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1 March 2023

Dr. Keith Kendall
Chair
Australian Accounting Standards Board
Level 14, 530 Collins Street
Melbourne VIC 3000

Via email: standard@aasb.gov.au

Dear Dr. Kendall

SUBMISSION – DISCUSSION PAPER – DEVELOPMENT OF SIMPLIFIED ACCOUNTING REQUIREMENTS (TIER 3 NOT-FOR-PROFIT PRIVATE SECTOR ENTITIES)

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on the AASB's *Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* (the Discussion Paper).

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners network are full service firms and we are committed to high ethical standards across all areas of our practice. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities, not-for-profit entities and small to medium sized enterprises.

Consistent, with developments in the for-profit sector, we support the AASB's intention to remove the reporting entity concept contained in SAC1 for those NFPs that have a legislative requirement to prepare financial statements in accordance with 'Australian Accounting Standards'. However, we do not support the removal of the reporting entity concept for those NFPs that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards. We consider this to be burdensome for no real user benefit and will create much confusion for NFP entities.

Our support for the removal of the reporting entity concept for certain NFPs resulting in the expansion of the requirement to prepare general purpose financial statements is based on their being a 'simpler reporting framework' for NFPs (Tier 3 Standard), being made available. Without a simpler reporting framework, removal of the reporting entity concept for certain NFPs will increase the reporting burden when adopting general purpose financial statements. There are many smaller NFPs in the community that do not have the skills or resources to adopt either Tier 1 or Tier 2 general purpose financial statement requirements and have historically applied the reporting entity concept and prepared special purpose financial statements. This Discussion Paper is a good start to progressing such a development.

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Our support for a simpler reporting framework is dependent on the following existing within the Tier 3 standard:

- It is predominantly self-contained, including its own summarised conceptual framework;
- It is based on requirements that already exist internationally or exist in other comparable jurisdictions rather than the AASB spending time and resources developing a framework from first principles;
- It does not contain reporting thresholds for its application, with this being left to regulators and policy makers;
- It deals with areas that commonly exist in smaller NFP entities, rather than deal with all topics in the full suite of accounting standards;
- Effective transition arrangements are developed which deals with entities that either currently prepare Tier 1, Tier 2 or special purpose financial statements;
- Disclosures are reduced further than that already in the Tier 2 Simplified Disclosure requirements; and
- It is reviewed once every five years (or after three years if there was a substantive case for doing so).

We commend the AASB on their consultation process on this topic and include our detailed comments to some of the questions posed in the attached Appendix.

Please contact Ms Kerry Hicks, Director – Technical Standards (02 9228 2272 or kerry.hicks@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely

K L Byrne
Partner

Kerry Hicks
Director, Technical Standards

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The specific matters for comment have been summarised from the original Discussion Paper and grouped together for the purposes of responding. Questions 47 – 49, relating to specific areas of disclosures, have not been responded to.

Questions 1 to 4 Thresholds, principles and timing (summarised)
1. The Board do not intend to develop 'reporting thresholds' to specify which reporting Tier that a NFP private sector entity must, at a minimum, comply with in preparing financial statements. Do you agree? Why or why not? **2. The Board do not intend to develop proposals for reporting service performance information as part of this project. Do you agree? Why or why not?** **3. The 'objective' and 'primary users' incorporated in the *Framework for the Preparation and Presentation of Financial Statements* include modifications for not-for-profit entities. Do you agree with the modifications and the Boards plan to extend the application of the *Conceptual Framework for Financial Reporting* to all not-for-profit entities once the modifications for NFP entities are included and on release of a Tier 3 Standard?** **4. The Board intends to align the timing of any new Tier 3 reporting requirements with the timing of any extension of Australian Accounting Standards to a broader set of NFP private sector entities. Do you agree? Why or why not?**

Response:

1. We agree with the Board's approach because we do not consider it is the role of the accounting standard setter to propose regulatory thresholds and this power should remain with policy makers. However, we consider the AASB should liaise with policy makers and regulators to ensure they have some guidance in place regarding the application of the Tier 3 Standard.

   In order to guide preparers and users in adoption of Tier 3 until regulatory changes take place, the AASB could consider including recommended application thresholds within the basis for conclusions.

   Further, if a regulator specifically requests the AASB to require the standard to apply to entities under a certain revenue threshold, it could be included in the scope paragraphs within the Tier 3 standard. However, such request should be subject to adequate consultation and due process before this is done.

2. We agree with this approach.

3. We do not agree that NFP modifications in respect of Tier 3 should be made to the *Conceptual Framework for Financial Reporting*. We consider that for the Tier 3 Standard to be truly standalone it needs to incorporate its own summarised version of the conceptual framework for the following reasons:
   (a) Consistency with the international IFRS for SMEs standard;
   (b) Complexity of the *Conceptual Framework for Financial Reporting* for Tier 3 NFP private sector entities for NFPs of this size; and
   (c) Differences in recognition and measurement for Tier 3 NFP private sector entities would necessitate some different considerations in the conceptual framework to allow for this – such as cost vs benefit considerations.

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Further, when developing or amending the Conceptual Framework for application to NFP entities, we encourage the AASB to consider international developments in this space. Internationally an initiative, called IFR4NPO, is underway to develop the world's first internationally applicable financial reporting guidance for non-profit organisations (NPO) to improve clarity and consistency of NPO financial reports. The initiative is being championed by a partnership between Humentum and the Chartered Institute of Public Finance and Accountancy in the UK and involves standard setters across the world. This initiative has currently produced its first of three exposure drafts with a timeline for completion in 2025. This initiative will include the development of a conceptual framework for NFPs (included in Exposure Draft 1) and we encourage the AASB to contribute to this initiative as it progresses.

4. We agree that the timing of any new requirements for Tier 3 reporting should be aligned with any broadening of general-purpose financial statements to certain NFP entities in order to minimise the impact of the changes. More specifically, the application of Australian Accounting Standards to NFP private sector entities should not be extended until such time as a Tier 3 Standard is issued and operative.

Questions 5 to 8 Removal of reporting entity concept, Simpler reporting (summarised)
5. Do you agree in extending the set of NFP private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1 and the reporting entity concept (i.e. removal of certain NFP private sector entities to prepare special purpose financial statements)? Why or why not? **6. Do you agree to introduce a simpler further reporting tier (Tier 3) for NFP private sector entities that are required to prepare financial statements complying with Australian Accounting Standards, which serves as a proportionate response for smaller sized entities with less complex transactions and events? Why or why not?** **7. Do you agree to the Board's view to not develop a fourth tier of accounting (cash basis of accounting) for NFP private sector entities?** **8. Do you agree with the Board's view to not make changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards, as presently modified for NFP private sector entities?**

Response:

5. We agree with the removal of the reporting entity concept contained in SAC1 for those NFPs that have a legislative requirement to prepare financial statements in accordance with 'Australian Accounting Standards'. This would be consistent with the changes recently made in the for-profit sector and would improve accountability and transparency of the financial statements that are lodged. Further, rationale to support this move is based on academic research, now several years ago, that showed the quality of special purpose financial reports was very poor.

   However, we do not support the removal of the reporting entity concept for those NFPs that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards. We consider mandating the preparation of GPFSs to those entities preparing financial statements outside of legislative requirements to be burdensome for no real user benefit, given that the users themselves, via the constituting document or other document, determine the appropriate form of financial statements to be prepared. Whilst broadening the application to these types of

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entities would be consistent with that done in the for-profit sector, with the benefit of grandfathering relief, application of these requirements in the for-profit sector has been confusing, has ongoing consequences and is not subject to any oversight as this environment is wholly unregulated. In our opinion, such NFP private sector entities should be permitted to continue to prepare special purpose financial statements.

6. Given the number of entities that will be captured through the proposals outlined in question 5 and the current transaction neutral approach by the AASB regarding those NFP entities applying Tier 1 and Tier 2 Australian Accounting Standards, in our opinion, the most effective and pragmatic way of keeping the increased reporting burden to a minimum is to introduce a further reporting Tier (i.e. Tier 3) with simpler recognition and measurement requirements of Australian Accounting Standards. NFPs have much lower thresholds for legislative reporting than the for-profit sector, so simpler requirements to replace what entities are currently doing (special purpose financial statement) is absolutely necessary to achieve a proportionate response for smaller sized entities to prepare general purpose financial statements.

7. We agree with the Board's position to not develop a fourth reporting tier as we do not consider a cash basis of accounting to meet the requirements of general-purpose financial statements and the population this would apply to is minimal.

8. We agree that at this stage, subject to the outcome of the post implementation review of the AASB 1058 *Income of Not-for-Profit Entities*, the AASB should not be exploring changes to the existing requirements of Tier 1 and Tier 2 Australian Accounting Standards.

   However, we do consider that some of the proposals in the Discussion Paper could be explored further in the international context as part as IFR4NPOs development for all NFP entities, such as income recognition. Income recognition is an example of one area where the AASB's policy of 'transaction neutrality' has resulted in significant complexity for many NFP entities with little, if any, improvement in comparability of financial information.

   Once the IFR4NPO standard has been finalised, we encourage the AASB to explore the appropriateness of its adoption in full or in part in Australia for all NFP entities, including those applying Tier 1 and Tier 2 Australian Accounting Standards.

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Questions 9 to 13 Single standard, accounting policy choices, scoping, hierarchy and frequency of updates (summarised)
9. Do you agree with the Board's view to specify Tier 3 reporting requirements in a single stand-alone accounting standard? Why or why not? **10. Do you consider an entity preparing Tier 3-compliant financial statements should 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 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 Tier 3 reporting requirements?** **Why or why not?** **11. The Board proposes to not cover the following items in a Tier 3 Standard, do you agree? Why or why not?** **a) Biological assets** **b) Insurance contracts** **c) Exploration and evaluation of mineral resources expenditure** **d) Business combinations** **e) Obligations arising under defined benefit superannuation plans** **f) Share-based payment arrangements** **g) Service concession arrangements** **h) Financial assets and financial liabilities other than those specifically identified in the Discussion Paper.** **12. The hierarchy for entities to apply in developing accounting policies when preparing Tier 3 financial statements for transactions and other events outside the scope of the Tier 3 requirements is to:** **a) First apply Tier 2 reporting requirements; and** **b) Otherwise apply judgement to develop an accounting policy by reference to the principles and requirements in Tier 3 requirements dealing with similar or related issues and the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework.** **Do you agree? Why or why not?** **13. The Board intends on only reviewing Tier 3 reporting requirements no more than once every five years and only if there is a substantive case in doing so. Do you agree? Why or why not?**

Response:

9. We support the proposal for the Tier 3 reporting requirements to be contained in a single stand-alone accounting standard. This approach is consistent with that developed internationally in the IFRS for SME standard and we believe it will be simpler and less costly for smaller NFPs to understand and follow.

   However, we do not support the Board's preliminary view that the Tier 3 standard does not require its own abbreviated framework. We consider that, consistent with IFRS for SMEs, it should contain its own abbreviated framework as discussed in Question 3 above.

10. We support Option a) which would restrict the ability of entities to opt up to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards to only those transactions, events and circumstances that are specifically permitted by the Board. We do not support Option b) which allow entities to opt up to an accounting policy in any circumstances, since we believe this would compromise comparability.

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11. We support the Board's tentative decision that the proposed Tier 3 Standard not cover the items listed in question 11 with the exception of business combinations. Mergers in the NFP sector do occur from time to time and we consider that Tier 3 should address such situations, as the Tier 2 requirements are confusing for NFPs in this regard. For the other topics listed we consider that NFPs of a smaller size are unlikely to have these types of transactions.

12. We consider that it is unlikely that many transactions will occur on topics that are out of scope for this size of entity and are unsure what the AASB is specifically proposing to be 'out of scope' versus those topics not covered in the standard.

    Our preferred approach is for the standard to be stand-alone and therefore no mandatory requirement to look at Tier 2 requirements (which could be complex for preparers of smaller NFP entity financial statements). However, we would like to see more information on this before reaching a final position.

    Whilst we think it is unlikely that transactions will occur on topics that are out of scope, we consider that the entity should apply judgement taking into consideration the principles and considerations in the Tier 3 requirements dealing with similar issues and the conceptual framework. We consider that this is the less complex approach for NFPs.

13. We agree with an approach to review the standard every five years. However, we would also accept a review at a time period of three years if there was a substantive case for doing so.

Questions 14 to 17 Financial statements and consolidation (summarised)
14 A) Do you agree with the Board's tentative decision that the general-purpose financial statements should comprise a statement of profit and loss and other comprehensive income, statement of financial position, statement of cash flows and explanatory notes? **B) Do you consider that the financial statements should also include a statement of changes in equity?** **14. Do you agree that the information presented on the statement of profit or loss and other comprehensive income and the statement of financial position should be consistent with those specified by AASB 1060?** **15. Do you agree that the statement of cash flows should require:** **a) Cash flows from operating activities separately from other cash flows;** **b) Cash flows from operating activities using the direct method; and** **c) Cash and cash equivalents as specified by AASB 1060?** **17. Do you agree with the Board's preliminary view to allow an entity to present either:** **a) Separate financial statements as its only financial statements, even if it has subsidiaries; or** **b) Consolidated financial statements consolidated all or its controlled entities.**

Response:

14. We do not agree with the Board's preliminary views as 'other comprehensive income' is confusing terminology for many NFPs. We would prefer the two-statement approach (being a separate statement of profit or loss and a separate statement of comprehensive income), but the second statement need only be prepared in the event that the entity has other comprehensive income. Otherwise, they would simply present one statement being the

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statement of profit or loss. Further, we would prefer NFP terminology be included in the proposals – for example using the IFR4NPO wording the statement of profit or loss could be referred to as a 'Statement of Income and Expenses'.

Our preference is not to include a statement of changes in equity, as equity is not a focus for NFPs. Some NFPs do 'reserve accounting' where items are transferred between reserve accounts set aside for a particular purpose. In these cases, notes should be required explaining the purpose of the reserve and a movement schedule.

If the Board determines to include such a statement, it should be renamed to use language more appropriate to NFPs – for example using the IFR4NPO wording it could be referred to as a 'Statement of Changes in Net Assets'. Whilst information on movements between reserves might be useful for some NFPs, this can be contained within a note in the financial statements.

15. We agree that information presented on the statement of profit or loss and the statement of comprehensive income can be consistent with that specified in AASB 1060.

16. We agree with the Board's preliminary view regarding the statement of cash flows.

17. We agree with the Board's preliminary view to provide NFPs with a choice as to whether they consolidate their subsidiaries or not. Whilst this could lead to a lack of comparability, and potential abuse (e.g., by undertaking activities and executing transactions in unconsolidated subsidiaries so as not to present the full information about an entity) we would expect the number of entities impacted to be minimal given the application to smaller NFPs.

Questions 18 to 20 Separate financial statements, changing accounting policies and errors and accounting estimates (summarised)
17. Do you agree that in separate financial statements a parent can measure its interest in subsidiaries at either: **(a) Cost;** **(b) Fair value through other comprehensive income; or** **(c) Using the equity method of accounting?** **18. Do you agree with a modified retrospective approach when changing accounting policies and correcting accounting errors?** **19. Do you agree that requirements for changes in accounting estimates should be accounted for prospectively, consistent with AASB 108?**

Response:

18. We agree with the Board's preliminary view for a NFP to measure its interest in subsidiaries at one of three methods shown above. We would expect that cost to be the most preferred method.

19. We agree with the Board's preliminary view for NFPs to adjust for changes to accounting policies in the current period only, without adjusting comparatives. This is a less complex method for NFPs and therefore benefits should exceed the costs in this instance. However, in regard to accounting errors, we consider these should be corrected in the period they occur since correcting the comparative information will provide more useful information for readers of the financial statements.

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20. We agree with the Board's proposal that accounting for changes in accounting estimates should be consistent with AASB 108.

Questions 21 to 27 Financial instruments (summarised)
21. Do you agree that the Tier 3 Standard should only contain requirements for 'basic' financial instruments with certain 'more complex' financial instruments accounted for in accordance with AASB 9? **22. Do you agree that a proportionate response for Tier 3 reporting requirements is not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable and measurable, including embedded derivatives?** **23. Do you agree that an entity preparing Tier 3-compliant financial statements will not have access to hedge accounting?** **24. Do you agree in developing a requirement for basic financial assets and financial liabilities to be initially measured at fair value with transaction costs immediately expensed?** **25. Do you agree that basic financial instruments should be subsequently measured as follows:** **a) Basic financial assets that are held to generate both income and a capital return – at fair value through other comprehensive income; and** **b) All other basis financial assets and financial liabilities – at cost?** **26. Do you agree that impairment of basic financial assets measured at cost should be recognised when it is probably that some or all of the amount owed will not be collectible with measurement based on the anticipated uncollectible amount?** **27. A) Do you agree that a financial asset is derecognised only when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset?** **B) Do you agree that debt instrument exchanges or modifications of financial liabilities should not be dealt with in a Tier 3 Standard?**

Response:

21. We agree with the Board's preliminary views to simplify financial instruments generally, although we note that the boundary between 'basic' and 'complex' will need to be made very clear so to make it simple for smaller NFPs to apply. However, in the event that an instrument is 'complex' consideration could be given to simply requiring all changes in fair value to be recognised through other comprehensive income (irrespective of the requirements in AASB 9 that may require fair value through profit or loss). This would eliminate the need for NFPs to consider the nature and purpose of the financial instrument.

21, 23, 26 and 27

Hedge accounting, derivative financial instruments and debt instrument exchanges and modifications are unlikely to be applicable to NFPs of this size and therefore excluding them from the Tier 3 Standard is appropriate. A simplified model for impairment instead of the expected credit loss model is also supported.

25. We are supportive of the measurement of gains/losses on basic financial assets held to generate both income and a capital return of NFPs (which would include investments in equity or debt instruments) being accounted for through other comprehensive income, as it is our experience that many smaller NFPs do not want to see fair value gains and losses impacting their 'normal' income/expense operating result.

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Questions 28 to 29 Fair value measurement (summarised)
28. Do you agree with the Board's preliminary view to not depart from the principles of AASB 13 *Fair Value Measurement* when developing the Tier 3 requirements? **29. Do you agree with the Board's preliminary view that cost may be an appropriate measure of fair value when cost represents the best estimate of fair value within a wide range of possible fair value measurements?**

Response:

28. and 29.

We agree with the Board's preliminary views on the determination of fair value.

Questions 30 to 36 Inventory, biological assets, investments in associates and joint ventures, separate financial statements, property, plant and equipment, investment property, non-financial assets acquired for significantly less than fair value, and volunteer services (summarised)
30. Do you agree with the Board's preliminary view that inventory should be measured on a basis consistent with the requirements of AASB 102 *Inventories*? **31. Do you agree with the Board's preliminary view regarding the treatment of biological assets?** **32. Do you agree with the Board's preliminary view regarding the treatment of investments in associates and joint ventures?** **33. Do you agree with the Board's preliminary view regarding the measurement of investments in associates and joint ventures in the separate financial statements of the investor?** **34. Do you agree with the Board's preliminary view that (except for the treatment of borrowing costs) property, plant and equipment and investment property should be measured on a basis consistent with Tier 2 Accounting Standards?** **35. Do you agree with the Board's preliminary view to allow an accounting policy choice for the initial measurement of non-financial assets (other than inventory) at either cost or fair value?** **36. Do you agree with the Board's preliminary view to permit, but not require, NFPs to recognise volunteer services?**

Response:

30. We agree that inventory should be measured on a basis consistent with the requirements of AASB 102 *Inventories*.

31. In the event the Board intends to cover biological assets and agriculture produce within Tier 3, we agree that the most appropriate approach is to measure these at cost, consistent with the requirements for the measurement of inventory under AASB 102 *Inventories*.

32. We agree with the Board's preliminary view regarding the treatment of investments in associates and joint ventures.

33. We agree with the Board's preliminary view regarding the measurement of investments in associates and joint ventures in the separate financial statements of the investor.

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34. We agree with the Board's preliminary view that (except for the treatment of borrowing costs) property, plant and equipment and investment property should be measured on a basis consistent with Tier 2 Accounting Standards.

35. We agree with the Board's preliminary view to allow an accounting policy choice for the initial measurement of non-financial assets acquired for significantly less than fair value at either cost or fair value. However, in our opinion:
    (a) such accounting policy choice should not be available for those non-financial assets acquired for significantly less than fair value through business combinations; and
    (b) where an entity elects to initially measure non-financial assets acquired for significantly less than fair value at their cost (which may be $nil), the Tier 3 Standard should include specific disclosure requirements in relation to such non-financial assets in the reporting period in which the acquisition occurs and in subsequent reporting periods (until the asset is disposed). In our view, it is important that users of the financial statements to have an understanding the non-financial assets that are controlled by the entity and not fully reflected in the statement of financial position.

36. We agree with the Board's preliminary view to retain the option to permit, but not require, a smaller not-for-profit entity to recognise volunteer services received, or a class of volunteer services, if the fair value of those services can be measured reliably.

Questions 37 to 40 Borrowing costs, impairment and intangibles (summarised)
37. Do you agree with the Board's preliminary view to require all borrowing costs to be expensed in the period incurred for Tier 3 NFP private sector entities? **38. Do you agree that the impairment model for non-financial assets of Tier 3 NFP private sector entities should:** **a) Only require non-financial assets subsequently measured at cost or deemed cost to be subject to impairment testing;** **b) Only require entities to consider whether non-financial assets are impaired when the asset has been physically damaged or when its service potential might have been adversely affected by a change in the entity's strategy or changes in external demand for the entity's services;** **c) Requirement for impairment of a non-financial asset to be recognised if its carrying amount exceeds its recoverable amount; and** **d) Allow entities to group non-financial assets that do not generate cash flows that are largely independent from other assets into cash-generating units for impairment purposes?** **39. Do you agree with the Board's preliminary view to not introduce specific requirements for non-current assets held for sale?** **40. Are you aware of any intangible assets and their type commonly held and recognised by smaller NFP private sector entities? If so, provide details.**

Response:

37. We agree with the Board's preliminary view to expense borrowing costs, as this is consistent with IFRS for SMEs.

38. We are supportive of the Board's proposed impairment model.

39. We agree with the Board's preliminary view to not introduce specific requirements for non-current assets held for sale.

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40. Smaller NFP private sector entities can hold intangible assets relating to IT development costs, bed licenses, poker machine licenses, patents and trademarks. It would be useful for the Tier 3 standard to address those common items that cannot be capitalised – such as research, training, formation costs, software not controlled by the organisation (ie that on the cloud), sales and marketing costs, etc.

Questions 41 to 43 Leases, Income, Employee benefits and Other topics (summarised)
41. Do you agree with the Board's preliminary views on leases, as follows: **a) Requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term. A similar requirement would apply for lessors;** **b) Account for concessionary leases in the same manner as other leases; and** **c) Not including specific requirements for sale and lease back transactions or for manufacturer or dealer lessors?** **42. Do you agree with the Board's preliminary view that income recognition for Tier 3 entities should require an entity to assess whether a transaction is based on a common understanding, evidenced by the transfer provider in writing or some other form, that the entity is expected to use the inflows or resources in a particular way or act or perform in a particular way that results in outflows of resources, including:** **a) Transferring goods or services;** **b) Performing a specified activity;** **c) Incurring eligible expenditure for a specified purpose; and** **d) Using the inflow or resources in respect of a specified period.** **43. Do you agree that a provision for employee benefits is measured at the undiscounted future outflow expected to be required (including consideration of future pay increases) to settle the present obligation?** **44. Do you agree with the Board's preliminary view to not develop any other special requirements for termination benefits and defined benefit plans?** **45. Do you agree with the Board's preliminary view that Tier 3 reporting requirements would be similar to those specified in New Zealand's Tier 3 reporting requirements for commitments, events after balance date, expenses, foreign currency transactions, income taxes, going concern, offsetting and provisions, contingent liabilities and contingent assets?**

Response:

41. We support the Board's preliminary views to simplify lease accounting and remove the need to capitalise leases and account for them on a straight-line basis over the lease term. Applying Tier 2 to NFPs in the area of leases results in a huge amount of complexity and cost for entities, and for a NFP there is little benefit to users for this information.

42. We support the Board's preliminary views on the simplification of the income recognition requirements for NFPs. To the extent that that this simplification introduces new terms to be considered – for example 'other customary form' – the guidance will need to be specific as to what this means.

    However, we encourage the Board to explore an even simpler approach that incorporates the matching of income with expenditure in a manner consistent with the requirements of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. For example, if the entity is clearly 'the seller' of goods or services, income is recognised as/when those goods or services are sold or delivered, if not, income is recognised on a systematic basis over the periods in which the entity expenses the costs of the activity to which the income relates. This may be a simpler method that users and NFPs understand.

43. We support the Board's preliminary view to recognise employee benefits at the undiscounted future outflow expected. However, estimating the salary at the time the leave is expected to be taken may be difficult for NFPs to determine, particularly in relation to long service leave. Therefore, our preference is that a provision for employee benefits (for all leave balances) is measured at current wage rates at balance date.

44. We agree with the Board's preliminary view to not develop any other special requirements for termination benefits and defined benefit plans.

45. We do not understand the rationale as to why these topics are proposed to have similar requirements to those in New Zealand's Tier 3 reporting requirements, rather than in IFRS for SMEs as the topics do not seem particularly specific to NFPs.

Questions 46 – Disclosures (summarised)
46. Do you agree with the Board's preliminary view that disclosure requirements for Tier 3 NFP private sector entities should be developed based on the following principle: **a) Where there is a recognition and measurement difference between Tier 3 and Tier 2, Tier 3 reporting requirements will adopt disclosures from comparable jurisdictions or develop fit-for-purpose disclosure requirement if no comparable jurisdictions; and** **b) Where the recognition and measurement requirements are the same as Tier 2, the disclosure requirements of AASB 1060 will be used as a starting point with further consideration of simplifications?** **Why or why not?**

Response:

46. We agree with the Board's preliminary view on the disclosure principle identified in the above question, noting that we would expect significant disclosure reductions as compared to Tier 2 requirements.

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28 March 2023

Dr Keith Kendell - Chair
Australian Accounting Standards Board
PO Box 204
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Vic 8007

Dear Keith

Discussion Paper: Development of simplified accounting requirements (Tier 3 – Not-for-Profit Private Sector Entities)

Thank-you for the opportunity to provide feedback on the Discussion Paper Development of Simplified Accounting Requirements (Tier 3 – Not-for-Profit Private Sector Entities).

Moore Australia is a network of independent accounting firms, with 14 office and 500+ staff across Australia's capital cities and regional centres. We have a large portfolio of Not-for-Profit clients and are mindful of the challenges that they currently face with meeting financial reporting obligations. Our feedback in this letter is the result of consultation across our network including both engagement teams that assist in preparing NFP financial statements and our audit teams.

Overall, we are supportive of the introduction of simplified accounting requirements for smaller Tier 3 NFPs. Our client base spans from traditional Not-for-Profit charities, regulated by the ACNC and associations as well as Aboriginal Corporations, regulated by the Office of the Registrar of Indigenous Corporations (ORIC). These diverse types of NFP organisations who would potentially apply this eventual standard have vastly different businesses and therefore financial reporting needs. However, we do agree that organisations that are likely to be in the scope of these proposals are likely to be simpler business with simpler financial reporting needs. The Board may wish to consider standing back and looking at the requirements in their entirety once drafted to ensure that there is sufficient reduction in the reporting requirements compared to Tier 2.

Please see our detailed responses to the questions from the Discussion Paper in the Appendix. In addition please be advised, we have not provided a separate response to ITC 50 *Post-Implementation Review – Income of Not-for-Profit Entities* and ITC 51 *Post-Implementation Review of Not-for-Profit topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements.* We have completed the survey on these ITCs and some of the responses we have elaborated on in this response, may also be relevant for your consideration of those ITCs.

If you wish to discuss our responses in more detail, please contact me via email (kristen.haines@moore-australia.com.au)

Yours faithfully

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Appendix

Question 1

Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements.

Do you agree? Why or why not? If you disagree with the Board's view, how do you propose the Board stratify entities amongst the available reporting tiers?

