Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M183
Topic:	**Tier 3: Application of accounting policies for omitted topics and application of higher tier requirements**	**Agenda Item:**	12.1
		Date:	23 Aug 2021
Contact(s):	Maggie Man mman@aasb.gov.au Fridrich Housa fhousa@aasb.gov.au	**Project Priority:**	High
		Decision-Making:	High
		Project Status:	Initial deliberations

Objective of this paper

1 The objective of this paper is for the Board to **decide:**

(a) its approach to the application of accounting policies for topics omitted in Tier 3 requirements, and

(b) whether to permit application of higher tier requirements where the accounting policy option is not included within Tier 3 requirements,

for the purpose of an Not-for-Profit (NFP) Financial Reporting Framework discussion paper.

Background and reasons for bringing this paper to the Board

2 At its 21-22 June 2021 meeting, the Board decided to consider at a future meeting whether to permit an entity to apply the reporting requirements of a higher tier:

(a) for a class of transaction, or

(b) where a topic or guidance is not included in Tier 3 reporting requirements.[1]

3 This paper considers whether an entity should be permitted to apply reporting requirements of a higher tier for omitted topics, and where an accounting policy option is not included within Tier 3 requirements. Developing preliminary views on these two topics will enable the Board to obtain useful feedback to inform whether its proposed approach is supported and should be further developed into an Exposure Draft.

4 *The Not-for-Profit Private Sector Financial Reporting Framework Project Summary* provides the overview of the Board's tentative decisions to date in respect of the project.

Structure of this paper

5 This paper is set out as follows:

1 In AP 4.1, presented at the August 2021 meeting, topics to be omitted include specialised topics such as agriculture, insurance, exploration, superannuation and service concession arrangements. There are also topics that are not applicable to NFP Tier 3 entities such as earnings per share, share-based payments, and interim and segment reporting.

(a) Current Australian requirements under Australian Accounting Standards (paras. 6 – 7)

(b) Feedback from Australian stakeholders (paras. 8 – 9)

(c) Research findings and other evidence (paras. 10 – 19)

Accounting policies for topics omitted from Tier 3

(d) Options on accounting policies for topics omitted from Tier 3 (Table 1)

(e) Evaluation of options against the Tier 3 development principles (paras. 21 – 22)

(f) Staff recommendation (paras. 23 – 27)

Permit application of higher tier requirements where the accounting policy option is not included within Tier 3 requirements

(g) Options to permit application for accounting policy options not included in Tier 3 requirements (Table 2)

(h) Evaluation of options against the Tier 3 development principles (para. 30)

(i) Staff recommendation (paras. 31 – 33)

Current requirements under Australian Accounting Standards

6 Entities are not permitted to apply an accounting policy option that is not included in the existing Tier 1 or 2 general purpose financial statements (GPFS) for a transaction when an Australian Accounting Standard specifically applies.

7 Where a transaction or topic is not contained within the Australian Accounting Standards (AAS), NFP entities preparing Tier 1 or 2 GPFS are required to apply AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. AASB 108 provides a hierarchy approach in paras. 10 – 12. Specifically, management is required to use judgement to develop and apply an accounting policy with consideration of the applicability of the following sources in descending order:

(a) the requirement in AAS dealing with similar and related issues; and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the conceptual framework.

In making the judgement, management may also consider the most recent pronouncements of other standard-setting bodies that uses a similar conceptual framework, other accounting literature and accepted industry practices.

Feedback from Australian stakeholders

8 Preliminary feedback from targeted consultation presented in AP 5.1 at the 16-17 September 2020 Board meeting was generally supportive of allowing entities to opt up to higher tier reporting requirements for a specific type of transactions. However some stakeholders expressed concerns that an entity voluntarily opting-up to a higher tier on a by-class-of-transaction basis may reduce comparability between entities.

9 Staff sought feedback from the NFP Project Advisory Panel members at the meeting on 18 May 2021. Although staff did not specifically ask the panel members their views on the accounting requirements for omitted topics, the majority of them supported an entity applying the requirements of a higher tier based on a class of transactions, with disclosure of the accounting policy applied. They observed that an entity's decision to apply the requirements of a higher tier should not be regarded as hindering comparability, especially if accounting policy choices are already allowed within the current requirements of AAS.

