



<b>Project:</b>	<b>Not-for-Profit Private Sector Financial Reporting Framework</b>	<b>Meeting:</b>	M198
<b>Topic:</b>	<b>Cover memo and project update</b>	<b>Agenda Item:</b>	3.0
		<b>Date:</b>	28 August 2023
<b>Contact(s):</b>	Maggie Man <a href="mailto:mman@asb.gov.au">mman@asb.gov.au</a> Fridrich Housa <a href="mailto:fhousa@asb.gov.au">fhousa@asb.gov.au</a>	<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Developing Exposure Draft

## Objective of this agenda item

- The objective of this agenda item is for the Board to:
  - consider** an update on the Not-for-Profit Private Sector Financial Reporting Framework (NFP FRF) project, including interaction with cross-cutting projects and the project timeline considerations (this Agenda Paper); and
  - consider** the staff analysis of the feedback on the Board's preliminary views on the Tier 3 requirements and **decide** on the staff recommendations for the purpose of developing the Tier 3 Exposure Draft on:
    - approach to opting up to an accounting policy permitted by Tier 1 or Tier 2;
    - the approach to accounting policy hierarchy for transactions, balances and other events outside the scope of the Tier 3 Standard;
    - topics scoped out from the Tier 3 Standard; and
    - an abbreviated Conceptual Framework within the Tier 3 Standard.

## Attachments

- Papers for this agenda item are:
  - Agenda paper 3.1 Tier 3 Exposure Draft Proposals – ability to opt up, accounting policy hierarchy, scoped out and abbreviated conceptual framework
  - Agenda paper 3.2 Meeting minutes of the NFP Project Advisory Panel meeting held on 17 August 2023 (in Board-only supplementary folder)

## Background

- At its 20 – 21 February 2021 meeting, the Board decided to develop a further reporting Tier (Tier 3) for application by not-for-profit (NFP) private sector entities. The Board approved the Discussion Paper in August 2022,<sup>1</sup> and it was issued in September 2022 with a six-month consultation period to 31 March 2023.

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1 [Minutes of the 189<sup>th</sup> meeting of the AASB](#)

- 4 After consideration of the preliminary analysis of the feedback on the Discussion Paper, at its 4 May 2023 meeting, the Board decided to proceed with the development of an Exposure Draft on:
  - (a) a Tier 3 Accounting Standard with simplified accounting requirements for smaller NFP private sector entities; and
  - (b) removing the ability of certain NFP entities to prepare special purpose financial statements under Australian Accounting Standards
- 5 [The Not-for-Profit Private Sector Financial Reporting Framework Project Summary](#) provides an overview of the Board's decisions to date in respect of the project based on Appendix A – 'Approach to simplification' adopted by the Board at its August 2021 meeting.<sup>2</sup>
- 6 At its May 2023 meeting, the Board decided, to the extent consistent with the project object to develop simplified and proportionate requirements for smaller NFP private sector entities and in line with the principles the Board applies in this regard, its approach to drafting the Tier 3 Standard illustrated in Appendix B – *Approach to drafting the Tier 3 Standard*, which sets out the approach to drafting the recognition and measurement requirements<sup>3</sup> and the disclosure requirements.<sup>4</sup>

*Tier 3 Exposure Draft Proposals – ability to opt up, accounting policy hierarchy, topics scoped out and abbreviated conceptual framework (Agenda Paper 3.1)*

- 7 Agenda Paper 3.1 provides the staff analysis and recommendations regarding the feedback on the Board's preliminary views presented in the Discussion Paper on the Tier 3 requirements on:
  - (a) the approach to opting up to an accounting policy permitted by Tier 1 or Tier 2;
  - (b) the approach to accounting policy hierarchy for transactions, balances and other events outside the scope of the Tier 3 Standard;
  - (c) topics scoped out from the Tier 3 Standard; and
  - (d) inclusion of an abbreviated Conceptual Framework within the Tier 3 Standard.

## **Project update**

### *Stakeholder outreach update*

- 8 The AASB NFP Project Advisory Panel met on 17 August 2023 (refer to meeting minutes in Agenda item 3.2). At that meeting, staff sought to obtain Panel members' input into initial staff considerations on the accounting issues that staff plan to discuss with the Board at its September 2023 meeting, as referenced in Agenda Paper 3.1, paragraph 8. Staff have incorporated the panel members' feedback into the respective staff analysis. Staff will continue to seek feedback from the NFP Project Advisory Panel throughout the project.

### *Cross-cutting projects and other updates*

- 9 Table 1 below provides an update on the cross-cutting projects and other developments.