We understand why the AASB has not developed reporting thresholds in this Discussion Paper as it believes that the other Regulators should determine to whom the relevant accounting standards should apply. However, it is challenging to comment on the appropriateness of the proposals without a clear indication from the ACNC and other regulators, which entities would be required to comply with these proposals.

At any Exposure Draft stage, we would encourage you to engage with the ACNC and any other significant regulators in this space, for them to provide guidance on their expectations of which entities it would apply to. This would improve our ability to comment on the specific appropriateness of the disclosures required.

We do have significant concerns about the current thresholds for reporting by NFPs around Australia generally and would encourage the AASB to work with other regulators to look at the appropriateness of the reporting thresholds in light of this new reporting regime on the introduction of the Tier 3 requirements. Issues include inconsistencies between state-based regulators thresholds and those set by the ACNC. The use of 2 – 3 consistent thresholds across the entire NFP industry based on assets, income and employees/ volunteers would significantly simplify the application of the standards, whether it was the AASB who mandated those thresholds or facilitated the discussion amongst other regulators.

The quantum of the reporting thresholds should also be considered in light of the introduction of this Tier 3 financial reporting as the current onus on some NFPs to prepare Tier 2 financial statements is too burdensome. This is especially an issue for organisations regulated under the *Corporations (Aboriginal and Torres Strait Islanders) Act (2006).* These Aboriginal and Torres Strait islanders organisation may have low risks but significant assets or turnover and the adoption of sophisticated account rules make the financial statements un-interpretable to the users, particularly for directors who don't have a high degree of financial acumen, but have sufficient common sense to know that a strategy is risky.

Question 2

Paragraphs 1.9 to 1.11 discuss the Board's view that it does not intend to develop proposals for reporting service performance information as part of this project.

Do you agree? Why or why not? If you disagree with the Board's view, what requirements do you think entities should be required to apply? Would these requirements apply to all not-for-profit private sector entities or only be reporting requirements of a specified reporting tier?

We agree that it is appropriate not to include service performance information as part of this project at this stage. We agree that service performance information is a broader requirement required across the NFP reporting space.

When developing the services performance information, it would be useful to consider concurrently not only what general disclosures that might be required, but also whether simplified versions could also be developed and then if appropriate incorporated into any final standard that eventuates from this project, as long as it doesn't unduly hold up the completion of this standard.

However, we feel that consideration should be given as to whether or not certain NFPs should be required to disclose the level of administration costs in the financial statements. This is an ongoing concern for donors and it is believed to be an important factor in determining the allocation of philanthropic funds by benefactors. This would have to be accompanied by detailed guidance as to a definition of what constitutes administration costs and how certain costs should be allocated.

Question 3

The 'objective' and 'primary users' incorporated in the Framework for the Preparation and Presentation of Financial Statements include modifications for not-for-profit entities.

Paragraphs 1.14 to 1.16 discuss the Board's Conceptual Framework: Not-for-Profit Amendments project and how it interacts with this project. Do you agree that the Framework for the Preparation and Presentation of Financial Statements (including the modifications for not-for-profit entities) appropriately:

a) depicts the objective of general purpose financial reporting for not-for-profit private sector entities; and

b) identifies the set of primary users of the financial statements of a not-for-profit entity. Why or why not? If you disagree, what is your reasoning?

The Board plans to extend the application of the Conceptual Framework for Financial Reporting to all not-for-profit entities once the modifications for not-for-profit entities are included and on the release of a Tier 3 Standard. Do you have any other concerns about applying the Conceptual Framework for Financial Reporting to smaller not-for-profit private sector entities that have not already been noted in paragraph 1.14? If so, please describe them.

We do not feel we have a sufficient understanding of the Conceptual Framework: Not-for-Profit Amendments project at this stage to provide any views on this question.

Question 4

As noted in paragraph 1.18, the Board intends to align the timing of any new Tier 3 reporting requirements with the timing of any extension of the Australian Accounting Standards to a broader set of not-for-profit private sector entities.

Do you agree? Why or why not?

Yes, we agree with this approach. This is consistent with the changes that occurred in the For-Profit space and the timing of the introduction of AASB 1060. This transition worked effectively in the for-profit space, and similar timing in the not-for-profit space also make sense. If the extension of who has to apply with Australian accounting standards is effective before the Tier 3 requirements, the result would be farcical with some smaller NFPs having to prepare at least Tier 2 financial statements for a short period of time before being able to transition to the simpler Tier 3 requirements.

However, once again we would expect that much liaison will be required with respect to State-based Regulators to ensure consistency of adoption.

Question 5

Paragraphs 2.5 to 2.7 propose to extend the set of not-for-profit private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1. The effect is that more entities will be required to prepare general purpose financial statements when required to prepare financial statements that comply with Australian Accounting Standards.

Do you agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply? Why or why not? If not, what alternative approach do you suggest?

We believe that bringing consistency between the for-profit and not-for-profit sector in the way it is determined who must comply with accounting standards, will simplify the decision making and reduce confusion. Accordingly, although this will mean that more smaller NFP entities may now be in scope of Australian Accounting Standards, it is noted that this project should ensure that they have appropriately tailored requirements in the form of the proposed Tier 3 requirements.

Question 6

Paragraphs 2.10 to 2.12 propose the introduction of a simpler further reporting tier (Tier 3) for not-for-profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards, which serves as a proportionate response for smaller sized entities with less complex transactions and events .

Do you agree? Why or why not? If not, what alternative approach do you suggest?

Yes, we agree with the introduction of a Tier 3 for smaller Not-for-Profit Entities. This approach is consistent with the approach taken in the for-Profit sector with the introduction of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.*

Question 7

Paragraphs 2.13 to 2.17 discuss the Board's view to not develop a fourth tier of accounting for not-for-profit private sector entities.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

Yes, we agree that the Board should not introduce a fourth tier of accounting. Once it has been determined that an entity has to apply Accounting Standards, that implies that there is a level of users and importance to the entity, which requires a minimum level of accounting rules around recognition and disclosures. To introduce a fourth tier, would not be appropriate as the further simplification that it would need to be a step down from Tier 3 would be so severe, and require such minimal requirements, that it would not be appropriate to call these financial statements as complying with accounting standards. It would be questionable if any value would be obtained from the creation of a fourth tier.

Question 8

Paragraphs 3.1 to 3.5 discuss the Board's view to not make changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards, as presently modified for not-for-profit private sector entities.

Do you agree? Why or why not?

Yes, we agree that the Board does not need to fundamentally reassess their approach for larger NFPs who apply Tier 1 or Tier 2 requirements. The current structure is sufficient and well understood by NFPs. There are still improvements required to the requirements, as being discussed in ITC 50 and ITC 51, but we do not believe that the fundamental reporting structure requires re-opening. But we note our comments above (see question 2) in respect of administration costs that would likely also be relevant to larger NFPs that would apply Tier 1 and Tier 2.

Question 9

Paragraphs 4.3 to 4.6 discuss the Board's view to specify Tier 3 reporting requirements in a single stand-alone accounting standard. The stand-alone pronouncement is expected to:

a) specify only accounting requirements for transactions, events and conditions that are common to a smaller not-for-profit entity;

b) in the main, not require an entity to refer to requirements set out in other Australian Accounting Standards; and

c) express accounting requirements in a manner that is easy to understand by preparers and users who do not consider themselves to be "accounting experts".

Do you agree? Why or why not? If you disagree with the Board's view, which aspect(s) of the stand-alone accounting standard as listed in (a) – (c) concerns you the most? Please explain.

We agree with the approach proposed in the Discussion Paper. A standalone standard in simple English is going to be the most useful to preparers who are often not qualified accountants. It will be a manageable resource that they can refer to. A standalone standard also permits the limit of the updates to every 5-years as commented on in question 13 below.

We would encourage the Board to aim to make the standard completely stand alone, and not refer to other Australian Accounting Standards. If there are specific requirements from other standards that should be applied to entities applying Tier 3 reporting then include them in this standalone standard. This will help preparers in thinking about the requirements of the standard separately and may assist in breaking the anchor that preparers and advisors will have in trying to still apply the rules of Tier 1 and Tier 2 reporters, to tier 3 reporters, even though the wording has been changed and simplified.

Question 10

As discussed in paragraphs 4.10 to 4.14, Tier 3 not-for-profit private sector entities can opt-up to Tier 1 or Tier 2 reporting requirement in its entirety. However, the Board has not yet formed a view on whether it should restrict the range of accounting policies available to an entity preparing Tier-3-compliant financial statements.

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.

We do not believe that NFPs should be allowed to have a free choice to elect to apply Tier 1 or Tier 2 Australian Accounting standards for individual transactions, events, and circumstance. Such an approach would reduce the comparability of financial statements across the sector and overly complicate the preparation and any audit or review.

The purpose of the Board's development of the Tier 3 reporting requirements was to make requirements that are fit for purpose for smaller NFPs. If there are Tier 3 reporting requirements that smaller NFPs do not wish to apply then this suggests that either the entity should not be applying tier 3 requirements and should instead adopt Tier 2 requirements. Alternatively, if there is a consistent theme of Tier 1 & Tier 2 standards that Tier 3 entities wish to adopt, this may suggest that the tier 3 standard is not fit for purpose.

Where a transaction, event or circumstance is not covered by Tier 3 reporting requirements, we would recommend that the default requirement be that you apply the Tier 1 or Tier 2 requirements first before looking for any other source. This suggestion is for practicality reasons. Accountants are going to default to considering those requirements first when assisting clients in this space and preparing in accordance with the Tier 1 or Tier 2 requirements, also means that it is going to be comparable across entities, and any assurance is going to be more robust as well than if an NFP makes up their own accounting policy.

Question 11

Paragraphs 4.15 to 4.20 discuss the Board's preliminary view on the transactions and other events and conditions that may not be covered in a Tier 3 Standard. The types of items the Board intends to scope out from the Tier 3 Standard include:

a) biological assets, and agricultural produce at the point of harvest;
b) insurance contracts issued, reinsurance contracts held, 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 in Section 5 of this Discussion Paper.***

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?

We generally agree with the proposed exclusions and agree that the types of transactions listed are not likely to occur in the smaller NFP sector. However, we are aware of business combinations do arise, such as amalgamations and demerger of NFPs. Therefore, we would encourage you to provide guidance on how to account for such transactions. The approach in AASB 3 *Business Combinations* may not be fit for purpose for these smaller NFPs, and it may be more appropriate to allow the charities to recognise the assets acquired at the 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.

Question 12

Paragraphs 4.21 to 4.23 discuss the Board's preliminary view on the hierarchy for entities to apply in developing accounting policies when preparing Tier 3 general purpose financial statements for transactions and other events outside the scope of the Tier 3 requirements. That is, an entity should:

a) ***first apply Tier 2 reporting requirements: and***
b) ***otherwise apply judgment to develop an accounting policy by reference to:***
   i. ***principles and requirements in Tier 3 reporting requirements dealing with similar or related issues; and***
   ii. ***the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework that don't conflict with Tier 3 reporting requirements.***

When developing an accounting policy, an entity may also consider principles and requirements in Tier 1 and Tier 2 reporting requirements, or pronouncements of other standard-setting bodies with a similar conceptual framework, other accounting literature and accepted industry practices

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

Yes, we agree with the approach suggested. In reality when a transaction is not covered by this standard, the accountants that are advising the NFPs will default back to the requirements of the Tier 1 & Tier 2 (IFRS) accounting requirements. Not only is this because it is their base line knowledge, it will also simplify the auditing/ reviewing of the information as it will be based on an existing supportable framework. It would be unlikely that an auditor would accept an approach that is not in line with existing Australian requirements.

Question 13

Paragraphs 4.24 to 4.27 discuss the Board's view to limit revisiting its Tier 3 reporting requirements to no more than once every AASB agenda consultation cycle (5 years) and only when if there is a substantive case, in accordance with the AASB Due Process Framework for Setting Standards, for doing so.

Do you agree? Why or why not? If you disagree with the Board's view, how often do you prefer the Board should revisit its Tier 3 reporting requirements? Please explain.

Yes, we support only updating Tier 3 reporting requirements every 5 years and only if there is a substantive case. We believe that for these smaller NFPs, stability and consistency is important to them. Not only will this make the financial statements easier for the users to understand, as they may not look at them that frequently, so changes every year become challenging, but it will also be much more efficient and easier for preparers who don't need to consistently learn new requirements. This approach has been used successfully by the IASB with their *IFRS for SMEs* project and we think a similar approach would be beneficial here. However, we would suggest that a post-implementation review after two years of the application of the standard to identify any problems that have been identified during the initial application of the requirements might be beneficial and not waiting a full 5-years for this initial review.

Question 14

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

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

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

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

We agree that the primary statements should include the statement of profit and loss and other comprehensive income, statement of financial position and cashflow.

We have mixed views about whether a Statement of Changes in Equity (SOCIE) is actually required. Whilst we can see how it can be useful to link the Statement of financial position and Statement of profit or loss together, we also feel that users of smaller NFP financial statements often do not refer to them and do not understand them. In addition, the vast majority only have retained earnings impacting their equity such that it is not likely to provide much additional information. This view would be consistent with the observations that Share-based payments, and hedging are intended to be scope out of any Tier 3 requirements. Only revaluations of property, plant and equipment would potentially impact equity. However, we recognize that historically some NFPs have utilised "reserve accounting" by posting income and expenses direct to reserves. The preparation of a SOCIE has facilitated identification of such entries. In addition, if NFPs wish to properly create reserves to show that accumulated funds are "earmarked" for specific use then a SOCIE will allow for clarity in reporting of this.

Question 15

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

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

Yes, we agree with this proposed approach, the level of detail in AASB 1060 is appropriate and not excessive for the Tier 3 requirements.

Question 16

Paragraph 5.25 to 5.33 discuss the Board's preliminary view to require the statement of cash flows to present:

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

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

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

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

We agree that there is no need to separate out investing and financing cash flows and aggregating them together into an 'other cash flows' is appropriate for a smaller NFP.

Our concern is with the construction of the operating cash flow section of the cash flow statement. Although theoretically a cash flow statement should be more understandable to users of the smaller NFPs than a statement of profit or loss calculated on an accruals basis, the high-level categories (receipts from customers, payments to suppliers) are too high level for the users to gain sufficient understanding of where the cash flows are occurring. Accordingly, we would recommend that if not mandated then at least recommended in the final Tier 3 requirements, that entities provide some additional information and disaggregation on the face of the cash flow statement.

Consolidated financial statements

Question 17

Paragraph 5.34 to 5.47 discusses the Board's preliminary view to allow an entity to present either:

a) separate financial statements as its only financial statements, even if it has subsidiaries, however, require information on the parent's significant relationships; or

b) consolidated financial statements consolidating all its controlled entities.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements, for example Tier 3 accounting requirements should require an entity with subsidiaries to prepare consolidated financial statements in accordance with AASB 10? Please specify and explain why.

Yes, we agree with this approach. We think that in many instances consolidated financial statements are not necessarily meaningful in the NFP sector, due to the way that control is established and the lack of direct equity interest in subsidiaries that often arises. In addition, NFPs often set up different entities for specific discreet purposes, and it is more meaningful to users to be able to understand that discreet purpose. However, we do also support making consolidation optional, as we do understand that in some circumstances it is meaningful and useful to users to see the consolidated financial statements.

Although we appreciate that the concept of control in the NFP sector is part of the subject of ITC 51, we would encourage the Board to consider whether, if the Tier 3 requirements are going to be stand alone, specific guidance, and potentially a simpler approach as well, be included in the final requirements. Control of NFPs is such a complex area, that is not well understood, that some easily less-technical concepts may be more appropriate for Tier 3 reporters.

Separate financial statements of the parent

Question 18

Paragraph 5.48 to 5.54 discuss the Board's preliminary view on the accounting requirements for a parent that presents separate financial statements to measure its interest in subsidiaries either:

a) at cost;

b) at fair value through other comprehensive income; or

c) using the equity method of accounting.

Do you agree? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Please specify and explain why.

We are not sure as to the value of requiring parents to measure their investments in subsidiaries at either fair value or using the equity method in place of consolidation. Whilst we support not having to consolidate (see above), the introduction of fair valuing or using the equity method of accounting for measuring these subsidiaries, may not ultimately be any simpler to apply and introduces other complexities.

The equity method of accounting does not seem to be appropriate as it would still require elimination of transactions between the parent and subsidiary, consistency of accounting policies and many of the complexities of consolidating without providing the clarity of information that a full consolidation would require. Accordingly, it would appear to not be that much simpler to apply yet the information provided to users would be significantly reduced.

Changes in accounting policies and correction of accounting errors

Question 19

Paragraph 5.55 to 5.60 discuss the Board's preliminary view to develop a requirement for a modified retrospective approach to apply to changes in accounting policies and correction of accounting errors.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements for changes in accounting policies and correction of accounting errors; for example, should Tier 3 accounting requirements continue to require the accounting treatment specified by AASB 108 to retrospectively reflect voluntary changes in accounting policies and correction of accounting errors? Please explain your answer.

Yes, we generally agree with this approach. The smaller NFPs do not understand having to go back and adjust the prior year's figures, and it will be much simpler for them to just apply any changes in accounting policies in the current period. Whilst we appreciate that this will also be simpler approach for them with regards to errors as well, we do see some merit in requiring errors to be corrected retrospectively. If the prior year numbers are incorrect, it may be meaningful to users, especially where the error is significant to ensure that the preparers do have to correct the prior year numbers.

Changes in accounting estimates

Question 20

Paragraph 5.61 discusses the Board's proposal to develop a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Yes, we agree with this proposal. The change in estimates is not challenging to apply and is not currently an issue of concern for smaller NFPs.

Financial instruments

Question 21

Paragraphs 5.62 to 5.76 discuss the Board's preliminary views with respect to the accounting for financial instruments, in particular to develop simpler reporting requirements only for the identified 'basic' financial instruments.

The Board intends to require certain 'more complex' financial instruments to be accounted for in accordance with AASB 9 (or other Australian Accounting Standard, as appropriate) if the financial instrument is not otherwise addressed by a topic-based Tier 3 requirement. In addition, the Board intends not to specifically highlight or address particular financial instruments or transactions considered in AASB 9, AASB 132 and AASB 139 where these items and transactions are not common to not-for-profit private sector entities.

Do you agree with the Board's approach to the identified 'basic' financial instruments? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's preliminary views with regards to the basic financial instruments. These appear to be appropriately identified. However, we do have issues with the proposal in relation to the more complex financial instruments.

We are concerned as to how these requirements will interact with the Board's intention that the Tier 3 requirements be a separate and standalone from the Tier 1 and Tier 2 requirements. This proposal appears to directly contravene that intention and make the treatment of these 'more complex' instruments directly tied back to the Tier 1 & Tier 2 requirements. If the Board is to mandate the application of the Tier 1 & Tier 2 requirements, this may also mean that smaller NFPs are required to amend their accounting for these instruments as and when AASB 9 *Financial Instruments* and AASB 132 *Financial Instruments: Presentation* are amended, whilst the Tier 3 amendments are proposed to only be updated at certain intervals as discussed in question 13. This seems to unfairly penalise these NFPs.

One common area encountered with NFPs are bank accounts held in trust where states that it does not control those accounts and does not include it in their balance sheet. An example are NDIS clients that have bank accounts managed by the Provider. It would be useful to provide guidance on what NFPs need to consider in determining whether or not they control these types of trust accounts, within the Tier 3 requirements themselves, to ensure that it is a single reference point for preparers.

Question 22

Paragraphs 5.77 to 5.80 discuss the accounting for embedded derivatives. The Board has formed a preliminary view that a proportionate response for Tier 3 reporting requirements is not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable and measurable, including any embedded derivatives.

The Board is seeking to understand the extent to which a smaller not-for-profit private sector entity is likely to have derivatives embedded within its contracts, or enter into arrangements or contracts that may result in a derivative financial instrument. This will help inform the Board how it should approach these instruments in a future Tier 3 Standard.

Are you aware of any clauses in contracts of smaller not-for-profit private sector entities that would give rise to a derivative? Have you provided an arrangement with another party or entered into a net-settled contract that would meet the definition of a derivative? Please explain.

No, we are not aware of any contracts that our NFP clients have entered into, that meets the definition of a derivative, and agree with the Boards proposed approach.

Question 23

Paragraphs 5.81 to 5.82 discuss the Board's preliminary view that an entity preparing Tier 3-compliant financial statements will not have access to hedge accounting.

Do you agree? Why or why not? Please specify and explain why. Are you aware if smaller not-for-profit private sector entities use hedge accounting?

Yes, we agree with this approach, we think that it would be very rare that a smaller NFP engages in hedging activities and for simplification it is appropriate to exclude it from any Tier 3 requirements. If entities are sophisticated enough that they are engaging in hedging activities, it is likely that Tier 2 requirements would be the more appropriate financial statements for them to prepare.

Question 24

Paragraphs 5.83 to 5.85 discuss the Board's preliminary view to develop a requirement for basic financial assets and financial liabilities to be initially measured at their fair value. Transaction costs and fees incurred by the entity to acquire a financial asset or assume a financial liability are to be immediately expensed.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Yes. We agree with this proposal. It is a reasonable simplification for smaller NFPs and in reality probably reflects what many are already doing in practice and is accepted on the basis of materiality by Auditors.

Question 25

Paragraphs 5.86 to 5.104 discuss the Board's preliminary develop a requirement for basic financial assets and financial liabilities to be subsequently measured as follows:

a) basic financial assets that are held to generate both income and a capital return – at fair value through other comprehensive income; and

b) other basic financial assets and financial liabilities – at cost. Interest income and interest expense on these instruments are to be recognised as amounts accrue or are incurred, calculated by reference to the contractual interest rate. Any initial premium or discount on acquisition of the basic financial asset or financial liability is to be amortised on a straight-line basis over the life of the instrument, unless another systematic basis or shorter period is more reflective of the period to which the premiums or discounts relate.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the approach being taken for the other basic financial instruments (b) above), including, using the contractual interest rate.

For basic financial instruments that are held to generate both income and capital returns, it may be simpler to require these just to be measured at FVTPL rather than as FVOCI. Splitting the fair value between the interest and other components can add complexity to the calculations, and s NFPs do wish to show that fair value movement as part of their profit.

Question 26

Paragraphs 5.105 to 5.108 discuss the Board's preliminary view to develop a requirement for impairment of basic financial assets measured at cost to be recognised when it is probable that some or all of the amount owed will not be collectible. The impairment loss is to be measured at the anticipated uncollectible amount.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with this proposal, as it simplifies the language and is easy to understand. However, audit questions will arise as to what is 'probable' and auditors are still likely to demand some sort of assessment of receivables. It would need to be clear in any guidance that this is an incurred loss model, and that practical evidence of the inability of the debtor to pay would be required.

Question 27

Paragraphs 5.109 to 5.114 discuss the Board's preliminary view to develop a requirement that a financial asset is derecognised only when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset.

The Board also formed a preliminary view not to address instances of debt instrument exchanges or modification of the terms of a financial liability as part of its Tier 3 Standard. An entity treats a modification of the terms of a financial liability or an exchange of a debt instrument for a different debt instrument as an extinguishment of the original financial liability.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with this proposal for the derecognition of financial assets as it is simpler and easier to understand. However, there will still be accountants will still interpret 'otherwise loses control of the asset' to mean the standard derecognition requirements in AASB 9. The Board needs to determine some way to ensure that this is not the default interpretation of this requirement.

The simplification of the modification of a liability is also supported, and this is a clear approach that eliminates the complexity of the Tier 1 and Tier 2 requirements.

Fair value measurement

Question 28

Paragraphs 5.115 to 5.119 discuss the Board's preliminary view to not depart from the principles of AASB 13 Fair Value Measurement when developing reporting requirements for Tier 3 not-for-profit private sector entities as it thinks maintaining a consistent understanding of 'fair value' across the different reporting tiers is important.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements Tier 3 not-for-profit private sector entities? Please specify and explain why.

Yes, we agree with this proposal. Fair value is such a fundament concept, that to change that concept would likely create more complexities rather than simplify the process, especially where external valuers are used to determine the fair value and they would need to understand what principles they were determining values under.

Question 29

Paragraphs 5.120 to 5.121 discuss the Board's preliminary view that cost may be an appropriate estimate for fair value when cost represents the best estimate of fair value within a wide range of possible fair value measurements for instances described in paragraph 5.120.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We are supportive of this proposal in general, but the Board would need to ensure that there are appropriate parameters around when cost may be an appropriate estimate.

Inventory

Question 30

Paragraphs 5.125 to 5.126 discuss the Board's preliminary view to develop Tier 3 reporting requirements that are consistent with the requirements in AASB 102 Inventories.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Yes, we agree with the proposed approach. We think the current inventory requirements in AASB 102 are well understood and do not provide significant challenges to smaller NFPs. The Board may consider whether specific guidance is required within the final standard with regards to the accounting for inventory held for use in the provision of services (and not held for sale). Our experience is that there is a divergence in treatment with some NFPs expensing all purchases when acquired and others recognize the amount on hand at the end of the reporting period.

Question 31

Paragraph 5.128 discusses the accounting for biological assets if not scoped out from a Tier 3 Standard. The Board's preliminary view is not to include biological assets and agricultural produce at the point of harvest in a Tier 3 Standard as discussed in paragraphs 4.20.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the accounting for biological asset should be included in a Tier 3 Standard and accounted for in accordance with the requirements for inventory? Please specify and explain why.

Yes, we agree with excluding biological assets from the Tier 3 requirements. We are not aware of any smaller NFPs that hold biological assets.

Investments in associates and joint ventures

Question 32

Paragraphs 5.129 to 5.132 discuss the Board's preliminary view to develop a requirement for interests in associates and joint ventures to be measured:

for a Tier 3 not-for-profit private sector entity that is:

a) a parent entity that presents consolidated financial statements or it is not a parent entity, the entity applies the equity method of accounting consistent with the requirements in AASB 128 Investments in Associates and Joint Ventures to its interests in associates and joint ventures; and

b) a parent entity that presents separate financial statements as its only financial statements, the entity does not apply the equity method of accounting to measure its interest in associates and joint ventures.

The Board has not yet discussed other exemptions and exceptions to applying the equity method as it is only consulting on its general approach to accounting for interests in associates and joint ventures at this stage of its project.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We do not agree with the proposal to prohibit an investor from using the equity method of accounting in separate financial statements where it is the only financial statements it is presenting. If the investor also has subsidiaries that it is equity accounting in those separate financial statements (per the proposals discussed at question 18 above), it would seem reasonable that it should still be able to capture associates and joint ventures in a similar manner.

Separate financial statements of the investor

Question 33

Paragraphs 5.133 to 5.134 discuss the Board's preliminary view to allow an accounting policy choice to require an investor that presents separate financial statements, whether in addition to consolidated financial statements or equity-accounted financial statements, to measure its interest in associates and joint ventures as either:

a) at cost; or

b) at fair value through other comprehensive income.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

The language in the Discussion Paper is not clear as to what the different types of financial statements are that would arise in different scenarios Paragraph 5.48 talks about parents including subsidiaries using the equity method of accounting in the separate financial statements, however, this section now considers that will be a different type of financial statement again. We are not clear why an investor would be preparing both equity-accounted financial statements and other separate financial statements.

However, our comments per question 32 above are potentially still relevant, however if they are preparing separate financial statements where the investment in subsidiaries is not being measured at the equity method, it would appear to be appropriate to permit the investments in associates and Joint Ventures only to be measured at cost or fair value.

Property, plant and equipment, and investment property

Question 34

Paragraphs 5.135 to 5.144 discuss the Board's preliminary view to require property, plant and equipment and investment property, other than with respect to borrowing costs, to be recognised and measured in a consistent manner to Tier 2 Australian Accounting Standards.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements such as not to allow smaller not-for-profit private sector entities to revalue their non-current assets? Please specify and explain why.

We support the proposals in relation to Property, Plant and Equipment and Investment Properties and the intention to keep them principally consistent with existing Tier 2 requirements. In particular, we support the retention of the fair value option for investment properties, as we do have smaller NFP clients that currently apply this option and would want to continue to do so. These NFPs see that these assets are important to their operations and want to reflect the value of these assets in their financial statements.

