



Project:	Not-for-Profit Private Sector Financial Reporting Framework	Meeting:	M197
Topic:	Project update and timeline for developing Tier 3 Exposure Draft	Agenda Item:	3.1
		Date:	24 July 2023
Contact(s):	Maggie Man mman@asb.gov.au Fridrich Housa fhousa@asb.gov.au	Project Priority:	High
		Decision-Making:	Medium
		Project Status:	Drafting Exposure Draft

Objective of this paper

- 1 The objective of this staff paper is for the Board to:
 - (a) **consider** an update on the Not-for-Profit Private Sector Financial Reporting Framework (NFP FRF) project, including interactions with cross-cutting projects and the project timeline for developing the Tier 3 Exposure Draft; and
 - (b) **decide** on forming a subcommittee to review the drafting of the Exposure Draft of the Tier 3 Standard and related pronouncements.

Background and reasons for bringing this paper to the Board

- 2 At its 20 – 21 February 2021 meeting, the Board decided to develop a further reporting Tier (Tier 3) for application by not-for-profit (NFP) private sector entities. The Board approved the Discussion Paper in August 2022,¹ issued in September 2022, with a six-month consultation period to 31 March 2023.
- 3 Staff presented the stakeholder feedback collected on the Discussion Paper, provided the staff preliminary analysis, and suggested next steps in Agenda Paper 3.1.1 at the May 2023 Board meeting. After consideration of the preliminary analysis of the feedback on the Discussion Paper, the Board decided to proceed with the development of an Exposure Draft on:
 - (a) a Tier 3 Accounting Standard with simplified accounting requirements for smaller NFP private sector entities; and
 - (b) removing the ability of certain NFP entities to prepare special purpose financial statements under Australian Accounting Standards.

1 [Minutes of the 189th meeting of the AASB](#)

- 4 [The Not-for-Profit Private Sector Financial Reporting Framework Project Summary](#) provides an overview of the Board's decisions to date regarding the project based on Appendix A – 'Approach to simplification' adopted by the Board at its August 2021 meeting.²
- 5 At the June 2023 Board meeting, the Board considered the application of the previously agreed approach to drafting proposed requirements to be included in the Tier 3 Exposure Draft to the selected topics of Property Plant and Equipment, Fair Value Measurement and Borrowing Costs.
- 6 As indicated in Agenda Paper 10.1 at the June 2023 Board meeting, staff have been considering the project milestones and the time and effort required to develop the Tier 3 Exposure Draft and the timeline for the Board to consider. This paper outlines the project timeline, including the topics subject to further analysis and the Board's consideration based on the staff suggested action for the next steps in [Agenda Paper 3.1](#) presented at the May 2023 Board meeting.

Structure of this paper

- 7 This paper is structured as follows:
- (a) Project update – cross-cutting projects (paragraph 8);
 - (b) Project timeline towards developing the Tier 3 Exposure Draft (paragraphs 9 – 11); and
 - (c) Formation of a subcommittee to review the drafting of an Exposure Draft of the Tier 3 Standard (paragraphs 13 – 18).

Project timeline towards developing the Tier 3 Exposure Draft

- 8 Table 1 below provides an update on the cross-cutting projects and other developments.

<u>Cross-cutting projects</u>	<u>Update</u>
Second comprehensive review of the <i>IFRS for SMEs</i> Standard	<p>The SME Implementation Group met on 13 July 2023 to receive an update on the stakeholder feedback received from the Exposure Draft of the <i>Third Edition of the IFRS for SMEs Accounting Standards</i>.</p> <p>The stakeholder feedback on the ED indicated overall support for the proposed amendments in the Exposure Draft except for:</p> <ul style="list-style-type: none"> • Mixed feedback on the proposal to clarify the definition of public accountability where many stakeholders were concerned that the proposed amendment is subjective; • Most respondents disagreed with the proposal for impairment of financial assets measured at amortised cost and instead prefer retaining the incurred loss model for all financial assets measured at amortised cost; and • Many respondents disagreed with deleting the measurement simplification for defined benefit obligations. <p>The SME Implementation Group also received the findings from the fieldwork on the revised requirements for revenue proposed by the IASB in its Exposure Draft Third Edition of the <i>IFRS for SMEs Standard</i>. The overall findings from the fieldwork indicated that most participants were able to make most of the judgments required to apply the proposal for the revised Revenue section. The judgements differ depending on whether participants were familiar with <i>IFRS 15 Revenue from Contracts with Customers</i>, the less familiar participants were, the more judgement required.</p>

2 [Minutes of the 182nd meeting of the AASB](#)

