|  |
| --- |
| Thresholds Working Group  C/- Not-for-profit Unit  Individuals and Indirect Tax Division  The Treasury  Langton Crescent  Parkes ACT 2600 |
| 19 March 2021 |
| Dear Sir/Madam | |
| **Consultation Paper: Increasing thresholds for ACNC-registered charities** | |

|  |  |
| --- | --- |
| We are pleased to have the opportunity to comment on Exposure Draft 286 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* (ED 286).  We broadly support the proposals, as a whole, set out in ED 286. We expect the proposed temporary option for not-for-profit entities to not measure right-of-use assets at initial recognition at fair value for peppercorn leases will provide significant relief to most not-for-profit entities and help in their implementation of AASB 16 *Leases*, AASB 1058 *Income of Not-for-Profit Entities and* AASB 15 *Revenue from Contracts with Customers.*  The proposals will reduce the likelihood of diversity in practice calculating the fair value of the right-of-use asset applying AASB 13 *Fair Value Measurement* in the absence of additional guidance andavoid undue associated cost and effort. The additional proposed disclosures will, however, provide information which helps the users assess the entity’s dependence on peppercorn leases to enable the entity to further its objectives.  Please refer to the Appendix for our detailed comments on the specific and general matters for which feedback was requested.  We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact myself on (02) 9455 9120.  Yours sincerely  Kim Heng  Partner  **Appendix**  **Specific matters for comment**   1. ***Do you agree with the proposed temporary option for not-for-profit entities to not measure right-of-use assets at initial recognition at fair value for leases with significantly below-market terms and conditions principally to enable the entity to further its objectives (‘peppercorn leases’)? This option would permit not-for-profit entities to measure such right-of-use assets at initial recognition at cost instead of fair value. The AASB will reassess the option when further guidance has been developed to assist not-for-profit entities in fair valuing such right-of-use assets and the financial reporting requirements for not-for-profit private sector entities have been finalised. If you disagree, please provide reasons.***   We agree with the temporary option for not-for-profit entities to not measure the right-of-use assets at initial recognition at fair value for peppercorn leases.  Given the ongoing project relating to fair value measurement in the public sector and the ACNC deliberations on the financial reporting requirements for not-for-profit private sector entities, we agree that an optional deferral is appropriate. We agree with the AASB’s proposal to reassess this option once the aforementioned have been finalised.   1. ***If you disagree with providing a temporary option, do you consider that not-for-profit entities should be permitted to measure right-of-use assets at initial recognition at either fair value or cost for peppercorn leases entered into prior to the initial application of AASB 16? In your view, should such a permanent option be provided for not-for-profit entities in the private sector, the public sector, or both sectors? Please provide your reasons.***   We do not disagree with providing a temporary option.  We recommend the AASB defer a decision on whether a permanent option be provided for not-for-profit entities in the private and/or public sector until the outcomes of the AASB’s *Fair Value Measurement for Public Sector Entities* project are known. Useful and appropriate guidance may arise from that project that could be applied in both the public and private not-for-profit sector.   1. ***Additional disclosure requirements are set out in the proposed paragraphs Aus59.1 and Aus59.2 of AASB 16 for application to peppercorn leases where the right-of-use assets are measured at cost rather than at fair value. In conjunction with the other disclosure requirements in AASB 16, would these additional disclosures provide adequate information for users to understand the effects on the financial position, financial performance and cash flows of the entity arising from such peppercorn leases? If not, what additional disclosures would be appropriate?***   We agree that the additional disclosure requirements set out in the proposed paragraphs Aus 59.1 and Aus 59.2 would provide adequate information for users to understand the effects of peppercorn leases on the financial statements.  We note that Aus59.2 requires that “The disclosures provided by a not-for-profit entity in accordance with paragraph Aus59.1 shall be provided individually for each material lease that has significantly below-market terms and conditions principally to enable the entity to further its objectives or in aggregate for such leases involving right-of-use assets of a similar nature.” (emphasis added).  In our view it is not clear how to determine whether a peppercorn lease is material. For example, if there were no requirement to fair value the right-of-use asset how should the assessment of whether the lease is individually material be performed? Is the assessment qualitative? We suggest that further guidance on how to assess whether a peppercorn lease is individually material be provided.  **General matters for comment**   1. ***Whether The AASB’s*** ***Not-for-Profit Entity Standard Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?***   We agree the process in issuing the exposure draft is consistent with the AASB Not-for-Profit Standard Setting Framework.   1. ***Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Financial Statistics (GFS) implications?***   We are not aware of any specific issues.   1. ***Whether, overall, the proposals would result in financial statements that would be useful to users?***   We agree the proposals would result in financial statements that would be useful to users.   1. ***Whether the proposals are in the best interests of the Australian economy?***   We do not have any specific comments on whether the proposals are in the best interest of the Australian economy.     1. ***Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, 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.***   We do not have any specific additional comments on the costs and benefits of the proposals.  Your ref |  |
| Our ref | CP-Thresholds ACNC charities |
| Contact |  |

