



**Australian Government**

**Australian Accounting  
Standards Board**

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Thresholds Working Group  
C/- Not-for-profit Unit  
Individuals and Indirect Tax Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600  
(by e-mail to [Thresholds@treasury.gov.au](mailto:Thresholds@treasury.gov.au))

19 March 2021

Dear Working Group members,

### **Increasing financial reporting thresholds for ACNC-registered charities**

The Australian Accounting Standards Board (AASB) appreciates the opportunity to provide comments to the Thresholds Working Group in relation to the consultation on increasing financial reporting thresholds for ACNC-registered charities.

The Australian Accounting Standards Board (AASB) is an Australian Government agency under the *Australian Securities and Investments Commission Act 2001*. The AASB develops, issues and maintains principles-based, Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced.

The mission of the AASB also includes contributing to the development of a single set of accounting and external reporting standards for world-wide use. In support of this, the Australian Accounting Standards (AAS) promulgated by the AASB incorporate the IFRS Standards issued by the independent International Accounting Standards Board. The AASB develops one set of accounting standards to cover all sectors, although modifications are made for the not-for-profit private sector and the public sector when warranted, for example to address Australian-specific legislation, user needs or public interest issues relevant to financial reporting or other external reporting and undue cost or effort considerations, to name a few.

Although the AASB develops accounting standards to determine *what* information is reported by Australian entities, in most cases it is the remit of other parties, including regulators, to determine *who* should report under such standards. Accordingly, although accounting standards are not the focus of the Consultation, determining which entities are required to report accounting information and what information is reported are inextricably linked.

It is in this context that the AASB provides the following comments to the Consultation to outline the role of the AASB in the development of financial reporting frameworks and to highlight potential changes to these frameworks, including important interactions between such frameworks and reporting thresholds set by the respective regulators.

The AASB provided comments to the Australian Charities and Not-for-profits Commission Legislative Review (ACNC Legislative Review) in 2018 and made several recommendations relating to the financial reporting thresholds.<sup>1</sup> In line with these comments, we express continued support for harmonising reporting requirements across all States and Territories in order to enable consistent criteria and thresholds for financial reporting requirements.

Such harmonisation is increasingly important as the AASB progresses with the development of a financial reporting framework, the objective of which is to develop a reporting framework that is simple, proportionate, consistent and transparent for all not-for-profit private sector (NFP) entities in Australia. The framework will aim to simplify determining financial reporting requirements by the entities resulting in improved comparability and quality of the financial statements, simplify recognition and measurement requirements and further reduce disclosure requirements for some NFP entities while reflecting the needs of the users and balancing those needs with the costs to the preparers. The AASB has adopted an evidence-informed approach to standard setting and accordingly, the development of the new framework responds to the feedback from the outreach supported by the evidence from the research.<sup>2</sup>

After consideration of the feedback from initial targeted consultations on the possible design of the financial reporting framework for NFP entities, the AASB decided at its November 2020 meeting to develop a public consultation document. In February 2021, the AASB tentatively decided to develop a further reporting tier ('Tier 3') in addition to the existing Tier 1 (full General Purpose Financial Statements) and Tier 2 (Simplified Disclosures) in response to stakeholder concerns that Tier 2 reporting requirements are not proportionate for certain NFP entities, including those which might no longer be able to prepare special purpose financial statements should the Board decide to remove the 'reporting entity' definition currently applicable to NFP entities. The Board also tentatively decided not to specify application thresholds for the tiers given existing and possible future financial reporting thresholds required by the respective regulators in Australia and the Board's role to determine what information is reported by the entities when preparing financial statements in accordance with AAS. The Board will consider proposals for Tier 3 reporting requirements for the consultation document at future meetings with an aim to issue the public consultation document in Q4 2021.

Given the AASB is currently developing proposals for the public consultation on the changes to the reporting framework for NFP entities and determining what information should be reported is inextricably linked to the financial reporting thresholds, we would welcome the opportunity to discuss:

- the effect of the increased financial reporting thresholds on the respective federal, state and territory regulators' requirements for entities to prepare financial statements in accordance with AAS; and

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1 [AASB submission to ACNC on Legislative Review, December 2018](#) included recommendations on:

- the tiers of financial reporting enabling differential reporting requirements between small, medium and large charities;
- transparent, clear and objective criteria and thresholds for public lodgement, with specified financial reporting and assurance requirements for each tier that are proportionate and fair, meeting the needs of users;
- criteria for movement between financial reporting tiers to be two consecutive years of meeting requirements and remove regulator pre-approval.

2 [https://www.aasb.gov.au/admin/file/content102/c3/PS\\_AFR-NFP\\_03-21.pdf](https://www.aasb.gov.au/admin/file/content102/c3/PS_AFR-NFP_03-21.pdf)

- how these thresholds interact with the potential financial reporting requirements in AAS applicable to NFP entities.

If you have any questions regarding this letter, please contact Fridrich Housa, Deputy Technical Director ([fhousa@asb.gov.au](mailto:fhousa@asb.gov.au)), or myself ([kkendall@asb.gov.au](mailto:kkendall@asb.gov.au)).

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Kendall', written in a cursive style.

Keith Kendall  
AASB Chair