



Australian Government  
The Treasury

**TSY/AU**

# Australian Charities and Not-for-profits Commission Amendment (2021 Measures No. 3) Regulations 2021 FAQs

## Context

Australian Charities and Not-for-profits Commission Amendment (2021 Measures No. 3) Regulations 2021 (the Regulations) will assist in implementing three of the recommendations from the Australian Charities and Not-for-profits Commission Legislation Review.

These reforms will reduce red tape for charities so they can focus their resources on supporting their communities, while also ensuring the generous Australians who give their time and money to various causes can have trust and confidence in the governance of the charities they support.

## What reforms are being implemented?

In its response to the Australian Charities and Not-for-profits Commission Legislation Review 2018 (the Review), the Government agreed to the following three recommendations (amongst others):

- Recommendation 12: Increase the revenue thresholds defining small, medium and large registered charities. These will be increased to the following:

Registered charity size	Small	Medium	Large
Annual Revenue Threshold	Less than \$500,000	\$500,000 to less than \$3 million	\$3 million or more

- Recommendation 14: Require all registered charities to disclose related party transactions, with small registered charities to make a simplified disclosure involving a brief description of related party transactions.
- Recommendation 15: Require large registered charities to disclose, on an aggregate basis, remuneration paid to responsible persons and senior executives, unless the charity has only one such person.

## How will the Regulations assist to implement these reforms?

The Regulations will give effect to Recommendation 12 and Recommendation 14 of the Review. For consistency with the Government's response to Recommendation 15 of the Review, the Regulations also provide an exemption for some charities from the requirement to disclose, as part of their related party transactions, aggregate remuneration paid to responsible persons and senior executives. This exemption will apply to medium registered charities, and large charities with only one remunerated key management person. (Senior executives and responsible persons are referred to as key management personnel in accounting terms.) This requirement balances increased transparency with the privacy of individuals.

## What will the new reporting thresholds mean for registered charities?

The increased reporting thresholds for registered charities will mean that a number of charities will move from being a large charity to now being a medium for the purposes of ACNC reporting. These

charities will now be able to have their financial statements reviewed rather than audited. This will save the charity both time and money.

Other registered charities will move from being a medium charity to now being a small charity for the purposes of ACNC reporting. These charities will now no longer be required to submit financial statements to the ACNC, instead being required to simply complete the Annual Information Statement. This represents a significant reduction in red tape for these charities.

The below table sets out a comparison between the existing and new thresholds, to allow charities to determine if they will be impacted by the changed thresholds.

Registered charity size	Small	Medium	Large
Current annual revenue threshold	Less than \$250,000	\$250,000 to less than \$1 million	\$1 million or more
New annual revenue threshold as set out in the Regulations	Less than \$500,000	\$500,000 to less than \$3 million	\$3 million or more

## When do the new reporting thresholds come into effect?

The increased financial reporting thresholds will take effect for the 2021-22 financial year onwards (or relevant substituted accounting period). That is, when submitting their 2022 Annual Information Statements and financial statements, charities will be able to use the new, increased thresholds.

## Who are related parties?

A related party can be defined as a person or organisation that is related to the charity where that person or organisation has significant influence over the charity. Put simply, but not exhaustively, this includes responsible persons of the charity and their immediate family members, and senior executives and their immediate families. It can also include other organisations where a responsible person or senior executive (or an immediate family member) has a degree of control in that organisation. The ACNC will provide guidance to assist charities in identifying related parties.

## What is a related party transaction?

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged. For example, when a charity provides a loan to one of its responsible persons, or vice versa. This is a related party transaction and will now be reported.

## Do all related party transactions have to be reported?

Not all related party transactions are material, that is, have the ability, perceived or real, to influence a charity's activities or actions, or provide inappropriate private benefit. Only material related party transactions are required to be disclosed. What is material will depend on the circumstances of each charity. The ACNC will issue guidance to assist charities to determine what should be reported.

## Why is it important for charities to report on related party transactions?

Charities registered with the ACNC are required to manage their financial affairs in a responsible manner and act in accordance with their status as not-for-profit entities.

Many related party transactions are consistent with these obligations and will not be of concern and will therefore not need to be reported (see above). However, experience has shown that inappropriately transacting with related parties is a key risk for charities, intentionally or unintentionally leading to private benefit. This can erode public trust and confidence in the charity sector as a whole.