Research findings and other evidence

Accounting policies for topics omitted from Tier 3

10 Staff have not identified any relevant research examining common or uncommon transactions that are typical for a Tier 3 NFP entity in Australia.[2]

11 Staff have analysed the transactions that are commonly undertaken by Tier 3 entities by examining a random sample of 20 FY 2020 financial statements of ACNC registered charities with annual revenue between $500,000 – $3 million. None of these entities presented information relating to the omitted topics as presented in AP 4.1 (e.g. insurance or agriculture).

12 These preliminary findings could indicate that the financial statements of these entities generally cover common topics as identified by staff in AP 4.1 at the August 2021 Board meeting.[3] However, the results need to be interpreted with caution due to the limited sample size.

13 Stakeholder feedback received from post-implementation review (PIR) of NZ Public Entity Simple Format Reporting Tier 3 and 4 Standards identified difficulties in the requirements for opting up to the Public Benefit Entity Tier 2 Standards.[4] The NZASB will consider possible options to address this feedback for areas either omitted or without explicit guidance within Tier 3 such as biological assets and intangible assets, for example adding more guidance on how to apply opt-up option (e.g. for biological assets), or clarifying how to apply existing requirements of Tier 3 (e.g. for intangible assets). The feedback also noted that many entities which opt up, will apply the recognition and measurement requirements but will not apply the related presentation and disclosure requirements.

14 While it would be uncommon for Australian NFP entities, particularly smaller entities, to encounter a transaction or event that is not currently covered by the AAS, NFP modifications to AAS via 'Aus' paragraphs or NFP-specific standards provide evidence of the need to address specific NFP issue when justified in line with the AASB Not-for-profit entity Standard-Setting Framework from time to time. Recent stakeholder feedback also indicated that there may be transactions where NFP entities may need to apply AASB 108, for example to address the interaction of the scope between individual AAS (e.g. AASB 1058 and other standards).

15 Furthermore, Tier 3 reporting requirements are limited to the topics and transactions that are expected to be common for the entities in the scope of the requirements as presented in AP 4.1. Therefore, staff consider there is a need to develop an approach for accounting for omitted topics with the staff applying the approach to simplification outlined in Appendix A in their analysis and recommendations.

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2 The Board tentatively agreed at its 20-21 April Board meeting (Minutes of the 180th meeting of the AASB) to develop proposals on Tier 3 accounting requirements having regard to balances and transactions commonly undertaken by NFP private sector entities with revenues between $500,000 and $3 million. This size indication provides the Board with an indicative boundary for identifying common transactions and forming views on requirements applying to Tier 3 financial statements.

3 Common topics as presented in AP 4.1 at the August meeting as well as topics already deliberated in previous Board meetings include: consolidation, accounting for correction of errors and changes in accounting policies, primary financial statements, disclosure principles, revenue/income, financial instruments, leases, investment property, impairment of non-current assets, employee benefits, intangible assets, property, plant and equipment, inventory, associates and joint ventures, provisions, contingent liabilities and commitments, income taxes, fair value, foreign currency translation, offsetting, expenses, borrowing costs, going concern and events after reporting date.

4 NZASB 12 August 2021 Board meeting in AP. 4.2.

16 Staff did not identify any research specific to NFP Tier 3 entities in Australia. However, staff noted a paper from Malaysia Accounting Standards Board staff which identifies accounting policy choices based upon a transaction-by-transaction basis (such as equity instruments at fair value through other comprehensive income under IFRS 9) or upon whole of classes of items (property, plant and equipment measurement at cost or revalued amount under IAS 16).[5] This paper noted that as a key attribute of useful financial information is its comparability, accounting policy choices should be avoided to the extent feasible. The paper noted that some policy choices available in IFRS on a transaction-by-transaction basis were made for practical reasons such as cost-benefit considerations and to reduce application burden, while accounting policy choice by class of items is likely to better support consistency of application .

17 In NZASB AP 9.2, at its 12 August 2021 Board meeting, NZ staff noted that the most common cases in which entities elect to opt up for a class of transactions relate to revaluation of assets. In the response to PIR findings, NZ staff will consider whether revaluation requirements could be introduced into the NZ Tier 3 Standards, therefore removing the need to opt up to Tier 2 or whether to include additional guidance on how to apply opt-up option.