<u>Cross-cutting projects</u>	Update
	<p>As presented in Agenda Paper 3.1.1 at the May Board meeting, most stakeholders agreed with not establishing reporting thresholds within the Australian Accounting Standard but emphasised the need to continue engagement with regulators. Some stakeholders disagree and consider it would require judgement to be applied by entities to determine the type of financial statements to prepare and encourage some provisional threshold or guidance to be developed.</p> <p>The Board's preliminary proposal is to assess the impairment of basic financial assets by reference to an 'incurred loss model', and most stakeholders supported this proposal and indicated that some NFP entities currently apply the incurred loss model for management reporting purposes and some guidance on practical evidence of debtor's inability to pay would enhance assurability of the proposal.</p> <p>The Board preliminary decided to scope out obligations arising under a defined benefit superannuation plan from the Tier 3 Standard and most stakeholders agree with this proposal.</p> <p>Staff will continue to monitor the deliberation of the IFRS for SMEs Accounting Standard's proposals while drafting the Tier 3 topics based on the approach adopted by the Board, as outlined in Appendix B, and will perform further analysis of the topics as appropriate for the Board to consider as per the timeline in paragraph 12. Staff will also consider the feasibility of conducting field testing in conjunction with consultation with the NFP Project Advisory Panel of the Tier 3 proposals in the future.</p>
IFR4NPO	<p>At its June 2023 meeting, the Technical Advisory Group discussed the final amendments to the International Non-Profit Accounting Guidance (INPAG) draft Exposure Draft 2 content for Inventories, Revenue, Expenses on grants and donations, and Foreign Currency based on TAG members' feedback provided in May 2023. Specifically, amendments made included:</p> <p><u>Inventories</u></p> <ul style="list-style-type: none"> • Clarification that non-current assets or high-value items are not included in the exception for items donated to the NPO for distribution to beneficiaries or for their own use and the Basis for Conclusion has been amended to highlight some members' concern that the exception may not meet users' needs. • A rebuttable presumption has been added to clarify that there is an expectation that donated inventories can be measured reliably except for rare circumstances that an NPO would not, for example, have the systems or resources to keep accurate records without delaying the response to an emergency. In such instances, the rebuttable presumption would require disclosure. The First Expired First Out cost model for perishable inventories has also been removed. <p><u>Revenue</u></p> <p>Amendments made to the proposed revenue section include positioning of the material in the preface, the use of terms and the focus of the content in Part 1 being the most common types of revenue from grants. Specifically, the most significant changes relate to terminology where:</p> <ul style="list-style-type: none"> • The term enforceable grant arrangement has been introduced to replace binding grant arrangements. Enforceable grant arrangement is a grant arrangement that confers both rights and obligations, enforceable through legal and equivalent means, on both the parties to the grant arrangement. • Enforceable grant obligations replace compliance obligations including expanding the concept to include an undertaking by the grant recipient to achieve a specific outcome in addition to the delivery of activities and the internal use or external transfer of distinct services, goods and other assets. • Funding agreement has been defined as an arrangement with an NPO that is not enforceable through legal or equivalent means and does not give both parties rights

<u>Cross-cutting projects</u>	Update
	<p>and includes situations where grant-provider transfers resources to a grant recipient without there being any agreed or implied arrangement in place.</p> <ul style="list-style-type: none"> • Constraint has been referred to as the requirement placed on the grant recipient as to how it uses resources. <p>AASB staff will consider the proposals in the INPAG ED2 on the above topics while considering the drafting for those sections in accordance with the drafting approach in Appendix B.</p>
ACNC reporting requirements	<p>The ACNC published its ninth edition of the Australian Charities Report in June 2023 which shows charity revenue, assets and donation grew in the 2021 reporting period. Based on data collected in their 2021 Annual Information Statement, the size of charities which is based on the old reporting size thresholds, were as follows:</p> <ul style="list-style-type: none"> • 51.9% of charities were small with revenue below \$250,000; • 14.1% of charities were medium with revenue between \$250,000 and below \$1m; and • 18.4% of charities were large with revenue of \$1m or above. Of this bracket, 13.4% of large charities have revenue between \$1m to less than \$10m. <p>Staff are continuing discussions with regulators, including the ACNC, on the interactions of the Board's proposal with their legislative requirements.</p>

Project timeline towards developing the Tier 3 Exposure Draft

9 As noted in the Agenda Paper 10.1 for the June 2023 Board meeting, staff have considered the project milestones in developing the Tier 3 Exposure Draft, including further details of the considerations based on the suggested action for next steps for the topics presented in Agenda Paper 3.1.1 at the May 2023 Board meeting.³ The timeline and details presented below aim to allow the Board to assess the breadth of the analysis on the topics that staff intend to bring back to the Board for consideration at future Board meetings. Staff have applied the following considerations when developing the project timeline:

- (a) grouping of similar topics to be considered at one meeting to allow the Board to consider interrelated topics at the same meeting (e.g. staff will aim to group further discussions on consolidated financial statements, separate financial statements, investment in associates and joint arrangements and related party disclosures to be considered in the same Board meeting);
- (b) bringing analysis and seeking the Board's direction early for topics that may impact the consideration of other topics, such as the extent of Tier 3 as a stand-alone standard, topics to be omitted from Tier 3, the opt-up approach and the hierarchy approach - as for example, if the Board decides not to omit some topics, such as complex financial instruments from the Tier 3 Standard, this can impact whether the Tier 3 will need to develop accounting

