



14 March 2025

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Submitted via email: standard@asb.gov.au

Dear Dr Kendall

AASB ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*

The Institute of Public Accountants (IPA) welcomes the opportunity to provide comments on the above Exposure Draft (ED).

GENERAL COMMENT

Overall, IPA supports the proposals in ED 334 :

- that essentially amends the *Conceptual Framework for Financial Reporting* (Conceptual Framework) to extend the application to not-for-profit (NFP) private and public sector entities that meet the criteria of preparing financial statements that comply with Australian Accounting Standards or accounting standards, or if the entity elects to prepare general purpose financial statements and
- that the above amendment will result in the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 *Definition of the Reporting Entity* being superseded for an entity when the Conceptual Framework is applicable.

However, we have the following observations and concerns:

- the above amendments will still enable for-profit (FP) public sector entities to continue to refer to the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1, which may permit the entity to prepare special purpose financial statements. This effectively means there are two reporting frameworks operating concurrently: one for all entities (FP and NFP) other than FP public sector entities where SPFS is prohibited; while FP public sector entities can still prepare SPFS. We find this contradicts the standard-setting framework of setting transaction neutral standards, where like transactions and events are accounted for in a like manner by all types of entities, irrespective if they are a FP or NFP entity, unless there is a justifiable reason for not doing so. We find that the AASB has not provided a justifiable reason for such a departure, other than stating a project to examine this difference will be undertaken in the future.

- the AASB should allocate resources to consider the significant and complex conceptual issues affecting NFP entities in the future and not abandon the project altogether.
- the transitional relief as an incentive for entities to early adopt the revised reporting requirements – we are of the view that transitional relief should be based on a sound basis and be made available for all entities, and not just for earlier adopters.
- the writing/drafting style, at times, is unnecessarily verbose and difficult to navigate.

SPECIFIC COMMENT

Our responses to the specific questions in the ED are in Attachment 1.

For any questions relating to this submission, please contact Vicki Stylianou, Group Executive Advocacy and Professional Standards, Institute of Public Accountants at vicki.stylianou@publicaccountants.org.au.

Yours sincerely



Vicki Stylianou
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Attachment 1 – IPA’s responses to ED 334 specific questions

Specific matters for comment

Applying the *Conceptual Framework* to not-for-profit entities

Q1. Paragraph Aus1.1 of the proposed amendments to the *Conceptual Framework for Financial Reporting* (Conceptual Framework) extends the applicability of the pronouncement to apply also to not-for-profit private and public sector entities that:

- (a) are required by legislation to comply with either Australian Accounting Standards or accounting standards;
- (b) are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after a specified date; or
- (c) elect to prepare general purpose financial statements.

The *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 *Definition of the Reporting Entity* are superseded for an entity when the *Conceptual Framework* applies to the entity.

Do you agree with the proposed amendments to extend the application of the *Conceptual Framework* to not-for-profit entities, including the proposed amendments to the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1? If you disagree, please explain why.

Subject to our comments in Q4 below, IPA agrees with the proposed amendment to the *Conceptual Framework* to extend the application to not-for-profit private and public sector entities that meet the criteria in Q1(a) to (c) above. We also support that the amendment will result in the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 *Definition of the Reporting Entity* being superseded for an entity when the *Conceptual Framework* is applicable.

Q2. The AASB is proposing to insert a number of ‘Aus’ paragraphs into the *Conceptual Framework* so that the pronouncement is suitable for use as a conceptual framework document for not-for-profit entities.

- (a) Do you agree with the proposed ‘Aus’ paragraphs to be added to Chapter 1 *The objective of general purpose financial reporting* and Chapter 2 *Qualitative characteristics of useful financial information* of the *Conceptual Framework*, including the amendments to:
 - (i) distinguish donors from other funders (see proposed paragraph Aus1.2.1);
 - (ii) clarify that transactions in equity instruments and distributions to investors typically do not occur in not-for-profit entities (see proposed paragraph Aus1.15.1);
 - (iii) clarify that information about a not-for-profit entity’s past financial performance and how its management discharged its stewardship responsibilities is usually helpful for predicting the volume and cost of future services and the sustainability of future service delivery (see proposed paragraph Aus1.16.1); and
 - (iv) delink, for not-for-profit entities, the results of confident, more informed user decision making and more efficient functioning of capital markets and a lower cost of capital (see proposed paragraph Aus2.41.1)? If you disagree, please explain why.
- (b) Do you agree with the proposed ‘Aus’ paragraphs to be added to Chapter 4 *The elements of financial statements*, including the amendments to:
 - (i) clarify, for a not-for-profit entity, the relationship between the potential to produce economic benefits and service potential (see proposed paragraph Aus4.4.1);
 - (ii) clarify, for a not-for-profit entity, the relationship between cash inflows and the definition of an asset (see proposed paragraphs Aus4.16.1 and Aus4.16.2); and
 - (iii) explain how references in the *Conceptual Framework* to an equity claim should be interpreted, because a not-for-profit entity would not typically have equity claims on its assets (see proposed paragraph Aus4.67.1)?

