



Australian Government



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Australian Accounting Standards Board (AASB)

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Consultation - Developing a Simpler Reporting Framework for Not-for-Profit (NFP) Entities in Australia (Exposure Drafts 334 and 335)

1. The Australian Charities and Not-for-profits Commission (**ACNC**) welcomes the opportunity to comment on the following two Exposure Drafts (**ED**):
 - ED 334 - Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements
 - ED 335 - General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities.

About the ACNC

2. The ACNC is the national regulator of charities established by the *Australian Charities and Not-for-profits Commission Act 2012* (Cth) (**ACNC Act**).
3. The objects of the ACNC Act are to:
 - maintain, protect and enhance public trust and confidence in the Australian not-for-profit sector
 - support and sustain a robust, vibrant, independent and innovative Australian not-for-profit sector
 - promote the reduction of unnecessary regulatory obligations on the Australian not-for-profit sector.
4. Although the ACNC Act refers to not-for-profits and the not-for-profit sector, the ACNC only regulates registered charities – organisations that meet the definition of charity as set out in the *Charities Act 2013* (Cth) and the requirements for registration set out in the ACNC Act.
5. The ACNC maintains a free and searchable online public register for over 62,000 charities (**the Charity Register**).
6. The Charity Register helps the public, donors and government to understand the work of the charity sector and provides for transparency of charities. Information on the Charity Register





includes details about operating locations, activities and people. It also includes governing rules and annual reporting information, including annual financial reports.

Summary of our submission

7. The ACNC understands that the proposed reforms aim to extend the 'Conceptual Framework for Financial Reporting' to cover not-for-profit entities (including charities). This will remove the option for some charities to prepare Special Purpose Financial Statements (**SPFS**) (ED 334).
8. A new 'General Purpose Financial Statements (**GPFS**) Tier 3 Standard will be introduced, which includes simplified recognition, measurement, presentation, and disclosure requirements (ED 335).
9. These reforms will impact more than 5,500 medium and large charities who are currently preparing SPFS to meet ACNC requirements. These charities will need to transition to some form of GPFS, including Tier 1 or 2 GPFS (if ineligible for Tier 3). This will require significant changes to accounting systems, record-keeping processes, and administrative procedures.
10. These reforms will also impact a significant number of small charities who may prepare financial statements in accordance with Australian Accounting Standards for other purposes, such as grant acquittals.
11. Consistent with our legislative objects to promote public trust and confidence whilst reducing unnecessary administrative burden, the ACNC supports a Tier 3 Standard that is fit-for-purpose and easy to apply.
12. Overall, the reforms represent a positive step forward for the sector. However, to ensure that the Tier 3 Standard is fit-for-purpose, we recommend that:
 - the Standard treat entities whose governing documents reference accounting standards consistently, rather than introducing a grandfathering exemption based on the effective date of the standards
 - work with other regulators and government to promote consistent eligibility for Tier 3 reporting
 - minor changes be made to language to better reflect the language used in the charity sector
 - fair value be used instead of the cost method in most circumstances.
13. The ACNC has provided specific comments on ED 334 and ED 335 at Appendices A and B respectively.
14. The ACNC emphasises the need to support charities through tailored guidance and education that reflects the sector's diversity. With approximately 51% of operating charities relying solely on volunteers and having no paid staff, this support is crucial.



Impact on charities

15. Data from the 2023 Annual Information Statement (AIS) shows that 26% of charities are medium or large and are required to provide the ACNC with an annual financial report.¹

Charity size	Percentage of sector (%)	Annual financial report
Small (annual revenue under \$500,000)	74	Optional
Medium (annual revenue of \$500,000 or more, but under \$3 million)	16	Mandatory ² - SPFS or GPFS.
Large (annual revenue of \$3 million or more)	10	

16. In the 2023 AIS, 42% of medium and large charities reported preparing SPFS³.

Charity size	Number of GPFS	Percentage preparing GPFS (%)	Number of SPFS	Percentage preparing SPFS	Total number of charities
Medium	3,959	52	3,679	48	7,638
Large	3,648	66	1,904	34	5,552
Total	7,607	58	5,583	42	13,191

17. While the ACNC Act does not require small charities to prepare financial statements, small charities may prepare financial statements because of:

- their governing document
- grant funding obligations
- other legislation or regulatory requirements (for example, all charitable ancillary funds – regardless of size - must still prepare financial statements in accordance with the Australian Taxation Office's Private/Public Ancillary Fund Guidelines).

18. Small charities may also choose to prepare financial statements as a demonstration of good governance and transparency.

19. Our data shows that 56% of small charities (approximately 21,000) provided the ACNC with a financial report when submitting their 2023 AIS. Some of these reports will include full audited financial statements.

