Project:	**Not-for-Profit Framework Project**	**Meeting:**	201
Topic:	**Tier 3 Exposure Draft Proposals – initial measurement of non-financial assets acquired at significantly less than fair value and primary financial statements**	**Agenda Item:**	4.2
		Date:	20 February 2024
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		Decision-Making:	High
		Project Status:	Developing Exposure Draft

Objective of this paper

1 The objective of this paper is for the Board, in relation to the feedback received on the Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)*:

(a) to **consider** staff analysis of the feedback on the Board's preliminary views about the Tier 3 requirements on:

(i) non-financial assets acquired at significantly less than fair value;

(ii) primary financial statements; and

(b) **decide** on the staff recommendations of the abovementioned matters for the purpose of drafting the Tier 3 Exposure Draft (ED).

Structure of this paper

2 This paper is structured as follows:

(a) Summary of staff recommendations (paragraph 3);

(b) Background and reasons for bringing this paper to the Board (paragraphs 4 – 7);

(c) Additional feedback from Not-for-profit Project Advisory Panel (NFP PAP) members on matters in this Staff Paper (paragraph 8);

(d) Staff analysis and recommendations regarding the following matters arising from the consideration of stakeholder feedback on the Discussion Paper (DP) proposals:

(i) **Issue 1**: Measurement of non-financial assets acquired at significantly less than fair value

(A) Background (paragraphs 9 – 11);

(B) Summary of feedback from DP and further outreach (paragraphs 12 – 16);

(C) Matter 1: whether to allow an accounting policy choice to initially measure donated non-financial assets at cost or fair value (or, for inventory, its current replacement cost) (paragraphs 17 – 23);

(D) Matter 2: if an accounting policy choice is allowed in Matter 1, then whether to restrict the subsequent measurement of donated non-financial assets at cost for those assets that were initially measured at cost (paragraphs 24 – 28); and

(E) Matter 3: disclosure requirements for donated non-financial assets initially measured at cost (paragraphs 29 – 35);

(ii) **Issue 2**: Tier 3 primary financial statements

(A) Background (paragraphs 36 – 38);

(B) Summary of feedback on DP and further stakeholder outreach (paragraphs 39 - 43);

(C) Matter 1: whether the statement of changes in equity should be required (paragraphs 49 – 51);

(D) Matter 2: requirements of the statement of cash flows (paragraphs 52 – 56);

(e) **Appendix A**: Extract of May 2023 Agenda Paper 3.1.1 *Staff preliminary analysis of the feedback on the Discussion Paper and suggested next steps*.

Summary of staff recommendations

3 Staff recommend that the Tier 3 requirements for the purpose of drafting the ED should:

(a) require donated non-financial assets to be measured at fair value (for donated inventory, at asset replacement cost) but provide an exception for donated inventory to be recognised as revenue and expenses when the items are sold, distributed or used by the entity;

(b) apply the same accounting policy for the initial and subsequent measurement of donated non-financial assets in a single class but may elect different policies for different classes;

(c) require the following disclosures for donated inventories:

(i) the accounting policies adopted in measuring inventories, including the cost formula used;

(ii) the carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

(iii) the amount of inventories recognised as an expense during the period;

(iv) the total carrying amount of inventories pledged as security for liabilities; and

(v) if an entity elects to use the exception not to recognise donated inventory, the entity shall disclose that fact, provide a description of the inventories for which the exception has been used and provide an explanation of why the entity has elected to use the exception;

(d) require the following disclosures for each class of donated non-financial assets other than inventory:

(i) the measurement basis for determining the gross carrying amount;

(ii) the depreciation method used;

(iii) the useful lives or the depreciation rates used;

(iv) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period;

(v) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:

(A) additions;

(B) acquisitions through business combinations;

(C) increase and decrease resulting from revaluations recognised under and from impairment losses recognised in other comprehensive income;

(D) impairment losses recognised in profit or loss; and

(E) depreciation and other charges.

(e) require the following disclosures for items of donated non-financial assets that are stated at revalued amounts:

(i) the effective date of the revaluation;

(ii) whether an independent valuer was involved;

(iii) the methods and significant assumptions applied in estimating the items' fair values; and

(iv) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance;

(f) require Tier 2 requirements for the statement of changes in equity;

(g) permit but not require an entity to present cash flows from financing activities separately from investing activities in the statement of cash flows; and

(h) align the presentation of cash flows from operating activities with Tier 2 requirements to allow the direct or indirect methods.

Background and reasons for bringing this paper to the Board

4 The Board decided at its May 2023 meeting to proceed with the development of an ED on a Tier 3 Accounting Standard with simplified recognition, measurement and disclosure requirements for smaller Not-for-profit (NFP) private sector entities.

5 The Board considered the summarised feedback on the DP, staff preliminary analysis and suggested actions for the next steps in Agenda Paper 3.1.1 of the May 2023 Board meeting. At that meeting, the Board noted the categorisation to distinguish the suggested action for the next steps presented in Agenda Paper 3.1 on the topics that staff will need to bring back for further discussions and incorporate changes to the Board's preliminary views for consideration in future meetings.[1]

6 The Board also decided on the approach to drafting the Tier 3 ED, as presented in Appendix B in Agenda Paper 4.1 for this meeting, to the extent consistent with the project objective to develop simplified and proportionate requirements for smaller NFP private sector entities and in line with the principles the Board applies in this regard.

7 In this paper, staff are bringing staff analysis of the feedback on the DP and seeking the Board's direction on the matters below according to the project timeline presented in Agenda Paper 3.1 at the August 2023 Board meeting, on the Tier 3 requirements for:

(a) **Issue 1**: non-financial assets acquired at significantly less than fair value; and

(b) **Issue 2**: primary financial statements.

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1 Agenda Paper 3.1 of the May 2023 Board meeting presented three main categories to distinguish the suggested action for next steps based on the feedback on the DP. The three categories were:
(1) Category A (ED drafting based on DP proposals with minor issues to be resolved);
(2) Category B (ED drafting based largely on DP proposals with some potential changes); and
(3) Category C (further analysis and direction required).

Additional feedback from NFP PAP members on matters in this Staff Paper

8 Staff gathered further feedback from the NFP PAP meeting held on 18 December 2023.[2] One PAP member also provided comments outside the PAP meeting. PAP members:

(a) had mixed views whether an accounting policy choice should be provided for the initial measurement for non-financial assets acquired at significant less than fair value:

(i) several NFP PAP members disagree with accounting policy choice for these assets at cost or fair value because they consider that it is not difficult to obtain the fair value of donated non-financial assets. Most of the large donations are made to NFP entities that are endorsed as the deductible gift recipient (DGR) and the fair value of the donated non-financial asset would be available given the current ATO requirements require the donor to provide the market value of the non-cash donations to the DGR-endorsed recipient. A PAP member outside of the meeting provided feedback where they consider the NFP entity's financial statements would not appropriately reflect philanthropic giving arising from non-financial assets if they were allowed to initially measure them at cost; and

(ii) on the other hand, several members agree with the accounting policy choice because they consider smaller NFP entities may lack the resources to obtain fair value and allowing the accounting policy choice is proportionate for Tier 3 entities;

(b) agreed that obtaining fair value for inventory is relatively more difficult for non-current non-financial assets and that an accounting policy choice for initial measurement should be provided at least for inventory or short-term/low-value assets;

(c) preferred to allow accounting policy choice for subsequent measurement of these assets at cost or at fair value to maintain consistency with Tier 2 requirements;

(d) consider that disclosing the nature of the donated assets would be useful and should be required especially where an entity elects to initially measure non-financial assets acquired at significantly less than fair value at cost;

(e) agree with the approach to align the requirement of the statement of changes in equity with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* allow a statement of income and retained earnings to be prepared when certain conditions are met. However, one member noted they prefer the titles of the financial statements changed to those proposed by International Non-Profit Accounting Guidance (INPAG) to tailor to Tier 3 entities;

(f) agree to permit but not require Tier 3 entities to separately present cash flows from investing and financial activities; and

(g) agree to allow Tier 3 entities to present cash flows from operating activities using the direct or the indirect method.

Matters to be addressed based on feedback on the DP proposals

Issue 1: Measurement of non-financial assets acquired at significantly less than fair value

Background

9 As detailed in paragraphs 5.146 and 5.147 of the DP, the Board acknowledged that smaller entities may have difficulties in applying the principles in AASB 13 *Fair Value Measurement* in determining fair value. Consequently, the Board's preliminary view was that an entity should be allowed some accounting policy choice for subsequent measurement, to initially measure assets acquired for

2 Refer to Agenda Paper 4.5 *NFP PAP minutes from 18 December 2023* for this meeting.

significantly less than fair value (herein referred to as donated non-financial assets) with appropriate disclosures to supplement the accounting policy choice, for:

(a) inventory – using either the cost model or current replacement cost; or

(b) other non-financial assets – using either the cost model or the fair value model.

10 The Board also formed a preliminary view not to permit an entity to subsequently elect to revalue assets initially measured at cost (see paragraph 5.151 of the DP). As per paragraphs 5.149 to 5.150, the rationale for the Board's view includes:

(a) different accounting outcomes can result from the different accounting policy choices. That is, where the donated assets were initially measured at cost and the entity subsequently revalued those assets, the revaluation differences are captured as other comprehensive income. However, if an entity elects to initially measure donated assets at fair value, the difference between the initial carrying amounts and fair value is captured as donation income and forms the entity's profit;

(b) The carrying amount of the donated asset may differ if the revaluation difference is between the asset's cost or fair value at initial measurement and its fair value at subsequent measurement. The latter approach would appear to potentially substantially undervalue the asset on the statement of financial position; and

(c) it may be impractical to obtain the fair value of the donated assets retrospectively in determining the revaluation difference, if an entity elects to initially measure the asset at cost.

11 To gather feedback on the Board's proposal, the DP included the following question:

Question 35

Paragraphs 5.145 to 5.152 discuss the Board's preliminary view to allow an entity the following accounting policy for the initial measurement of non-financial assets acquired for significantly less than fair value:

(a) inventory to be measured at cost or at current replacement cost; and

(b) other non-financial assets to be measured at cost or at fair value.

The Board also decided not to permit an entity to subsequently apply the revaluation or fair value model if the donated financial assets were initially measured at cost.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements discussed in paragraph 5.152? Please specify and explain why.

Summary of feedback from DP and further outreach

12 As noted in Agenda Paper 3.1.1 at the May 2023 Board meeting, most stakeholders (74%) including half of those who provided a written response (5 responses out of 10 that commented on this question) agree that the accounting policy choice provides appropriate flexibility and a proportionate response for smaller NFP entities. Some of these stakeholders also noted:

(a) the need to clarify whether the proposal to initially measure donated non-financial assets at cost or fair value would apply on a transaction by transaction, class of asset, or a whole category of asset basis. The preference is to apply the accounting policy on a class of asset basis (e.g. to measure land at fair value on initial recognition as one class within property, plant and equipment (PPE) and to initially measure donated office equipment at cost as a separate class within PPE);

(b) the need to consider not allowing an accounting policy choice if non-financial assets acquired for significantly less than fair value were acquired through a business combination; and

(c) the revaluation difference should go through the profit or loss rather than other comprehensive income (i.e. revaluation reserve).

