PO Box 1411
Beenleigh QLD 4207
31 March 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007 Australia

Dear Keith

Discussion Paper - Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)

I am pleased to make this submission on the NFP Tier 3 Discussion Paper (Tier3).

I have over 30 years' experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

I attach my comments.

Yours sincerely

David Hardidge
https://www.linkedin.com/in/davidhardidge/

Questions for respondents

Question 1 - Thresholds

I agree with the AASB's view that it should not develop 'reporting thresholds'.

I believe that the Tier3 proposals should also apply to NFP public sector entities, and to for-profit private sector entities.

If the AASB continues to reject the use of IFRS for SMEs or modification in Australia, then I believe that Tier3 would be an appropriate reporting framework for Australian private-sector SMEs.

Question 2 – Service Performance Reporting

I agree that service performance reporting should not be part of this project.

Service performance reporting is a very controversial and complex topic and including the project would delay this project. Current reporting, even in the public sector where it is common, focuses on activities and not outcomes. The New Zealand reporting for their Tier 3 and Tier 4 is based on activities and not outcomes.

If the AASB project is to require a focus on outcomes, this would be a significant change to what NFP entities (private sector and public sector) currently report. Therefore, service performance reporting should be deferred until the AASB progresses with the separate project and determines whether the focus should be on activities or outcomes.

I do not believe that there should be any type of mandatory narrative reporting for Tier3 until mandatory narrative reporting for Tier 1 and Tier 2 has been resolved. While some entities (such as companies with statutory reporting obligations) have some minimal mandatory reporting (for example, principal activities for the directors' report), not all entities have such a requirement.

Question 3 – Conceptual Framework

I agree with the proposed application of the conceptual framework changes.

I recommend that the AASB consider the IFR4NPO's (an initiative to develop the world's first Internationally applicable Financial Reporting guidance for non-profit organisations (NPOs)) INPAG project (their project is developing International Non-Profit Accounting Guidance) that is also developing a conceptual framework applicable to smaller entities.

Question 4 – Timing

I agree that changes to not-for-profit entity reporting should be aligned.

This means that the implications for public sector not-for-profit entities needs to be resolved before the issue of the final standard.

The AASB should also learn from the confusion and implementation experience from the changes to private sector financial reporting before mandating any changes.

Question 5 – Expansion of mandated general purpose financial reporting

My experience is that the purported removal of special purpose financial reporting in the for-profit private sector has been confusing and complex. Firstly, while special purpose financial reports may have been removed for much statutory reporting, it was not removed for non-statutory reporting, such as trust deeds, and agreements.

An example of the confusion for statutory reporting were financial statements for AFSL (Australian Financial Services Licensees), that took over 12 months to resolve, were only issued just before year end (June 2022 for June 2022 year ends). The late issue of the guidance meant that many entities affected missed special transition relief provisions in AASB 2020-2 that were only available in the prior 2021 financial year.

Therefore, there should be adequate time for regulators to make any changes. For example, it would appear that it would be complicated to apply Tier3 for ACNC entities because of the ACNC legislative requirement to follow specific accounting standards.

Also, the history of jurisdictions updating reporting requirements (for example, removing duplication of reporting in state jurisdictions and the ACNC) is not promising.

Question 6 – Introduction of a Tier 3

I agree that the AASB should introduce a simpler further reporting tier, and I have advocated for simpler reporting for such entities for many years. For example, my 2018 LinkedIn article "Developing a simpler, and better, reporting framework in Australia":

> https://www.linkedin.com/pulse/developing-simpler-better-reporting-framework-david-hardidge/

Now that the AASB has crossed the Rubicon, and is proposing that general purpose financial statements (these Tier3 proposals) can use different recognition and measurement rules to IFRS, then the AASB should re-evaluate its previous objections to adopting IFRS for SMEs (or a modification of that) in Australia.

I note that there are over 2 million businesses in Australia, and that there are over 50,000 businesses with 20 or more employees:

> ABS 8165.0 Counts of Australian Businesses, including Entries and Exits, Jun 2018 to Jun 2022, Table 13a
> https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/latest-release

Therefore, there are tens of thousands of businesses that use financial information that could benefit from a simplified measurement and disclosure framework. There appears to be a need for a reporting framework in Australia for those SMEs that is not based on thousands of pages of IFRS.

As I stated in question 3, I recommend that the AASB consider the IFR4NPO's INPAG project (which is based on IFRS for SMEs).

Question 7 – Introduction of a Tier 4

As I stated above, I believe that the AASB should consider a Tier 3 based on IFRS for SMEs.