To simplify the application of fair value options for both investment properties and property, plant and equipment, the Board could consider, whether the frequency of external valuations could be reduced from the current requirements in AASB 116 *Property, Plant and Equipment* of every 3 – 5 years to every 5 years and apply similar principles to the investment properties unless there was evidence of a significant change in values.

Question 35

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

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

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

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

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

The options to apply either cost or fair value appear reasonable. However, we do not agree that entities should be prohibited in the future from applying the revaluation or fair value model for donated goods initially managed at cost. Whilst we appreciate the concerns raised in the Discussion Paper, and believe that there should potentially be some restrictions around its use, if the Entity has a genuine change in accounting policy in a subsequent reporting period, it would seem overly prohibitive to stop them revaluing it because of a decision a number of years ago when they acquired the asset.

Volunteer Services

Question 36

Paragraph 5.153 discusses the Board's preliminary view to propose retaining the option to permit, but not require, a smaller not-for-profit entity to recognise volunteer services received, or a class of volunteer services, if the fair value of those services can be measured reliably.

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

We agree with the proposed approach, and for consistency and further simplification even suggest removing the option to recognise volunteer services and note that they cannot be recognised. This is on the basis that we are not aware of any smaller NFP that actually recognises volunteer services in their financial statements.

Borrowing costs

Question 37

Paragraphs 5.154 to 5.156 discuss the Board's preliminary view to require all borrowing costs to be expensed in the period incurred for Tier 3 not-for-profit private sector entities.

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

Yes, we agree with this approach. It is an appropriate simplification for smaller NFPs.

Impairment of non-financial assets

Question 38

Paragraphs 5.157 to 5.162 discuss the Board's preliminary view that the impairment model for non-financial assets of Tier 3 entities should:

a) only require non-financial assets subsequently measured at cost or deemed cost to be subject to impairment testing;

b) only require entities to consider whether non-financial assets are impaired when the asset has been physically damaged or when its service potential might have been adversely affected by a change in the entity's strategy or changes in external demand for the entity's services;

c) require impairment of a non-financial asset to be recognised if its carrying amount exceeds its recoverable amount being the higher of its fair value less costs of disposal and its value in use. Tier 3 reporting requirements will include a rebuttable presumption that fair value less costs of disposal is expected to be the most appropriate measure of a non-financial asset's recoverable amount because non-financial assets are generally not held by not-for-profit private sector entities to generate cash flows; and

d) allow entities to group non-financial assets that do not generate cash flows that are largely independent from other assets into cash-generating units for impairment purposes.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements discussed in paragraph 5.162? Please specify and explain why.

We agree with the proposals that impairment testing should be limited to only when there are a limited number of impairment indicators as noted in (b) above, we would ideally like to see a simplification of the actual impairment testing itself, as this is often an area where smaller NFPs struggle and don't understand how to do the modelling required to determine the recoverable amount. In addition, due to the bespoke assets that some NFPs can hold, such as heritage buildings and other assets, it can further complicate the calculation process. Therefore we would encourage you to consider whether you can provide simplifications to the impairment testing model or at least further plain English guidance for the NFPs to assist them in determining the recoverable amount.

Assets held for sale

Question 39

Paragraph 5.163 discusses the Board's preliminary view not to propose introducing any specific requirements for property, plant and equipment or other non-current assets that a smaller not-for-profit private sector entity intends to sell rather than hold for its continuing use.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Yes, we agree with this approach and consider it to be an appropriate simplification of requirements for smaller NFPs.

Intangible assets

Question 40

Paragraphs 5.164 to 5.167 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 entities including the typical forms of any intangible assets held. This will help inform the Board's deliberations on intangible assets in a future Tier 3 Standard.

Are you aware of any intangible assets and their type, either internally generated or externally acquired, commonly held and recognised by smaller not-for-profit private sector entities? If so, please provide details of these assets.

We are aware of some smaller NFPs that have started to invest in Crypto Assets, which is likely to become more prominent over time as Crypto Assets and other Digital assets become more mainstream. Therefore, we would encourage the Board to consider including some requirements for intangible assets in the final Tier 3 requirements.

Leases

Question 41

Paragraphs 5.168 to 5.178 discuss the Board's preliminary view on accounting requirements for leases, including:

a) requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. A similar requirement would apply for lessors;

b) concessionary lease arrangements ('peppercorn' leases) would be accounted for in the same manner as other leases; and

c) not including specific requirements for sale and lease back transactions, or for manufacturer or dealer lessors.

Do you agree with the Board's preliminary view? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Do you prefer that Tier 3 accounting requirements should be consistent with AASB 16 Leases? Please explain why.

To the best of your knowledge, are sale and lease back transactions common for smaller not-for-profit private sector entities?

Yes. We support the Board's preliminary views on lease accounting. Smaller NFPs have struggled with the adoption of AASB 16 *Leases* and reverting to a straight-line amortisation will be beneficial to preparers.

This is one area where we have concerns about how the this may interact with Tier 1 & Tier 2 reporting, and complexities of transitioning in or out of Tier 3 due to the significant difference between the proposed Tier 3 approach and the Lease liability and Right of Use asset under AASB 16. Accordingly, consideration may need to be given to how entities would transition into and out of Tier 3 reporting.

Income (including Revenue)

Question 42

Paragraphs 5.179 to 5.188 discuss the Board's preliminary view that income recognition for Tier 3 entities should require an entity to assess whether a transaction is based on a common understanding, evidenced by the transfer provider in writing or some other form, that the entity is expected to use the inflows of resources in a particular way or act or perform in a particular way that results in outflows of resources, including:

a) transferring goods or services;

b) performing a specified activity;

c) incurring eligible expenditure for a specified purpose; and

d) using the inflows of resources in respect of a specified period.

Income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash (receivable).

Do you agree? Why or why not? If you disagree, do you prefer any other alternative approach as discussed in paragraph 5.186? Please specify and explain why.

We agree that this is a simpler revenue recognition model for not-for-profits and would even encourage the Board to consider this approach when they are deliberating ITC 50 and adopt it for all NFPs. However, although the language has been simplified and no longer refers to 'sufficiently specific performance obligations' which was an issue in applying AASB 15 *Revenue from Contracts with Customers'*, we are not convinced that you are not going to necessarily resolve issues with changing the wording to refer to 'common understanding', 'specified activity', 'specified purpose' and 'specified period'. There is potential that debate will arise as to what is these terms mean and on the basis that accountants understand this to be a simplification of the Tier 1 and Tier 2 requirements, it is likely that people will default to similar considerations to 'sufficiently specific'. As we believe this is not the intention of the Board, we would encourage you to consider providing detailed guidance to articulate how this should be applied.

Employee benefits

Question 43

Paragraphs 5.189 to 5.199 discuss the Board's preliminary view that employee benefits expense is measured at the undiscounted amount of the obligation to the employee for:

a) non-accumulation paid absences and termination benefits when the event occurs; and

b) all other employee benefits when an employee has rendered the services that entitles the employee to consideration.

A provision for employee benefits is measured at the undiscounted future outflow expected to be required (including consideration of future pay increases) to settle the present obligation.

The Board has not yet determined the form of guidance to be developed to support preparers in determining the likelihood that an outflow of economic benefits that will be required to settle these obligations.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives, for example Tier 3 requirements should require future outflows of employee benefits expenses to be discounted? Please specify and explain why.

Are you aware of any industry-specific probability guidance that relates to employee benefits such as a long service leave? Please specify the source of that guidance.

Yes, we agree with this approach, and think it is an appropriate simplification, especially considering the G100 putting the high-quality corporate bond rate behind a paywall, the removal of the need to access this will make preparation easier, with limited reduction in the quality of the information provided.

Consideration may want to be given to the role of portable Long Service Leave and whether any specific guidance is required in relation to these arrangements. Given the prevalence of portable LSL in the health sector and the number of NFPs that operate in that sector, especially NFP NDIS providers, it is likely that it will be an issue for a number of NFP preparers.

Question 44

Paragraph 5.200 discusses that the Board has not developed any other special requirements for accounting for termination benefits and defined benefit plans.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Yes, we agree that these are not likely to be significant issues for smaller NFPs, given the small number of paid employees and the unlikeliness that significant termination benefits would be provided. We are not aware of any smaller NFP that has defined benefit obligations.

Other topics to be included in Tier 3 reporting requirements

Question 45

Paragraphs 5.201 to 5.219 discuss the Board's preliminary view that Tier 3 reporting requirements would be similar to those specified in the New Zealand Tier 3 reporting requirements for the following topics:

a) commitments (disclosed in the notes to the financial statements);
b) events after reporting period;
c) expenses;
d) foreign currency transactions;
e) income taxes;
f) going concern;
g) offsetting; and
h) provisions, contingent liabilities and contingent assets.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Yes, we agree with this proposed approach. These topics identified are not complex to apply for small NFPs and simply simplifying the language used should be sufficient.

Question 46

Paragraphs 6.1 to 6.11 discuss the Board's preliminary view that disclosure requirements for Tier 3 not-for-profit private sector entities should be developed based on the following principle:

a) for transactions where there is a recognition and measurement difference between Tier 3 reporting requirements and Tier 2 general purpose financial statements, Tier 3 reporting requirements will:

i. adopt appropriate disclosure requirements from comparable jurisdictions, pronouncements or frameworks, if available; or

ii. develop fit-for-purpose disclosure requirements if there are no comparable recognition and measurement requirements from other jurisdictions, pronouncements or frameworks. Fit-for-purpose disclosure requirements could be developed based on the disclosure requirements in AASB 1060 where the recognition and measurement requirements could be analogised to the Tier 3 reporting requirements.

b) for transactions where the recognition and measurement requirements for Tier 3 reporting requirements are the same as, or similar to, the corresponding recognition and measurement requirements for Tier 2 general purpose financial statements, the disclosure requirements in AASB 1060 will be used as a starting point with further consideration of simplifications that may be appropriate

Do you agree? Why or why not? If you disagree, what alternative approach do you suggest? Please specify and explain why.

Yes, we agree with this approach. This appears to be a sensible, and cost-effective approach, and the Board should definitely consider other similar disclosure requirements, rather than creating the disclosure requirements from a zero base.

Question 47

Paragraph 6.12 discusses the Board's preliminary view on the disclosure requirements for property, plant and equipment, and investment property would be for:

a) initial measurement of non-financial assets acquired at significantly less than fair value – develop fit-for-purpose disclosures based on AASB 1060 as required for concessionary leases; and

b) subsequent measurement of property, plant and equipment – adopt AASB 1060 disclosures with simplification of the language. No specific disclosures required for borrowing cost.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

Yes, these proposed disclosures appear consistent with the principles outlined in 6.1 – 6.11 and are appropriate disclosures for these types of assets.

Question 48

Paragraph 6.13 discusses the Board's preliminary view on the disclosure requirements for leases would be for:

a) lessee – adopt IFRS for SMEs Standard disclosures for operating leases; and

b) lessor – adopt AASB 1060 disclosures for operating leases with simplification of the language.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

Yes, these proposed disclosures appear consistent with the principles outlined in 6.1 – 6.11 and are appropriate disclosures for leases.

Question 49

Paragraph 6.14 discusses the Board's preliminary view on the disclosure requirements for changes in accounting policies and correction of errors would be for:

a) changes in accounting polices – develop fit-for-purpose disclosures based on AASB 1060 and removing non-applicable disclosures; and

b) correction of errors – adopt New Zealand Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit).

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

Yes, in principle we agree with these proposed disclosures. With disclosures of accounting policies more generally, it may be beneficial to clearly state that generic accounting policies that repeat the requirements of the accounting standards are not required, and to limit disclosures to explaining choices that have been made in applying options in the standards, or policies for items that are not addressed in the Tier 3 requirements.

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30 March 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
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Collins Street West
Victoria 8007

Dear Dr Kendall

Submission to Discussion Paper – Development of simplified accounting requirements (Tier 3 not-for-profit private sector entities)

As the federal regulator of more than 3,200 Indigenous corporations, most of which are community-controlled not-for-profit entities, thank you for the opportunity to comment on the above discussion paper.

I do not propose to comment on each of the discussion paper's questions. However, I will offer a general comment and comment on a small number of specific questions relevant to corporations registered under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006.*

Overall comment

I support the Board's efforts to revise the differential reporting framework for use by not-for-profit private sector entities. In my view, the Board's efforts are an appropriate response to the challenge experienced by smaller entities with less complex transactions and events in preparing financial reports in accordance with Australian Accounting Standards.

Indigenous corporations that are required to prepare a financial report for a financial year must prepare a financial report by applying all Australian Accounting Standards capable of applying to the corporation's financial transactions and events, whether the corporation is, or would be regarded as, a reporting entity for the purposes of the standards. Reducing the complexity and cost of preparing financial reports that comply with Australian Accounting Standards will reduce the burden of financial reporting and promote quality, consistency and comparability of financial statements.

Comments on specific questions

Question 1

I agree with the Board's view that it should not develop 'reporting thresholds' to specify which reporting tier a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements. I note, and endorse, the Board's view that establishing appropriate financial reporting thresholds is properly the responsibility of relevant legislation or regulatory authority.

Question 2

I agree with the Board's view not to develop proposals for reporting service performance information as part of this project.

Question 6

I agree with the Board's proposal to introduce a simpler further reporting tier (Tier 3) for not-for-profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards.

Question 9

I agree with the Board's view to specify the Tier 3 reporting requirements in a single stand-alone standard that expresses accounting requirements in a manner easily understood by preparers and users who do not consider themselves "accounting experts".

If you have any questions about this submission or wish to discuss it further, please contact Benjamin Murray at Benjamin.murray@oric.gov.au.

Yours sincerely

Tricia Stroud
Registrar of Aboriginal and Torres Strait Islander Corporations

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30 March 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
Level 14, 530 Collins Street
Melbourne, VIC 3000

Via online portal

Dear Dr Kendall

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

Thank you for the opportunity to comment on the Australian Accounting Standards Board (**AASB**) Discussion Paper – *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* (**Tier 3 Accounting Standard**).

The Australian Institute of Company Directors' (**AICD**) mission is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD's membership of 50,000 reflects the diversity of Australia's director community, comprised of directors and leaders of not-for-profits (**NFPs**), large and small businesses and the government sector. With a significant majority of our members involved in the governance or work of NFPs, many of them making contributions as directors on a voluntary basis, the AICD has long been an advocate for ensuring the NFP sector is not restrained by excessive regulation.

The AICD welcomes moves by the AASB and other government bodies to reduce the compliance burden on charities over recent years. AICD members have provided feedback that overly onerous compliance requirements divert limited resources from their organisations' charitable purposes. We also note the findings of the 2019 AASB Research Report[1] which highlighted the current complexity and lack of uniformity in reporting obligations of different entities (including NFPs) under different national and state legislation.

The AICD **strongly supports** the development of a Tier 3 Accounting Standard that is simple, proportionate, consistent, and transparent for application by smaller NFPs. We note it is difficult to fully assess the impact of the proposed changes before seeing the Exposure Draft and the cost-benefit analysis in an associated Regulation Impact Statement. We encourage the AASB and the Australian Charities and Not-for-profits Commission (**ACNC**) to undertake a broad awareness raising campaign to educate NFPs of their reporting obligations under the proposed Tier 3 Accounting Standard.

This submission is informed by our engagement with members of the AICD's Not-for-Profit Chairs' Forum, AICD Reporting Committee, as well as the ACNC, the ACNC Adviser Forum, accounting practitioners, and academics.

[1] AASB Research Report 10 – Legislative and Regulatory Reporting Requirements (2019) – Access here

1. General comments

We provide preliminary comments in the following key areas:

Removal of special purpose financial statements (SPFS)

- The AICD supports the removal of the ability to prepare SPFS of NFPs captured under a Tier 3 Accounting Standard. This is consistent with our previous submission[2] supporting the removal of SPFS for for-profit private sector entities. These entities are now required to prepare, as a minimum, Tier 2 general purpose financial statements (**GPFS**), as of 1 July 2021.

- However, based on member feedback and consistent with the creation of Tier 2 in 2010, we strongly urge the AASB to conduct its standard cost-benefit analysis[3] at the earliest convenience to measure the impact of removing SPFS, given the differences between the for-profit and NFP sectors.

- The AICD acknowledges that the use of SPFS is a longstanding area of concern to the AASB, and that its removal would assist comparability of financial information in the NFP sector. We also note the increased risk for directors and auditors due to the subjective nature of self-assessment of reporting requirements currently. We agree with the AASB observation that restricting an entity's accounting policy choices could also make the Tier 3 Accounting Standard easier for preparers to understand and apply, reducing the costs of compliance with accounting standards.

- The AICD encourages the AASB (and the ACNC) to dedicate resources to meet the significant challenge of educating the substantial number of NFPs which would be required to transition from SPFS to GPFS. For example, ACNC analysis of 250 annual financial reports in 2020[4] revealed that 70% of the financial statements reviewed were SPFS. There is confusion by NFPs as to appropriate financial reporting, when only 65% of charities correctly selected the type of financial statements, they had prepared in their Annual Information Statement. Of the 35% of charities that selected the incorrect type of financial statements, 69% prepared SPFS but stated they had prepared GPFS. These findings reinforce the need to support NFPs and their preparers with clear guidance.

Statement of changes in equity

- The AICD supports NFPs having the *option* of not presenting a statement of changes in equity as part of a Tier 3 Accounting Standard. This change would be consistent with Tier 2 GPFS. Whilst it is helpful for for-profits to distinguish between reserves in a statement of changes in equity, it is not as useful for NFPs who may only have a profit or loss change to report. Stakeholders have advised the statement is beneficial for users when revisions are needed to account for prior period errors.

- Whilst the removal of a statement of changes in equity may provide greater simplicity, we have received feedback that this may result in a reduction in comparability between financial statements for users, such as grant funders, and not provide a cost saving for NFPs.

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[2] AICD submission to AASB (2020) – Exposure drafts ED 295: General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities; and ED 297: Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

[3] AASB (2010) – Reducing the Financial Reporting Burden: a second tier of requirements for general purpose financial statements. Access RIS here

[4] ACNC – Reviewing Charities' Financial Information and Annual Financial Reports (2020) – Access here

Establishment of reporting thresholds

- The AICD supports further work to ensure proportionality of reporting thresholds as this would be determined by the relevant regulatory requirements. We note the 2022 changes in ACNC revenue thresholds meant thousands of charities saw their classifications move downward and, consequently, have their reporting obligations reduced.

- The AICD has received stakeholder feedback that use of revenue thresholds may not be appropriate for a reporting threshold, given NFP revenue can be inconsistent from year to year. The AASB itself notes that the ACNC specified medium size criteria (e.g. $500,000 - $3 million) may not be an appropriate threshold determinant given the population of NFPs that are not ACNC-registered charities. In 2010, the Productivity Commission estimated there were around 600,000 NFPs in total[5]. In 2022, the ACNC estimated it regulates around 60,000 charities[6]. We also note the findings from the 2007 AASB consultation on Tier 2 GPFS proposals where most constituents rejected the revenue threshold approach, given they are "difficult to determine and are arbitrary in their impact"[7].

- We have also heard stakeholder views on the value of a Tier 4 Accounting Standard for even smaller NFPs. The AICD does not support the introduction of a further reporting tier that would introduce additional complexity for NFPs when determining regulatory reporting obligations.

Changes in accounting policies

- The AICD supports permitting Tier 3 NFPs to change accounting policies voluntarily if the change results in financial statements providing more reliable and relevant information to users about the effects of transactions on the entity's financial position, financial performance, or cash flows.

- Stakeholders noted some benefits for preparers in improving comparability of financial statements between entities *within* the same tier (e.g. across Tier 3 entities), rather than *between* tiers. Indeed, the Discussion Paper notes the Tier 3 boundary for practicality reasons was "*based on balances and transactions commonly undertaken by NFPs with revenues between $500,000 and $3 million*".

Implementation

- The AICD supports transitional relief to allow NFPs time to adapt to the new Tier 3 Accounting Standard for the first time and those moving between tiers. We note the AASB has emphasised it would issue a standard with substantial lead time before its effective date (a two-year lead time is typical) and the development of education materials, as necessary.

- Any application of the proposed Tier 3 Accounting Standard to ACNC regulated entities would require an amendment to the ACNC Regulations[8]. Based on the ACNC's current approach of allowing small and medium sized charities to utilise SPFS, the AICD expects that the ACNC would support a phased transition period to enable charities, their preparers and advisers to correctly apply the new Tier 3 Accounting Standard.

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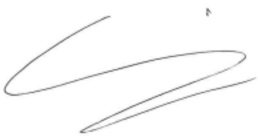
[5] Productivity Commission (2010) – Contribution of the Not-for-Profit Sector – Overview XXIII – Access here
[6] ACNC (2022) – The ACNC's Contributions to a Diverse Charity Sector – Commissioner's Column – Access here
[7] AASB (2010) – Reducing the Financial Reporting Burden: a second tier of requirements for general purpose financial statements. See Paragraph 5.2 here
[8] ACNC Regulations: Section 60.30 – Special purpose financial statements – Access here

- The AICD encourages the AASB and ACNC to undertake a broad awareness raising campaign through factsheets, free webinars, and other complementary channels to educate NFPs of their reporting obligations under new Tier 3 Accounting Standard. Whilst the 2021-22 AASB Annual Report noted the AASB continued its use of technology to grow its stakeholder engagment across the country, we encourage the AASB to consider increasing in-person engagement for smaller NFPs in regional, rural and remote communities.

Next Steps

We hope our submission will be of assistance. If you would like to discuss any aspects further, please contact Sean Dondas, Policy Adviser (sdondas@aicd.com.au).

Yours sincerely,



Christian Gergis GAICD
Head of Policy
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March 31, 2023

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Comment Letter on AASB Discussion Paper: Development of simplified accounting requirements (Tier 3 not-for-profit private sector entities)

Our team of academic researchers from Edith Cowan University, Monash University, and Curtin University is pleased to comment on the Australian Accounting Standards Board's (AUASB's) Discussion Paper **Development of simplified accounting requirements (Tier 3 not-for-profit private sector entities)**.

Our views are formed on the basis of qualitative research using survey and interview data of stakeholders of the not-for-profit sector that was conducted at Edith Cowan University to offer an evidence-based voice on the standard-setting deliberations to the academic research literature.

The views expressed in the comments that follow are those of the research team at the three Australian universities and do not necessarily reflect the official position of the universities concerned.

If you have any questions about our submission, please contact Tricia Ong.

Yours Sincerely

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Associate Professor Mukesh Garg (Monash University)

Professor Hadrian Djajadikerta (Curtin University)

Comment Letter on AASB Discussion Paper: Development of simplified accounting requirements (Tier 3 not-for-profit private sector entities)

We begin by commending the Technical Team and Board members of the Australian Accounting Standards Board (AASB) for working on the project and drafting the discussion paper to address the challenges of financial reporting by not-for-profit entities. Small entities, many of which would lack the required resources, struggle to meet the demands of regulators and other stakeholders. We hope that our feedback will help shape the financial reporting of small not-for-profit private sector entities.

The below comments are based on our working paper "*Are charities and not-for-profit organisations (NFPOs) in Australia adequately prepared for new challenges in reporting obligations?*". The project was funded by Edith Cowan University (ECU) Early Career Researcher Grant 2020 and completed in 2021. Our comments are informed by the statistical results from our research project that were based on a total of 135 online questionnaire responses completed by preparers and auditors of annual financial reports and other disclosure reports for charities and NFPOs in Australia. Other detailed results were collected through thirteen semi-structured interviews with preparers and auditors of those reports for NFPOs registered with the Australian Charities and Not-for-profits Commission (ACNC) under different categories of entities, including health care, social and public welfare, religious, and education. In our submission, we provide our opinion on questions 1, 5, 6, and 7. There is a need to more effectively and completely acknowledge the reporting differences and challenges among small, medium, and large NFPOs.

Question 1

Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements.

Do you agree? Why or why not? If you disagree with the Board's view, how do you propose the Board stratify entities amongst the available reporting tiers?

Comments on Question 1:

We argue that there is a need to develop standardised 'reporting thresholds' to specify the minimum required level of financial reporting for a not-for-profit private sector entity. These standardised reporting thresholds should be ones that can be applied consistently across different regulatory authorities. This is in line with stakeholders' view that supports "a single set of objective reporting thresholds" (para 1.3) and is aligned with the Board's views to have the reporting thresholds "to be more appropriately within the remit of the relevant legislation or regulatory authority" (para 1.4).

Having a comprehensive and standardised reporting threshold tier can provide better guidance to smaller NFPOs on their level of reporting requirements. Our study found that many smaller NFPOs have found it challenging to prepare financial statements without having more prescriptive guidelines provided in the current accounting standards. Many of these organisations lack accounting knowledge among their board members to have the capacity to exercise professional judgements on what and how to prepare financial statements that would be considered compliant. Besides, due to the nature of these small NFPOs, they cannot afford to recruit full-time accountants. These organisations that were also required to provide financial information and other reports to different government departments and regulatory authorities for funding applications and acquittals were frustrated that different sets of reports were required to be prepared, which increased their costs significantly. The inconsistent reporting requirements stipulated by different levels of Australian government authorities - federal, state (or territory), and local - have further increased the complexity of reporting, especially when the NFPOs operate across multiple states.

One of the key findings from our study was that many NFPOs did not see apparent direct benefits for the organisations when they are already required by the ACNC to provide more financial information and to have their accounts audited. This additional reporting was mandatory from NFPOs if their revenue was greater than $250,000 according to the old threshold amount that was applicable before 1 July 2022 during our research period. While there was a consensus among the participants of our research project that increased transparency in the reporting of charities and NFPOs was necessary, many expressed concerns about the increased costs and challenges involved where financial and human resources were required to prepare separate reports to their fund providers, with no effective streamline process in grant applications and reporting.

Our study finds that organisational size is one of the important determinants in the preparation of financial statements. Among many proxies, such as a total number of employees and total assets that are commonly used to represent organisation size, we argue that the use of total revenue/income as a reporting threshold determinant will be the most appropriate one in the context of NFPOs. This is because issues such as unaccounted volunteers and complexities in valuing donated assets that are eminent in NFPOs have made the proxies of a total number of employees and total assets inappropriate. Total revenue/income is also the easiest collectible and readily available data for all NFPOs, given that most NFPOs will already have this information collected. Hence, consistent with some support from the preliminary outreach (para 1.3b), we propose total revenue/income be used as the reporting threshold determinant.

While para 1.3b expressed concerns about the appropriateness of a quantitative threshold based on revenue/income, our research project has yielded contrary empirical results. Using the previous quantitative threshold specified by the ACNC at the time of our research, we used the total annual revenue to determine organisational size. We found that NFPOs of different organisation sizes experience significantly different levels of costs, challenges, and benefits adhering to the mandatory reporting requirements of ACNC. The details of the empirical results and the indicators used to measure costs, challenges, and benefits are attached and explained in the Appendix.

We agree that "any effort by the Board alone (to standardise the use of various accounting requirements) would not achieve the desired outcome" (para 1.3a). Hence, addressing issues and concerns mentioned in para 1.4 to 1.8, we propose that the Board develops standardised reporting thresholds using total revenue/income that is similar to that of ACNC to stratify NFPOs and specify the minimum required level of financial reporting for each stratified level of not-for-profit private sector entity. We advocate for this standardised reporting thresholds and their corresponding reporting requirements to be implemented consistently across other regulatory authorities, including the federal, state (or territory), and local, to allow a streamlined process in grant applications and reporting obligations of the NFPOs.

Question 5

Paragraphs 2.5 to 2.7 propose to extend the set of not-for-profit private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1. The effect is that more entities will be required to prepare general purpose financial statements when required to prepare financial statements that comply with Australian Accounting Standards.

Do you agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply? Why or why not? If not, what alternative approach do you suggest?

We agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply. We support the Board's intention "to use the term 'reporting entity' to identify the boundary of the entity for which financial statements are prepared, consistent with its use internationally" (para 2.5).

Many of the NFPOs have ordinary and board members who do not necessarily have adequate accounting knowledge to understand the difference between special purpose and general purpose financial reports. Consequently, maintaining consistency in both the use of the term 'reporting entity' and the type of financial statements prepared is vital for NFPOs to avoid confusion about the already complex accounting standards. We agree that the Basis for Conclusions to AASB-2020-2 that details the reasoning to remove special purpose financial statements for certain for-profit private sector entities are equally applicable to NFPOs and hence should be applied consistently to NFPOs as proposed in para 2.6.

