



Project:	Conceptual Framework: Not-for-Profit Amendments	Meeting:	M212
Topic:	Due process – whether to proceed with finalising ED 334	Agenda Item:	3.1
		Date:	15 April 2025
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		Decision-Making:	High
		Project Status:	Project redeliberations

Objective of this paper

- 1 The objective of this staff paper is for the Board to decide whether to continue its Conceptual Framework: Not-for-Profit Amendments project and begin redeliberations on ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* with a view to issuing a final accounting standard.

Background and reasons for bringing this paper to the Board

- 2 ED 334, issued in October 2024, exposed the Board’s proposals to extend the application of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* to more not-for-profit (NFP) private and public sector entities. The proposals would bring a majority of Australian entities under the aegis of the same conceptual framework document for guiding the development of accounting policies. The ED 334 comment period closed on 28 February 2025.
- 3 The *AASB Due Process Framework for Setting Standards* states that the AASB standard-setting processes used to achieve its principles of strategic international influence, transparency, appropriate consultation and accountability includes consideration of the feedback received on its issued consultative documents. Per paragraph 7.5.2 of that document, AASB staff are to prepare an overview of the comments received, the major points raised, and recommendations as to whether the Board project should continue.
- 4 Agenda Paper 3.2 provides an overview of the feedback received on ED 334. Major points raised in that feedback relevant to an evaluation whether the Board project should continue, and the staff recommendation thereof, are set out in this paper.
- 5 This staff paper seeks the Board’s decision whether to, based on the feedback received, continue with its Conceptual Framework: Not-for-Profit Amendments project and begin redeliberations on ED 334 with a view to issuing a final accounting standard. Similarly, Agenda Paper 4.1 of this meeting seeks the Board’s decision whether to continue with its related Not-for-Profit Private Sector Financial Reporting Framework project following the receipt of feedback on ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*, which was issued at the same time as ED 334.

Consideration whether to proceed with the project

Stakeholder feedback

- 6 The stakeholder feedback summarised in paragraphs 18 – 20 (overall support for the ED) and 81 – 90 (the proposals result in useful financial statements and are in the best interests of the

Australian economy) of Agenda Paper 3.2 reflects that there is general support for the ED 334 proposals, including the ED 334 proposals to have the *Conceptual Framework* apply to more NFP entities and to require more NFP entities to prepare general purpose financial statements.¹

- 7 On review of the stakeholder feedback summarised in Agenda Paper 3.2, staff have identified the following matters as being of more significant concern to stakeholders:²
- (a) the appropriateness of the proposals extending to NFP entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, and the operability of these proposals;
 - (b) the appropriateness of the proposals extending to NFP public sector entities at this time;
 - (c) the appropriateness of requiring relatively small entities to prepare general purpose financial statements, when an entity is directed to prepare financial statements that are in accordance with Australian Accounting Standards;³
 - (d) the appropriateness of continuing to require certain entities to apply the *Framework for the Preparation and Presentation of Financial Statements* while other entities must apply the *Conceptual Framework*;
 - (e) having regard to resource constraints and financial expertise, the ability of smaller NFP entities to implement general purpose financial reporting without diverting funds and focus from delivering on their NFP service objectives;⁴
 - (f) the appropriateness of the proposed implementation period while there continues to be ambiguity about whether legislators/regulators may restrict some entities from accessing the proposed third reporting Tier;
 - (g) the proposal to limit the additional transitional relief to early adopters; and
 - (h) the need for education and support about the requirements.
- 8 Stakeholders did not identify any audit or regulatory concerns with the proposals, except as relating to one or more of the matters noted in paragraph 7 above (for example, the extent to which auditors would be relied on to assist entities). Further, as suggested by the absence of comments in this regard in the feedback collected, most stakeholders do not appear to object to how the *AASB Not-for-Profit Entity Standard-Setting Framework* has been applied in developing ED 334.⁵

Staff analysis

- 9 In Agenda Paper 4.1, staff recommended that the Board continue its Not-for-Profit Private Sector Financial Reporting Framework project and in particular, finalise Tier 3 reporting

1 Further, per Agenda Paper 4.1, stakeholders were broadly supportive of the Board's proposals in ED 335 to introduce a third reporting Tier. Staff think this is apropos of implicit support for the proposals in ED 334 that require more NFP entities to prepare general purpose financial statements.

2 This paper describes the stakeholder concern that the population of entities required to prepare general purpose financial statements is inappropriate. In addition, some stakeholders signalled a concern about the absence of any clear limits on use of the Tier 3 Standard proposed in ED 335 in their submissions to ED 334. The concern about the reporting Tier of general purpose financial statements that can be prepared by entities required by ED 334 to prepare general purpose financial statements is considered as part of the Board's Not-for-Profit Private Sector Financial Reporting Framework project, in agenda item 4.

3 Agenda Paper 4.1 analyses stakeholder feedback regarding the suitability of use of a future Tier 3 Standard by those entities that generate annual revenue in excess of \$3 million.