3 Agenda Paper 3.1 for the May 2023 Board meeting presented three main categories to distinguish the suggested action for next steps based on the feedback from the Discussion Paper. The three categories were:

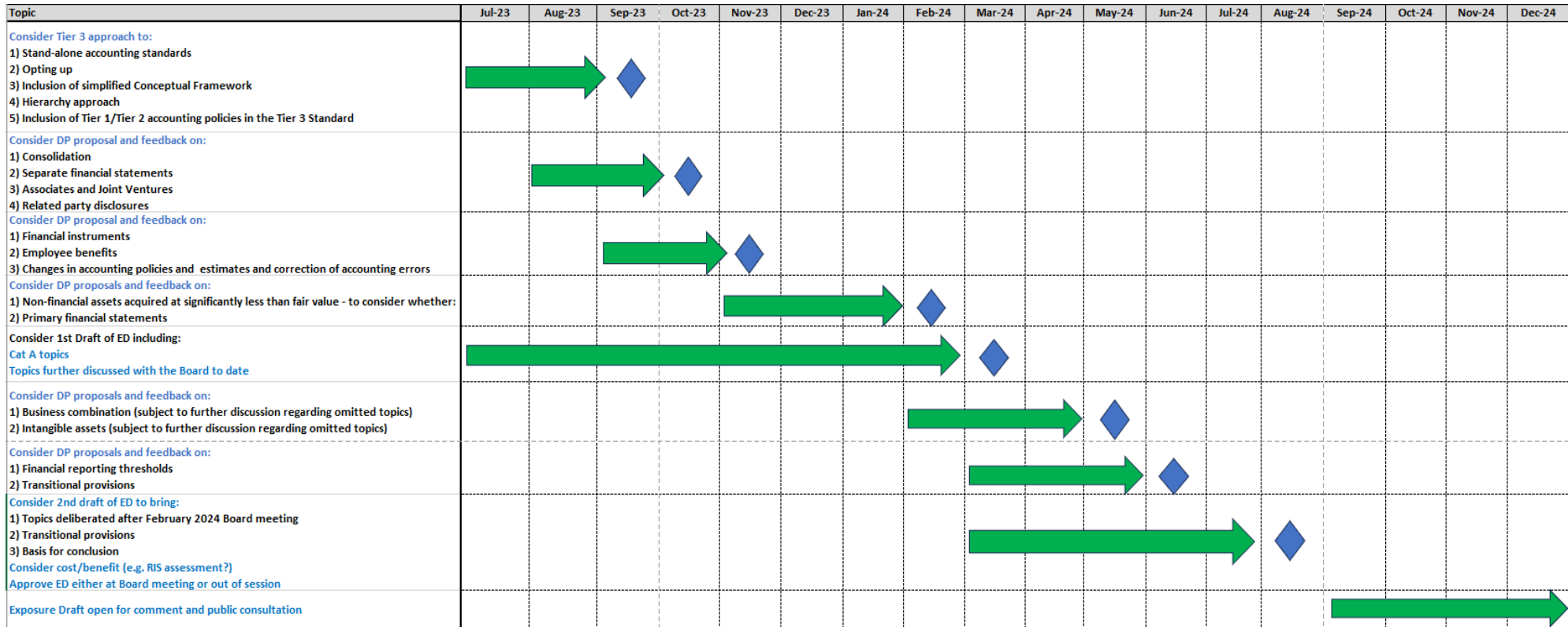
- (1) Category A (ED drafting based on DP proposals with minor issues to be resolved)
- (2) Category B (ED drafting based largely on DP proposals with some potential changes); and
- (3) Category C (further analysis and direction required).

requirements to address all financial instruments rather than just basic financial instruments;
and

- (c) resources available to achieve efficient and concurrent drafting of the Tier 3 Exposure Draft for Category A topics whilst the Board considers staff analysis of the feedback on the proposed Tier 3 requirements for Category B and C topics with the Board to consider the drafting of the Tier 3 Exposure Draft in several batches.

- 10 In developing the project timeline, staff have made the following working assumptions:
 - (a) The expected resources are maintained, and no unexpected new high-priority projects are added requiring resources to be reallocated to finish projects with higher priorities;
 - (b) There are no unanticipated delays in evidence-gathering activities including targeted outreach and meetings with NFP Project Advisory Panel to understand and address the extent of the issues identified from stakeholder feedback on the DP and no expected feedback and issues requiring additional work that may cause further delays. Staff will refer to the categorisation of the suggested actions presented in [Agenda Paper 3.1.1](#) at the May 2023 Board meeting when considering the level of evidence-gathering activities and analysis to address the issues and comments;
 - (c) The Board's capacity available to consider and decide the identified issues for the topics based on the timeline in Table 2 of staff's allocation of the topics to each Board meeting; and
 - (d) The Board largely agrees the staff recommendations and no significant further analysis and re-work is required.
- 11 Figure 1 provides overview of the expected project timeline and milestone for future Board meetings towards developing the Tier 3 Exposure Draft and Table 2 presents the detail considerations for each milestone presented in the timeline. The project milestones may not necessarily contain all the considerations that staff may bring to each meeting as this project timeline is intended to provide the Board with an overview of the issues that need to be addressed for each topic.
- 12 In conjunction with the timeline for Tier 3 Exposure Draft below, staff will bring the analysis and recommendations in relation to required amendments of related pronouncements to future meetings, such as:
 - (a) amendments to relevant accounting standards and other pronouncements (e.g. SAC 1) to remove the ability of certain not-for-profit entities to prepare special purpose financial statements under Australian Accounting Standards; and
 - (b) amendments to the *Conceptual Framework for Financial Reporting* to incorporate the necessary not-for-profit modifications based on the *Framework for the Preparation and Presentation of Financial Statements* and further informed by the feedback on the DP.