¹ This table excludes Basic Religious Charities who are not required to submit financial information, including annual financial reports, to the ACNC.

² Medium and large Basic Religious Charities are not required provide annual financial reports to the ACNC.

³ In the AIS, medium and large charities are asked to report on the type of financial statement they prepared. In some circumstances, these charities incorrectly selected GPFS when they prepared SPFS.



The need to support the sector through guidance and education

20. The ACNC supports the AASB's proposed approach to provide at least a three-year lead-time for any new Standard.
21. We encourage the AASB to use this extra lead-time to:
- strengthen financial literacy and capability within the sector to support compliance, with a particular focus on small charities who may need to comply with Tier 3
 - develop and provide clear, user-friendly guidance (including templates, etc). to help charities to correctly understand and apply Tier 3 Standard.
22. The ACNC will work with the AASB, professional accounting bodies, and firms to review any guidance and support the delivery of effective guidance. We will also ensure that our guidance is simple and easy to understand.
23. Improving the financial literacy and capability of charities will help them comply with their reporting obligations to the ACNC and other agencies. It will also increase their transparency and accountability to the public.

Changes to the ACNC's legislative framework

24. Under the Australian Charities and Not-for-profits Commission Regulations 2022 (Cth) (**the ACNC Regulations**), medium and large charities can prepare SPFS.
25. Legislative changes will be necessary to implement the AASB reforms and provide the sector with clarity and certainty moving forward. We also note that other regulatory bodies may require similar changes to their legislative and/or policy frameworks, and that funders may need to amend grant guidelines or agreements.
26. We note that there is likely to be an increase in red tape if there is inconsistency across legislation and/or legislative frameworks.

Further questions

27. Please contact Tim Liu, Acting Director – Reporting, Red Tape Reduction and Corporate Services at [REDACTED] or [REDACTED]

Sincerely,

[REDACTED]

Sue Woodward AM
Commissioner
Australian Charities and Not-for-profits Commission



Appendix A – ACNC response to questions in ED 334

No.	ACNC Response
1.	Agree.
2.	We recommend minor changes to the proposed amendments. Paragraph 6.41.1 uses the term 'margin.' In our experience, this term is not commonly used in the charity sector. We suggest using the term 'operating surplus', which is more widely understood and used within the charity sector. While out-of-scope for this consultation, the ACNC reiterates the view (as expressed in our response to the AASB's Discussion Paper Question 3) that 'regulators' are a primary user of financial reports. The ACNC uses financial reports as part of our regulatory activities.
3.	The ED does not include examples of the significant and complex conceptual issues affecting not-for-profit entities. As such, the ACNC is unable to comment.
4.	We do not disagree with the proposed amendments to AASB 1057. <i>Question 4(a)</i> - the ACNC may require legislative changes to implement these changes. <i>Question 4(b)</i> - where a small charity has a governing document that requires preparation of financial statements in accordance with accounting standards, we note the AASB's intention to allow these charities to continue preparing SPFS. The AASB intends to allow an exemption for governing documents created or amended before the effective date of the amended standards (which is yet to be determined). While this exemption is intended to support the sector, it may not be effective in the context of the charity sector because governing documents serve multiple purposes beyond financial reporting. Charities often choose to amend their governing documents for a range of reasons. Amendments may also be required by other regulators. The ACNC actively encourages charities to regularly review and update their governing documents to ensure they reflect the charity's purposes. Additionally, our data shows that small charities operate without paid staff and rely on volunteers. Having two approaches (one that applies pre-effective date of the amended standards, and one which applies post-effective date) may confuse these charities, who are often time-poor and lack the resources to understand the nuance of this exemption. Users (such as a grant funders) who are unaware of the exemption may also assume that these charities are, or should be, preparing GPFS. For these reasons, we recommend that the AASB take one consistent approach and remove the 'grandfathering' exemption.



No.	ACNC Response
5.	The ACNC Act only requires medium and large charities to prepare financial statements. As noted in our cover letter, small charities may be required, or choose to, prepare financial statements for other reasons. While we acknowledge the AASB's intent to enhance transparency through additional disclosures in SPFS, we consider this an additional red tape burden for small charities, particularly those with limited resources or expertise. We question the benefit of these additional disclosures, noting that they would only be temporary in nature.
6.	We agree with the provision of transitional relief for 'first-time' charities that adopt Australian Accounting Standards in preparing Tier 2 GPFS. We recommend that the AASB publish guidance about the transitional relief available.
7.	The ACNC understands that this proposal is similar to one that exists for for-profit entities. We support an approach that allows a charity preparing consolidated financial statements for the first time under Tier 2 – Simplified Disclosure to benefit from the relevant requirements under AASB 1, so long as there is a clear disclosure note that outlines when the charity will prepare Tier 2 – Simplified Disclosure statements.
8.	The ACNC agrees with a lead-time of at least three years, noting that that the ACNC (and other regulators) may require legislative amendments. This also provides time to educate the sector about these changes.



