Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	198
Topic:	**Tier 3 Exposure Draft Proposals – ability to opt up, accounting policy hierarchy, scoped out and abbreviated conceptual framework**	**Agenda Item:**	3.1
		Date:	28 August 2023
Contact(s):	Maggie Man mman@aasb.gov.au Fridrich Housa fhousa@aasb.gov.au	**Project Priority:**	High
		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)*:[1]

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

(i) the approach to ability to opt up to an accounting policy permitted by Tier 1 or Tier 2;

(ii) the approach to the accounting policy hierarchy for transactions, balances and other events outside the scope of the Tier 3 Standard;

(iii) topics scoped out from the Tier 3 Standard;

(iv) inclusion of an abbreviated Conceptual Framework within the Tier 3 Standard; and

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

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) Feedback from NFP Project Advisory Panel (PAP) members (paragraph 8);

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

1 Discussion Paper – *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Sector Entities)* – Sep 2022.

(i) **Issue 1**: Ability for an entity preparing Tier 3-compliant financial statements to opt up to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards (paragraphs 9 – 17);

(ii) **Issue 2**: Applicability of the Tier 3 hierarchy approach for transactions and other events scoped out from the Tier 3 Standard (paragraphs 18 – 34)**;**

(iii) **Issue 3**: Topics, transactions and other events that should be scoped out from the Tier 3 Standard (paragraphs 35 – 72);

(iv) **Issue 4:** Whether the Tier 3 Standard should include an abbreviated Conceptual Framework (paragraphs 73 – 81); and

(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 Exposure Draft, should:

(a) not permit entities to apply an accounting policy within a higher tier requirement that is not included within the Tier 3 Standard except where there is no guidance for a transaction, other events or conditions;

(b) require the Tier 3 accounting hierarchy approach to apply for transactions not specifically addressed in the Tier 3 Standard and to require:

(i) entities to apply judgement in developing its accounting policy by reference to the following sources in descending order:

(A) the principles and requirements in Tier 3 Standard dealing with similar and related issues; and

(B) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Australian conceptual framework, to the extent they do not conflict with Tier 3 reporting requirements.

(ii) in making the judgement described in paragraph 3(b)(i), management may also consider the requirements and guidance in *Tier 2: Australian Accounting Standards – Simplified Disclosure*; and

(c) include guidance on business combinations and goodwill, other intangible assets, consolidation, investment in associates and joint ventures, and investment property;

(d) scope out:

(i) biological assets;

(ii) accounting by an operator in a service concession arrangement;

(iii) 'complex' financial instruments;

(iv) insurance contracts;

(v) expenditures incurred in connection with the exploration for and evaluation of mineral resources, and related transactions;

(vi) obligations arising under a defined benefit superannuation plan;

(vii) share-based payment arrangements; and

(viii) assets held for sale; and

(e) operate within the aegis of a single Conceptual Framework applicable by all NFP entities.

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 Exposure Draft on a Tier 3 Accounting Standard with simplified recognition, measurement and disclosure requirements for smaller NFP private sector entities.[2]

5 The Board considered the summarised feedback on the Discussion Paper and 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.[3]

6 The Board also decided on the approach to drafting the Tier 3 Exposure Draft, as presented in Appendix B in Agenda Paper 3.0 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 As such, in this paper, staff are bringing staff analysis of the feedback on the Discussion Paper 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.

(a) **Issue 1**: Whether an entity preparing Tier-3 compliant financial statements can opt up to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards.

(b) **Issue 2**: Whether the Tier 3 hierarchy approach should require entities to refer firstly to Tier 2 requirements for topics that are scoped out from the Tier 3 Standard

(c) **Issue 3**: Topics/transactions or other events that should be scoped out from the Tier 3 Standard

(d) **Issue 4**: Whether an abbreviated Conceptual Framework should be part of the Tier 3 Standard.

Further stakeholder feedback

8 Staff gathered feedback from the NFP Project Advisory Panel (PAP) held on 17 August 2023.[4] One PAP member also provided comments outside of the PAP meeting. PAP members:

(a) had mixed views on whether a Tier 3 entity should be permitted to opt up to Tier 1 or Tier 2 Australian Accounting Standards on a class of transaction basis. However, some PAP members considered the opt up may be a transition issue given that some Tier 3-sized NFP entities have adopted AASB 16 *Leases* and AASB 9 *Financial Instruments*. They considered transition provisions would be needed so those entities that have already applied some Tier 1/Tier 2 recognition and measurement requirements can continue to do so without disallowing them from applying the Tier 3 Standard in the future;

(b) had mixed views on whether an entity should be required to first refer to Tier 2 requirements when the Tier 3 Standard scopes out or does not specifically address a transaction, other event or condition. The PAP members that do not support this approach consider it would not align with developing a standalone standard and consider allowing entities flexibility to develop an accounting policy should be provided depending on the transaction. However, the PAP members that supported reference to Tier 2 requirements first, considered smaller entities

---

2 Refer the May 2023 AASB Board meeting minutes.

3 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 Discussion Paper. 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).

4 Refer to Agenda Paper 3.2 Not-for-Profit Project Advisory Panel minutes from 17 August 2023 for this meeting.

would lack the knowledge to develop an accounting policy based on Tier 3 requirements and it would be easier for these entities to apply existing guidance in Tier 2 requirements;

(c) agreed with the list of topics and transactions proposed in the Discussion Paper, and assets held for sale should be scoped out from the Tier 3 Standard, except for business combinations, goodwill and other intangible assets. They confirmed that there are Tier 3 entities that are parent entities that have not prepared consolidated financial statements, as shown by Research Report 19, because entities may be preparing special purpose financial statements; and

(d) almost all PAP members supported not including a simplified/abbreviated conceptual framework in the Tier 3 Standard as there is the potential to remove the existing knowledge and experience to determine accounting policies by possibly excluding practitioners from using the existing conceptual framework.

Matters to be addressed based on feedback on the Discussion Paper proposals

Issue 1: Whether an entity preparing Tier-3-compliant financial statements can opt up to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards

Background

9 During the development of the Discussion Paper, staff presented various options for whether an entity preparing Tier 3-compliant general purpose financial statements would be able to apply an accounting policy available in a higher tier, except where there is no guidance for a transaction (i.e. application of the hierarchy approach), other event or condition, that is not contained with the Tier 3 Standard. And, if entities were allowed to opt up, how would entities apply the accounting policy choice to apply higher tier requirements?[5]

10 At that time, the Board decided not to form a preliminary view in the Discussion Paper as to whether it should restrict the range of accounting policies available to an entity preparing Tier 3-compliant financial statements ,or develop requirements that would allow opt up in some or any circumstances.[6] The Board decided it would be informed by stakeholder feedback as to the usefulness of the resultant financial statements if 'opting up' on a class-by-class transaction basis were permitted, considering the range of its preliminary views on Tier 3 reporting requirements.[7]

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

> ***Question 10***
>
> ***In your opinion, should an entity preparing Tier-3 compliant financial statements have the ability to opt up to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards for:***
>
> ***(a) transactions, events and circumstances covered in the Tier 3 reporting requirements that are specifically permitted by the Board only; or***
>
> ***(b) all transactions, events and circumstances, regardless of whether they are covered in the tier 3 reporting requirements.***
>
> ***Do you agree? Why or why not? Please explain your answer***

5 Refer to Agenda Paper 12.1 – Tier 3: Application of accounting policies for scoped-out topics and application of higher tier requirements.

6 Refer to September 2021 AASB Board meeting minutes.

7 Paragraphs 4.10 – 4.14 outlines the Board's approach on the ability to opt up to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards.

Summary of feedback on the Discussion Paper and PAP members

12 As presented in Agenda Paper 3.1.1 at the May 2023 Board meeting,[8] there were mixed views from stakeholders on the possible options proposed in the Discussion Paper on whether entities should have the ability to opt up to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards, including:

(a) Option 1: Permit entities to apply an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards for all transactions, events and circumstances, regardless of whether they are covered in the Tier 3 Standard (i.e. "Free choice approach");

(b) Option 2: Permit entities to apply an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards for some transactions, events and circumstances covered in the Tier 3 Standard that are specifically permitted by the Board. Topics would include AASB 16 *Leases* and AASB 9 *Financial Instruments*, borrowing costs. (i.e. "Topics permitted by the Board only approach"). Ability to opt up for the specified topics would be included through cross-references to the Tier 1 and tier 2 Australian Accounting Standards; and

(c) Option 3: Prohibit entities from applying an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards for all transactions, events and circumstances that are not within the Tier 3 Standard (i.e. "Opt-up not permitted approach").

13 Feedback from stakeholders indicated that the topics that may be appropriate to apply a higher tier requirement would be:

(a) AASB 16 *Leases* – some stakeholders suggested that AASB 16 should be available to smaller NFP entities because some have already transitioned to AASB 16;

(b) AASB 9 *Financial Instruments* – a stakeholder considered entities should be allowed to apply AASB 9 for all financial instruments because some entities may wish to apply the requirements in AASB 9, such as to allow the accounting policy choice for hedge accounting or allowing transaction costs to be amortised over the life of the financial asset rather than applying the Tier 3 simplified accounting to expense all transaction costs; and

(c) borrowing costs – a stakeholder suggested allowing capitalisation of borrowing costs because some smaller entities with borrowing costs meet the criteria to be capitalised. The stakeholders also noted that the Board decided to allow an accounting policy choice to measure volunteer services as cost or at fair value. Hence, a similar choice should be provided for borrowing costs.

14 As noted in Agenda Paper 3.2 for this meeting, there were mixed views from PAP members on the opt up approach.

(a) A few members supported allowing opt up as a free choice because allowing accounting policy choices would be easier and provides flexibility for NFP entities. They disagree that accounting policy choice adds complexity to the requirements and comparability is not a priority if accounting policy choices provide simplicity to smaller NFP entities.

(b) Many members do not support a free choice to opting up because the objective is to develop a standalone standard that fits the reporting needs of a particular size and type of entities. Allowing accounting policy choice would cause inconsistencies and create a lack of comparability, and may lead back to issues similar to special purpose financial statements regime.

(c) A few members (including a few members that supported allowing a free choice), considered the opt up may be a transition issue. They noted that there are some NFP entities that have

8 Refer to Appendix A for an extract of the detailed summary of feedback on the Tier 3 Discussion Paper and next steps on Question 10 of the Discussion Paper.

already adopted some Tier 1/Tier 2 recognition and measurement requirements. For example, as noted by one PAP member, based on the ACNC 2020 AFR reviews, 11% of special purpose financial statement Tier 3-sized preparers have included an AASB 16 application disclosure note and 5% included an AASB 9 application disclosure note. Therefore, some transition provisions should be provided on initial application to allow entities that have already applied higher tier requirements, and they would not expect many smaller NFP entities would adopt higher tier requirements in the future.

Staff analysis and recommendation

15 Considering the approach to simplification applied by the Board in Appendix A of Agenda Paper 3.0 for this meeting, staff incorporated the stakeholder feedback regarding the topics where opt-up option would be relevant summarised in paragraphs 12 – 14 and in Table 1 below, including the staff analysis of the three options proposed in the Discussion Paper on whether an entity should be permitted to opt up to higher tier requirements except where there is no guidance for a transaction, other event or condition (in which case the entity would refer to the accounting policy hierarchy). Staff also note that arguments supporting Option 1 – Free choice approach to opting up would be arguments against Option 3 – Opt up not permitted approach.

