21 Question 4 of the Tier 3 DP pertained to the timing of issue of amendments to the *Conceptual Framework* to apply to NFP private sector entities, and in so doing, supersede SAC 1.¹⁴
- 22 Almost all the respondents (178 of 195 respondents) to the Tier 3 DP supported the proposal that the *Conceptual Framework* apply to NFP private sector entities only when the Tier 3 reporting requirements are available for adoption. In the main, the stakeholder comments on this question cautioned the Board to have regard to the lessons learnt from the for-profit reforms in this regard. This includes setting an adequate lead time between the issue and effective dates of any eventual amendments, and address of any implementation confusion arising from a non-statutory direction to prepare financial statements.

Tier 3 DP Question 5

- 23 Question 5 of the Tier 3 DP specifically sought stakeholder feedback on the Board's preliminary view to extend the set of NFP private sector entities to which Australian Accounting Standards apply, by superseding SAC 1 for NFP private sector entities.¹⁵ Most respondents (178 of 217 respondents) supported the proposal, noting the importance of bringing consistency and

13 There is some overlap between the users identified in this comment and the findings of the Gilchrist, D J et al academic study referenced in paragraph 46 below, as they share a common stakeholder.

14 Tier 3 DP Question 4 is as follows:

As noted in paragraph 1.18 [of the Tier 3 DP], the Board intends to align the timing of any new Tier 3 reporting requirements with the timing of any extension of the Australian Accounting Standards to a broader set of not-for-profit private sector entities.

Do you agree? Why or why not?

15 Tier 3 DP Question 5 is as follows:

Paragraphs 2.5 to 2.7 [of the Tier 3 DP] propose to extend the set of not-for-profit private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1. The effect is that more entities will be required to prepare general purpose financial statements when required to prepare financial statements that comply with Australian Accounting Standards.

Do you agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply? Why or why not? If not, what alternative approach do you suggest?

comparability to reporting by NFP private sector entities. Conversely, some respondents were concerned that the proposal was not fit for purpose, citing as reasons the adequacy of special purpose financial statement and the cost vs. benefit of the resulting financial statements.

- 24 The stakeholder feedback included the following comments:
- (a) that there is a general unwillingness for entities to accept that there are users interested in the entity;
 - (b) that an entity reporting only to members should be able to prepare special purpose financial statements; and
 - (c) that users of an entity required only by their constituting document to comply with Australian Accounting Standards should be able to determine the type of financial statements that they want the entity to prepare.

Tier 3 DP – other

25 Additionally, the Tier 3 DP signalled the Board’s preliminary view to revise the *Conceptual Framework* for all NFP entities at the same time.¹⁶ Staff note that stakeholders, other than one stakeholder, did not comment with regards to the implications of this proposal for NFP public sector entities. That stakeholder¹⁷ was of the view that:

- (a) Tier 3 reporting requirements should also be available to NFP public sector entities; and
- (b) the implications for NFP public sector entities need to be resolved before the issue of the final standard.

26 The Tier 3 DP also sought feedback on the Board’s proposal not to address service performance reporting as part of developing its Tier 3 reporting requirements.¹⁸ Almost all stakeholders who responded to this question (184 of 188 respondents) supported the Board addressing service performance reporting as part of a separate project.

Feedback from Australian jurisdictions regarding the extent of special purpose financial statements

27 In Q1 2023, as part of targeted outreach noting that AASB staff are expecting to resume work on how the *Conceptual Framework* could be amended after the Board considers feedback on the Tier 3 DP, staff sought to gauge the extent of possible additional public sector entities that might need to prepare general purpose financial statements if the reporting entity concept were to be superseded. To this end, the Australian Council of Auditors-General (ACAG) assisted AASB staff by surveying Australian jurisdictions on the question “Do public sector entities in your jurisdiction prepare special purpose financial statements?”

28 Only one jurisdiction responded in the negative. Otherwise, the feedback received indicated that:

- (a) there are currently some public sector entities that prepare special purpose financial statements to satisfy a legislative or constituting document requirement, but for which there is no requirement for the financial statements to comply with Australian accounting

16 Tier 3 DP Question 3 in part states “... The Board plans to extend the application of the *Conceptual Framework for Financial Reporting* to all not-for-profit entities once the modifications for not-for-profit entities are included and on the release of a Tier 3 Standard. ...”

17 Public sector accounting professional. Staff held a further discussion with this stakeholder in February 2024. Feedback from this discussion is referenced in paragraph 29.

18 Question 2 of the Tier 3 DP

standards.¹⁹ These entities may or may not be a controlled entity of another government entity.

Staff note that if the Board decides to mirror, for NFP entities, the applicability of the *Conceptual Framework* as it applies to for-profit entities – a NFP public sector entity in this category would continue to be able to prepare special purpose financial statements.

- (b) it is possible that some public sector entities (including trusts or controlled entities), are required by legislation or their constituting document to prepare financial statements that comply with Australian accounting standards, and currently prepare special purpose financial statements in satisfaction of the requirement on the basis that the entity is not a reporting entity.²⁰ However, no specific examples were identified.

Staff note that if the Board decides to mirror, for NFP entities, the applicability of the *Conceptual Framework* as it applies to for-profit entities – a NFP public sector entity in this category would no longer be able to prepare special purpose financial statements. Additionally, the entity would not have access to Tier 3 reporting requirements at this point in time. This is because Tier 3 is being developed as part of NFP Private Sector Financial Reporting Framework project, and consequently, its proposed applicability is limited to NFP private sector entities. Whether similar requirements should be developed for NFP public sector entities has not yet been considered: this would be part of the scope of the Board’s separate Public Sector Financial Reporting Framework project.

- (c) some controlled entities of a public sector entity currently prepare special purpose financial statements despite the absence of a legislative or other requirement to lodge financial statements. Staff understand that, anecdotally, this may have been an election to gain some form of reporting relief.

Staff note that if the Board decides to mirror, for NFP entities, the applicability of the *Conceptual Framework* as it applies to for-profit entities – a NFP public sector entity in this category would continue to be able to prepare special purpose financial statements.

- 29 Regarding paragraphs 25 and 28 above, in February 2024, staff held an informal discussion with one of the respondents to the ACAG survey to gain further insight into the extent of entities that might be affected by an action to remove the reporting entity concept for NFP public sector entities. From that discussion, staff heard that, in 2017 and based on internal research, “over 500” Queensland public sector entities had their financial statements audited. While 350 of these entities prepared general purpose financial statements, at least 100 entities presented special purpose financial statements. These entities represented a variety of bodies (e.g. local

19 For example, the Tasmanian *Local Government Act 1993* requires an authority (e.g. the Launceston Flood Authority) to prepare financial statements but does not itself require these financial statements to comply with Australian Accounting Standards. Other examples cited include certain NSW Special Deposit Accounts (e.g. the Social and Affordable Housing NSW Fund), the trust account subject to the Victorian *Fisheries Act 1995*, and certain Lord Mayor’s funds that are incorporated associations under the Queensland *Associations Incorporation Act 1981*.

20 Staff received feedback that, for some jurisdictions, the reporting requirements of controlled entities of certain councils, universities, statutory bodies or state entities are dictated by legislation governing the form of the entity rather than the public sector nature of the entity, e.g. a local government controlled entity that is a company may not be subject to the jurisdiction’s local government act but is subject to the reporting requirements of the *Corporations Act 2001*. Respondents flagged that some of these entities may prepare special purpose financial statements.

government controlled entities) and prepared financial statements under a variety of requirements. Staff observe that some, but not all, of these entities could be a NFP entity.²¹

- 30 It is not possible to extrapolate the report above, as different jurisdictions specify different requirements for public sector entities under their remit. For example, staff understand that special purpose financial statements are less prevalent in some jurisdictions where more entities are required to prepare general purpose financial statements or with less requirements to report at an entity level.

IPSASB conceptual framework – 2023 revisions²²

- 31 At its 16-17 September 2020 meeting, the Board considered a comparative analysis of the *Conceptual Framework* and the International Public Sector Accounting Standards Board's (IPSASB) *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (2014).²³ This comparative analysis informed the Board's decision-making on the NFP-specific amendments to make to the *Conceptual Framework* as part of Stage 1 of this project, including making decisions not to address certain aspects that might be revised in the future as part of Stage 2.
- 32 Since that time, the IPSASB has completed a limited scope project to revise its conceptual framework, resulting in changes to Chapters 3, 5 and 7 of its conceptual framework document.²⁴ The IPSASB evaluated differences from the IASB conceptual framework before making decisions on its conceptual framework.²⁵
- 33 The IPSASB has amended Chapter 3 of the IPSASB conceptual framework document to clarify the role of prudence in supporting neutrality in the context of faithful representation, and to add guidance on obscuring information in materiality judgements. These amendments are consistent with the latest amendments made by the IASB/AASB, and accordingly, better align the IPSASB conceptual framework document with the *Conceptual Framework*.
- 34 The IPSASB has amended Chapter 5 of the IPSASB conceptual framework document to revise the definitions of an asset and liability and restructure and extend (or reorganise) related guidance:
- (a) The IPSASB made amended the guidance accompanying the definition of an asset to reflect a rights-based approach to the description of a resource. In addition, it made a minor amendment to the definition of an asset to acknowledge that there may be more than one past event giving rise to the asset. The IPSASB otherwise reconfirmed its existing

21 For example, staff note that QIC Limited (formerly Queensland Investment Corporation) had represented in its November 2018 [submission](#) to Phase 2 of AASB ITC 39 *Applying the IASB's Revised Conceptual Framework and Solve the Reporting Entity and Special Purpose Financial Statement Problems* (ITC 39) that a majority of 90-plus QIC managed funds financial statements were in the form of special purpose financial statements. The submissions received on Phase 2 of ITC 39 concerned for-profit entities.

22 Staff note that the New Zealand Accounting Standards Board (NZASB) discussed, at its 15 February 2024 meeting, how to incorporate Chapters 3 and 5 of the IPSASB conceptual framework document into the NZ Public Benefit Entity (PBE) conceptual framework document. Staff will provide a verbal update of that discussion at this meeting.