Appendix B – ACNC response to questions in ED 335

No.	ACNC Response
1.	We agree with the principles.
2(a)	We agree with this proposal. We are aware that some charities currently choose SPFS due to the complexities of consolidation. This proposal will reduce red tape for these charities.
2(b)	We agree with this proposal. It will reduce red tape for charities.
2(c)	The ACNC supports this proposal. Charities should be able to defer revenue recognition when it actually reflects the underlying funding arrangement. There must be evidence between the funding provider and the charity regarding the intended use of cash or other assets. This will ensure that external assurance practitioners and regulators can verify that revenue deferral is appropriate and not structured to allow indefinite deferral.
2(d)	The ACNC supports this proposal with a minor modification. We note that this simpler method will help reduce red tape for charities. We also note that the current framework allows for recognition of right-of-use leased assets on the balance sheet. This can cause confusion for some users who may not realise that these assets are leased rather than owned. As a result, they might mistakenly consider them for financial viability or solvency analysis, even though they cannot be sold. A strict straight-line basis may not fully reflect any lease incentives or discounts that charities receive. For this reason, we recommend that the requirement reflects actual lease arrangements. For example, if a charity receives the first two months of rent free as an incentive, they should not be required to allocate an amount on a strict straight-line basis but instead reflect the true nature of the agreement.
2(e)	The ACNC does not agree with this proposal. While we acknowledge the benefits of simplifying reporting for charities that do not need to determine the fair value of any in-kind donations, we believe that any material donated non-financial asset should at least be evaluated for fair value or an estimate. Around 40% of charities are registered as a deductible gift recipient. Where a donor intends to claim a tax deduction for their non-cash gift or contribution, the Australian Taxation Office requires the donor to be aware of the market value. In our view, charities should always try to apply fair value to non-financial assets. If this is impracticable, they should include a disclosure note explaining why they were unable to apply fair value when using the cost method.



No.	ACNC Response
2(f)	The ACNC agrees with this proposal, noting that many users of charity financial reports may not fully understand the concept of 'present value.'
2(g)	The ACNC agrees with this proposal.
2(h)	The ACNC agrees with this proposal.
2(i)	The ACNC does not oppose this proposal. The new term of 'entity combinations' appears to simplify accounting for business combinations, such as mergers. Allowing Tier 3 charities to apply a book value method is a pragmatic approach. It reduces complexity and administrative burden, which is particularly beneficial for any Tier 3 charity that lacks the resources and expertise to perform detailed fair value assessments. It also reduces costs associated with valuations and professional fees. However, we note the potential concerns, such as the risk that book value may not always reflect the true economic value of assets and liabilities, potentially reducing the accuracy and relevance of financial statements.
3.	Overall, the structure and language in the Standard is clear.
4.	The ACNC agrees with a lead-time of at least three years, noting that that implementing these reforms require legislative amendments. This also provides time to educate the sector about these changes.
5.	The absence of clear eligibility criteria for Tier 3 in ED 335 raises concerns as outlined in our previous submission to the Discussion Paper. Without defined thresholds (such as revenue or any other application rules), larger charities may adopt Tier 3. We note that the Tier 3 framework is designed for smaller charities. A lack of clear criteria may also confuse charities. For example, without criteria, some charities transitioning from SPFS may be uncertain about whether they can use Tier 3, or whether they must adopt Tier 1 or 2.
6.	Medium and large charities are subject to external assurance requirements under the ACNC Act. We note that external assurance opinions are critical to maintaining trust and accountability across the charity sector. Assurance opinions are also important for other stakeholders, including the public, funders, and other government agencies.
7.	Overall, the reforms represent a positive step forward for the sector. Improving consistency of financial information will promote transparency and accountability. The proposals aim to minimise the administrative burden on charities, particularly through the introduction of a simplified Tier 3 GPFS for smaller charities.



No.	ACNC Response
	In our view, the benefits of improved transparency and accountability and the introduction of Tier 3 outweigh the costs of transitioning to the new standards.
8.	We have commented on relevant sections in the table below.