13 However, some stakeholders (20%) including half of the respondents that provided written comment letters (5 responses) disagree with the accounting policy choice and most of those that disagreed consider the fair value model should continue to be required in accordance with current Tier 2 requirements,[3] while a very few stakeholders consider only allowing the cost model would be more appropriate, because:

(a) allowing significant donated non-financial assets to be measured at cost with no value on the balance sheet would result in the omission of important information relating to philanthropic giving and may lead to NFP entities 'window dressing' their financial statements in order to obtain more grants and donations;

(b) there is existing legislation that requires certain NFP entities to measure all assets at fair value,[4] including the Australian Taxation Office requiring donors to inform market value of non-cash donations to DGR-endorsed entities. The feedback noted that the Productivity Commission is also conducting an inquiry into philanthropy and not requiring the fair value of donated assets would not appropriately reflect philanthropy giving;[5]

(c) NFP entities may already be obtaining the fair value of donated assets for insurance purposes and the sector has not expressed concerns about obtaining fair value of PPE as onerous;

(d) it may be onerous to keep records on which assets were initially measured at cost versus those measured at fair value. Management of the entity would also be bound by previous decisions from revaluing donated assets, even if the revaluation provides more faithful information, if the previous management decided to initially measure those assets at cost; and

(e) smaller entities would not be equipped to determine the accounting policy choice and a free choice would reduce comparability. Furthermore, most entities would likely elect to measure at the cost model.

14 Findings from AASB Research Report 19 *Common Financial Statement Items Charities with $0.5-$3 million in revenue*, April 2023 (RR 19) showed that fixed assets were amongst the top three highest recorded asset items (85%) in reviewed charities' financial statements. The findings did not identify whether or not these assets were donated assets. While RR19 did not identify any financial line items relating to income from excess of the carrying amount over the cost from donated assets, the excess of the initial carrying amount of donated assets may be aggregated within donation income. Further, the research found that there were charities with donated assets reserve (0.38%). This indicated that there are at least some charities receiving donated assets. Furthermore, the findings also noted 5.38% of charities presenting asset revaluation reserves which may indicate that it is not uncommon for some NFP entities to subsequently revalue their assets. Staff also noted the

3 Paragraph Aus15.1 of AASB 116 *Property, plant and equipment* requires NFP entities to initially measure the cost of an item of PPE at fair value in accordance with AASB 13 *Fair Value Measurement* where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives. AASB 1058 *Income of Not-for-Profit Entities* addresses the recognition of related amounts.

4 Section 16 of the *Taxation Administration (Private Ancillary Fund) Guidelines 2019* requires the market value of a private ancillary fund's assets (other than land) must be estimated at least annually and the market value of land must be estimated at intervals of no more than 3 financial years and must be conducted by a qualified valuer or another appropriate entity in making the estimate. For assets other than land, a trustee may itself estimate the market value or arrange a qualified valuer or equivalent. It may be prudent for a trustee to consider using a qualified valuer if the value of an entity represents a significant proportion of the fund's value or if the nature of the asset means that a valuation is likely to be difficult or complex. A similar requirement is required for public ancillary funds under the *Taxation Administration (Public Ancillary Fund) Guidelines 2022*.

5 Refer to Table 1 of Agenda Paper 5.1 of the November 2023 Board meeting for more information. Staff noted draft recommendations in the Productivity Commission report, for example, on enhancing public information about charities and giving in Chapter 9 of the draft report. The AASB provided a submission in response to the Productivity Commission on the *Future Foundations for Giving* draft report here.

Productivity Commission's draft Philanthropy Inquiry report acknowledgement of limited visibility of in-kind giving, however, noting that 77% of individuals donate goods per year.[6]

15 Further feedback sought from the NFP PAP members:

(a) indicated mixed views on whether to allow an accounting policy choice for the initial measurement of donated non-financial assets:

(i) Several members disagreed with the accounting policy choice to initially measure donated non-financial assets at cost or fair value because they consider the same Tier 2 requirements should be maintained, and:

(A) one member has not encountered the issue of entities not being able to fair value donated non-financial assets which are mainly property, motor vehicles or artwork where it is not difficult to obtain their fair value. With office equipment, these assets are generally immaterial to the entity. They also noted if an accounting policy choice is provided and an entity has fair-valued a class of assets, then donated non-financial assets of the same class should be treated the same way to maintain consistency with the current Tier 2 requirements;

(B) one member considers that most large donations are made to NFP entities that are endorsed as the DGR. As such, the fair value of donated non-financial assets would be available given the current ATO requirements, which require the donor to provide the market value of non-cash donations to the DGR-endorsed recipient. In addition, in their view, entities would be able to obtain the replacement cost fairly easily for items such as motor vehicles or laptops, and would not expect entities to obtain the fair value from valuers for these types of donated assets; and

(C) a staff member of a regulator who provided feedback outside of the panel meeting considered the NFP entity's financial statements would not reflect philanthropic giving arising from non-financial assets if they were allowed to initially measure them at cost.

(ii) On the other hand, several members agreed with the accounting policy choice because:

(A) smaller NFP entities lack the resources to obtain fair value and donated non-financial assets such as office equipment (e.g. laptops) may be material to these entities. As such, requiring smaller entities to obtain fair value for these items may be onerous;

(B) the approach is proportionate for Tier 3 entities.

(b) consider obtaining the fair value for inventory is relatively more difficult for non-current non-financial assets and that an accounting policy choice for initial measurement should be provided at least for inventory or short-term/low-value assets;

(c) preferred to continue to allow an accounting policy choice for subsequent measurement at cost or at fair value for donated non-financial assets even if those assets were initially measured at cost. This approach:

(i) would be consistent with Tier 2 requirements (except for the anomaly of the value uplift with the fair value of donated asset under Tier 2 requirements recognised in profit or loss

6 McGregor-Lowndes, Myles, Marie Crittall, Denise Conroy and Robyn Keast with Christopher Baker, Jo Barraket and Wendy Scaife. 2017. *Individual giving and volunteering*. Giving Australia 2016 report series commissioned by the Australian Government Department of Social Services. Brisbane, Queensland;the Australian Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology; Centre for Social Impact Swinburne, Swinburne University of Technology and the Centre for Corporate Public Affairs.

whereas the fair value differences based on the staff's proposal of Option 3 in Table 2 below recognised in other comprehensive income);

(ii) as noted by one member, allows an entity to revalue their assets subsequently as the organisation grows or obtains the skills to determine the fair value of donated non-financial assets in the future, even if the entity may not initially have the recourse to fair value donated non-financial assets; and

(iii) as noted by several PAP members, the same accounting policy would apply for the subsequent measurement of donated non-financial assets within any existing classes of assets of the entity. Therefore, the accounting policies for subsequent measurement should align with the existing Tier 2 requirements.

(d) agreed that the disclosures contained in AASB 1060 as well as the disclosures in the illustrative example in the DP for donated non-financial assets is appropriate. However, a few members suggested making it more apparent that disclosing the nature of the donated asset would be required. For example, if the accounting policy choice for the initial measurement of donated assets was included in the Tier 3 Standard, then a disclosure of what the donated assets are (e.g. laptops) that were not fair valued and other information about the assets would be useful to users.

(e) provided some alternative approaches for the accounting requirements on the initial measurement of donated non-financial assets including:

(i) a similar requirement adopted in New Zealand Tier 3 requirements to require donated non-financial assets with a useful life of 12 months or more to be measured at fair value would provide a more proportionate guide for preparers deciding when to fair value these assets;

(ii) to treat donated non-financial assets as a separate class/category of assets if an accounting policy choice is provided for the initial measurement of donated non-financial assets at cost or fair value;

(iii) the exemption proposed by INPAG to allow entities to recognise and measure low-value items for resale (e.g. inventory) when an asset is sold, measured at the sale amount. Educational material could be developed to support the sector; and

(iv) to include the concept of "impracticable out" from applying fair value when the entity has made every reasonable effort to do so.

Matters to be addressed

16 Based on the feedback on the DP, RR 19 findings and additional feedback from PAP members summarised in paragraphs 12 – 15 above, staff think that there are three matters that the Board will need to consider in relation to the Tier 3 requirements for donated non-financial assets:

(a) **Matter 1:** whether to allow an accounting policy choice to initially measure donated non-financial assets at cost or fair value (or for inventory, at its current replacement cost) in paragraphs 18 – 23;

(b) **Matter 2:** if an accounting policy choice is allowed in Matter 1, then whether to restrict the subsequent measurement of donated non-financial assets at cost for those assets that were initially measured at cost, in paragraphs 24 – 28; and

(c) **Matter 3:** disclosure requirements for donated non-financial assets initially measured at cost, in paragraphs 29 – 35.

17 Regarding the feedback from those stakeholders summarised in paragraph 12 that supported the DP proposal but provided further comments:

(a) the need to clarify whether the accounting policy of initially measuring donated non-financial assets at cost or fair value should apply on a transaction-by-transaction or class-of-transaction basis, this is considered in paragraph 28;

(b) whether to allow an accounting policy choice to measure at cost non-financial assets acquired for significantly less than fair value that were acquired through a business combination[7] will be considered at a future meeting in line with the project timeline presented in Agenda Paper 3.1 at the August 2023 Board meeting; and

(c) whether the revaluation differences should go through the profit or loss rather than other comprehensive income, staff consider the Board had already made a number of decisions to continue to account for changes through other comprehensive income including:

   (i) aligning the requirement with Tier 2 for property, plant and equipment where revaluation differences remain accounted for in other comprehensive income; and

   (ii) for fair value of financial assets held for capital return and income to be subsequently measured via profit or loss, or irrevocably elected to be recognised through other comprehensive income.

Matter 1: whether to allow an accounting policy choice to initial measure donated non-financial assets at cost or fair value (or for inventory, its current replacement cost)

Staff analysis and recommendation

18 When the Board was developing its proposal for the DP, the Board considered whether to continue to require donated non-financial assets to be measured initially at fair value in accordance with Tier 2 requirements. As noted in Agenda Paper 4.3 at the March 2022 meeting, keeping the current Tier 2 requirements aligns with many other jurisdiction requirements including UK FRS 102, US NFP 958, and IFRS for SMEs/INPAG (with exceptions),[8] and:

(a) it is assumed that Tier 3 non-financial assets would likely have PPE such as motor vehicles, office equipment or land/buildings and obtaining fair value should not be difficult;

(b) ensures useful information is provided to users of Tier 3 general purpose financial statements as all assets must be fair valued, which provides beneficial information for assessing the NFP entity's invested capacity to deliver services; and

(c) Is consistent with subsequent measurements of property, plant and equipment and investment property where applying the fair value model remains unchanged.