18 Preliminary findings (based on limited research) in AP 4.3 presented at the August 2021 meeting indicated that it is uncommon for Tier 3 entities to voluntarily change accounting policies. However, staff have not identified any research on the likelihood of Tier 3 entities applying accounting policy choice and, if so, how likely they would apply different accounting policy options within a higher tier. However, based on the research as noted in para. 16, it may indicate that accounting policy options are provided for practical reasons, however, should be limited in order to promote consistent financial information.

19 With the accounting policy choices available in higher tiers, staff think there is a need to develop an approach whether to allow application of accounting policies available within higher tiers requirements for Tier 3 entities. In doing so, the staff applied the approach to simplification outlined in Appendix A in their analysis and recommendations.

Approach to the application of accounting policies for topics omitted from Tier 3 requirements

20 Staff have identified the following possible options for Tier 3 reporting requirements for accounting policies for topics omitted from Tier 3 requirements based on the approach noted in Appendix A **– Approach to simplification agreed by the Board at its 4 August 2021 Board meeting**:

5 Research paper *Policy choices in IFRS* presented at the 11th Annual Asian-Oceanian Standard-setters Group meeting, 11 - 13 September 2019.

Table 1 *Summary of possible options and analysis of Tier 3 – Approach accounting policies for topics omitted from Tier 3*

Possible options for Tier 3	Jurisdictions adopting similar approaches (and pronouncements)	Support for this approach	Arguments against this approach
Option 1: Hierarchy approach : • first refer to the definitions and principles within Tier 3 pronouncements dealing with similar and related issues, • then refer to the concepts and definitions of the NFP conceptual framework that will be applicable to Tier 3 entities.	• No jurisdiction has adopted this approach.	• Simplifies recognition and measurement criteria by not requiring management to collect additional information or apply the accounting policy for higher tiers for the omitted topic, which may be more complex to apply. Entities can develop their own accounting policies having regard to the existing reporting requirements of a similar transaction within Tier 3, and the concepts and definitions within the NFP conceptual framework. • Results in Tier 3 reporting requirements as a stand-alone standard without entities needing to look to reporting requirements within a higher tier. • Entities applying Tier 3 may not have the resources or accounting knowledge to consider requirements of higher tiers and any such reference would be confusing, which distinguishes Option 1 from Option 2.	• May increase undue cost or effort for the size of the entities in scope as may not have the necessary resources to apply judgement required to develop an appropriate accounting policy. • Inconsistent with the current requirements in AASB 108 and, therefore, reduces comparability across tiers. • Leads to the highest cost on transition as entities will have no option to refer to guidance contained in a higher tier if they would like to. • Information may be less useful, especially if management lacks resources to develop an accounting policy that adequately or faithfully represents the information. • Almost all pronouncements from the examined jurisdictions used a hierarchy approach permitting an entity to apply the reporting requirements of a higher tier. • It may not be practical to limit entities to apply principles in the conceptual framework without potentially implicitly applying requirements of other AAS, at least in some cases – making this option similar to Option 2.
Option 2: Hierarchy approach: • first refer to the definitions and principles within Tier 3 pronouncements dealing with similar and related issues, • then refer to the concepts and definitions of the conceptual framework.	• *International Financial Reporting Standards for Small and Medium Entities* (IFRS for SMEs) (para. 10.5-10.6). • *New Zealand Public Benefit Entity Simple Format Reporting – Accrual* (Not-for-profit) (NZ Tier 3) (para. 6).	• Similar to Option 1, management can develop their own accounting policy having regard to existing requirements within Tier 3 and the conceptual framework. • Enables entities to refer to guidance within higher tiers which may further simplify the need for judgement in developing an appropriate accounting policy by the entity.	• Comparability may be compromised if different approaches are adopted by Tier 3 entities - however incomparability is confined to omitted topics and largely limited by the requirements of higher tiers. • Some transition cost as entities are not required to apply the higher tier reporting requirements.