I also believe that a simple set of accrual standards (as envisaged in these proposals) would also be suitable. Therefore, these proposals would form the basis of a Tier 4.

I agree that the AASB should not develop an additional tier for cash-based accounting, as I do not believe that cash accounting is suitable for general purpose financial reporting.

Question 8 – Changes to Tier 1 and Tier 2 reporting

I agree that no changes are needed to current Tier 1 and Tier 2 reporting.

Question 9 – Tier 3 Single stand-alone accounting standard

I agree that the Tier3 standard should be stand-alone. That means self-contained.

I do not agree with the weasel words in part (b) of "in the main, not require an entity to refer to requirements set out in other Australian Accounting Standards". As a stand-alone standard, it should be self-contained with no reference to other standards.

Question 10 – Opting up

As stated in Question 9, I believe that the Tier3 standard should be self-contained. This means that it is simpler for entities to apply.

I do not agree with opting-up. For example, if agricultural activities were not included in Tier3, and a general opt-up allowed, it would appear that Tier3 entities would not be entitled to apply AASB 141 anyway, as AASB 141 (allowing revaluation through profit or loss) would breach the inventory and property, plant and equipment requirements of Tier3.

Question 11 – Exclusions from Tier3

I agree that items (a), (b), (c), (e), (f), and (g) should not be covered by Tier3.

I do not believe that (d) business combinations should be excluded – and therefore should be included in Tier 3. It is relatively common for NFPs to merge. And with over 50,000 registered charities, there is scope for efficiencies by merging operations.

I do not believe that (h) some financial assets and financial liabilities should be excluded (it appears by opting-up to AASB 9) – and therefore accounting for these (complex) financial instruments should be included in the stand-alone Tier3. I think it is ridiculous, in proposals simplifying reporting for small entities, that there would be a requirement to apply what many believe as the most complex accounting standard under Tier 1 and Tier 2 reporting.

If the AASB was to permit an opting-up to AASB 9 (that I disagree with), there would be inconsistencies with AASB 9 and Tier3. For example, the Tier3 proposals to prohibit hedging, but AASB 9 allowing hedging, the requirements in AASB 9 for accounting for equity instruments (fair value through OCI and no recycling), and accounting for items at amortised cost (fair value through OCI with recycling).

Question 12 – Hierarchy for topics not covered by Tier3

As stated in Question 9, I believe that the Tier3 standard should be self-contained. Therefore, there should not be any opting-up, or referring to Tier 2 reporting requirements.

For any accounting policies not specifically in Tier3, then the broader conceptual framework included in Tier3 needs to be applied. Given the expected similarity of the Tier3 conceptual framework, and that applicable for Tier 1 and Tier 2 reporting, then a Tier3 reporting issue is likely to consider principles and requirements in Tier 1 and Tier 2 reporting requirements. However, application of the Tier 1 and Tier 2 reporting should not breach Tier3 requirements.

For example, if Tier3 does not cover agricultural activities, then AASB 141 would not (or at least should not) be permitted under Tier3, as AASB 141 would breach the inventory and property, plant and equipment requirements of Tier3.

Question 13 – Review cycle

I agree that the AASB should limit revisiting its Tier3 requirements every few years, for example every 3 or 5 years (unless needed earlier).

The AASB should be clear what this cycle means. When does the cycle start and when does it end?

For example, using the IASB's IFRS for SMEs of "not more frequently than approximately once every three years", it has taken four years so far for the second review, and it is still not complete.

- May 2015 – Issue of revised IFRS for SMEs
- Jan 2017 – Commencement of revised IFRS for SMEs
- Feb 2019 – Commenced planning for next review
- Jan 2020 – Issued RFI – 6 month deadline (extended to 10 months because of pandemic)
- Nov 2020 – Commencement consideration of feedback and development of exposure draft
- Sep 2022 – Issued exposure draft (comments due March 2023)
- Mar 2023 – Review still not complete – almost 8 years after issue of revised standard

Question 14 – Primary financial statements

I do not agree with the AASB's proposed three primary financial statements.

I agree that a statement of financial position, and statement of cash flows (and notes) should be prepared.

I believe that the IFR4NPO INPAG approach of a statement of revenue and expenses (or profit and loss statement) should be prepared. In my experience the extra disclosures for "other comprehensive income" causes confusion to readers of SMEs and NFP financial statements.