No.	Section	ACNC Response
4.	Statement of profit or loss and other comprehensive income	We support an exemption for Tier 3 charities to align with the proposed changes under AASB 18 Presentation and Disclosure in Financial Statements, particularly regarding the presentation of newly defined subtotals in the statement of profit or loss. This approach maintains proportionality and reduces unnecessary complexity for smaller charities. While we support this approach for prior period errors, we recommend that the Standard include cross-references to sections 9.26 and 9.27 to clarify the disclosure requirements. Enhancing transparency in error disclosure is critical for maintaining public trust in the charity sector, as such disclosures can have a material impact on the decision of donors. Additionally, we recommend that paragraph 4.5 include a cross reference to other relevant sections in the Tier 3 standards, such as section 13. This will make it easier for charities and accountants to locate and apply the relevant requirements.
6.	Statement of cash flows	We recommend replacing 'operating activities' with 'ordinary activities,' which is the term used by the ACNC in our guidance. This will help distinguish revenue-generating activities from other income. Section 6.13 allows interest payments and interest/dividend receipts to be classified as either operating or other activities, while section 6.4 lists them as operating activities. While this distinction may not be critical if presented separately, it could create uncertainty in applying the Standard. We suggest combining 6.2 with 6.18 and 6.19 as they are closely related and using the term 'ordinary activities.'
7.	Notes to the financial statements	We suggest including examples at paragraphs 7.7 and 7.8. We have observed some charities using boilerplate accounting policy disclosures that lack tailoring to their specific circumstances.



No.	Section	ACNC Response
		For example, they may use generic descriptions of accounting terms and concepts as their accounting policy. To enhance transparency and relevance, the Standard should encourage entity-specific disclosures when reporting accounting policies and judgments.
8.	Notable relationships and consolidated and separate financial statements	Data from the 2023 Annual Information Statement shows that 5% of charities preparing SPFS consolidated more than one entity in their financial statements, including 79 charities with annual revenue exceeding \$10 million. Because of the revenue generated by these charities, we would expect them to transition to Tier 1 or 2 GPFS. Based on our experience, the terms 'investor' and 'investee' are not commonly used in the charity sector. We recommend using the following terms: - controlling entity (<i>instead of Investor</i>) – refers to the NFP entity that has control over another entity. - controlled entity (<i>instead of Investee</i>) – refers to the entity being controlled by the NFP entity. For paragraphs 8.14(b), 8.18, and 8.19, we suggest replacing 'variable returns from its involvement with the investee' with 'variable benefits or impacts arising from its relationship with the controlled entity.'
12.	Inventories	Under the Basis for Conclusions, we recommend the AASB add an example at paragraph 12.12 regarding the cost of inventories of a service provider.
14.	Investment property	As outlined in Question 2(e) and following a similar rationale, donated investment property should not be measured at cost. The cost method should not be an option; instead, donated investment property should be valued at fair value.
15.	Property, plant and equipment	We believe that when donated property, plant, and equipment (PPE) are individually material, fair value should be used. The cost method should only be used where it is for purchased PPE or impracticable to determine fair value. In these cases, the disclosure note under paragraph 15.29 should include an explanation of why applying fair value is impracticable.
16.	Intangible assets	If intangible assets are to be included, we support the simplified approach. We agree that donated intangible assets can be measured at cost or fair value, as they are less common and present lower risk to



No.	Section	ACNC Response
		public trust and confidence compared to other material non-financial assets. Regarding amortisation, we note the proposed limit of not exceeding 10 years for the useful life of intangible assets. For an indefinite-lived intangible asset, such as a charity's registered trademark, a strict 10-year limit may not always be necessary as it is still subject to management's best estimate under paragraph 16.18.
17.	Entity combinations	While not included in the original Discussion Paper, we support this inclusion. Charities continue to undergo mergers and combinations. Approximately 13% of voluntary charity status revocations processed by the ACNC in 2023-24 related to mergers with other charities. We note the exception under paragraph 17.7, which allows entities that initially measure donated non-financial assets at cost to forgo applying fair value at the deemed combination date. However, as we have previously stated, the fair value of material donated non-financial assets is essential for transparency and to reflect the receiving charity's accountability. If the cost method for donated non-financial assets is to be removed, this exception would no longer be necessary.
18.	Leases	We support the simplification of lease standards, as we understand that some charities have indicated challenges in applying them. We also note the transition relief, which allows charities to retain their existing recognition and measurement policies, such as continuing to apply AASB 16 if already in use, without requiring a reversal upon transitioning to Tier 3. As previously mentioned, a straight-line basis may not always reflect actual lease payments. While we acknowledge that using a systemic basis can simplify reporting, we suggest that the Standards allow for modifications (where applicable) to better align with actual lease payments.
28.	Related party disclosures	In the absence of Tier 3 thresholds, the ACNC may require legislative changes to ensure that large charities continue to disclose key management personnel compensation.