It is important to ensure that the generous Australians who give their time and money to various causes have trust and confidence in the governance of the charities they support. Requiring charities to report related party transactions allows the ACNC and the public to identify if a charity has potentially made inappropriate transactions.

## What will small charities have to report?

Most registered charities will have to report related party transactions under this reform. Small registered charities (except basic religious charities, see below) will be required to provide a brief description in their Annual Information Statement. The ACNC will provide guidance to assist charities to complete this section.

## What will medium and large charities have to report?

Medium and large charities will have to provide details of related party transactions in their financial statements, and a summary in their Annual Information Statement. Those medium and large charities which complete general purpose financial statements already disclose related party transactions in their financial reports. This reform will therefore require no change to their financial statements. However, the Regulations provide that medium and large charities which prepare special purpose financial statements must now also report against Australian Accounting Standard 124: Related Party Transactions. This will mean that medium and large charities submitting financial statements will report related party transactions.

## What will this mean for Basic Religious Charities?

Basic Religious Charities are not required to submit financial statements, and this will not change under this reform. However, if a Basic Religious Charity chooses to submit financial statements, it is required to comply with the same requirements as other charities. This will include reporting related party transactions.

## When do charities have to start disclosing related party transactions?

Charities will have to start disclosing related party transactions from the 2023 reporting period onwards (that is, it will apply to financial statements from the 2022-23 financial year onwards, or the relevant substituted accounting period if one has been approved). This will allow charities time to establish systems and processes for capturing related party transactions.

## Whose remuneration has to be reported under these reforms?

The Government is committed to ensuring transparency of large charities by requiring them to disclose the aggregate remuneration of senior executives and responsible persons in their Annual Information Statement, unless only one such individual is being remunerated.

## Who is a responsible person?

A responsible person is someone who is responsible for governing a charity. Generally, a charity's responsible persons are its directors, board or committee members, or trustees (including insolvency trustees or administrators). The ACNC provides guidance on who is a responsible person on its website.

## Who is a senior executive?

A senior executive is someone who has responsibility for setting the direction of the charity and controlling the activities of the charity. It could include persons such as the Chief Executive Officer (CEO) or General Manager, the Chief Financial Officer (CFO) and the Chief Operations Officer. Each charity must decide for itself which roles have the degree of control and seniority to make them a senior executive.

## What remuneration has to be reported?

The aggregated remuneration of both responsible persons and senior executives of a large charity must be reported in the charity's Annual Information Statement, unless the charity only has a single individual across both categories who is being remunerated. For example, if a charity had three Directors, a CEO and a CFO being remunerated in a financial period, the charity would report the total of the remuneration for all five roles, as a single figure. However, if a large charity only had a single senior executive (for example just the general manager) receiving remuneration, and the responsible persons were all volunteers, this would not have to be reported.

## What if my charity pays a single management body for management services?

Where the charity is paying a management body for management services, this must be reported. The reference to individual in the Regulations makes it clear that it is only where the remuneration is for a single person that the charity will not be required to report.

## When does aggregate remuneration have to be reported?

Large charities will be required to report aggregate remuneration from the 2021-22 reporting period onwards (or relevant substituted accounting period if one has been approved). That is, the 2022 Annual Information Statement will have questions for large charities on aggregate remuneration of senior executives and responsible persons.

The ACNC will provide guidance for large charities on how to report in the Annual Information Statement.

## If this is included in the Annual Information Statement, why is remuneration addressed in the Regulations?

As Australian Accounting Standard 124 includes reporting on remuneration of key management personnel, without an exemption, **all** medium and large charities would be required to report this information. This would not meet the Government's commitment to privacy of individuals.

Therefore, the Regulations provide that large charities with only one such individual do not have to disclose aggregate remuneration paid to responsible persons and senior executives.

As the Government committed to disclosure of such remuneration only for large charities, the exemption also extends to all medium charities.

The exemption will not stop charities that voluntarily disclose such information in their financial statements from doing so.

## What are the next steps?

Treasury will review the submissions and feedback from stakeholders on the changes to the Regulations, which will inform any potential refinements to ensure the amendment achieves its intended purpose.