I believe that the disclosures in the statement of changes in equity are very useful, particularly movements in reserves (asset revaluation reserve or movements in internally created reserves). However, I believe that the disclosures could just as well be made in the notes, and not mandated as a separate financial statement.

Question 15 – Disclosures for the face of the statement of the financial position and statement of profit or loss and other comprehensive income

I agree that the disclosures should be consistent with AASB 1060, apart from my disagreement of including "other comprehensive income" changes on the face of the profit or loss statement.

Question 16 – Cash flow statement disclosures

(a) I agree that there should not be a requirement to separate investing and financing activities. However, given that many reporting packages of accounting firms are set up for this distinction, the distinction should be permitted. That would mean not mandating an "other total".

(b) I do not agree with mandating a requirement for Tier3 (using the direct method only) when this is more restrictive than Tier 2. The alternatives permitted in Tier 2 should be allowed for Tier3.

(c) I agree with using the AASB 1060 definition for cash and cash equivalents.

Question 17 – Consolidated financial statements

I agree with the AASB's permitted choices – that is allowing a parent not to produce consolidated financial statements. However, if the entity is preparing separate financial statements, when it may have subsidiaries, this should be clearly communicated – for example in Note 1. This disclosure also needs to link to the additional disclosures the AASB proposes under paragraph 5.53.

As accounting policies can now be spread throughout the financial statements, requiring disclosure of the situation in accounting policies that could be anywhere in the financial statements will be insufficient. The reader needs to know up front.

Another possibility is to require the columns to be labelled parent only. However, that may not be informative if the reader does not understand the significance of 'parent only'.

The AASB's apparent proposals of exempting entities from evaluating whether an entity for which it has a significant relationship is a subsidiary, associate or joint venture are contradictory. On the one hand, the AASB is proposing to permit investments by the parent in subsidiaries, associates and joint ventures to use the cost or equity methods. On the other hand, the AASB is proposing to require equity investments to be measured at fair value through OCI. Therefore, the parent needs to evaluate at least whether the investment is a subsidiary, associate or joint venture versus other as it needs to determine whether it is required to fair value the investment.

Therefore, as there is usually a preference to use cost for the investments in subsidiaries, the parent will need to undertake the evaluation. This then negates the reasoning for the AASB to provide an exemption from consolidated financial statements on the basis that the evaluation has not occurred.

If the AASB wants to provide a consolidation exemption, it should be based on a justification of simplified reporting, and that the proposed reporting (parent entity with additional disclosures) is sufficient for users.

Question 18 – Investment in subsidiaries

I agree with the AASB's intention to allow the three methods. However, as I stated in Question 17, the AASB's apparent proposals of exempting entities from evaluating whether an entity for which it has a significant relationship is a subsidiary, associate or joint venture are contradictory.

For an entity to be eligible to use cost, or the equity method, it must have evaluated whether the investment is a subsidiary.

Question 19 – Changes in accounting policies and correction of errors.

(a) Changes in accounting policies

I agree with the proposal not to require changes in comparatives for changes in accounting policies, as long as the adjustments between the prior year and the start of the current year are disclosed adequately.

The world seems to have coped with the modified retrospective approach (that is, not adjusting comparatives) adopted recently for major changes for revenue (AASB 15) and leases (AASB 16).

(b) Correction of errors

I do not agree with the proposal not to correct an error in the prior period. It is known that the prior period results are incorrect and they should be corrected. Erroneous information should not be falsely presented as being correct.

At least for changes in accounting policy, the prior period was correct, albeit for different policies.

Question 20 – Changes in accounting estimates

I agree with the proposals, which are consistent with current accounting.

Question 21 – Financial instruments – Basic financial instruments

I agree with the AASB's approach to identifying basic financial instruments and accounting for them on a simplified basis. This is consistent with IFRS for SMEs.

I believe that corporate bonds, or at least, listed corporate bonds, should be included as a basic financial instrument. If listed ordinary shares instruments are included as basic financial instruments, so should listed corporate bonds.

These corporate bonds would include hybrid securities, which are sometimes classified for accounting purposes by the issuer as liabilities, and sometimes as equity, Personally, I believe that hybrid securities usually have equity risks, and should be accounted for similarly to ordinary shares.

As I stated in Question 11, I believe that Tier3 should be a stand-alone document, with no opt-up. Therefore, Tier3 should include the accounting for the non-basic (that is, complex) financial instruments.

Question 22 – Financial instruments – Embedded derivatives

I agree that Tier3 should not include provisions for embedded derivatives.