Table 1 Arguments for and against possible options for the Tier 3 approach to opt up to higher tier requirements

Option 1 – Free choice approach (NZ Tier 3 Standard approach)	**Option 2 – Topics permitted by the Board-only approach**	**Option 3 – Opt up not permitted approach (IFRS for SMEs ED approach)**
Arguments for this approach		
1) Many stakeholders (57%) considered flexibility would allow an entity to apply an accounting policy that an entity considers providing appropriate information to users, and reflects the nature and complexity of transactions with appropriate disclosures. 2) Allows entities to apply accounting policies to meet the needs, if any, specified by regulatory bodies/grantors in Australia. 3) Consistency and comparability are less relevant among this cohort of NFP entities. 4) May enable easier transition to higher tier requirements, especially where entities may cross over a size threshold due to an unusual event (e.g. spike in revenue for one year), and support those charged with governance in pursuing a higher level of reporting and removing obstacles to prevent such action.	1) Some stakeholders (12%) consider some flexibility should be given to allow entities to apply higher tier requirements for specified topics (paragraph 13 above) 2) Strikes the middle ground between providing a free choice and prohibiting accounting policies from being applied by a Tier 3 entity. 3) Allows the Tier 3 Standard to be standalone to the extent possible, unless specifically allowed to apply higher tier reporting requirements. 4) Some entities may have transitioned to apply AASB 16 and AASB 9 or currently apply Tier 2 requirements for borrowing cost. Allowing Tier 3 entities to opt up to these topics will ensure these entities can continue to apply their existing reporting requirements.	1) Many stakeholders (32%) considered that allowing opt up will reduce consistency and comparability, increasing complexity for NFP entities applying the Tier 3 Standard. Academic research shows that too many choices reduce the opportunity for comparisons between NFP entities. [9] 2) NFP entities, primarily smaller entities, lack the understanding to elect which accounting policy to choose – limiting choices would be easier. 3) Not permitting opt up will make the Standard a more stand-alone document and would be more

9 Gilchrist, D.J., West, A. and Zhang, Y., 2023. Barriers to the Usefulness of Non-profit Financial Statements: Perspectives From Key Internal Stakeholders. *Australian Accounting Review.*

Option 1 – Free choice approach (NZ Tier 3 Standard approach)	Option 2 – Topics permitted by the Board-only approach	Option 3 – Opt up not permitted approach (IFRS for SMEs ED approach)
5) May allow only the most commonly applied accounting policy to be included in the Tier 3 Standard and entities can opt up to any other accounting policies available in Tier 2 requirements. This may further shorten the length of the Tier 3 Standard.		understandable and easier to use. [10]
Arguments against this approach		
1) Additional guidance may be needed on how to apply requirements of a higher tier – introducing complexity to the application. 2) May make the Tier 3 Standard less standalone and more complex if preparers elect to apply reporting requirements in higher tiers. 3) There is a view that if an entity considers a Tier 3 requirement inappropriate, this suggests that the Tier 3 Standard may not be appropriate for the entity. They should consider applying a higher tier in its entirety. 4) If, for example, the Board would allow entities to opt up to higher requirements by way of cross-references, then it would be possible to make appropriate simplification of recognition and measurement principles and/or reduce disclosures based on the Tier 3 principles adopted by the Board. 5) Where entities may cross over a size threshold for reporting purposes, including which entities may apply Tier 3, could be a threshold-related matter which will	1) The majority of feedback from other stakeholders did not indicate the need for these topics to apply to higher tier requirements. 2) Some transition costs, as entities are not permitted to apply higher tier accounting requirements unless it is a topic specifically allowed by the Board or the entity applies higher tier requirements in its entirety. 3) While some entities may have transitioned to AASB 16, AASB 9 or borrowing cost requirements, staff think that, rather than allowing an entity to opt up to the topics identified by stakeholders, the Board could provide transition provisions to grandfather these entities to continue applying AASB 16/9 or Tier 2 borrowing requirements when transitioning to the Tier 3 Standard. 4) The IFRS for SMEs ED did not propose to align the lease accounting requirements to IFRS 16 due to cost-benefit considerations.[11] 5) Allowing entities to opt up to AASB 16 or AASB 9 does not align with keeping Tier 3 requirements simple. Feedback collected throughout the project suggested that smaller NFP entities consider AASB 9 and AASB 16 complex to understand. 6) Allowing entities to opt up to apply AASB 9 *Financial Instruments* may create a risk of not aligning with the Board's preliminary views of the Discussion Paper to, subject to further deliberations by the	1) Tier 3 will need to be as comprehensive and self-contained as possible to include applicable and appropriate accounting policies to be applied by smaller NFP entities. 2) Transition costs would be highest as entities are prohibited to apply an accounting policy option within a higher tier. 3) It may hinder comparability between Tier 3 entities and entities that apply Tier 1 and Tier 2 Australian Accounting Standards if entities are only allowed to apply an accounting policy option that is available in Tier 3 Standard. 4) Allowing opt up will increase the complexity of the Tier 3 Standard

10 As noted in BC82, the IASB initially considered allowing SMEs to apply IFRSs accounting policy options by cross-reference to IFRSs or developed its IFRS for SMESs as a completely stand-alone document. After considering feedback on its Exposure Draft, the IASB decided to develop the IFRS for SMEs Standard as a completely stand-alone document.

11 The IASB decided to prioritised timing to obtain more information on entities' experiences of applying IFRS 16 and to consider amending the Standard to align with IFRS 16 during a future review of the Standard. Refer to IFRS for SMEs ED page 29.

Option 1 – Free choice approach (NZ Tier 3 Standard approach)	Option 2 – Topics permitted by the Board-only approach	Option 3 – Opt up not permitted approach (IFRS for SMEs ED approach)
depend on the requirements of legislation/regulator.	Board,[12] not permit hedge accounting within the Tier 3 Standard. 7) Capitalising borrowing cost is not an accounting policy choice, unlike volunteer services. In addition, volunteer services are common among NFP entities, unlike borrowing costs. Therefore, it would be justifiable to continue to provide Tier 3 entities the choice to measure volunteer services at cost or at fair value.	

Staff recommendation

16 Staff recommend Option 3 based on the arguments presented in Table 1 and after considering the assessment against the Tier 3 development principles in Appendix B of Agenda Paper 3.0 for this meeting. Staff consider Option 3 will:

(a) simplify the judgement required by Tier 3 preparers by limiting the accounting policies to only those specified in the Tier 3 Standard and leverage the information management uses to make decisions about the entity's operations;

(b) ensure consistency between Tier 3-compliant general purpose financial statements to provide useful financial information to users of the financial statements; and

(c) maintain the objective of keeping the Tier 3 requirements simple and not impose disproportionate costs to preparers, when compared to the benefits of that information.

And as noted by PAP members, developing transition provisions may address stakeholder concerns noted in paragraphs 13 and 14 to allow these entities to continue to apply higher tier requirements and not prevent these entities from adopting the Tier 3 Standard.

17 Staff also noted some stakeholders commented that there may be too many accounting policy options provided in the Tier 3 requirements which may increase judgement and adds complexity for smaller NFP entities. However, staff consider the Board provided accounting policy choices:

(a) as a form of simplification within the principles of developing the Tier 3 requirements (e.g. consolidation); or

(b) to align Tier 2 requirements where the same accounting policies options are provided to higher tier requirements.

Staff note that the Board will consider the topics providing accounting policy choices in accordance with the project timeline presented in Agenda Paper 3.1 at the August 2023 Board meeting.[13]

Question 1: Do Board members agree with the staff recommendation in paragraph 16, for the purpose of drafting the Tier 3 Exposure Draft, to proceed with Option 3. That is, not permit entities

12 Feedback received from the Discussion Paper suggested that there may be a few Tier 3-sized NFP entities that apply hedge accounting.

13 As per Agenda item 3.1.1 of the May 2023 Board meeting, topics where stakeholders indicated that there may be too many accounting policy options included: consolidated financial statements, recognition and measurement of subsidiaries in separate financial statements, accounting for investments in associates and joint ventures, and initial measurement of non-financial assets at significantly less than fair value.

to apply an accounting policy within a higher tier requirement that is not included within the Tier 3 Standard except where there is no guidance for a transaction, other event or condition?

If not, what does the Board suggest?

Issue 2: Whether the Tier 3 hierarchy approach should require entities to refer firstly to Tier 2 requirements for topics that are scoped out from the Tier 3 Standard

Background

18 The Discussion Paper outlined that transactions and other events that are 'scoped in' need not be specifically 'mentioned' in the Tier 3 Standard to be considered an included topic. In such scenarios, entities would be able to consider how to account for the transaction in the context of applying the related Tier 3 requirements. For example, cryptocurrency holdings and employee termination benefits need not be highlighted for these items to be treated consistently to other similar transactions (if accounting for intangible assets and employee benefits was included in the Tier 3 Standard).[14]

19 However, for transactions and other events that are explicitly or implicitly scoped out from Tier 3 requirements, the entity would need to develop an appropriate accounting policy for those transactions and other events falling outside the scope of the Tier 3 reporting requirements.[15]

20 As outlined in paragraph 4.23 in the Discussion Paper, the Board formed a preliminary view that entities preparing Tier 3 general purpose financial statements should:

(a) first, apply the classification, recognition and measurement and disclosure requirements specified by Tier 2: Australian Accounting Standards – Simplified Disclosures for transactions outside the scope of the Tier 3 Standard; and

(b) otherwise, apply judgement in developing its accounting policy by reference to the following sources in descending order:

(i) The principles and requirements in Tier 3 reporting requirements dealing with similar and related issues; and

(ii) The definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Australian conceptual framework, to the extent they do not conflict with Tier 3 reporting requirements.

21 Figure 4.1 in the Discussion Paper provides a diagram indicating that the hierarchy approach applies to transactions, other events or conditions that are scoped out from Tier 3 Standard only. Where the Tier 3 Standard is 'silent' on a transaction, other event or condition, an entity applies Tier 3-specific related requirements to account for the transaction or considers how to account for the transaction in the context of applying the related Tier 3 requirements.

22 To gather feedback on the Board's proposal, the Discussion Paper included the following question:

Question 12

Paragraphs 4.23 to 4.25 discuss the Board's preliminary view on the hierarchy to develop accounting policies for entities preparing Tier 3 general purpose financial statements for transactions and other events outside the scope of Tier 3 requirements.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any alternative accounting policies hierarchy for these transactions and events?

14 Refer to paragraph 4.17 of the Discussion Paper.

15 Refer to paragraph 4.21 of the Discussion Paper.

Summary of feedback on the Discussion Paper and PAP members

23 As presented in Agenda Paper 3.1.1 at the May 2023 Board meeting, almost all stakeholders (94%) agree with the proposed hierarchy approach and stakeholders consider most entities would default to the requirements in Tier 1 and Tier 2 that they are familiar with. Stakeholders also consider it will simplify the auditing/reviewing of information that is based on a supportable framework.[16]

24 However, a few stakeholders disagree with the hierarchy approach, including 50% of stakeholders who provided a written response. Those that disagree consider:

(a) a Tier 3 standalone standard should not require an entity to refer to Tier 2 requirements. Instead, an entity should consider the Tier 3 principles dealing with similar or related requirements to keep with developing simpler requirements; or

(b) an entity should be allowed to select the method they consider that most suits their needs rather than follow the Tier 3 hierarchy approach.

Staff also consider the decision on accounting policy hierarchy approach would relate to Issue 3 in this paper because, for the topics to be scoped out from the Tier 3 Standard, the Discussion Paper proposals would require entities to apply the hierarchy approach.

25 In operationalising the hierarchy approach, a stakeholder commented that, rather than scoping out biological assets or the accounting by an operator in a service concession arrangement, the Tier 3 Standard should be silent on these transactions or other events. In that scenario, the stakeholder consider entities would be able to refer to a similar or related Tier 3 requirement instead of referring firstly to the Tier 2 requirements based on the proposed hierarchy approach.

26 As noted in Agenda Paper 3.2 for this meeting, PAP members were unclear whether the hierarchy approach should only apply to transactions, other events or conditions that are scoped out from the Tier 3 Standard (the scope of these transactions is discussed in Issue 3 below), or for transactions where the Tier 3 is 'silent' or does not provide guidance, or both. There were mixed views from PAP members on the proposed hierarchy approach.

(a) A few members consider smaller NFP entities would lack the knowledge to develop an accounting policy to account for transactions, other events and conditions that are scoped out or not specifically addressed in the Tier 3 Standard as it would be easier for these entities to apply Tier 2 requirements where guidance already exists for those topics or transactions.

(b) A few members had different views on the starting point for developing an accounting policy where the Tier 3 Standard does not specifically address a transaction, other event or conditions rather than forcing entities to apply Tier 2 requirements first, including:

(i) a standalone standard should allow entities to first apply the Tier 3 requirements as an analogy when developing an accounting policy to account for transactions that is not covered in the Tier 3 Standard;

(ii) entities should be allowed to refer to the Conceptual Framework; or

(iii) flexibility should be provided for entities to choose which requirements would suit that particular transaction.

Staff analysis and recommendation

27 Based on the feedback on the Discussion Paper, and the feedback from panel members, staff identified two matters that need to be clarified regarding the proposed accounting policy hierarchy approach:

---

16 Refer to Appendix A for an extract of the detailed summary of feedback on the Tier 3 Discussion Paper and next steps on Question 12 of the Discussion Paper.

(a) **Matter 1: The scope of the hierarchy approach -** that is, whether the hierarchy approach would:

(i) **Option 1:** Only be applicable to transactions, other event or condition scoped out from Tier 3 Standards (i.e. the topics discussed in Issue 3); or

(ii) **Option 2:** Only be applicable to transactions, other events or conditions where the Tier 3 is does not specifically address a transaction, event or condition (e.g. where Tier 3 will not include guidance but the topic is not scoped out such as reversal of impairment losses); or

(iii) **Option 3:** Apply to transactions, other events or conditions scoped out and where the Tier 3 Standard does not specifically addresss a transaction, event or condition; and

(b) **Matter 2: Application of the hierarchy approach** - that is, whether entities should refer firstly to Tier 2 requirements or allow entities to develop an accounting policy based on a similar or related Tier 3 requirements.