Possible options for Tier 3	Jurisdictions adopting similar approaches (and pronouncements)	Support for this approach	Arguments against this approach
In making these judgements, management may also consider the requirements and guidance in higher tiers reporting requirements dealing with similar and related issues. Management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework, other accounting literature and accepted industry practices.	• FRS 102 *The Financial Reporting Standards applicable in the UK and Republic of Ireland* (FRS 102) (para. 10.5).	• Enable proportionate cost to preparers by not mandating entities to apply higher tier reporting requirements. • Consistent with current requirements in AASB 108.	
Option 3: First refer to the reporting requirements of a higher tier for the omitted topic.[6] If a transaction is not covered within higher tiers, then apply a hierarchy approach to: • first refer to the definitions and principles within Tier 3 pronouncements dealing with similar and related issues, • then refer to the concepts and definitions of the conceptual framework, Management may also consider the most recent pronouncements of other standard-setting bodies that use a	• No jurisdiction applies this option. However it is similar to the *Charities SORP (102) Accounting and Reporting by Charities: Statement of Recommended Practice* (paras. 3.24 –3.25) which require an entity to refer firstly to FRS 102 requirements where certain situations are not covered, or if extra disclosures are needed to provide a true and fair view. If FRS 102 does not address the matter, then charities adopting FRS 102 should refer to the hierarchy of sources set out in section 10 of FRS 102.[7] Similarly US ASC NFP 958 and Canada Part III of the Handbook are not stand-alone standards, which	• In comparison to Options 1 and 2, simplifies the process and interpretation by directing entities to refer to higher tiers reporting requirements and thus minimising the need for management to determine their own accounting policy. • Enhances comparability within Tier 3 and across the tiers preparers must apply the requirements contained within the higher tier if guidance is available. • Minimise cost to transition to higher tiers, given entities are directed to apply the reporting requirements within a higher tier.	• May increase preparers cost compared to Options 1 and 2 as management may be required to collect information by directing an entity to apply the reporting requirements within a higher tier first. • May increase the complexity for preparers when compared to developing an accounting policy based on Tier 3 analogy and conceptual framework (Option 2) and need to further guidance, as noted in feedback in NZ PIR Tiers 3 and 4 in para. 13. • May make the Tier 3 pronouncement less standalone as preparers are required to apply reporting requirements in higher tiers, albeit not expected to be widespread issue given only regarding omitted topics.

6 Option 3 is a new option upon reflection of the discussion at the June 2021 Board meeting where the Board noted a possible alternative approach to simplify the process in considering an accounting policy for omitted topics by directing entities to the application of the reporting requirements in a higher tier first.

7 Staff note that the UK Charities SORP (FRS 102) is a Statement of Recommended Practice applicable to charities preparing their accounts in accordance with FRS 102. The SORP provides guidance for charities on how to apply FRS 102 and identify whether a particular treatment is required or whether charities can exercise a choice, where choices are provided under FRS 102.

Possible options for Tier 3	Jurisdictions adopting similar approaches (and pronouncements)	Support for this approach	Arguments against this approach
similar conceptual framework, other accounting literature and accepted industry practices.	requires NFPs to apply the topics which also applies to for-profit entities that are not contained within the pronouncements.		

Evaluation of options against the Tier 3 development principles

21 In addition to the analysis in the table above, applying approach outlined in Appendix A, staff also analysed each of the proposed options against the Tier 3 development principles.[8]

22 Staff consider that whilst Option 2 and Option 3 broadly align with the principles given they provide similar approach as higher reporting tiers, Option 1 would not as it does not allow to apply higher tier requirements and noted following considerations in particular:

Principles	**Staff assessment**
The development of Tier 3 reporting requirements is subject to the *AASB Not-for-profit Standard-Setting Framework* Tier 3 financial statements are general purpose financial statements. As such, Tier 3 financial statements provide useful information to users of the financial statements	Option 1 does not align with the principles against which Tier 3 requirements are developed. Under this option, an entity is not allowed to develop an accounting policy in accordance with the existing reporting requirements available in a higher tier, which presumes to result in useful and relevant financial information, and thus the usefulness of the information provided in the financial statements may suffer. It may also result in undue cost or effort given the size of the entity, that may not have the necessary resources to develop an appropriate accounting policy, especially if guidance is already available within a higher tier.
Consistency with the accounting principles specified by *Tier 2: Australian Accounting Standards – Simplified Disclosures* is desirable but might not always be warranted since Tier 3 requirements are being developed as a proportionate response.	Option 1 is inconsistent with the accounting principles specified of the higher tiers as it does not allow an entity to refer to these reporting requirements when developing accounting policy for an omitted topics.
Where possible, leveraging the information management uses to make decisions about the entity's operations. The ability to leverage the information management uses is made within the context of the not-for-profit conceptual framework, user needs, cost/benefit considerations and the aim for comparability within Tier 3 reporting requirements.	If an entity is already applying an accounting policy available in a higher tier for an omitted topic, Option 1 may least-leverage the information that management uses, as the entity will no longer be able to apply the higher tier requirements to provide financial information about its operations. To appropriately apply the reporting requirements of a higher tier, Option 3 may require management to collect additional information that it does not currently use to make decisions about the entity's operations .