23 The comparative analysis was included as [Agenda Paper 10.2 of the 16-17 September 2020 AASB meeting](#).

24 [Link to IPSASB The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities \(December 2023\)](#)

25 The [IPSASB staff Questions and Answers document issued in October 2023](#) includes a summary of the remaining differences between the IPSASB conceptual framework document and the IASB conceptual framework document. The document is available on www.ipsasb.org.

definition of an asset. Current differences between the IPSASB conceptual framework and the *Conceptual Framework* remain; notably, the distinction drawn in the IPSASB conceptual framework between ‘service potential’ and ‘economic benefits’;²⁶

- (b) The IPSASB made amendments to the definition of a liability to reference the potential for resources to be transferred, rather a notion that focusses on the outflow of resources. These amendments better align the IPSASB definition with that of the *Conceptual Framework*. The IPSASB also added guidance on the application of a transfer of resources. This guidance is consistent with that in the *Conceptual Framework*; and
 - (c) The IPSASB added explicit guidance on principal-agent relationships. Specifically, the new content addresses whether custody of resources, or obligations to deliver resources of the principal, give rise to assets and liabilities of the agent. This new content mirrors guidance included in the *Conceptual Framework*, with a minor difference – the *Conceptual Framework* example ‘sale of goods controlled’ is substituted with a reference to ‘distribution of goods controlled’.
- 35 In addition, sections addressing unit of account and binding arrangements that are equally unperformed were added to Chapter 5 of the IPSASB conceptual framework document. These sections largely reflect the corresponding guidance in the *Conceptual Framework*, except that ‘binding arrangements’ could capture more arrangements than just contracts.
- 36 The IPSASB has amended Chapter 7 of the IPSASB conceptual framework document to revise and extend the measurement guidance in the conceptual framework, including addressing subsequent measurement. Several previously identified measurement bases, including replacement cost and market value, were removed from the IPSASB conceptual framework. Current operational value (for assets) and fair value have been added as measurement bases.
- 37 Current operational value is not a measurement base contemplated by the *Conceptual Framework*.
- 38 In staff’s view, it does not appear that any extended guidance (beyond that included in the 2014 IPSASB conceptual framework document or the IASB conceptual framework document) was necessary to the IPSASB’s conceptual framework document as a direct result of the IPSASB’s recent projects finalised in IPSAS 45 *Revenue* and IPSAS 48 *Transfer Expenses*. Staff also note that IPSAS 46 *Measurement* aligns with the revised Chapter 7 of the IPSASB conceptual framework document.

IFR4NPO developments – INPAG Exposure Draft ED1

- 39 The International Financial Reporting by Non-Profit Organisations (IFR4NPO) is undertaking a project to develop international financial reporting guidance for non-profit organisations (NPOs).²⁷ The guidance, when issued, will be called International Non-Profit Accounting Guidance (INPAG). The guidance has been developed using the *IFRS for SMEs* as a starting

26 The AASB has previously noted that it plans to consider the description of service potential in the context of an asset of a NFP entity as part of its project to adapt the *Conceptual Framework* for application by NFP entities (refer AASB 2020-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*.BC240). Proposed paragraph 4.4.1 includes guidance in this regard.

27 An NPO is described as an entity that publishes general purpose financial reports for external users and has all of the following broad characteristics: (1) they have the primary objective of providing a benefit to the public; (2) they direct surpluses for the benefit of the public; and (3) they are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards. ‘The public’ is not presently further described or defined.

point. In some instances, an IPSASB Standard informed the accounting for aspects not addressed by the *IFRS for SMEs*.

- 40 In November 2022, the IFR4NPO issued the first in a series of three exposure drafts planned for finalisation in 2025. The purpose of INPAG Exposure Draft Part 1 (ED1)²⁸ is to create the overarching framework for general purpose financial reports. Consequently, its contents included a description of NPOs and the reporting entity (including identification of users of NPO financial statements), the concepts and pervasive principles that underpin financial reporting, and proposals for financial statement presentation and narrative reporting. The ED closed for comment in March 2023.
- 41 While not describing itself as a conceptual framework, Section 2 *Concepts and pervasive principles* of ED1 sets out concepts consistent with those expected to be included in a conceptual framework document. While briefer, Section 2 largely – but not fully – aligns with the *Conceptual Framework*.
- 42 The Section 2 proposals include:
- (a) that general purpose financial reports aim to meet the accountability and decision-making needs of users that do not have the authority to require NPOs to disclose information to meet their individual needs. Information about management’s stewardship of the entity’s resources is useful in this regard;
 - (b) that the primary users of NPO general purpose financial reports are (1) resource providers, (2) the public receiving services and goods, and (3) those parties fulfilling oversight functions. Stakeholders such as those charged with the entity’s governance, or members and donors who have the authority to request information, are not primary users;
 - (c) in the context of determining the reporting entity – supplementary guidance on branches. Staff note that the *Conceptual Framework* does not explicitly comment on branches; and
 - (d) definitions of assets, liabilities, income and expenses (and accompanying guidance) that largely align to the *Conceptual Framework*. However, consistent with its NPO focus, an economic resource is described as ‘a right that has the potential to produce economic benefits or to provide services and goods in accordance with the NPO’s objectives’ and service potential as ‘the capacity to provide services and goods that contribute to achieving the NPO’s objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows’.
 - (e) descriptions of ‘net assets’, distinguishing it from ‘equity’, and both funds with restrictions and funds without restrictions; and
 - (f) specifying measurement bases that are consistent with the *Conceptual Framework* rather than the IPSASB conceptual framework document.
- 43 ED1 also proposed:
- (a) more reporting, including on the face of the financial statements, of funds (and income and expenses) with restrictions and funds (and income and expenses) without restrictions. This detail not specified by IFRSs responds to stakeholder feedback received by the IFR4NPO that transparency over funds with restrictions is important; and
 - (b) to require reporting about the entity’s service performance. The IFR4NPO considered that the needs and expectations of users of the general purpose financial report can only be

28 [Link to INPAG ED1](#), available on www.ifr4npo.org

met through the inclusion of narrative reporting in addition to the financial information included in financial statements.

- 44 Additionally, in September 2023, the IFR4NPO issued Exposure Draft Part 2 (ED2). ED2 addresses the accounting for revenue from grants and donations, grant expenses, inventories and foreign currency translation. That ED will close for comment in March 2024. Exposure Draft Part 3 (ED3), when issued, will address the accounting for remaining topics.
- 45 ED2 and ED3 are Standards-level accounting requirements. Consequently, they are not directly relevant to the Board’s Conceptual Framework: NFP Amendments project and are not discussed further here. However, the IFR4NPO’s work in this regard may inform Stage 2 of the Board’s Conceptual Framework: NFP Amendments project, or another future Board project, including potentially its work on its post-implementation review of AASB 1058 *Income of Not-for-Profit Entities*.

Literature review

- 46 Table 1 summarises findings from a review of recent academic and other literature that are pertinent to this agenda paper. Several of these papers have been noted previously to the Board as part of work on the NFP Private Sector Financial Reporting Framework project:

Table 1: Summary of recent academic and other literature

Article	Findings
<p>Kober, R, Lee, J and Ng, J (2021) ‘Australian not-for-profit sector views on the conceptual framework, accounting standards and accounting information’, <i>Accounting & Finance</i>, 61(1):1105-1138²⁹</p>	<p>The study found overwhelming support for a conceptual framework that included accountability as an objective of financial reporting and recognised the differences between the nature of for-profit organisations and NFP organisations. The research instrument was a survey of 242 NFP private sector organisation managers and financial statement preparers.</p> <p>Per the study, approximately 47% of respondents agreed that the primary purpose of a conceptual framework in the NFP sector should be ‘accountability’ over ‘decision making’. 32% of respondents selected the mid-point on the scale, and 21.2% of respondents disagreed. The authors concluded that respondents’ comments highlighted the importance placed on the objective of accountability in the NFP sector, but also revealed that decision making may be of relevance within the sector (as evidenced by the number of respondents who selected the mid-point).</p> <p>Having regard to other past research, the authors observed that for a common conceptual framework to be acceptable to the NFP sector, accountability needs to also be included alongside decision making, and state “Without having accountability specifically listed as an objective of financial reporting, it is hard to see how a common conceptual framework could ever meet the requirements of the NFP sector.”</p> <p>The study also reflects on the extent to which accountability is included in the <i>Conceptual Framework</i> and concludes that “... to truly reflect the needs of the NFP sector, accountability would require greater prominence in a manner similar to that of the [IPSASB <i>The Conceptual Framework for General Purpose Financial</i></p>

29 Link to the article: <https://doi.org/10.1111/acfi.12605>

Article	Findings
	<p><i>Reporting by Public Sector Entities</i>], in which both accountability and decision making are given equal importance.”</p> <p><i>Staff comment: The study’s findings are relevant to a possible future review of the objective of general purpose financial reporting and consideration whether accountability should be separated from decision-making in a conceptual framework document applicable to NFP entities.</i></p>
<p>Gilchrist, D J, West, A and Zhang, Y (2023) ‘Barriers to the Usefulness of Non-profit Financial Statements: Perspectives From Key Internal Stakeholders’, <i>Australian Accounting Review</i>, 33(2):188-202³⁰</p>	<p>The study examined the usefulness of Australian accounting standards from the point of view of non-profit directors, preparers of non-profit financial statements and their auditors. The research was conducted as a series of roundtables of preparers, auditors and directors.</p> <p>Part of the study examined the users of NFP private sector entity financial statements. There was agreement that NFP private sector entities are accountable to the ACNC, ASIC and the ATO. Other users identified included financial resource providers (government procurers and philanthropists) as important consumers of accountability outputs, including financial reports. These funders were considered to use the general purpose financial statements as a form of triaging, even if they could subsequently command more specific information from the entity.</p> <p>Members were also seen as a group of users. However, a lack of financial literacy and the extent to which members may be empowered by the constitution to have an impact were seen as influencing the extent to which general purpose financial statements are useful to these users.</p> <p>Other users identified by participants in the study included partner organisations, ‘competitor’ NFP entities, and the directors of the NFP entity. In addition, the authors reported that preparers commented that, while not regarded as ‘top-of-the-mind’ users, the Covid pandemic may have changed their perception of creditors, service users and staff from ‘likely’ users to ‘actual’ users.</p> <p>The study also received feedback from the preparer and director cohorts that NFP private sector entity directors may not be sufficiently financial literate or interested in the financial report (beyond it being prepared and that there are no solvency issues), as they are there to support the NFP entity’s mission. The auditor cohort agreed that experience and technical capacity are significant constraints on the ability of directors to be accountable with regards to the financial statements, but that there is insufficient funding provided to support administrative processes.</p> <p>Additionally, the authors reported that participants in the study did not see utility in the financial reports beyond meeting regulatory requirements. Outcomes measurement and performance measurement were regarded as being of greater</p>

30 Link to the article: <https://doi.org/10.1111/auar.12401>

Article	Findings
	<p>importance to funders, while the financial report and audit report were simply underlying reports necessary to provide comfort.</p> <p><i>Staff comment: The study's findings are relevant to a possible future review of the objective of general purpose financial reporting and consideration whether accountability should have more prominence in a conceptual framework for NFP entities. It also provides evidence regarding further user groups of the financial statements of NFP entities.</i></p>
<p>Saj, P and Cheong, C (2020) 'The Application of the Reporting Entity Concept by Australian Charities', Australian Accounting Review, 30(4): 283-299³¹</p>	<p>The study examined, for a sample of ACNC entities that were not subject to mandatory requirements to prepare general purpose financial statements, whether the presence of a SAC 1 'reporting entity' factor influenced the form of the lodged 2014 financial statements. It concluded that there is inconsistent application of the reporting entity concept by Australian charitable organisations.</p> <p>Amongst its findings, the study noted that of the 57 charities that prepared special purpose financial statements and categorically stated that there are no users dependent on its financial statements:</p> <ul style="list-style-type: none"> • 28 (49%) had a separation of management from membership; • 11 (19%) had raising money from the public as an objective; • 39 (68%) had deductible gift recipient status; and • 22 (39%) made their full financial statements and/or summary financial figures available to the public. <p>The authors observed that a finding that a majority of trusts (69.2%) prepared special purpose financial statements was not surprising for reason that most trusts have no members, homogeneous governance arrangements and few external stakeholders. However, the authors found that the majority (72.2%) of incorporated associations prepared special purpose financial statements to be puzzling as most are member-based.</p> <p><i>Staff comment: The study's findings are relevant to further understanding who the users of the financial statements of an NFP entity are, and are suggestive that some NFP private sector entities see the purpose of the financial statements as the discharge of its accountability, rather than for user decision-making.</i></p>
<p>Jubb, C, Muir, J, Pathirana, N and Shying, M. (2022) 'Annual Reports of Australian Public Sector Organisations – Insights from stakeholders', CPA Australia publication³²</p>	<p>This study examined how public sector organisations across the three levels of government (federal, state and local) use the annual report, including the financial statements, to show they are accountable. The authors surveyed/interviewed 34 participants representing audit committee members, councillors, media representatives, members of the public, monitors, parliamentarians, and report preparers.</p>