If you disagree, please explain why.

- (c) Do you agree with the proposed ‘Aus’ paragraphs to be added to Chapter 6 *Measurement*, including the amendments to:

- (i) clarify that, for a not-for-profit entity, the predictive value of historical cost information and current cost information is not limited to predicting future margins (see proposed paragraphs Aus6.30.1 and Aus6.41.1); and
- (ii) clarify that the selection of an appropriate measurement basis for non-financial assets held by a not-for-profit entity for their service potential rather than their potential to generate cash inflows is not necessarily informed by how those cash inflows are generated (see proposed paragraph Aus6.56.1)?

If you disagree, please explain why.

- (d) Do you agree, overall, with the limited proposed amendments to the *Conceptual Framework*?

If you disagree, please explain why.

IPA agrees with the proposed 'Aus' paragraph in Q2(a)-(c) and the overall limited proposed amendment of the *Conceptual Framework*. However, we find the writing/drafting style to be at times unnecessarily verbose and difficult to navigate. To better assist users in understanding and applying the requirements of the standard, we recommend simplifying and rephrasing the proposals and offer the following suggested editorial as an example:

Aus2.41.1 In respect of not-for-profit entities, reporting financial information that is relevant and faithfully represents ~~what it purports to represent the transaction~~ similarly helps users ~~to~~ make ~~decisions~~ ~~with~~ more confidence and ~~make more~~ informed decisions. Information that helps users understand how management has discharged its responsibilities results in more efficient allocation of scarce resources to not-for-profit entities throughout the economy.

Q3. The AASB reviewed the adequacy of the not-for-profit modifications in the *Framework for the Preparation and Presentation of Financial Statements* to address a view that further consideration should be given to the identification of users of financial statements and to the emphasis given to stewardship/accountability, amongst other matters. The AASB concluded that, with minor updates, those modifications are suitable for inclusion in the *Conceptual Framework* as applicable to Australian not-for-profit entities. The AASB observed that the *Conceptual Framework* gives greater emphasis to stewardship/accountability than the *Framework for the Preparation and Presentation of Financial Statements*. Therefore, the AASB decided not to add a project to its work program to further develop the *Conceptual Framework* for these or other more significant or complex conceptual issues affecting not-for-profit entities. The AASB made this decision on considering the effort involved with undertaking a project in this regard versus the urgency of such a project when considered against its existing other work program priorities.

Do you agree with the AASB's decision to no longer undertake a project that would consider the more significant and complex conceptual issues affecting not-for-profit entities? If you disagree, please explain why.

IPA supports the AASB's decision to not undertake the project to consider the more significant and complex conceptual issues affecting not-for-profit entities at this stage. Our support is on a pragmatic basis considering the AASB's existing work program and priorities. However, given the significance and complex nature of the conceptual issues, we recommend the AASB allocate resources to consider the matter in the near future and not abandon the project altogether.

Limiting the ability of certain not-for-profit entities to prepare special purpose financial statements

Q4. The AASB is proposing to extend the application of Australian Accounting Standards to more not-for-profit entities by no longer predicating the applicability of a Standard on such an entity's identification as a reporting entity (as defined by SAC 1). The proposals amend requirements for not-for-profit public sector entities but do not affect for-profit public sector entities, except where these entities are consolidated or otherwise incorporated into a not-for-profit public sector entity's financial statements. Do you agree with the proposed amendments to AASB 1057 *Application of Australian Accounting Standards* to extend the application of Australian Accounting Standards to, in general, not-for-profit entities that are required:

- (a) by legislation to comply with either Australian Accounting Standards or accounting standards; or

(b) only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document is created or amended on or after a specified date;

such that these entities are required to prepare general purpose financial statements?

If you disagree, please explain what you suggest instead and why.

For the purposes of this question, the specified date would be the first effective date of a Standard resulting from this Exposure Draft. For example, if the effective date of a final Standard is for annual periods beginning on or after 1 January 2029, the specified date would be 1 January 2029.

IPA agrees with the proposal to extend the application of Australian Accounting Standards to more not-for-profit (NFP) entities by no longer predicating the applicability of a Standard on an entity's identification as a reporting entity (as defined by SAC 1).