The results from our research provide empirical evidence indicating that preparers and auditors of many NFPOs are largely supportive of NFPOs to prepare general purpose financial reports over special purpose. While difficulties of initial implementation and challenges in providing explanations to NFPOs' members were common problems that emerged from our interviews with the NFPO preparers and auditors, there is unanimous agreement across our research participants that the benefits outweigh the costs for their organisations in the longer run. The use of general purpose financial statements has promoted consistency, transparency, and comparability for quality financial reporting. According to our interviewees, their organisations have seen many benefits with the adoption of general purpose reporting. Professional accountants who usually support these smaller NFPOs through in-kind contributions or much reduced fees they charge for their services were now able to use the same generic accounting templates that they were using for their for-profits organisations or clients. NFPOs were also more supportive of upscaling their board members' skills and educating their members on financial reporting. On some occasions, the organisations were also able to use these financial statements in multiple regulatory submissions, resulting in cost and time savings. General purpose financial statements also ensure consistency in the preparation process, which consequently promotes comparability within organisations as well as comparisons with organisations in similar category groups. All these advantages from the adoption of general purpose financial reporting were good initiatives that have escalated improvements in NFPOs, improving the entire NFP sector.

The Board's call for the use of general purpose financial reporting is consistent with the findings from our research study. This provides supports for our advocacy for a better streamlined process for grants application, especially across the different government regulatory authorities, which would otherwise be unfeasible if NFPOs remained using special purpose financial reporting.

Question 6

Paragraphs 2.10 to 2.12 propose the introduction of a simpler further reporting tier (Tier 3) for not-for- profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards, which serves as a proportionate response for smaller sized entities with less complex transactions and events.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

We support the Board's proposal for a simpler further reporting tier (Tier 3) for not-for- profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards. These reporting requirements should consider the organisational size to provide more prescriptive guidance for smaller sized NFPOs to simplify the process for proper recording of less complex accounting transactions and events.

Our research study finds that the organisational size of NFPOs has strong correlations with the level of benefits, challenges, costs and overall impacts experienced by the organisations when they were required to provide mandatory reporting to the ACNC. Through an online questionnaire, preparers and auditors of NFPOs were asked to respond using a 4-point Likert scale to gauge how significant each of the listed items in the different categories - benefits, challenges, costs, and overall impacts – have affected their organisations when mandatory annual reporting is required by submissions of an annual information statement (AIS). Details of the questions measuring each of these four categories and the respective statistical results are included in the attached Appendix.

We find NFPOs of different organisational sizes, according to their total annual revenue, have experienced significantly different levels of impact with increased mandatory reporting from regulatory authorities such as the ACNC. We present below a table of the summary results.

Size	**ACNC (Threshold on annual revenue – before 1 July 2022)**	**Mean Rank**			
		Benefits*	**Challenges***	**Costs***	**Impacts**
Small	Less than $250,000	55.83	56.35	54.62	56.72
Medium	$250,000 - $999,000	75.48	75.48	74.88	74.39
Large	More than $1 million	71.70	70.84	75.00	72.63

*Statistically significant at level 0.05 or lower.

We have found that medium sized NFPOs were the most impacted group size in three out of the four categories tested. The only category where it was ranked second was in the category of measuring the impact on the total cost. However, it is worth noting that the difference with the first rank was a negligible difference of 0.12. The results of this statistical test imply that medium sized NFPOs with an annual revenue of more than $250,000 but below $1,000,000 were the worse impacted group when increased mandatory reporting.

These statistical results from the questionnaires were consistent with the analysis of the data collected through our interviews. The medium sized NFPOs that rely largely on donations and volunteers for their reporting normally lack the financial and human resources to cope with the additional regulatory requirements. When the ACNC first introduced the reporting threshold in 2012, NFPOs classified as 'medium' in size were required to adopt general purpose financial reporting and have their financial statements audited. Consequently, increasing the impact on challenges and costs. However, this new reporting requirement has also brought about more benefits to medium sized NFPOs. Hence, we support the Board's proposal to introduce a simpler further reporting tier (Tier 3) for not-for-profit private sector entities to assist these medium sized NFPOs in coping with the challenges and costs in implementing these new changes to improve the quality of their financial reporting.

Question 7

Paragraphs 2.13 to 2.17 discuss the Board's view to not develop a fourth tier of accounting for not-for- profit private sector entities.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

Our study on different organisational sizes of NFPOs provides empirical evidence to support the Board's view that a fourth tier would create unnecessary complexity and confusion. Using statistical pairwise comparison to compare results of the different group sizes, we found significant differences largely between our small and medium sized NFPOs (i.e. total annual revenue below $1 million). There were no significant differences when the organisational size increased beyond the medium group. With the new revised higher threshold revenue proposed for Tier 3, the differences are expected to be minimal.

Australian charities generating an annual revenue of less than $500,000 are also likely to be considered less complex, with very different financial reporting needs among its users. Introducing another tier would require additional resources and time for the NFPOs to implement and understand, which may not add value for their stakeholders. The current three tiers of accounting standards provide sufficient guidance for not-for-profit organisations to report their financial information accurately and transparently.

Appendix

Category 1: Total benefits

(a) Extract of questionnaire on questions measuring total benefits

To what degree does the organisation benefit from the reporting of AIS?

	Significantly	Moderately	Marginally	Not at all
Meet stakeholders' demand for information	○	○	○	○
Improve revenue	○	○	○	○
Improve key financial ratios	○	○	○	○
Improve decision making	○	○	○	○
Improve the quality of financial reports	○	○	○	○
Improve the use of technology and software system	○	○	○	○
Improve preparation of the financial report	○	○	○	○
Improve preparation for management report	○	○	○	○

(b) Summary of hypothesis test for total benefits and organisation size

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.[a,b]	Decision
1	The distribution of Total Benefits is the same across categories of ACNC Size.	Independent-Samples Kruskal-Wallis Test	.030	Reject the null hypothesis.

a. The significance level is .050.

b. Asymptotic significance is displayed.

(c) Result of pairwise comparisons – Total benefits and organisation size

Pairwise Comparisons of ACNC Size

Sample 1-Sample 2	Test Statistic	Std. Error	Std. Test Statistic	Sig.[a,b]	Adj. Sig.[c]
Small -Large	-15.870	9.343	-1.699	.089	.268
Small -Medium	-19.658	7.612	-2.583	.010	.029
Large-Medium	3.787	8.898	.426	.670	1.000

a.Each row tests the null hypothesis that the Sample 1 and Sample 2 distributions are the same.

b.Asymptotic significances (2-sided tests) are displayed. The significance level is .050.

c. Significance values have been adjusted by the Bonferroni correction for multiple tests.

Category 2: Total challenges

(a) Extract of questionnaire on questions measuring total challenges

To what degree did the organisation experience the following challenges in adopting the new reporting requirements of AIS?

	Significantly	Moderately	Marginally	Not at all
Inadequate knowledge on AIS	○	○	○	○
Lack of support from the organisation	○	○	○	○
Complex reporting requirements	○	○	○	○
Tax implications	○	○	○	○
Difficulty in compiling information	○	○	○	○
Adverse impact on revenue	○	○	○	○
Lack of resources – manpower	○	○	○	○
Lack of adequate technical system	○	○	○	○
Inadequate timeline	○	○	○	○

(b) Summary of hypothesis test for total challenges and organisation size

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.[a,b]	Decision
1	The distribution of Total Challenges is the same across categories of ACNC Size.	Independent-Samples Kruskal-Wallis Test	.039	Reject the null hypothesis.

a. The significance level is .050.

b. Asymptotic significance is displayed.

(c) Result of pairwise comparisons - Total challenges and organisation size

Pairwise Comparisons of ACNC Size

Sample 1-Sample 2	Test Statistic	Std. Error	Std. Test Statistic	Sig.[a,b]	Adj. Sig.[c]
Small -Large	-14.491	9.347	-1.550	.121	.363
Small -Medium	-19.136	7.615	-2.513	.012	.036
Large-Medium	4.644	8.902	.522	.602	1.000

a. Each row tests the null hypothesis that the Sample 1 and Sample 2 distributions are the same.

b. Asymptotic significances (2-sided tests) are displayed. The significance level is .050.

c. Significance values have been adjusted by the Bonferroni correction for multiple tests.

Category 3: Total costs

(a) Extract of questionnaire on questions measuring total costs

Indicate to what degree the organisation has engaged in the following resources to adopt the new reporting requirements of AIS?

	Extensively	Moderately	Occasionally	Not at all
Volunteers	○	○	○	○
External auditors	○	○	○	○
Third-party assistance	○	○	○	○
Web-based resources	○	○	○	○
Internal staff	○	○	○	○
Computer software	○	○	○	○

(b) Summary of hypothesis test for total costs and organisation size

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.[a,b]	Decision
1	The distribution of Total Cost is the same across categories of ACNC Size.	Independent-Samples Kruskal-Wallis Test	.016	Reject the null hypothesis.

a. The significance level is .050.

b. Asymptotic significance is displayed.

(c) Result of pairwise comparisons - Total costs and organisation size

Pairwise Comparisons of ACNC Size

Sample 1-Sample 2	Test Statistic	Std. Error	Std. Test Statistic	Sig.[a,b]	Adj. Sig.[c]
Small -Medium	-20.257	7.603	-2.665	.008	.023
Small -Large	-20.380	9.332	-2.184	.029	.087
Medium-Large	-.123	8.887	-.014	.989	1.000

a. Each row tests the null hypothesis that the Sample 1 and Sample 2 distributions are the same.

b. Asymptotic significances (2-sided tests) are displayed. The significance level is .050.

c. Significance values have been adjusted by the Bonferroni correction for multiple tests.

Category 4: Total impacts

(a) Extract of questionnaire on questions measuring total impacts

To what degree does the organisation benefit from the new reporting requirements

	Significantly	Moderately	Marginally	Not at all
Meet stakeholders' demand for information	○	○	○	○
Improve revenue	○	○	○	○
Improve key financial ratios	○	○	○	○
Improve decision making	○	○	○	○
Improve the quality of financial reports	○	○	○	○
Improve the use of technology and software system	○	○	○	○
Improve preparation of the financial report	○	○	○	○
Improve preparation for management report	○	○	○	○

(b) Summary of hypothesis test for total impacts and organisation size

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.[a,b]	Decision
1	The distribution of Total Impact is the same across categories of ACNC Size.	Independent-Samples Kruskal-Wallis Test	.053	Retain the null hypothesis.

a. The significance level is .050.

b. Asymptotic significance is displayed.

(c) Result of pairwise comparisons - Total impacts and organisation size

Pairwise Comparisons of ACNC Size

Sample 1-Sample 2	Test Statistic	Std. Error	Std. Test Statistic	Sig.[a,b]	Adj. Sig.[c]
Small -Large	-15.908	9.364	-1.699	.089	.268
Small -Medium	-17.668	7.628	-2.316	.021	.062
Large-Medium	1.760	8.917	.197	.844	1.000

a.Each row tests the null hypothesis that the Sample 1 and Sample 2 distributions are the same.

b. Asymptotic significances (2-sided tests) are displayed. The significance level is .050.

c.Significance values have been adjusted by the Bonferroni correction for multiple tests.

sub 6

SAWARD DAWSON

31 March 2023

Dr Keith Kendall
Board Chair
Australian Accounting Standards Board

Via email: Standards@aasb.gov.au

Dear Dr Kendall

Discussion Paper

Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)

Our comments and recommendations regarding The Discussion Paper are provided in this submission.

Saward Dawson operates in Melbourne, Australia. Our clients come from a range of industries and include large private businesses, small to medium enterprises, and a significant number of private sector not-for-profit entities. We are focused on enhancing the relevance, reliability and understand ability of financial reporting for users.

Saward Dawson is widely recognised as a firm with clear expertise in the not-for-profit private sector space for over 20 years. We work with hundreds of charities and other not-for-profit entities. We aim to actively advocate on behalf of the sector. Our involvement includes:

- AASB NFP PAP member
- ACNC Professional Advisors Group
- Chair of CAANZ NFP Discussion Group
- Chair Not-For-Profits Accountants Network

We have provided our feedback with reference to the questions asked within the discussion paper within Appendix 1.

We have identified a number of items that we think are significant and have highlighted these below for your consideration.

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Removal of special purpose and impact on entities larger than smaller entities / proposed threshold

Although we are very supportive of the implementation of Tier 3 in order to provide simplification for small NFPs, we remain concerned about the about the removal of special purpose for those entities above a Tier 3 threshold where potentially significant impact of adoption of Tier 2 appears to largely accepted.

In our discussions with other accountants, our clients and many other NFPs, we hear many concerns in relation the current Accounting Standards that have been raised and considered for Tier 3 simplification. In particular:

- The complexity of AASB15 regarding the identification of the customer for grants and the complexity of application of satisfying sufficiently specific performance obligations.
- The AASB15 requirement for deferral of upfront fees does not reflect the commercial reality and is broadly disagreed with by schools, sporting clubs and other member based organisations.
- The application of AASB16 on property leases where the capitalisation on the balance sheet has added complexity and confusion to preparers and users of the financial report.
- The restriction of AASB9 in relation to investments in equity instruments only being available for FVOCI treatment. Most portfolios contain managed funds and other items that do not meet the requirement. An allowance for active market or tradeable investments would be a more appropriate class of assets where FVOCI is available.
- The recent SaaS IFRIC decision where comparatively large investments are made which future benefit is expected over an extended period is required to be expensed as incurred.

We think these issues need to be considered for Tier 2 as part of the removal of special purpose financial reports.

Consolidation

We acknowledge the post implementation review in relation to NFP and control. We are highly supportive of the review. Our submission will focus on the concerns of many of our clients where entities that have a different charitable purpose and different primary users should not be required to consolidate as this represents a cost that does not provide any user benefit and actually diminishes user understanding of individual entity performance.

Inconsistency in Tier 3 proposals in relation to policy choice and simplification

We note inconsistency within Tier 3where under certain sections existing policy choice is proposed to be restricted even where choice exists within Tier 2 (e.g. the removal of FVTPL as an option for investments) while in other areas additional choice (e.g. recording non inventory donated assets at cost or fair value) is proposed or remains.

The discussion paper reasons are based on comparability and simplicity in certain sections but these are not considered in other areas.

We think that maintaining policy choice, in particular where it exists within Tier 2 should continue to be available. We do not think choice should be removed in the name of simplification.

Related Party Disclosures within AASB1060

The ACNC application of AASB124 for special purpose reporters from 1 July 2023 is resulting in a number of concerns being identified in relation to the disclosure requirements for the following:

1 Donations from KMP or other related parties where the donor receives no benefit in return. We observe that such donations are often given on the basis of anonymity. We think clarification around the application of materiality in relation to such transactions may be helpful and if a higher than traditional threshold (e.g. only if considered to result in economic dependency) would be appropriate for these donations.

2 The disclosure of the amount of remuneration paid for a spouse or child of a member of KMP. This is of particular concern when there is only one (or a small number) staff member that is related and accordingly will result in disclosure of a person's wage. We note that this is then a higher disclosure than the grouped disclosure within KMP remuneration. Where the related person is not a member of the KMP and the salary can be demonstrated to be benchmarked against internal policy, award or other market analysis we think the AASB should consider if the requirement to disclose the amount be removed.

We appreciate your consideration of our submission and in particular the items raised above. We are more than happy to discuss any of the above matters with you.

Please do not hesitate to contact us should you wish to discuss further any matters arising from this submission.

Yours Sincerely

Jeffrey Tulk

Jeff Tulk
Partner

Appendix 1

In summary we hold the following views:

Question 1

Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements.

Do you agree? Why or why not? If you disagree with the Board's view, how do you propose the Board stratify entities amongst the available reporting tiers?

We agree.

The setting of reporting thresholds would be the remit of the regulatory authority. We anticipate that Tier 3 will be attractive option to entities above the current ACNC medium reporting thresholds and the AASB should have an active role in articulating the characteristics of entities where they think Tier 3 remains appropriate.

Question 2

Paragraphs 1.9 to 1.11 discuss the Board's view that it does not intend to develop proposals for reporting service performance information as part of this project.

Do you agree? Why or why not? If you disagree with the Board's view, what requirements do you think entities should be required to apply? Would these requirements apply to all not-for-profit private sector entities or only be reporting requirements of a specified reporting tier?

We agree.

We don't think service performance reporting should form part of this project or the broader AASB agenda. We think that regulators like the ACNC should prescribe a directors report similar to The Corporations Act requirements if service performance reporting is seen as beneficial for particular sectors.

Question 3

The 'objective' and 'primary users' incorporated in the Framework for the Preparation and Presentation of Financial Statements include modifications for not-for-profit entities. Paragraphs 1.14 to 1.16 discuss the Board's Conceptual Framework: Not-for-Profit Amendments project and how it interacts with this project. Do you agree that the Framework for the Preparation and Presentation of Financial Statements (including the modifications for not-for-profit entities) appropriately:

(a) depicts the objective of general purpose financial reporting for not-for-profit private sector entities; and

(b) identifies the set of primary users of the financial statements of a not-for-profit entity.

Why or why not?

If you disagree, what is your reasoning? The Board plans to extend the application of the Conceptual Framework for Financial Reporting to all not-for-profit entities once the modifications for not-for-profit entities are included and on the release of a Tier 3 Standard. Do you have any other concerns about applying the Conceptual Framework for Financial Reporting to smaller not-for-profit private sector entities that have not already been noted in paragraph 1.14? If so, please describe them.

We agree with the approach and have not identified concerns at this stage.

Question 4

As noted in paragraph 1.18, the Board intends to align the timing of any new Tier 3 reporting requirements with the timing of any extension of the Australian Accounting Standards to a broader set of not-for-profit private sector entities.

Do you agree? Why or why not?

We agree.

The alignment of the timing of effectiveness would be beneficial unless it would result in significant delays and uncertainty.

Question 5

Paragraphs 2.5 to 2.7 propose to extend the set of not-for-profit private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1. The effect is that more entities will be required to prepare general purpose financial statements when required to prepare financial statements that comply with Australian Accounting Standards.

Do you agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply? Why or why not? If not, what alternative approach do you suggest?

We agree.

We think the development of Tier 3 with appropriate modifications to accounting treatment and disclosure requirements with adequate lead time and explanatory information is appropriate.

Question 6

Paragraphs 2.10 to 2.12 propose the introduction of a simpler further reporting tier (Tier 3) for not-for-profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards, which serves as a proportionate response for smaller sized entities with less complex transactions and events.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

We agree.

Question 7

Paragraphs 2.13 to 2.17 discuss the Board's view to not develop a fourth tier of accounting for not-for-profit private sector entities.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

We agree.

We see little benefit in developing Tier 4.

Question 8

Paragraphs 3.1 to 3.5 discuss the Board's view to not make changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards, as presently modified for not-for-profit private sector entities.

Do you agree? Why or why not?

No. We do not agree.

We think the removal of special purpose has a significant impact on medium and larger organisations that are larger than what is the likely size (revenue less than $3m) of application for Tier 3.

We think the feedback from Tier 3 should be considered for Tier 1 and Tier 2 in particular in relation to simplifying revenue recognition, leases and in particular consolidation requirements.

We also think disclosure requirements for related parties should be reconsidered for transactions like donations where no benefit is received by the related party and commercially sensitive items like disclosure of a related party wage amount for a spouse or child of a related party exists.

Question 9

Paragraphs 4.3 to 4.6 discuss the Board's view to specify Tier 3 reporting requirements in a single stand-alone accounting standard. The stand-alone pronouncement is expected to:

(a) specify only accounting requirements for transactions, events and conditions that are common to a smaller not-for-profit entity;

(b) in the main, not require an entity to refer to requirements set out in other Australian Accounting Standards; and

(c) express accounting requirements in a manner that is easy to understand by preparers and users who do not consider themselves to be "accounting experts".

Do you agree? Why or why not? If you disagree with the Board's view, which aspect(s) of the stand-alone accounting standard as listed in (a) – (c) concerns you the most? Please explain.

We agree.

Question 10

As discussed in paragraphs 4.10 to 4.14, Tier 3 not-for-profit private sector entities can opt-up to Tier 1 or Tier 2 reporting requirement in its entirety. However, the Board has not yet formed a view on whether it should restrict the range of accounting policies available to an entity preparing Tier-3- compliant financial statements. 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.

Our preliminary view is that opt up should only be available to opt up for all transactions and events to a higher Tier so that disclosure on what Tier an entity is reporting under is clear.

Question 11

Paragraphs 4.15 to 4.20 discuss the Board's preliminary view on the transactions and other events and conditions that may not be covered in a Tier 3 Standard. The types of items the Board intends to scope out from the Tier 3 Standard include:

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

b insurance contracts issued, reinsurance contracts held, 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 in Section 5 of this Discussion Paper.

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?

We agree.
We rarely see transactions of the nature listed above in smaller not-for-profit entities. We note that mergers / takeovers are not uncommon, and some guidance may be helpful in those circumstances.

Question 12

Paragraphs 4.21 to 4.23 discuss the Board's preliminary view on the hierarchy for entities to apply in developing accounting policies when preparing Tier 3 general purpose financial statements for transactions and other events outside the scope of the Tier 3 requirements. That is, an entity should:

a first apply Tier 2 reporting requirements; and

b otherwise apply judgment to develop an accounting policy by reference to:

  i principles and requirements in Tier 3 reporting requirements dealing with similar or related issues; and

  ii the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework that don't conflict with Tier 3 reporting requirements.

When developing an accounting policy, an entity may also consider principles and requirements in Tier 1 and Tier 2 reporting requirements, or pronouncements of other standard-setting bodies with a similar conceptual framework, other accounting literature and accepted industry practices

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

We agree.

Question 13

Paragraphs 4.24 to 4.27 discuss the Board's view to limit revisiting its Tier 3 reporting requirements to no more than once every AASB agenda consultation cycle (5 years) and only when if there is a substantive case, in accordance with the AASB Due Process Framework for Setting Standards, for doing so.

Do you agree? Why or why not? If you disagree with the Board's view, how often do you prefer the Board should revisit its Tier 3 reporting requirements? Please explain.

We agree.

After a period of 2 – 3 years a post implementation review may be helpful in addressing issues that become apparent as a result of practical implementation.

Question 14

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

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

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

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

We agree with Part (a)

In relation to part (b) we think the current requirements of AASB1060 should be applied to enable removal of the SCE in certain circumstances but allow the statement to be included for entities with multiple reserve accounts that are often present in not-for-profits.

Question 15

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

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

We agree.

Although a prescribed set of information on the balance sheet may be appropriate we do not think this is possible or appropriate for the profit and loss which in our experience are often tailored to reflect the entities unique circumstances and user group.

Question 16

Paragraph 5.25 to 5.33 discuss the Board's preliminary view to require the statement of cash flows to present:

- a cash flows from operating activities separately from other cash flows;
- b cash flows from operating activities using the direct method; and
- c cash and cash equivalent as specified by AASB 1060.

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

We agree.

We think maintaining a consistent approach to what is current practice is appropriate. The majority of small entities required to lodge financial reports would already prepare this statement.

Question 17

Paragraph 5.34 to 5.47 discusses the Board's preliminary view to allow an entity to present either:

a separate financial statements as its only financial statements, even if it has subsidiaries, however, require information on the parent's significant relationships; or

b consolidated financial statements consolidating all its controlled entities.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements, for example Tier 3 accounting requirements should require an entity with subsidiaries to prepare consolidated financial statements in accordance with AASB 10? Please specify and explain why.

We agree.

We think that controlled / parent entity relationships should be disclosed in the financial report (as detailed in paragraph 5.53 of the discussion paper) along with related party transactions in a stand alone set of financial reports.

We think that in the event that a user of consolidated information exists the disclosures mentioned above would enable them to access the publicly available information of group entities and combine them themselves. We think the cost of consolidation significantly outweighs the benefits for smaller organisations.

We think the current not-for-profit requirements in relation to determining control under AASB10 has fundamental issues. In particular, where the entities have different charitable purposes. Our submission in relation to ITC 51 will detail these issues.

Question 18

Paragraph 5.48 to 5.54 discuss the Board's preliminary view on the accounting requirements for a parent that presents separate financial statements to measure its interest in subsidiaries either:

a at cost;

b at fair value through other comprehensive income; or

c using the equity method of accounting.

Do you agree? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Please specify and explain why.

In our experience, most not-for-profit parent entities would hold investments at cost. We observe this is often low or nil value. We support this method.

We do not think either (b) or (c) is likely to be utilised very often and would argue that consolidation is a better option than fair value or equity method.

Question 19

Paragraph 5.55 to 5.60 discuss the Board's preliminary view to develop a requirement for a modified retrospective approach to apply to changes in accounting policies and correction of accounting errors.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements for changes in accounting policies and correction of accounting errors; for example, should Tier 3 accounting requirements continue to require the accounting treatment specified by AASB 108 to retrospectively reflect voluntary changes in accounting policies and correction of accounting errors? Please explain your answer.

We agree that changes in accounting policies where a disclosure of the prior period policy and current period policy occurs should not require retrospective restatement. This approach has been reasonably common under transitional provisions.

We question if it is appropriate for a material error in a prior period that is not in compliance with the accounting policy notes and accounting standards should just be left and corrected as an opening correction in the current period. We have concerns in stating that the accounts are true and fair in accordance with the accounting policies when the comparative information is known to be materially incorrect along with materially distorting the current period.

Question 20

Paragraph 5.61 discusses the Board's proposal to develop a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree.

Question 21

Paragraphs 5.62 to 5.76 discuss the Board's preliminary views with respect to the accounting for financial instruments, in particular to develop simpler reporting requirements only for the identified 'basic' financial instruments.

The Board intends to require certain 'more complex' financial instruments to be accounted for in accordance with AASB 9 (or other Australian Accounting Standard, as appropriate) if the financial instrument is not otherwise addressed by a topic-based Tier 3 requirement. In addition, the Board intends not to specifically highlight or address particular financial instruments or transactions considered in AASB 9, AASB 132 and AASB 139 where these items and transactions are not common to not-for-profit private sector entities.

Do you agree with the Board's approach to the identified 'basic' financial instruments? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the proposed approach.

Question 22

Paragraphs 5.77 to 5.80 discuss the accounting for embedded derivatives. The Board has formed a preliminary view that a proportionate response for Tier 3 reporting requirements is not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable and measurable, including any embedded derivatives.

The Board is seeking to understand the extent to which a smaller not-for-profit private sector entity is likely to have derivatives embedded within its contracts, or enter into arrangements or contracts that may result in a derivative financial instrument. This will help inform the Board how it should approach these instruments in a future Tier 3 Standard.

Are you aware of any clauses in contracts of smaller not-for-profit private sector entities that would give rise to a derivative? Have you provided an arrangement with another party or entered into a net-settled contract that would meet the definition of a derivative? Please explain.

In our experience these scenarios are not common.

Question 23

Paragraphs 5.81 to 5.82 discuss the Board's preliminary view that an entity preparing Tier 3-compliant financial statements will not have access to hedge accounting.

Do you agree? Why or why not? Please specify and explain why. Are you aware if smaller not-for-profit private sector entities use hedge accounting?

No. We don't agree. We are aware of some smaller NFPs operating overseas that utilise forward contracts in relation to future cash outflows. We think that referring to AASB9 if they wish to hedge account would not be unreasonable.

Question 24

Paragraphs 5.83 to 5.85 discuss the Board's preliminary view to develop a requirement for basic financial assets and financial liabilities to be initially measured at their fair value. Transaction costs and fees incurred by the entity to acquire a financial asset or assume a financial liability are to be immediately expensed.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree.

Question 25

Paragraphs 5.86 to 5.104 discuss the Board's preliminary develop a requirement for basic financial assets and financial liabilities to be subsequently measured as follows:

a basic financial assets that are held to generate both income and a capital return – at fair value through other comprehensive income; and

b other basic financial assets and financial liabilities – at cost. Interest income and interest expense on these instruments are to be recognised as amounts accrue or are incurred, calculated by reference to the contractual interest rate. Any initial premium or discount on acquisition of the basic financial asset or financial liability is to be amortised on a straight-line basis over the life of the instrument, unless another systematic basis or shorter period is more reflective of the period to which the premiums or discounts relate.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

No. We do not agree.