31 Link to the article: <https://doi.org/10.1111/auar.12306>

32 Link to the publication (November 2022), available from www.cpaaustralia.com.au

Article	Findings
	<p>The research tool drew a distinction between accountability and stewardship. Accountability was described in terms of whether the entity is accountable for its management and use of resources, while stewardship was depicted as the care the entity takes with public money and other assets. The study reported that:</p> <ul style="list-style-type: none"> • 88% of the study participants considered that the financial report met their needs for accountability; but only • 72% thought that the financial report met their stewardship needs. <p>The detailed participant feedback to this part of the study and the study findings from other questions showed that participants interpreted accountability and stewardship differently. More respondents considered that the financial report met their information needs regarding accountability compared to stewardship.</p> <p>In addition, only 28% considered the financial report to provide information that was useful for other purposes.</p> <p>The study also sought feedback whether consolidation as well as separate financial statements were needed for accountability. There appears there could be mixed feedback in this regard, especially with regards to whole of government reporting. This finding may be of relevance when the Board considers the scope of Stage 2 of its project.</p> <p>Participants were also interviewed on challenges in preparing the financial report. Several participants made comments consistent with querying the appropriateness of fair value as a measurement basis for infrastructure assets.</p> <p>Interviewees also highlighted the significance of reporting on outcomes; commenting on the inability to track from the financial report to entities' objectives, financial plans, asset plans or outcomes and the challenge of seeing links between strategies and risks.</p> <p><i>Staff comment: This study provides evidence that stewardship and accountability are perceived by users to be different concepts. The conceptual framework for NFP entities in Australia presently views them as the same.</i>³³</p>

33 Paragraphs BC8 and BC11 of the Basis for Conclusions to the *Framework for the Preparation and Presentation of Financial Statements* refer to 'accountability or stewardship' and 'accountability (or stewardship)'. This is consistent with how the term 'stewardship' has been depicted in the IASB *Conceptual Framework for Financial Reporting*. Paragraph BC1.33 of the IASB *Conceptual Framework for Financial Reporting* states, "The Board reintroduced the term 'stewardship' and, in describing the objective of general purpose financial reporting, gave more prominence to the importance of providing information needed to assess management's stewardship of the entity's economic resources. That extra prominence contributes to highlighting management's accountability to users for economic resources entrusted to their care."

PART C: Confirmation of the Board's previous decisions

- 47 As mentioned in paragraphs 6 – 7 above, by its 16-17 September 2020 meeting the Board had made a number of decisions on the amendments to make (or not make) to the *Conceptual Framework* as part of Stage 1 of its project. These decisions include the additional paragraphs to insert into the *Conceptual Framework* to address NFP-specific matters or provide NFP-specific context.³⁴ The final text of these paragraphs has not yet been approved, and staff had committed to further consider Panel member drafting recommendations.
- 48 At this meeting, and noting developments since September 2020, staff are seeking for the Board to reconfirm that they continue to agree with inserting these additional paragraphs as part of Stage 1 of the Board project. If so, staff will continue developing the text of these paragraphs.

Scope of the *Conceptual Framework* amendments – superseding SAC 1 for NFP public sector entities

- 49 The *Conceptual Framework* uses the term 'reporting entity' to identify the boundary of the entity for which financial statements are prepared. This created an inadvertent complexity for Australian entities because the Australian accounting framework references a 'reporting entity concept' as a means of identifying the entities that must prepare general purpose financial statements.
- 50 The objective of Stage 1 of the Board project is to extend the application of the *Conceptual Framework* to NFP entities. Resultantly, SAC 1 and the reporting entity concept would be superseded. Practically, this will be actioned via making:
- (a) amendments to application paragraph Aus1.1 of the *Conceptual Framework*, to extend the set of entities to which it applies. Per paragraph Aus1.3 of the *Conceptual Framework*, SAC 1 does not apply to entities within the scope of paragraph Aus1.1; and
 - (b) consequential amendments to other Australian Accounting Standards.
- 51 At its 4 May 2023 meeting, the Board heard feedback from the Tier 3 DP (refer paragraph 10 above) and decided to proceed with developing an ED of its proposals to remove the ability of certain NFP private sector entities to prepare special purpose financial statements under Australian Accounting Standards.³⁵
- 52 The Board has not yet reconfirmed its decision to remove the ability of certain NFP public sector entities to prepare special purpose financial statements under Australian Accounting Standards.
- 53 When previously forming its view to extend the *Conceptual Framework* to NFP public sector entities at the same time as NFP private sector entities, the Board observed that the public sector financial reporting considerations are different to those in for-profit and not-for-profit private sector.³⁶ The outcome of ITC 39 also noted that the removal of special purpose financial statements is expected to have limited impact in the public sector.³⁷ Therefore, the Public Sector Financial Reporting Framework project plan had reflected the scenario that the Board's

34 [Link to the minutes of the 16-17 September 2020 AASB meeting](#)

35 [Link to the minutes of the 4 May 2023 AASB meeting](#)

36 See paragraph BC80 of AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*

37 [AASB Staff FAQ: Replacing the reporting entity concept and removing the option for special purpose financial statements \(October 2018\)](#). The Board's view was made having regard to the feedback initially gathered from outreach conducted in relation to AASB ITC 39 (May 2018).

Conceptual Framework: NFP Amendments project would be completed prior to the finalisation of a review of the public sector financial reporting framework.³⁸

- 54 As reported in paragraphs 27 – 30, staff have conducted targeted outreach to further understand the costs of removing the reporting entity concept for the NFP public sector before such time as the Board completes its Public Sector Financial Reporting Framework project. The findings from that outreach suggest that it is possible a not insignificant portion of NFP public sector-related entities will be impacted by the proposals. However, overall, it continues to appear that the expectation of special purpose financial statements being less prevalent in the public sector compared to the NFP private sector is not invalid.
- 55 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:
- (a) the ED stage provides an opportunity to test the proposal and gather further data to understand the costs to the public sector of finalising the Board proposal;
 - (b) the disadvantages of doing otherwise would outweigh any benefit of further delay of setting standards under a single conceptual framework for all Australian entities. It would continue the current somewhat unwieldy standard-setting process and put pressure on the Board to commit resources to a separate NFP public sector project;
 - (c) the Board has not received any significant stakeholder pushback in relation to this proposal exposed in its Tier 3 DP;
 - (d) in responding to the Tier 3 DP, several stakeholders observed that bringing consistency between the for-profit and NFP sector in the way it is determined who must comply with accounting standards, and in terminology, would reduce complexity for NFP entities. While these comments were made in relation to the NFP private sector entity population, staff think the comment is similarly valid regarding the NFP public sector entity population;
 - (e) reducing the population of entities that prepare special purpose financial statements will improve accountability and transparency of Australian entities' financial position and performance; and
 - (f) transition support can be developed, if needed, to assist NFP public sector-related entities impacted by the proposals. For example, a longer lead time may assist entities who want to change their constitution to enable special purpose financial statements to continue to be prepared because such financial statements are determined to provide the entity's users with adequate information.
- 56 Staff note that the Board has not yet specifically considered the whether the proposed scope of the *Conceptual Framework* should include a carve out that mirrors that applying to for-profit entities. That is, for 'grandfathering' to apply to certain existing special purpose financial statements. Staff will bring analysis and a staff recommendation on this matter to a future meeting, most likely as part of an ED (if the Board determines to proceed with the development of such).

38 Refer [Agenda Paper 3.2 of 20-21 April 2021 AASB meeting](#)

Question for Board members:

- Q2 Do Board members agree with the staff recommendation in paragraph 55 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)?

September 2020 *Conceptual Framework* amendments

- 57 At its 16-17 September 2020 meeting, the Board considered staff's analysis of the *Conceptual Framework*, including a comparison to the IPSASB 2014 conceptual framework document.³⁹ The Board decided that all the Chapters of the *Conceptual Framework* should apply to NFP entities, and determined to add several NFP-specific paragraphs into the *Conceptual Framework*.
- 58 Except for one further potential amendment, no other changes were determined to be necessary to address differences between *Conceptual Framework* or the IPSASB conceptual framework document then in effect. The Board in 2020 deferred discussion of whether to also scope out non-financial liabilities arising in relation to non-financial assets held primarily for their service potential from paragraphs 6.55-6.56 of the *Conceptual Framework*. This is discussed further in the staff comment against paragraph Aus6.56.1 in Table 2 below. The Board is not asked to decide on an amendment in this regard at this meeting.
- 59 Table 2 describes the amendments considered by the Board, including the location of the proposed paragraphs into the *Conceptual Framework*, the topic of the amendment, and comment about the proposed insertion. This table is followed by staff analysis and recommendation as to whether the Board should reconfirm its September 2020 decisions to insert the Aus paragraphs into the *Conceptual Framework*.