Figure 1 Overview of project timeline and milestones



Legend:



-  Staff analysis and targeted outreach
-  Board meeting to consider and decide on staff recommendations

Table 2 Detailed timeline and milestones

Milestones	Activity	Target	Date
Consider the timeline and seek approval to set up a subcommittee to review the drafting of Tier 3 Exposure Draft	Staff will seek the Board to: <ul style="list-style-type: none"> • consider the timeline for developing the Tier 3 ED. • consider forming a Subcommittee to review draft Tier 3 ED throughout the drafting process 	Board's feedback	At this meeting
Consider the Tier 3 approach to: <ol style="list-style-type: none"> 1) Stand-alone accounting standards; 2) Opting up approach; 3) Simplified Conceptual Framework; and 4) Hierarchy approach 	1) Stand-alone accounting standards <ul style="list-style-type: none"> • Decide whether the standard should be as comprehensive as possible or only to address common transactions of Tier 3-sized entities, specifically staff will seek direction from the Board on: <ul style="list-style-type: none"> ○ topics that may be common based on feedback from stakeholders: <ul style="list-style-type: none"> ▪ intangible assets, business combinations. ○ topics that may not be common, but stakeholders suggested topics not be omitted including: <ul style="list-style-type: none"> ▪ biological assets; ▪ service concession arrangements; ▪ complex financial instruments (including permitting/not permitting hedge accounting). ○ topics agreed by the Board to be included in the Tier 3 Standard however RR19 did not indicate as a common transaction:⁴ <ul style="list-style-type: none"> ▪ consolidation; ▪ investment in associates and joint ventures; ▪ assets held for sale; and ▪ investment property. 2) Opting up approach <ul style="list-style-type: none"> • Decide on the approach to opting up approach on a class of transaction basis where Tier 3 does not contain accounting policy choice available in Tier 1/Tier 2 supported by a rationale to be determined for topics that would be allowed to opt up to Tier 1/Tier 2 requirements (for example if the Board decides to allow entities to opt up for leases to apply AASB 16 <i>Leases</i>). 3) Inclusion of a simplified Conceptual Framework <ul style="list-style-type: none"> • Decide on whether a conceptual framework should not be included in the Tier 3 Standard (Board's preliminary view) in the light of the feedback on the DP. 4) Hierarchy approach <ul style="list-style-type: none"> • Decide the order of the hierarchy approach (preliminary Board's proposal to first refer to Tier 2, then Tier 3 requirements for similar transactions, then conceptual framework (CF)) in conjunction with the interaction with other Tier 3 aspects, such as the extent of transactions in scope of Tier 3 and inclusion of simplified CF or otherwise. 	NFP Project Advisory Panel	Aug 2023
		Board's decision	Sep 2023 Board meeting

4 [Research Report 19](#) *Common Financial Statement Items: Charities with \$0.5-\$3 million in revenue* April 2023 (RR 19) is a research paper identifying financial line items that appear most commonly in the financial statements of NFP private sector entities in Australia.