19 However, the Board decided against requiring Tier 3 entities to comply with the Tier 2 requirements after recognising that obtaining fair value can be costly, especially for smaller NFP entities. Unlike the New Zealand Tier 3 Standard which requires significant donated assets with useful lives of 12 months or more to be measured at readily obtainable current values, such as rateable or government

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7 Refer to the September 2023 Board meeting minutes where the Board decided to address business combinations and goodwill in the Tier 3 Standard.

8 Paragraph G23.33 of INPAG requires entities to measure assets at fair value at the point at which the asset is recognised (usually when the asset is received). However, paragraph G23.37 of INPAG allows for some exceptions to recognition and measurement requirements by allowing entities to:

"(a) recognise revenue from low-value assets donated for resale or to be transferred to another party in the course of the NPO's fundraising activities, when the items are sold or the fundraising activity has taken place, measured at the amount of the consideration received or receivable;

(b) recognise revenue from items donated for distribution to service recipients or for an NPO's own use when the items are distributed or used, measured at the fair value of the items at the time they are distributed or used…"

Paragraph AG13.9 of INPAG specifies an assumption that donated inventories can be measured reliably but there can be circumstances, such as when the entity is responding to an emergency and receiving large volumes of donated items and distributes them almost immediately. Hence, an entity would not recognise inventories in respect of those donated assets and disclosures would be required instead.

valuations where it is practicable to obtain such current values,[9] the Board decided to propose in the DP that a Tier 3 entity continues to apply fair value with the same meaning as in AASB 13 *Fair Value Measurement* if it elects to revalue their assets. Ultimately the Board decided to allow an accounting policy choice for initial measurement of donated non-financial assets because it allows the management of the entity to determine a measurement basis that meets the user needs, in line with the Tier 3 development principle of utilising management information. Further, allowing donated non-financial assets to be measured at cost or fair value will provide the greatest cost savings for smaller entities, as staff expect NFP entities would receive donated assets as indicated in the RR 19 findings and other sources in paragraph 14.

20 Considering the approach to simplification applied by the Board in Appendix A of Agenda Paper 4.1 at this meeting, staff incorporated summarised stakeholder feedback from the DP and further feedback from NFP Project Advisory Panel members. Staff consider there are three possible options in relation to the Tier 3 accounting requirements for initial measurement of donated non-financial assets and these are presented in Table 1 below.

21 Staff considered the other possible approaches suggested by PAP members in paragraph 15(e), including those noted below, but did not consider some of them further. These are:

(a) A similar requirement adopted in New Zealand Tier 3 requiring donated non-financial assets with useful life of 12 months or more to be measured at fair value. The Board previously considered this possible approach when developing the requirements in the DP in Agenda Paper 4.3 at the April 2022 Board meeting but did not proceed with this option further. The Board considered, amongst other reasons noted in that Agenda Paper in April 2022, that requiring entities to consider whether an asset has a useful life of 12 months or more could add another degree of complexity especially for smaller entities.

(b) To treat donated non-financial assets as a separate class or category of assets. As noted by a PAP member, they considered it would be hard to justify donated non-financial assets as a different class to existing other non-financial assets recognised as PPE. Paragraph 37 of AASB 116 *Property, Plant and Equipment* defines a class of PPE as a grouping of assets of a similar nature. As such, staff consider it may increase complexity to users of financial statements when there are different classes of non-financial assets with similar natures being identified into separate categories in the financial statements. It will also increase the record keeping requirements to separate donated non-financial assets into different classes from other classes of non-financial assets.

Table 1 *Options for initial measurement of donated non-financial assets*

Options	Arguments for this approach	Arguments against this approach
Option 1 – proceed with the Board's proposal to allow an accounting policy choice to initially measure donated non-financial assets at cost or fair value	• The accounting policy choice would sufficiently cater to those NFP entities that are required by legislation or have the information available to fair value donated non-financial assets while allowing other NFP entities that do not have information to measure the fair value of donated non-financial assets, to elect a simpler option to account for those assets at cost. Disclosures would be required to ensure	• Several PAP members have indicated that, based on their experience, their clients have not indicated that obtaining fair value of donated non-financial assets other than inventory is difficult; • Staff of a regulator disagrees with the accounting policy choice to allow measuring donated non-financial assets at cost as they consider charity financial statements may not appropriately reflect philanthropic giving arising from non-financial assets that

9 New Zealand Tier 3 Standard requires significant donated PPE (including heritage assets) to be measured at current value (such as local council rateable value). For significant donated assets for which values are not readily obtainable, those assets are not recorded in the statement of financial position and disclosures including a description of the assets would be required instead, categorized by class where appropriate.

Options	Arguments for this approach	Arguments against this approach
	information is not lost on philanthropy giving;[10] • the approach allows entities to recognise donated non-financial assets on the balance sheet, albeit it may be at nil or nominal cost, rather than not permitting the recognition of those assets entirely if their fair value cannot be reliably measured. • staff do not think it would be onerous to keep records of which donated non-financial assets were measured at cost or fair value as staff consider the accounting policy choice would be applied consistently by a class-of transaction basis (discussed in paragraph 27) and record keeping is part of an entity's good governance and accountability. The consideration of whether an entity should be prohibited from revaluing assets initially measured at cost is discussed in Matter 2 in paragraphs 23 – 27 below; and • while some information loss may result from not requiring donated non-financial assets to be initially recognised at fair value on the balance sheet, however, staff consider the Board's proposal is balanced by disclosures that would provide information to users about those assets. Staff think this is consistent with other requirements decided by the Board including not requiring the recognition of right-of-use assets under Tier 3 lease accounting or allowing an accounting policy choice for preparing consolidated financial statements supplemented by disclosures. Disclosures requirements for donated non-financial assets are considered from paragraph 28 under Matter 3 below;	are measured at cost, especially as gifts, such as real estate, can be substantial in value. • ATO requires the donor to provide the market value of a gift or contribution made to a deductible gift recipient to be provided to claim a tax deduction. As such, DGR recipients would be able to obtain a fair value of the donated non-financial assets. • There was no feedback from the ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities* (ITC 50) regarding any issues with determining fair value of donated non-financial assets.[11] • As per Agenda Paper 4.3 at the April 2022 Board meeting, allowing donated non-financial assets and inventory to be measured at cost: ○ will understate the entity's financial position; ○ will result in non-recognition of donated non-financial assets, representing a loss of important information to users, and previous research indicates that users don't always read disclosure notes; ○ may lead to confusion when applying size threshold test for determining an entity's financial reporting obligations. It may not be clear whether an entity determines asset values by reference to AASB 1058 *Income of Not-for-Profit Entities* or Tier 3 reporting requirements that do not require initial measurement of donated non-financial assets at fair value on the balance sheet.
Option 2: require donated non-financial assets to be measured at fair value unless it is impracticable	• This option may address several PAP members concerns to require smaller NFP entities to make every reasonable effort to obtain the fair value unless it is impracticable to do so, rather than allowing free choice for an entity to elect the cost method provided in Option 1, especially where PAP members consider it is not difficult to obtain the fair value of donated non-financial assets (other than inventory). • Enables comparability with Tier 1 and ier 2 NFP entities to the extent that an entity has not assessed it as being	• The Board previously considered and rejected including the concept of "impracticability", when considering whether to require a retrospective approach to the correction of prior period accounting errors in Agenda Paper 4.3 at the August 2021 Board meeting because it could be challenging for the smaller entities to understand and may require high level of managerial discretion to determine the extent of impracticability.

10 The Productivity Commission is undertaking an inquiry to analyse motivations for philanthropic giving in Australia and identify opportunities to grow it further. The draft report was issued on 30 November 2023 and is available here.

11 Refer to Agenda Paper 3.2.1 at the October 2023 Board meeting for an overview of the feedback received on ITC 50 by topic.

Options	Arguments for this approach	Arguments against this approach
	impracticable to fair value donated non-financial assets. • Provides smaller NFP entities a practicable out from initially measuring donated non-financial assets at fair value, especially where they may lack the knowledge or resources.	
Option 3: to require donated non-financial assets be measured at fair value (or, for inventory, at asset replacement cost) on initial measurement but provide an exception to recognise donated inventory as revenue and expense when the items are sold, distributed or used by the entity, measured at fair value, that is: i) where donated inventories are sold, revenue and assets would be measured at the amount received or receivable; or ii) where donated inventories are distributed to service recipients or used by the entity; at asset replacement cost. A sub-option for Option 3 is to allow an accounting policy choice to measure inventory at cost or at fair value.	• Addresses the feedback from a regulator and other PAP members to require fair value for donated non-financial assets that would be significant to the entity; • Feedback from PAP members indicated that the difficulty in obtaining fair value generally relates to inventory rather than other non-financial assets such as motor vehicles. As such, Option 3 would address their concern by providing some simplification to the accounting for inventory. • Similar to reasons noted in Agenda Paper 4.3 at the April 2022 Board meeting, requiring non-financial assets to be measured at fair value enables useful information to be provided to users of Tier 3 general purpose financial statements including: ○ beneficial information for assessing the NFP entity's invested capacity to deliver services; and ○ allows the value of financial support provided to such an entity and the number of resources consumed in rendering services to beneficiaries. • Remains transaction neutral, to an extent, with Tier 2 requirements and allows easier transition for preparers and auditors to move between other tiers of reporting.	• Option 3 is the least simple option as there is no exception to measuring fair value, other than inventory, which can be costly for smaller NFP entities who will likely engage a valuer to fair value assets such as land and/or buildings if they did not obtain the valuation from the donor. • Option 3 would still require entities to measure the fair value of donated inventory at the time the assets are sold, distributed or used by the entity; which may, arguably, be difficult for those assets that are used or distributed, unless the Board prefers the sub-option to give an accounting policy choice to measure donated inventory at cost or at fair value.

Staff recommendation

22 Staff recommend Option 3, that is, to require donated non-financial assets to be measured at fair value (for donated inventory, at asset replacement cost) but provide an exception for donated inventory to be recognised as revenue and expenses when the items are sold, distributed or used by the entity based on the reasons presented in Table 1. Staff consider Option 3 addresses the additional feedback from PAP members that measuring the fair value of donated non-financial assets other than inventory is not difficult, while providing simplification on donated inventory. Staff consider the exception for smaller NFP entities to recognise inventory as revenue and expenses measured at the fair value (i.e. sale amount) at the time the items are distributed or used is similar to the permitted exception proposed in INPAG[12] and is simplest to apply for smaller NFP entities. While

12 INPAG provides a few permitted exceptions in respect of the recognition of inventories including:

users may not obtain information initially, staff propose that the disclosures also proposed in INPAG requiring entities to disclose information including if the entity has applied the exception and provide information about the inventory to which it related would be useful to users. Disclosure requirements for donated non-financial assets will be considered in Matter 3 starting from paragraph 29 below. Staff will continue to investigate whether any educational materials can be developed to help smaller NFP entities in determining fair value of non-financial assets.

23 Staff will bring the analysis and recommendations for the Board to consider in relation to the accounting requirements for measurement of donated non-financial assets in the context of business combinations[13] in Q2 of 2024, as per the project timeline presented at the August 2023 Board meeting.