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2 [Minutes of the 182<sup>nd</sup> meeting of the AASB](#)

3 Refer to [Action Alert No: 222](#)

4 [Minutes of the 188<sup>th</sup> meeting of the AASB](#)

Table 1: Update on cross-cutting projects and other developments

Project and other updates	Update
<p>Post-implementation reviews of domestic NFP pronouncements</p>	<p>Staff are presenting initial considerations of the stakeholder feedback on ITC 50 Post-implementation Review – Income of Not-for-Profit Entities on certain topics in Agenda Item 8 at this meeting.</p> <p>The feedback from the PIR is consistent with the feedback collected from the DP that the current requirements under AASB 15 and AASB 1058 are too complex to apply for smaller NFP entities which support the Boards' proposal to develop a simplified income model for the Tier 3 Standard.</p>
<p>ACNC reporting requirements</p>	<p>ACNC has recently completed its random sample review of 250 annual financial reports from medium (\$250k – under \$1M) and large (\$1M and over) size charities relating to the 2021 year.<sup>5</sup></p> <p>The review examines the accuracy of the Annual Information Statement and financial reporting and other checks including completeness of financial reports and compliance with the minimum accounting standards required by the ACNC Act.</p> <p>At a high level:</p> <ul style="list-style-type: none"> <li>• there's an improvement in charities providing a complete set of financial statements (at 74% up from 66%);</li> <li>• of the charities required to disclose related party transactions, only 3% failed to do so. However, disclosure of key management personnel compensation as not provided by 14% of GPFS.</li> <li>• 61% of financial statements reviewed were SPFS, 27% were GPFS – RDR and 5% of were GPFS-SDR;</li> <li>• 54% of charities preparing SPFS included some sort of disclosure note regarding compliance with the recognition and measurement requirements with disclosure confirming compliance with recognition and measurement requirements of all relevant standards being the most observed note (no specific statics were provided).</li> </ul> <p>ACNC will continue to review charities' annual financial report to ensure compliance with ACNC reporting requirements with a focus on related party transactions and key management personnel disclosures in their future review.</p> <p>Staff have incorporated the findings into the relevant sections of the staff analysis in Agenda Paper 3.1 and staff will also consider the findings when considering the removal of SPFS for NFP entities including the transitional provisions that may be required given the higher population of NFP entities that is expected to transition from SPFS in the future.</p>

### Project timeline and milestones

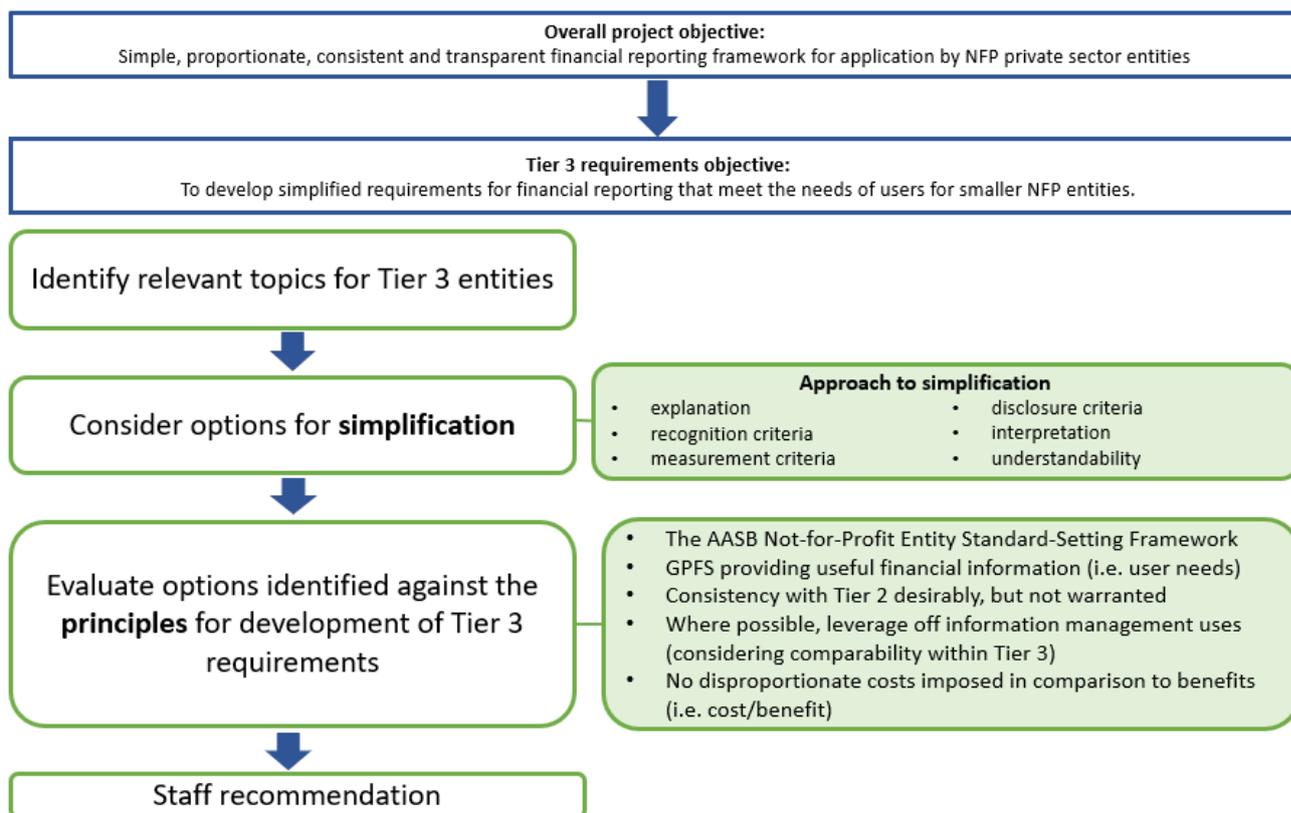
- 10 No changes have been made to the project timeline presented in Agenda Paper 3.1 Table 2 at the September 2023 Board meeting except that the discussion on whether to include Tier 1 and Tier 2 accounting policies will be considered as staff brings various topics for further consideration by the Board at a future meeting. Staff are on track with the project milestones presented in the timeline.
- 11 Staff have provided the Subcommittee with the staff's analysis and initial drafting of the Tier 3 Exposure Draft on selected topics for review. Staff are also planning the next meeting with NFP PAP members in the week beginning 18 September 2023 to consider the accounting issues that staff plan to discuss with the Board at its October 2023 meeting.

