

29 April 2016

Ms Kris Peach
Chair & CEO
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

via online submission

Dear Ms Peach

Exposure Draft 270: Reporting Service Performance Information

The Australian Institute of Company Directors (AICD) welcomes the opportunity to comment on *Exposure Draft 270: Reporting Service Performance Information (ED 270)*.

The AICD is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director education, director development and advocacy. Our membership of more than 38 000 includes directors and senior leaders from business, government and the not-for-profit (NFP) sectors.

The AICD does not consider that sufficient evidence exists of a problem in reporting among NFPs justifying this intervention. The costs of increasing the regulatory burden on NFPs are passed directly on to the communities who benefit from their services, making evidence based assessment critical. The AICD considers that the regulatory burden generated by the proposal in ED 270 would exceed the benefit and, on this basis, recommends that the draft is not appropriate as a mandatory standard for the NFP sector.

The AICD recognises the benefit of reporting performance information for the sector. The AICD's *Good Governance Principles and Guidance for Not-for-profit Organisations* recognises that the nature of many NFPs will mean that non-financial measures are required to give a complete picture of organisational performance and impact, and that accountability and transparency are important factors for NFP organisations.

We note that for charities, the Australian Charities and Not-for-profits Commission requires reporting of some service performance information through the Annual Information Statement framework. The Australian Securities and Investments Commission also requires similar reporting in the directors report for companies limited by guarantee with revenues exceeding \$250,000 that are not registered charities. The AICD is concerned by the potential overlap between these regimes and the proposals in ED 270.

Case for regulation

The AICD does not believe that a case has been established which demonstrates the need for additional regulation in NFP reporting. The AICD strongly supports high-quality reporting that provides quantitative and qualitative information, together with an appropriate narrative, to provide a more complete picture of an NFP's impact. However, the AICD takes the view that a sufficient case to make a regulatory intervention on this topic has not been established by the AASB.

If the users of NFP reports required the information proposed to be gathered by ED 270, the AICD suggests that the sector would have responded (or will respond) to these needs. The AICD proposes that market-driven measures are the most appropriate mechanisms through which to improve NFP reporting more broadly and that regulatory intervention is not an appropriate tool through which to achieve this outcome. Further, a uniform regulatory requirement may prevent NFPs from exercising the flexibility required to tailor their reporting to the unique needs of their stakeholders, or from declining to prepare such reports entirely if it is not appropriate in their circumstances.

Mandatory standard

The AICD strongly opposes ED 270 being introduced as a mandatory standard. We base this on the following:

- The International Public Sector Accounting Standards Board Recommended Practice Guideline *RPG 3 Reporting Service Performance Information*, on which ED 270 is based, was not drafted to be a mandatory standard;
- The regulatory burden that the proposal would create would exceed any proposed benefit; and
- The benefits of additional disclosure have not been sufficiently established.

Efficiency and effectiveness measures

The AICD does not support the mandatory imposition of 'efficiency' and 'effectiveness' measures, as proposed in paragraph 65 of ED 270. The AICD considers that a NFP should determine its objectives and the extent to which it has achieved them (consistent with Principles B and C). If the NFP considers efficiency and effectiveness relevant measures, and/or its funders and stakeholders seek this reporting, the NFP should have the discretion to develop and report such measures in the most appropriate manner.

There is a risk that there will be an implied suggestion of comparability between NFPs in different fields which may be unrealistic. Such comparisons could potentially be damaging for individual NFPs and the broader reputation of the sector. For this reason, the AICD favours market-driven measures as mechanisms for improving reporting among NFPs.

The AICD is concerned that the intangible nature of some NFP's objectives mean that efficiency and effectiveness will be difficult to quantify and this would have implications for the comparability of reports between entities. The diversity in the sector, including size, purpose and legal structure, would add significant complexity. For many organisations, the imposition of new mandatory reporting requirements as envisaged by ED 270 would have the unintended outcome of adding to internal costs and reducing service efficiency, without material benefit to stakeholders and clients.

Timing of the proposal

Australia's NFP sector is experiencing a period of significant change. The introduction of a new regulatory regime, changes in funding practices and the introduction of new models of service delivery (such as the National Disability Insurance Scheme) are contributing to significant disruption across the sector. The AASB's proposal to introduce new mandatory reporting obligations in this context would be poorly timed and inconsistent with the government's broader agenda of reducing red tape. In the absence of detailed engagement with NFP organisations, the AICD is concerned that the proposed new reporting obligations in ED 270 would add further complexity and uncertainty to the sector.

Recognising this, the AICD notes that many parts of the sector may be focused on other matters at this time. We caution that a lack of submissions on ED 270 should not be taken to indicate support by the sector.

Good practice approach

The AICD considers that components of ED 270 could provide a useful good practice framework for NFPs who may be required or want to report on service performance information, and encourages further development of the proposals with this aim. Further engagement with the sector would be necessary as part of this process. The AICD would be pleased to work with the AASB to facilitate consultation with the NFP governance community for this purpose.

We hope our comments will be of assistance to you. Should you wish to discuss any aspect of this submission, please contact our NFP Policy Adviser, Lucas Ryan via lryan@aicd.com.au or (02) 8248 6671.

Yours sincerely



JOHN BROGDEN
Managing Director & Chief Executive Officer