Question 1a: Do Board members agree with the staff recommendation in paragraph 22, for the purpose of drafting the Tier 3 ED, to require donated non-financial assets to be measured at fair value (or for inventory, at asset replacement cost) on initial measurement but provide an exemption for entities to recognise donated inventory as revenue and expenses measured at fair value (i.e. sale amount) when the items are sold or used by the entity?

If not, what does the Board suggest?

Matter 2: if an accounting policy choice is allowed in Matter 1, then whether to restrict the subsequent measurement of donated non-financial assets at cost for those assets that were initially measured at cost

24 If the Board **disagrees** with Option 3 (i.e. staff recommendation) in paragraph 20 and prefers Option 1 to allow an accounting policy choice to initially measure all donated non-financial assets at cost or at fair value, then the Board will need to consider whether to restrict entities that choose to initially measure those assets at cost from revaluing those assets subsequently.

25 As detailed in paragraph 10 of this paper, the Board formed its preliminary view to restrict an entity from electing to subsequently revalue donated non-financial assets initially measured at cost because of the possible accounting differences and outcomes[14], and the impracticability of determining the fair value especially if the donated non-financial assets were acquired over a period of time ago.

26 Considering the approach to simplification applied by the Board in Appendix A of Agenda Paper 4.1, staff incorporated the stakeholder feedback on the DP and further feedback from NFP Project Advisory Panel members. Staff think there are three options on whether to restrict the subsequent measurement of donated non-financial that were initially measured at cost, and the options are presented in Table 2 below. These options have been considered by the Board in developing its preliminary views in the DP. However, in light of the DP feedback from those stakeholders that disagree with not permitting the subsequent revaluation of donated assets initially measured at cost,

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(i) for low-value items donated to the not-for-profit entity for resale or to be transferred to another party in the course of the not-for-profit entity's fundraising activities, to recognise as revenue when the items are sold or fundraising activity takes place (see paragraph 13.5 (a) of the INPAG's Exposure Draft 2),

(ii) for items (other than non-current assets or high-value items) donated to the not-for-profit entity for distribution to service recipients or for the not-for-profit entity's own use, to recognise as revenue and an expense measured at the fair value of the items at the time they are distributed or used (see paragraph G13.5 (b) of the [INPAG's Exposure Draft 2](#)).

13 Refer to the September 2023 Board where the Board decided to address business combinations in the Tier 3 Standard [meeting minutes](#) where the Board decided to address business combinations in the Tier 3 Standard.

14 As per paragraph 10, there may be differences in reported outcomes depending on the different accounting policy choice if initially measured at cost and an entity subsequently revalues donated assets, the revaluation differences will be captured as other comprehensive income. However, for an entity that elects to initially measure donated assets at fair value, the excess between the initial carrying amounts and fair value is captured as donation income as profit or loss.

staff have brought back the options previously presented in Agenda Paper 3.2.1 at the August 2022 Board meeting for reconsideration.

Table 2 Options on subsequent measurement requirements for donated non-financial assets initially measured at cost

Options	Arguments for this approach	Arguments against this approach
Option 1 – Proceed with the Board's proposal to restrict entities from the revaluation of donated non-financial assets initially measured at cost	• As detailed in Agenda Paper 3.2.1 at the August 2022 Board meeting, staff think that smaller entities are unlikely to apply the revaluation model for subsequent measurement, therefore the impact of not permitting revaluation should be minimal. • This option eliminates the accounting differences noted in paragraph 10. That is, the excess between initial and subsequent measurement captured either as profit or loss or as other comprehensive income will depend on whether an entity initially measures donated assets at fair value or at cost. This option would create the possible undervaluation of assets , that is, the asset's carrying amount will be at cost and revaluation differences added to the carrying amount of the asset is based on the revaluation difference between that asset's fair value at initial and subsequent measurement.	• The stakeholders that disagree on the DP proposals disagreed with not permitting the revaluation of donated non-financial assets especially where entities' circumstances may change. As highlighted in paragraph 13(d), management of the entity would also be bound by previous decisions not to revalue the assets where previous management decided to initially measure those assets at cost. • The carrying amount of donated assets would not fairly reflect its value on the balance sheet.
Option 2 – require an entity to obtain the fair value of the donated non-financial asset on initial measurement if the entity elects to measure the asset at cost initially. If an entity elects to revalue its assets subsequently, the revaluation difference will be based on the asset's fair value at initial and subsequent measurement with the revaluation gains/losses captured in other comprehensive income.[15]	• Option 2 addresses the stakeholder concerns that disagree with restricting entities from subsequently revaluing donated non-financial assets, especially when an entity's needs and circumstances may change, provided appropriate and independent evidence is available to support the change in accounting policy and depicts a 'true view'. As indicated in RR19, around 5.38% of charities presented asset revaluation reserve, therefore it may not be uncommon for some NFP entities to revalue their assets. • As detailed in Agenda Paper 3.2.1 at the August 2022 meeting, this option will enable the entity to determine the revaluation differences if an entity elects to subsequently revalue the donated non-financial asset and would most align with the current Tier 2 requirements compared to the other options, except that the excess carrying amount of the donated asset initially measured at cost would not be captured as profit or loss or in other comprehensive income.	• Requiring an entity to obtain the fair value of donated non-financial assets even if an entity elects the cost method when initially measuring donated assets would appear to be counterintuitive to allowing an accounting policy choice for initial measurement of donated non-financial assets. • Option 2 will result in accounting outcome differences noted in paragraph 10 allowing entities to initially measure donated non-financial assets at cost and then subsequently revalue those assets to avoid increased financial reporting requirements due to the revaluation differences captured in other comprehensive income, rather than the entity's profit. • Option 2 will result in the possible accounting differences noted in paragraph 10 between entities that elect to fair value donated non-financial assets on initial measurement and entities that elected the cost method for initial measurement. For entities that initially measure assets at cost and subsequently revalue their donated non-financial assets, the carrying amount would be based on the differences between the fair value at initial and subsequent measurement. The valuation difference

15 This option was previously presented in Agenda Paper 3.2.1 at the August 2022 Board meeting.

Options	Arguments for this approach	Arguments against this approach
		becomes the carrying amount of the asset on the balance sheet. • Option 2 would be the most complex given that entities are still required to obtain fair value of the asset on initial measurement.
Option 3 – permit an entity to subsequently revalue donated non-financial assets where assets were initially measured at cost. The revaluation difference will be based on the difference between the asset's cost on initial measurement and its fair value on subsequent measurement. The revaluation differences will be captured in other comprehensive income. A sub-option is for the revaluation differences to be captured as profit or loss, rather than in other comprehensive income.[16]	• Similar to Option 2, Option 3 will allow entities to subsequently revalue those assets to adapt to the entity's changing needs and circumstances. • As detailed in Agenda Paper 3.2.1 for August 2022 meeting, unlike Option 2, Option 3 does not require entities to obtain the fair value of the donated non-financial assets on initial measurement if an entity elects the cost method, so this approach is simpler to apply compared to Option 2. • Option 3 would allow the carrying amount of donated non-financial assets to reflect the fair value as the revaluation difference is based on the asset's cost on initial measurement and fair value subsequently. Compared to Option 2, Option 3 would not result in the carrying amount of the donated non-financial assets to be undervalued.	Similar to Option 2, Option 3 may result in some entities electing the cost method for initial measurement to avoid an increase in financial reporting requirements due to the revaluation differences recognised in other comprehensive income, rather than the entity's profit.

Staff recommendation

27 Staff recommend Option 3, that is, to permit an entity to subsequently revalue donated non-financial assets, including assets initially measured at cost. The revaluation difference would be captured in other comprehensive income that is based on the difference between the asset's cost on initial measurement and its fair value on subsequent measurement. Staff recommendation is based on the reasons outlined in Table 2 above, and:

(a) because Option 3 aligns with the Tier 3 development principle to leverage the information management uses to make decisions about the entity's operations to allow management to revalue donated non-financial assets where that information is available compared to Option 1 without undervaluing the carrying amount of those assets compared to Option 2;

(b) staff acknowledge that Option 3 may result in different accounting outcomes and may incentivise wrong behaviour for entities trying to avoid an increase in financial reporting obligations. However, staff reflected that the risk would be limited, given users will still be provided the revaluation differences recognised as other comprehensive income on the statement of profit or loss and other comprehensive income, and

(c) as mentioned in paragraph 17(c) while there were few stakeholders that considered the revaluation differences should be accounted for through profit or loss, staff think this approach would be inconsistent the Board's decision to align the requirement with Tier 2 for property,

[16] AASB 1060 sets out minimum line items that shall be included on the face of the statement of profit or loss and statement of financial position. As specified in footnote 9 of the DP, AASB 1060 requirements would be adapted to reflect other preliminary views of the Board set out in the Discussion Paper. For example, the Board might not develop a requirement for separate presentation of assets held for sale or deferred tax balances on the face of the statement of financial position as the Board is not intending to develop related recognition requirements.

plant and equipment where revaluation differences remain accounted for in other comprehensive income.

Question 1b: Do Board members agree with the staff recommendation in paragraph 27, for the purpose of drafting the Tier 3 ED, to permit an entity to subsequently revalue donated non-financial assets including assets initially measured at cost. The revaluation difference shall be captured in other comprehensive income based on the difference between the asset's cost on initial measurement and its fair value on subsequent measurement.

If not, what does the Board suggest?

28 Staff also recommend that an entity shall apply the same accounting policy for the initial and subsequent measurement of donated non-financial assets in a single class (e.g. land, buildings, motor vehicles, office equipment etc.), but may elect different policies for different classes to ensure consistency of accounting is applied for the same class of non-financial assets. Requiring the same accounting policy for a whole of-class approach (for both donated assets and non-donated assets) would also ensure consistency with proposed Tier 3 accounting requirements for PPE to be consistent with Tier 2 requirements (i.e. requires the same accounting repolicy apply to an entire class of property, plant and equipment). This approach would also address the feedback from NFP PAP members to apply the same accounting policies for subsequent measurement of donated non-financial assets with other non-donated non-financial assets of the same class to maintain consistency with the current Tier 2 requirements.

Question 1c: Do Board members agree with the staff recommendation in paragraph 28, for the purpose of drafting the Tier 3 ED, to apply the same accounting policy for all donated non-financial assets in a single class, but it can elect different policies for different classes?
If not, what does the Board suggest?