We do not think that removing the choice of FVOCI is simplification or provides any benefit.

In our experience the concept of OCI is not well understood.

We are aware of many NFPs with investment holdings. These almost always contain managed funds and other investments which, given the restrictions within AASB9 of using FVOCI for equity instrument only, have recorded their investments at FVOCI. This includes general purpose reporters and special purpose reporters complying with recognition and measurement.

We think that segregating operating and investing activities within the statement of profit and loss allows entities to clearly explain and separate the impact for readers of the financial reports. We see no benefit in the use of OCI which is more difficult to track, reconcile and requires far more detailed analysis of investment reports to ensure investment returns of fair value movements are fully reconciled as returns are "above the line" while fair value movements are "below the line".

Should the AASB think that restricting the choice to only one of FVOCI and FVTPL then we strongly recommend FVTPL is adopted.

Question 26

Paragraphs 5.105 to 5.108 discuss the Board's preliminary view to develop a requirement for impairment of basic financial assets measured at cost to be recognised when it is probable that some or all of the amount owed will not be collectible. The impairment loss is to be measured at the anticipated uncollectible amount.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree.

Question 27

Paragraphs 5.109 to 5.114 discuss the Board's preliminary view to develop a requirement that a financial asset is derecognised only when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset.

The Board also formed a preliminary view not to address instances of debt instrument exchanges or modification of the terms of a financial liability as part of its Tier 3 Standard. An entity treats a modification of the terms of a financial liability or an exchange of a debt instrument for a different debt instrument as an extinguishment of the original financial liability.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree.

Question 28

Paragraphs 5.115 to 5.119 discuss the Board's preliminary view to not depart from the principles of AASB 13 Fair Value Measurement when developing reporting requirements for Tier 3 not-for-profit private sector entities as it thinks maintaining a consistent understanding of 'fair value' across the different reporting tiers is important.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements Tier 3 not-for-profit private sector entities? Please specify and explain why.

We agree.

Question 29

Paragraphs 5.120 to 5.121 discuss the Board's preliminary view that cost may be an appropriate estimate for fair value when cost represents the best estimate of fair value within a wide range of possible fair value measurements for instances described in paragraph 5.120.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree.

In our experience such investments are not common.

Question 30

Paragraphs 5.125 to 5.126 discuss the Board's preliminary view to develop Tier 3 reporting requirements that are consistent with the requirements in AASB 102 Inventories.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree.

Question 31

Paragraph 5.128 discusses the accounting for biological assets if not scoped out from a Tier 3 Standard. The Board's preliminary view is not to include biological assets and agricultural produce at the point of harvest in a Tier 3 Standard as discussed in paragraphs 4.20.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the accounting for biological asset should be included in a Tier 3 Standard and accounted for in accordance with the requirements for inventory? Please specify and explain why.

We agree.

We think it is reasonable to account for biological assets under the inventory standard in particular those with limited lifecycle (e.g. expect to be realised within 12 months). We are aware of some circumstances where such assets are donated. We think these should be able to be recorded at cost rather than fair value similar to the proposal in question 30 above.

Question 32

Paragraphs 5.129 to 5.132 discuss the Board's preliminary view to develop a requirement for interests in associates and joint ventures to be measured:

for a Tier 3 not-for-profit private sector entity that is:

a a parent entity that presents consolidated financial statements or it is not a parent entity, the entity applies the equity method of accounting consistent with the requirements in AASB 128 Investments in Associates and Joint Ventures to its interests in associates and joint ventures; and

b a parent entity that presents separate financial statements as its only financial statements, the entity does not apply the equity method of accounting to measure its interest in associates and joint ventures.

The Board has not yet discussed other exemptions and exceptions to applying the equity method as it is only consulting on its general approach to accounting for interests in associates and joint ventures at this stage of its project.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree.

Question 33

Paragraphs 5.133 to 5.134 discuss the Board's preliminary view to allow an accounting policy choice to require an investor that presents separate financial statements, whether in addition to consolidated financial statements or equity-accounted financial statements, to measure its interest in associates and joint ventures as either:

a at cost; or

b at fair value through other comprehensive income.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the policy choice for the reason explained in the discussion paper. However, we refer to our previous comments regarding FVOCI and think that FVTPL is more appropriate.

Question 34

Paragraphs 5.135 to 5.144 discuss the Board's preliminary view to require property, plant and equipment and investment property, other than with respect to borrowing costs, to be recognised and measured in a consistent manner to Tier 2 Australian Accounting Standards.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements such as not to allow smaller not-for-profit private sector entities to revalue their non-current assets? Please specify and explain why.

We agree.

We note that in relation to land and buildings held at fair value we are aware of a number of entities who have expressed the desire to not depreciate the building or have chosen not to as a special purpose reporter. They represent (and valuations would support) that the buildings are typically not declining in value and accordingly depreciation of them is subsequently reversed and therefore is considered to distort the profit and loss.

Question 35

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

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

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

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

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

We agree with (a)

We do not agree with (b). We think the determination of fair value of other donated goods (in particular property or items of plant equipment) is not onerous and is typically done for insurance purposes anyway. We have not heard concerns from our clients in relation to obtaining fair value of property plant and equipment as onerous.

Question 36

Paragraph 5.153 discusses the Board's preliminary view to propose retaining the option to permit, but not require, a smaller not-for-profit entity to recognise volunteer services received, or a class of volunteer services, if the fair value of those services can be measured reliably.

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

We think that this is option is rarely adopted by smaller entities and the costs and control environment required to substantiate is often prohibitive or not sufficient for assurance purposes. If the AASB aim to use Tier 3 to increase comparability and consistency between organisations within Tier 3 we think this would be an area where removal of the option is appropriate.

Question 37

Paragraphs 5.154 to 5.156 discuss the Board's preliminary view to require all borrowing costs to be expensed in the period incurred for Tier 3 not-for-profit private sector entities.

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

We do not agree.

In other areas of the discussion paper, policy choice has been proposed. We are aware of a number of smaller entities that have borrowed specifically in relation to property redevelopment. We think that allowing such entities to choose to capitalise borrowing costs in accordance with existing standard should be available if the AASB is allowing policy choice in other areas (e.g. volunteer services) of Tier 3.

Question 38

Paragraphs 5.157 to 5.162 discuss the Board's preliminary view that the impairment model for non-financial assets of Tier 3 entities should:

a only require non-financial assets subsequently measured at cost or deemed cost to be subject to impairment testing;

b only require entities to consider whether non-financial assets are impaired when the asset has been physically damaged or when its service potential might have been adversely affected by a change in the entity's strategy or changes in external demand for the entity's services;

c require impairment of a non-financial asset to be recognised if its carrying amount exceeds its recoverable amount being the higher of its fair value less costs of disposal and its value in use. Tier 3 reporting requirements will include a rebuttable presumption that fair value less costs of disposal is expected to be the most appropriate measure of a non-financial asset's recoverable amount because non-financial assets are generally not held by not-for-profit private sector entities to generate cash flows; and

d allow entities to group non-financial assets that do not generate cash flows that are largely independent from other assets into cash-generating units for impairment purposes.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements discussed in paragraph 5.162? Please specify and explain why.

We agree.

In relation to (b) we think that ceasing to utilise the asset may be a worthwhile inclusion to provide further clarity in particular if intangible assets are subject to this impairment model.

Question 39

Paragraph 5.163 discusses the Board's preliminary view not to propose introducing any specific requirements for property, plant and equipment or other non-current assets that a smaller not-for-profit private sector entity intends to sell rather than hold for its continuing use.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree.

Question 40

Paragraphs 5.164 to 5.167 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 entities including the typical forms of any intangible assets held. This will help inform the Board's deliberations on intangible assets in a future Tier 3 Standard.

Are you aware of any intangible assets and their type, either internally generated or externally acquired, commonly held and recognised by smaller not-for-profit private sector entities? If so, please provide details of these assets.

In our experience intangibles are not uncommon. They include software and related development, developments costs for courses and other accreditation for members and students etc. Goodwill exists in limited circumstances.

We think that simplification / clarification of treatment of implementation cost in relation to SaaS arrangements should be considered by the AASB. CRM and donor management systems implementation costs are very common even in smaller organisations.

Question 41

Paragraphs 5.168 to 5.178 discuss the Board's preliminary view on accounting requirements for leases, including:

- a requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. A similar requirement would apply for lessors;
- b concessionary lease arrangements ('peppercorn' leases) would be accounted for in the same manner as other leases; and
- c not including specific requirements for sale and lease back transactions, or for manufacturer or dealer lessors.

Do you agree with the Board's preliminary view? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Do you prefer that Tier 3 accounting requirements should be consistent with AASB 16 Leases? Please explain why.

To the best of your knowledge, are sale and lease back transactions common for smaller not-for-profit private sector entities?

We strongly agree.

We have many organisations who followed recognition and measurement for all accounting standards prior to AASB16 who have not adopted this standard and remain special purpose reporters primarily because of AASB16.

AASB 16 calculations are complex and the feedback we have received for NFP organisations has been overwhelming in the view that AASB16 results in less meaningful and more confusion for the private sector not-for-profit users of financial statements.

Question 42

Paragraphs 5.179 to 5.188 discuss the Board's preliminary view that income recognition for Tier 3 entities should require an entity to assess whether a transaction is based on a common understanding, evidenced by the transfer provider in writing or some other form, that the entity is expected to use the inflows of resources in a particular way or act or perform in a particular way that results in outflows of resources, including:

a transferring goods or services;

b performing a specified activity;

c incurring eligible expenditure for a specified purpose; and

d using the inflows of resources in respect of a specified period.

Income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash (receivable).

Do you agree? Why or why not? If you disagree, do you prefer any other alternative approach as discussed in paragraph 5.186? Please specify and explain why.

We agree.

We have observed the difficulties in application of AASB15. We think the proposal above represents a suitable simplification. We think some clear examples of treatment when donations are provided in response to a specific campaign to illustrate the application would be very helpful.

Question 43

Paragraphs 5.189 to 5.199 discuss the Board's preliminary view that employee benefits expense is measured at the undiscounted amount of the obligation to the employee for:

a non-accumulation paid absences and termination benefits when the event occurs; and

b all other employee benefits when an employee has rendered the services that entitles the employee to consideration.

A provision for employee benefits is measured at the undiscounted future outflow expected to be required (including consideration of future pay increases) to settle the present obligation.

The Board has not yet determined the form of guidance to be developed to support preparers in determining the likelihood that an outflow of economic benefits that will be required to settle these obligations.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives, for example Tier 3 requirements should require future outflows of employee benefits expenses to be discounted? Please specify and explain why.

Are you aware of any industry-specific probability guidance that relates to employee benefits such as a long service leave? Please specify the source of that guidance.

We agree with the simplification being proposed. However, we think further simplification would be appropriate detailed as follows.

1 For non-vesting personnel leave this is typically not recorded as typically the entitlement increases year on year on a group basis. We think that the AASB should consider a default of not recording other than in certain circumstances where the above fact pattern does not occur.

2 The application of probabilities in our experience has little benefit given lower value balances are mainly impacted. A simple approach of recording all liabilities from year 1 or recording all liabilities after an employee is 50% of the way to vesting would simple and appropriate.

We note that probability volatility is higher in smaller organisations and it is less reliable to use history as a prediction of the future.

3 We think it would be helpful that the standard includes an explicit statement in relation to the inclusion of on-costs in calculating the liability.

Question 44

Paragraph 5.200 discusses that the Board has not developed any other special requirements for accounting for termination benefits and defined benefit plans.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree.

Question 45

Paragraphs 5.201 to 5.219 discuss the Board's preliminary view that Tier 3 reporting requirements would be similar to those specified in the New Zealand Tier 3 reporting requirements for the following topics:

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

b events after reporting period;

c expenses;

d foreign currency transactions;

e income taxes;

f going concern;

g offsetting; and

h provisions, contingent liabilities and contingent assets.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree.

Question 46

Paragraphs 6.1 to 6.11 discuss the Board's preliminary view that disclosure requirements for Tier 3 not-for-profit private sector entities should be developed based on the following principle:

- a for transactions where there is a recognition and measurement difference between Tier 3 reporting requirements and Tier 2 general purpose financial statements, Tier 3 reporting requirements will:
  - i adopt appropriate disclosure requirements from comparable jurisdictions, pronouncements or frameworks, if available; or
  - ii develop fit-for-purpose disclosure requirements if there are no comparable recognition and measurement requirements from other jurisdictions, pronouncements or frameworks. Fit-for-purpose disclosure requirements could be developed based on the disclosure requirements in AASB 1060 where the recognition and measurement requirements could be analogised to the Tier 3 reporting requirements.
- b for transactions where the recognition and measurement requirements for Tier 3 reporting requirements are the same as, or similar to, the corresponding recognition and measurement requirements for Tier 2 general purpose financial statements, the disclosure requirements in AASB 1060 will be used as a starting point with further consideration of simplifications that may be appropriate

Do you agree? Why or why not? If you disagree, what alternative approach do you suggest? Please specify and explain why.

We agree.

Question 47

Paragraph 6.12 discusses the Board's preliminary view on the disclosure requirements for property, plant and equipment, and investment property would be for:

- a initial measurement of non-financial assets acquired at significantly less than fair value – develop fit-for-purpose disclosures based on AASB 1060 as required for concessionary leases; and
- b subsequent measurement of property, plant and equipment – adopt AASB 1060 disclosures with simplification of the language. No specific disclosures required for borrowing cost.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We agree that simple language disclosures of accounting policies based on existing requirements is appropriate. If borrowing costs are material, we see no reason that a simple accounting policy statement shouldn't be included.

Question 48

Paragraph 6.13 discusses the Board's preliminary view on the disclosure requirements for leases would be for:

a lessee – adopt IFRS for SMEs Standard disclosures for operating leases; and

b lessor – adopt AASB 1060 disclosures for operating leases with simplification of the language.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We agree.

Question 49

Paragraph 6.14 discusses the Board's preliminary view on the disclosure requirements for changes in accounting policies and correction of errors would be for:

a changes in accounting polices – develop fit-for-purpose disclosures based on AASB 1060 and removing non-applicable disclosures; and

b correction of errors – adopt New Zealand Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit) .

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We agree with the proposed approach. We refer to early question regarding our concerns in relation to correction of errors.

INSTITUTE OF PUBLIC ACCOUNTANTS®

31 Mach 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Dear Dr Kendall

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

Thank you for the opportunity to comment on the Discussion Paper.

The Institute of Public Accountants (IPA) commends the AASB for developing a differential reporting framework that simplifies the accounting and reporting requirements for smaller not-for-profit private sector entities (ie Tier 3 entities) – a sector where IPA members work and provide advice.

General comments

Overall, IPA supports the objectives of developing a simple, proportionate, consistent and transparent financial reporting framework for smaller NFP private entities to be encompassed in the Tier 3 Accounting Standard.

We also support the majority of the proposals in the Discussion Paper and offers the following observations and comments.

IPA is of the view that smaller entities have limited resources for understanding and applying complex financial reporting requirements, especially in areas where judgement is required. We are of the opinion the guiding principles in developing a Tier 3 Standard are:

1. Identify the common items/transactions of smaller entities so that the Tier 3 Standard can specify their requirements and provide guidance on their accounting and reporting in simple and an easy to understand manner. This approach is to remove judgements where possible and assist smaller entities in complying with the requirements. This would in turn increase the consistency and comparability of reporting by Tier 3 entities that are useful to the users of the reports.
2. Develop an accounting policy hierarchy that assists smaller entities in dealing with transactions that are outside those prescribed in the Tier 3 Standard and

3. Any transactions that are not covered in the Tier 3 Standard can form part of the Post-Implementation Review of the Tier 3 Standard for future development.

Comments to specific questions in the Discussion Paper

Due to the large number of questions that the Discussion Paper is seeking comments on, our response:

- to the specific questions where we have further comments are in Attachment 1 and
- proposed areas/questions that IPA supports are in Table 1.

If you have any queries with respect to our comments or require further information, please contact me at vicki.stylianou@publicaccountants.org.au.

Yours faithfully

Vicki Sylianou
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About the IPA

The IPA is one of the professional accounting bodies in Australia with over 49,000 members and students across 100 countries. Approximately three-quarters of our members either work in or are advisers to the small business and SME sectors. In 2023, the IPA celebrates its centenary year and looks forward to contributing to the future prosperity of our members and the profession.

ATTACHMENT 1: IPA's response to specific questions in the Discussion Paper

Part A: Extending the differential reporting framework

Q1. Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements. Do you agree? Why or why not? If you disagree with the Board's view, how do you propose the Board stratify entities amongst the available reporting tiers?

IPA is of the view that smaller entities have limited resources for understanding and applying complex financial reporting requirements, especially in areas where judgement is required. As such, specifying the requirements and providing guidance to remove judgements where possible would assist smaller entities in complying with the requirements, and thereby increase the consistency and comparability of reporting. This would normally extend to developing 'reporting thresholds' to determine if an entity falls within the scope of the Tier 3 framework for application. However, IPA also appreciates that the specified thresholds need to be consistent with those imposed by different regulators. Consequently, in this instance, specifying the threshold in an accounting standard may not be the most appropriate approach. Therefore, IPA on balance thinks that the Tier 3 Standard should not specify the reporting thresholds and instead provide guidance on the factors to consider when determining whether an entity is within the scope of the Tier 3 reporting framework. It would also be useful in the Basis for Conclusions to the Standard to include the rationale and explanation similar to those in paragraphs 1.3 to 1.9 on the Board's consideration on this matter.

Q4. As noted in paragraph 1.18, the Board intends to align the timing of any new Tier 3 reporting requirements with the timing of any extension of the Australian Accounting Standards to a broader set of not-for-profit private sector entities. Do you agree? Why or why not?

IPA agrees with the proposal to align the timing of any new Tier 3 reporting requirements with the timing of any related standards affecting the NFP private sector entities, as this approach would enable entities to apply the requirements in an effective and efficient manner.

Q5. Paragraphs 2.5 to 2.7 propose to extend the set of not-for-profit private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1. The effect is that more entities will be required to prepare general purpose financial statements when required to prepare financial statements that comply with Australian Accounting Standards. Do you agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply? Why or why not? If not, what alternative approach do you suggest?

IPA supports the proposal to extend the application of Accounting Standards to the population of NFP private sector entities by superseding the relevant part of SAC 1. Whilst the proposal would scope in more entities to prepare GPFS, the statements would be prepared on the same basis and therefore result in GPFS that are consistent and comparable. The simplified accounting and reporting requirements, such as those for Tier 3 would assist in preparing the financial statements. Difficulties in implementing the proposals, such as undue burden on the entity can form part of the Post-Implementation Review of the Tier 3 Standard with consideration for further simplifications, where appropriate.

Q6. Paragraphs 2.10 to 2.12 propose the introduction of a simpler further reporting tier (Tier 3) for not-for- profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards, which serves as a proportionate response for smaller sized entities with less complex transactions and events . Do you agree? Why or why not? If not, what alternative approach do you suggest?

IPA supports the introduction of simpler Tier 3 reporting for the reasons stated in the Discussion Paper. Additionally, the proposed Standard provides the much-needed simplification of accounting and reporting requirements for smaller entities to prepare financial statements on a consistent and comparable basis. This would increase the usefulness of the financial statement to the users of the statements.

Q7. Paragraphs 2.13 to 2.17 discuss the Board's view to not develop a fourth tier of accounting for not-for-profit private sector entities. Do you agree? Why or why not? If not, what alternative approach do you suggest?

IPA queries the usefulness of financial statements that are prepared using 'basic' cash accounting requirements for economically insignificant entities (such as fourth-tier entities). We also query the existence of users for these entities' financial statements. Therefore, in the absence of further research to demonstrate the benefits of developing a fourth-tier accounting, IPA does not support its development.

Q9. Paragraphs 4.3 to 4.6 discuss the Board's view to specify Tier 3 reporting requirements in a single stand-alone accounting standard. The stand-alone pronouncement is expected to:

(a) specify only accounting requirements for transactions, events and conditions that are common to a smaller not-for-profit entity;
(b) in the main, not require an entity to refer to requirements set out in other Australian Accounting Standards; and
(c) express accounting requirements in a manner that is easy to understand by preparers and users who do not consider themselves to be "accounting experts".

Do you agree? Why or why not? If you disagree with the Board's view, which aspect(s) of the stand-alone accounting standard as listed in (a) – (c) concerns you the most? Please explain.

IPA agrees with the stand-alone accounting standard for specifying Tier 3 reporting requirements, similar to that of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. This approach would mean that an entity has one authoritative standard to refer to for common transactions of smaller NFP entities. Additionally, the stand-alone standard would enable the standard to specify the requirements in a manner that is easy to understand for both the preparers and users of the financial statements.

Q10. As discussed in paragraphs 4.10 to 4.14, Tier 3 not-for-profit private sector entities can opt-up to Tier 1 or Tier 2 reporting requirement in its entirety. However, the Board has not yet formed a view on whether it should restrict the range of accounting policies available to an entity preparing Tier-3- compliant financial statements.

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.

The objective of the Tier 3 reporting framework is to develop a simple, proportionate, consistent and transparent financial reporting framework for smaller NFP private entities and remove the ability for entities to prepare financial statements based on their self-assessment of their financial reporting requirements, such as those used in preparing special purpose financial statements (SPFS).

IPA is of the view that to achieve the above objective, particularly for simple, consistent and transparent financial reporting, Tier 3 NFP private sector entities can only opt-up to Tier 1 or Tier 2 reporting requirements in its entirety. To permit the opting up of transactions either specified by the AASB or as a policy choice would be akin to permitting entities preparing SPFS for which the Tier 3 reporting framework is proposing to remove.

Q14. Paragraphs 5.10 to 5.16 discuss the Board's preliminary view that Tier 3 general purpose financial statements comprise a statement of profit and loss and other comprehensive income, statement of financial position, statement of cash flows and explanatory notes.

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

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

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

IPA supports Tier 3 GPFS to comprise of the primary financial statements of profit and loss and other comprehensive income, financial position, cashflows and explanatory notes. This approach would ensure consistency in the presentation of financial statements and related notes in all reporting tiers, as presently applicable for Tier 1 and Tier 2 entities. This is on the basis that these financial statements and notes provide the necessary information about the entity to its users. However, to assist the smaller entities in meeting these disclosure requirements, we suggest the Board consider possible simplification approaches to the statement of comprehensive income, statement of changes in equity and statement of cash flows.

Q15 Paragraphs 5.20 to 5.24 discuss the Board's preliminary view that the information to be presented on the face of the statement of the financial position and statement of profit or loss and other comprehensive income should be consistent with those specified by AASB 1060 supplemented by explanatory guidance and education materials to help entities present information on the face of the financial statements. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the alternative approaches to presenting information on the face of the financial statements as specified in paragraph 5.21(a) or 5.21 (b)? If not, do you have other suggestions on how information should be presented on the face of the financial statements?

Further to IPA's response to Question 14, we prefer the approach of presenting information on the face of the financial statement that is consistent with AASB 1060 with supplementary material to assist the entities in presenting the information. IPA acknowledges that the 'supplementary approach' would require entities to make more judgement compared to the 'tailoring' or 'checklist' approach. However, IPA is of the view that the benefits of the 'supplementary approach' outweigh the disadvantages of the alternative approaches.

Q16 Paragraph 5.25 to 5.33 discuss the Board's preliminary view to require the statement of cash flows to present:

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

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

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

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

Refer to our response for Question 14.

Q17. Paragraph 5.34 to 5.47 discusses the Board's preliminary view to allow an entity to present either:

(a) separate financial statements as its only financial statements, even if it has subsidiaries, however, require information on the parent's significant relationships; or

(b) consolidated financial statements consolidating all its controlled entities.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements, for example Tier 3 accounting requirements should require an entity with subsidiaries to prepare consolidated financial statements in accordance with AASB 10? Please specify and explain why.

Determining whether a smaller entity 'controls' its subsidiaries for the purposes of preparing consolidated financial statements is likely to be a challenge. However, consolidated financial statements do provide useful information about the entity. Consequently, IPA supports the proposed approach that permits an entity to present the information as per (a) and (b) above as the most appropriate approach in comparison to the other approaches outlined in the Discussion Paper. Consequently, IPA would not support the partially consolidated financial statements, nor departing from the meaning of 'control' that is applied in Tier 1 and Tier 2, as to do so would decrease the comparability between entities and may be subject to abuse.

Q18. Paragraph 5.48 to 5.54 discuss the Board's preliminary view on the accounting requirements for a parent that presents separate financial statements to measure its interest in subsidiaries either:

(a) at cost;

(b) at fair value through other comprehensive income; or

(c) using the equity method of accounting.

Do you agree? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Please specify and explain why.

IPA is of the view that the to permit choices (as per (a) to (c) above) for a parent to measure its interest in subsidiaries would move away from the objective of simplifying reporting requirements for smaller entities and provide consistency and comparability of financial reports. IPA would prefer that the Board undertake research, if it has not already done so, as to the approaches that are commonly applied by smaller entities and analyse the costs and benefits of each approach. The research would inform the Board in its decision to either mandate an approach or permit choices only in certain circumstances.

Financial instruments Questions 21-27

The accounting standards for financial instruments are complex to understand and apply. Additionally, the requirements in the standards relate to complex financial instruments that are held by larger entities with only a small component of the standards being applicable to smaller entities. Financial instruments is therefore an area where significant simplification would be of benefit to smaller entities. Consequently, IPA supports the approach of developing simpler reporting requirements for 'basic financial instruments' and requiring certain 'more complex' financial instruments to be accounted for in accordance with AASB 9 (**Q21**). This approach would ensure that financial instruments are accounted for correctly and disclosed on a consistent basis.

IPA is of the view that where financial instruments that are not addressed in the Tier 3 Standard would not be common to a Tier 3 entity and if the entity holds such financial instruments, the accounting would be subject to the proposed hierarchy of accounting policy as per Q12. Accordingly, IPA's views on the remaining questions on financial instruments requirements for Tier 3 are:

- Not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable and measurable, including any embedded derivatives (**Q22**).
- Not to have access to hedge accounting (**Q23**).
- Develop a requirement for basic financial assets and financial liabilities to be initially measured at their fair value, with transaction costs and fees incurred by the entity to acquire a financial asset or assume a financial liability to be immediately expensed (**Q24**).
- Develop a requirement for basic financial assets and financial liabilities to be subsequently measured:
    - For basic financial assets that are held to generate both income and a capital return – measured at fair value through other comprehensive income.
    - For other basic financial assets and financial liabilities – measured at cost. Interest income and interest expense on these instruments are to be recognised as amounts accrue or are incurred, calculated by reference to the contractual interest rate. Any initial premium or discount on acquisition of the basic financial asset or financial liability is to be amortised on a straight-line basis over the life of the instrument, unless another

systematic basis or shorter period is more reflective of the period to which the premiums or discounts relate (**Q25**).

- Develop a requirement for impairment of basic financial assets measured at cost to be recognised when it is probable that some or all of the amount owed will not be collectible. The impairment loss is to be measured at the anticipated uncollectible amount. (**Q26**).
- Develop a requirement that a financial asset is derecognised only when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset. Additionally, the Tier 3 Standard should not address debt instrument exchanges or modification of the terms of a financial liability as part of its. A modification of the terms of a financial liability or an exchange of a debt instrument for a different debt instrument is treated as an extinguishment of the original financial liability (**Q27**).

Q36. Paragraph 5.153 discusses the Board's preliminary view to propose retaining the option to permit, but not require, a smaller not-for-profit entity to recognise volunteer services received, or a class of volunteer services, if the fair value of those services can be measured reliably.

IPA supports the recognition and disclosure of volunteer services, as they provide useful information on an entity's reliance on volunteer services for an entity's operation. However, measuring these services at fair value can be subjective and costly. Accordingly, IPA supports permitting an entity the option to recognise volunteer services, where the entity has the capacity to do so.

Q40. Paragraphs 5.164 to 5.167 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 entities including the typical forms of any intangible assets held. This will help inform the Board's deliberations on intangible assets in a future Tier 3 Standard.