Matter 1: **The scope of the hierarchy approach**

28 Staff have identified three possible options on the scope of the hierarchy approach and these are presented in Table 2 below.

Table 2 Options for scope of hierarchy approach

Option 1 – Only apply to transactions other event or conditions scoped out from Tier 3 Standards	**Option 2 – Only apply to transactions, other events or conditions where the Tier 3 Standard does not specially address a transaction, event or condition**	**Option 3 – Apply to transactions, other events or conditions scoped out or where the Tier 3 Standard does not specifically address a transaction, event or condition**
Arguments for this approach		
1) Provides direction for topics scoped out and consistent with the Boad's proposal in the DP	1) Provides direction to entities on how to deal with transactions where Tier 3 does not provide guidance and not scoped out from the Standard. 2) Consistent with the New Zealand Tier 3 Standard hierarchy approach which applies where the Standard does not provide guidance on a specific type of transaction or event.	1) No ambiguity when the hierarchy approach would apply
Arguments against this approach		
1) Will not provide direction for transactions where Tier 3 is silent or does not provide guidance 2) If the Board intended for the hierarchy approach to only apply for topics that are scoped out	1) Direction needs to be provided for transactions scoped out. However, similar to Option 1, a cross-reference directing to the relevant Australian Accounting Standard would be sufficient. 2) Appears to be inconsistent with the Board's proposal in the Discussion Paper	1) Forces the same requirements to apply for both scoped out topics and where Tier 3 does not provide guidance which may be complex or costly to some entities. For example, if an entity has a lease-like transaction, and if the hierarchy approach requires entities to refer to Tier 2 first, then

Option 1 – Only apply to transactions other event or conditions scoped out from Tier 3 Standards	Option 2 – Only apply to transactions, other events or conditions where the Tier 3 Standard does not specially address a transaction, event or condition	Option 3 – Apply to transactions, other events or conditions scoped out <u>or</u> where the Tier 3 Standard does not specifically address a transaction, event or condition
from the Tier 3 Standard, [17] cross-referencing to the relevant Australian Accounting Standard could be more effective than requiring entities to apply the hierarchy approach.	where the Tier 3 Standard is 'silent' or does not specifically address a transaction, other event or condition, then an entity applies Tier 3-specific related requirements to account for that transaction, other event or condition or considers how to account it in the context of applying the related Tier 3 requirements.	preparers must always refer to Tier 2 requirements to apply AASB 16. 2) Similar to Option 2, Option 3 appears to be inconsistent with figure 4.1 in the Discussion Paper which provides a diagram indicating how the hierarchy approach applies to transactions, other events or conditions that are scoped out only.

Staff recommendation

29 Staff recommend Option 2, that is, the hierarchy approach should only apply to transactions, other event or conditions where the Tier 3 Standard does not specifically address a transaction, other event or condition based on the arguments presented in Table 2 above. Staff think this approach provides the most simplification because:

(a) it allows entities to develop an accounting policy based on a similar or related Tier 3 requirement, and allowing entities to refer to, rather than mandating, the Tier 2 requirements; and

(b) it directs entities to the relevant Australian Accounting Standards for topics scoped out (discussed in Issue 3), rather than requiring entities to apply the hierarchy approach.

Question 2a: Do Board members agree with the staff recommendation in paragraph 29, for the purpose of drafting the Tier 3 Exposure Draft, that the Tier 3 accounting policy hierarchy approach should only apply to transactions, other events or conditions where the Tier 3 Standard does not specifically address?

If not, what does the Board suggest?

17 As detailed in paragraph 4.22 and 4.23 of the Discussion paper, in forming its preliminary view, the Board contemplated requiring an entity to first consider the accounting specified by Tier 3 requirements dealing with similar and related issues. Doing so would be more consistent with a notion of Tier 3 as an independent, separate reporting tier. However, the Board decided that requiring an entity to first apply the accounting specified by an existing topic-based Australian Accounting Standard better facilitates comparability between entities as it provides more direction and requires less judgement of preparers. Consequently, the Board formed a view that the proposed hierarchy provides the best framework for developing accounting policies for matters not addressed as part of its proposed Tier 3 Accounting Standard. The costs of developing an accounting policy under the Board's preliminary view may be comparatively higher as it requires consideration of other Accounting Standards and adopting accounting policies that may be comparatively more challenging to apply. However, the Board observed that these costs should be limited, as the Board would not expect entities preparing Tier 3 general purpose financial statements to ordinarily need to consider the accounting policy hierarchy.

Matter 2: Application of the hierarchy approach

30 At the time when developing the proposal for Discussion paper on the hierarchy approach in Agenda Paper 12.1 presented at the September 2021 Board meeting, the Board was considering the hierarchy approach only applicable to topics scoped out from the Tier 3 Standard. Subject to the board decisions on Matter 1 above, if the Board agrees with staff recommendation that the hierarchy approach should only apply where the Tier 3 Standard is silent or does not specifically address a transaction, other event or condition, then staff consider there are two possible options on the application of the hierarchy approach, that is:

(a) **Option 1**: developing an accounting policy by first referring to the Tier 3 principles and requirements dealing with a similar or related issue rather than applying the Tier 2 requirements first, that is:

"Entities preparing Tier 3 general purpose financial statements should, for transactions not specifically addressed in the Tier 3 Standard:

(A) apply judgement in developing its accounting policy by reference to the following sources in descending order:

(i) The principles and requirements in Tier 3 reporting requirements dealing with similar and related issues; and

(ii) The definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Australian conceptual framework, to the extent they do not conflict with Tier 3 reporting requirements.

In making the judgement described in paragraph (A), management may also consider the requirements and guidance in Tier 2: Australian Accounting Standards – Simplified Disclosures."

Support for Option 1:

(i) This approach would not impact the Board's intention to direct, for topics that are scoped out from the Tier 3 Standard, to apply Tier 2 requirements if there are cross-references to the respective Tier 2 Australian Accounting Standards (i.e. the Standard 'specifically addresses' the requirements). In addition, this option would:

(A) address concerns of those stakeholders, including some panel members, that consider an entity should refer to similar or related Tier 3 requirements where the Tier 3 Standard does not address a transaction, other event, or condition;

(B) simplify the recognition and measurement criteria by not requiring management to collect additional information or apply the Tier 2 requirements in the first instance where guidance is not included in the Tier 3 Standard;

(C) align with some of the proposals where the Discussion Paper specifies an entity could apply Tier 3 as an analogy for transactions such as termination benefits or reversal of impairment losses where the Board decided not to develop specific Tier 3 requirements;

(D) result in the Tier 3 Standard being more self-contained without the need for entities to look to higher tier requirements; and

(E) be consistent with the hierarchy approach for IFRS for SMEs and New Zealand Tier 3 Standard which both require entities to first refer to the requirements of that standard first dealing with a similar and related issue which is different to the proposed Tier 3 hierarchy approach.[18]

Arguments against Option 1:

(ii) It may increase cost for the size of the entities in scope as they may not have the necessary resources or knowledge to apply judgement required to develop an appropriate accounting policy. Feedback from stakeholders who supported the proposed hierarchy approach also indicated that preparers would generally default to the Tier 1 and Tier 2 requirements that they are familiar with. Staff also think that entities would not ordinarily need to consider the hierarchy approach if the Tier 3 Standard is developed to include accounting requirements dealing with common transactions of smaller NFP entities.

(b) **Option 2**: continue to apply the proposed hierarchy approach to first require entities to refer to Tier 2 requirements will continue to apply.

(i) Arguments for and against Option 2 were summarised in the Discussion Paper paragraphs 4.22 and 4.23, notably this Option facilitates comparability and, whilst cost of developing the accounting policy may be higher than under Option 1, it is not expected that Tier 3 entities would need to commonly refer the hierarchy approach. Option 2 directs entities to existing guidance within Tier 2 rather than increasing judgement compared to Option 1. However, Option 2 will make the Standard less standalone and increase complexity given entities will need to understand the Tier 2 requirements as well as the requirements in the Tier 3 Standard.

31 Staff consider the application of accounting policy hierarchy approach also depends on the Board's consideration of Issue 3 regarding which transactions or topics should be outside the scope of the Tier 3 Standard. If the Board considers that it may be too difficult for entities to apply the Tier 2 requirements for the topics that are scoped out of the Tier 3 Standard, discussed in Issue 3 below, then it may be more appropriate for entities to refer to the Tier 3 requirements dealing with a similar transaction first rather than refer to the Tier 2 requirements as per paragraph 30 above.

32 Staff also noted an alternative approach proposed by two PAP members is to allow entities the flexibility about which starting point to use when developing an accounting policy that the entity considers suitable for that particular transaction. However, in staff's view, such approach may further reduce comparability and increase preparers' judgement and cost.

Staff recommendation

33 Staff recommend Option 1 based on the arguments outlined in paragraph 30(a)(i) and after considering the assessment against the Tier 3 development principles in Appendix B of Agenda Paper 3.0 for this meeting. Staff consider Option 1 aligns with the Discussion Paper proposals as entities can still refer to Tier 2 requirement while also addresses most stakeholders' concerns.

---

18 Paragraph 8 of the New Zealand Tier 3 Standard requires an entity to refer to, and consider the applicability firstly to the New Zealand Tier 3 Standard dealing with similar or related transactions or events, then the relevant requirements in Tier 2 PBE Standards and finally the definitions and concepts in the PBE Conceptual Framework. Paragraphs 10.5 to 10.6 of the IFRS for SMEs Standard require SMEs to first refer to the requirements of the IFRS for SMEs Standard dealing with similar and related issues, then the principles in the IFRS for SMEs Conceptual Framework. Management may also consider the requirements and guidance in full IFRS Accounting Standards when making the judgement about the applicable accounting policy.

Question 2b: Do Board members agree with the staff recommendation in paragraph 33, for the purpose of drafting the Tier 3 Exposure Draft, that the Tier 3 accounting policy hierarchy approach should be as follows:

An entity preparing Tier 3 general purpose financial statements should, for transactions not specifically addressed in the Tier 3 Standard:

(a) apply judgement in developing its accounting policy by reference to the following sources in descending order:

(i) the principles and requirements in Tier 3 reporting requirements dealing with similar and related issues; and

(ii) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Australian conceptual framework, to the extent they do not conflict with Tier 3 reporting requirements.

(b) In making the judgement described in paragraph (a), management may also consider the requirements and guidance in Tier 2: Australian Accounting Standards – Simplified Disclosure?

If not, what does the Board suggest?

34 Only if the Board disagree with staff's recommended Option 2 for Matter 1, and prefer Option 1 or 3, then to address the feedback on the accounting policy hierarchy approach presented in the Discussion Paper staff recommend the following.

(a) For Option 1 addressing Matter 1 – clarifying that the hierarchy approach proposed in the Discussion Paper only applies for topics specifically scoped out (discussed in Issue 3). This means the hierarchy approach will require, for transactions that are scoped out, applying the Tier 2 requirements first. There will be no guidance when the Tier 3 Standard is silent on a transaction.

(b) For Option 3 addressing Matter 1 - clarifying the wording of the hierarchy approach by amending the first sentence of the hierarchy approach to apply for transactions 'scoped out' and 'not specifically addressed' in the Tier 3 Standard. This means the hierarchy approach will require transactions that are specifically scoped out and, when the Tier 3 Standard is silent on a transaction, to apply Tier 2 requirements first. For example, if biological assets were specifically scoped out and no guidance will be developed on reversal of impairment losses, both transactions will need to first refer to Tier 2 requirements.

Issue 3: Topics/transactions or other events that should be scoped out from the Tier 3 Standard

Background

35 As detailed in the Discussion Paper, a standalone accounting standard containing Tier 3 reporting requirements cannot be expected to address the whole breadth of transactions, other events and conditions contemplated in Tier 1: Australian Accounting Standards. This view is consistent with the Board's decision to develop a proportionate and simple Tier 3 Standard to contain accounting requirements that would address the common transactions of smaller NFP private sector entities.

36 The Discussion Paper (in paragraph 4.22) proposed a list of items that the Board might scope out of a Tier 3 Standard including:

(a) biological assets, and agricultural produce at the point of harvest;

(b) issued insurance contracts, held reinsurance contracts, and investment contracts with discretionary participation features;

(c) expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource is demonstrable;

(d) business combinations;

(e) obligations arising under a defined benefit superannuation plan;

(f) share-based payment arrangements;

(g) the accounting by an operator in a service concession arrangement; and

(h) financial assets and financial liabilities other than those identified as basic financial instruments in the Discussion Paper.

37 The Board also did not form a view on whether to develop Tier 3 accounting requirements for intangible assets as it does not appear to be a common financial line item in the financial statements of smaller NFP entities. The Board noted it was unclear whether the absence of intangible assets from balance sheets is because recognisable internally generated or externally acquired intangible assets are not presently being identified or whether the entities hold no intangible assets.