39 Agenda Papers [10.1](#), [10.2](#), and [10.3](#) of the 16-17 September 2020 AASB meeting

Table 2: Proposed new Aus paragraphs for the *Conceptual Framework*

Proposed location in the <i>Conceptual Framework</i>	Draft text considered by the Board at its 16-17 September 2020 meeting for inclusion in the <i>Conceptual Framework</i>	Theme/Purpose	Staff comment
AusSP1.5.1	<p>In respect of not-for-profit entities, the <i>Conceptual Framework</i> 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 <i>Conceptual Framework</i> also, in respect of not-for-profit entities, provides the foundation for Standards that:</p> <p>(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 <i>Conceptual Framework</i> provide information needed to hold management to account.</p> <p>(b) contribute to economic efficiency 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.</p>	<p>Explains that the <i>Conceptual Framework</i> contributes to the stated mission of the Board with regards to NFP entities, and describes how it provides the foundation for Standards that strengthen accountability and contribute to economic efficiency in the NFP sector</p>	<p>The proposed paragraph provides a counterbalance to the commentary in paragraph SP1.5, which is targeted at the private sector.</p> <p>Paragraph SP1.5 does not exist in the <i>Framework for the Preparation and Presentation of Financial Statements</i>.</p>
Aus1.2.1	<p>Among the users of financial information about a not-for-profit reporting entity 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 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, 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</p>	<p>Clarifies that users of financial information about a NFP entity may differ from those of a for-profit entity, and identifies these (primary) users</p>	<p>This is a proposed transfer of paragraph AusOB2.1 of the <i>Framework for the Preparation and Presentation of Financial Statements</i>. The paragraph is considered to still be relevant for inclusion in the <i>Conceptual Framework</i>, to provide NFP-specific commentary against the related <i>Conceptual Framework</i> paragraph.</p>

Proposed location in the <i>Conceptual Framework</i>	Draft text considered by the Board at its 16-17 September 2020 meeting for inclusion in the <i>Conceptual Framework</i>	Theme/Purpose	Staff comment
	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. 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.		
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.	Clarifies that users of financial a NFP entity are concerned with the ability of the entity to achieve its objectives, rather than primarily on a financial return	<p>This is a proposed transfer of paragraph AusOB3.1 of the <i>Framework for the Preparation and Presentation of Financial Statements</i>, amended to:</p> <ul style="list-style-type: none"> (a) refer also to ‘stewardship’; mirroring the reference to ‘stewardship’ in paragraph 1.3 of the Conceptual Framework; 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 NFP context to the fourth sentence in paragraph 1.13 of the <i>Conceptual Framework</i>. <p>The paragraph is considered to still be relevant for inclusion in the <i>Conceptual Framework</i>, to provide NFP-specific commentary against the related <i>Conceptual Framework</i> paragraph.</p>
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	Clarifies that for NFP entities, transactions in equity instruments and distributions to investors typically do not occur	Paragraph Aus1.15.1 is entirely new; its inclusion reflects a reassessment of the extent to which NFP-specific commentary is needed in the <i>Conceptual Framework</i> for a balanced coverage of all sectors.

Proposed location in the <i>Conceptual Framework</i>	Draft text considered by the Board at its 16-17 September 2020 meeting for inclusion in the <i>Conceptual Framework</i>	Theme/Purpose	Staff comment
	<p>interests, that generates surpluses to subsidise the service-delivery activities of that not-for-profit parent entity).⁶</p> <p><i>Footnote 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.</i></p>		<p>The proposed paragraph provides a counterbalance to the commentary in paragraphs 1.15 and 1.20, regarding transactions in equity instruments and distributions to investors, which is not as relevant to NFP entities. Except for references to stewardship, paragraphs 1.15 and 1.20 are the same as paragraphs OB15 and OB20 of the <i>Framework for the Preparation and Presentation of Financial Statements</i>.</p>
Aus1.16.1	<p>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:</p> <p>(a) the volume and cost of future services; and</p> <p>(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.</p>	<p>Clarifies that, for NFP entities, information about its 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</p>	<p>Paragraph Aus1.16.1 is entirely new; its inclusion reflects a reassessment of the extent to which NFP-specific commentary is needed in the <i>Conceptual Framework</i> for a balanced coverage of all sectors.</p> <p>The proposed paragraph provides a counterbalance to the commentary in paragraphs 1.15 – 1.16 regarding references to returns on resources and future cash flows, which is not as relevant to NFP entities. Except for references to stewardship, paragraphs 1.15 – 1.16 are the same as paragraphs OB15 – OB16 of the <i>Framework for the Preparation and Presentation of Financial Statements</i>.</p>
Aus1.18.1	<p>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</p>	<p>Clarifies that users of an NFP entity need information that helps them understand the</p>	<p>The first sentence of paragraph Aus1.18.1 is a transfer of paragraph AusOB18.1 of the <i>Framework for the Preparation and Presentation of Financial Statements</i>, augmented by the addition of a reference to stewardship; mirroring the reference in</p>

Proposed location in the <i>Conceptual Framework</i>	Draft text considered by the Board at its 16-17 September 2020 meeting for inclusion in the <i>Conceptual Framework</i>	Theme/Purpose	Staff comment
	entity provides. These assessments are in addition to others mentioned in paragraph Aus1.16.1.	ability of the entity to achieve its objectives	<p>paragraph 1.18 of the <i>Conceptual Framework</i>. The text is considered to still be relevant for inclusion in the <i>Conceptual Framework</i>, to provide NFP-specific commentary against the related <i>Conceptual Framework</i> paragraph.</p> <p>The second sentence of paragraph Aus1.18.1 is added to provide a cross-reference to the more general comments about NFP entities' stewardship in new paragraph Aus1.16.1.</p>
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. This results in more efficient allocation of loan capital and, most importantly, other scarce resources to not-for-profit entities throughout the economy.	Explains that reporting useful financial information will overall result in the more efficient allocation of loan capital and other scarce resources to NFP entities throughout the economy	<p>Paragraph 2.41 is the same as paragraph QC37 of the <i>Framework for the Preparation and Presentation of Financial Statements</i>. Proposed paragraph Aus2.41.1 is entirely new; its inclusion reflects a reassessment of the extent to which NFP-specific commentary is needed in the <i>Conceptual Framework</i> for a balanced coverage of all sectors.</p> <p>The proposed paragraph provides a counterbalance to the commentary in paragraph 2.41 regarding capital markets and a lower cost of capital, which is not as relevant to NFP entities.</p>
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. Consequently, 'the potential to produce economic benefits' (and related terms) is used in the <i>Conceptual Framework</i> as a reference also to the potential to produce services (described elsewhere	In respect of the definition of an asset – clarifies that, for an NFP entity, the potential to produce economic benefits should be read as a reference also to the potential to produce	<p>This is a transfer of 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> <p>The paragraph is considered to still be relevant for inclusion in the <i>Conceptual</i></p>

Proposed location in the <i>Conceptual Framework</i>	Draft text considered by the Board at its 16-17 September 2020 meeting for inclusion in the <i>Conceptual Framework</i>	Theme/Purpose	Staff comment
	in the <i>Conceptual Framework</i> as ‘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.	services (service potential)	<i>Framework</i> , to provide NFP-specific commentary against the related <i>Conceptual Framework</i> paragraph.
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.	Clarifies that, for a NFP entity, the provision of goods and services may not result in cash inflows to the entity	This is a transfer of 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> . The paragraph is considered to still be relevant for inclusion in the <i>Conceptual Framework</i> , to provide NFP-specific commentary against the related <i>Conceptual Framework</i> paragraph.
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.	Clarifies that, for a NFP 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	This is a transfer of paragraph Aus54.2 of the <i>Framework for the Preparation and Presentation of Financial Statements</i> . The paragraph is considered to still be relevant for inclusion in the <i>Conceptual Framework</i> , to provide NFP-specific commentary against the related <i>Conceptual Framework</i> paragraph.
Aus4.25.1	Examples of where not-for-profit entities act as an agent of another entity and have custody of economic resources controlled by the principal are where public sector not-for-profit entities collect taxes, fines or fees on behalf of other entities; and where not-for-profit entities (in either the public or private sector) receive resources for transfer to eligible beneficiaries in accordance with legislation or other external authority. Where the not-for-profit entity with custody of the economic resources	Adds NFP-specific examples of an agent-principal relationship that does not result in assets or liabilities of the agent	The <i>Conceptual Framework</i> includes a discussion of the treatment of economic resources held as an agent on behalf of a principal that controls them. Proposed paragraph Aus4.25.1 provides balance between for-profit and NFP examples of the same principle, particularly in view of the

Proposed location in the <i>Conceptual Framework</i>	Draft text considered by the Board at its 16-17 September 2020 meeting for inclusion in the <i>Conceptual Framework</i>	Theme/Purpose	Staff comment
	lacks either, or both, the present ability to direct the use of the economic resources and the present ability to obtain the economic benefits that may flow from the economic resources, it does not control the economic resources.		prevalence and importance of agency relationships in the NFP sector. The paragraph does not have a counterpart in the <i>Framework for the Preparation and Presentation of Financial Statements</i> as that document does not include an equivalent discussion.
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 <i>Conceptual Framework</i> 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.	Clarifies that a NFP entity would not typically have equity claims over it, and that consequently, references in the <i>Conceptual Framework</i> to an equity claim should be read instead as a reference to residual interests in the entity	Proposed paragraph Aus4.67.1 provides necessary NFP context to the term 'equity claim', as in the NFP sector, the 'residual interest' referred to in paragraph 4.63 often is not (or is not regarded as) an 'equity claim'. The paragraph does not have a counterpart in the <i>Framework for the Preparation and Presentation of Financial Statements</i> , as the term 'equity claim' is new to the <i>Conceptual Framework</i> .
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 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.	Clarifies that, for a NFP entity, the predictive value of historical cost information is not limited to predicting future margins	Proposed paragraph Aus6.30.1 provides necessary NFP context to paragraph 6.30, as in the NFP 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. Paragraph Aus6.30.1 does not have a counterpart in the <i>Framework for the Preparation and Presentation of Financial Statements</i> as it pertains to paragraph 6.30, which is 'new' to the <i>Framework for the</i>

Proposed location in the <i>Conceptual Framework</i>	Draft text considered by the Board at its 16-17 September 2020 meeting for inclusion in the <i>Conceptual Framework</i>	Theme/Purpose	Staff comment
			<i>Preparation and Presentation of Financial Statements.</i>
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.	Clarifies that, for a NFP entity, the predictive value of current cost information is not limited to predicting future margins	Proposed paragraph Aus6.41.1 provides necessary NFP context to paragraph 6.41, as in the NFP 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 notes that ‘margins’ might be assessed more broadly in NFP entities, as cost recoveries could occur through income received at an entity-wide level. Paragraph Aus6.41.1 does not have a counterpart in the <i>Framework for the Preparation and Presentation of Financial Statements</i> as it pertains to paragraph 6.41, which is ‘new’ to the <i>Conceptual Framework</i> .
Aus6.56.1	Paragraphs 6.55–6.56 do not apply to: (a) non-financial assets of not-for-profit entities held primarily for their service potential (ie not primarily to generate net cash inflows); and (b) non-financial liabilities that arose in connection with the use of those non-financial assets (eg provisions for restoration of assets).	Clarifies that the relevance of different measurement bases to non-financial assets held primarily for their service potential does not depend on whether the asset produces cash flows directly or indirectly	As presently drafted, the proposed amendment scopes non-financial assets of NFP entities held primarily for their service potential, and related non-financial liabilities, out of paragraphs 6.55 and 6.56. At the Board’s 16-17 September 2020 meeting, the Board decided to make a NFP amendment to scope out non-financial assets of NFP entities held primarily for their service potential from paragraphs 6.55-6.56. The Board decided to

Proposed location in the <i>Conceptual Framework</i>	Draft text considered by the Board at its 16-17 September 2020 meeting for inclusion in the <i>Conceptual Framework</i>	Theme/Purpose	Staff comment
			<p>defer making a decision with regards to whether to similarly scope out non-financial liabilities arising in relation to those assets pending further staff research and analysis. Staff will bring analysis and a staff recommendation on this matter to a future Board meeting, if the Board decides to proceed with developing an ED.</p> <p>Proposed paragraph Aus6.56.1 necessarily excludes non-financial assets of NFP entities held primarily for their service potential from paragraphs 6.55-6.56. This is because those paragraphs provide guidance on the selection of a measurement basis that is based on an asset or liability's ability to produce cash flows directly. Whether a non-financial asset of a NFP entity held primarily for its service potential (and not primarily to generate net cash inflow) produces cash flows directly or indirectly has no bearing on the relevance of different measurement bases to it.</p> <p>Paragraph Aus6.56.1 does not have a counterpart in the <i>Framework for the Preparation and Presentation of Financial Statements</i> as it pertains to paragraphs 6.55-6.56, which are 'new' to the <i>Conceptual Framework</i>.</p> <p>At the Board's 16-17 September 2020 meeting, staff also reported that a Conceptual Framework Project Advisory Panel member had recommended rewording paragraphs 6.55 and 6.56 in a more NFP-</p>