Matter 3: disclosure requirements for donated non-financial assets initially measured at cost

29 The DP provided an illustrative example in paragraphs 6.12, on which the Board decided to gather feedback on its proposals, on the application of the disclosure approach to develop fit-for-purpose disclosures based on AASB 1060 for right-of-use assets arising under concessionary leases as the basis for donated non-financial assets, given there is no comparable jurisdiction that allows an accounting policy to initially measure donated non-financial assets at either cost or fair value. The DP proposed the following disclosures:

Non-financial assets acquired at significantly less than fair value

1 *When a not-for-profit entity elects to measure a class or classes of non-financial assets acquired at significantly less than fair value to further its objective at initial recognition at cost in accordance with paragraph [x], the entity shall disclose information that helps users of financial statements to assess the entity's dependence on non-financial assets acquired for significantly less than fair value principally to enable the entity to further its objectives.*

2 *The disclosures provided by a not-for-profit entity in accordance with paragraph [x] shall be provide individually for each material non-financial asset acquired for significantly less than fair value principally to enable the entity to further its objectives or in aggregation for non-financial assets of a similar nature. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of large amount of insignificant detail or the aggregation of item that have substantially different characteristics.*

[Based on AASB 1060 paragraphs 151-152]

30 Stakeholders did not provide feedback specifically on the illustrative examples in the DP. However, they noted that appropriate disclosures will be necessary from initial recognition until the asset is disposed of, in order to provide users with information on non-financial assets controlled by the entity which are not fully reflected in the statement of financial position.

31 As per paragraph 15(d), the NFP PAP members agreed with the disclosures contained in AASB 1060 and ,as well, that the disclosures in the illustrative example in the DP for donated non-financial assets is appropriate. However, a few members suggested making it more apparent that disclosing the nature of the donated asset would be required. For example, if the accounting policy choice for the initial measurement of donated assets was included in the Tier 3 Standard, then a disclosure of what the donated assets are (e.g. laptops) that were not fair valued and other information about the assets that would be useful to users.

Staff analysis and recommendation

32 If the Board **agrees** with staff recommendation in paragraph 22 to require donated non-financial assets to be initially measured at fair value but provide an exception to recognise and measure donated inventory when the items are sold, distributed or used, then staff recommend developing disclosures for donated non-financial assets based on the disclosures required by INPAG.

33 The proposed disclosure in the illustrative example in the DP is in line with the disclosure requirements in INPAG to require a description of the donated inventory including when the entity has elected to apply the exception not to initially recognise donated inventory, similarly, as proposed in INPAG for low-value items donated or for items would be useful to users. Staff think this is in line with the NFP PAP members suggestion to include the nature/description of the donated assets if an accounting policy choice for the initial measurement was included in the Tier 3 Standard. Staff have not suggested extending the disclosure of the nature/description of donated assets initially measured at fair value, given the disclosure is not required in the Tier 2 requirement.

34 Staff also think that similar disclosures in AASB 1060 for PPE and investment property measured at cost would provide useful information and recommend that those disclosures be applicable for donated non-financial assets. However, staff have not suggested including the disclosure of any reversals of impairment losses reversed in profit or loss and other comprehensive income in line with the Board's DP proposal not to develop Tier 3 requirements to address reversal of previously recognised impairment and feedback from a subcommittee member as noted in Agenda Paper 4.12 at this meeting.

35 The staff analysis is consistent with the disclosure approach presented in Appendix B of Agenda Paper 4.1 at the March 2024 Board meeting, that is, where there is a difference in recognition and measurement with Tier 2 requirements, the Tier 3 disclosures will be based on comparable recognition and measurement requirements in other jurisdictions/frameworks. Therefore, staff recommend the following disclosures based on the combination of AASB 1060 and INPAG to be applicable which include:

<u>For donated inventories:</u>

(a) the accounting policies adopted in measuring inventories, including the cost formula used;

(b) the carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

(c) the amount of inventories recognised as an expense during the period;

(d) the total carrying amount of inventories pledged as security for liabilities; and

(e) if an entity elects to use the exception not to recognise donated inventory, the entity shall disclose that fact, provide a description of the inventories for which the exception has been used, and provide an explanation of why the entity has elected to use the exception.

<u>For each class of donated non-financial assets other than inventory:</u>

(f) the measurement basis for determining the gross carrying amount;

(g) the depreciation method used;

(h) the useful lives or the depreciation rates used;

(i) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period;

(j) a reconciliation of the carrying amount at the beginning and end of the reporting period, showing separately:

    (i) additions;

    (ii) acquisitions through, subject to the Board's consideration at a future meeting, business combinations;

    (iii) increase or decrease resulting from revaluations under and from impairment losses recognised in other comprehensive income;

    (iv) impairment losses recognised in profit or loss; and

    (v) depreciation and other charges.

If items of donated non-financial assets are stated at revalued amount, an entity shall disclose the following:

(k) the effective date of the revaluation;

(l) whether an independent valuer was involved;

(m) the methods and significant assumptions applied in estimating the items' fair values; and

(n) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance.

Question 1d: Do Board members agree with the staff recommendation, for the purpose of drafting the Tier 3 ED, to require the disclosures presented in paragraph 35?

If not, what does the Board suggest?

Issue 2: Tier 3 primary financial statements

Background

36 As detailed in paragraphs 5.10 to 5.33 of the DP, the Board's preliminary view is that a Tier 3 requirement of primary financial statements should consist of:

(a) a statement of profit or loss and other comprehensive income;

(b) a statement of financial position;

(c) a statement of cash flows that:

    (i) reports on changes of both cash and cash equivalents;

    (ii) reports cash flows from operating activities using the direct method; and

    (iii) does not require cash flows from investing and financing activities to be presented separately; and

(d) the presentation requirements to be consistent with AASB 1060[17] with explanatory guidance and/or education materials that explain the flexibility in the presentation of financial

17 AASB 1060 sets out minimum line items that shall be included on the face of the statement of profit or loss and statement of financial position. As specified in footnote 9 of the DP, AASB 1060 requirements would be

information, including further aggregation or disaggregation, or use of different titles and labels when appropriate.

37 The Board has not yet formed a view on whether a statement of changes in equity should be required as part of a set of Tier 3 primary financial statements and decided to obtain further stakeholder feedback on the usefulness of the statement of changes in equity for Tier 3 entities.

38 To gather feedback on the Board's proposal, the DP included the following questions:

Question 14

Paragraphs 5.10 to 5.16 discuss the Board's preliminary view that Tier 3 general purpose financial statements comprise a statement of profit and loss and other comprehensive income, statement of financial position, statement of cash flows and explanatory notes.

(a) Do you agree? Why or why not? If you disagree with the Board's view, which financial statements do you think should not form part of the Tier 3 general purpose financial statements?

As noted in paragraphs 5.17 – 5.19, the Board has not yet formed a view whether a statement of changes in equity should also form part of the Tier 3 general purpose financial statements.

(b) do you think the statement of changes in equity should also form part of the Tier 3 general purpose financial statements? If you support including a statement of changes in equity, do you think the information presented should be required as a separate statement or s part of the notes to the financial statements?

Question 15

Paragraphs 5.20 to 5.24 discuss the Board's preliminary view that the information to be presented on the face of the statement of the financial position and statement of profit or loss and other comprehensive income should be consistent with those specified by AASB 1060 supplemented by explanatory guidance and education materials to help entities present information on the face of the financial statements.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the alternative approaches to presenting information on the face of the financial statements as specified in paragraph 5.21(a) or 5.21 (b)? If not, do you have other suggestions on how information should be presented on the face of the financial statements?

Question 16

Paragraphs 5.34 to 5.47 discuss the Board's preliminary view to require the statement of cash flows to present:

(a) cash flows from operating activities separately from other cash flows;

(b) cash flows from operating activities using the direct method; and

(c) cash and cash equivalent as specified by AASB 1060.

Do you agree? Why or why not? If you disagree with the Board's view, which presentation requirements from (a) to (c) or the statement of cash flows concern you the most? Do you prefer other simplification(s) to the statement of cash flows? Please explain why.

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adapted to reflect other preliminary views of the Board set out in the Discussion Paper. For example, the Board might not develop a requirement for separate presentation of assets held for sale or deferred tax balances on the face of the statement of financial position as the Board is not intending to develop related recognition requirements.

Summary of feedback on DP and further stakeholder outreach

39 As presented in Agenda Paper 3.1.1 at the May 2023 Board meeting, most stakeholders (83%) including most of those that provided a written response (8 written responses) agree with the Board's preliminary views for primary financial statements including the proposed requirement for the statement of cash flows and presentation requirements as per paragraph 36 above. Those stakeholders that agreed also provided suggestions such as the name of the financial statements should reflect NFP language, alternative presentation of other comprehensive income information and further guidance on the disaggregating information of the face of the financial statements.

40 Some stakeholders (17%) disagree with some aspects of the proposals including a few that provided a written response (3 written responses). Some of those stakeholders disagree with:

(a) not separating investing from financing activities in the statement of cash flows reduces users' ability to evaluate the sources and applications of funds between the activities. Given existing accounting software allows the distinction, entities should be permitted to separately present cash flows from investing and financing activities.

(b) requiring the statement of cash flows within the Tier 3 Standard;

(c) requiring a statement of other comprehensive income as there is confusion about what other comprehensive income is amongst users of financial statements of small and medium-sized entities and NFP entities. A preference is for a two-statement approach to present a statement of profit or loss and other comprehensive income and only when the entity has other comprehensive income; and

(d) providing guidance to supplement the proposal to align presentation requirements with AASB 1060. Rather a checklist or tailoring approach would provide explicit presentation requirements to reduce subjectivity and judgement for preparers on presentation requirements.

41 There were mixed views on whether a statement of changes in equity should be required. Many stakeholders (57%) including six written respondents supported the requirement for the statement of changes in equity because it provides information about an entity's reserves, if any, and helps with identifying errors when journaling retained earnings. However, many stakeholders (38%) did not support requiring a statement of changes in equity, including five written respondents. These stakeholders consider that the only movement in the equity for the year for smaller NFP entities is their profit or loss, hence the statement does not add additional value to users. If the statement is not required, then a disclosure containing the information required in a statement of changes in equity should be a mandatory part of the financial statements.

42 Findings from Research Report 19 showed that:

(a) around 85% of sampled charities already prepared a statement of cash flows. For those charities that prepared a statement of cash flows, 82% presented cash flow from operating activities in the direct method and 57% of those charities provided a reconciliation of net cash flows from operating activities to profit (loss),[18] whereas around 3% applied the indirect method only.[19]

(b) less than 5% of sampled charities reported other comprehensive income information; and

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18 The ACNC Regulations specify six Australian Accounting Standards that charities preparing special purpose financial statements must comply with which includes AASB 1054 *Australian Additional Disclosures.* Paragraph 16 of AASB 1054 requires an entity that uses the direct method to present its statement of cash flows, the financial statements provide a reconciliation of the net cash flow from operating activities to profit (loss).

19 Various other types of employee benefit provisions are made up of time in lieu (1.92%), staff bonuses (0.38%), enterprise bargaining agreements (0.38%), redundancy entitlements (0.77%), exempt fringe benefit accounts (0.38%); overtime accrued (0.38%), termination (0.38%) and other types of provisions of employee benefits without details (1.92%).

(c) around 81% of sampled charities prepared a statement of changes in equity with only two charities presenting prior period adjustments and no charities reported the effect of changes in accounting policy.