I am not aware of any clauses in contracts of smaller not-for-profit private sector entities that would give rise to an embedded derivative. However, financial instruments experts seem to find embedded derivatives in all sorts of unexpected places.

Question 23 – Financial instruments – Hedge accounting

I agree that hedge accounting should not be included in Tier3.

However, based on the AASB's proposals to opt-up to AASB 9 (which I disagree with), it would seem that hedge accounting would be permitted if AASB 9 was applied.

Question 24 – Financial instruments – Basic financial instruments – initial measurement

I agree that basic financial assets and financial liabilities should be measured at fair value.

I disagree that transaction fees on financial liabilities should be immediately expensed, as these can be relatively large. I believe that such costs should be amortised over the life of the loan.

I agree with expensing transaction costs for financial assets that are going to be recognised at fair value, as I think profit or loss is a better place for writing off the transaction costs than direct to equity.

The AASB should clarify what "premium or discount on acquisition" means. Is this the difference between fair value and face value for interest free loans? Or is it the difference between market value (purchase price) and par value for corporate bonds?

I believe that interest-free (or concessionary loans) should be initially recognised at fair value, with the difference being recognised as a gain (loan payable) or a loss (loan receivable).

I also believe that interest-free (or concessionary loans) should be accounted for as a basic financial instrument. This was not clear in the proposals.

It is not clear whether fair value through OIC permits / requires / prevents recycling from reserves.

Question 25 – Financial instruments – Basic financial instruments – subsequent measurement

I generally agree with the proposed subsequent accounting.

Government bonds have caused problems under AASB 9 as to whether they should be recognised at amortised cost, or as they are '"sometimes" held for sale (i.e. capital return) and should be recognised at fair value through OCI (with recycling). Tier3 should require on of amortised cost or fair value for government bonds.

I included under question 24 issues in relation to what "premium or discount on acquisition" means, as the application of the term is unclear.

Question 26 – Financial instruments – Basic financial instruments – impairment

I agree with using the 'incurred loss' impairment model, rather than the general provision 'expected credit loss model'.

Question 27 – Financial instruments – Derecognition

I agree with the proposed derecognition requirements.

Question 28 – Fair value

I agree with using the principles of AASB 13, which are the current principles.

Question 29 – Fair value – Using cost

While I agree with the circumstances of using cost as an appropriate estimate for fair value, I am concerned that over emphasis on these circumstances can give a false impression that cost can be used as some sort of rebuttal presumption of fair value when cost is not appropriate.

Question 30 – Inventory

I agree with using the principles of AASB 102, which are the current principles.

As stated in paragraph 5.127, it is intended that the current exemption allowing measurement of donated inventory of cost will be included.

Question 31 – Biological assets (agricultural assets)

I agree with scoping out biological assets from Tier3, as I do not expect any entities likely to follow Tier3 have long term growth assets that some sort of emerging profits is relevant. For the remaining biological assets, cost is suitable.

As I have stated above in Question 10 and Question 12, I do not agree with opting-up to Tier 2, as Tier3 should be a stand-along standard.

Question 32 – Interests in associates and joint ventures

As I stated in Question 17 and Question 18, the AASB's apparent proposals of exempting entities from evaluating whether an entity for which it has a significant relationship is a subsidiary, associate or joint venture are contradictory.

The AASB's proposals distinguish between whether an entity is a parent or not. Therefore, the entity needs to have undertaken an evaluation of whether it is a parent or not.

I disagree with the AASB's proposed accounting for associates and joint ventures.

I believe that accounting for associates and joint ventures should be consistent with accounting for investments in subsidiaries. That is, allowing a choice of cost, the equity method, or for fair value through OCI. These choices should apply in parent only financial statements, or consolidated financial statements.

Question 33 – Interests in associates and joint ventures – Separate financial statements

Refer my response for the previous question, Question 32.

Question 34 – Property, plant and equipment, and investment property

I agree that Tier3 property, plant and equipment should be based on Tier 2 accounting. However, I do not agree that Tier3 entities that decide to revalue classes of PPE should be mandated to use the 'treadmill approach'. I believe that ad-hoc revaluations are sufficient, with disclosure of when the last revaluation was made.

I do not agree that Tier3 should have a requirement to account for investment property, as the mark-to-market through P&L under Tier 1 and Tier 2 are more suited for property trusts than NFPs. I have also found that there is often confusion about the investment property provisions, because

(a) SMEs are not looking for investment property to be separately accounted (and it is the accountants that force them to do something)

(b) the confusion and complexity and working out whether surplus land is a separate unit of account, and whether it meets the definition of investment property.