4 Some stakeholders were concerned that even Tier 3 reporting requirements were too onerous or inappropriate for NFP entities below a certain revenue size.

5 A few stakeholders considered that the Board had not applied its principle of transaction neutrality appropriately because of the proposed limitation on use of the Tier 3 Standard and/or the application of different conceptual framework documents to different entities.

requirements. In analysing the stakeholder concerns described in paragraph 7 above, staff have assumed that the Board will agree with the staff recommendation in Agenda Paper 4.1.

- 10 Some stakeholders were concerned about the scope of the proposed amendments requiring general purpose financial reporting by, and applying the *Conceptual Framework* to, entities for which it was less clear whether there was a call for such financial statements, entities that would not have access to simpler financial reporting provisions, and entities are significantly smaller compared to their for-profit counterparts. Staff note that the concerns described in paragraphs 7(a) – (c) pertain to scoping decisions made by the Board as part of developing the exposure draft and that otherwise stakeholders generally agreed that entities required by legislation to prepare financial statements that comply with Australian Accounting Standards should be part of the scope of the Board’s proposals (except where small, as referred to previously). Consequently, staff think these matters can be redeliberated by the Board as part of the proposal finalisation process rather than being of such significance as to cause the Board to not continue with finalising a Standard that is based on ED 334 as this would otherwise stall the application of the *Conceptual Framework* to, and financial reporting reform for, other NFP entities.
- 11 Staff note that the dichotomy described in paragraph 7(d) continues an existing difference in practice. Therefore, staff think that this matter is not so substantive as to cause the Board to cease to continue to finalise a Standard that is based on ED 334. Staff note that when developing ED 334 the Board considered how it might reframe requirements to address this difference, and decided not to do so at as part of the current project.⁶
- 12 With regards to the matter noted in paragraph 7(e), staff note that changing requirements to improve financial reporting will generally always involve some cost and a learning period. Staff observe that:
 - (a) the proposed Tier 3 reporting requirements in ED 335 were developed in cognisance of these concerns;
 - (b) the stakeholder feedback received suggests that, on balance, more stakeholders than not consider that the proposals would result in financial statements would be useful to users and that they are in the best interests of the Australian economy;
 - (c) some of the stakeholder concern about NFP entity resourcing constraint and financial expertise may be resolved as part of the Board’s redeliberations of the scoping matters in paragraphs 7(a) – (c); and
 - (d) education and other guidance, or address of the new requirements by accounting software providers, may further alleviate some of the stakeholder concern.Resultantly, staff think this stakeholder concern is not substantive enough to warrant the Board not continuing with finalising a Standard that is based on ED 334.
- 13 With regards to the concern noted in paragraph 7(f), staff note that some stakeholders contend that the full impact of the proposals in ED 334 (in particular, to require general purpose financial reporting) cannot be assessed until it is established in the form of a monetary threshold which entities may prepare Tier 3-compliant general purpose financial statements. Staff think that this is indirectly a comment on the appropriateness of the proposed implementation period/ effective date of a final Standard.
- 14 Staff make the following observations:
 - (a) there will be entities that are clearly the intended applicants of the proposed Tier 3 Standard, and entities that are clearly not. Therefore, it should only be a small population of NFP private sector entities for which whether the entity should prepare Tier 3-compliant

6 See [Agenda Paper 7.1](#), AASB 6-7 June 2024 Meeting (M204)

general purpose financial statements is less clear. For these entities, staff note that the impact of requiring more general purpose financial reporting can be overestimated by assuming that an entity will have to apply Tier 2 reporting requirements; creating an upper expectation of costs/benefits. Staff also note that the Board has previously decided not to develop reporting requirements that are any simpler than Tier 3 reporting requirements; therefore, the costs of implementing Tier 3 reporting requirements would be the minimum costs/ benefits that will be encountered by an entity;

- (b) whilst some self-assessment judgement might continue to be required at least until there is more clarity on the accessibility of Tier 3-compliant general purpose financial statements, staff think that even if all NFP entities currently preparing special purpose financial statements 'step up' to apply Tier 3 reporting requirements at a minimum, this will still be an improvement overall in the quality of financial reporting by the sector through improved consistency in reporting and comparability between entities;
 - (c) some entities currently preparing Tier 2-compliant general purpose financial statements might take the opportunity to 'step down' to prepare simpler financial statements in the absence of a requirement preventing the entity from doing so, whether or not the resultant financial statements might be as useful to its users. However, staff note that entities may have reasons deterring them from doing so, including the signal such action may send to potential funders and donors. Consequently, staff think that the risk and number of entities that might behave in this manner is likely to be small when compared to the NFP entities for which the quality of financial reporting is otherwise expected to improve; and
 - (d) if the sector considers that the proposals are not operable in the absence of clarity in this regard, the Board can decide to set a later effective date for a final Standard or defer the effective date at some time before the Standard becomes applicable.
- 15 Hence, on consideration of the observations above, staff think that the absence of a monetary threshold or other clarifying guidelines informing whether or not an entity may prepare Tier 3-compliant general purpose financial statements is not a sufficient reason as to cause the Board to not continue with finalising a Standard that is based on ED 334 at this time.
- 16 Regarding transitional provisions, as noted in Agenda Paper 3.2 and paragraph 7(g) above, while agreeing with the form of the relief many stakeholders considered that the proposed additional transitional relief for first time adopters of Tier 2 reporting requirements should not be limited only to early adopters of a final Standard. Staff think that the stakeholder objection to this aspect of the proposals is not sufficient reason for the Board to not continue its project. Rather, it is a matter for Board redeliberation in finalising a Standard.
- 17 Similarly, with regards to the matter noted in paragraph 7(h), staff consider that the need to educate and provide support to entities to implement requirements because of their apparent complexity is not a sufficient reason of itself for the Board not to continue its project.