Milestones	Activity	Target	Date
	<p>5) Inclusion of Tier 1/Tier 2 accounting policies in the Tier 3 Standard</p> <ul style="list-style-type: none"> Decide how to operationalise the Tier 3 accounting policy options for topics where the Board preliminary decided to align with the Tier 2 requirements. 		
<p>Consider DP proposal and feedback on:</p> <p>1) Consolidation including what constitutes significant relationships and related disclosure requirements (subject to the Board's decision to require consolidation in Tier 3 Standard);</p> <p>2) Separate financial statements</p> <p>3) Associates and joint ventures</p> <p>4) Related party disclosures</p>	<p>1) Consolidation</p> <p>Decision to reconfirm preliminary views whether the Tier 3 Standard should allow a parent entity accounting policy choice to present consolidated or separate financial statements considering stakeholder feedback on the DP.</p> <ul style="list-style-type: none"> If yes, then the Board will be asked to consider: <ul style="list-style-type: none"> the definition of significant relationship and related disclosure requirements; whether requiring an entity to evaluate whether it has subsidiaries and/or investments in associates or joint ventures contradicts with allowing accounting policy choice to disclose the parent entity's significant relationships; the interaction of significant relationships disclosure requirements with related party disclosures; guidance and examples to support the accounting policy choice. If no, then whether consolidation requirements should be: <ul style="list-style-type: none"> consistent with Tier 2; or to develop simplified requirements, e.g. introducing threshold parameters to mandate consolidation, or simpler principles to enable smaller NFPs to identify subsidiaries more easily. <p>2) Separate financial statements</p> <ul style="list-style-type: none"> Decide whether to allow accounting policy choice of a parent entity measuring investment in subsidiaries at FV or equity method after considering the feedback on the commonly applied approaches by smaller NFP entities in measuring subsidiaries in separate financial statements and considering the cost and benefits of each approach. Decide whether requiring a parent entity to evaluate if a significant relationship is a subsidiary, associate or joint venture (JV) to apply particular measurement requirements contradicts allowing accounting policy choice to disclose the parent entity's significant relationships. <p>3) Associates and joint ventures</p> <ul style="list-style-type: none"> Decide whether to limit measurement accounting policy choice to measure investment in associates and JVs in conjunction with the accounting policy choice to consolidate subsidiaries or not, or align with existing requirements subject to targeted outreach whether NFP entities invest commonly in associates and JVs. <p>4) Related party disclosures</p> <ul style="list-style-type: none"> Decide on disclosure requirements and their interaction with the significant relationships' disclosures. 	NFP Project Advisory Panel	Sep 2023
		Board's decision	Oct 2023 Board meeting
<p>Consider DP proposal and feedback on:</p> <p>1) Financial instruments</p> <p>2) Employee benefits</p>	<p>1) Financial instruments</p> <p>Subject to the Board's decision on the complex financial instruments as an omitted topic, decision regarding:</p> <ul style="list-style-type: none"> If complex financial instruments are an explicitly omitted topic in the Tier 3 Standard, then: 	NFP Project Advisory Panel	Oct 2023

Milestones	Activity	Target	Date
<p>3) Changes in accounting policies and accounting estimates and correction of accounting errors</p>	<ul style="list-style-type: none"> ○ whether the distinction between basic and complex financial instruments should be based on the proposed defined list of instruments or on the existence of a complex feature (e.g. conversion features or a derivative) to avoid the risk of arbitrary application; ○ whether the proposed examples of complex financial instruments should exclude unconditional bank guarantees, concessional loans, preference shares, listed corporate bonds or interest rate swaps; ○ whether opting up to AASB 9 for complex instruments or by a class of transaction basis conflicts with the preliminary view not to permit hedge accounting in Tier 3 as it would be available for derivatives as complex instruments when applying AASB 9. <ul style="list-style-type: none"> ● If complex financial instruments will be included within the Tier 3 Standard and not explicitly omitted, then whether: <ul style="list-style-type: none"> ○ for example, IFRS for SMEs ED proposals for basic and other, more complex financial instruments should be considered; or ○ simplified accounting requirements should also apply to complex financial instruments. <p>Decision regarding the proposed accounting for basic financial instruments after considering the feedback on the DP including whether:</p> <ul style="list-style-type: none"> ○ to require subsequent measurement of financial assets held for capital return and income at fair value through other comprehensive income (FVTOCI), at fair value through profit or loss (FVTPL) or a choice to apply either; and ○ require expensing transaction costs and fees on initial measurement or amortising over the life of the instrument. <p>Staff will seek Board's views on clarification regarding other aspects of Tier 3 requirements, including:</p> <ul style="list-style-type: none"> ○ definitions of some terms and related simplifications; and ○ the need for further guidance for particular types of instruments as noted in the feedback on the DP. <p>2) Employee benefits</p> <p>Decide whether the Tier 3 Standard should provide further guidance and clarifications, including on:</p> <ul style="list-style-type: none"> ● portable long-service leave (LSL) implications and if so, what such guidance should be; ● guidance in determining probability assessment, e.g. whether to develop a rebut] presumption; ● clarification whether LSL should be classified as non-current liabilities, ● develop guidance on on-cost, and other aspects of Tier 3 proposals that stakeholders provided feedback on, for example consideration of future pay rises, inflation-adjusted values and their probabilities, consistency of illustrative examples etc. <p>3) Changes in accounting policies and accounting estimates and correction of accounting errors</p> <p>Decision on the preliminary views in the DP after considering stakeholder feedback whether:</p> <ul style="list-style-type: none"> ● correction of accounting errors should be accounted for retrospectively rather than the proposed modified retrospective approach; and ● possible implication of the simplification on the solvency assessment and potential regulatory reporting requirements. 	<p>Board's decision</p>	<p>Nov 2023 Board meeting</p>