We note that the introduction states that ED 334 should be considered in conjunction with the proposals in ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* (page 4) and the resulting Standards are intended to have the same application date (page 5). However, we note the scope of ED 335 applies to “not-for-profit private sector entities without public accountability and qualify as a Tier 3 entity...” (paragraph 1.2). As stated in our submission to ED 335, ED 335 does not include a threshold for the size of a Tier 3 entity that would fall within the scope of the draft Standard. We acknowledge that establishing the reporting threshold for a Tier 3 entity may be the remit of the relevant legislation and/or regulator. However, we think that in order to remove the similar self-assess reporting problems of SPFS (for which ED 334 seeks to address), the final Standard needs to include a definition and/or guidance on the size threshold for a Tier 3 entity that needs to apply the Standard. As such, we recommend that AASB work with regulators to determine the appropriate Tier 3 threshold.

We also have concerns regarding the implication of this extension in that for-profit (FP) public sector entities

“will generally continue to refer to the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1, which may permit the entity to prepare special purpose financial statements.

The AASB will consider the reporting requirements for these entities as part of a separate future project.” (ED 334, page 8 – footnote 1).

The implication of the above, essentially, means there are two reporting frameworks operating concurrently: one for all entities (FP and NFP) other than FP public sector entities where SPFS is prohibited; while FP public sector entities can still prepare SPFS. We find this contradicts the standard-setting framework of setting transaction neutral standards, where like transactions and events are accounted for in a like manner by all types of entities, irrespective if they are a FP or NFP entity, unless there is a justifiable reason for not doing so. We find that the AASB has not provided a justifiable reason for such a departure, other than stating that a project to examine this difference will be undertaken in the future. For pragmatic reasons (ie the AASB current work program and resources), we support the extension in Q4 and recommend that the AASB undertake a project, sooner than later, to abolish the difference in reporting for FP public sector entities and have one operable Conceptual Framework instead of two.

Disclosures in special purpose financial statements

Q5. The AASB is proposing to amend AASB 1054 *Australian Additional Disclosures* and AASB 1057 to require a not-for-profit private sector entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards to disclose the information specified by paragraphs 8, 9 and 9A of AASB 1054 in special purpose financial statements, including information about its adopted accounting policies and changes in those accounting policies (proposed paragraphs 9A(b) and 9A(c) of AASB 1054).

Do you agree with this proposal? If you disagree, please explain why.

IPA agrees with the above proposal, as the disclosure would still provide useful information to users of financial statements for entities that are required under their constituting document or other document to comply with AASB 1054 to prepare SPFS. The disclosures would assist in the transparency and comparability of the financial statements.

Transitional provisions

Q6. The AASB is proposing to provide limited transitional relief to an entity that is a first-time adopter of Australian Accounting Standards and that elects to apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Do you agree with the proposals set out in Appendix F in AASB 1053 and paragraph Aus12.2 of AASB 1 *First-time Adoption of Australian Accounting Standards*? If you disagree, please explain why.

Q7. The AASB is proposing to amend paragraph 20A of AASB 1053 to allow not-for-profit entities transitioning from unconsolidated Tier 2 – Simplified Disclosures general purpose financial statements to consolidated Tier 2 – Simplified Disclosures general purpose financial statements to apply AASB 1 when preparing consolidated financial statements for the first time.

Do you agree with the proposed amendments to paragraph 20A of AASB 1053? If you disagree, please explain why.

Overall, IPA supports the proposed transition provisions, other than the short-term transitional relief for early adopters that are exempt from distinguishing errors from changes in accounting policies, presenting comparative information not previously disclosed in the notes and restating comparative information for certain NFP entities. We understand that the transitional relief is an incentive for entities to early adopt the revised reporting requirements. However, we are of the view that transitional relief should be based on a sound basis or set of conditions and be made available for all entities, and not just for earlier adopters.

Effective date of the proposals

Q8. The AASB is proposing that the effective date of a final Standard would be at least three years after the issue of that pronouncement (for example, if the Standard is issued in December 2025, the effective date would not be earlier than annual periods beginning on or after 1 January 2029). Earlier adoption would be permitted.

Do you agree with this proposal? If you disagree, please explain why.

IPA agrees with the proposed effective date of the final Standard as stated above.

General matters for comment

Q9. Has the AASB *Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in this Exposure Draft?

IPA thinks AASB *Not-for-Profit Entity Standard-Setting Framework* has largely been applied appropriately in developing the proposals in the ED, with the exception of our comments in Q4 above.

Q10. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(a) not-for-profit entities; and

(b) public sector entities, including GAAP/GFS implications?

IPA is not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

Q11. Do the proposals create any auditing or assurance challenges? If so, please explain those challenges.

IPA is not aware that the proposals will create any auditing or assurance challenges.

Q12 Would the proposals result overall in financial statements that are useful to users?

IPA thinks the proposals will result overall in the financial statement that are useful to users, with the exception of the two different frameworks operating concurrently as stated in Q4 above.

Q13. Are the proposals in the best interests of the Australian economy?

IPA thinks the proposals to amend the *Conceptual Framework* and Australian Accounting Standards to include not-for-profit entities are in the best interests of the Australian economy.

Q14. Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

IPA do not any further comments.