The common types of intangible assets that small entities are likely to have are software, goodwill and trademarks. As such, it would be useful if the Tier 3 Standard includes the accounting for the common types of intangible assets.

TABLE 1: Proposed areas in Discussion Paper that IPA support

The table below contains the proposed areas in the Discussion Paper that IPA supports.

	Questions	IPA's view
Q2	**Paragraphs 1.9 to 1.11 discuss the Board's view that it does not intend to develop proposals for reporting service performance information as part of this project.**	IPA supports developing reporting service performance information as a separate project
Q8	**Paragraphs 3.1 to 3.5 discuss the Board's view to not make changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards, as presently modified for not-for-profit private sector entities.**	IPA supports not making changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards
Q11	**Paragraphs 4.15 to 4.20 discuss the Board's preliminary view on the transactions and other events and conditions that may not be covered in a Tier 3 Standard. The types of items the Board intends to scope out from the Tier 3 Standard include:** (i) **biological assets, and agricultural produce at the point of harvest;** (ii) **insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features;** (iii) **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;** (iv) **business combinations;** (v) **obligations arising under a defined benefit superannuation plan;** (vi) **share-based payment arrangements;** (vii) **the accounting by an operator in a service concession arrangement; and** (viii) **financial assets and financial liabilities other than those identified in Section 5 of this Discussion Paper.**	IPA supports scoping out items (i) to (viii) from the Tier 3 Standard, as the items would not be common to smaller NFP private entities.
Q12	**Paragraphs 4.21 to 4.23 discuss the Board's preliminary view on the hierarchy for entities to apply in developing accounting policies when preparing Tier 3 general purpose financial statements for transactions and other events outside the scope of the Tier 3 requirements. That is, an entity should:** (a) **first apply Tier 2 reporting requirements; and** (b) **otherwise apply judgment to develop an accounting policy by reference to:** (i) **principles and requirements in Tier 3 reporting requirements dealing with similar or related issues; and** (ii) **the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework that don't conflict with Tier 3 reporting requirements.** **When developing an accounting policy, an entity may also consider principles and requirements in Tier 1 and Tier 2 reporting requirements, or pronouncements of other standard-setting bodies with a similar conceptual framework, other accounting literature and accepted industry practices.**	IPA supports the hierarchy for entities to apply in developing accounting policies (as outlined in the question and paragraph 4.21 of the Discussion Paper).

	Questions	IPA's view
Q13	**Paragraphs 4.24 to 4.27 discuss the Board's view to limit revisiting its Tier 3 reporting requirements to no more than once every AASB agenda consultation cycle (5 years) and only when if there is a substantive case, in accordance with the AASB Due Process Framework for Setting Standards, for doing so.**	IPA supports the approach to the maintenance and update of Tier 3 reporting requirements (as outlined in the question and paragraphs 4.24 to 4.27 of the Discussion Paper).
Q19	**Paragraph 5.55 to 5.60 discuss the Board's preliminary view to develop a requirement for a modified retrospective approach to apply to changes in accounting policies and correction of accounting errors.**	IPA supports developing a modified retrospective approach to apply to changes in accounting policies and correction of accounting errors.
Q20	**Paragraph 5.61 discusses the Board's proposal to develop a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108.**	IPA supports developing a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108.
Q21	**Question 21** **Paragraphs 5.62 to 5.76 discuss the Board's preliminary views with respect to the accounting for financial instruments, in particular to develop simpler reporting requirements only for the identified 'basic' financial instruments.** **The Board intends to require certain 'more complex' financial instruments to be accounted for in accordance with AASB 9 (or other Australian Accounting Standard, as appropriate) if the financial instrument is not otherwise addressed by a topic-based Tier 3 requirement. In addition, the Board intends not to specifically highlight or address particular financial instruments or transactions considered in AASB 9, AASB 132 and AASB 139 where these items and transactions are not common to not-for-profit private sector entities.**	IPA supports the approach for simpler reporting requirements for 'basic financial instruments' and require certain 'more complex' financial instruments to be accounted for in accordance with AASB 9.
Q28	**Paragraphs 5.115 to 5.119 discuss the Board's preliminary view to not depart from the principles of AASB 13 *Fair Value Measurement* when developing reporting requirements for Tier 3 not-for-profit private sector entities as it thinks maintaining a consistent understanding of 'fair value' across the different reporting tiers is important.**	IPA supports not departing from the principles of AASB 13.
Q29	**Paragraphs 5.120 to 5.121 discuss the Board's preliminary view that cost may be an appropriate estimate for fair value when cost represents the best estimate of fair value within a wide range of possible fair value measurements for instances described in paragraph 5.120.**	IPA supports the approach that cost may be an appropriate estimate for fair value when cost represents the best estimate of fair value within a wide range of possible fair value measurements for instances described in paragraph 5.120
Q30	**Paragraphs 5.125 to 5.126 discuss the Board's preliminary view to develop Tier 3 reporting requirements that are consistent with the requirements in AASB 102 *Inventories*.**	IPA supports developing Tier 3 requirements that are consistent with AASB 102.

	Questions	IPA's view
Q31	**Paragraph 5.128 discusses the accounting for biological assets if not scoped out from a Tier 3 Standard. The Board's preliminary view is not to include biological assets and agricultural produce at the point of harvest in a Tier 3 Standard as discussed in paragraphs 4.20.**	Not applicable, as IPA supports biological assets being scoped out of the Tier 3 Standard (as per Q11).
Q32	**Paragraphs 5.129 to 5.132 discuss the Board's preliminary view to develop a requirement for interests in associates and joint ventures to be measured for a Tier 3 not-for-profit private sector entity that is:** **(a) a parent entity that presents consolidated financial statements or it is not a parent entity, the entity applies the equity method of accounting consistent with the requirements in AASB 128 *Investments in Associates and Joint Ventures* to its interests in associates and joint ventures; and** **(b) a parent entity that presents separate financial statements as its only financial statements, the entity does not apply the equity method of accounting to measure its interest in associates and joint ventures.**	IPA supports developing the requirement for interests in associates and joint ventures as per Q32.
Q33	**Paragraphs 5.133 to 5.134 discuss the Board's preliminary view to allow an accounting policy choice to require an investor that presents separate financial statements, whether in addition to consolidated financial statements or equity-accounted financial statements, to measure its interest in associates and joint ventures as either:** **(a) at cost; or** **(b) at fair value through other comprehensive income.**	IPA supports allowing an accounting policy choice to require an investor that presents separate financial statements, whether in addition to consolidated financial statements or equity-accounted financial statements, to measure its interest in associates and joint ventures as either at cost of FVTOCI as per Q33.
Q34	**Paragraphs 5.135 to 5.144 discuss the Board's preliminary view to require property, plant and equipment and investment property, other than with respect to borrowing costs, to be recognised and measured in a consistent manner to Tier 2 Australian Accounting Standards.**	IPA supports requiring property, plant and equipment and investment property, other than borrowing costs, to be recognised and measured consistent with Tier 2 Standards.
Q35	**Paragraphs 5.145 to 5.152 discuss the Board's preliminary view to allow an entity the following accounting policy choice for initial measurement of non-financial assets acquired for significantly less than fair value:** **(a) inventory to be measured at cost or at current replacement cost; and** **(b) other non-financial assets to be measured at cost or at fair value.** **The Board also decided not to permit an entity to subsequent apply the revaluation or fair value model if the donated non-financial asset were initially measured at cost.**	IPA supports the proposals as per Q35.
Q37	**Paragraphs 5.154 to 5.156 discuss the Board's preliminary view to require all borrowing costs to be expensed in the period incurred for Tier 3 not-for-profit private sector entities.**	IPA supports expensing borrowing costs in the period in which they are incurred.

	Questions	IPA's view
Q38	**Paragraphs 5.157 to 5.162 discuss the Board's preliminary view that the impairment model for non- financial assets of Tier 3 entities should:** **(a) only require non-financial assets subsequently measured at cost or deemed cost to be subject to impairment testing;** **(b) only require entities to consider whether non-financial assets are impaired when the asset has been physically damaged or when its service potential might have been adversely affected by a change in the entity's strategy or changes in external demand for the entity's services;** **(c) require impairment of a non-financial asset to be recognised if its carrying amount exceeds its recoverable amount being the higher of its fair value less costs of disposal and its value in use. Tier 3 reporting requirements will include a rebuttable presumption that fair value less costs of disposal is expected to be the most appropriate measure of a non-financial asset's recoverable amount because non-financial assets are generally not held by not-for-profit private sector entities to generate cash flows; and** **(d) allow entities to group non-financial assets that do not generate cash flows that are largely independent from other assets into cash-generating units for impairment purposes.**	IPA supports the proposals as per Q38.
Q39	**Paragraph 5.163 discusses the Board's preliminary view not to propose introducing any specific requirements for property, plant and equipment or other non-current assets that a smaller not-for-profit private sector entity intends to sell rather than hold for its continuing use.**	IPA supports the proposals as per Q39.
Q41	**Paragraphs 5.168 to 5.178 discuss the Board's preliminary view on accounting requirements for leases, including:** **(a) requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. A similar requirement would apply for lessors;** **(b) concessionary lease arrangements ('peppercorn' leases) would be accounted for in the same manner as other leases; and** **(c) not including specific requirements for sale and lease back transactions, or for manufacturer or dealer lessors.**	IPA supports the proposals as per Q41.

	Questions	IPA's view
Q42	**Paragraphs 5.179 to 5.188 discuss the Board's preliminary view that income recognition for Tier 3 entities should require an entity to assess whether a transaction is based on a common understanding, evidenced by the transfer provider in writing or some other form, that the entity is expected to use the inflows of resources in a particular way or act or perform in a particular way that results in outflows of resources, including:** **(a) transferring goods or services;** **(b) performing a specified activity;** **(c) incurring eligible expenditure for a specified purpose; and** **(d) using the inflows of resources in respect of a specified period.** **Income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash (receivable).**	IPA supports the proposals as per Q42.
Q43	**Paragraphs 5.189 to 5.199 discuss the Board's preliminary view that employee benefits expense is measured at the undiscounted amount of the obligation to the employee for:** **(a) non-accumulation paid absences and termination benefits when the event occurs; and** **(b) all other employee benefits when an employee has rendered the services that entitles the employee to consideration.** **A provision for employee benefits is measured at the undiscounted future outflow expected to be required (including consideration of future pay increases) to settle the present obligation.**	IPA supports the proposals as per Q43.
Q44	**Paragraph 5.200 discusses that the Board has not developed any other special requirements for accounting for termination benefits and defined benefit plans.**	IPA supports the proposals as per Q44, as smaller entities are unlikely to have termination benefits or defined benefit plans. Where this is not the case, additional requirements can be developed as part of the Post-Implementation Review of the Tier 3 Standard.

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<tr><th></th><th>Questions</th><th>IPA’s view</th></tr>
<tr><td>Q45</td><td>Paragraphs 5.201 to 5.219 discuss the Board’s preliminary view that Tier 3 reporting requirements would be similar to those specified in the New Zealand Tier 3 reporting requirements for the following topics:
(a) commitments (disclosed in the notes to the financial statements);
(b) events after reporting period;
(c) expenses;
(d) foreign currency transactions;
(e) income taxes;
(f) going concern;
(g) offsetting; and
(h) provisions, contingent liabilities and contingent assets.</td><td>IPA supports the proposals as per Q45.</td></tr>
<tr><td>Q46</td><td>Paragraphs 6.1 to 6.11 discuss the Board’s preliminary view that disclosure requirements for Tier 3 not-for-profit private sector entities should be developed based on the following principle:
(a) for transactions where there is a recognition and measurement difference between Tier 3 reporting requirements and Tier 2 general purpose financial statements, Tier 3 reporting requirements will:
(i) adopt appropriate disclosure requirements from comparable jurisdictions, pronouncements or frameworks, if available; or
(ii) develop fit-for-purpose disclosure requirements if there are no comparable recognition and measurement requirements from other jurisdictions, pronouncements or frameworks. Fit-for-purpose disclosure requirements could be developed based on the disclosure requirements in AASB 1060 where the recognition and measurement requirements could be analogised to the Tier 3 reporting requirements.
(b) for transactions where the recognition and measurement requirements for Tier 3 reporting requirements are the same as, or similar to, the corresponding recognition and measurement requirements for Tier 2 general purpose financial statements, the disclosure requirements in AASB 1060 will be used as a starting point with further consideration of simplifications that may be appropriate.</td><td>IPA supports the proposals as per Q46.</td></tr>
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Our ref Submission - Tier 3 Discussion Paper
Contact Heng, Kim (+61 2 9455 9120)

31 March 2023

Dear Dr Kendall

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

KPMG Australia (KPMG) is pleased to have the opportunity to comment on *Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* (the "Discussion Paper"). We recognise many smaller not-for-profit (NFP) entities have limited resources and the compliance costs are relatively high given their sizes and nature. Therefore, we welcome the AASB's efforts to develop a differential reporting tier for use by smaller NFP entities that improves the balance of cost-benefit, and meets the needs of the users of their financial statements.

We broadly support the proposals, as set out in the Discussion Paper. We support the objective of reducing the financial reporting burden for smaller NFP entities. We do, however, have some concerns about the AASB's approach to recognition, measurement and disclosures as they could require this sector to develop new accounting policies.

We have set out our detailed comments to select questions in the Appendix to this letter. Where we have no response to specific questions they have not been reproduced in the Appendix.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact Julie Locke on (02) 6248 1190, or myself on (02) 9455 9120.

Yours sincerely

Kim Heng
Partner
KPMG Australia

KPMG

Appendix

Part A: Extending the differential reporting framework

We support the AASB's extension of the *Conceptual Framework for Financial Reporting* to all NFP private sector entities, the resulting alignment of the use of the term "reporting entity" with its use internationally, and consequent superseding of the definition of "reporting entity" in SAC 1 *Definition of the Reporting Entity*.

Whilst the extension of Australian Accounting Standards (AAS) to a broader set of NFP private sector entities will remove their ability to prepare special purpose financial statements ("SPFS"), the new Tier 3 reporting requirements with its simplified reporting requirements is a further differential reporting tier which could alleviate much of the burden of not being able to prepare SPFS. We therefore agree with the Board's view to align the timing of any new Tier 3 reporting requirements with the timing of such extension.

We agree with the Board's proposal to introduce a new third simpler reporting tier for NFP private sector entities that are required to prepare financial statements complying with AAS. We support the proposal to specify Tier 3 reporting requirements in a single stand-alone accounting standard.

We agree with the Board's view to not develop a fourth tier of accounting for NFP private sector entities. Including our proposals in the remainder of this Appendix, the proposed Tier 3 reporting requirements appear to adequately deal with simplifications for the cohort proposed. We are of the view that any cost would outweigh the benefit of developing or maintaining a fourth tier of accounting.

1. ***Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements.***

   Do you agree? Why or why not? If you disagree with the Board's view, how do you propose the Board stratify entities amongst the available reporting tiers?

   We agree with the Board's view that it should not develop "reporting thresholds" to specify which reporting Tier to apply. We agree the AASB's remit is to develop standards for the application of Tiers of Australian Accounting Standards to different categories of entities preparing financial statements, while legislative or regulatory authorities set out the requirements for whether entities need to prepare financial statements that comply with AAS.

   We understand the ACNC "medium" size band (entities with revenue of $500,000 or more and less than $3 million) provided the Board with a reference point for the

Invitation to Comment – Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)

purpose of the Discussion Paper. Without advocating a particular threshold, we received feedback from stakeholders suggesting the proposed simplifications under Tier 3 would provide significant relief for entities with similar less complex transactions and events but with an even higher revenue threshold should the regulator resolve to specify thresholds higher than those the AASB used as a reference point

2. ***Paragraphs 1.9 to 1.11 discuss the Board's view that it does not intend to develop proposals for reporting service performance information as part of this project.***

   Do you agree? Why or why not? If you disagree with the Board's view, what requirements do you think entities should be required to apply? Would these requirements apply to all not-for-profit private sector entities or only be reporting requirements of a specified reporting tier?

   We agree that service performance reporting information proposals should not be developed as part of this project. We are pleased the AASB is reactivating its project on service performance reporting and encourage the AASB to progress this project as a priority given the benefits to users of reporting service performance in the NFP sector.

Part B: Proposed Tier 3 reporting requirements

10. ***As discussed in paragraphs 4.10 to 4.14, Tier 3 not-for-profit private sector entities can opt-up to Tier 1 or Tier 2 reporting requirement in its entirety. However, the Board has not yet formed a view on whether it should restrict the range of accounting policies available to an entity preparing Tier-3-compliant financial statements.***

    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.

    We agree with the Board's view in (b) that an entity preparing Tier-3-compliant financial statements should have the ability to opt up to an accounting policy permitted or required by Tier 1 or Tier 2 for all transactions, events and circumstances covered by a particular AAS (e.g. opt up for *all* financial instruments

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rather than for different types financial instruments or for elements of the financial instruments standards), regardless of whether they are covered in the Tier 3 reporting requirements.

We believe flexibility to opt up to Tier 1 or Tier 2 should be provided to entities provided that an accounting policy is applied on a consistent basis for all transactions, events and circumstances in the same class and clear disclosure of the accounting policy applied. We have heard from stakeholders that consistency and comparability among this cohort of NFP entities is less relevant.

11. ***Paragraphs 4.15 to 4.20 discuss the Board's preliminary view on the transactions and other events and conditions that may not be covered in a Tier 3 Standard. The types of items the Board intends to scope out from the Tier 3 Standard include:***

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

(b) insurance contracts issued, reinsurance contracts held, 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 in Section 5 of this Discussion Paper.

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?

We strongly recommend business combinations be included in the scope of the Tier 3 Standard. In our experience, it is not uncommon for the NFP entities to engage in business combinations – often amalgamating or merging. We believe that specific guidance on how to account for such arrangements could result in more consistent accounting for these types of arrangements. Given the challenges of measuring fair value in the NFP sector, we would recommend the AASB propose a simplified approach to that required by AASB 3 *Business Combinations.*

KPMG

17. Paragraph 5.34 to 5.47 discusses the Board's preliminary view to allow an entity to present either:

(a) separate financial statements as its only financial statements, even if it has subsidiaries, however, require information on the parent's significant relationships; or

(b) consolidated financial statements consolidating all its controlled entities.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements, for example Tier 3 accounting requirements should require an entity with subsidiaries to prepare consolidated financial statements in accordance with AASB 10? Please specify and explain why.

We agree with the Board's view to allow an entity the choice of presenting consolidated financial statements or separate financial statements with information on the parent's significant relationships.

Should this approach be proposed, we urge the AASB to clearly define what is meant by "significant relationship" and to provide guidance on how to assess what is a significant relationship.

23. Paragraphs 5.81 to 5.82 discuss the Board's preliminary view that an entity preparing Tier 3-compliant financial statements will not have access to hedge accounting.

Do you agree? Why or why not? Please specify and explain why. Are you aware if smaller not-for-profit private sector entities use hedge accounting?

Whilst under current requirements hedge accounting by smaller NFP entities is not common we do not agree with the Board's view that an entity preparing Tier 3-compliant financial statements should not have access to hedge accounting.

Hedge accounting under Tier 1 and Tier 2 is an accounting policy choice. We recommend the Board allow smaller NFP entities the same an accounting choice, albeit we expect this will not be a common circumstance. Continuing to allow smaller NFPs this accounting policy choice is consistent with the objective of simplifying financial statement preparations as smaller NFP entities can choose to not apply hedge accounting. Given as an accounting community we have accepted inconsistency in regard to hedge accounting more generally, we do not consider a lack of consistency amongst smaller NFP entities to be a persuasive rationale for disallowing the application of hedge accounting among this cohort.

24. Paragraphs 5.83 to 5.85 discuss the Board's preliminary view to develop a requirement for basic financial assets and financial liabilities to be initially

measured at their fair value. Transaction costs and fees incurred by the entity to acquire a financial asset or assume a financial liability are to be immediately expensed.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

The Board's preliminary view on immediate expensing of transaction costs and fee incurred by smaller NFP entities to acquire a financial asset or assume a financial liability is different from the current Tier 1 and Tier 2 reporting requirements. We have no comment from an application perspective. Whilst simplifying recognition and measurement, we are uncertain if smaller NFP entities will welcome this proposal as it will negatively impact the net result of the year of acquisition. In this regard, we re-iterate our view in Part B Question 10 of the importance of allowing smaller NFP entities to opt up to higher Tiers for all transactions, events and circumstances, regardless of whether they are covered in the Tier 3 reporting requirements.

26. Paragraphs 5.105 to 5.108 discuss the Board's preliminary view to develop a requirement for impairment of basic financial assets measured at cost to be recognised when it is probable that some or all of the amount owed will not be collectible. The impairment loss is to be measured at the anticipated uncollectible amount.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's preliminary view to develop a requirement for an impairment loss on basic financial assets measured at cost to be measured at the anticipated uncollectible amount.

We are aware that some NFP entities currently account for the impairment loss for financial assets based on the incurred loss model for management reporting purposes. The expected credit loss model comes with a level of complexity relative to the simple nature and smaller size of such NFP's operations. In our experience. the incurred loss model is more relatable to NFP business models with less judgement involved and achieves an appropriate cost-benefit.

41. Paragraphs 5.168 to 5.178 discuss the Board's preliminary view on accounting requirements for leases, including:

(a) requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. A similar requirement would apply for lessors;

(b) concessionary lease arrangements ('peppercorn' leases) would be accounted for in the same manner as other leases; and

(c) not including specific requirements for sale and lease back transactions, or for manufacturer or dealer lessors.

Do you agree with the Board's preliminary view? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Do you prefer that Tier 3 accounting requirements should be consistent with AASB 16 Leases? Please explain why.

To the best of your knowledge, are sale and lease back transactions common for smaller not-for-profit private sector entities?

We agree with the Board's preliminary view on requiring a lessee/lessor to recognise lease payments/receipts as an expense/income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

We understand that some NFP entities account for leases using the old leases standard, AASB 117 *Leases*, for management reporting purposes and adjust for AASB 16 *Leases* when preparing statutory financial statements. This would indicate the proposed method of accounting for leases reflects what information is important to the decision makers of the entity. We agree the disclosures of an entity's lease commitments will provide necessary information to compensate the needs of the users of the financial statements.

In our experience, sale and lease back transactions are not common for smaller NFP private sector entities.

42. Paragraphs 5.179 to 5.188 discuss the Board's preliminary view that income recognition for Tier 3 entities should require an entity to assess whether a transaction is based on a common understanding, evidenced by the transfer provider in writing or some other form, that the entity is expected to use the inflows of resources in a particular way or act or perform in a particular way that results in outflows of resources, including:

(a) transferring goods or services;

(b) performing a specified activity;

(c) incurring eligible expenditure for a specified purpose; and

(d) using the inflows of resources in respect of a specified period.

Income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all

other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash (receivable).

Do you agree? Why or why not? If you disagree, do you prefer any other alternative approach as discussed in paragraph 5.186? Please specify and explain why.

We agree with the Board's view to develop a simpler approach to income recognition for smaller NFP entities. We agree with the approach that income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received and for all other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash.

We have heard concerns on the "mismatch" of income and expenses in which income is recognised in one financial year and expenses incurred in subsequent financial years under the requirements of AASB 1058. The proposed income recognition for Tier 3 reporting requirements would provide a more "matching" view of an entity's financial performance and reflect the actual operation of an entity – which provides useful information to the users of the financial statements of smaller NFP entities, e.g. management and the grantor and achieves an appropriate cost-benefit.

However, we do have concerns regarding what is meant by the words "some other form" ("*evidenced by the transfer provider in writing or* ***some other form***"). Should this approach be proposed, we strongly recommend the AASB provide further guidance and examples to clarify what this means in practice.

Professor David J. Gilchrist
BA BBus PhD FCA

Professor of Accounting
Director, Centre for Public Value, UWA Business School
Co-Editor, Third Sector Review

29th March 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board

Dear Dr Kendall,

Re: Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-profit Private Sector Entities)
Responses to Questions

I write to provide my response to questions raised in the above discussion paper by the Australian Accounting Standards Board. Thank you for the opportunity to do so. I would also like to take this opportunity to recognise the contribution the board is taking by examining the Tier 3 reporting arrangements in an open and transparent way. The process is very inclusive and genuine giving stakeholders an important opportunity to contribute for the betterment of the Australian community.

Finally, I would also like to emphasise the need for appropriate accounting guidance to be supported by comprehensive examples and training. The development of appropriate Tier 3 financial reporting standards will not only serve to improve governance, accountability and transparency in Australia's not-for-profit sector but it will also improve the understanding and financial literacy of those charged with governance and the sector's stakeholders.

The remainder of this document constitutes my responses built on our not-for-profit accounting research undertaken here at the UWA Business School's Centre for Public Value (for further information and research outputs, please view our website: here). Please let me know in due course if you have any queries or comments.

Yours sincerely,

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Submission

Question 1 *Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements. Do you agree? Why or why not? If you disagree with the Board's view, how do you propose the Board stratify entities amongst the available reporting tiers?*

I agree with this position. The not-for-profit sector consists of many types of incorporated and non-incorporated entity structures that are variously regulated by different governments and different legal arrangements. It is not possible for the AASB to settle on a delineation of tiers appropriate to all situations. Rather it is for regulators to determine where the line might or might not be drawn.

Question 2 *Paragraphs 1.9 to 1.11 discuss the Board's view that it does not intend to develop proposals for reporting service performance information as part of this project. Do you agree? Why or why not? If you disagree with the Board's view, what requirements do you think entities should be required to apply? Would these requirements apply to all not-for-profit private sector entities or only be reporting requirements of a specified reporting tier?*

I agree with this position as history demonstrates that, while reporting of service performance is of great interest to stakeholders, it is a very complex area that will not be easily or quickly resolved. On the other hand, the Tier 3 reforms are much needed, and their timely identification and implementation is a priority. Therefore, including service performance reporting in this project will likely serve to simply over-complicate and slow down the reform process to no real advantage.

Question 3 *The 'objective' and 'primary users' incorporated in the Framework for the Preparation and Presentation of Financial Statements include modifications for not-for-profit entities. Paragraphs 1.14 to 1.16 discuss the Board's Conceptual Framework: Not-for-Profit Amendments project and how it interacts with this project. Do you agree that the Framework for the Preparation and Presentation of Financial Statements (including the modifications for not-for-profit entities) appropriately: (a) depicts the objective of general purpose financial reporting for not-for-profit private sector entities; and (b) identifies the set of primary users of the financial statements of a not-for-profit entity. Why or why not? If you disagree, what is your reasoning? The Board plans to extend the application of the Conceptual Framework for Financial Reporting to all not-for-profit entities once the modifications for not-for-profit entities are included and on the release of a Tier 3 Standard. Do you have any other concerns about applying the Conceptual Framework for Financial*

Reporting to smaller not-for-profit private sector entities that have not already been noted in paragraph 1.14? If so, please describe them.

(a) The Framework does not depict the general objective of financial reporting for not-for-profit private sector entities as it is caste too much in commercial terms. Paragraph AusOB3.1 needs to be expanded to recognise that users are interested in the extent to which those charged with governance are acting in the interests of the mission of the organisation via reporting on their stewardship of the resources of the entity and accountability.

(b) The users as described in Paragraph AusOB2.1 are not appropriate. The broad category of investors, lenders and other creditors, donors and taxpayers is acceptable but should be re-ordered as donors and taxpayers are very much a higher priority than investors and lenders in terms of the sector. I think it would be useful to add “philanthropists” as well because this is often seen as a separate category to donors. Additionally, members should be added here as a significant and high priority group. Further, the inclusion of parliaments but not of governments (which are likely one of the most significant users) does not make sense. Governments are major stakeholders in the not-for-profit sector as they procure services and deploy policy via these entities. Governments also provide significant capital grant funds.

(c) My only concern regarding the application of the Framework to all not-for-profit entities relates to the prospects for establishing Tier 4 reporting requirements and whether appropriate arrangements will be made for training for the sector to support the implementation process.

Question 4 *As noted in paragraph 1.18, the Board intends to align the timing of any new Tier 3 reporting requirements with the timing of any extension of the Australian Accounting Standards to a broader set of not-for-profit private sector entities. Do you agree? Why or why not?*

This is a logical way forward.