Milestones	Activity	Target	Date
<p>Consider DP proposals and feedback on:</p> <p>1) Non-financial assets acquired at significantly less than fair value</p> <p>2) Primary financial statements</p>	<p>1) Non-financial assets acquired at significantly less than fair value:</p> <p>Decision on the preliminary views in the DP after considering stakeholder feedback whether:</p> <ul style="list-style-type: none"> • to allow an accounting policy choice for measuring non-financial assets (NFA) initially at cost and FV (the Board's preliminary view) after considering the feedback indicating obtaining fair value (FV) is not difficult and some regulators may already require that information. • whether to restrict subsequent measurement of such NFAs at cost or allow revaluation with further simplifications (e.g. only material NFA to remeasured at FV). <p>2) Primary financial statements</p> <p>Decision on the preliminary views in the DP after considering stakeholder feedback on:</p> <ul style="list-style-type: none"> • cash flow statement: whether to require separately presenting cash flows from investing and financing activities or to give option to combine; not to restrict presenting operating cash flows using the direct method only; and whether to provide further guidance and clarification, for example on disaggregation principles. • profit or loss (P&L) and other comprehensive income (OCI) statement(s): whether to continue to require presentation of OCI or only P&L statement; and clarification and guidance on other aspects of preliminary views, such as names of the statements and illustration of P&L presentation in an example. <ul style="list-style-type: none"> ○ statement of changes in equity (SOCIE): upon further evidence whether it is common for smaller NFP entities to provides information other than surplus/deficit for the year in SOCIE to decide whether to require a statement of changes in equity as part of PFS or to follow Tier 2 approach or as a note disclosure. 	NFP Project Advisory Panel	Nov 2023
		Board's decision	Feb 2024 Board meeting
<p>Consider 1st Draft of ED including:</p> <p>1) Cat A topics:</p> <p>2) Topics further deliberated by the Board</p>	<p>1) Drafting of Category A topics:</p> <p>Staff will seek the Board to consider the drafting of Tier 3 Standard including:</p> <ul style="list-style-type: none"> • <i>Income</i>: including clarification how different revenue recognition models interact with the determination of size-based regulatory reporting requirements; definition of terms such as "common understanding", the need for further guidance and illustrative examples (e.g. for donations provided in response to specific campaign, principal vs agent considerations). • <i>Leases</i>: transitional provisions (grandfathering existing lease arrangements, unwinding lease accounting based on AASB 16, accounting policy choice depending whether opt-up available), guidance on make-good provisions, guidance on application of straight-line basis for rent-free periods, or rent with annual or other subsequent increases based on inflation index or otherwise and clarification of concessionary leases requirements. • <i>Property, plant and equipment and investment property</i> (subject to Board's decision regarding investment property at the August 2023 Board meeting). • <i>Impairment of non-financial assets</i>: clarify the rationale to reduce impairment indicators and the need for application guidance for a rebuttable presumption that FV less cost of disposal is expected to be most appropriate measure of NFA's recoverable amount and when it is not appropriate. • <i>Inventory</i>: including guidance for inventory held for use in the provision of services (and not held for sale) to ensure consistency of application. • <i>Fair value</i>: including application guidance and parameters/thresholds when cost may be an appropriate estimate of FV expressed in a manner that is easier for preparers after considering the feedback that NFP entities often default to cost as proxy for FV and consideration of a rebuttable presumption/accounting policy choice as some entities are required to apply FV. 	NFP Project Advisory Panel	Feb 2024
		Board's decision	Mar 2024 Board meeting

Milestones	Activity	Target	Date
	<ul style="list-style-type: none"> • <i>Assets held for sale</i>: considering of further simplifications be provided to relieve entities from applying AASB 5 if topic is not explicitly omitted. • <i>Volunteer services</i>: subject to the Board's decision on the availability of accounting policy of higher tier on a class of transaction basis, whether further simplification (for example, limiting the accounting policy choice) should be introduced. • <i>Borrowing costs</i>: subject to the Board's decision on the availability of accounting policy of higher tier on a class of transaction basis, whether an accounting policy choice should be introduced. • <i>Maintenance cycle</i>: clarify further process-related details of the proposed approach. • <i>Other topics</i> to be included in Tier 3 applying the drafting approach in Appendix B. <p>2) Drafting of topics further deliberated by the Board to date (see further above) Staff will seek the Board to consider the drafting of Tier 3 Standard topics that the Board deliberated to date.</p>		
<p>Board to consider:</p> <p>1) Business combination -</p> <p>2) Intangible assets</p>	<p>1) Business combinations Subject to the Board's decision to include business combinations accounting requirements in Tier 3, the Board to consider simplification options, if any.</p> <p>2) Intangible assets Subject to the Board's decision to include accounting requirements for intangible assets in Tier 3, the Board to consider simplification options and further guidance, if any, including whether to:</p> <ul style="list-style-type: none"> ○ develop guidance when the cost can be capitalised or not for items such as research, training, formation costs and software not controlled by the entity (in cloud), sales and marketing, website development; ○ articulate the characteristics of intangible assets and clarify there needs to be a demonstrable ability to achieve a future economic benefit. 	<p>NFP Project Advisory Panel</p> <p>Board's decision</p>	<p>Mar 2024</p> <p>May 2024 Board meeting</p>
<p>Consider DP proposals and feedback on:</p> <p>1) Financial reporting thresholds</p> <p>2) Transitional provisions:</p>	<p>1) Financial reporting thresholds: Informed by the outcome of the staff targeted outreach, the Board's decision regarding the feedback whether to:</p> <ul style="list-style-type: none"> ○ specify thresholds in AAS and if so, whether within the scope paragraph of the standard or transitional provisions (with subsequent review); or ○ provide guidance on entities most suitable to apply Tier 3 and the most appropriate form of such guidance (e.g. non-mandatory application guidance, basis for conclusions, staff guidance). <p>2) Transitional provisions: The Board decision on transitional provisions including:</p> <ul style="list-style-type: none"> • early application and mandatory application date; • first time adoption: <ul style="list-style-type: none"> ○ for entities adopting Tier 3 including entities moving to and from Tier 1/Tier 2; ○ to address feedback that entities already adopted particular AAS, such as AASB 16 should be allowed to continue to apply the standard. • changes in accounting policies for entities moving between financial reporting tiers. 	<p>NFP Project Advisory Panel</p> <p>Board's decision</p>	<p>May 2024</p> <p>Jun 2024 Board meeting</p>
<p>1) Consider 2nd draft of ED</p>	<p>1) Topics deliberated after February 2024 meeting:</p>	<p>NFP Project Advisory Panel</p>	<p>Jul 2024</p>