38 To gather feedback on the Board's proposals, the Discussion Paper included the following questions:

Question 11

Paragraphs 4.17 to 4.22 discuss the Board's preliminary view on the transactions and other events and conditions that may not be covered in Tier 3 Standard.

Do you agree? Why or why not? If you disagree, which of the balances, transactions and events do you think should be included in the Tier 3 Standard?

Question 40

Paragraphs 5.167 to 5.170 discuss that the Board has not yet formed a view to develop requirements for accounting of intangible assets in a Tier 3 Standard. The Board is seeking to understand the extent of use of intangible assets by smaller not-for-profit private sector entity including the typical forms of any intangible assets held. This will help inform the Board how it should address intangible assets in a future Tier 3 Standard.

Are you aware of any intangible assets and their type, either internally generally or externally acquired, commonly held and recognised by smaller not-for-profit private sector entities?

Summary of feedback on the Discussion Paper and PAP members

39 As presented in Agenda Paper 3.1.1 at the May 2023 Board meeting, most stakeholders (76%) agree with the proposed items in paragraph 36 above to be excluded from the Tier 3 Standard. However, some stakeholders disagree with excluding business combinations and consider it would not be uncommon for NFP entities, including smaller entities, to merge or acquire other entities or holders of intangible assets.[19]

40 In relation to intangible assets, there were mixed views on whether smaller NFP entities have commonly held intangible assets. Many stakeholders considered the commonly held intangible assets by smaller NFP entities to include software and related development costs, followed by goodwill and trademarks. However, many stakeholders also considered smaller NFP entities held no intangible assets, and this is not a significant issue for most NFP organisations.

41 A few stakeholders also indicated other topics, whilst uncommon to smaller NFP entities, should be included to enable the Tier 3 Standard to be as comprehensive and standalone as possible, including:

---

19 Refer to Appendix A for an extract of the detailed summary of feedback on the Tier 3 Discussion Paper and next steps on questions 11 and 40 of the Discussion Paper.

(a) biological and agricultural assets and service concession arrangements should not be scoped out. These stakeholders consider some NFP entities may have community gardens or cultivate plants or rear animals for communal purposes and may benefit from some guidance. Scoping out the accounting by an operator of service concession arrangements from the Tier 3 Standard would force preparers to apply full Australian Accounting Standards under *Interpretation 12 Service Concession Arrangements*, including requirements for financial assets, intangible assets and revenue. As such, these stakeholders consider biological assets and agricultural assets should not be specifically scoped out from the Tier 3 Standard and the hierarchy approach should be changed to first require entities to refer to a similar or related requirements in the Tier 3 Standard rather than requiring an entity to refer to the Tier 2 requirements first; and

(b) entities should not be required to apply AASB 9 *Financial Instruments* for complex financial instruments as they indicated that it would be complex for smaller NFP entities to apply the standard, and it does not align with developing a standalone simplified standard. One stakeholder also indicated inconsistencies regarding not permitting Tier 3 entities to apply hedge accounting when applying the Tier 3 Standard and requiring complex financial instruments to apply AASB 9 which allows hedge accounting.

42 For other topics proposed to be scoped out from the Tier 3 Standard including insurance contacts, defined benefit superannuation plans, share-based payment arrangements and transactions relating to mineral resources, those stakeholders who disagreed did not comment why.

43 The Board has also preliminarily decided to include some topics in the Tier 3 Standard that, in light of the findings from Research Report 19, did not indicate that it is a common transaction for smaller NFP private sector entities. These topics include:

(a) consolidation;

(b) investment in associates and joint ventures;

(c) assets held for sale; and

(d) investment property.

44 The Discussion Paper did not seek views on whether the above topics should be included in the Tier 3 Standard. However, staff consider it may be necessary to seek direction from the Board on whether the above topics should be included in the Tier 3 Standards given the findings from Research Report 19 in consideration of the objective of the project to develop Tier 3 requirements that would address the common transactions of smaller NFP private sector entities.

45 As noted in Agenda Paper 3.2 for this meeting, PAP members:

(a) agreed for all topics proposed in the Discussion Paper, and assets held for sale, to be scoped out from the Tier 3 Standard except for business combinations and goodwill, and intangible assets other than goodwill. However, some members considered business combinations generally occur for larger entities that would be the acquirer of smaller NPF entities. Some members also noted an emerging trend for NFP entities to hold intangible assets and therefore some simplified requirements should be developed to address these topics. Another member noted that business acquisitions and mergers are not uncommon within the sector and confirmed that more than 1200 charities applied for voluntary revocation citing mergers as their reason;[20]

(b) noted that there are parent entities currently preparing special purpose financial statements, hence it may not appear that many entities prepare consolidated financial statements. A few members considered parent entities have controlled subsidiaries but associates and joint

20 Refer to ACNC submission on the Discussion Paper.

ventures are not common. While a few members consider it would generally be larger entities that would be a parent entity, most members agree that consolidation should be a topic addressed in the Tier 3 Standard. Another member noted that the ACNC 2021 AFR review found 6% of financial reports reviewed were consolidated financial statements; and

(c) one member noted a different view is to consider what topics, transactions, other events or conditions would be so complex or deserve the recognition and measurement requirements warranted under Tier 1/Tier 2 requirements. And if there is no risk for entities to develop an accounting policy based on Tier 3 requirements for certain topics or transactions, then there is no concern to scope out those topics/transactions regardless how common or not those transactions are.

Staff analysis and recommendation

46 As presented in Agenda Paper 3.1 at the August 2023 Board meeting, staff consider there are three broad categories of topics that staff are seeking direction from the Board whether they should be scoped out from the Tier 3 Standards. The staff analysis and recommendations for the categories include:

(a) topics that may be common based on feedback from stakeholders, including business combinations and intangible assets (paragraphs 48 – 52);

(b) topics that may not be common, but stakeholders considered the topics should not be scoped out from the Tier 3 Standard, including biological assets, service concession arrangements and complex financial instruments (paragraphs 53 – 61); and

(c) topics preliminary agreed by the Board to be included in Tier 3 Standard but Research Report 19 does not include as a common transaction including consolidation, investment in associates and joint ventures, assets held for sale and investment property (paragraphs 62 – 71).

47 The Board's decision on Issue 3 would be a related consideration for Issue 2 – the Tier 3 accounting policy hierarchy on the scope to which the hierarchy approach may apply, which is considered in paragraph 18 above.

Topics that may be common based on feedback from stakeholders – business combinations and intangible assets

48 Research Report 19 did not identify business combinations as a common financial line item for charities' financial statements. However, goodwill was found to be a type of intangible asset held by some charities. As such, staff infer that some NFP entities are acquiring other NFP entities and previous stakeholder feedback indicated that NFP entities, including smaller entities, may acquire or merge with other NFP entities. Of those stakeholders that disagree (24%) with the proposed listed of topics to be scoped out from the Tier 3 Standard, business combinations was the highest selected topic suggested not to be scoped out, including eight out of fourteen written submissions disagreeing with scoping out business combinations. Additionally, responses to the question what intangible assets are mostly commonly held by smaller NFP entities, goodwill was the second most suggested intangible asset to be held by NFP entities. Other stakeholder feedback also identified that the Tier 2 requirements for business combinations to require NFP acquirers to do purchase price allocation at fair value would be difficult.

49 Similarly, based on Research Report 19, less than 5% of the sampled charities were identified to have other intangible assets. However, some charities may have aggregated other intangible assets into other assets category rather than separately identifying them in the financial statements. Stakeholders have also commented that NFP entities are likely to hold more intangible assets in the future.

50 Including business combinations and goodwill and other intangible assets into the Tier 3 Standard would address the stakeholder feedback to future-proof the Tier 3 Standard and ensure the Tier 3 Standard remains constant and subject to less review or the need for changes in the future.

51 As noted in paragraph 45, feedback from PAP members consider business combinations and goodwill are common for NFP entities, albeit some members consider it more common for larger NFP entities. Therefore, if business combinations and goodwill or other intangible assets were not scoped out from the Tier 3 Standard, then the Board will need to consider the accounting of these topics within the Tier 3 Standard at a future meeting, to develop:

(a) simplified Tier 3 accounting requirements; or

(b) align with Tier 2 requirements except for simplifying the language.

Additionally, including guidance for business combinations and goodwill, and other intangible assets would also lengthen the Tier 3 Standard where the requirements may not currently be applicable to most of smaller NFP entities.

52 On balance, staff recommend that business combinations, goodwill and other intangible assets should be included as part of the Tier 3 Standard for reasons outlined in paragraphs 48 – 51 and staff think that the stakeholder feedback on the Discussion Paper provides sufficient support to include these topics in the Tier 3 Standard. If the Board agrees with the staff recommendation, staff will bring back further consideration on whether and what simplifications could be developed for Tier 3 requirements for business combinations, goodwill and other intangible assets at a future meeting.

Question 3a: Do Board members agree with the staff recommendation in paragraph 52, for the purpose of drafting the Tier 3 Exposure Draft, to include guidance on business combinations and goodwill, and other intangible assets in the Tier 3 Standard?

If not, what does the Board suggest?

Topics that may not be common, but stakeholders considered the topics should not be scoped out from the Tier 3 Standard – biological assets, service concession arrangements and complex financial instruments

53 Research Report 19 did not identify any financial line items indicating that biological assets or operator of a service concession arrangement as being common for charities. Unlike business combinations or intangible assets where, while uncommon, the research did identify some entities that reported goodwill and other intangible assets, no charities were found to disclose any biological assets or as an operator of a service concession arrangement.

54 In relation to complex financial instruments, Research Report 19 did not make conclusions about whether financial instruments were uncommon among sampled charities because, anecdotally, these transactions are not likely to occur in every reporting period for most charities. Based on the observations of the balance sheet items, the research identified cash and cash equivalents, trade and other receivables, and payables as the most common financial instruments items. Less common financial instruments include term deposits, equity investments, investments in managed funds and borrowings.

55 However, as noted by a few stakeholders, omitting biological assets or service concession arrangements from the Tier 3 requirements means entities must apply the proposed hierarchy approach to refer to Tier 1 and Tier 2 reporting requirements to account for these transactions. Additionally, these stakeholders consider that applying Tier 1 and Tier 2 requirements would be complex for smaller NFP private sector entities, therefore suggested the Board develop simplified requirements within the Tier 3 Standard, including allowing entities to be able to apply the Tier 3 requirements developed for basic financial instruments for all financial instruments.

56 As noted in paragraph 45, feedback from PAP members supported these transactions being scoped out from the Tier 3 Standard.

57 While staff noted the concerns from the few stakeholders in paragraph 55, however, the objective of developing the Tier 3 Standard is to develop proportionate and simple Tier 3 accounting requirements that would address the common transactions of smaller NFP private sector entities as noted in paragraph 35 above. As such, staff continue to think that biological assets or service concession arrangements are uncommon transactions given there is no evidence to indicate otherwise. Additionally, many stakeholders supported biological assets, service concession arrangements and complex financial instruments to continue to be scoped out from the Tier 3 Standard. Staff think that these are highly specialised and complex topics that would warrant the application of the more complex accounting specified by Tier 1 or Tier 2 Australian Accounting Standards.

58 Staff also noted a stakeholder concern that directing entities to apply AASB 9 for some financial instruments which may allow hedge accounting may affect the Board's proposal to prohibit hedge accounting in the Tier 3 Standard. However, the hedge accounting consideration at a later stage would not impact the Board's decision as the Board is only deciding whether to include the accounting requirements for complex financial instruments directly in the Tier 3 Standard. Staff will bring analysis and recommendations on possible options regarding the hedge accounting consideration at a future meeting, depending on the Board's decision to scope in or scope out complex financial instruments from the Tier 3 Standard.

59 As such, staff recommend that the Tier 3 Standard exclude biological assets, service concession arrangements and complex financial instruments (subject to further Board's consideration of what financial instruments would be considered complex financial instruments) from the Tier 3 Standard for reasons outlined in paragraph 57.

Question 3b: Do Board members agree with the staff recommendation in paragraph 59, for the purpose of drafting the Tier 3 Exposure Draft, to continue to scope out biological assets, service concession arrangements and complex financial instruments from the Tier 3 Standard?

If not, what does the Board suggest?

60 If the Board disagrees with the staff recommendation in Question 3b above and considers biological assets, service concession arrangements and complex financial instruments should not be scoped out from the Tier 3 Standard, then staff consider there are three options for how the Tier 3 requirements can be developed for these transactions/balances in Table 3 below.