8 Tier 3 development principles are as follows:
(a) the development of Tier 3 reporting requirements is subject to the AASB Not-for-Profit Entity Standard-Setting Framework;
(b) Tier 3 financial statements are general purpose financial statements. As such, Tier 3 financial statements provide useful financial information to users of the financial statements;
(c) consistency with the accounting principles specified by Tier 2: Australian Accounting Standards – Simplified Disclosures is desirable, but might not always be warranted, since Tier 3 requirements are being developed as a proportionate response to the costs incurred by certain entities whilst still meeting the needs of users of the financial statements for this cohort of entities;
(d) where possible, leverage the information management uses to make decisions about the entity's operations. The ability to leverage the information management uses is made within the context of the not-for-profit conceptual framework, user needs and cost/benefit considerations and the aim for comparability within Tier 3 reporting requirements; and
(e) accounting requirements do not impose disproportionate costs on preparers, when compared to benefits of the information.

Staff recommendation - Accounting policies for omitted topics

23 Staff recommend Option 3 based on the arguments presented in Table 1 and after considering assessment against the Tier 3 principles in para. 22. Staff think this option will:

(a) simplify the process to require entities to apply the reporting requirements within higher tiers and provide guidance to develop its own accounting policies if a transaction or event is not covered within the reporting requirements of higher tiers,

(b) decrease level of judgement involved, when compared to Option 2 being equivalent requirement to AASB 108, by reducing the need for entities to develop an accounting policy by analogy within Tier 3 or the conceptual framework, especially where these entities may lack the resources and knowledge to apply such judgement.

Question 1 to Board members

Do Board members agree with the staff recommendation that, for the purposed of the DP, Tier 3 proposals will include Option 3 for the omitted topics?

That is, an entity should firstly refer to the reporting requirements of a higher tier for the omitted topic. If a transaction is not covered within higher tiers, a hierarchy approach applies as follows:

i. apply the Tier 3 principles and requirements dealing with similar and related transactions or events;
ii. having regard to the definitions and concepts in the applicable conceptual framework, to the extent that they do not conflict with Tier 3 requirements.

Management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework, other accounting literature and accepted industry practices.

If Board members disagree with the staff recommendation, which option outlined in paragraph 20 do the Board members prefer?

24 If the Board agrees with staff recommendation in para. 23 to refer to the reporting requirements of a higher tier for omitted topics, the Board will need to decide whether the reporting requirements of the higher tier are required to be applied in full and whether on a class of transaction basis or otherwise.

25 Staff have analysed the approach taken by the selected jurisdictions (i.e. IFRS for SMEs, NZ Tier 3, FRS 102, UK Charities SORP, Singapore Charity Accounting Standards) and because they refer to the application of the reporting requirements of a higher tier for omitted topics when applying judgement in forming the accounting policies, they do not contain detailed requirements how to form such judgement. However, staff noted that for example NZ Tier 3 requires to apply the whole standard to the class of transaction if an entity decides to opt-up to apply requirements of higher tier. This means that entities must apply all recognition, measurement and disclosure requirements when applying the higher tier requirements for omitted topics for these jurisdictions. In contrast, IFRS for SMEs allows entities to apply disclosure requirements of IFRS of SMEs by entities that decided to apply IAS 39 recognition and measurement requirements.

26 On balance, consistent with the approach applied by NZ Tier 3 in regard of opt-up option, staff think that the simplest approach for entities is to apply the reporting requirements of the relevant higher tier accounting standard in full and consistently for a class of transaction.

27 Feedback from the NZ PIR for Tier 3 and 4 highlighted that the requirements for opting up in the Tier 3 Standard are unclear resulting in diversity in practice. Reflecting on this feedback, staff proposed to provide guidance to assist entities in applying the reporting requirements within a higher tier for omitted topics.