43 At the December 2023 PAP meeting, further feedback sought from the NFP PAP members indicated that:

(a) they agree to align the requirement for the statement of changes in equity with AASB 1060 to allow a statement of income and retained earnings to be prepared when certain conditions are met. They noted that their stakeholders have not objected to the AASB 1060 approach to requiring a statement of income and retained earnings in place of the statement of changes in equity. Especially for many NFP entities, the only movement for the period is retained earnings. However, one member proposed that the titles of the financial statements should be changed, such as to the titles proposed by INPAG to tailor it to Tier 3 entities;

(b) one panel member queried whether entities can change the presentation of the statement of changes in equity from year to year and whether the change would be considered an accounting policy change or only a presentation change. Staff clarified that the requirement would align with AASB 1060. Another member also noted that the change in preparation of a statement of changes in equity, or statement of income and retained earnings, would be considered an accounting policy change;

(c) they agree to permit but not require Tier 3 entities to separately present cash flows from investing and financing activities; and

(d) the majority of panel members agree to allow Tier 3 entities to present cash flows from operating activities using either the direct or the indirect method. This approach aligns with the current Tier 2 requirements and will enable entities to elect a method that the entity considers appropriate. Only one member preferred the DP proposal to only permit the direct method to present cash flows from operating activities.

Matters to be addressed

44 After staff have considered the approach to simplification applied by the Board in Appendix A of Agenda Paper 4.1 for this meeting, the stakeholder feedback from the DP, findings from Research Report 19 and further feedback from NFP PAP members summarised in paragraphs 39 – 43, the following matters need to be considered further:

(a) **Matter 1**: whether the statement of changes in equity should be required (paragraphs 49 – 51); and

(b) **Matter 2**: whether the statement of cash flows should require:

(i) separately presenting cash flows from investing from financing activities (paragraphs 52 – 53); and

(ii) permitting only the direct method for presenting cash flows from operating activities (paragraphs 54 – 56).

45 In addition, as presented in Agenda Paper 3.1.1 at the May 2023 Board meeting, staff noted a few stakeholders did not support the requirement of:

(a) a statement of cash flows. Staff disagree and consider the statement of cash flows should be required as part of Tier 3 primary financial statements given that regulators and stakeholders consider the statement to provide useful information about the entity’s cash flows and solvency. The statement may already be prepared by some NFP entities to meet financial reporting obligations. However, staff noted the concerns that the statement may be difficult to understand for the Board and management of the entityand, as such, staff think some educational material or guidance would be useful for preparers and users; and

(b) the statement of other comprehensive income. Staff disagree and consider the statement of other comprehensive income should be required as part of Tier 3 primary financial statements, even though RR19 findings indicated that less than 5% of charities have other comprehensive income, given the Board has made a number of decisions to continue to require reporting of other comprehensive income (e.g. consistency with Tier 2 requirements for property, plant and equipment and allowing accounting policy choice to measure fair value through profit or loss or other comprehensive income for financial assets held for income and capital return). Additionally, medium and large charities are already required to present other comprehensive income information in the Annual Information Statement.[20] Staff noted that the Board's decision to align presentation requirements with Tier 2 requirements for the statement of profit or loss and other comprehensive income ensures that:

   (i) an entity that has no items of other comprehensive income in any of the periods for which financial statements are presented is not required to prepare a statement of other comprehensive income as per paragraph 27 of AASB 1060; and

   (ii) entities are able to present either a single statement of profit and loss and other comprehensive income or separately present a statement of other comprehensive income from the statement of profit or loss to meet their user needs as per paragraph 25 of AASB 1060.

(c) a supplementary material approach to presentation requirements. As per paragraph 5.21(c) of the DP, the supplementary material approach consists of developing a presentation requirement consistent with AASB 1060 supplemented by explanatory guidance or educational materials that explain the flexibility in the presentation requirements. Staff disagree and consider the Board's proposal to align presentation requirements with AASB 1060 supplemented by guidance materials would impose the least cost compared to a tailoring or checklist approach. (A tailoring approach amends and prescribes minimum line items specified by AASB 1060 and checklist approach prescribes a set of line items and totals that must be presented, without alteration.) Staff also consider prescribing financial line items may not meet the diverse needs of the sector and future proofing for any new transactions that may occur in the future.

46 Staff also noted the feedback from stakeholders, including feedback from the NFP PAP member noted in paragraph 43(a), on the need to tailor the title of the financial statements to reflect NFP circumstances. For example, the statement of profit or loss could be referred as statement of financial performance and the statement of changes in equity (if required) refer to as the statement of assets. As mentioned in Agenda Paper 3.1.1 at the May 2023 Board meeting, the Board's preliminary view to align the presentation requirements with Tier 2 would, as per paragraph 30 of AASB 1060, allow entities to use titles for the financial statements other than those used in AASB 1060, as long as they are not misleading. Staff also consider the DP proposal to develop guidance, including template financial statements to illustrate the different titles that an NFP entity can apply would address the feedback from the NFP PAP member to tailor the titles to reflect NFP circumstances.

47 Staff is aware of the IASB's IFRS 18 *Presentation and Disclosures in Financial Statements* which is expected to be issued in the second quarter of 2024 to replace IAS 1 *Presentation of Financial Statements* and is expected to change the requirements for presentation of financial statements.[21]

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20 The ACNC Annual Information Statement requires charities to disclose summary financial information which includes information such as revenue, income, expenses and other comprehensive income (if any), from medium and large charities. Refer to the 2023 Annual Information Statement on the ACNC website.

21 As noted in Agenda Paper 8.1 at the November 2023 Board meeting, the presentation changes include:
   (a) require additional subtotals in the statement of profit or loss and classifying income and expenses into operating, investing and financing categories;
   (b) require disclosures about management-defined performance measures;

The Board decided at its November 2023 Board meeting to gather further input from stakeholders about whether modifications to IFRS 18 requirements or guidance would need to be developed for for-profit, NFP private sector and public sector entities preparing Tier 2 GPFS by expanding the forthcoming invitation to comment of AASB 1060 (expected in Q4 2024) to gather feedback on IFRS 18.[22] As such, staff do not think any proposal to changes to presentation requirements should be adopted for Tier 3 until the Board has assessed the impacts and adopted for Tier 2 entities, noting that there is feedback from most stakeholders to maintain presentation requirements consistent with AASB 1060 but also an expectation that there will be disclosure reductions compared to Tier 2 requirements.

48 Staff also noted the feedback from an NFP PAP member whether entities can change the presentation of the statement of changes in equity to statement of income and retained earnings from year to year. Staff noted that paragraph 50 of AASB 1060 states, in relation to the presentation of total comprehensive income, a change from the single-statement approach to the two-statement approach, or vice versa, is a change in accounting policy to which AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* applies. AASB 1060 does not specifically refer to the same approach for the presentation of a statement of changes in equity and statement of retained earnings. However, staff expect a consistent approach would apply to the presentation of the statement of changes in equity.

Matter 1: whether the statement of changes in equity should be required

49 When developing the Board's proposal in the DP, the Board considered whether to carry forward the Tier 2 requirements to present a statement of changes in equity including the exception where the entity meets the conditions and chooses to present instead a statement of income and retained earnings.[23]

50 However, as stated in paragraph 5.17 of the DP, the Board noted from initial stakeholder feedback that, for many smaller NFP entities, the profit or loss might be the only change for the reporting period. And some stakeholders also indicated the information could be presented as part of the note to the financial statements being sufficient to meet users' needs.

Staff analysis and recommendation

51 Based on the feedback on the DP, staff recommend that the Board should proceed to carry forward the Tier 2 requirements for the statement of changes in equity for the following reasons:

(a) initial and subsequent outreach confirmed the feedback from stakeholders that preparers are not concerned about the cost of presenting a statement of changes in equity as the statement is

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(c) enhance the requirements for grouping of information, including general principles for aggregation and disaggregation and specific requirements for disaggregation of 'other' balances to help a company to provide useful information; and

(d) require limited changes to the statement of cash flows, including the use of operating profit or loss subtotal as the starting point for the indirect method in the statement of cash flows.

22 Refer to the November 2023 Board meeting minutes.

23 Refer to Agenda Paper 7.2 at the November 2021 Board meeting. Paragraph 26 of AASB 1060 allows an entity to present the statement of income and retained earnings in place of the statement of comprehensive income, and statement of changes in equity if the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payments of dividends, corrections of prior period errors, and changes in accounting policy. For entities that elect to present a statement of income and retained earnings, paragraph 63 of AASB 1060 requires the entity, to present in addition to presenting information required in the Statement of Profit or Loss and Other Comprehensive Income, the following:
(a) retained earnings at the beginning of the reporting period;
(b) dividends declared and paid or payable during the period;
(c) restatements of retained earnings for correction of prior period errors;
(d) restatement of retained earnings for changes in accounting policy; and
(e) retained earnings at the end of the reporting period.

often generated by accounting software and would not require significant additional resources or effort to justify a departure from Tier 2 requirements;

(b) some NFP entities have reserves other than retained surpluses (e.g. restricted reserves, revaluation reserves or private ancillary funds with gift funds for donations received) and the information on the movements in these reserves is useful to users;

(c) while for many smaller NFP entities, the only movement in equity for the year is their profit or loss, however, some stakeholders consider the information in the statement of changes in equity provides a linkage between the information provided by the statement of financial position and statement of profit or loss and helps to identify errors when journaling retained earnings. The option to present a statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity would address the stakeholder's concern that the preparation of the statement of changes in equity where the only movement for the year is the profit or loss (as demonstrated by the RR19 findings in paragraph 42(c) above that only two charities presented prior period adjustments and no other changes in equity other than profit or loss), may not be useful to users;

(d) staff noted some stakeholders considered the movements in reserves or information required in the statement of changes in equity could be presented in the notes to the financial statements. However, staff noted that based on previous feedback,[24] users are less likely to read the notes to the financial statements and allowing an accounting policy choice to present the information in the notes and on the face of the financial statements could lead to further confusion for users and inconsistencies with Tier 2 requirements; and

(e) the Board's decision at its November 2023 meeting to allow Tier 3 entities the accounting policy choice to measure financial assets that are held to generate both income and capital at fair value through either profit or loss or other comprehensive income would not inadvertently give more prominence to the need to prepare a statement of changes in equity.

Question 2a: Do Board members agree with the staff recommendation in paragraph 51, for the purpose of drafting the Tier 3 ED, to proceed to carry forward the Tier 2 requirements for the statement of changes in equity?

If not, what does the Board suggest?

Matter 2: requirements of the statement of cash flows

(i) **Separately presenting cash flows from investing from financing activities**

52 When developing the Board's proposal in the DP, the Board acknowledged the initial stakeholder feedback that the statement of cash flows can be complex to apply for smaller NFP entities. As such, the Board decided to provide some simplification to the presentation of the statement of cash flows to not require entities to present cash flow from financing activities separately from investing activities.[25]

53 Based on the feedback on the DP and further feedback from the NFP PAP members, staff recommend that the Board should permit but not require an entity to present cash flows from financing activities separately from investing activities because:

(a) current accounting software already allows for the distinction to present the cash flows from financing and investing activities separately;

24 Refer to Agenda Paper 5.5 meeting minutes of NFP PAP October 2023 meeting which noted that users may not read the notes to the financial statements.