Table 3 Arguments for and against possible options for including biological assets, service concession arrangements and complex financial instruments in the Tier 3 Standard

Option 1 – develop simplified Tier 3 accounting requirements for biological assets and service concession arrangements. Tier 3 accounting for basic financial instruments would apply for all financial instruments.	Option 2 – to require the existing Tier 2 reporting requirements for biological assets, service concession arrangements except for simplifying the language. Tier 3 accounting for basic financial instruments would either apply to all financial instruments, or existing Tier 2 requirements for financial instruments would be included as separate requirements for complex financial instruments except for simplifying the language.	Option 3: not scope out biological assets, service concession arrangements or complex financial instruments from the Tier 3 Standard. Entities apply the staff recommended proposed hierarchy approach in Issue 2 where entities develop an accounting policy based on a similar or related Tier 3 requirement. (NZ Tier 3 Standard)
Arguments for this approach		

Option 1 – develop simplified Tier 3 accounting requirements for biological assets and service concession arrangements. Tier 3 accounting for basic financial instruments would apply for all financial instruments.	Option 2 – to require the existing Tier 2 reporting requirements for biological assets, service concession arrangements except for simplifying the language. Tier 3 accounting for basic financial instruments would either apply to all financial instruments, or existing Tier 2 requirements for financial instruments would be included as separate requirements for complex financial instruments except for simplifying the language.	Option 3: not scope out biological assets, service concession arrangements or complex financial instruments from the Tier 3 Standard. Entities apply the staff recommended proposed hierarchy approach in Issue 2 where entities develop an accounting policy based on a similar or related Tier 3 requirement. (NZ Tier 3 Standard)
1) This option would not require entities to refer to higher reporting requirements and keeps Tier 3 as a standalone standard. 2) Simplifies the accounting for biological assets and service concession arrangements. 3) Ensures consistency amongst Tier 3 entities that are applying the same requirements. 4) Addresses the few stakeholders that provided feedback that some NFP entities may have community gardens, cultivating plants or rearing animals for communal purposes. 5) Future proofs the standard if biological assets and service concession arrangements become more common in the future.	1) Similar to Option 1, this option will not require entities to refer to higher reporting requirements and keeps Tier 3 as a standalone standard. 2) Allows consistency to a large extent with NFP entities applying Tier 1/Tier 2 requirements for these transactions. 3) May provide some simplification given the language may be simplified/tailored to NFP entities. 4) Less staff and Board effort required to develop simplified reporting requirements for these topics.	1) Responds to some stakeholder feedback for biological assets, service concession arrangements and complex financial instruments to be accounted for based on similar or related Tier 3 requirements rather than directing entities to apply the Tier 1 or Tier 2 requirements which may be considered complex for smaller NFP entities. 2) Similar to Option 1, this option keeps with making Tier 3 as a standalone standard. 3) This option requires the least staff and Board effort as no guidance would be required to be included in the Tier 3 Standard. 4) Tier 3 guidance will still be focused on common transactions without adding any length to the standard.
Arguments against this approach		
1) Biological assets and service concession arrangements were not considered common for Tier 3 NFP private sector entities. As such, including simplified accounting requirements will make the Tier 3 Standard longer with guidance that would not be applicable to majority of Tier 3 entities. 2) It may make it harder for some Tier 3 entities to transition to a higher tier given there may be different recognition and measurement requirements that would be developed for Tier 3 Standard. 3) More staff and Board effort will be required to develop simplified accounting requirements for these	1) Similar to Option 1, it would add length to the Tier 3 Standard, including guidance that many smaller NFP private sector entities would not apply.	1) Similar to Option 1, this may make it harder for some Tier 3 entities to transition to a higher tier given entities apply a similar Tier 3 requirement which may have different recognition and measurement requirements. 2) Increases judgement for entities who may not have the resources or knowledge to develop an appropriate accounting policy.

Option 1 – develop simplified Tier 3 accounting requirements for biological assets and service concession arrangements. Tier 3 accounting for basic financial instruments would apply for all financial instruments.	Option 2 – to require the existing Tier 2 reporting requirements for biological assets, service concession arrangements except for simplifying the language. Tier 3 accounting for basic financial instruments would either apply to all financial instruments, or existing Tier 2 requirements for financial instruments would be included as separate requirements for complex financial instruments except for simplifying the language.	Option 3: not scope out biological assets, service concession arrangements or complex financial instruments from the Tier 3 Standard. Entities apply the staff recommended proposed hierarchy approach in Issue 2 where entities develop an accounting policy based on a similar or related Tier 3 requirement. (NZ Tier 3 Standard)
topics that are not common compared to Option 2.		

Staff recommendation

61 Only if the Board disagrees with staff recommendation to scope out biological assets, service concession arrangements and complex financial instruments in paragraph 59, then staff recommend Option 3 based on the arguments presented in Table 3 and after considering the assessment against the Tier 3 development principles in Appendix B of Agenda Paper 3.0 for this meeting. Staff consider Option 3 addresses stakeholder feedback to allow the Tier 3 Standard to remain standalone and requires the least staff effort while ensuring the Tier 3 Standard only contains guidance for common transactions. This option would adopt the alternative view presented by a PAP member that if there is no risk for entities to develop an accounting policy based on Tier 3 requirements for these transactions, then there is no concern to scope out those topics/transactions.

Question 3c: Do Board members agree with the staff recommendation in paragraph 61, for the purpose of drafting the Tier 3 Exposure Draft, to proceed with Option 3? That is, to not include guidance in Tier 3 for biological assets or service concession arrangements, and an entity can apply the Tier 3 requirements for a similar or related transaction/event?

If not, what does the Board suggest?

Topics agreed by the Board to be included in Tier 3 Standard but Research Report 19 does not indicate as a common transaction – consolidation, investment in associates and joint ventures, investment property and assets held for sale

Staff analysis and recommendation

Consolidation and investment in associates and joint ventures

62 For consolidation and investment in associates and joint ventures, feedback from many stakeholders (70%) on the Discussion Paper supported the proposal for accounting policy choice in preparing consolidated financial statements.[21] However, Research Report 19 did not indicate that consolidation, investment in associates and joint ventures are common topics amongst charities.[22] Similarly, in ACNC's sample review of 250 charities' 2021 annual financial reports, the findings indicated that only 6% of charities provided consolidated annual financial reports.[23]

21 Refer to Agenda Paper 3.1.1 presented at the May 2023 Board meeting.

22 Based on the findings from Research Report 19, only 3 of 260 charities (1.1%) submitted consolidated financial statements and there were no financial line items observed for investment in associates and joint ventures.

23 Refer to the ACNC website on "*Reviewing Charities' Financial Information and Annual Financial Reports – 2021*".

63 Nevertheless, staff noted that ACNC accepts entities that are self-assessed as non-reporting entities to prepare special purpose financial statements. Therefore, staff infer that there may be charities and other NFP private entities that could be parent entities but have not prepared consolidated financial statements. Stakeholders also did not provide feedback to consider consolidation and investment in associates or joint ventures as a topic to be scoped out from the Tier 3 Standard.

64 In light of the feedback on the Discussion Paper and findings from Research Report 19, staff recommend the Tier 3 Standard should continue to include guidance for consolidation and investment in associates and arrangements. Subject to the Board agreeing with the staff recommendation, staff will bring back discussion on these topics for further consideration at a future meeting.

Investment Property

65 For investment property, feedback from almost all stakeholders (97%) on the Discussion Paper supported the proposal to align the Tier 3 accounting requirements to Tier 1 and Tier 2 reporting requirements except for simplifying the language.[24] However, based on the findings from Research Report 19, staff consider there is merit to reconsider whether to include the accounting requirements for investment property within the Tier 3 Standard or, instead, be considered as a scoped-out topic.[25]

66 Including requirements for an investment property would allow those entities that hold investment property to refer to the requirements directly in the Tier 3 Standard rather than referring to another Australian Accounting Standard.

67 Conversely, including the accounting requirements within the Tier 3 Standard would lengthen the Tier 3 Standard and may not align to the objective of developing a proportionate and simple Tier 3 Standard to contain accounting requirements that would address the common transactions of smaller NFP private sector entities.

68 In light of the feedback on the Discussion Paper and findings from Research Report 19, staff recommend the accounting requirements for investment property should be included in the Tier 3 Standard because:

(a) it would limit the need for Tier 3 entities to refer to higher tier requirements;

(b) unlike biological assets or service concession arrangements, there were a few NFP entities that held investment property[26] which aligns with previous feedback from NFP PAP members that there are some Tier 3 sized entities that own investment property;[27]

(c) The NZ Tier 3 Standard includes guidance on investment property with some simplification and staff noted that Research Report 19 only investigated charities think investment property may be more prevalent for other NFP entities such as co-operatives, clubs or schools; and

(d) almost all stakeholders supported the Board's view to require the accounting for investment property consistently with Tier 2 requirements.

Assets held for sale

69 For assets held for sale, the Board's preliminary decision in the Discussion Paper was not to introduce any specific requirements for property, plant and other non-current assets that an entity intends to sell rather than hold for continuing use as the Board expects such occurrences to be infrequent. Therefore, the treatment should be consistent with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. Many stakeholders supported not developing specific requirements for

24 Refer to Agenda Paper 3.1.1 presented at the May 2023 Board meeting.

25 Research Report 19 findings indicated only 1.19% of the sample of charities recorded investment property.

26 Research Report 19 findings indicated 1.15% of charities disclosed holdings of investment property in the financial statements.

27 Refer to paragraph 19(a) of Agenda Paper 11.2 presented at the February 2022 Board meeting.

assets held for sale because they consider it not a common transaction. Research Report 19 also did not identify any sampled charities that hold any property, plant and equipment or other non-current assets for sale rather than for continuing use.

70 Only a few stakeholders disagree not to include specific requirements for assets held for sale and prefer including the accounting requirements for assets held for sale within the Tier 3 Standard rather than as a scoped-out topic. One stakeholder considers the Board should relieve entities from applying AASB 5, given the Board's approach to prohibiting hedge accounting.

71 In light of the feedback on the Discussion Paper, findings from Research Report 19 and feedback from PAP members, staff recommend assets held for sale should be considered a scoped-out topic with a cross-reference to AASB 5 because:

(a) not including the accounting requirements of assets held for sale would reduce the length of the Tier 3 Standard and keeps with the objective of developing requirements dealing with common transactions of smaller NFP entities;

(b) staff disagree that providing relief from applying AASB 5 is similar to the approach to prohibiting hedge accounting since hedge accounting is an accounting policy choice, whereas an entity must classify non-current assets as held for sale if an entity intends to sell the asset rather than retain for continuing use; and

(c) most stakeholders supported the Board's view to treat assets held for sale consistently with AASB 5.

Question 3d: Do Board members agree with the staff recommendation in paragraph 71, for the purpose of drafting the Tier 3 Exposure Draft, to:

(a) continue to include the accounting requirements for consolidation, investment in associates and joint ventures and investment property directly within the Tier 3 Standard; and

(b) scope out transactions and other events relating to assets held for sale from the Tier 3 Standard.

If not, what does the Board suggest?

72 Given most stakeholder feedback supported the Board's preliminary view to scope out from the Tier 3 Standard transactions or other events relating to defined benefit superannuation plans, share-based payment arrangements and mineral resources, staff recommend that the drafting of the Tier 3 Exposure Draft should scope out those items from the Tier 3 Standard.

Question 3e: Do Board members agree with the staff recommendation in paragraph 72, for the purpose of drafting the Tier 3 Exposure Draft, to continue to scope out transactions and other events relating to:

(a) issued insurance contracts, held reinsurance contracts, and investment contracts with discretionary participation features;

(b) expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource is demonstrable; and

(c) obligations arising under a defined benefit superannuation plan.

If not, what does the Board suggest?

Issue 4: Whether the Tier 3 Standard should include an abbreviated Conceptual Framework?

Background

73 As outlined in paragraph 4.11, the Discussion Paper proposes that the Tier 3 reporting requirements will operate within a single conceptual framework applying to all not-for-profit entities. That is, the Board does not intend for the proposed standalone pronouncement to be so self-contained that it needs its own abbreviated conceptual framework. The Board expects to be further informed on the work on its Conceptual Framework project.

74 The Board did not propose a specific question in the Discussion Paper whether a conceptual framework should be included within the Tier 3 Standard. Rather, it included a question to seek feedback on whether the objective and primary users are appropriately depicted based on the most recently superseded version of the *Conceptual Framework for Financial Reporting,* including modifications for not-for-profit entities. Stakeholders were also invited to provide any comments they had on any other concerns about applying the framework set out in the *Conceptual Framework for Financial Reporting* for smaller not-for-profit private sector entities.

Summary of feedback on Discussion Paper and PAP members

75 As presented in Agenda Paper 3.1.1 at the May 2023 Board meeting, feedback on this question was only sought via written responses. Some stakeholders agree with the proposed application of the *Conceptual Framework for Financial Reporting* (Revised Conceptual Framework) to smaller NFP entities once the modifications for NFP entities are included in the release of a Tier 3 Standard.[28]

76 However, a few stakeholders disagree with extending the application of the Revised Conceptual Framework to smaller NFP entities once the modifications for NFP entities are included because the Tier 3 Standard should include its own summarised version of a Conceptual Framework similarly with IFRS for SMEs Standard. They consider the difference in recognition and measurement requirements for Tier 3 would necessitate some concepts being applied differently and cost and benefit considerations, and to consider IFR4NPO's project, which is developing a Conceptual Framework for its guidance.