Question 5 *Paragraphs 2.5 to 2.7 propose to extend the set of not-for-profit private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1. The effect is that more entities will be required to prepare general purpose financial statements when required to prepare financial statements that comply with Australian Accounting Standards. Do you agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply? Why or why not? If not, what alternative approach do you suggest?*

In principle I agree with this approach.

Question 6 *Paragraphs 2.10 to 2.12 propose the introduction of a simpler further reporting tier (Tier 3) for not-for-profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards, which serves as a proportionate response for smaller sized entities with less complex transactions and events . Do you agree? Why or why not? If not, what alternative approach do you suggest?*

Agreed

Question 7 *Paragraphs 2.13 to 2.17 discuss the Board's view to not develop a fourth tier of accounting for not-for-profit private sector entities. Do you agree? Why or why not? If not, what alternative approach do you suggest?*

I do not agree with this position. I think the development of cash-based tier 4 reporting requirements will serve to inform those charged with governance as to what is required of them in terms of reporting (our research indicates there is an appetite for guidance here) and will help to raise the quality of reporting over time. Further, such a framework will support the audit process more effectively and improve users' understanding over time.

Question 8 *Paragraphs 3.1 to 3.5 discuss the Board's view to not make changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards, as presently modified for not-for-profit private sector entities. Do you agree? Why or why not?*

While I believe that a number of proposed changes identified in this discussion paper and relevant to tier 3 reporting requirements would also represent valuable modifications to tier 1 and tier 2 reporting for not-for-profit entities, I think that the focus on tier 3 only at this point is logical and appropriate as it will allow the board and stakeholders to concentrate on the requirements of this tier without over complicating or risking the reform process. However, the AASB should return to the issue of tier 1 and tier 2 reform for not-for-profit reporting in due course.

Question 9 *Paragraphs 4.3 to 4.6 discuss the Board's view to specify Tier 3 reporting requirements in a single stand-alone accounting standard. The stand-alone pronouncement is expected to: (a) specify only accounting requirements for transactions, events and conditions that are common to a smaller not-for-profit entity; (b) in the main, not require an entity to refer to requirements set out in other Australian Accounting Standards; and (c) express accounting requirements in a manner that is easy to understand by preparers and users who do not consider themselves to be "accounting experts". Do you agree? Why or why not? If you disagree with the Board's view, which aspect(s) of the standalone accounting standard as listed in (a) – (c) concerns you the most? Please explain.*

I agree with this approach. I think it is a focused approach that delivers greater clarity for all stakeholders.

Question 10 *As discussed in paragraphs 4.10 to 4.14, Tier 3 not-for-profit private sector entities can opt-up to Tier 1 or Tier 2 reporting requirement in its entirety. However, the Board has not yet formed a view on whether it should restrict the range of accounting policies available to an entity preparing Tier-3- compliant financial statements. 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.*

I think that those charged with governance should be able to opt up to higher reporting tiers for all transactions, events and circumstances regardless of whether they are covered in the Tier 3 reporting requirements. The arrangements established should encourage high quality financial reporting and support those charged with government in pursuing a higher level of reporting by removing obstacles that prevent such action.

Question 11 *Paragraphs 4.15 to 4.20 discuss the Board's preliminary view on the transactions and other events and conditions that may not be covered in a Tier 3 Standard. The types of items the Board intends to scope out from the Tier 3 Standard include: (a) biological assets, and agricultural produce at the point of harvest; (b) insurance contracts issued, reinsurance contracts held, 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 in Section 5 of this Discussion Paper. 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?*

I agree with this position.

Question 12 *Paragraphs 4.21 to 4.23 discuss the Board's preliminary view on the hierarchy for entities to apply in developing accounting policies when preparing Tier 3 general purpose financial statements for transactions and other events outside the scope of the Tier 3 requirements. That is, an entity should: (a) first apply Tier 2 reporting requirements; and (b) otherwise apply judgment to develop an accounting policy by reference to: (i) principles and requirements in Tier 3 reporting requirements dealing with similar or related issues; and (ii) the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework that don't conflict with Tier 3 reporting requirements. Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities) DISCUSSION PAPER Page 32 of 122 When developing an accounting policy, an entity may also consider principles and requirements in Tier 1 and Tier 2 reporting requirements, or pronouncements of other standard-setting bodies with a similar conceptual framework, other accounting literature and accepted industry practices Do you agree? Why or why not? If you disagree with the Board's view, do you prefer an alternative accounting policy hierarchy for these transactions and events?*

I agree with this position.

Question 13 *Paragraphs 4.24 to 4.27 discuss the Board's view to limit revisiting its Tier 3 reporting requirements to no more than once every AASB agenda consultation cycle (5 years) and only when if there is a substantive case, in accordance with the AASB Due Process Framework for Setting Standards, for doing so. Do you agree? Why or why not? If you disagree with the Board's view, how often do you prefer the Board should revisit its Tier 3 reporting requirements? Please explain.*

I agree with this position.

Question 14 *Paragraphs 5.10 to 5.16 discuss the Board's preliminary view that Tier 3 general purpose financial statements comprise a statement of profit and loss and other comprehensive income, statement of financial position, statement of cash flows and explanatory notes. (a) Do you agree? Why or why not? If you disagree with the Board's view, which financial statements do you think should not form part of the Tier 3 general purpose financial statements? As noted in the paragraphs 5.17 - 5.19, the Board has not yet formed a view whether a statement of changes in equity should also form part of the Tier 3 general purpose financial statements. (b) Do you think the statement of changes in equity should also form part of the Tier 3 general purpose financial statements? If you support including a statement of changes in equity, do you think the information presented should be required as a separate statement or as part of the notes to the financial statements?*

(a) I agree with this position – these reports are of most interest to users.

(b) Our research indicates that users have no interest in the statement of changes in equity and that it provides no useful information in the context of not-for-profit reporting. Therefore, I do not believe that this report should be included as a requirement.

Question 15 *Paragraphs 5.20 to 5.24 discuss the Board's preliminary view that the information to be presented on the face of the statement of the financial position and statement of profit or loss and other comprehensive income should be consistent with those specified by AASB 1060 supplemented by explanatory guidance and education materials to help entities present information on the face of the financial statements. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the alternative approaches to presenting information on the face of the financial statements as specified in paragraph 5.21(a) or 5.21 (b)? If not, do you have other suggestions on how information should be presented on the face of the financial statements?*

I agree with the proposals above and emphasise the need for explanatory guidance and education materials. I prefer the description in paragraph 5.21(b). However, I also think there should be a clear delineation on the face of the report separating capital donations and capital grants so that the operating performance of the entity is presented in a clear way. Capital donations (money provided for the purchase of capital items [e.g. a bus] and capital grants for the purchase of capital items potentially mislead users if they are incorporated as income in the profit and loss statement. These items, if they are for specific purposes and cannot be used for other than what they are provided for, should be reported "below the line". That is, the financial performance of the entity should be reported before capital donations and grants in order for the user to be able to fully appreciate the financial performance.

Question 16 *Paragraph 5.25 to 5.33 discuss the Board's preliminary view to require the statement of cash flows to present: (a) cash flows from operating activities separately from other cash flows; (b) cash flows from operating activities using the direct method; and (c) cash and cash equivalent as specified by AASB 1060. Do you agree? Why or why not? If you disagree with the Board's view, which presentation requirements from (a) to (c) or the statement of cash flows concern you the most? Do you prefer other simplification(s) to the statement of cash flows? Please explain why.*

I disagree that the statement of cash flows should only report cash flows from operating activities separate from other cash flows. The power of the cash flow statement is the capacity of the user to evaluate the sources and applications of funds and the three elements—investing activities, operating activities and financing activities—are critical to the user being able to develop their understanding of the nature of the cash flows of the entity. The removal of the requirement to separate financing cash flows from investment cash flows over-simplifies the statement and reduces its value considerably without really decreasing the complexity from the preparers perspective.

The remaining elements are acceptable.

Question 17 *Paragraph 5.34 to 5.47 discusses the Board's preliminary view to allow an entity to present either: (a) separate financial statements as its only financial statements, even if it has subsidiaries, however, require information on the parent's significant relationships; or (b) consolidated financial statements consolidating all its controlled entities. Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities) DISCUSSION PAPER Page 80 of 122 Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements, for example Tier 3 accounting requirements should require an entity with subsidiaries to prepare consolidated financial statements in accordance with AASB 10? Please specify and explain why.*

I agree with the board's view but emphasise the need for explanatory material and examples to be made available in order to support those charged with governance in making their decision relating to this issue.

Question 18 *Paragraph 5.48 to 5.54 discuss the Board's preliminary view on the accounting requirements for a parent that presents separate financial statements to measure its interest in subsidiaries either: (a) at cost; (b) at fair value through other comprehensive income; or (c) using the equity method of accounting. Do you agree? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Please specify and explain why.*

I agree with this position.

Question 19 *Paragraph 5.55 to 5.60 discuss the Board's preliminary view to develop a requirement for a modified retrospective approach to apply to changes in accounting policies and correction of accounting errors. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements for changes in accounting policies and correction of accounting errors; for example, should Tier 3 accounting requirements continue to require the accounting treatment specified by AASB 108 to retrospectively reflect voluntary changes in accounting policies and correction of accounting errors? Please explain your answer.*

I agree with this approach as it reduces the impact of changes in policies and correction of errors on preparers.

Question 20 *Paragraph 5.61 discusses the Board's proposal to develop a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

I agree with this position.

Question 21 *Paragraphs 5.62 to 5.76 discuss the Board's preliminary views with respect to the accounting for financial instruments, in particular to develop simpler reporting requirements only for the identified 'basic' financial instruments. The Board intends to require certain 'more complex' financial instruments to be accounted for in accordance with AASB 9 (or other Australian Accounting Standard, as appropriate) if the financial instrument is not otherwise addressed by a topic-based Tier 3 requirement. In addition, the Board intends not to specifically highlight or address particular financial instruments or transactions considered in AASB 9, AASB 132 and AASB 139 where these items and transactions are not common to not-for-profit private sector entities. Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities) DISCUSSION PAPER Page 81 of 122 Do you agree with the Board's approach to the identified 'basic' financial instruments? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

Yes, I agree with this position.

Question 22 *Paragraphs 5.77 to 5.80 discuss the accounting for embedded derivatives. The Board has formed a preliminary view that a proportionate response for Tier 3 reporting requirements is not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable and measurable, including any embedded derivatives. The Board is seeking to understand the extent to which a smaller not-for-profit private sector entity is likely to have derivatives embedded within its contracts, or enter into arrangements or contracts that may result in a derivative financial instrument. This will help inform the Board how it should approach these instruments in a future Tier 3 Standard. Are you aware of any clauses in contracts of smaller not-for-profit private sector entities that would give rise to a derivative? Have you provided an arrangement with another party or entered into a net settled contract that would meet the definition of a derivative? Please explain.*

This is a very unlikely situation for most not-for-profits. Essentially, the level of complexity associated with such instruments requires that reports should be prepared in accordance with current standards and that there is little logic in reducing these requirements for tier 3—if the entity is able to enter into these contracts then it should also be able to report them appropriately.

Question 23 *Paragraphs 5.81 to 5.82 discuss the Board's preliminary view that an entity preparing Tier 3-compliant financial statements will not have access to hedge accounting. Do you agree? Why or why not? Please specify and explain why. Are you aware if smaller not-for-profit private sector entities use hedge accounting?*

I agree with this position.

Question 24 *Paragraphs 5.83 to 5.85 discuss the Board's preliminary view to develop a requirement for basic financial assets and financial liabilities to be initially measured at their fair value. Transaction costs and fees incurred by the entity to acquire a financial asset or assume a financial liability are to be immediately expensed. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

I agree with this position.

Question 25 *Paragraphs 5.86 to 5.104 discuss the Board's preliminary develop a requirement for basic financial assets and financial liabilities to be subsequently measured as follows: (a) basic financial assets that are held to generate both income and a capital return – at fair value through other comprehensive income; and (b) other basic financial assets and financial liabilities – at cost. Interest income and interest expense on these instruments are to be recognised as amounts accrue or are incurred, calculated by reference to the contractual interest rate. Any initial premium or discount on acquisition of the basic financial asset or financial liability is to be amortised on a straight-line basis over the life of the instrument, unless another systematic basis or shorter period is more reflective of the period to which the premiums or discounts relate. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

I agree with this position.

Question 26 *Paragraphs 5.105 to 5.108 discuss the Board's preliminary view to develop a requirement for impairment of basic financial assets measured at cost to be recognised when it is probable that some or all of the amount owed will not be collectible. The impairment loss is to be measured at the anticipated uncollectible amount. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

This is appropriate.

Question 27 *Paragraphs 5.109 to 5.114 discuss the Board's preliminary view to develop a requirement that a financial asset is derecognised only when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset. The Board also formed a preliminary view not to address instances of debt instrument exchanges or modification of the terms of a financial liability as part of its Tier 3 Standard. An entity treats a modification of the terms of a financial liability or an exchange of a debt instrument for a different debt instrument as an extinguishment of the original financial liability. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

I agree with this treatment

Question 28 *Paragraphs 5.115 to 5.119 discuss the Board's preliminary view to not depart from the principles of AASB 13 Fair Value Measurement when developing reporting requirements for Tier 3 not-for-profit private sector entities as it thinks maintaining a consistent understanding of 'fair value' across the different reporting tiers is important. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements Tier 3 not-for-profit private sector entities? Please specify and explain why.*

I agree with this position.

Question 29 *Paragraphs 5.120 to 5.121 discuss the Board's preliminary view that cost may be an appropriate estimate for fair value when cost represents the best estimate of fair value within a wide range of possible fair value measurements for instances described in paragraph 5.120. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

I agree with this position.

Question 30 *Paragraphs 5.125 to 5.126 discuss the Board's preliminary view to develop Tier 3 reporting requirements that are consistent with the requirements in AASB 102 Inventories. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

I agree with this proposal.

Question 31 *Paragraph 5.128 discusses the accounting for biological assets if not scoped out from a Tier 3 Standard. The Board's preliminary view is not to include biological assets and agricultural produce at the point of harvest in a Tier 3 Standard as discussed in paragraphs 4.20. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the accounting for biological asset should be included in a Tier 3 Standard and accounted for in accordance with the requirements for inventory? Please specify and explain why.*

I agree with this position.

Question 32 *Paragraphs 5.129 to 5.132 discuss the Board's preliminary view to develop a requirement for interests in associates and joint ventures to be measured: for a Tier 3 not-for-profit private sector entity that is: (a) a parent entity that presents consolidated financial statements or it is not a parent entity, the entity applies the equity method of accounting consistent with the requirements in AASB 128 Investments in Associates and Joint Ventures to its interests in associates and joint ventures; and (b) a parent entity that presents separate financial statements as its only financial statements, the entity does not apply the equity method of accounting to measure its interest in associates and joint ventures. The Board has not yet discussed other exemptions and exceptions to applying the equity method as it is only consulting on its general approach to accounting for interests in associates and joint ventures at this stage of its project. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

Generally, I agree with this proposition. However, I think that the definition of parent/subsidiary in the context of not-for-profits needs clarification in order to ensure the application of the requirement is appropriate.

Question 33 *Paragraphs 5.133 to 5.134 discuss the Board's preliminary view to allow an accounting policy choice to require an investor that presents separate financial statements, whether in addition to consolidated financial statements or equity-accounted financial statements, to measure its interest in associates and joint ventures as either: (a) at cost; or (b) at fair value through other comprehensive income. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

I agree with this position.

Question 34 *Paragraphs 5.135 to 5.144 discuss the Board's preliminary view to require property, plant and equipment and investment property, other than with respect to borrowing costs, to be recognised and measured in a consistent manner to Tier 2 Australian Accounting Standards. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements such as not to allow smaller not-for-profit private sector entities to revalue their noncurrent assets? Please specify and explain why.*

I agree with the board's view here.

Question 35 *Paragraphs 5.145 to 5.152 discuss the Board's preliminary view to allow an entity the following accounting policy choice for initial measurement of non-financial assets acquired for significantly less than fair value: (a) inventory to be measured at cost or at current replacement cost; and (b) other non-financial assets to be measured at cost or at fair value. The Board also decided not to permit an entity to subsequent apply the revaluation or fair value model if the donated non-financial asset were initially measured at cost. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements discussed in paragraph 5.152? Please specify and explain why.*

I think that the fair value principle should be invoked here. The receipt of non-financial assets at significantly less than fair value by definition means that the cost option will ensure the value is misrepresented.

Question 36 *Paragraph 5.153 discusses the Board's preliminary view to propose retaining the option to permit, but not require, a smaller not-for-profit entity to recognise volunteer services received, or a class of volunteer services, if the fair value of those services can be measured reliably. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements? Please specify and explain why.*

I agree with this proposition.

Question 37 *Paragraphs 5.154 to 5.156 discuss the Board's preliminary view to require all borrowing costs to be expensed in the period incurred for Tier 3 not-for-profit private sector entities. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives requirements? Please specify and explain why.*

Yes, I agree with this position.

Question 38 *Paragraphs 5.157 to 5.162 discuss the Board's preliminary view that the impairment model for nonfinancial assets of Tier 3 entities should: (a) only require non-financial assets subsequently measured at cost or deemed cost to be subject to impairment testing; (b) only require entities to consider whether non-financial assets are impaired when the asset has been physically damaged or when its service potential might have been adversely affected by a change in the entity's strategy or changes in external demand for the entity's services; (c) require impairment of a non-financial asset to be recognised if its carrying amount exceeds its recoverable amount being the higher of its fair value less costs of disposal and its value in use. Tier 3 reporting requirements will include a rebuttable presumption that fair value less costs of disposal is expected to be the most appropriate measure of a non-financial asset's recoverable amount because non-financial assets are generally not held by not-for-profit private sector entities to generate cash flows; and (d) allow entities to group non-financial assets that do not generate cash flows that are largely independent from other assets into cash-generating units for impairment purposes. Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities) DISCUSSION PAPER Page 85 of 122 Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements discussed in paragraph 5.162? Please specify and explain why.*

I agree with this position.

Question 39 *Paragraph 5.163 discusses the Board's preliminary view not to propose introducing any specific requirements for property, plant and equipment or other non-current assets that a smaller not-for-profit private sector entity intends to sell rather than hold for its continuing use. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

I do not agree with this proposition. I think that, where assets are held for sale, they should be recognised accordingly. Without this reporting requirement, the user will not appreciate the nature of the assets held in the context of stewardship.

Question 40 *Paragraphs 5.164 to 5.167 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 entities including the typical forms of any intangible assets held. This will help inform the Board's deliberations on intangible assets in a future Tier 3 Standard. Are you aware of any intangible assets and their type, either internally generated or externally acquired, commonly held and recognised by smaller not-for-profit private sector entities? If so, please provide details of these assets.*

This is not a significant issue for most not-for-profit organisations and the accounting requirements should not be amended for tier 3 entities.

Question 41 *Paragraphs 5.168 to 5.178 discuss the Board's preliminary view on accounting requirements for leases, including: (a) requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. A similar requirement would apply for lessors; (b) concessionary lease arrangements ('peppercorn' leases) would be accounted for in the same manner as other leases; and (c) not including specific requirements for sale and lease back transactions, or for manufacturer or dealer lessors. Do you agree with the Board's preliminary view? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Do you prefer that Tier 3 accounting requirements should be consistent with AASB 16 Leases? Please explain why. To the best of your knowledge, are sale and lease back transactions common for smaller not-for-profit private sector entities?*

I agree with this treatment.

Question 42 *Paragraphs 5.179 to 5.188 discuss the Board's preliminary view that income recognition for Tier 3 entities should require an entity to assess whether a transaction is based on a common understanding, evidenced by the transfer provider in writing or some other form, that the entity is expected to use the inflows of resources in a particular way or act or perform in a particular way that results in outflows of resources, including: Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities) DISCUSSION PAPER Page 86 of 122 (a) transferring goods or services; (b) performing a specified activity; (c) incurring eligible expenditure for a specified purpose; and (d) using the inflows of resources in respect of a specified period. Income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash (receivable). Do you agree? Why or why not? If you disagree, do you prefer any other alternative approach as discussed in paragraph 5.186? Please specify and explain why.*

I agree with this position.

Question 43 *Paragraphs 5.189 to 5.199 discuss the Board's preliminary view that employee benefits expense is measured at the undiscounted amount of the obligation to the employee for: (a) non-accumulation paid absences and termination benefits when the event occurs; and (b) all other employee benefits when an employee has rendered the services that entitles the employee to consideration. A provision for employee benefits is measured at the undiscounted future outflow expected to be required (including consideration of future pay increases) to settle the present obligation. The Board has not yet determined the form of guidance to be developed to support preparers in determining the likelihood that an outflow of economic benefits that will be required to settle these obligations. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives, for example Tier 3 requirements should require future outflows of employee benefits expenses to be discounted? Please specify and explain why. Are you aware of any industry-specific probability guidance that relates to employee benefits such as a long service leave? Please specify the source of that guidance.*

I agree with this position.

Question 44 *Paragraph 5.200 discusses that the Board has not developed any other special requirements for accounting for termination benefits and defined benefit plans. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

I agree with this position.

Question 45 *Paragraphs 5.201 to 5.219 discuss the Board's preliminary view that Tier 3 reporting requirements would be similar to those specified in the New Zealand Tier 3 reporting requirements for the following topics: (a) commitments (disclosed in the notes to the financial statements); (b) events after reporting period; (c) expenses; (d) foreign currency transactions; Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities) DISCUSSION PAPER Page 87 of 122 (e) income taxes; (f) going concern; (g) offsetting; and (h) provisions, contingent liabilities and contingent assets. Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.*

I agree with this position.

Question 46 *Paragraphs 6.1 to 6.11 discuss the Board's preliminary view that disclosure requirements for Tier 3 not-for-profit private sector entities should be developed based on the following principle: (a) for transactions where there is a recognition and measurement difference between Tier 3 reporting requirements and Tier 2 general purpose financial statements, Tier 3 reporting requirements will: (i) adopt appropriate disclosure requirements from comparable jurisdictions, pronouncements or frameworks, if available; or (ii) develop fit-for-purpose disclosure requirements if there are no comparable recognition and measurement requirements from other jurisdictions, pronouncements or frameworks. Fit-for-purpose disclosure requirements could be developed based on the disclosure requirements in AASB 1060 where the recognition and measurement requirements could be analogised to the Tier 3 reporting requirements. (b) for transactions where the recognition and measurement requirements for Tier 3 reporting requirements are the same as, or similar to, the corresponding recognition and measurement requirements for Tier 2 general purpose financial statements, the disclosure requirements in AASB 1060 will be used as a starting point with further consideration of simplifications that may be appropriate Do you agree? Why or why not? If you disagree, what alternative approach do you suggest? Please specify and explain why.*

I agree with this position.

Question 47 *Paragraph 6.12 discusses the Board's preliminary view on the disclosure requirements for property, plant and equipment, and investment property would be for: (a) initial measurement of non-financial assets acquired at significantly less than fair value – develop fit-for-purpose disclosures based on AASB 1060 as required for concessionary leases; and (b) subsequent measurement of property, plant and equipment – adopt AASB 1060 disclosures with simplification of the language. No specific disclosures required for borrowing cost. Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.*

Agreed

Question 48 *Paragraph 6.13 discusses the Board's preliminary view on the disclosure requirements for leases would be for: (a) lessee – adopt IFRS for SMEs Standard disclosures for operating leases; and (b) lessor – adopt AASB 1060 disclosures for operating leases with simplification of the language. Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.*

I agree with this preliminary view.

Question 49 *Paragraph 6.14 discusses the Board's preliminary view on the disclosure requirements for changes in accounting policies and correction of errors would be for: (a) changes in accounting polices – develop fit-for-purpose disclosures based on AASB 1060 and removing non-applicable disclosures; and (b) correction of errors – adopt New Zealand Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit) . Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.*

I agree with this preliminary view.

PO Box 1411
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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.

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31 March 2023

Dear Sir

DISCUSSION PAPER – DEVELOPMENT OF SIMPLIFIED ACCOUNTING REQUIREMENTS (TIER3 NOT-FOR-PROFIT PRIVATE SECTOR ENTITIES)

Thank you for the opportunity to comment on the Board's Discussion Paper on the development of simplified accounting requirements for not-for-profit private sector entities. Overall, we are supportive of having a separate Tier 3 reporting framework for smaller not-for-profit private sectors but have some concerns with some of the specific matters raised in the Discussion Paper.

Please refer to Appendix 1 for our detailed comments on your specific matters for comment.

If you have any comments regarding this request, please do not hesitate to contact me.

Yours faithfully

ABoshoff

Aletta Boshoff

Partner National Leader, IFRS & Corporate Reporting
National Leader, ESG & Sustainability

APPENDIX 1 – Specific matters for comment

Part A – EXTENDING THE DIFFERENTIAL REPORTING FRAMEWORK

Section 1 - Introduction

Question 1

Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements.

Do you agree? Why or why not? If you disagree with the Board's view, how do you propose the Board stratify entities amongst the available reporting tiers?

BDO Comment – Question 1

We agree that it is not within the Board's ambit to set reporting thresholds for the multitude of not-for-private sector entities that operate under varying legislative frameworks. Nor is it practically feasible. In order to provide a timely and simplified third tier general purpose reporting framework for smaller private sector not-for-profit entities, each not-for-profit regulator must ensure that their relevant legislation stipulating the requirements for financial statements prepared using Australian Accounting Standards (i.e. general purpose financial statements), is 'fit for purpose'. This will include setting their own appropriate thresholds for Tier 1, Tier 2 and this new third tier of reporting.

However, we note that the Board envisaged not-for-profit entities with revenues between $500,000 and $3 million when developing its preliminary views for simplified recognition and measurement for private sector not-for-profit entities. If individual regulators implement reporting thresholds for Tier 3 reporting that are significantly different, this could undermine the usefulness of financial information to users.

We are also concerned about the Board's reference to their proposed simplified accounting for not-for-profit private sector entities as 'a third tier' or 'Tier 3 framework'. The Board's reference is to denote a simpler accounting framework and reduced disclosure, whereas some not-for-profit legislation, such as the *NSW Associations Incorporation Act 2009*, uses 'Tiers' to describe reporting thresholds. To avoid confusion, we encourage not-for-profit regulators to adopt a 'small', 'medium' and 'large' approach to thresholds for financial reporting, and AASB 1053 to adopt a 'Tier 1', 'Tier 2' and 'Tier 3' approach to distinguish different types of Australian general purpose financial reporting frameworks.

Question 2

Paragraphs 1.9 to 1.11 discuss the Board's view that it does not intend to develop proposals for reporting service performance information as part of this project.

Do you agree? Why or why not? If you disagree with the Board's view, what requirements do you think entities should be required to apply? Would these requirements apply to all not-for-profit private sector entities or only be reporting requirements of a specified reporting tier?

BDO Comment – Question 2

We agree with the Board's proposal to development service performance reporting requirements in a separate project.

Question 3

The ‘objective’ and ‘primary users’ incorporated in the *Framework for the Preparation and Presentation of Financial Statements* include modifications for not-for-profit entities.

Paragraphs 1.14 to 1.16 discuss the Board’s Conceptual Framework: Not-for-Profit Amendments project and how it interacts with this project. Do you agree that the *Framework for the Preparation and Presentation of Financial Statements* (including the modifications for not-for-profit entities) appropriately:

(a) depicts the objective of general purpose financial reporting for not-for-profit private sector entities; and

(b) identifies the set of primary users of the financial statements of a not-for-profit entity.

Why or why not? If you disagree, what is your reasoning?

The Board plans to extend the application of the *Conceptual Framework for Financial Reporting* to all not-for-profit entities once the modifications for not-for-profit entities are included and on the release of a Tier 3 Standard. Do you have any other concerns about applying the *Conceptual Framework for Financial Reporting* to smaller not-for-profit private sector entities that have not already been noted in paragraph 1.14? If so, please describe them.