Milestones	Activity	Target	Date
2) To seek approval of ED either at the Board meeting or out of session	Staff will seek the Board to consider the drafting of Tier 3 Standard for: <ul style="list-style-type: none"> • Thresholds and/or scope of application of the standard • Intangible assets • Business combinations • Transitional provisions • Basis for conclusions • Consider cost/benefit (RIS assessment) 2) Board's approval of ED either at the Board meeting or out of session	Board's ED approval	Aug 2024 Board meeting
Release of Exposure Draft for public consultation	Public consultation following the release of Exposure Draft		Sep 2024 onwards

Question to Board members:

Q1. Do Board members have any comments on the project timeline presented in Table 2 above?

Formation of subcommittee to review the drafting of Tier 3 Exposure Draft

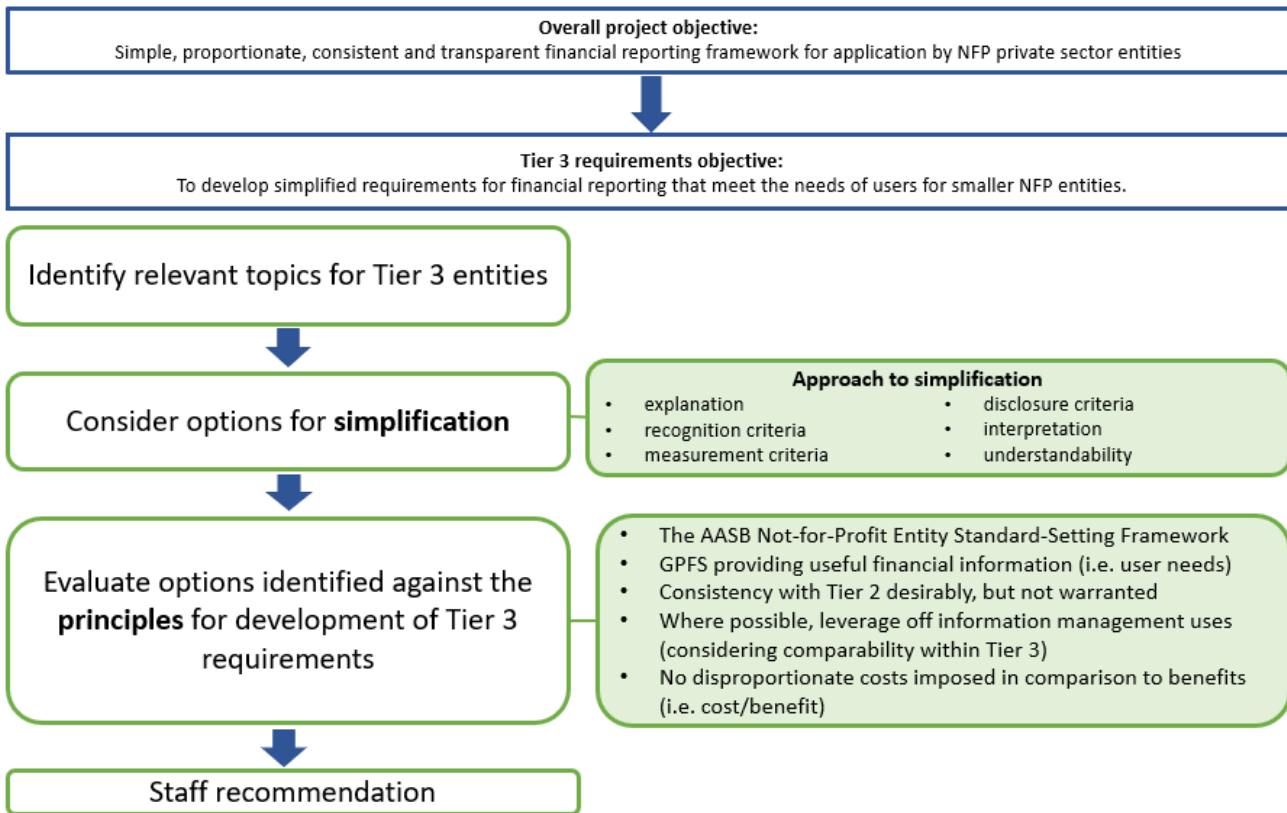
- 13 Staff are conscious of the time and effort required and the Board's capacity to review the drafting of the Tier 3 Exposure Draft according to the timeline in Table 2.
- 14 Staff consider that the formation of a sub-committee to review the working version of the draft ED prior to bringing the draft Exposure Draft for the Board's consideration would enable staff to address any potential drafting issues earlier to increase the efficiency of the drafting process by staff and subsequent deliberation by the Board.
- 15 Staff envisage that the sub-committee will provide feedback to staff on whether:
 - (a) the extent of drafting achieves the simplification that the Board had in mind while aligning with the Board's preliminary views and subject to the Board's future deliberations regarding the feedback on the Board's Tier 3 Discussion Paper; and
 - (b) as mentioned in [Agenda Paper 10.2.1](#) at the May 2023 Board meeting, there is a significant risk that the suggested amendments would constitute inconsistency with the Board's proposals in its Tier 3 DP, and therefore warrant being considered at a future Board meeting supported by staff analysis.
- 16 Staff expect that the members of the sub-committee will provide feedback to the staff via comments within the working draft of the documents, emails or in the meetings if necessary. This will be an iterative process and staff will aim to minimise the requirements on the sub-committee members' time, while aiming to deliver on the timelines in Table 2.
- 17 In line with the requirements of the *AASB Due Process Framework for Setting Standards*, paragraph 6.5, whilst the staff will seek guidance from sub-committee before debating the proposals with the Board, the Board will deliberate and decide on the staff recommendations in public meetings. To avoid doubt, the sub-committee is not being delegated the approval authority, as noted in paragraph 6.20 of the *AASB and AUASB Board Charter*.
- 18 Due to the reasons outlined in paragraphs 13 – 17 above, staff recommend that a subcommittee review the drafting of the Tier 3 Exposure Draft prior to staff bringing the draft Exposure Draft for the Board's consideration according to the timeline in Table 2.