If an NFP really wants to account for investment property separately, without a separate accounting standard, they could (under equivalent AASB 116 accounting) treat the property as a separate class, and revalue through OCI (with no recycling).

Question 35 – Non-financial assets acquired for significantly less than fair value

I do not agree with the AASB's proposals relating to the accounting choice for non-inventory PPE, because I do not believe there is a significant issue requiring different treatment, and because of the future burden on entities.

Even if the accounting policy choice was permitted on an asset-by-asset basis, I still do not agree with the proposals.

The burden will include that entities will have to keep records as to which assets were subject to this policy, and which were not.

A further burden is that if an entity adopted the policy, future boards of the entity would forever be bound by the previous decision and be prohibited from revaluing their PPE. Including it seems, the ability to change accounting policy.

Question 36 – Volunteer services

I agree with the proposals, as they are consistent with current accounting.

Question 37 – Borrowing costs

I agree with the proposals to not capitalise borrowing costs, because of the complex calculations provide little additional useful information, and the accounting is consistent with IFRS for SMEs.

I do not agree with the statement ‘all borrowing costs to be expensed’. As I stated in Question 24, I believe that transaction fees on financial liabilities should be capitalised and amortised.

Question 38 – Impairment of non-financial assets

(a) I agree with only applying the impairment provisions to assets measured at cost.

The AASB should clarify what ‘deemed cost’ means – is this deemed cost of a donation at cost, or deemed cost of a donation at fair value, or some sort of deemed cost for revalued assets on transition?

(b) I do not agree with the reduced number of impairment indicators as I see no reason why the other indicators are excluded. The impairment indicators should be consistent with the current AASB 136 and IFRS for SMEs. This would include assets held for sale (even if not separately disclosed as such) being an indicator (per IFRS for SMEs).

(c) I agree with the proposals as they are practical and unlikely to lead to overvalued assets.

(d) I agree with allowing the cash-generating unit concept

Other

I agree with the proposals not to include impairment reversal requirements. In practice, I do not find these provisions for Tier 1 and Tier 2 entities regularly applied, as there is often a fear of preparers that any reversal of impairment (for example increased demand) would increasing profit that will have to be re-reversed (another impairment expense) in the future.

Question 39 – Assets held for sale

I agree with the proposals, as they are consistent with current accounting and IFRS for SMEs.

I believe that if assets are held for sale, this should be an impairment indicator.

Question 40 – Intangible assets

I believe that the AASB needs to develop accounting for intangibles for Tier3. A very common question of smaller entities is when can they capitalise costs? For example, marketing, training, and now with more IT systems moving to the cloud, SAAS costs.

As I stated in Question 24, I believe that transaction fees on financial liabilities should be capitalised and amortised. If not covered by the financial instruments section, these might well be covered by intangible assets accounting.

Question 41 – Leases

(a) I agree that leases should not be recognised on-balance sheet, and that lease costs should be expensed.

The AASB needs to sort out what it means by ‘straight-line basis’ for ‘minimum lease payments’, as this caused considerable problems under the old leases standard for operating leases when some lease agreements had rent-free periods, some had fixed increases, and some had other variable payments (e.g. CPI, market reviews).

There were also accounting anomalies for inflation type increases – fixed increases representing forecast inflation were treated one way, while CPI increases that were variable were treated another way.

(b) I would like to clarify that the proposals for concessionary lease arrangements are to expense any payments, and not to permit some sort of fair valuing or recognition of a right-to-use asset.

I also believe that any disclosures should be based on cost, and not on any notional fair or market value.

(c) I agree with not including any sale and leaseback provisions, or manufacturer or dealer lessor provisions, as I do not expect these to be common for Tier3 entities.

Question 42 – Income, including revenue

I agree with the AASB’s intention to simplify income recognition for Tier3 entities. I do not agree with the AASB’s intended methodology.

Whatever income recognition methodology is decided, it needs to comply with the Tier3 conceptual framework. That is, any deferred or unearned income needs to meet the definition of a liability. There needs to be an obligation. Some agreements will essentially be donations (no further obligations and with upfront income recognition), and others with some sort of performance obligation for “matching” of revenue against the expenses in meeting that performance obligation.

The current proposals of “common understanding” does not link to the definition of an obligation, and seem to allow preparers to make-up whatever outcome they want.

While the results of the AASB's current post-implementation review (PIR - ITC 50) may provide some suggestions, I believe that broadly following the current AASB 15 approach is unlikely to be suitable for Tier3 entities. A fundamental change to the model is required.