77 Almost all NFP PAP members supported not to include an abbreviated Conceptual Framework in the Tier 3 Standard because if a simplified and abbreviated conceptual framework is included in the Tier 3 Standard, there is the potential to remove the existing knowledge and experience to determine accounting policies through potentially excluding practitioners from using the existing conceptual framework. In addition, if the smaller NFP entities are allowed to apply Tier 2 requirements, whether via opting up or accounting policy hierarchy approach, they will need to use the existing Conceptual Framework. Only one member supported including a simplified/abbreviated Conceptual Framework as this is consistent with developing a standalone standard and approach applied by IFRS for SMEs.

Staff analysis and recommendation

78 As per staff's preliminary analysis in Agenda Paper 3.1.1 at the May 2023 Board meeting, staff consider that the Tier 3 proposals broadly align with the existing Conceptual Framework. However, staff noted that few stakeholders suggested a simplified/abbreviated Conceptual Framework should be included within the Tier 3 Standard to address a few topics with different recognition and measurement requirements that may require further considerations of how the existing Conceptual Framework was applied.

79 Based on the feedback collected and after considering the assessment against the Tier 3 development principles in Appendix B of Agenda Paper 3.0 for this meeting, staff consider the alternative approach is to consider developing an abbreviated conceptual framework within the Tier 3 Standard, based on

---

28 Refer to Appendix A for an extract of the detailed summary of feedback on the Tier 3 Discussion Paper and next steps on Question 3 of the Discussion Paper.

the IFRS for SMEs ED chapter on 'Concepts and Pervasive Principles' and with reference to the IFR4NPO's Conceptual Framework. Table 4 below provides the support for and against an abbreviated Conceptual Framework in the Tier 3 Standard.

80 As noted in Agenda Paper 3.2 for this meeting, almost all PAP members supported not including an abbreviated Conceptual Framework in the Tier 3 Standard because there is the potential to remove the existing knowledge and experience to determine accounting policies through potentially excluding practitioners from using the existing conceptual framework. In addition, if the smaller NFP entities are allowed to apply Tier 2 requirements, whether, pending the Board's decision in this regard, they may need to use the existing Conceptual Framework.

Table 4 Arguments for and against inclusion of an abbreviated Conceptual Framework in the Tier 3 Standard

Support for inclusion of an abbreviated Conceptual Framework in the Tier 3 Standard	**Arguments against inclusion of an abbreviated Conceptual Framework in the Tier 3 Standard**
Including an abbreviated Conceptual Framework would enable the Tier 3 Standard to be more self-contained.	Adds unnecessary length to the Standard where the majority of entities would not refer to the requirements.[29] In addition, the Conceptual Framework is not a Standard and does not override the requirements of a Standard. However, including a simplified/abbreviated Conceptual Framework may inadvertently make the application of the Conceptual Framework mandatory. It may also undermine the Board's aim of developing a Tier 3 NFP Entities Standard that is as succinct as possible.
Addresses the few stakeholders including the 'objective' and 'primary users' depicted in the Framework for the Preparation and Presentation of Financial Statements (existing NFP Conceptual Framework), including its NFP entity modifications, need improving. For example, a stakeholder considers the general objective of financial reporting for NFP private sector entities is expressed too much in commercial term. And the description of users should be improved.[20]	The issues are not specific to entities that will be subject to the Tier 3 NFP Entities Standard, as such staff think these issues should be addressed as part of the NFP Conceptual Framework project.[30] That project addresses how the IASB Conceptual Framework (revised in 2018) should be modified for application by NFP entities Staff also noted that Part 1 of the ED (ED 1) of International Not-for-Profit Accounting Guidance ("INPAG")[31] not proposing fundamentally different 'objective(s)' and 'primary users' for financial reports by NFP entities to those in the IASB Conceptual Framework.

29 The IFRS for SMEs ED's Conceptual Framework section totals 21 pages.

30 The NFP Conceptual Framework project addresses how the IASB Conceptual Framework (revised in 2018) should be modified for application by NFP entities. Regarding the need to identify stewardship/accountability as important elements of the 'objective(s)' of financial reporting, the IASB Conceptual Framework includes the following:

- Decisions by users of financial reports include decisions about "exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources" (paragraph 1.2(c));
- Decisions by users of financial reports "depend on … their assessment of management's stewardship of the entity's economic resources." (paragraph 1.3); and
- Users of financial reports "need information about … (b) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's economic resources …" (paragraph 1.4(b)).

31 Published by the UK Chartered Institute of Public Finance and Accountability in November 2022 as part of the process of developing accrual-based International Financial Reporting guidance for Non-Profit Organisations ("IFR4NPO") by adapting the IFRS for SMEs to respond to the NFP environment.

Support for inclusion of an abbreviated Conceptual Framework in the Tier 3 Standard	Arguments against inclusion of an abbreviated Conceptual Framework in the Tier 3 Standard
There may be some recognition and measurement differences proposed for Tier 3 that may depart from the Conceptual Framework or require some concepts to be applied differently. For example, (i) to permit parent entities not to present consolidated financial statements; (ii) that reflect differences in cost/benefit assessments between Tier 1/Tier 2 entities and Tier 3 NFP entities; (iii) not to require the recognition of right-of-use assets; and (iv) to allow a free choice to initially measure non-financial assets acquired at significantly less than fair value either at cost or fair value. The IFRS for SMEs ED also proposes to revise Section 2 *Concepts and Pervasive Principles* with the 2018 *Conceptual Framework for Financial Reporting* while retaining the undue cost or effort concept.	The majority of the Tier 3 requirements align with the principles and concepts of the existing Conceptual Framework. Therefore, including an abbreviated Conceptual Framework in the Tier 3 NFP Entities Standard would involve restating concepts that underpin both the Tier 1/Tier 2 requirements and the Tier 3 requirements, which would add unnecessary length to the Tier 3 NFP Entities Standard. Arguably, the proposals referred to in the adjacent column do not involve departure from the IASB Conceptual Framework, bearing in mind that the cost constraint is part of that Conceptual Framework.[32] To the extent that "undue cost or effort" is a criterion for deciding when particular Tier 1/Tier 2 requirements should be departed from in the Tier 3 NFP Entities Standard, that criterion may be regarded as operationalising the cost constraint included in the IASB Conceptual Framework. Furthermore, including an abbreviated Conceptual Framework in the Tier 3 NFP Entities Standard would not necessarily address the concerns raised. For example, the IFRS for SMEs ED's Section 2 *Concepts and Pervasive Principles* summarises the IASB Conceptual Framework, and only differs in substance from that Conceptual Framework in relation to the "undue cost or effort" exemption (in paragraphs 2.28 – 2.31) despite that ED including differences from the full IFRS requirements.[33] Rather, staff think the rationale for the possible departure from the Conceptual Framework for some Tier 3 reporting requirements reflects the objective of developing Tier 3 (i.e. simplification of existing requirements) which is sufficiently reflected in the Conceptual Framework.
An abbreviated Conceptual Framework would help 'fill in gaps' in the Tier 3 NFP Entities Standard where standards/guidance on particular topics are scoped out from that Standard.	The primary purpose of a Conceptual Framework is to guide the Board when it develops and reviews Accounting Standards and other authoritative documents.[34] By using its Conceptual Framework to develop detailed rules at a Standards level (to the extent warranted by the pervasiveness of particular transactions, other events and conditions), the Board reduces the need for preparers of financial statements to incur the cost and uncertainty of applying judgement in determining how to apply accounting concepts. If the Board were to develop an abbreviated Conceptual Framework for the Tier 3 NFP Entities Standard for the purpose of filling in gaps in Standards-level

32 The IASB Conceptual Framework states that: "Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information." (paragraph 2.39) and "In applying the cost constraint, the Board assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information." (paragraph 2.42).

33 For example: (a) unlike IFRS 16 *Leases*, the IFRS for SMEs ED proposes non-recognition of lease assets and lease liabilities by lessees in relation to 'operating leases'; (b) unlike IFRS 9 *Financial Instruments*, the IFRS for SMEs ED proposes not permitting the recognition of changes in fair values of particular financial assets through other comprehensive income unless they are hedging instruments; and (c) unlike IAS 23 *Borrowing Costs*, the IFRS for SMEs ED proposes prohibiting the capitalisation of borrowing costs directly attributable to acquiring, constructing or producing a qualifying asset into the cost of that asset.

34 This was stated in the now-superseded AASB Policy Statement PS5 *The Nature and Purpose of Statements of Accounting Concepts* (July 2001), paragraph 5.

Support for inclusion of an abbreviated Conceptual Framework in the Tier 3 Standard	Arguments against inclusion of an abbreviated Conceptual Framework in the Tier 3 Standard
	requirements, increased costs of preparation of Tier 3 NFP entity financial statements could ensue. The limited explicit application of accounting concepts by preparers could be overcome only if the Board were to make the Conceptual Framework (or an abbreviated version of it) mandatory to apply which can result in unduly onerous requirements and costly for Tier 3 preparers. Furthermore, 'filling in gaps' for items outside the scope of the Tier 3 Standard (which are scoped out therefrom because they are not commonly encountered by such entities, and in order to achieve brevity of the Tier 3 Standard) would seem to undermine the reasons for excluding those items from the scope of that Standard.
Stakeholder feedback suggested the AASB consider the IFR4NPO's project which is developing a Conceptual Framework for its INPAG guidance.	In contrast with the AASB, INPAG does not have a standalone Conceptual Framework as it is based on the IFRS for SMEs ED's abbreviated conceptual framework which, as stated above, is the IASB Conceptual Framework and only differs in substance in relation to undue cost or effort. Therefore, the context for the INPAG abbreviated Conceptual Framework within its Guidance is different. The Board will consider the draft/final INPAG Conceptual Guidance in its NFP Conceptual Framework project. As identified in Agenda Paper 3.2 for the June 2021 Board meeting, NFP pronouncements in many other jurisdictions have not included a Conceptual Framework within their pronouncements.[35]

Staff recommendation

81 Staff continue to consider the Board's preliminary view for the Tier 3 requirements to operate within the aegis of a single Conceptual Framework applying to all NFP entities rather than develop a different Conceptual Framework specifically for a Tier 3 Standard. Therefore, instead of the Board developing a Tier 3 abbreviated Conceptual Framework, staff recommend the Board should explain its reasons for the differences between Tier 3 recognition and measurement requirements as noted in Table 4 and the corresponding requirements for Tier 1/Tier 2 entities, including the cost and benefit considerations, in the Basis for Conclusions (and possibly also in the Preface to that Standard) when discussing the objective and scope of developing the Tier 3 requirements. In addition, staff consider that the stakeholder concerns expressed regarding the primary users of, and objective(s) for, financial reports in the existing Conceptual Framework should be addressed in the concurrent project to develop a NFP Conceptual Framework.

Question 4: Do Board members agree with the staff recommendation in paragraph 81, for the purpose of drafting the Tier 3 Exposure Draft, that the Tier 3 requirements will operate within the aegis of a single Conceptual Framework applying to all NFP entities?

If not, what does the Board suggest?

35 The jurisdictions that do not include an abbreviated conceptual framework within their pronouncements include: New Zealand Tier 3 (NFP) Standard (May 2023) *Reporting Requirements for Tier 3 Not-for-Profit Entities* (NZ Tier 3 Standard),[35] the UK Charities SORP,[35] Canadian Accounting Standards for Non-Profit Organizations, Singapore Charities Accounting Standard and the United States Financial Accounting Standards Board Topic 958 *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*.

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

Q3) Applying the *Conceptual Framework for Financial Reporting* to smaller NFP private sector entities[36] **Total response = 9**	
Yes = 4 (44%) consisting of: • 4 written responses (44%) (SD, DH, BDO, Deloitte)	Some stakeholders agree with the proposed application of the *Conceptual Framework for Financial Reporting* (Revised Conceptual Framework) to smaller NFP entities once the modifications for NFP entities are included and on the release of a Tier 3 Standard. While users of NFP entities may not be concerned with obtaining a financial return on their investment in the entity, most if not all, such users are affected financially by NFP achieving its respective objectives. Accordingly, users of NFP financial statements are identified as those that are financially affected by an NFP achieving its objectives. It is essential to ensure the population of users of financial statements of NFP entities does not become as broad as to be non-operational (BDO). One stakeholder suggested the AASB should consider the IFR4NPO project's Conceptual Framework developed for smaller entities (DH).