Proposed location in the <i>Conceptual Framework</i>	Draft text considered by the Board at its 16-17 September 2020 meeting for inclusion in the <i>Conceptual Framework</i>	Theme/Purpose	Staff comment																		
			oriented manner, rather than creating a scope out. Staff will consider the drafting comment further if the Board decides to reconfirm that an amendment to the <i>Conceptual Framework</i> is necessary in this regard.																		
Appendix	<p><i>Staff note: New text is indicated by underline.</i></p> <p>The following defined terms are extracted or derived from the relevant paragraphs of the <i>Conceptual Framework for Financial Reporting</i>. <u>Defined terms that apply specifically to not-for-profit entities are preceded by 'NFP:'.</u></p> <table border="0"> <tr> <td data-bbox="443 703 600 759">economic resource</td> <td data-bbox="611 703 1070 759">A right that has the potential to produce economic benefits.</td> <td data-bbox="1081 703 1238 759">CF.4.4</td> </tr> <tr> <td data-bbox="443 783 600 871"><u>NFP: economic resource</u></td> <td data-bbox="611 783 1070 871"><u>A right that has the potential to produce economic benefits (including a right with service potential).</u></td> <td data-bbox="1081 783 1238 871"><u>CF.Aus4.4.1</u></td> </tr> <tr> <td data-bbox="443 895 600 983">equity claim</td> <td data-bbox="611 895 1070 983">A claim on the residual interest in the assets of the entity after deducting all its liabilities.</td> <td data-bbox="1081 895 1238 983">CF.4.64</td> </tr> <tr> <td data-bbox="443 1007 600 1078"><u>NFP: equity claim</u></td> <td data-bbox="611 1007 1070 1078"><u>A residual interest in the entity, whether held as an equity claim or otherwise.</u></td> <td data-bbox="1081 1007 1238 1078"><u>CF.Aus4.67.1</u></td> </tr> <tr> <td data-bbox="443 1094 600 1254">primary users (of general purpose financial reports)</td> <td data-bbox="611 1094 1070 1150">Existing and potential investors, lenders and other creditors.</td> <td data-bbox="1081 1094 1238 1150">CF.1.2</td> </tr> <tr> <td data-bbox="443 1270 600 1390"><u>NFP: primary users (of general purpose</u></td> <td data-bbox="611 1270 1070 1390"><u>Existing and potential resource providers (such as investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (such as</u></td> <td data-bbox="1081 1270 1238 1390"><u>CF.Aus1.2.1</u></td> </tr> </table>	economic resource	A right that has the potential to produce economic benefits.	CF.4.4	<u>NFP: economic resource</u>	<u>A right that has the potential to produce economic benefits (including a right with 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>NFP: equity claim</u>	<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>NFP: primary users (of general purpose</u>	<u>Existing and potential resource providers (such as investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (such as</u>	<u>CF.Aus1.2.1</u>	Add to the listing of defined terms, the modified-for-NFP-entities definitions of 'equity resources', 'equity claim' and 'primary users'	To avoid confusion, it is necessary to add to the listing of defined terms where, and how, a term has been modified (through the proposed Aus paragraphs) for NFP entities. <i>The Framework for the Preparation and Presentation of Financial Statements</i> does not include a similar Appendix.
economic resource	A right that has the potential to produce economic benefits.	CF.4.4																			
<u>NFP: economic resource</u>	<u>A right that has the potential to produce economic benefits (including a right with 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>NFP: equity claim</u>	<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>NFP: primary users (of general purpose</u>	<u>Existing and potential resource providers (such as investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (such as</u>	<u>CF.Aus1.2.1</u>																			

Proposed location in the <i>Conceptual Framework</i>	Draft text considered by the Board at its 16-17 September 2020 meeting for inclusion in the <i>Conceptual Framework</i>	Theme/Purpose	Staff comment
	<u>financial reports)</u> <u>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>		

Users of NFP financial statements

- 60 The purpose of Stage 2 of this project is to address the more significant and complex conceptual issues affecting NFP entities. This includes further consideration of the primary users of general purpose financial statements. Consequently, the amendment proposed as Aus1.2.1 as part of Stage 1 of this project are a 'light touch', being made primarily to maintain the status quo.
- 61 Appropriate identification of the users of NFP financial statements is important as it enables the Board to develop suitable accounting requirements for the general purpose financial statements. In this regard, a question about the appropriateness of the NFP users of general purpose financial statements identified in the *Framework for the Preparation and Presentation of Financial Statements* was included in the Tier 3 DP (see paragraph 19 above). Feedback from this question also informs on the appropriateness of inserting the 'NFP user' paragraph from the *Framework for the Preparation and Presentation of Financial Statements*, without amendment, into the *Conceptual Framework* as part of Stage 1 of this project.
- 62 Having regard to the feedback from the Tier 3 DP, literature review and other standard-setting developments set out in Part B of this paper, staff note:
- (a) partner organisations, 'competitor' NFP entities, professional advisors, researchers, journalists, and the directors of the NFP entity have been suggested as other users of the general purpose financial statements of a NFP entity. These parties do not appear to be captured by one of described categories (resource providers, recipients of goods and services, and parties performing a review or oversight function) in proposed paragraph Aus1.2.1. However, staff think that consideration of whether the categories of users of NFP financial statements should be extended, and if so, how, is beyond the scope of Stage 1 of the Board project;
 - (b) philanthropists, government bodies,⁴⁰ members and regulators have been identified as other users of the general purpose financial statements of a NFP entity. These parties appear to be already captured by one of described categories (resource providers, recipients of goods and services, and parties performing a review or oversight function) in proposed paragraph Aus1.2.1. As the listing of example users described in proposed paragraph Aus1.2.1 is not meant to be exhaustive, staff think that it is not necessary to make any changes in this regard as part of Stage 1 of the Board project. However, the Board may determine to add to, or otherwise revise, the existing examples as part of Stage 2 of its project;
 - (c) staff reported at the 16-17 September 2020 AASB meeting that a Conceptual Framework Project Advisory Panel member was of the view that regulators and advisors of members of parliament (as parties performing a review or oversight function) are not primary users of the financial statements of a NFP entity. Noting this, staff observe the finding from academic literature suggesting that regulators are key users of the financial statements.⁴¹

In addition, while three stakeholders to the Tier 3 DP overall did not support the Board proposal regarding identification of the primary users of NFP financial statements (see paragraph **Error! Reference source not found.** above), it is not obvious that these stakeholders objected specifically to the inclusion of regulators and advisors as primary

40 as potential funders to, or customers of, the NFP entity

41 Gilchrist, D J, West, A and Zhang, Y (2023) 'Barriers to the Usefulness of Non-profit Financial Statements: Perspectives From Key Internal Stakeholders', *Australian Accounting Review*, 33(2):188-202 (refer paragraph 46 above)

users. Accordingly, on balance, staff think that the Board should not at this time make any amendment to the identified users in proposed paragraph Aus1.2.1; and

- (d) INPAG ED1 proposes the same categories of users as that included in the *Framework for the Preparation and Presentation of Financial Statements*.

Objective of general purpose financial reporting, accountability and stewardship

- 63 There is academic research (see paragraph 46) that suggests that accountability may need to be given greater prominence in a NFP conceptual framework. Similarly, the feedback from the Tier 3 DP indicates that there is a minority view that the objective of general purpose financial reporting in the *Conceptual Framework* is not appropriate for NFP entities. These add further evidence that the objective of general purpose financial reporting, including the role of accountability, could be a matter for further consideration by the Board, albeit as part of Stage 2 of the Board project due to the infeasibility of addressing such matter as part of Stage 1.
- 64 In addition, staff note that stewardship is used in the *Conceptual Framework* to capture the notion of accountability. The findings from the CPA publication *Annual Reports of Australian Public Sector Organisations – Insights from stakeholders*⁴² could suggest that stewardship might be viewed differently from accountability by public sector stakeholders (see paragraph 46). This finding is reinforced by the feedback from one of the respondents to the Tier 3 DP that similarly drew a distinction between stewardship and accountability. It is possible that the term as used in the *Conceptual Framework* could potentially be given an unintended meaning by the reader.
- 65 Staff think that the finding from the CPA publication is a matter that warrants further investigation, as it presents a further dimension to the accountability vs. decision making issue. However, staff think it is not feasible to do so as part of Stage 1 of this project.
- 66 However, in recognition of the research, staff considered whether it would be prudent to minimise the references to stewardship in proposed paragraphs AusSP1.5.1, Aus1.3.1, Aus1.16.1 and Aus1.18.1 (refer Table 2). Staff think that it is not necessary to do so, as the text is simply a reference to the wording of the related *Conceptual Framework* paragraph.

Definition of an asset and liability

- 67 As noted in paragraph 6 above, the Board previously decided that no other additions were necessary to address differences between *Conceptual Framework* or the IPSASB conceptual framework document then in effect. Since that time, the IPSASB has completed a limited update of Chapter 5 of its conceptual framework document, including to largely align its definition of an asset and liability with that of the IASB.
- 68 However, differences remain, reflecting the public sector focus of the IPSASB. Notably, the IPSASB definitions and guidance continue to refer to reference an asset's service potential. Consequently, staff think it is still necessary to continue to make the amendments in proposed paragraphs Aus4.4.1, Aus4.16.1 and Aus4.16.2 (refer Table 2).
- 69 Staff note that the manner in which service potential is treated in the IPSASB conceptual framework document remains different to how it has been regarded in Australian conceptual framework documents. For assets, the IPSASB conceptual framework document regards a right to service potential as distinct to a right to the capability to generate economic benefits. The proposed NFP amendment considers the potential to produce economic benefits to be synonymous with the notion of service potential.
- 70 The Board is currently undertaking a post-implementation review (PIR) of AASB 1058 *Income of Not-for-Profit Entities* and the NFP Australian implementation guidance to AASB 15 *Revenue from Contracts with Customers*. Staff expect to seek a Board decision at a future meeting in

42 Jubb, C, Muir, J, Pathirana, N and Shying, M. (2022) 'Annual Reports of Australian Public Sector Organisations – Insights from stakeholders', CPA Australia publication

2024 whether and how to address the feedback gathered. Staff note AASB in its submission⁴³ on the related IPSASB exposure drafts that it was not clear how IPSASB proposals regarding requirements to perform specified activity or incur eligible expenditure would give rise to a liability for the transfer recipient. Whilst the proposals finalised in IPSAS 47 *Revenue* refer to IPSASB conceptual framework-consistent concepts of binding arrangement and ‘compliance obligations’, staff note that in December 2023, NZASB staff queried the adequacy of the IPSASB conceptual framework document in relation to helping to apply IPSAS 47.⁴⁴ Depending if and how the Board decide to address the feedback from the above mentioned 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. However, the timing of such consideration resulting from the PIR is unlikely to coincide with Stage 1 of this project.