The IPSASB's project on applying IFRS 15 to the not-for-profit public sector, particularly the proposals in ED71, that focus on a performance obligation to complete 'specified projects' or to spend money on 'eligible / allowable expenditure' provide a very promising basis to distinguish when performance obligations exist or do not exist.

I also suggest the AASB consider the IFR4NPO's INPAG project and what they plan to issue.

Question 43 – Employee benefits

I do not agree with the AASB's proposals to use "future outflow expected to be required" (that is, inflated by expected future pay rises), with no discounting.

I would agree with an approach of no inflating, and no discounting for Tier3 (adjusted for probabilities).

In terms of the examples, I do not agree with the reasoning. The reasoning appeared contradictory with some leave based on individual calculations and some on group calculations. Also, the calculations for personal leave (which seemed to include sick leave) is contrary to current practice where such leave is not accrued.

Question 44 – Employee benefits – termination benefits, defined benefit plans

I agree with not including special requirements for termination benefits and defined benefit plans inTier3.

I have not come across any Tier3 type entities that announce general restructuring plans months in advance, where guidance on termination benefits is required.

I have not come across any Tier3 type entities that have their own defined benefit plans. Those few that have any involvement are with group plans where contributions would be expensed under current Tier 1 and Tier 2 requirements.

Question 45 – Other topics to be included in Tier 3 reporting requirements

(a) commitments (disclosed in the notes to the financial statements);

> I agree as these seem to be consistent with current accounting or appropriate to Tier3 entities.
>
> Disclosures for commitments should be restricted to 'capital expenditure', and specifically identified operating commitments (e.g. leases). Other committed operating commitments, such as wages, electricity, water, outsourcing agreements etc. should not be included.

(b) events after reporting period;

> I agree as these seem to be consistent with current accounting or appropriate to Tier3 entities.

(c) expenses;

I do not agree. The New Zealand Tier 3 reporting requirements include provisions relating to disclosure of fund-raising expenses. This is a controversial topic that the AASB said that it would address separately.

I agree with the proposals in paragraph 5.207.

(d) foreign currency transactions;

I agree as these seem to be consistent with current accounting or appropriate to Tier3 entities.

(e) income taxes;

I agree with the proposals to use a tax payable approach, as this is appropriate to Tier3 entities.

(f) going concern;

I agree as these seem to be consistent with current accounting or appropriate to Tier3 entities.

(g) offsetting; and

I agree as these seem to be consistent with current accounting or appropriate to Tier3 entities.

(h) provisions, contingent liabilities and contingent assets.

I agree as these seem to be consistent with current accounting or appropriate to Tier3 entities.

Question 46 – Disclosure approach

While I agree with the AASB's intention to use an existing set of simplified disclosures (Tier 2), I do not believe that the end result will be suitably simplified for Tier3 entities.

I suggest that the AASB also consider disclosures in the New Zealand Tier3 when the accounting practices are similar.

Question 47 – Disclosures – PPE and investment property

As I have stated above, I do not agree with the proposals related to donated PPE (initial measurement of non-financial assets acquired at significantly less than fair value) nor the requirement for mandated separate investment property accounting. I also disagreed with the mandatory 'treadmill approach' for fair value, and that ad-hoc revaluations (with suitable disclosure) would be sufficient.

Apart from the above, the disclosures appear reasonable, giving information on how the assets are measured (including for ad-hoc revaluations), how (and over what period) the assets are depreciated, and a reconciliation of opening and closing balances.

Question 48 – Disclosures – Leases

(a) Lessee
I do not agree with the proposed lessee disclosures. As I stated above, the AASB needs to sort out what 'straight-line basis' and 'minimum lease payments' means for rent-free periods, and fixed vs variable rents.

The AASB also needs to sort out what the lease term means for non-cancellable leases. Lease term under AASB 16 includes option periods. Yet, an option extension would be cancellable if not already exercised.

(b) Lessor
I do not agree with the proposed disclosures. Similar for lessees, the AASB also needs to sort out what the lease term means for non-cancellable leases and option periods.

It is also not clear what 'future lease payments' means when there are variable payments – minimum, or expected payments?

I was also confused about the proposed disclosures for (b) – was this variable lease payments recognised as revenue for the current period? What about disclosing the variable component?

Question 48 – Disclosures – Changes in accounting policy and correction or errors

As I stated above, I do not agree with errors not being corrected in the prior period. I believe that errors should be corrected in the prior period.

Apart from adjusting the prior period errors for that change, the disclosures appear reasonable.