We are pleased to have the opportunity to comment on the Consultation Paper *Increasing financial reporting thresholds for ACNC-registered charities* (Consultation Paper).

We broadly support the increase of the financial reporting thresholds for ACNC-registered charities, however, question why the proposed thresholds are below those recommended by the ACNC Review Panel. We believe additional analysis of the number and nature of charities in each *proposed* size category would be useful to assess whether the proposed thresholds are fit for purpose from the perspective of the charities that are ‘left’ in each size category.

Please refer to the Appendix for our detailed comments on the specific questions for which feedback was requested.

We would be pleased to discuss our comments with members of the Working Group. If you wish to do so, please contact myself on (02) 9455 9120 or Julie Locke on (02) 6248 1190.

|  |  |
| --- | --- |
| Yours faithfully |  |
|  |  |
| Kim Heng  *Partner* |  |

**Appendix**

**Consultation questions**

1. ***Do you consider the proposed new thresholds are suitable? If no, why? If no, what thresholds do you consider appropriate to balance regulatory red tape and the need for accountability and transparency?***

We support the increase of the financial reporting thresholds, however, question why the proposed thresholds are below those recommended by the ACNC Review Panel. We expect the working group would have conducted an analysis of the number and nature of charities in each *proposed* size category, yet the Consultation Paper discusses the number of charities that would move to a lower size classification only. Whilst information regarding the number of charities that would move to a lower size classification is helpful, information on a wholistic basis of the proportions of charities remaining in each proposed size category would also be useful to assess if the proposed new thresholds are fit for purpose. Without this information, we can neither be supportive of the proposed new thresholds nor suggest another higher threshold that in our opinion goes far enough in reducing regulatory red tape yet balancing the need for accountability and transparency.

While increasing the thresholds further may increase the number of charities that will no longer be required to submit reviewed financial report to the ACNC, there will still be a requirement to submit an Annual Information Statement. This Annual Information Statement will maintain the level of accountability and transparency being sought for the sector – particularly with the proposed simultaneous implementation of other improvements recommended in the ACNC Review.

1. ***In your view, is it more important for the ACNC to increase reporting thresholds as soon as Commonwealth legislative priorities allow, or for the increased thresholds to be increased simultaneously across all jurisdictions consistent with a longer timeframe?***

We support the increasing of ACNC reporting thresholds as soon as Commonwealth legislative priorities allow. Simultaneous increased thresholds across all jurisdictions does not appear to be a practical option to achieve the reduction of regulatory red tape in a relatively short timeframe.

1. ***What lead in time would you consider suitable for charities to make the necessary changes to their reporting processes?***

We note that the aim is to announce the increased financial reporting thresholds by 30 June 2021. Given the proposal is reducing the regulatory burden, we consider that the changes could be adopted immediately.

1. ***In your view, if non-ACNC-registered incorporated associations were required to report similar financial information to that which ACNC-registered incorporated associations provide to the ACNC, would this provide sufficient accountability and transparency, including for the purposes of members, donors and the interested public?***

We would believe the required ACNC financial reporting would provide sufficient accountability and transparency, including for the purposes of members, donors and the interested public for non-ACNC-registered incorporated associations.

1. ***What, if any, issues do you consider potential differences in reporting thresholds for charity and non-charity incorporated associations will cause? Why?***

We are not aware of the potential issues differences in reporting thresholds for charity and non-charity incorporated associations will cause.

1. ***In your opinion, is the Thresholds Working Group overlooking any issues concerning the nexus between fundraising reporting requirements and financial reporting requirements for ACNC-registered charities?***

We do not have any comment in relation to this question.