Agent-principal relationships that do not result in assets or liabilities of the agent

- 71 Paragraph Aus4.25.1 had been proposed for inclusion to provide NFP-specific examples of economic resources held as an agent on behalf of a principal that controls them (such as administered items). This paragraph was considered to be important in view of the prevalence and importance of agency relationships in the NFP sector.
- 72 Staff reported to the Board at the 16-17 September 2020 AASB meeting that two Conceptual Framework Project Advisory Panel members were concerned that proposed paragraph Aus4.25.1, as drafted, did not add anything in a NFP context and might create confusion about whether grants are provided as agency agreements. Staff proposed then to review the paragraph in more detail having regard to those comments following the Board meeting.
- 73 As noted in paragraph 34(c), since that time, the IPSASB has revised its conceptual framework guidance to include content about agent-principal relationships that mirrors, with a minor difference, that of the *Conceptual Framework*. Staff’s review of IPSASB Basis for Conclusions suggests that the IPSASB considered this guidance to be sufficient without further reference to examples of principal-agent relationships such as those currently described in the draft Aus paragraph, or to extend the guidance to include a discussion of control.
- 74 Staff continue to think that it would be useful to acknowledge agent-principal relationships in the NFP sector for reason of their prevalence and importance. However, in light of the feedback and findings noted in paragraphs 72 and 73 above, staff intend to limit the drafting of proposed paragraph Aus4.25.1 to an acknowledgement that for NFP entities, goods may be distributed rather than sold.

Unit of account

- 75 As noted in paragraph 35, the previous IPSASB conceptual framework document did not contain guidance on unit of account. This is because the IPSASB view at that time was that this was a standards-level issue. However, the IPSASB has since decided to insert guidance on the unit of account into the IPSASB conceptual framework document. This guidance is largely identical to the text of related paragraphs in the *Conceptual Framework*.
- 76 One difference is that its examples of rights and obligations that should be treated together as a single unit of account focuses also on whether rights are used together to provide services, rather than just on prospects for future cash flows.
- 77 The corresponding *Conceptual Framework* paragraph is paragraph 4.51. That paragraph states:

43 [Link to the AASB submission to IPSASB ED 70 Revenue with Performance Obligations and IPSASB ED 71 Revenue without Performance Obligations](#)

44 Paragraph 42 of the [agenda papers from the 12 December 2023 NZASB meeting](#) noted a possible need for enhanced guidance in a conceptual framework document pertaining to the recognition of a liability arising for revenue received for ‘internal purposes’.

A unit of account is selected to provide useful information, which implies that:

(a) the information provided about the asset or liability and about any related income and expenses must be relevant. Treating a group of rights and obligations as a single unit of account may provide more relevant information than treating each right or obligation as a separate unit of account if, for example, those rights and obligations:

(i) cannot be or are unlikely to be the subject of separate transactions;

(ii) cannot or are unlikely to expire in different patterns;

(iii) have similar economic characteristics and risks and hence are likely to have similar implications for the prospects for future net cash inflows to the entity or net cash outflows from the entity; or

(iv) are used together in the business activities conducted by an entity to produce cash flows and are measured by reference to estimates of their interdependent future cash flows.⁴⁵

(b) ...

- 78 Staff note that an NFP-specific amendment was not previously proposed to recognise that an NFP entity may have rights and obligations that are used together in the entity's operations to provide services in satisfaction of its NFP objectives; that is, to recognise that the entity's return on some assets may not be its prospects for future cash inflows. Accordingly, the Board could insert an Aus paragraph immediately following paragraph 4.51 to provide a NFP counterbalance to the examples in paragraph 4.51. However, staff continue to think that not making an NFP-specific amendment to this paragraph is suitable.
- 79 Staff have formed their view in paragraph 78 above noting that the text of paragraph 4.51 does not cause there to be any inappropriate conclusion drawn of such rights and obligations of NFP entities. Therefore, in staff's view it is not necessary to make a clarifying amendment.
- 80 Regarding the unit of account, Agenda Paper 10.2 of the 16-17 September 2020 AASB meeting observed that the guidance in the *Conceptual Framework* on the unit of account for assets and liabilities could have implications for public sector entities if issues surrounding the separability of related assets and liabilities are more prevalent to that sector (the separability of certain tax rebates and offsets from taxation revenue was suggested as an example). This was recommended as a potential matter for Stage 2 consideration due to the infeasibility of addressing it as part of Stage 1 of the project. Staff note that the IPSASB project suggests that further guidance at a conceptual framework level on the separability of NFP assets and liabilities may not be necessary.

Executory contracts

- 81 Agenda Paper 10.2 of the 16-17 September 2020 AASB meeting noted that the IPSASB conceptual framework document in effect at that time, unlike the *Conceptual Framework*, did not include guidance on executory contracts. Staff observed that there could resultingly be a potential implication for NFP entities for non-contractual binding arrangements in the public sector which are executory, but considered that this was too complex to be addressed within Stage 1 of the project.
- 82 As noted in paragraph 35 above, the IPSASB has since decided to insert guidance on binding arrangements into the IPSASB conceptual framework document. The term 'binding arrangements' includes, but is broader than, executory contracts. Other than this, in staff's

45 IPSASB5.26D states "... (iii) have similar characteristics and risks; or (iv) are used together in the operational activities conducted by an entity to provide services or to produce cash flows and are measured by reference to estimates of their interdependent service potential or future cash flows. ..."

view, the guidance is consistent to that of the *Conceptual Framework*. Consequently, staff think that the potential issue previously noted no longer exists.

Measurement

- 83 Agenda Paper 10.2 of the 16-17 September 2020 AASB meeting observed that characteristics of some assets and liabilities of NFP entities could give rise to potential NFP-specific reasons for reaching a different conclusion about the various measurement bases than those set out in the *Conceptual Framework*. Staff recommended considering these as part of Stage 2 of the project.
- 84 Since that time, the IPSASB has completed an update of Chapter 7 *Measurement* of its conceptual framework document. Differences between the *Conceptual Framework* and the IPSASB conceptual framework document remain following this update. These include the IPSASB Chapter contemplating a current value measurement base (current operational value) not in the *Conceptual Framework* and providing guidance as to how to select between that measurement base and fair value. For example, paragraph 7.48 of the IPSASB conceptual framework document discusses that in markets for assets that are unique and rarely traded “... fair value may not be useful for operational assets that an entity intends to continue to use for service delivery.”
- 85 The Board has recently reconfirmed fair value to be an appropriate measurement basis over current operational value for assets primarily held for their operational capacity, and developed standards-level guidance as to how to determine fair value for such assets.⁴⁶ In addition, staff note that the IPSASB is currently undertaking a project evaluating the applicability of current operational value at a standards-level in existing IPSAS. As such, in staff’s view, further consideration, if needed, as to appropriate measurement bases for the assets and liabilities of NFP entities should only be made as part of Stage 2 of the project.

Staff view

- 86 Notwithstanding paragraphs 60 – 85 above, having regard to the feedback from the Tier 3 DP, literature review and other standard-setting developments set out in Part B of this paper, staff have not identified anything between September 2020 and now that would invalidate the Board’s September 2020 decisions to develop only the NFP-specific Aus paragraphs for the *Conceptual Framework* described in Table 2 above (with the caveat that the Board has not yet made decisions on grandfathering and a possible limited carve out of non-financial liabilities).⁴⁷ Consequently, staff think that the Board should confirm its September 2020 decisions to make the NFP-modifications to the *Conceptual Framework* described in Table 2 above (noting the Board decision regarding paragraph Aus6.56.1 is limited to non-financial assets).
- 87 However, staff note that the text of revised chapters 3, 5 and 7 of the IPSASB conceptual framework document, and INPAG ED1, may inform staff in refining the drafting of the proposed NFP-specific Aus paragraphs.

Question for Board members:

- Q3 Do Board members agree with the staff recommendation in paragraph 86 to reconfirm its September 2020 decision to develop the NFP-specific Aus paragraphs for the *Conceptual*

46 As part of its Fair Value Measurement for NFP 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 obtained feedback from a majority of the Australian stakeholders responding to the related Invitation to Comment supporting fair value as the sole appropriate current value measurement basis for measuring the current value of all non-financial assets held by NFP public sector entities, whether held primarily for their financial capacity or operational capacity (see AASB 2022-10.BC15-BC17).

47 Discussed in paragraph 56 and in the staff comment against paragraph Aus6.56.1 in Table 2

Framework described in Table 2? If not, which amendments would Board members suggest not making?

Q4 Are there any other amendments that Board members consider should be made to the *Conceptual Framework* as part of Stage 1 of its project?

Service performance reporting

- 88 Paragraph 3.1 of the *Conceptual Framework* explains that general purpose financial statements are only one form of general purpose financial reports, and that the *Conceptual Framework* provides the framework for all general purpose financial reporting. At its 16-17 September 2020 meeting, staff recommended that if the AASB were to identify, as part of another project, service performance reporting as a necessary component of general purpose financial reporting by some, or all, NFP entities, that the *Conceptual Framework* be amended as part of Stage 1 to acknowledge explicitly the relevance of information about service performance to users of general purpose financial reports of NFP entities and the reasons why it is relevant without further elaboration.⁴⁸ The Board did not specifically discuss this staff recommendation.
- 89 Staff note that making such explicit reference would be consistent with inclusions in the IPSASB conceptual framework document and the draft INPAG.
- 90 On further consideration, staff no longer recommend that an amendment is necessary to be made, as part of Stage 1, to the *Conceptual Framework* to acknowledge explicitly the relevance of information about service performance to users of general purpose financial reports of NFP entities and the reasons why it is relevant, for the following reasons:
- (a) a Board project on service performance reporting has only been reactivated recently following the AASB 2022-2026 Agenda Consultation. Consequently, having regard to the project plan in Agenda Item 3.1, the timing of decisions on that project will not align with the proposed timing of issue of an ED on this project. Hence, staff think it would be premature for the Board to decide whether it is necessary to more explicitly acknowledge service performance reporting as a component of general purpose financial reporting by NFP entities at this time;
 - (b) staff infer from the feedback on the Tier 3 DP that while stakeholders are keen for the Board to address service performance reporting, it should not be at the expense of holding up a Tier 3 Standard. Staff consider that, by extension, this applies equally to the Board's Conceptual Framework: NFP Amendments project. Making such explicit acknowledgement through an amendment to the *Conceptual Framework* could cause delay if stakeholders raise queries about the text. For example, stakeholders may query whether the *Conceptual Framework* should similarly reference other forms of general purpose financial reports as potentially key components of general purpose financial reporting. Further, staff note that the Service Performance Reporting project proposes to develop a working definition of 'service': it would seem premature to further reference service performance reporting in the conceptual framework when what is intended by 'service' is not yet decided;
 - (c) information about a for-profit entity's operational targets and achievements against those targets may be as similarly relevant information to users of those financial statements, but such information is not explicitly acknowledged as part of the *Conceptual Framework*;

48 Refer Issue 3 in [Agenda Paper 10.2 of the 16-17 September 2020 AASB meeting](#)

- (d) some users of for-profit entity financial reports may also consider information about the entity's service performance to be important to their decision-making; for example, stakeholders engaged in social impact investing;
- (e) if it is determined that the *Conceptual Framework* should explicitly acknowledge service performance reporting as a component of general purpose financial reporting, staff think that it may be necessary to first address the view of some that service performance reporting provides information that addresses an accountability or stewardship objective that is seen as distinct to a decision-making objective. As such, staff think inserting a reference into the *Conceptual Framework* at this time has the potential to confuse users of the framework document; and
- (f) there is no urgency to do so.

