

New NFP GPFS-Tier 3 proposed

Reporting update
25 January 2023, 23RU-04



**GPFS-Tier 1 or Tier 2
required for certain for-
profit private sector entities**

**First steps to shaping NFP
private sector financial
reporting framework – new
GPFS-Tier 3 proposed**

**Submit comments by
31 March 2023**

Highlights

- Australian financial reporting framework – current status
- Discussion paper key proposals
- Other matters
- Next steps and further information

Australian financial reporting framework - current status

For-profit private sector

In March 2020 the Australian Accounting Standards Board (AASB) finalised the new for-profit private sector Australian financial reporting framework effective for financial years beginning on or after 1 July 2021. The ability for certain for-profit private sector entities to prepare special purpose financial statements (SPFS) was removed and such entities are now required to prepare a form of general purpose financial statements (GPFS). Where the entity has public accountability, the form of GPFS must be Tier 1, otherwise the form of GPFS is Tier 2. GPFS-Tier 2 apply all recognition and measurement requirements of Australian Accounting Standards (AAS), however, apply the GPFS-Tier 2 Simplified Disclosure (SD) standard, AASB 1060 *General Purpose Financial Statements (GPFS) – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Not-for-profit private sector

The AASB has now turned its attention to the not-for-profit (NFP) private sector Australian financial reporting framework. To shape the NFP private sector financial reporting framework, the AASB is seeking to:

- Remove the ability for NFP private sector entities to prepare SPFS
- Develop a third tier of GPFS for certain smaller NFP private sector entities.

In September 2022 the AASB published its Discussion Paper – *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* being the first step in revising the NFP private sector financial reporting framework.

Discussion Paper (DP) proposes a third tier of GPFS for the NFP private sector. The DP proposes developing a stand-alone accounting standard for GPFS-Tier 3 containing simplified accounting and disclosure requirements for smaller NFP private sector entities.

Comments on the DP are open until **31 March 2023**.

Discussion paper key proposals

GPFS-Tier 3 stand-alone standard for smaller NFP private sector entities

The DP proposes developing a stand-alone accounting standard containing the accounting requirements for smaller NFP private sector entities – a third form of GPFS: GPFS-Tier 3. These proposals are aimed at providing simpler accounting requirements while improving the comparability and quality of financial reporting, and at the same time reducing costs for these smaller NFP private sector entities.

Recognition and measurement concessions as well as simplified disclosures

Unlike GPFS-Tier 2, GPFS-Tier 3 will include concessions for some recognition and measurement requirements of AAS. Disclosures will also be simplified.

Some of the key proposals include:

Simpler income recognition requirements

Income recognition

A new income recognition model that is simpler to apply. The proposal is to defer income when there is a common understanding that an entity is expected to use the inflows of resources in a particular way (e.g. incurring eligible expenditure for a specified purpose). Income is recognised when the related outflows occur. The common understanding needs to be evidenced by the provider of the resources – in writing (or in some other form). For all other income transactions, the proposal is to recognise income at the earlier of receiving cash or controlling a receivable.

Choice whether to consolidate controlled entities

Consolidation

An accounting policy choice is proposed, to either:

- Prepare consolidated financial statements, or
- Prepare separate financial statements with disclosures about the entity's significant relationships.

All leases 'off-balance sheet'

Leases

Leased assets are proposed to remain off the balance sheet for lessees and lease payments are to be recognised on a straight-line basis over the term of the lease, unless another systematic basis is appropriate. No right-of-use assets are proposed to be recognised from concessionary lease arrangements. Lease arrangements will be supplemented by disclosures.

Choice whether to record donated assets at cost or fair value

Assets acquired at significantly less than fair value

An accounting policy choice is proposed, to record non-financial assets acquired at significantly less than fair value (such as donated assets) either:

- At cost, or
- At fair value.

Fair value gains and losses on financial assets recorded through OCI

Fair value gains and losses of financial assets

It is proposed that fair value gains and losses on financial assets (such as units held in managed investment schemes) are recognised at fair value through other comprehensive income, rather than through profit or loss (the current requirement).

AASB not making thresholds – proposals developed with NFP entity with revenue \$500k-\$3m

Stand-alone, plain English accounting standard proposed

Seeking feedback on approach for Tier 3 entities with respect to 'opting-up' on recognition and measurement of accounting policies to other Tiers

DP to determine whether to develop Exposure Draft

Other matters

Which entities will apply Tier 3

The AASB has been clear in stating that it will not include any reporting thresholds in the standard – that is, that applicable regulators will be responsible for determining which entities are able to apply the GPFS-Tier 3 proposals. Having said this, the AASB advise that the proposals were developed based on common transactions of NFP private sector entities with revenue ranging from \$500,000 to \$3 million (the current threshold for ACNC regulated medium size charities).

Form of the requirements

- The requirements will be set out in a single stand-alone standard.
- The standard will specify accounting requirements relevant to transactions and other events and circumstances that are common to smaller NFP entities.
- The requirements will be expressed in a manner that is easy to understand.
- Guidance, including template financial statements, will accompany the standard.

Interaction of Tier 3 accounting requirements with other Tiers

Smaller NFP entities can elect to 'opt-up' to Tier 1 or Tier 2 AAS in their entirety. However, the AASB is yet to decide whether to permit entities preparing Tier 3 GPFS to opt up on a policy-by-policy basis to Tier 1 or Tier 2.

For topics in the scope of the Tier 3 accounting requirements, the AASB welcomes feedback on whether to:

- Always allow 'opt-up' to a recognition or measurement policy permitted by Tier 1 or Tier 2 AAS ('free choice')
- only allow 'opt-up' when specifically permitted ('cross-reference')
- Not permit 'opt-up' on a policy-by-policy basis.

Next steps

A DP is a step prior to the issue of an Exposure Draft in the AASB's Due Process. The views expressed in this DP are preliminary and may change. The AASB will consider the comments received in response to the DP before deciding whether to develop an Exposure Draft containing proposals to implement any or all of its preliminary views.

Comments on the DP are open until **31 March 2023**.

"We support the objective of reducing the financial reporting burden for smaller not-for-profit private sector entities – a sector that is typically under resourced. We do, however, have some concerns about the AASB's approach to recognition, measurement and disclosures as under the current proposals they could require this sector to develop new accounting policies."

Kim Heng
Partner

Further information

The AASB has provided further information and resources:

- [Discussion Paper](#) – *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)*
- [12-page Snapshot](#) providing an overview of the Discussion Paper
- [Recorded education session](#) (53mins) and [Slide pack](#) covering the proposed Tier 3 accounting and disclosure requirements.

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