Question 2 to Board members

Does the Board agree that entities are required to apply the reporting requirements of the relevant higher tier accounting standard in full consistently on a class of transaction basis for topics omitted from Tier 3 requirements?

Application of accounting policy options not included in Tier 3 requirements

28 Staff observed that the Board had made tentative decisions indicating that there will be accounting policy choices available within Tier 3 accounting requirements (such as the accounting requirements for consolidation presented at the June meeting (Minutes of 181st meeting of the AASB)). The paper does not analyse whether the Board should decide to provide an accounting policy choice as this will be assessed when discussing individual topics to be included in the discussion paper.

29 Accordingly, staff analysis and recommendations in this paper primarily focus on whether Tier 3 entities should be permitted to apply an accounting policy available in a higher tier that is not contained within Tier 3 requirements and, if so, how that should be applied. Staff have identified the following possible options when considering whether to permit higher application for accounting policies not included in Tier 3 requirements based on the approach noted in Appendix A **– Approach to simplification agreed by the Board at its 4 August 2021 Board meeting**:

Table 2 Summary of possible options and analysis of Tier 3 – Application of accounting policy options not included in Tier 3 requirements

Possible options for Tier 3	Jurisdictions adopting similar approaches (and pronouncements)	Support for this approach	Arguments against this approach
Option 1: Permit entities to apply an accounting policy option available in higher tiers that is not within Tier 3 requirements	• NZ Tier 3 (paras. 7-9)	• Provides flexibility to entities to apply an accounting option within higher tiers to reflect the nature and complexity of transactions. • Aligns with feedback from stakeholders (refer to paras. 8-9) to permit entities to adopt an accounting policy in a higher tier with disclosures of the accounting policy applied by the entity • May enable entities to transition to higher tiers easier	• Comparability may be compromised amongst Tier 3 entities and across Tiers as Tier 3 entities may have an infinite array of combinations of accounting policies from which to choose • Additional guidance may be needed on how to apply requirements of a higher tier – introducing complexity to the application of Tier 3 • May make the Tier 3 pronouncement less standalone and more complex if preparers elect to apply reporting requirements in higher tiers. As noted in NZ PIR for Tier 3, feedback from stakeholders indicated difficulties in opting up to higher tiers. NZ will propose to include further guidance to assist entities to opt up to higher tiers and inclusion of revaluation options within Tier 3 as noted in para. 17. • May not benefit users of Tier 3 financial statements when making comparison between Tier 3 entities
Option 2: Permit entities to apply an accounting policy for specific topics that will be decided on by the Board on a case by case basis [9]	• IFRS for SMEs (par. 11.2(b) and FRS 102 (par. 11.2(b) allowing application of IAS 39 recognition and measurement	• Simplification in interpretation by limiting the judgement and accounting policies applicable within reporting requirements of higher tiers. • Maintain Tier 3 reporting requirements as stand-alone standard to the extent possible unless especially allow to apply higher tier reporting requirements • Allows for comparability within Tier 3 entities and may improve user understandability	• Some transition cost as entities are not permitted to apply/look to the accounting requirements within a higher tier unless for topics specifically allowed. • Remove the ability for an entity to apply an accounting policy in higher tiers for complex transactions not contained within Tier 3 unless specifically allowed.
Option 3: Prohibit entities to apply an accounting policy option within a higher tier that is not within the Tier 3 requirements	• Singapore *Charity Accounting Standards* (Q5 of Q&A in *Financial Reporting Framework For Charities Statement of Applicability*).	• As per Option 2a but will maintain Tier 3 reporting requirements as stand-alone the most and maximises comparability within Tier 3 entities	• Remove ability for an entity to apply an accounting policy in higher tier completely that may be considered appropriate to reflect a complex transaction (e.g. financial instruments). • Highest transition cost as entities are prohibited to apply an accounting policy option within higher tier.

9 The proposed option does not cover which topics will include accounting policy options available in higher tiers that may also be considered appropriate in Tier 3. Staff will bring back the analysis that may warrant this option when discussing aspects of Tier 3 accounting requirements in future topics as identified by staff in AP 4.1 at the August 2021 Board meeting.