91 The outcomes of the Board's separate project on service performance reporting (refer Agenda Item 3) may be relevant to inform of possible revisions to the *Conceptual Framework* in the future. This may not necessarily be as part of Stage 2 of the Conceptual Framework: NFP Amendments project.

Question for Board members:

Q5 Do Board members agree with the staff recommendation in paragraph 90 not to make an amendment to the *Conceptual Framework* to acknowledge explicitly the relevance of information about service performance to users of general purpose financial reports of NFP entities and the reasons why it is relevant without further elaboration?

Part D: Next steps

Stage 1 of the project

- 92 Assuming the Board agrees with the staff recommendation in paragraph 15 above to continue developing an ED, staff will:
- (a) continue its analysis of the scope of the proposals to address grandfathering and the scope out of certain non-financial liabilities from paragraphs 6.55 and 6.66 of the *Conceptual Framework*; and
 - (b) prepare a draft ED of the amendments to SAC 1 and *Conceptual Framework for Financial Reporting* for the Board's consideration at a future meeting (either June or September 2024 subject to available staff resources), taking into consideration Board decisions from this meeting.
- 93 Having regard to the feedback on Q4 of the Tier 3 DP that the *Conceptual Framework* apply to NFP private sector entities only when the Tier 3 reporting requirements are available for adoption, staff recommend that the timing of the ED for issue be aligned with the timing of approval of the related ED of the Board's proposals for Tier 3 accounting requirements.
- 94 Also, if this ED is to be issued as part of a 'package' together with the Board's proposals for Tier 3 accounting requirements, staff also recommend that the draft ED be shared with the Board subcommittee charged with supporting the development of the related ED to obtain their input ahead of its consideration by the full Board.

Question for Board members:

Q6 Do Board members have any concerns or comments about the proposed project timeline noted in paragraph 93 (to consider a draft ED at either the June or September 2024 meeting subject to the availability of resources)?

Q7 Do Board members agree with the staff recommendation in paragraph 94 that the subcommittee supporting development of the Tier 3 ED should review this draft ED before consideration by the full Board? If not, what do Board members suggest?

Stage 2 of the project

- 95 As set out in paragraph 3, the Board originally envisaged this project being conducted in two stages, with Stage 2 being a consideration of fundamental constituent concerns about the suitability and adequacy of a conceptual framework developed primarily having regard to private sector for-profit entities. This staged approach was considered necessary to first resolve the immediate concern of the Board maintaining separate conceptual frameworks in the Australian environment for for-profit and NFP entities.
- 96 The project plan did not propose a start date for Stage 2. However, some research and targeted outreach into identifying some of the issues that Stage 2 might address has already been conducted.
- 97 Staff propose that Stage 2 be deferred until at least the next agenda consultation period for the following reasons:
- (a) the findings from the research studies and feedback from the Tier 3 DP suggests that addressing the objective of general purpose financial reporting for NFP entities (including the role of accountability) and identifying the users of general purpose financial reports is unlikely to be straightforward. Developing sustainability reporting standards (and other high priority projects) is likely to continue to require staff resources and Board time that might otherwise be diverted to work in this regard;
 - (b) it is possible that the primary users of the financial report, and what is encapsulated by general purpose financial reporting, could be refined in the medium-term if sustainability reporting becomes embedded as an integral component of general purpose financial reporting;
 - (c) the *Conceptual Framework* is mainly a tool for the Board, rather than users. Therefore, there is less urgency to address potential conceptual issues that may help the Board determine what information is useful to satisfy user needs; a separate Board project on service performance reporting is in its initial stages. Outcomes from that Board project could inform the Board further about the suitability and adequacy of a conceptual framework developed primarily having regard to private sector for-profit entities; and
 - (d) the Board has previously determined that standards-level specifications already mostly address a NFP entity's measurement requirements. Therefore, there is no immediate urgency to consider whether, and if so how, the IPSASB measurement guidance in the IPSASB conceptual framework document should impact Australian NFP entities. Further, the Board received feedback as part of its Fair Value Measurement for NFP Public Sector Entities project supporting fair value as the appropriate measurement basis. Consequently, staff think the Board could take some comfort from this that the appropriate current cost measurement base is already reflected by the *Conceptual Framework*.

Question for Board members:

Q8 Do Board members agree with the staff recommendation in paragraph 97 that Stage 2 be deferred until at least the next agenda consultation period?

Appendix A: Detailed preliminary staff analysis of feedback on the Tier 3 DP

The following table is an extract from Agenda Paper 3.1.1 of the 4 May 2023 AASB meeting.⁴⁹ It sets out the May 2023 detailed preliminary staff analysis of the stakeholder feedback on Questions 3 – 5 of the Tier 3 DP and suggested actions for next steps. The preliminary staff analysis and suggestions for next steps were made in the context of the Board’s NFP Private Sector Financial Reporting Framework project.

Q3) Applying the <i>Conceptual Framework for Financial Reporting</i> to smaller NFP private sector entities ⁵⁰	
Total response = 9	
<p>Yes = 4 (44%) consisting of:</p> <ul style="list-style-type: none"> 4 written responses (44%) (SD, DH, BDO, Deloitte) 	<p>Some stakeholders agree with the proposed application of the <i>Conceptual Framework for Financial Reporting</i> (Revised Conceptual Framework) to smaller NFP entities once the modifications for NFP entities are included and on the release of a Tier 3 Standard.</p> <p>While users of NFP entities may not be concerned with obtaining a financial return on their investment in the entity, most if not all, such users are affected financially by NFP achieving its respective objectives. Accordingly, users of NFP financial statements are identified as those that are financially affected by an NFP achieving its objectives. It is essential to ensure the population of users of financial statements of NFP entities does not become as broad as to be non-operational (BDO).</p> <p>One stakeholder suggested the AASB should consider the IFR4NPO project's Conceptual Framework developed for smaller entities (DH).</p>
<p>No = 3 (33%) consisting of:</p> <ul style="list-style-type: none"> 3 written responses (33%) (PP, UWA, ACNC) 	<p>A few stakeholders did not agree with the 'objective' and 'primary' users as depicted in the <i>Framework for the Preparation and Presentation of Financial Statements</i> (existing NFP Conceptual Framework) including modifications for NFP entities and think:</p> <ul style="list-style-type: none"> the existing Conceptual Framework does not depict appropriately the general objective of financial reporting for NFP private sector entities as it expressed too much in commercial terms. Paragraph AusOB3.1 of the existing Conceptual Framework needs to be expanded to recognise that users are interested in the extent to which those charged with governance are acting in the interest of the mission of the entity via reporting on their stewardship of the entity's resources and accountability; the description of users identified in paragraph AusOB2.1 should be improved because: <ul style="list-style-type: none"> the broad category of investors, lenders and other creditors, donors and taxpayers should be re-ordered as donors and taxpayers take priority over investors and lenders in terms of the sector; philanthropists should be individually identified as often seen as a separate category to donors; members should be added given the significance and high priority of the group;

49 [Link to Agenda Paper 3.1.1 of the 4 May 2023 AASB meeting](#), available on www.aasb.gov.au

50 Note this question was not included in the online survey or virtual outreach.

	<ul style="list-style-type: none"> ○ governments (not only parliaments) are major stakeholders in the NFP sector as they procure services and deploy policy via these entities. Governments also provide significant capital grant funds (UWA); ○ annual financial reports can be assessed by a variety of users including, amongst others, professional advisors, researchers and journalists and government officials (ACNC); and ● if the Board decides to develop a fourth reporting Tier of reporting requirements with further simplifications such as cash reporting, then a further simplified Tier 4 reporting requirements would not align with the concepts in the existing Conceptual Framework that may not be appropriate for these smaller NFP entities and may also require training to support the implementation process. <p>A few stakeholders disagree to extend the application of the Revised Conceptual Framework to smaller NFP entities once the modifications for NFP entities are included (ACNC, PP). The reason is that the Tier 3 Standard should include its own summarised version of a Conceptual Framework consistent with <i>IFRS for SMEs</i>. The difference in recognition and measurement requirements (R&M) for Tier 3 would necessitate some concepts being applied differently (e.g. differences in consolidation requirements (ACNC) and cost vs. benefit considerations). In that respect, the AASB should consider IFR4NPO's project which is developing a Conceptual Framework for its INPAG guidance (PP).</p>
<p>Other = 2 (22%) consisting of:</p> <ul style="list-style-type: none"> ● 2 written responses (22%) (MA, CPA/CA ANZ) 	<p>Some stakeholders could not comment on this question at this project stage.</p> <p>One stakeholder (CPA/CA ANZ) recommended the AASB to:</p> <ul style="list-style-type: none"> ● update Research Report 1: <i>Application of the Reporting Entity Conceptual and Lodgement of Special Purpose Financial Statements</i> to clearly understand the regulatory reform required and the nature of the regulated NFP population being targeted by the Tier 3 Standard, to identify the users that the Tier 3 Standard is targeting; and ● to consider the IFR4NPO project for identifying primary users for all NFP financial statements (CPA/CA ANZ).
<p>Staff analysis: The Board expressed in the DP its preliminary views is for Tier 3 reporting requirements to operate within the aegis of a single Conceptual Framework applying to all NFP entities rather than develop a different conceptual framework specifically for a Tier 3 Standard. Staff also consider that the Tier 3 proposals broadly align with the existing Conceptual Framework, however, staff agrees with the limited feedback from stakeholders that there are topics with differences in the recognition and measurement requirements where further considerations of the alignment with the existing Conceptual Framework may be required, for example:</p> <ul style="list-style-type: none"> ● not requiring the recognition of right of use assets; ● allowing a choice to initially measure either at cost or at fair value for non-financial assets acquired at significantly less than fair value; and ● allowing a choice for a parent entity to present consolidated financial statements. <p>Staff preliminary view is not to develop a Tier 3 Conceptual Framework to be included in the Tier 3 Standard as per paragraph 4.9 of the DP because:</p> <ul style="list-style-type: none"> ● it would unnecessarily add length to the Tier 3 Standard; ● the majority of the Tier 3 requirements align with the principles and concepts of the existing Conceptual Framework. The rationale for the departure from the existing Conceptual Framework of some Tier 3 accounting requirements are based on the objective of developing Tier 3, i.e. simplification of existing requirements, which is 	

sufficiently reflected in the existing Conceptual Framework. Also, the Board could include the rationale for developing the Tier 3 Standard and the increased emphasis on the cost/benefit considerations, either in the basis for conclusions or introduction/preface of the Tier 3 Standard, rather than developing a Tier 3 Conceptual Framework;

- the Conceptual Framework is not a Standard and does not override any Standard or any requirement in a Standard. As such, there is unlikely to be many smaller NFP entities referring to the Conceptual Framework (on the contrary, the inclusion of a simplified conceptual framework within a Tier 3 Standard could make it mandatory); and
- as identified in Agenda Paper [3.2](#) at the June 2021 Board meeting, many other jurisdictions with NFP pronouncements including the UK Charities SORP, NZ Tier 3, Canada ASNFPO, Singapore CAS and United States' ASC NFP 958, have not included a Conceptual Framework within its pronouncements.