25 Refer to Agenda Paper 7.2 at the November 2021 Board meeting

(b) the statement of cash flows is already a financial statement prepared by at least some NFP entities in accordance with Tier 2 requirements (as indicated by the findings in RR19 in paragraph 42(a) above) and would ensure presentation consistency for entities that elect to continue to present cash flows from investing and financing activities separately;

(c) in line with the DP's proposals, the Board considered that there is little value from a standard-setter perspective in requiring distinction for smaller NFP entities as each major class of gross cash receipts and payments should continue to be separately disclosed. However, feedback on the DP indicated that there may be users that consider separately presenting investing from financing activities useful in evaluating the source and applications of how an entity has utilised its funds; and

(d) allowing an accounting policy option to permit but not require an entity to present separately cash flows from investing and financing activities would be the simplest option and in line with the Tier 3 development principle to leverage information management uses to make decisions about the entity's operations for entities to continue their current practice and minimise transition cost while providing some simplification for other NFP entities to present cash flows from investing and financing activities together.

Question 2b: Do Board members agree with the staff recommendation in paragraph 53, for the purpose of drafting the Tier 3 ED, to permit but not require an entity to present cash flows from financial activities separately from investing activities in the statement of cash flows?

If not, what does the Board suggest?

(ii) **Permitting only the direct method for presenting cash flows from operating activities**

54 For the reason noted in paragraph 52 above, the Board decided, for the purpose of the DP, to restrict the method to presenting cash flows from operating activities using the direct method only. The Board also noted in paragraph 5.29 of the DP the benefits of requiring the report of cash flows from operating activities using only the direct method would exceed any cost of limiting the existing optionality, and:

(a) the direct method appears to be predominately applied by management which is supported by the findings in RR 19 where almost 57% of the selected sampled charities that prepared a statement of cash flows presented cash flows from operating activities using both the direct and indirect method. While 25% of sampled charities applied the direct method only and 3% applied the indirect method only;

(b) improves comparability between entities; and

(c) gives users and management more visibility of where cash has been spent compared to the indirect method.

55 However, staff noted the feedback from a few stakeholders that disagree with the Board's proposal to restrict operating cash flows to the direct method only where an alternative is permitted for Tier 2 entities should also be provided for Tier 3 entities. Staff also consider the indirect method is already being applied by most NFP entities as demonstrated by the findings in RR19 above.[26]

56 After considering the feedback on the DP and further outreach with NFP PAP members, staff recommend that the Board should permit Tier 3 entities to present cash flows from operating activities using either the direct or indirect method as this is only a presentation difference. Staff

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26 AASB 1054 *Australian Additional Disclosures* is one of the accounting standards that charities are required to comply with if entities prepare special purpose financial statements as required by *Australian Charities and Not-for-profits Commission Regulations 2022*. Paragraph 16 of AASB 1054 requires an entity that uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to profit (loss).

noted there may be comparability compromises between smaller entities, however, the cash flows from operating activities would still result in the same amount under either approach. As such, staff think providing flexibility is in line with the Tier 3 development principle to leverage information management uses to make decisions about the entity's operations for entities to continue their current practice and minimise transition cost while providing some simplification for those NFP entities that are currently applying the direct method not to disclose a reconciliation of net cash flows from operating activities to the profit or loss.

Question 2c: Do Board members agree with the staff recommendation in paragraph 56, for the purpose of drafting the Tier 3 ED, to align the presentation of cash flows from operating activities with Tier 2 requirement, that is:

(a) the direct method; or

(b) the indirect method?

If not, what does the Board suggest?

Appendix A – Extract of the summary of detailed feedback presented in Agenda Paper 3.1.1 at the May 2023 Board meeting

<table>
<tr><th colspan="2">Q35) Initial measurement of non-financial assets at significantly less than fair value at cost or at fair value*
Total response = 359</th></tr>
<tr><td>Yes = 264 (74%) consisting of:
• 57 preparers (13%)
• 99 auditors (28%)
• 5 users (1%)
• 1 regulator (0%)
• 5 others (1%)
• 1 blank (0%)
• 101 virtual sessions (28%)
• 5 written responses (1%) (PP, IPA, BDO, Deloitte, MA)

Not applicable = 24 (7%) consisting of
• 13 preparers (4%)
• 2 auditors (1%)
• 2 users (1%)
• 6 virtual sessions (2%)</td><td>Most stakeholders agree with the preliminary views as the accounting policy choice provides appropriate flexibility and proportionate response for smaller NFP entities. Some stakeholders that agree provided additional comments:
• an accounting policy choice may reduce comparability of the financial reporting;
• calculating fair value can be relatively costly for smaller NFPs, but appropriate disclosures will be necessary since initial recognition until the asset is disposed to provide the users with information on non-financial assets controlled by the entity which are not fully reflected in the statement of financial position;
• the preference to not allow an accounting policy choice if non-financial assets acquired for significantly less than fair value were acquired through a business combination (PP);
• revaluation difference should go through the profit or loss rather than other comprehensive income (revaluation reserve); and
• that clarification of the 'unit of account' is required for this option. That is, whether the proposal can be applied on a transaction by transaction, class of asset, or a whole category of asset basis. The preference is to apply the accounting policy on a class of asset basis (e.g. to measure land at fair value on initial recognition as one class within PPE and to initially measure donated office equipment at cost as a separate class within PPE) (BDO).
Some stakeholders agree with the accounting policy for initial measurement (including MA) but:
• disagree with not allowing the subsequent revaluation of non-financial assets initially measured at cost because organisation needs and circumstances may change, provided appropriate and independent evidence is available to support the change in accounting policy and depicts a 'true view' (including MA).</td></tr>
<tr><td>No = 71 (20%) consisting of:
• 17 preparers (5%)
• 34 auditors (9%)
• 1 user (0%)
• 2 others (1%)
• 12 virtual sessions (3%)
• 5 written responses (1%) (CPA/CA ANZ, SD, UWA, DH, ACNC)</td><td>Some stakeholders disagree with the accounting policy choice and consider:
• the fair value model at initial measurement should be applied because:
  ○ the difference between fair value and cost (including for inventories) may be material and accounting policy choice would reduce comparability of financial reporting;
  ○ concerns that many NFP entities may 'window dress' their financial statements to provide more compelling case for grants and donations [therefore selecting cost method];
  ○ allowing significant donated non-financial assets to be measured at cost with no value on balance sheet can be problematic and the value and resources available to the entity misrepresented (including UWA);
  ○ ATO rules require private ancillary funds (PAFs) to apply fair value for all assets;</td></tr>
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financial statements may omit important information relating to philanthropic giving. An alternative approach is to require initial recognition at fair value for non-financial assets where fair value is readily available (such as market values) and at cost in other cases, complemented by disclosures. This stakeholder agree subsequent measurement should remain at cost for the non-financial assets initially measured at cost (CPA/CA ANZ);
for non-financial assets other than inventory, such as property or item of plant and equipment, it is not onerous to obtain fair value measurement. Entities typically do this for insurance purposes. No concerns have been heard from the sector in relation to obtaining fair value of PPE as onerous (SD);
there may be a burden to keep records as to which assets were measured at cost and which assets were measured at fair value. In addition, if an entity adopted the policy to measure at cost, its future management and those charged with governance would be bound by the previous decision and be prohibited to change accounting policy from revaluing their PPE (DH); and
any material donated non-financial assets should at least be evaluated for fair value or an estimate. ATO also requires donors to inform market value of non-cash donations to DGR recipients and related to this, Productivity Commission is conducting an inquiry into philanthropy.[27] If charities measure donated non-financial assets at cost, then the financial statements will not appropriately reflect philanthropic giving (ACNC).

the proposal is too complex because:

smaller entities are not equipped to determine the accounting policy choice, and a free choice would reduce comparability, therefore the proposals are putting too much work and risk on the auditors; and
it would be difficult and expensive to account for all donated items accurately, and in practice, most organisations prefer to apply the cost model.

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<td colspan="2">Staff analysis: While there was more support for allowing smaller NFP entities an accounting policy choice to initially measure non-financial assets either at cost or at fair value, some stakeholders did not agree with the proposals. Some of those who agreed were concerned that the accounting policy choice compromises comparability. Staff note the accounting policy choice allows management to decide an appropriate accounting policy based on user needs and other factors (e.g. legislative requirements). Therefore, allowing the cost model or fair value model is consistent with its objective for developing Tier 3 requirements. Appropriate disclosures as to the nature and description of the donated assets would provide useful information to the expected users which is evidenced by the feedback that users, whilst very small subsections of respondents, did not disagree with the proposals.

Staff also noted the mixed feedback on the proposal not to allow entities to revalue these assets subsequently, noting that organisation needs and circumstances may change and may warrant a change in accounting policies. On one hand, findings from RR19 did not identify it common for smaller NFP entities to revalue PPE. Accordingly, to keep with simplicity, staff don't think the Board should develop requirements to allow entities to subsequently revalue non-financial assets initially measured at costs. However,</td>
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[27] Refer to the Productivity Commission on the Review of Philanthropy for more information.

mixed feedback indicates that an entity's circumstances may warrant an entity to revalue these assets if an entity considers it a more faithful representation of these assets, and the voluntary change of accounting policy should be available. Staff noted that almost 20% of respondents did not agree with the accounting policy choice and almost half of the written submissions did not agree with the choice of recognising donated non-financial assets at cost on initial recognition. These non-supportive stakeholders (including a regulator) consider that the significant information value would be lost with the cost valuation option applied. It may result in complex record-keeping and different circumstances warrant entities to fair value their assets. Staff will consider the feedback further, including whether it provides new information the Board did not have when arriving at its preliminary views, including: • the feedback that obtaining fair value for certain class of non-financial assets is not onerous; and • if the information is required for the regulatory purposes anyway. Staff noted that the Board considered distinguishing the valuation approach on initial recognition of non-financial assets based on their useful life and rejected it as it may add unnecessary complexity. Staff will further consider and analyse the feedback giving regard to the options on the subsequent measurement requirements of non-financial assets acquired at significantly less than fair value initially measured at cost presented to the Board in Agenda Paper 3.2.2 at the August 2022 Board meeting.	
Staff suggested action for next steps: Staff will bring **further analysis** and possible options how to proceed for the Board to consider at a future meeting.	
Q14a & Q15–16) Primary financial statements including presentation requirements **Total response = 209**	
Yes = 173 (83%) consisting of: • 54 preparers (26%) • 101 auditors (48%) • 5 users (2%) • 4 others (2%) • 1 regulator (0%) • 8 written responses (4%) (MA, CPA/CA ANZ, AICD, SD, IPA, BDO, Deloitte, ACNC)	Most stakeholders agree on the proposed Tier 3 primary financial statements and most staff of NFP regulators that provided feedback during the outreach consider the statement of cash flows is an important primary statement. Not requiring separately presenting cashflows between financing and investing activities simplifies the requirements and cost of separating cashflows for these activities may outweigh the benefits for smaller NFP entities. Also, many smaller NFP already use the direct method for cash flows from operating activities. Most of these stakeholders also supported for the presentation requirements for the statement of profit or loss and other comprehensive income to be consistent with AASB 1060 supported by supplementary material to ensure consistency in the presentation of financial statements across all reporting entities. However, a few stakeholders had additional suggestions, including: • the name of the financial statements, including the language, should be more reflective of NFP circumstances – for example, the statement of profit or loss could be referred to as a statement of financial performance or a statement of income and expenses (if only a statement of profit or loss is required); • Tier 3 requirements should require further disaggregation of information on the face of the cash flows statement to improve understanding of the operating cash flows of the users of smaller NFP entities as the high level categorisation (e.g. receipts from customers, payments to suppliers) is not sufficient (MA); • presenting other comprehensive income (OCI) as a separate section of the income statement or below the operating surplus/deficit line (CPA/CA ANZ);

	• develop educational material on the value of cash flows reporting and how it should be read in conjunction with other primary financial statements and explanatory notes (CPA/CA ANZ); and • give an option for presenting financing and investment activities separately as different entities may have different preferences based on their operation model. A few supportive stakeholders noted that not requiring the separation of cash flows between financing and investing activities separately provides only incremental simplification as entities are already presenting these activities separately.