No = 3 (33%) consisting of:
• 3 written responses (33%) (PP, UWA, ACNC)
	A few stakeholders did not agree with the 'objective' and 'primary' users as depicted in the *Framework for the Preparation and Presentation of Financial Statements* (existing NFP Conceptual Framework) including modifications for NFP entities and think:
	• the existing Conceptual Framework does not depict appropriately the general objective of financial reporting for NFP private sector entities as it expressed too much in commercial terms. Paragraph AusOB3.1 of the existing Conceptual Framework needs to be expanded to recognise that users are interested in the extent to which those charged with governance are acting in the interest of the mission of the entity via reporting on their stewardship of the entity's resources and accountability;
	• the description of users identified in paragraph AusOB2.1 should be improved because:
	  ○ the broad category of investors, lenders and other creditors, donors and taxpayers should be re-ordered as donors and taxpayers take priority over investors and lenders in terms of the sector;
	  ○ philanthropists should be individually identified as often seen as a separate category to donors;
	  ○ members should be added given the significance and high priority of the group;
	  ○ governments (not only parliaments) are major stakeholders in the NFP sector as they procure services and deploy policy via these entities. Governments also provide significant capital grant funds (UWA);

36 Note this question was not included in the online survey or virtual outreach.

	○ annual financial reports can be assessed by a variety of users including, amongst others, professional advisors, researchers and journalists and government officials (ACNC); and • if the Board decides to develop a fourth reporting Tier of reporting requirements with further simplifications such as cash reporting, then a further simplified Tier 4 reporting requirements would not align with the concepts in the existing Conceptual Framework that may not be appropriate for these smaller NFP entities and may also require training to support the implementation process. A few stakeholders disagree to extend the application of the Revised Conceptual Framework to smaller NFP entities once the modifications for NFP entities are included (ACNC, PP). The reason is that the Tier 3 Standard should include its own summarised version of a Conceptual Framework consistent with *IFRS for SMEs*. The difference in recognition and measurement requirements (R&M) for Tier 3 would necessitate some concepts being applied differently (e.g. differences in consolidation requirements (ACNC) and cost vs. benefit considerations). In that respect, the AASB should consider IFR4NPO's project which is developing a Conceptual Framework for its INPAG guidance (PP).
Other = 2 (22%) consisting of: • 2 written responses (22%)(MA, CPA/CA ANZ)	Some stakeholders could not comment on this question at this project stage. One stakeholder (CPA/CA ANZ) recommended the AASB to: • update Research Report 1: *Application of the Reporting Entity Conceptual and Lodgement of Special Purpose Financial Statements* to clearly understand the regulatory reform required and the nature of the regulated NFP population being targeted by the Tier 3 Standard, to identify the users that the Tier 3 Standard is targeting; and • to consider the IFR4NPO project for identifying primary users for all NFP financial statements (CPA/CA ANZ).

Staff analysis: The Board expressed in the DP its preliminary views is for Tier 3 reporting requirements to operate within the aegis of a single Conceptual Framework applying to all NFP entities rather than develop a different conceptual framework specifically for a Tier 3 Standard. Staff also consider that the Tier 3 proposals broadly align with the existing Conceptual Framework, however, staff agrees with the limited feedback from stakeholders that there are topics with differences in the recognition and measurement requirements where further considerations of the alignment with the existing Conceptual Framework may be required, for example:

- not requiring the recognition of right of use assets;
- allowing a choice to initially measure either at cost or at fair value for non-financial assets acquired at significantly less than fair value; and
- allowing a choice for a parent entity to present consolidated financial statements.

Staff preliminary view is not to develop a Tier 3 Conceptual Framework to be included in the Tier 3 Standard as per paragraph 4.9 of the DP because:

- it would unnecessarily add length to the Tier 3 Standard;
- the majority of the Tier 3 requirements align with the principles and concepts of the existing Conceptual Framework. The rationale for the departure from the existing Conceptual Framework of some Tier 3 accounting requirements are based on the objective of developing Tier 3, i.e. simplification of existing requirements, which is sufficiently reflected in the existing Conceptual Framework. Also, the Board could include the rationale for developing the Tier 3 Standard and the increased emphasis on the cost/benefit considerations, either in the basis for conclusions or introduction/preface of the Tier 3 Standard, rather than developing a Tier 3 Conceptual Framework;

• the Conceptual Framework is not a Standard and does not override any Standard or any requirement in a Standard. As such, there is unlikely to be many smaller NFP entities referring to the Conceptual Framework (on the contrary, the inclusion of a simplified conceptual framework within a Tier 3 Standard could make it mandatory); and • as identified in Agenda Paper 3.2 at the June 2021 Board meeting, many other jurisdictions with NFP pronouncements including the UK Charities SORP, NZ Tier 3, Canada ASNFPO, Singapore CAS and United States' ASC NFP 958, have not included a Conceptual Framework within its pronouncements. However, staff will further consider whether there is merit in including a simplified conceptual framework within a Tier 3 Standard considering cost/benefit considerations based on, e.g. the *IFRS for SMEs* ED 'Concepts and Pervasive Principles' and with reference to IFR4NPO's Conceptual Framework. This approach would also allow the Tier 3 Standard to be more self-contained. Staff will conduct further analysis and determine possible options for the Board's consideration that may include: • whether a simplified conceptual framework should be developed for the Tier 3 Standard considering cost/benefit considerations based on IFRS for SMEs ED 'Concepts and Pervasive Principles' and with reference to IFR4NPO's Conceptual Framework; or • not including a simplified conceptual framework as part of the Tier 3 Standard. Staff will also consider feedback in progressing the amendments to the Revised Conceptual Framework including the NFP modifications to be applied to the broader NFP sector at future Board meeting as part of the NFP Conceptual Framework project.	
Staff suggested action for next steps: Staff recommend performing **further analysis** and considering possible options for proceeding with this issue for Board's consideration at future meeting, including whether the preliminary views in the DP would necessitate further allowances beyond the existing Conceptual Framework.	
Q10) Opt up policy on whether to allow Tier 3 entities to opt up to Tier 1 or Tier 2 reporting requirements for: • **all transactions; or** • **for transactions specifically permitted by the Board only; or** • **not permit any opt up*** **Total response = 260**	
Opt up for all transactions (i.e. free choice) = 147 (57%) consisting of: • 26 preparers (10%) • 67 auditors (26%) • 3 users (1%) • 4 others (2%) • 1 blank (0%) • 44 virtual sessions (17%)	Many stakeholders thought an entity should be provided flexibility to choose an accounting policy of a higher tier that the entity considers would provide appropriate information to users. Some stakeholders also noted: • given the number of regulatory bodies and regulations in Australia for NFP entities, providing flexibility will allow NFP entities to meet the various regulators' needs; • entities may cross arbitrary revenue thresholds. Allowing entities to only apply Tier 1 or Tier 2 in its entirety would increase additional cost and reduce consistency between accounting periods. (Staff infer that this comment means that, if entities are expected to cross thresholds in future/often or if subject to a specific regulatory requirements in a particular area, they should be allowed to apply higher tier accounting policy); • mitigating factors such as the need to disclose information about the change in accounting policies including why the decision was made to opt up;

• 2 written responses (1%) (KPMG, UWA)	• some restrictions would be needed to prevent entities from opting up arbitrarily; • ability to opt up to all financial instruments, for example, rather than different types of financial instruments or elements of the financial instruments standards regardless of whether they are covered in the Tier 3 requirements. Stakeholders have indicated that consistency and comparability among this cohort of NFP entities is less relevant (KPMG); and • those charged with governance should be able to opt up to higher reporting requirements to encourage high financial reporting and support to those charged with governance in pursuing a higher level of reporting and removing obstacles that prevent such action (UWA).
Opt up only when permitted by the Board = 30 (12%) consisting of: • 6 auditors (2%) • 23 virtual sessions (9%) • 1 written response (0%) (PP)	Some stakeholders considered some flexibility should be given to allow entities to adopt some Tier 1/Tier 2 reporting requirements, but a free choice would reduce comparability (PP). However, these stakeholders also noted that some rationale is needed to determine the topics that would be allowed to opt up to the higher requirements. Some stakeholders suggested the Board could permit opt up to AASB 16 *Leases* for entities that have adopted the requirements as part of future transition considerations.
Not permit any opt up = 83 (32%) consisting of: • 13 preparers (5%) • 43 auditors (17%) • 2 users (1%) • 17 virtual sessions (7%) • 8 written responses (3%) (MA, CPA/CA ANZ, SD, IPA, DH, BDO, Deloitte, ACNC)	Many stakeholders considered that allowing opt up will reduce consistency and comparability, increasing complexity for NFP entities applying the Tier 3 Standard. Some stakeholders noted: • there is a lack the understanding when electing which accounting policy to apply and the preparers often rely on the auditors. Hence, limited choices would be easier and enhance comparability in financial reporting; • offering choices on policy-by-policy basis will revert back to SPFS and create disparity and confusion to users of the financial statements (IPA); • the aim of Tier 3 is to simplify for smaller less complex NFP entities and the opt up in entirety would be sufficient if a smaller NFP entity is more complex than Tier 3 can cater for (SD, Deloitte); • Tier 3 Standard will need to be comprehensive and self-contained, e.g. the guidance for consolidation and the accounting policy choices to present consolidated financial statements should be fully contained in Tier 3 (CPA/CA ANZ). Also, suppose agriculture activities were not allowed in Tier 3, and a Tier 3 entity is required to apply AASB 141 *Agriculture*. In that case, there may be a discrepancy with the Tier 3 requirements for revaluation of inventory, property, plant and equipment to require fair value though other comprehensive income. Whereas revaluation of biological assets are measured at fair value through profit or loss (DH); and • if a Tier 3 entity does not wish to apply a Tier 3 requirement, then this suggests they should apply a higher tier. Alternatively, if there is a consistent theme of Tier 1/Tier 2 reporting requirements that Tier 3 entities wish to adopt, this may suggest the Tier 3 standard is not fit for purpose (MA). <u>Other comments</u>

	Consideration should be given to opting-down to allow NFP entities currently preparing financial statements based on higher tier of reporting to opt-down and elect to report under Tier 3 Standard (CPA/CA ANZ).
Staff analysis: There are mixed views on whether entities should be permitted to opt up to higher tier requirements on a class-by-class transaction basis. Staff consider that the arguments for those agreeing with opt up as free choice would be counter arguments for those who disagree with permitting any opt up. For example, to allow free choice would ensure that the future Tier 3 Standard could be adopted by smaller NFPs that have specific accounting needs (e.g. hedge accounting) and would like to apply an accounting policy in a higher tier to reflect the transaction. However, allowing free choice to opting up would compromise comparability and may add to the complexity of the Tier 3 Standard. Staff also noted that allowing free choice to opt up would cater for entities that may cross thresholds in future/often. As per Q9), based on RR19 findings, fluctuations in revenue should not occur often. Staff note that the majority of selected other jurisdictions as part of developing the Tier 3 requirements only permit entities to opt up by a class of transactions basis for omitted topics and/or where specifically permitted, except for New Zealand.[37] Staff also understand that a regulator could specify an accounting policy to be applied regardless of the size of the entity,[38] but staff do not consider, based on limited research, that it would be common occurrence for regulators to specify a mandatory accounting policy. The support for only allowing opt up for topics/transactions permitted by the Board had the least support from stakeholders. However, staff consider that there is merit in exploring this option as this strikes the middle ground to ensure simplicity of the single stand-alone standard and comparability is maintained to a large extent. This would also allow further outreach and research on which accounting policy choices not accessible to Tier 3 entities would be most problematic and could indicate what topics should be permitted by the Board to opt up to higher reporting requirements.	
Staff suggested action for next steps: Staff will need to perform **further analysis** to identify the possible topics where the Board may consider it appropriate to opt up to higher tier requirements by class of transaction basis to support the Board's further consideration of the opt-up approach. Staff will bring this analysis for the Board to consider at a future meeting.	
Q11) Items proposed to be excluded from the Tier 3 accounting requirements*	
297 (76%) did not disagree with the items proposed to be excluded from the Tier 3 requirements including 1 written submission (UWA)	Most stakeholders agree with the proposed items to be excluded from the Tier 3 accounting requirements and consider the items proposed would not be common to smaller NFP entities (including UWA). One stakeholder suggests to develop guidance for the proposed items when they become more common.
105 (24%) disagree with the items proposed in particular the following items:	Some stakeholders disagree with the proposed items. For those that disagree: • most of the stakeholders requested guidance for business combinations because of the increasing trend for NFP entities, including smaller entities, to merge or acquire other entities (including PP, MA, CPA/CA ANZ, SD KPMG, DH, ACNC, BDO). In

37 See Agenda Paper 3.2 presented at the June 2021 Board meeting.

38 The Taxation Administration (Private Ancillary Fund) Guidelines 2019 specifies that an private ancillary fund must measure its assets (except for land) at market value annually.