However, staff will further consider whether there is merit in including a simplified conceptual framework within a Tier 3 Standard considering cost/benefit considerations based on, e.g. the *IFRS for SMEs* ED 'Concepts and Pervasive Principles' and with reference to IFR4NPO's Conceptual Framework. This approach would also allow the Tier 3 Standard to be more self-contained. Staff will conduct further analysis and determine possible options for the Board's consideration that may include:

- whether a simplified conceptual framework should be developed for the Tier 3 Standard considering cost/benefit considerations based on IFRS for SMEs ED 'Concepts and Pervasive Principles' and with reference to IFR4NPO's Conceptual Framework; or
- not including a simplified conceptual framework as part of the Tier 3 Standard.

Staff will also consider feedback in progressing the amendments to the Revised Conceptual Framework including the NFP modifications to be applied to the broader NFP sector at future Board meeting as part of the NFP Conceptual Framework project.

Staff suggested action for next steps: Staff recommend performing **further analysis** and considering possible options for proceeding with this issue for Board's consideration at future meeting, including whether the preliminary views in the DP would necessitate further allowances beyond the existing Conceptual Framework.

Q4) Aligning the timing of any new Tier 3 reporting requirements with the timing of the extension of the AAS to a broader set of NFP private sector entities
Total response = 195

<p>Yes = 178 (93%) consisting of:</p> <ul style="list-style-type: none"> • 49 preparers (25%) • 108 auditors (55%) • 4 users (2%) • 4 others (2%) • 1 regulator (1%) • 12 written responses (6%) (PP, MA, CPA/CA ANZ, AICD, SD, IPA, KPMG, UWA, DH, BDO, Deloitte, ACNC) 	<p>Almost all stakeholders agree with the timing of the proposals, including aligning the timing with any extension of the application of AAS to a broader set of NFP private sector entities. The alignment of timing is consistent with changes for the for-profit sector when introducing AASB 1060 <i>General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities</i> where transition worked effectively and would be appropriate for the NFP sector, and emphasises the need to continue discussions with regulators (MA).</p> <p>A few stakeholders note for the AASB to learn from the for-profit reforms (CPA/CA ANZ, DH) and the need for transition relief and a phased transition period to support NFP entities in the adoption of the new Tier 3 Standard, along with education (AICD, ACNC).</p> <p>One stakeholder suggests a Transition Resources Group (TRG) to assist with an effective and smooth operationalisation of the Tier 3 Standard and to communicate with regulators about the need and the nature of necessary changes and associated educational and transitional considerations (CPA/CA ANZ). The group would also assist with considering strategies to address implementation challenges during the transition and address insights from the post-implementation review (PIR) on the broader NFP standards.</p>
<p>No = 1 auditor (1%)</p>	<p>Only one stakeholder disagreed but this stakeholder did not provide any comments or reasons.</p>

Other (neither agree or disagree) = 16 (8%) consisting of:

- 10 preparers (2%)
- 5 auditors (3%)
- 1 other (1%)

A few stakeholders selected other (i.e. neither agree or disagree) and:

- stated that changes should be made as soon as possible;
- emphasised the importance of liaising with regulators and government funding bodies to review the financial reporting requirements to ensure consistency across all jurisdictions;
- considered the changes should only be introduced if they produce meaningful financial statements noting special purpose financial statements (SPFS) current achieve this. If SPFS is removed, at least 2–3 years of lead time would be suitable; and
- would require a longer lead time for an educational process and getting ERP systems and processes set up, with limited resources in NFP sectors.

Staff analysis: Staff consider almost all stakeholders support the alignment of timing of the proposals, noting that sufficient lead time should be provided to ensure a smooth transition for NFP entities and consider the proposal is consistent with the changes to the for-profit sector. Based on the AASB Due Process Framework, the AASB will issue a Standard at least 2 years before its effective date with early application permitted. As such, staff consider stakeholders' feedback would be addressed appropriately by applying the AASB Due Process Framework. As noted in Agenda Paper 8.1.1 at the March 2023 Board meeting, staff will continue to discuss the interactions of the Board's proposals with relevant NFP regulators.

Regarding the feedback about transitional relief, staff have not yet considered the transitional provisions required as this depends on the Board's decisions on the direction of the project at this meeting, and Board's future decisions on Tier 3 requirements after considering the feedback from stakeholders. Staff acknowledge the suggestion to form a TRG group, including developing a communication and education plan, and will address these considerations later in the project.

However, staff do not believe these considerations should change the Board's preliminary view to ensure the timing of any extension of the application of AAS align with the introduction of a Tier 3 Standard.

Staff suggested action for next steps: Staff recommend that the Board proceed with its preliminary view that the timing of the Tier 3 reporting requirements align with the timing of any extension of the AAS to a broader set of not-for-profit private sector entities.

Q5) Extending the Australian Accounting Standards applicable to certain NFP entities

Total response = 217

Yes = 178 (82%) consisting of:

- 45 preparers (21%)
- 98 auditors (45%)
- 3 users (1%)
- 4 others (2%)
- 1 regulator (0%)
- 16 virtual sessions (7%)

Most stakeholders agree with extending the application of AAS to the broader set of NFP entities noting the importance of consistency and comparability in reporting by NFP entities. Those that commented consider:

- the reporting entity concept is not well understood and a general unwillingness for entities to accept that users are interested in the entity. There is also empirical evidence indicating preparers and auditors of many NFP entities are largely supportive of preparing GPFS over SPFS (AR);
- the importance of making the Tier 3 Standard available with adequate lead time (SD), and before extending the application of AAS to the broader NFP entities, given the existing Tier 1/Tier 2 requirements would be onerous for a small organisation if the Tier 3 Standard was not available;

<ul style="list-style-type: none"> 11 written responses (5%) (MA, AICD, AR, SD, IPA, KPMG, UWA, BDO, Deloitte, ACNC, DH) 	<ul style="list-style-type: none"> the proposal brings consistency between the for-profit and NFP sector in determining who must comply with accounting standards, aligns the 'reporting entity' with its use internationally (KPMG, BDO), simplifies decision making, and reduces confusion and divergence in practice (MA, Deloitte). Any difficulties in implementing the proposals, such as undue burden on the entity can form part of the PIR of the Tier 3 Standard with consideration for further simplification where appropriate (IPA); that whilst the proposals align with the approach for-the profit sector, the cost-benefit analysis should be performed to measure the impact of removing SPFS given the difference between the reporting requirements for for-profit and NFP sector (AICD) and the importance of providing guidance and support to NFP entities who will transition to Tier 3 Standard (ACNC); and learnings from the for-profit sector would be beneficial, for example, confusion exist for removal of SPFS from non-statutory reporting requirements such as trust deeds and agreements (DH).
<p>No = 38 (18%) consisting of:</p> <ul style="list-style-type: none"> 13 preparers (6%) 16 auditors (7%) 1 user (0%) 1 other (0%) 6 virtual sessions (3%) 1 written response (0%) (PP) 	<p>Some stakeholders disagree and consider that SPFS should still be available for NFP entities because:</p> <ul style="list-style-type: none"> GPFS come with real cost impact and does not, in the main, provide any significant advantage; many smaller NFP entities may still find Tier 3 reporting requirements hard to apply; some entities only report to members or for specific purposes such as for banks; SAC 1 has been beneficial; and the proposals are merely beneficial for large accounting firms and the AASB should get more practical experiences in addressing the concerns of the sector. <p>While one stakeholder considers SPFS should be removed as this is consistent with the for-profit sector, they considered SPFS should not be removed for entities that are only required by their constituting document to comply with the AAS, as users of these entities should determine the appropriate form of financial statements to prepare, and noted the confusion amongst the for-profit sector with no oversight and unregulated entities (PP).</p>
<p>Other = 1 (0%)</p> <ul style="list-style-type: none"> 1 written response (0%) (CPA/CA ANZ) 	<p>One stakeholder cannot form a view without understanding all the types of NFP entities that will transition to GPFS under the proposed Tier 3 Standard, given the AASB identified that clarity of the scope of associated regulatory reform is an essential element of its reforms to for-profit sector reporting. This will ensure that the transition cost does not outweigh the benefits, and all relevant regulators understand and appropriately implement the changes. As such, this stakeholder considers more detailed analysis is required on the population of NFP entities that will be impacted by the Tier 3 Standard, for example, it is still unclear whether aged care legislation in various states/territories requires preparation or the type of financial statements (CPA/CA ANZ).</p>
<p>Staff analysis: Staff noted that most stakeholders agree with extending the application of AAS to the broader range of NFP entities based on the stakeholder feedback above.</p>	

While some stakeholders disagree, their comments related to the increased cost associated with preparing GPFS and the complexity in applying the requirements for smaller NFP entities. However, it is reasonable to expect that initial cost of the adoption would be outweighed by the cost savings and benefits of more comparable and transparent financial statements, and is broadly supported by many NFP regulators.⁵¹

Staff also noted that only one stakeholder did not support the extension of AAS to entities that are required only by their constitution to prepare financial statements in accordance with AAS. Staff initial reaction is that, if these entities were excluded, it may cause confusion and inconsistency in the financial reporting where references are made to comply with the AAS and perpetuate the SPFS issue (similar to the considerations the Board made when removing SPFS for for-profit entities). Academic research also indicates that the application of the reporting entity concept is inconsistent and questions the effectiveness of SAC 1 and the quality of NFP financial statements.⁵² Therefore, should the self-assessment of the reporting concept remain for financial statements that are required by the constitution/governing document to be prepared in accordance with AAS, there will continue to be a lack of quality and consistency of those financial statements.

Staff will consider [the] approach adopted for the for-profit sector to exempt the requirement to prepare GPFS where their constituting document (or another document) requiring them to comply with AAS was created or amended before an effective date of a Tier 3 Standard.⁵³ To address the concerns above, as well as the need to consider cost/benefit of the proposals, staff will consider further analysis of the NFP private sector entities that may be affected by the extension of the AAS application, as required under Due Process policy requirements, together consideration of amendments to the Conceptual Framework for Financial Reporting in Q3).

Staff suggested action for next steps: Staff will **further analyse** the impact of the proposals including cost/benefit analysis of the scoping of NFP private sector entities that may be affected by the extension of the AAS application.

51 Refer to Agenda Paper 8.1.1 [of the May 2023 AASB meeting] on the preliminary feedback from regulators presented at the March 2023 Board meeting

52 Saj, P. and Cheong, C., 2020. The application of the reporting entity concept by Australian charities. *Australian Accounting Review*, 30(4), pp.283-299

53 Refer to paragraph BC90 of AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*) [for address of] the issue