Question to Board members:

- Q2. Do Board members agree with the staff recommendation in paragraph 18 to form a subcommittee to review the drafting of the Tier 3 Exposure Draft prior to staff bringing the draft Exposure Draft in accordance with the timeline presented in Table 2?

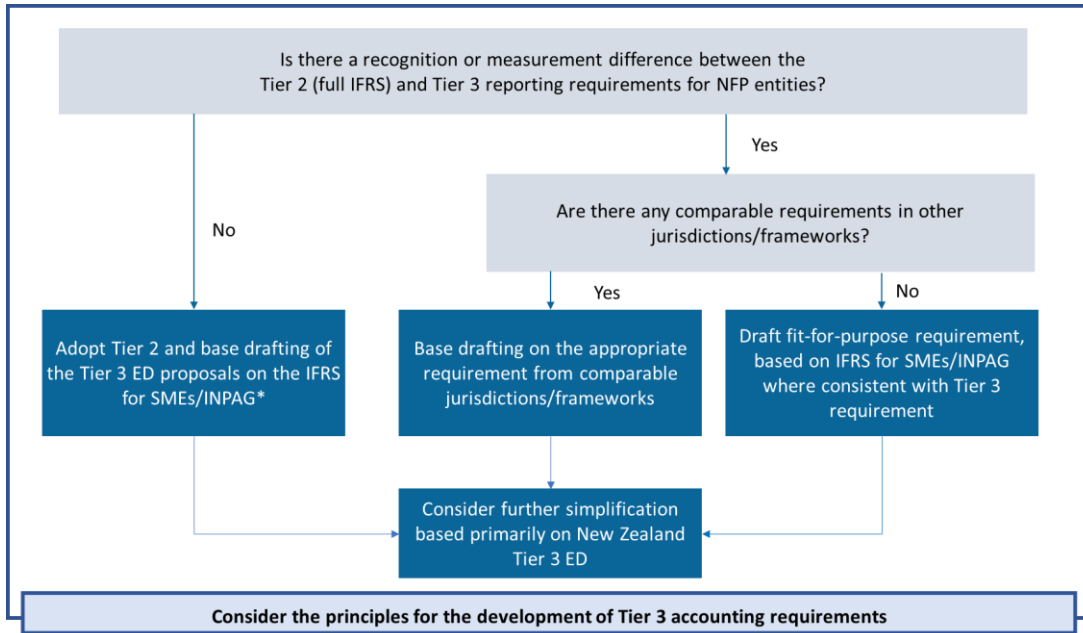
If not, what does the Board suggest?

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



Appendix B – Approach to drafting the Tier 3 Exposure Draft

Approach to drafting recognition and measurement requirements for Tier 3 NFP private sector entities (each topic/issue) agreed by the Board at its 4 May 2023 Board meeting



Approach to developing disclosure requirements for Tier 3 not-for-profit private sector entities for each topic/issue agreed by the Board at its 22 – 23 June 2022 Board meeting