Evaluation of options against the Tier 3 development principles

30 Staff consider that Option 2 (to permit entities to apply a higher tier accounting policy for specific topics) and Option 3 (to prohibit entities to apply a higher tier accounting policy) align mostly with Tier 3 principles. While Option 1 (to permit entities to apply a higher tier accounting policy without limitation) aligns the least with the development principles for Tier 3 requirements, with the following considerations in particular:

Principles	**Staff assessment**
The development of Tier 3 reporting requirements is subject to the AASB Not-for-profit Standard-Setting Framework Tier 3 financial statements are general purpose financial statements. As such, Tier 3 financial statements provide useful financial information to users of the financial statements	Option 1 may not align with the principles against which Tier 3 accounting requirements are developed. Tier 3 financial statements are GPFS that should provide useful information to existing and potential resource providers. By allowing entities the choice to apply reporting requirements contained in higher tier requirements as well as applying Tier 3 requirements, it may not result in the comparable financial statements to be comparable and therefore compromise user understanding of the financial statements depending on the extent of use of such option. Some users may be less sophisticated to refer to the accounting policy applied by the entity to interpret and make comparison between Tier 3 financial statements.
Where possible, leverage the information management uses to make decisions about the entity's operations. The ability to leverage the information management uses is made within the context of the not-for-profit conceptual framework, user needs and cost/benefit considerations and the aim for comparability within Tier 3 reporting requirements.	Option 1 may not allow financial statements to be comparable amongst Tier 3 entities by permitting entities to apply an accounting policy option in a higher tier not contained in Tier 3. Staff consider that this option may lead to an significant number of combinations of accounting policies depending on the extent of use of such option. However, it should be noted that feedback from the post-implementation review of NZ Tier 3 did not raise significant concern on this other than need for more guidance on the opt-up option. Options 2a and 2b may limit the information that management uses, especially if an entity is applying an accounting policy available in a higher tier but will not be included within Tier 3 requirements.

Staff recommendation - Permit application of accounting policy options not included in Tier 3

31 Staff recommends Option 2 based on the arguments presented in Table 2 and after considering assessment against the Tier 3 developments principles in para. 30**Error! Reference source not found.**. Staff think this option will:

(a) simplify judgement by limiting the choice for entities to apply an accounting policy within higher tier reporting requirements but providing flexibility to apply an accounting policy for some topics, where specifically allowed. The topics will be decided by the Board when discussing future topics.

(b) increase comparability amongst Tier 3 entities by not permitting an entity to apply accounting policies outside of the Tier 3 requirements (unless specifically allowed) and allowing the standard to be stand-alone to the large extent.

(c) most jurisdictions referred in Table 2**Error! Reference source not found.** do not permit entities to choose to adopt an accounting policy contained in a higher tier without limitation. Although NZ Tier 3 allows entities to apply a higher tier reporting requirements for a class of transactions without limitation, feedback from their NZ PIR for Tier 3 and 4 indicated that entities seldom choose to opt-up to higher tier requirements except for revaluations of assets (as noted in para. 13).

32 Entities that may consider the Tier 3 accounting requirements are not appropriate to reflect the complexity or nature of their transactions will still have the ability to apply the reporting requirements within a higher tier in its entirety, as tentatively decided by the Board at the June 2021 Board meeting (Minutes of 181st meeting of the AASB).

33 Staff also note that, based on the Malaysian research in para. 16, accounting policy options can apply either on a transaction-by-transaction basis or to whole classes of items/transactions. However, noting that Tier 3 entities are generally less resourced and it is uncommon for entities to change accounting policies, staff's view is to permit accounting policy options (where specifically allowed) that are within Tier 3 requirements only by a class of transactions basis. This is in line with the approach in NZ Tier 3 and IFRS for SMEs.

Question 3 to Board members

Do Board members agree with the staff view to support Option 2? That is, to permit entities to apply an accounting policy of a higher tier for some topics for a class of transactions, where specifically allowed by the Board? The topics which may permit an entity to apply an accounting policy option within a higher tier will be decided by the Board on a case-by-case basis at future meetings.

If the Board agrees with Option 2, then staff propose to bring the analysis of such option where relevant to the Board when discussing further topics and aspects of Tier 3 accounting requirements at future meetings.

If Board members disagree with the staff recommendation, which option outlined in paragraph 29 do the Board members prefer?

Appendix A – Approach to simplification agreed by the Board at its 4 August 2021 Board meeting