

30 March 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
Level 14, 530 Collins Street
Melbourne, VIC 3000

Via online portal

Dear Dr Kendall

Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)

Thank you for the opportunity to comment on the Australian Accounting Standards Board (**AASB**) Discussion Paper – *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* (**Tier 3 Accounting Standard**).

The Australian Institute of Company Directors' (**AICD**) mission is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD's membership of 50,000 reflects the diversity of Australia's director community, comprised of directors and leaders of not-for-profits (**NFPs**), large and small businesses and the government sector. With a significant majority of our members involved in the governance or work of NFPs, many of them making contributions as directors on a voluntary basis, the AICD has long been an advocate for ensuring the NFP sector is not restrained by excessive regulation.

The AICD welcomes moves by the AASB and other government bodies to reduce the compliance burden on charities over recent years. AICD members have provided feedback that overly onerous compliance requirements divert limited resources from their organisations' charitable purposes. We also note the findings of the 2019 AASB Research Report¹ which highlighted the current complexity and lack of uniformity in reporting obligations of different entities (including NFPs) under different national and state legislation.

The AICD **strongly supports** the development of a Tier 3 Accounting Standard that is simple, proportionate, consistent, and transparent for application by smaller NFPs. We note it is difficult to fully assess the impact of the proposed changes before seeing the Exposure Draft and the cost-benefit analysis in an associated Regulation Impact Statement. We encourage the AASB and the Australian Charities and Not-for-profits Commission (**ACNC**) to undertake a broad awareness raising campaign to educate NFPs of their reporting obligations under the proposed Tier 3 Accounting Standard.

This submission is informed by our engagement with members of the AICD's Not-for-Profit Chairs' Forum, AICD Reporting Committee, as well as the ACNC, the ACNC Adviser Forum, accounting practitioners, and academics.

¹ AASB Research Report 10 – Legislative and Regulatory Reporting Requirements (2019) – Access [here](#)

1. General comments

We provide preliminary comments in the following key areas:

Removal of special purpose financial statements (SPFS)

- The AICD supports the removal of the ability to prepare SPFS of NFPs captured under a Tier 3 Accounting Standard. This is consistent with our previous submission² supporting the removal of SPFS for for-profit private sector entities. These entities are now required to prepare, as a minimum, Tier 2 general purpose financial statements (**GPFS**), as of 1 July 2021.
- However, based on member feedback and consistent with the creation of Tier 2 in 2010, we strongly urge the AASB to conduct its standard cost-benefit analysis³ at the earliest convenience to measure the impact of removing SPFS, given the differences between the for-profit and NFP sectors.
- The AICD acknowledges that the use of SPFS is a longstanding area of concern to the AASB, and that its removal would assist comparability of financial information in the NFP sector. We also note the increased risk for directors and auditors due to the subjective nature of self-assessment of reporting requirements currently. We agree with the AASB observation that restricting an entity's accounting policy choices could also make the Tier 3 Accounting Standard easier for preparers to understand and apply, reducing the costs of compliance with accounting standards.
- The AICD encourages the AASB (and the ACNC) to dedicate resources to meet the significant challenge of educating the substantial number of NFPs which would be required to transition from SPFS to GPFS. For example, ACNC analysis of 250 annual financial reports in 2020⁴ revealed that 70% of the financial statements reviewed were SPFS. There is confusion by NFPs as to appropriate financial reporting, when only 65% of charities correctly selected the type of financial statements, they had prepared in their Annual Information Statement. Of the 35% of charities that selected the incorrect type of financial statements, 69% prepared SPFS but stated they had prepared GPFS. These findings reinforce the need to support NFPs and their preparers with clear guidance.

Statement of changes in equity

- The AICD supports NFPs having the *option* of not presenting a statement of changes in equity as part of a Tier 3 Accounting Standard. This change would be consistent with Tier 2 GPFS. Whilst it is helpful for for-profits to distinguish between reserves in a statement of changes in equity, it is not as useful for NFPs who may only have a profit or loss change to report. Stakeholders have advised the statement is beneficial for users when revisions are needed to account for prior period errors.
- Whilst the removal of a statement of changes in equity may provide greater simplicity, we have received feedback that this may result in a reduction in comparability between financial statements for users, such as grant funders, and not provide a cost saving for NFPs.