#### Question to Board members

Do Board members have any comments on the information summarised above?

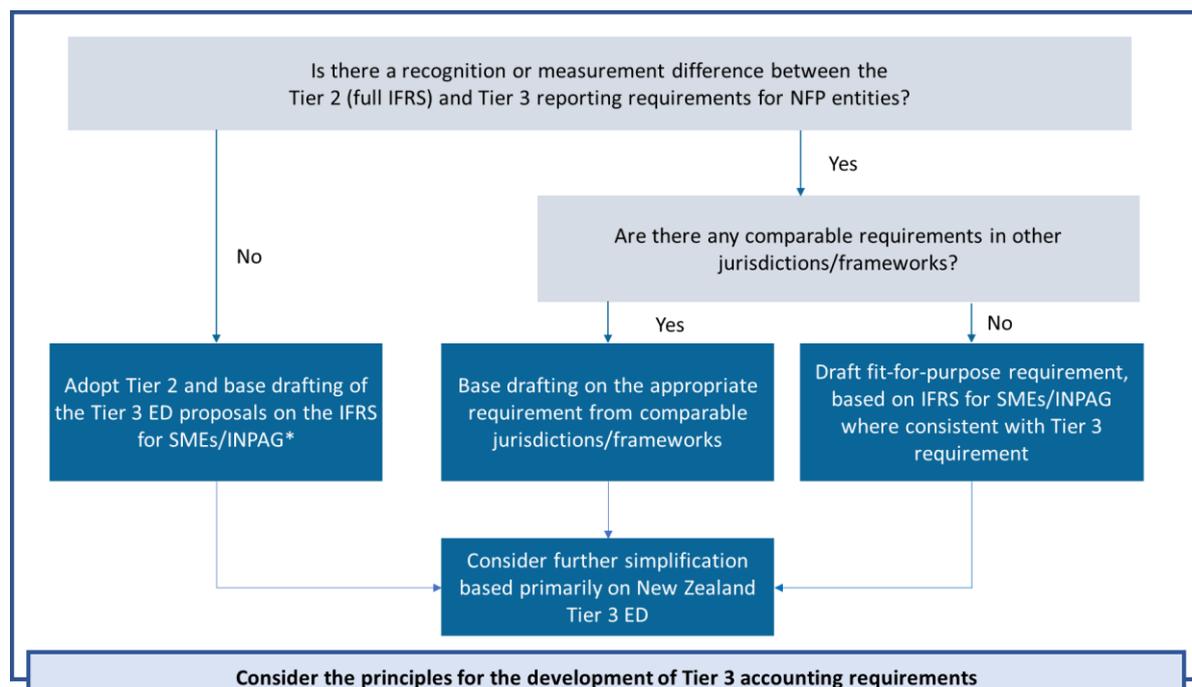
5 Refer to the [ACNC website](#) on "Reviewing Charities' Financial Information and Annual Financial Reports – 2021"

## Appendix A – Approach to simplification agreed by the Board at its 4 August 2021 Board meeting



## Appendix B – Approach to drafting the Tier 3 Exposure Draft

Approach to drafting recognition and measurement requirements for Tier 3 NFP private sector entities (each topic/issue) agreed by the Board at its 4 May 2023 Board meeting



Approach to developing disclosure requirements for Tier 3 not-for-profit private sector entities for each topic/issue agreed by the Board at its 22 – 23 June 2022 Board meeting