No = 36 (17%) consisting of:
• 6 preparers (3%)
• 24 auditors (11%)
• 3 others (1%)
• 3 written responses (1%) (PP, UWA, DH)
	Some stakeholders disagree with some aspects of the proposals (including PP, UWA, DH) regarding:
	• Statement of cash flows:
	    • should not be required because it is challenging for smaller NFP entities to prepare, or the Board/management may not understand the information presented in the statement. Some of these stakeholders suggested the statement can be replaced by a note of opening and closing cash at bank;
	    • not separating investing and financing activities may reduce information usefulness and the ability for users to evaluate the sources and applications of funds. Oversimplifying the statement reduces its value considerably without significantly decreasing the complexity form the preparers' perspective (UWA);
	    • accounting software allows this distinction, therefore it should continue to be permitted and, instead, not to mandate an 'other total' (total of cash flows from investing and financing activities) (DH); and
	    • not to restrict operating cash flows to the direct method only, as alternatives permitted in Tier 2 should also be allowed in Tier 3 (DH).
	• Statement of profit or loss and other comprehensive income:
	    • a two-statement approach to separately present a statement of profit or loss and a separate statement of comprehensive income and only if the entity has other comprehensive income (PP); and
	    • other comprehensive income statement should not be required, only a statement of profit or loss (or statement of income and expenses similar to INPAG).[28] Extra disclosures for OCI cause confusion to readers of SMEs and NFP financial statements (DH).
	• Presentation requirements for the statement of profit or loss and other comprehensive income and statement of financial position:

[28] The INPAG Statement of Income and Expenses is focused on surplus and deficit and not comprehensive income as permitted in the IFRS for SMEs Accounting Standard and income and expenses that do not contribute to surplus and deficit are instead recognised in the Statement of Changes in Net Assets. Refer to INPAG Part 1 ED

	• preference for more prescriptive approach such as a checklist or tailoring, as these approaches would provide explicit reporting requirements and reduce the subjectivity and judgement aspects of the reporting process, making it easier for these organisations to transition to new reporting requirements (ACNC).

Staff analysis: Staff noted that most stakeholders support the proposals and a few disagree with some aspects. Staff preliminary view in relation to the stakeholder's alternative suggestion are:

- for the statement of cash flows:
  - staff have heard from the staff of NFP regulators that provided the feedback during the outreach as well as most stakeholders who consider the statement of cash flows an important statement that should be included as part of Tier 3 primary financial statements. Based on AASB Research Report 19: *Common Financial Statement Items: Charities with $0.5-$3 million in revenue* (April 2023) (RR19), approximately 85% of sampled charities have already prepared a statement of cash flows. As such, staff expect that many NFP entities would already be preparing or required to prepare the statement as part of their regulatory requirements. As such, staff think that Tier 3 should require a statement of cash flows as part of the Tier 3 primary financial statements;
  - there may be merit in considering whether or not to require separating financing and investing activities in light of stakeholder feedback that the incremental cost savings for the preparers may not outweigh the benefits to users;
  - the direct method of reporting for presenting cash flows from operating activities would appear to be common practice as indicated by findings in RR19. However, there may be merit in considering further the feedback on allowing both the direct and indirect method, consistent with the approach to Tier 2 requirements.
- for the statement of profit or loss and other comprehensive income (SOCI):
  - in response to allowing entities to separately present the statement of profit or loss and other comprehensive income, AASB 1060 already allows an entity to choose whether to present a single statement of profit or loss and other comprehensive income or two separate statements;
  - the Board arrived at its preliminary view to retain the requirement of statement of profit or loss and other comprehensive income because smaller NFP entities are expected to have OCI items (e.g. asset revaluations), hence changing the current requirement may cause confusion and increase reporting burden.
- for the presentation of the SOCI and statement of financial position:
  - the Board's preliminary view to align the presentation requirements for the SOCI and the statement of financial position to the current AASB 1060 presentation requirements already allows an entity to rename the titles of the primary statements.[29] To address these stakeholders' concerns, staff think it would be beneficial to consider applying other titles proposed in the feedback and also to consider INPAG guidance (e.g. statement of financial performance rather than statement of profit or loss and other comprehensive income) when developing application guidance or template financial statements; and

[29] Paragraph 30 of AASB 1060 allows an entity to use titles for the financial statements other than those used in AASB 1060 as long as they are not misleading.

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- as discussed in the DP, the tailoring or checklist approach could impose more burden, given it will require mandatory information to be presented by forcing entities to present certain prescribed items and could lead to entities considering the role of financial statements a regulatory compliance exercise. It will also be difficult to develop prescribed line items given the broad range of NFP entities. Staff did not identify new information that the Board did not consider when arriving at its preliminary review. However, based on the stakeholder feedback, staff will show how further guidance and illustrative examples can support the application of the requirements.

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Staff suggested action for next steps: Based on reasons above, staff recommend **proceed with the Board's preliminary view** and begin drafting the Tier 3 primary financial statements primarily based on the Board's preliminary proposal for the statement of profit or loss and other comprehensive income and statement of financial position. Staff will **further analyse** whether a Tier 3 statement of cash flows should require separately presenting cash flows from financing and investing activities, and to allow a direct and/or indirect method to present cash flows from operating activities for the Board to consider at a future meeting.

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Q14b) Requirement of the statement of changes in equity*

Total response = 333

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Yes = 191 (57%) consisting of:

- 27 preparers (8%)
- 76 auditors (23%)
- 2 users (1%)
- 3 others (1%)
- 1 regulator (0%)
- 76 virtual sessions (23%)
- 6 written responses (2%) (MA, CPA/CA ANZ, SD, AICD, ACNC, IPA)

Not applicable = 14 (4%) consisting of

- 4 preparer (1%)
- 1 user (0%)
- 9 virtual sessions (3%)

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Many stakeholders considered the statement of changes in equity is useful because:

- some NFP entities have reserves other than retained surpluses (e.g. restricted reserves, revaluation reserves or private ancillary funds with gift funds for donations received) and the information on the movements in these reserves is useful to grantors/donors (for examples on the resources set aside for future projects) (including MA, CPA/CA ANZ, SD);
- the statement is often generated by accounting software and would not require significant additional resources or effort and does not justify inconsistency with Tier 1/Tier 2;
- it links the information provided by the statement of financial position and statement of profit or loss (MA); and
- helps to identify errors when journaling retained earnings.

However, some stakeholders noted the statement may not always be useful, especially if the only movement is the entity's profit or loss for the reporting period, and provided the following suggestions:

- to align with AASB 1060, require the statement of changes in equity if certain conditions are met (AICD, ACNC, SD, IPA); and
- to allow the choice to prepare a statement of changes in equity or as part of a disclosure note (CPA/CA ANZ).

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No = 128 (38%) consisting of:

- 30 preparers (9%)
- 49 auditors (15%)
- 2 users (1%)

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Many stakeholders that do not support retaining the statement noted:

- the only movement in equity for the year for smaller NFP entities is their profit or loss hence the statement does not add any additional value to users (UWA);

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• 4 others (1%) • 38 virtual sessions (11%) • 5 written responses (2%) (PP, UWA, DH, Deloitte, BDO) Of those that responded no, whether the statement should be included as a note disclosure instead: Total response = 95 Yes = 49 (52%) consisting of: • 12 preparers (13%) • 30 auditors (32%) • 2 users (2%) • 3 others (3%) • 2 written responses (2%) (DH, BDO) No = 42 (44%) consisting of: • 19 preparers (20%) • 19 auditors (20%) • 1 other (1%) • 3 written responses (3%) (PP, UWA, Deloitte) Not applicable = 4 (4%) consisting of • 3 preparers (3%) • 1 user (1%)	• that entities can, instead, report the movement within reserves in the notes to the financial statements (DH, BDO). If the primary statement would be required, it should be referred to as a statement of changes in net assets to better align with NFP terminology (PP); • information contained in the statement of changes in equity is not expected to be detailed. While financial assets that are held to generate both income and capital in return are subsequently measured at FVTOCI, the cost to preparing the statement may outweigh the benefits of the information (Deloitte); and • if the statement is not required at all, then a disclosure note containing the information required in a statement of changes in equity should be mandatory part of the financial statements. While a few stakeholders suggested it should only be required when there is material or other changes other than profit of loss for the period, other stakeholders do not consider a disclosure note is required.
Staff analysis: Staff noted a small majority supported the requirement for a statement of changes in equity as part of Tier 3 financial statements. To address the concerns of the large minority of the stakeholders that consider the statement does not add value to users if the only change in equity is the profit or loss for the period, staff preliminary view is to align the approach with the Tier 2 requirements as per AASB 1060. That is, to require the statement of income and retained earnings in place of a statement of comprehensive income and statement of changes in equity if the only changes in its equity during the period arise from profit or loss, corrections of prior period errors and changes in accounting policy.	

Based on RR19, of the random sample of 260 charities, approximately 81% of charities are currently preparing a statement of changes in equity. As such, staff think aligning the requirement for the statement of changes in equity as per AASB 1060 could address the needs of smaller NFP entities. It will also provide useful information if an entity incurs transactions that require preparation of the statement, thus effectively balancing the user information needs and cost for preparers. Staff do not support the suggestions from stakeholders for allowing the choice for an entity to present the statement of changes in equity (either the statement or disclosure notes) as this would reduce comparability. In addition to the option of aligning with AASB 1060 requirements, staff will also conduct further analysis on the option to require or allow the information presented in the statement of changes in equity to be included as part of the disclosure notes.
Staff suggested action for next steps: Staff will need to perform **further analysis** and possible options on the approach to the presentation of the statement of changes in equity as part of Tier 3 primary financial statements for the Board to consider at a future meeting.