Staff recommendation

- 18 The objective of the Board's Conceptual Framework: Not-for-Profit Amendments project is to apply the *Conceptual Framework* to NFP entities and improve the consistency, comparability, transparency and enforceability of financial reports prepared in accordance with Australian Accounting Standards. Having regard to the absence of any significant contention thereto, staff think that the feedback received indicates that stakeholders, in the main, consider the *Conceptual Framework* to be an appropriate document to guide the general purpose financial reporting of NFP entities.
- 19 In addition, whilst there are some scoping and other concerns with the ED 334 proposals, staff think that overall, for the reasons described in paragraphs 9 – 17 above, these concerns are not so substantive that they should cause the Board not to progress with its Conceptual Framework:

Not-for-Profit Amendments project or finalise a Standard based on ED 334. Accordingly, **staff recommend** that the Board continue its Conceptual Framework: Not-for-Profit Amendments project and begin redeliberations on ED 334 with a view to issuing a final amending standard.

- 20 Staff note that in conjunction with the proposals to extend the application of the *Conceptual Framework*, ED 334 proposed superseding Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* and amending AASB 1057 *Application of Australian Accounting Standards* to extend the applicability of Australian Accounting Standards to certain NFP entities. These amendments were proposed in furtherance of its related Not-for-Profit Private Sector Financial Reporting Framework project objectives, being to develop a reporting framework that is simple, proportionate, consistent, transparent and cost effective for all NFP private sector entities in Australia. However, as the projects overlap in this regard, and given the nature of the proposed amendments, the Board had decided to expose these proposals in ED 334 together with its other proposed amendments to the *Conceptual Framework*.⁷ Consequently, the staff recommendation in paragraph 19 above for the Board to begin redeliberations on ED 334 in effect comments also this aspect of the Board's Not-for-Profit Private Sector Financial Reporting Framework project. Agenda Paper 4.1 analyses whether the Board should continue its Not-for-Profit Private Sector Financial Reporting Framework project.

Question to Board members

- Q1 Do Board members agree with the staff recommendation in paragraph 19 for the Board to continue its Conceptual Framework: Not-for-Profit Amendments project and begin redeliberations on ED 334 with a view to issuing a final accounting standard?

Next steps – proposed timeline

- 21 Assuming the Board agrees with the staff recommendation for the Board to continue its Conceptual Framework: Not-for-Profit Amendments project and begin redeliberations on ED 334, staff propose the following timeline for work on the project.
- 22 The timeline proposed below has regard to the Board's work on its associated Not-for-Profit Private Sector Financial Reporting Framework project (refer Agenda Paper 4.0) and the Board's decision at the exposure draft stage to align the issue of the consultative documents and effective dates of any final pronouncements resulting from these Board projects:

Topics	Date
Collation of feedback on ED 334 and decision whether to proceed with the Conceptual Framework: NFP Amendments project	May 2025 meeting (this meeting)
Redeliberation: Scoping of the <i>Conceptual Framework</i> and the proposed amendments to AASB 1057 to extend the population of NFP entities to which Australian Accounting Standards apply	July 2025 meeting
Redeliberation: NFP modifications to the <i>Conceptual Framework</i>	
Redeliberation: Disclosures in special purpose financial statements	
Redeliberation: Transitional provisions	October 2025 meeting
Redeliberation: Effective date	November 2025 meeting
Bring a draft amending Standard for consideration	
Bring sweep and other issues, revised draft amending Standard, Policy Impact Analysis, explanatory statement and vote for final pronouncements	H1 2026

⁷ This decision allowed the Board to keep ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* contained to its Not-for-Profit Private Sector Financial Reporting Framework project proposals for a new reporting Tier.

- 23 This proposed timeline is included also in Agenda Paper 4.0; presented together with the proposed timeline for progress of the Board's Not-for-Profit Private Sector Financial Reporting Framework project for ease of Board member consideration.

Question to Board members

- Q2 Do Board members have any questions or comments on the proposed timeline presented in paragraph 22 above?