• Biological and agricultural assets = 7 (of which 1 from written response (BDO)) • Insurance contracts = 8 • Expenditure incurred in relation to exploration for and evaluation of mineral resources = 4 • Business combinations = 30 (of which 8 from written responses (PP, MA, CPA/CA ANZ, SD KPMG, DH, ACNC, BDO)) • obligations under defined benefit superannuation plan = 13 • share-based payment arrangements = 7 • service concession arrangement = 9 (of which 1 from written response (BDO)) • complex financial instruments = 15 (of which 1 from written response (DH))	particular, the approach to AASB 3 *Business Combination* may not be fit for purpose for smaller NFP entities and it would be more appropriate to allow entities to recognise the assets at book value of the previous NFP rather than requiring the acquirer to do a purchase price allocation at fair value. In addition, the extent of the disclosures should also be simplified and there is diversity in practice with respect to whether a 'bargain purchase gain' is credited to profit or loss or equity (MA, KPMG); • a few stakeholders consider biological assets and agricultural assets should not be scoped out from Tier 3 Standard as NFP entities may have community gardens. Smaller entities could be cultivating plants or rearing animals for communal purposes. Some assistance to NFP entities in addressing organic growth would be helpful (CPA/CA ANZ) or alternatively Tier 3 requirements could be silent and entities can apply a related Tier 3 requirement (e.g. inventory measured at costs) (BDO); • a few stakeholders consider not to require opt up to AASB 9 for complex financial instruments given the objective of a stand-alone standard especially due to the complexity for smaller NFP entities applying AASB 9. If AASB permit opting up to AASB 9, there may be inconsistencies between Tier 3 and AASB 9 where Tier 3 does not allow hedge accounting but AASB 9 allows hedge accounting for items at amortised cost (i.e. simple financial instruments) (DH); • a stakeholder noted the accounting by an operator in service concession arrangement should be scoped in otherwise it will force preparers to apply full AAS under Interpretation 12, including for any financial assets, intangible assets and revenue which would need to be accounted under AASB 9, AASB 138 and AASB 15 respectively. An alternative approach is for the operator in service concession arrangements not be scoped out of Tier 3. Instead, the Tier 3 Standard could be silent on these arrangements and entities can account for financial instruments, intangible assets and revenue as appropriate (BDO). No other comments were provided for the other items identified by the stakeholders not to be omitted from the Tier 3 accounting requirements.

Staff analysis: Having regard to RR 19, the findings did not identify any of the proposed list of items in the sample charities financial statements, hence it would indicate that the proposed list of items to be omitted would be considered uncommon. However, staff thinks there is merit in consider some of the topics due to the stakeholder feedback including:

- business combinations – many of the respondents that disagree consider it would not be uncommon for NFP entities, including smaller entities, to merge or to acquire other entities. Therefore, staff will consider whether guidance should be developed within the Tier 3 Standard regarding business combinations and conduct analysis including possible simplification options for the Board to consider at a future Board meeting;
- biological and agricultural assets – while the topic does not appear to be common for smaller NFP entities, however based on feedback staff think there may be merit to consider whether biological assets should be:
  - scoped out explicitly from the Tier 3 Standard; or
  - be silent in the Tier 3 Standard, which allows a Tier 3 entity to apply a related Tier 3 requirement instead.

Further discussion on the accounting for biological assets, if not explicitly scoped out from a Tier 3 Standard, is provided in Q31);

- Complex financial instruments – the Board has previously considered the approach to financial instruments and considered for Tier 3 to provide simplified accounting requirements for basic or common financial instruments only. This approach aligns with the objective of developing simplified accounting requirements for common transactions only. In addition, the Board considered where an entity engaging in transactions or other events giving rise to holdings of complex financial instruments should be able to apply the more complex accounting specified by the existing AASB 9 *Financial Instruments*. Where Tier 3 does not explicitly highlight or address a particular financial instrument or transaction, an entity can apply a related Tier 3 requirement instead. However, staff will need to conduct further analysis and determine possible options to assess whether there is merit in developing accounting requirements for all financial instruments rather than only for common/basic financial instruments (refer to Q21) to address complexity highlighted by the hedge accounting example. Staff will bring analysis of possible options at a future Board meeting; and
- Service concession arrangements – only a few stakeholders suggested this topic should not be scoped out and staff preliminary view is that the topic is not a common transaction for smaller NFP private sector entities. However, staff will consider possible options which may include: 1) developing simplified requirements on the accounting for service concession arrangements; 2) simplifying the requirements by language only; 3) being silent on the requirements rather than scoping out explicitly from the Tier 3 Standard; or 4) continue to scope out the topic from the Tier 3 Standard.

For the other topics proposed (insurance contracts, expenditure incurred in relation to exploration for and evaluation of mineral resources, obligations under defined benefit superannuation plan and share based payments arrangements, as there were no comments received from those respondents that disagreed, staff propose the Board to proceed with drafting the Tier 3 requirements to explicitly omit these items from the Tier 3 Standard.

Staff suggested action for next steps: Staff will need to perform **further analysis** for topics including business combination, biological and agricultural assets, complex financial instruments and service concession arrangements for the Board to consider at a future meeting. Staff recommend to **proceed with the Board's preliminary view** excluding insurance contracts, expenditure incurred in exploration for and evaluation of mineral resources, obligations under defined benefit superannuation plan and share-based payments arrangements from a Tier 3 Standard.

Q12) Hierarchy approach to first apply Tier 2 requirements, then develop accounting policy by reference to:

i) principles and requirements in Tier 2; and

ii) definitions, recognition and measurement concepts in Conceptual Framework.

Total response = 191

Yes = 179 (94%) consisting of: • 54 preparers (28%) • 112 auditors (59%) • 3 users (2%) • 4 others (2%) • 1 regulator (1%)	Almost all stakeholders agreed with the proposed hierarchy approach as the entities will default back to the requirements in Tier 1/Tier 2 that they are familiar with if the Tier 3 Standard does not cover a transaction. It will also simplify the auditing/reviewing of information as it will be based on a supportable framework, and auditors are unlikely to accept an approach not in line with existing Australian requirements (MA). While agreeing with the proposed hierarchy approach, two stakeholders from the online survey noted: • that it may lead to inconsistencies; and • [an entity] should always refer to the Conceptual Framework.

• 5 written responses (3%) (MA, SD, IPA, UWA, Deloitte)	
No = 12 (6%) consisting of: • 3 preparers (2%) • 2 auditors (1%) • 1 user (1%) • 1 other (1%) • 5 written responses (3%) (PP, CPA/CA ANZ, DH, BDO, ACNC)	A few stakeholders disagreed and commented that: • in the absence of Tier 2 requirements, an entity should then refer to Tier 1 requirements; • small entities would not have resources to make accounting judgements or venturing into the AAS beyond the Tier 3 standard; • the Tier 3 Standard should be a stand-alone standard therefore an entity should not be required to refer to Tier 2 requirements, and for any transactions not explicitly covered the entity should consider the Tier 3 principles dealing with similar issues and the conceptual framework (PP, DH); • an entity should consider similar/related requirements in Tier 3 first before considering Tier 2 requirements in line with the objective to develop simpler requirements. NFP modifications should be included in the Conceptual Framework first in order to effectively implement the option suggested in paragraph 4.21(b) (i.e. applying principles and concepts in Tier 3) (CPA/CA ANZ, BDO); and • entities should be allowed to select the method that suits them best rather than to follow hierarchy with appropriate guidance (ACNC).

Staff analysis: Staff noted almost all stakeholders support the proposed hierarchy approach. Whilst one stakeholder considered the hierarchy approach may lead to inconsistencies, staff noted that the entities are required to refer directly to Tier 2 requirements first which is likely to provide more consistency than requiring an entity to develop its own accounting policy based on the Tier 3 requirements for similar transactions.

In addition, the Tier 2 requirements were developed having regard to the Conceptual Framework and the hierarchy approach refers to the Conceptual Framework. The reference to Tier 2 requirements would include Tier 1 recognition and measurement requirements and simplified Tier 2 disclosures.

However, similarly to the responses to Q10) and Q11), the stakeholders who preferred the Tier 3 Standard to be completely self-contained also preferred to firstly consider the requirements for a similar/related transaction addressed by the Tier 3 Standard. Staff noted that when developing the hierarchy approach, the Board considered requiring entities to refer to Tier 2 requirements first would provide more direction and reduce preparers' judgement to develop an accounting policy, thereby limiting the cost. Staff also think entities would not ordinarily need to consider the hierarchy approach if the Tier 3 Standard is developed to include accounting requirements dealing with common transactions of smaller NFP entities, and hierarchy approach is only applied when the Tier 3 Standard does not cover a specific transaction/topic. Staff do not think allowing flexibility for an entity to select an approach from the hierarchy as suggested by a stakeholder is appropriate as this may further reduce comparability and increase preparers' judgement/cost.

Nevertheless, staff think there is merit to consider the Tier 3 hierarchy approach further in light of the feedback received, specifically whether to refer to Tier 2 requirements in the first instance together with consideration of the Board's decision on opt up and standalone standard. Staff will conduct further analysis and possible options to resolve the issue for Board's consideration at a future meeting.

Staff suggested action for next steps: Staff recommend to **proceed with the Board's preliminary view** and begin drafting the Tier 3 hierarchy approach based on the proposal in the DP. Staff will perform **further analysis** and possible options on whether the hierarchy approach should refer to Tier 3 requirements in the first instance, together with the Board's consideration of its opt up and stand-alone standard proposal.	
Q40) Existence of intangible assets* **Total response = 368**	
147 (40%) respondents selected the following types of intangible assets: • Copyright = 37 (including CPA/CA ANZ) • Cryptocurrencies = 9 (including MA, CPA/CA ANZ) • Goodwill = 62 • Patents = 34 • research and development = 42 • software = 114 (including IPA, SD) • trademarks = 59 (including CPA/CA ANZ) • Licenses = 6 (including PP, CPA/CA ANZ) • website development = 2 • non-refundable deposits = 1 (including BDO)	Many stakeholders noted some intangible assets may be held by smaller NFP entities such as: • software and related development costs (e.g. for courses and other accreditation for members and students) being most common, followed by goodwill and trademarks (IPA, SD); • bed licenses and poker machine licences (PP); • crypto assets and other crypto assets likely to become more prominent over time (MA, CPA/CA ANZ); • other intangible assets such as copyrights, licenses and trademarks can either be donated or acquired by smaller entities (CPA/CA ANZ); and • non-refundable deposits (BDO). Some of these stakeholders noted a simplified guidance for intangible assets should be included in the Tier 3 Standard to future-proof the requirements as many Tier 3 entities would be expected to use more intangibles in future. A few of those stakeholders that supported developing guidance within the Tier 3 Standard on accounting requirements for intangible assets also suggested: • it would be useful for the Tier 3 Standard to address common items that cannot be capitalised such as research, training, formation cost and software not controlled by the organisation (i.e. that on the cloud), sales and marketing costs (PP); • requirements should articulate the characteristics of intangible assets to address current practical challenge being encountered by the application of AASB 138, while also making it clear there is a demonstrable need to achieve a future economic benefit (CPA/CA ANZ); • simplification/clarification of treatment of implementation cost in relation to SaaS arrangements should be considered as customer relationship management (CRM) and donor management systems implementation costs are very common even in smaller organisations (SD); • smaller entities consider very commonly when they should capitalise cost (e.g. marketing, training and software-as-a-service costs) (SD); and • AASB Interpretation 132 *Intangible Assets – Web Site Costs* permits the capitalisation of development costs of a website for which the entity can demonstrate probable future economic benefits when, for instance, the website is capable of generating revenues, including direct revenues from enabling orders for goods and/or services to be placed. The

	Interpretation does not clarify whether, for instance, an NFP entity could capitalise development costs of a website that facilitates donors making donations to the not-for-profit entity that would be relevant for many smaller NFP entities and accordingly, Tier 3 guidance would be useful (BDO).
Number of respondents that did not select the intangible assets listed = 221 (60%) (including ACNC, UWA)	Many other respondents considered smaller NFP entities held no intangibles assets. They considered: • it is not a significant issue for most NFP organisations and the accounting requirements should not be amended for Tier 3 entities (UWA); • including specific accounting requirement appears to outweigh benefits of accounting for uncommon transactions (ACNC); and • even though intangible assets may be held, they are generally immaterial.

Staff analysis: Staff note mixed views on whether smaller NFP entities have commonly intangible assets.

Based on RR19, less than 5% of the sampled charities were identified to have intangible assets. While the results from the research may indicate that intangible assets may not be a common transaction for smaller NFP entities, feedback from stakeholders indicates that NFP entities may hold more intangible assets in future. As such staff consider there is merit to further consider including the accounting for intangible assets as part of a Tier 3 Standard.

Staff suggested action for next steps: Staff recommend that the accounting requirements for intangible assets should be included in a Tier 3 Standard. Staff will **further analyse** and bring recommended options for Tier 3 requirements in this regard to the Board to consider at a future meeting.