² AICD submission to AASB (2020) – Exposure drafts ED 295: General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities; and ED 297: Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

³ AASB (2010) – Reducing the Financial Reporting Burden: a second tier of requirements for general purpose financial statements. Access RIS [here](#)

⁴ ACNC – Reviewing Charities' Financial Information and Annual Financial Reports (2020) – Access [here](#)

Establishment of reporting thresholds

- The AICD supports further work to ensure proportionality of reporting thresholds as this would be determined by the relevant regulatory requirements. We note the 2022 changes in ACNC revenue thresholds meant thousands of charities saw their classifications move downward and, consequently, have their reporting obligations reduced.
- The AICD has received stakeholder feedback that use of revenue thresholds may not be appropriate for a reporting threshold, given NFP revenue can be inconsistent from year to year. The AASB itself notes that the ACNC specified medium size criteria (e.g. \$500,000 - \$3 million) may not be an appropriate threshold determinant given the population of NFPs that are not ACNC-registered charities. In 2010, the Productivity Commission estimated there were around 600,000 NFPs in total⁵. In 2022, the ACNC estimated it regulates around 60,000 charities⁶. We also note the findings from the 2007 AASB consultation on Tier 2 GPFS proposals where most constituents rejected the revenue threshold approach, given they are “difficult to determine and are arbitrary in their impact”⁷.
- We have also heard stakeholder views on the value of a Tier 4 Accounting Standard for even smaller NFPs. The AICD does not support the introduction of a further reporting tier that would introduce additional complexity for NFPs when determining regulatory reporting obligations.

Changes in accounting policies

- The AICD supports permitting Tier 3 NFPs to change accounting policies voluntarily if the change results in financial statements providing more reliable and relevant information to users about the effects of transactions on the entity's financial position, financial performance, or cash flows.
- Stakeholders noted some benefits for preparers in improving comparability of financial statements between entities *within* the same tier (e.g. across Tier 3 entities), rather than *between* tiers. Indeed, the Discussion Paper notes the Tier 3 boundary for practicality reasons was “based on balances and transactions commonly undertaken by NFPs with revenues between \$500,000 and \$3 million”.

Implementation

- The AICD supports transitional relief to allow NFPs time to adapt to the new Tier 3 Accounting Standard for the first time and those moving between tiers. We note the AASB has emphasised it would issue a standard with substantial lead time before its effective date (a two-year lead time is typical) and the development of education materials, as necessary.
- Any application of the proposed Tier 3 Accounting Standard to ACNC regulated entities would require an amendment to the ACNC Regulations⁸. Based on the ACNC's current approach of allowing small and medium sized charities to utilise SPFS, the AICD expects that the ACNC would support a phased transition period to enable charities, their preparers and advisers to correctly apply the new Tier 3 Accounting Standard.

⁵ Productivity Commission (2010) – Contribution of the Not-for-Profit Sector – Overview XXIII – Access [here](#)

⁶ ACNC (2022) – The ACNC's Contributions to a Diverse Charity Sector – Commissioner's Column – Access [here](#)

⁷ AASB (2010) – Reducing the Financial Reporting Burden: a second tier of requirements for general purpose financial statements. See Paragraph 5.2 [here](#)

⁸ ACNC Regulations: Section 60.30 – Special purpose financial statements – Access [here](#)

- The AICD encourages the AASB and ACNC to undertake a broad awareness raising campaign through factsheets, free webinars, and other complementary channels to educate NFPs of their reporting obligations under new Tier 3 Accounting Standard. Whilst the 2021-22 AASB Annual Report noted the AASB continued its use of technology to grow its stakeholder engagement across the country, we encourage the AASB to consider increasing in-person engagement for smaller NFPs in regional, rural and remote communities.

Next Steps

We hope our submission will be of assistance. If you would like to discuss any aspects further, please contact Sean Dondas, Policy Adviser (sdondas@aicd.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Christian Gergis', with a stylized flourish at the end.

Christian Gergis GAICD

Head of Policy

Education & Policy Leadership