BDO Comment - Question 3

We agree that the *Framework for the Preparation and Presentation of Financial Statements* (including the modifications for not-for-profit entities) appropriately: (a) depicts the objective of general purpose financial reporting for not-for-profit entities; and (b) identifies the set of primary users of the financial statements of a not-for-profit entity.

Notwithstanding users of the financial statements of not-for-profit entities are not concerned with obtaining a financial return on their investment in the entity, most, if not all, such users are impacted financially by not-for-profit entities achieving their respective objectives. Accordingly, we concur with the manner in which users of not-for-profit entity financial statements are identified as those who are financially impacted by a not-for-profit achieving its objectives. We consider this linkage to be essential for ensuring the population of users of the financial statements of not-for-profit entities does not become so broad as to be non-operational in a practical sense.

Question 4

As noted in paragraph 1.18, the Board intends to align the timing of any new Tier 3 reporting requirements with the timing of any extension of the Australian Accounting Standards to a broader set of not-for-profit private sector entities.

Do you agree? Why or why not?

BDO Comment - Question 4

We agree.

Section 2 - Extending the differential reporting Framework for not-for-profit private sector entities

Question 5

Paragraphs 2.5 to 2.7 propose to extend the set of not-for-profit private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1. The effect is that more entities will be required to prepare general purpose financial statements when required to prepare financial statements that comply with Australian Accounting Standards.

Do you agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply? Why or why not? If not, what alternative approach do you suggest?

BDO Comment - Question 5

Currently, many smaller not-for-profit private sector entities prepare special purpose financial statements. This does not facilitate comparability of financial information between entities or over time. If the Board supersedes the use of 'reporting entity' in SAC 1, this will increase the number of private sector not-for-profit entities having to prepare general purpose financial statements (if relevant legislation requires financial statements to be prepared in accordance with Australian Accounting Standards).

We agree with the Board's approach. It will be up to each regulator to specify thresholds for entities having to prepare Tier 1 full general purpose financial statements, Tier 2 Simplified Disclosures, or the new Tier 3 simplified accounting for smaller entities.

Question 6

Paragraphs 2.10 to 2.12 propose the introduction of a simpler further reporting tier (Tier 3) for not-for-profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards, which serves as a proportionate response for smaller sized entities with less complex transactions and events.

Do you agree? Why or why not? If not, what alternative approach do you suggest

BDO Comment - Question 6

We agree with his approach, principally for the reasons identified in our response to Question 5 above. Introducing a Tier 3 for smaller sized not-for-profit entities will facilitate more consistent financial reporting across the sector.

Question 7

Paragraphs 2.13 to 2.17 discuss the Board's view to not develop a fourth tier of accounting for not-for-profit private sector entities.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

BDO Comment - Question 7

We agree with this approach. General purpose financial statements should be based on accrual accounting principles.

Section 3 - Tier 1 and Tier 2 reporting requirements

Question 8

Paragraphs 3.1 to 3.5 discuss the Board's view to not make changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards, as presently modified for not-for-profit private sector entities.

Do you agree? Why or why not?

BDO Comment - Question 8

We agree with the Board's view. We do not consider the Board's Tier 3 proposals necessitate at this time any changes to the Tier 1 and Tier 2 reporting requirements.

PART B - PROPOSED TIER 3 REPORTING REQUIREMENTS

Section 4 - Setting of Tier 3 and its interaction with other reporting requirements

Question 9

Paragraphs 4.3 to 4.6 discuss the Board's view to specify Tier 3 reporting requirements in a single stand-alone accounting standard. The stand-alone pronouncement is expected to:

(a) specify only accounting requirements for transactions, events and conditions that are common to a smaller not-for-profit entity;

(b) in the main, not require an entity to refer to requirements set out in other Australian Accounting Standards; and

(c) express accounting requirements in a manner that is easy to understand by preparers and users who do not consider themselves to be "accounting experts".

Do you agree? Why or why not? If you disagree with the Board's view, which aspect(s) of the standalone accounting standard as listed in (a) – (c) concerns you the most? Please explain.

BDO Comment - Question 9

We agree with this approach, particularly in light of the constituents the reporting requirements are likely to be applied to. As we have noted in other responses to the AASB, not-for-profit entities, particularly smaller sized not-for-profit entities, do not typically possess significant accounting and finance resources. Consequently, having all Tier 3 reporting requirements in a single stand-alone accounting standard would facilitate adoption and on-going compliance.

Question 10

As discussed in paragraphs 4.10 to 4.14, Tier 3 not-for-profit private sector entities can opt-up to Tier 1 or Tier 2 reporting requirement in its entirety. However, the Board has not yet formed a view on whether it should restrict the range of accounting policies available to an entity preparing Tier-3-

compliant financial statements. 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.

BDO Comment - Question 10

We noted in Question 9 above that the Board's approach is to have a single stand-alone accounting standard for Tier 3 simplified accounting requirements, expressed in a manner that is easy to understand by preparers and users who do not consider themselves to be 'accounting experts'. On this basis, we do not consider it appropriate for these entities to be able to 'opt up' - either because of the 'cross-reference' approach, or the 'free choice' approach noted in paragraph 4.11 - as these choices will reduce comparability between financial statements of smaller not-for-profit entities applying the Tier 3 framework:

However, please refer to our response to Question 11 below regarding circumstances where the Tier 3 requirements do not cover accounting requirements for specific transactions, events or circumstances.

Question 11

Paragraphs 4.15 to 4.20 discuss the Board's preliminary view on the transactions and other events and conditions that may not be covered in a Tier 3 Standard. The types of items the Board intends to **scope out** from the Tier 3 Standard include:

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

(b) insurance contracts issued, reinsurance contracts held, 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 in Section 5 of this Discussion Paper.

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?

BDO Comment - Question 11

The Board's objective for this project as outlined in paragraph 1.2 of the Discussion Paper is "To develop a simple, proportionate, consistent and transparent financial reporting framework for applicable not-for-profit private sector entities". Paragraph 2.12 also notes "This further reporting tier will serve as a proportionate response for smaller-sized entities with less complex transaction and events that are required to prepare financial statements that comply with Australian Accounting Standards". In other words, a third-tier reporting framework is needed that is 'fit-for-purpose' – one that provides simplified recognition and measurement requirements for transactions and balances that are common across smaller not-for-profit private sector entities.

We acknowledge that the occurrence of items listed in (b), (c), (e), (f) and (h) are likely to be rare for smaller private sector not-for-profit entities. However, if they do occur, paragraph 4.15 of the Discussion Paper suggests that entities will need to apply the full recognition and measurement requirements of IFRS, and make the relevant Tier 2 disclosures from AASB 1060. We agree with this approach because we expect occurrence to be rare in smaller private sector not-for-profit entities.

Biological assets (item (a))

However, we envisage that some smaller not-for-profit private sector entities could be cultivating plants or rearing animals for communal purposes, and as such we do not agree that biological assets should be scoped out as this would force preparers to apply the more complex requirements of AASB 141 *Agriculture*. We would prefer to see specific Tier 3 requirements, or alternatively, if Tier 3 requirements are silent, that entities can apply related Tier 3 requirements (such as inventories measured at cost). Refer to Question 31 for more information.

Business combinations (item (d))

Similarly, in our experience, business combinations are more common in the smaller not-for-profit entity space, particularly where one not-for-profit entity winds up and is obligated to transfer its 'business' to another not-for-profit entity with similar objectives. Such transactions are not limited to larger entities.

On this basis, we recommend a simpler Tier 3 basis of accounting for business combinations, without a requirement for fair value accounting. We also note that there is diversity in practice in the way business combinations are accounted for in the wider not-for-profit sector, particularly with respect to the question of whether a 'bargain purchase gain' is credited to profit or loss or equity. As these matters remain unresolved for Tier 1 and Tier 2 accounting, if the Board excludes business combinations from the scope of Tier 3, applying the approach set out in paragraph 4.16 will result in preparers having 'nowhere to go' because Tier 1 and 2 accounting for business combinations by not-for-profit entities remains unresolved.

Accounting by an operator in a service concession arrangement (item (g))

We do not agree that these should be scoped out of Tier 3 requirements. To do so this will force preparers to apply the full IFRS recognition and measurement requirements for the service concession arrangements 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 (rather than the relevant simpler Tier 3 requirements for these items).

Instead, we recommend that operator service concession arrangements not be scoped out of Tier 3. Instead, Tier 3 should be 'silent' on these arrangements (refer Figure 4.1 in paragraph 4.16). Even though not specifically mentioned in Tier 3, the financial assets, intangible assets and revenue arising from these arrangements should all be considered topics covered by Tier 3, and therefore 'the entity considers how to account for the transaction in the context of applying the related Tier 3 requirements' (refer paragraph 4.17). This means that the accounting would follow the usual simplified requirements in Tier 3 for financial assets, intangible assets and revenues as appropriate.

Question 12

Paragraphs 4.21 to 4.23 discuss the Board's preliminary view on the hierarchy for entities to apply in developing accounting policies when preparing Tier 3 general purpose financial statements for transactions and other events outside the scope of the Tier 3 requirements. That is, an entity should:

(a) first apply Tier 2 reporting requirements; and

(b) otherwise apply judgment to develop an accounting policy by reference to:

- (i) principles and requirements in Tier 3 reporting requirements dealing with similar or related issues; and
- (ii) the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework that don't conflict with Tier 3 reporting requirements.

When developing an accounting policy, an entity may also consider principles and requirements in Tier 1 and Tier 2 reporting requirements, or pronouncements of other standard-setting bodies with a similar conceptual framework, other accounting literature and accepted industry practices.

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

BDO Comment - Question 12

Where a specific transaction or event is scoped out of Tier 3, the Board considers that entities applying the Tier 3 requirements would not ordinarily need to consider the above hierarchy (refer paragraph 4.23). If they do, and where there are no Tier 2 requirements dealing with the specific transaction or event, these smaller not-for-profit private sector entities will need to apply judgement to develop an accounting policy, and we anticipate that unsophisticated preparers may find it challenging to apply this hierarchy. Our preference therefore would be to have Tier 3 requirements for as many types of transactions encountered by smaller not-for-profit entities as possible to avoid the need for them to have to apply this judgemental hierarchy.

Question 13

Paragraphs 4.24 to 4.27 discuss the Board's view to limit revisiting its Tier 3 reporting requirements to no more than once every AASB agenda consultation cycle (5 years) and only when if there is a substantive case, in accordance with the AASB Due Process Framework for Setting Standards, for doing so.

Do you agree? Why or why not? If you disagree with the Board's view, how often do you prefer the Board should revisit its Tier 3 reporting requirements? Please explain.

BDO Comment - Question 13

We agree with this proposal on the basis it represents a balanced and proportionate approach.

Section 5 - Accounting requirements

Question 14 - Primary financial statements

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

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

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

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

BDO Comment - Question 14

We agree that Tier 3 general purpose financial statements should include the statement of profit or loss and other comprehensive income and the statement of cash flows. However, we do not think that a statement of changes in equity need be mandatory for Tier 3 general purpose financial statements. This is because smaller not-for-profit entities do not have equity as such, but rather merely balances of accumulated surplus and reserves such as asset revaluation reserves, general reserves, etc., Details of movements in these reserves could be provided as part of the notes to the financial statements, which are cross-referenced from the balance sheet.

Question 15 - Primary financial statements

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

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

BDO Comment - Question 15

We agree with the Board's approach outlined in paragraph 5.21(c), i.e. the 'supplementary material' approach noted above, as it will provide preparers with more flexibility in the way they present the entity's 'story'. Given the variety of activities undertaken by smaller not-for-profit private sector entities, we don't consider either the 'checklist' approach, or the 'tailoring' approach to be suitable because:

- **The 'checklist' approach** – preparers will have to allocate different types of transactions and balances into a set number of line items, and would not be able to describe these in a unique way
- **The 'tailoring' approach -** albeit written in language generally suited to the activities of smaller not-for-profit private sector entities, it will prescribe the minimum line items required, but provide no additional guidance to assist preparers where a transaction or balance is not covered by one of the minimum line items.

Question 16 - Primary financial statements

Paragraph 5.25 to 5.33 discuss the Board's preliminary view to require the statement of cash flows to present:

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

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

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

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

BDO Comment - Question 16

We agree with the above proposals, in particular, that the cost of separating cash flows from investing activities from cash flow from financing activities would outweigh the benefits.

Question 17 – Consolidated financial statements

Question 17 Paragraph 5.34 to 5.47 discusses the Board's preliminary view to allow an entity to present either:

(a) separate financial statements as its only financial statements, even if it has subsidiaries, however, require information on the parent's significant relationships; or

(b) consolidated financial statements consolidating all its controlled entities.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements, for example Tier 3 accounting requirements should require an entity with subsidiaries to prepare consolidated financial statements in accordance with AASB 10? Please specify and explain why.

BDO Comment - Question 17

We do not agree with the Board's proposals. Paragraph 5.35 notes that issues with presenting consolidated financial statements appear to be less about the mechanics of consolidation accounting and more about identifying subsidiaries. While we acknowledge the difficulties experienced by not-for-profit private sector entities generally in assessing whether they have control over other entities (i.e. identifying subsidiaries), this is a problem that affects many entities, both for-profit and not-for-profit (as referenced in ITC 51).

We do not agree with stakeholder views that consolidated financial statements do not provide useful information compared to entity-level financial statements for each entity in a group. In our view, allowing parent entities a choice to prepare separate financial statements with some disclosures will undermine the usefulness and comparability between similar not-for-profit groups, as well as a lack of transparency for funding providers. That is, we could envisage a funder potentially providing excess funding to individual entities in a group because they are unable to see the complete picture as to how much funding the group receives from all sources on a consolidated basis.

We are also concerned that this choice could lead to abuse by, for example, a not-for-profit parent restructuring to transfer assets and liabilities into a subsidiary. We would also be concerned that such a proposal would encourage 'structuring' among smaller not-for-profit entities to achieve reporting outcomes otherwise unachievable under other general purpose financial reporting frameworks. For instance, a group could insert a not-for-profit parent entity so as to avoid having to prepare consolidated financial statements and disclose information regarding the individual assets and liabilities that it controls indirectly through subsidiaries.

Lastly, while the Discussion Paper proposes additional disclosures about the parent entity's significant relationships, this assumes that the parent entity has already gone through a process of identifying subsidiaries. As noted above, identifying subsidiaries is not a problem that is unique to small not-for-profit entities. If the entity is unable to identify subsidiaries, any additional disclosures would be ineffective.

If the main problem is identifying subsidiaries (rather than the mechanics of consolidation), our overall recommendation would be to rather establish simpler principles to enable 'Tier 3' smaller not-for-profit private sector entities to identify subsidiaries more easily. That way, consolidation would not be such a major burden for these entities while at the same time encouraging consistent and comparable disclosures.

Question 18 – Separate financial statements of the parent

Paragraph 5.48 to 5.54 discuss the Board's preliminary view on the accounting requirements for a parent that presents separate financial statements to measure its interest in subsidiaries either:

(a) at cost;

(b) at fair value through other comprehensive income; or

(c) using the equity method of accounting.

Do you agree? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Please specify and explain why.

BDO Comment – Question 18

We agree with these proposals. However, given that in many cases 'cost' with be Nil or a nominal amount because control is achieved by contract or a relationship other than voting power, the additional disclosures will need to contain summary financial information for subsidiaries in order to be useful – i.e. individually for material subsidiaries and in aggregate for immaterial subsidiaries. They will also need to explain the parent entity's relationship with each subsidiary, including how control is established for each one.

Question 19 – Changes in accounting policies and corrections of accounting errors

Paragraph 5.55 to 5.60 discuss the Board's preliminary view to develop a requirement for a modified retrospective approach to apply to changes in accounting policies and correction of accounting errors.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements for changes in accounting policies and correction of accounting errors; for example, should Tier 3 accounting requirements continue to require the accounting treatment specified by AASB 108 to retrospectively reflect voluntary changes in accounting policies and correction of accounting errors? Please explain your answer.

BDO Comment - Question 19

We agree with the Board's proposal to require **voluntary changes** in accounting policies to be made using the modified retrospective approach because in most instances, the change will involve changes from a cost to a fair value/revaluation model, or by changing costing methodologies. These are likely to occur at a point in time and are therefore unlikely to affect comparability. Applying such changes from the beginning of the current reporting period will therefore save considerable resources for smaller not-for-profit entities, such as by not having to retrospectively obtain valuations for assets in a prior period.

However, we do not agree with this modified retrospective approach for errors. Subject to an 'impracticable' exception, errors should be restated retrospectively as they could impact the usefulness and comparability of the financial statements.

Question 20 – Changes in accounting estimates

Paragraph 5.61 discusses the Board's proposal to develop a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 20

We agree with the Board's proposals, principally because they are consistent with the corresponding Tier 1 and 2 requirements, and we do not consider there to be a significant justification for moving away from these requirements for smaller not-for-profit entities.

Question 21 – Financial instruments

Question 21 Paragraphs 5.62 to 5.76 discuss the Board's preliminary views with respect to the accounting for financial instruments, in particular to develop simpler reporting requirements only for the identified 'basic' financial instruments.

The Board intends to require certain 'more complex' financial instruments to be accounted for in accordance with AASB 9 (or other Australian Accounting Standard, as appropriate) if the financial instrument is not otherwise addressed by a topic-based Tier 3 requirement. In addition, the Board intends not to specifically highlight or address particular financial instruments or transactions considered in AASB 9, AASB 132 and AASB 139 where these items and transactions are not common to not-for-profit private sector entities.

Do you agree with the Board's approach to the identified 'basic' financial instruments? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 21

In paragraph 5.69, the Board identifies the following 'basic' financial assets and financial liabilities for which it intends to develop simplified Tier 3 reporting requirements:

- Cash and cash equivalents
- Trade and other receivables
- Security bonds and similar debt instruments
- Term deposits and government bonds
- Units held in managed investment schemes, unit trusts and similar other investment vehicles
- Ordinary shares held in listed and unlisted entities
- Trade and other payables
- Loans.

In paragraph 5.74, the Board outlines examples of more complex financial instruments as including:

- Purchased debt instruments such as listed corporate bonds and convertible notes
- Acquired equity instruments such as preference shares
- Financial guarantee contracts
- Interest rate swaps and forward exchange contracts
- Commitment to provide a loan at a below-market interest rate.

In general, we agree with the above list of 'basic' financial instruments. However, we question the appropriateness of using a 'blunt instrument', such as this fixed list of basic instruments, to determine whether Tier 3 simplified accounting applies. For example:

- Certain units held in managed investment schemes, unit trusts and similar other investment vehicles could contain an embedded derivate, and AASB 9 may be appropriate rather than Tier 3 accounting, or

- Certain acquired equity instruments such as preference shares may not contain any derivative features and simplified Tier 3 accounting for financial assets may be appropriate.

While having these lists as guidance may prove helpful, we believe that Tier 3 simplified accounting should be applied where the instrument does not contain any complex features (such as conversion features or other derivatives), and we would prefer the Board articulate in a Tier 3 standard what features would distinguish a complex instrument from a basic instrument. We are concerned that having a fixed list of basic instruments could result in entities acquiring (or, less likely, issuing) instruments with 'basic' names in order to be able to apply basic accounting, even if the features indicate the instrument has complex features.

Question 22 - Financial instruments

Paragraphs 5.77 to 5.80 discuss the accounting for embedded derivatives. The Board has formed a preliminary view that a proportionate response for Tier 3 reporting requirements is not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable and measurable, including any embedded derivatives.

The Board is seeking to understand the extent to which a smaller not-for-profit private sector entity is likely to have derivatives embedded within its contracts, or enter into arrangements or contracts that may result in a derivative financial instrument. This will help inform the Board how it should approach these instruments in a future Tier 3 Standard.

Are you aware of any clauses in contracts of smaller not-for-profit private sector entities that would give rise to a derivative? Have you provided an arrangement with another party or entered into a net-settled contract that would meet the definition of a derivative? Please explain.

BDO Comment - Question 22

As smaller not-for-profit entities don't tend to have borrowings or enter into complex lease arrangements, we don't anticipate seeing embedded derivatives very often. As such, we agree with the Board's proposals.

Question 23 - Financial instruments

Paragraphs 5.81 to 5.82 discuss the Board's preliminary view that an entity preparing Tier 3-compliant financial statements will not have access to hedge accounting.

Do you agree? Why or why not? Please specify and explain why. Are you aware if smaller not-for-profit private sector entities use hedge accounting?

BDO Comment - Question 23

Hedge accounting is a complex area and we do not anticipate smaller not-for-profit entities would enter into hedging arrangements, except in very limited circumstances for risk-management purposes. Moreover, we are not aware of any smaller not-for-profits adopting hedge accounting. Accordingly, on cost-benefit grounds, we agree that hedge accounting should not be made available under Tier 3 reporting requirements. Being complex financial instruments, derivatives will be scoped out of Tier 3, and AASB 9 accounting for derivatives (without hedge accounting) will apply, i.e. at fair value through profit or loss.

Question 24 – Financial instruments

Paragraphs 5.83 to 5.85 discuss the Board's preliminary view to develop a requirement for basic financial assets and financial liabilities to be initially measured at their fair value. Transaction costs and fees incurred by the entity to acquire a financial asset or assume a financial liability are to be immediately expensed.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 24

We agree with these proposals. The majority of basic financial instruments held by smaller not-for-profit entities are listed equities and other similar investments, for which fair value is typically readily available.

Question 25 - Financial instruments

Paragraphs 5.86 to 5.104 discuss the Board's preliminary develop a requirement for basic financial assets and financial liabilities to be subsequently measured as follows:

(a) basic financial assets that are held to generate both income and a capital return – at fair value through other comprehensive income; and

(b) other basic financial assets and financial liabilities – at cost. Interest income and interest expense on these instruments are to be recognised as amounts accrue or are incurred, calculated by reference to the contractual interest rate. Any initial premium or discount on acquisition of the basic financial asset or financial liability is to be amortised on a straight-line basis over the life of the instrument, unless another systematic basis or shorter period is more reflective of the period to which the premiums or discounts relate.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 25

We agree with these proposals, although would prefer additional guidance on what he Board means that financial assets held to generate 'both income and capital return'. Some instruments may initially be held to earn income only with a view to a capital return in the distant future or not at all (subject to the entity's investment strategy). A strict reading of the phrase 'both income and capital return' might be understood to mean only those financial assets that are held for both purposes would qualify for measurement at fair value through other comprehensive income. We assume that these instruments (usually equity) would otherwise meet the 'income and capital return' requirements to be subsequently measured at fair value through other comprehensive income.

Question 26 – Financial instruments

Paragraphs 5.105 to 5.108 discuss the Board's preliminary view to develop a requirement for impairment of basic financial assets measured at cost to be recognised when it is probable that some or all of the amount owed will not be collectible. The impairment loss is to be measured at the anticipated uncollectible amount.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 26

We agree with the proposal for an incurred loss model on the basis it represents a balanced and proportionate approach.

Question 27 - Financial instruments

Paragraphs 5.109 to 5.114 discuss the Board's preliminary view to develop a requirement that a financial asset is derecognised only when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset.

The Board also formed a preliminary view not to address instances of debt instrument exchanges or modification of the terms of a financial liability as part of its Tier 3 Standard. An entity treats a modification of the terms of a financial liability or an exchange of a debt instrument for a different debt instrument as an extinguishment of the original financial liability.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 27

We agree that the derecognition requirements for financial assets in AASB 9 are too complex for smaller not-for-profit entities, and are probably rarely expected to apply in practice. We therefore agree with the Board's proposals that a financial asset is only derecognised when either the contractual rights to cash flows expire or are settled, or when the entity otherwises loses control of the asset.

We also agree with the Board's assessment that the modification of liability requirements are too complex for smaller not-for-profit entities, and agree with the proposed approach to treat exchanges or modifications of debt instruments as an extinguishment of the original liability.

While the Discussion paper is silent on the proposed derecognition requirements for financial liabilities, we note that the Snapshot documents says that financial liabilities will only be derecognised when the obligation is discharged. We think that financial liabilities should also be derecognised when the obligations specified in the contract either expire or are cancelled (forgiven), as is sometimes the case in the not-for-profit sector when loans are effectively converted into donations as a consequence of the lender forgiving the obligation.

Question 28 - Fair value measurement

Paragraphs 5.115 to 5.119 discuss the Board's preliminary view to not depart from the principles of AASB 13 *Fair Value Measurement* when developing reporting requirements for Tier 3 not-for-profit private sector entities as it thinks maintaining a consistent understanding of 'fair value' across the different reporting tiers is important.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements Tier 3 not-for-profit private sector entities? Please specify and explain why.

BDO Comment - Question 28

We agree with this proposal. Consistent with our comments elsewhere in this response, in circumstances where smaller not-for-profit entities voluntarily enter into complex financing and similar arrangements, their accounting should be consistent with the approach applicable to other entities with similar arrangements. Nevertheless, as smaller not-for-profit entities do not typically enter into complex financing and similar arrangements, or else recognise material balances that require sophisticated fair value measurement techniques, we do not expect these requirements will be challenging for many, if any, smaller not-for-profit entities.

Question 29 - Fair value measurement

Paragraphs 5.120 to 5.121 discuss the Board's preliminary view that cost may be an appropriate estimate for fair value when cost represents the best estimate of fair value within a wide range of possible fair value measurements for instances described in paragraph 5.120.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 29

We agree with this proposal, consistent with our comments directly above.

Question 30 - Inventory

Paragraphs 5.125 to 5.126 discuss the Board's preliminary view to develop Tier 3 reporting requirements that are consistent with the requirements in AASB 102 *Inventories*.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 30

We agree with these proposals on the basis they represent a balanced and proportionate approach.

Question 31 - Biological assets

Paragraph 5.128 discusses the accounting for biological assets if not scoped out from a Tier 3 Standard. The Board's preliminary view is not to include biological assets and agricultural produce at the point of harvest in a Tier 3 Standard as discussed in paragraphs 4.20.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the accounting for biological asset should be included in a Tier 3 Standard and accounted for in accordance with the requirements for inventory? Please specify and explain why.

BDO

BDO Comment - Question 31

While we are not aware of specific example where small not-for-profit entities may have biological assets, we could envisage some having them, such as community gardens, land conservation areas, etc. In order for a proportionate response, we do not agree that biological assets be scoped out of a Tier 3 standard (refer to our comments for Question 11(a)) as this will result in complex accounting requirements as per AASB 141. We prefer that the Board either develop specific Tier 3 requirements, or allow biological assets to be accounted for using the Tier 3 inventory requirements.

Question 32 – Investments in associates and joint ventures

Paragraphs 5.129 to 5.132 discuss the Board's preliminary view to develop a requirement for interests in associates and joint ventures to be measured: for a Tier 3 not-for-profit private sector entity that is:

(a) parent entity that presents consolidated financial statements or it is not a parent entity, the entity applies the equity method of accounting consistent with the requirements in AASB 128 *Investments in Associates and Joint Ventures* to its interests in associates and joint ventures;

(b) a parent entity that presents separate financial statements as its only financial statements, the entity does not apply the equity method of accounting to measure its interest in associates and joint ventures.

The Board has not yet discussed other exemptions and exceptions to applying the equity method as it is only consulting on its general approach to accounting for interests in associates and joint ventures at this stage of its project.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 32

Consistent with our response to Question 17 above, we would prefer entities with associates to apply equity accounting as noted in (a) above. However, if the Board proceeds with its proposals to allow parent entities to choose not to prepare consolidated financial statements, we agree that the requirement for equity accounting should be consistent.

Question 33 – Separate financial statements of the investor

Paragraphs 5.133 to 5.134 discuss the Board's preliminary view to allow an accounting policy choice to require an investor that presents separate financial statements, whether in addition to consolidated financial statements or equity-accounted financial statements, to measure its interest in associates and joint ventures as either:

(a) at cost; or

(b) at fair value through other comprehensive income.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 33

Where an investor is not applying equity accounting, we agree with the above proposals.

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

Paragraphs 5.135 to 5.144 discuss the Board's preliminary view to require property, plant and equipment and investment property, other than with respect to borrowing costs, to be recognised and measured in a consistent manner to Tier 2 Australian Accounting Standards.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements such as not to allow smaller not-for-profit private sector entities to revalue their non-current assets? Please specify and explain why.

BDO Comment – Question 34

We agree with these proposals on the basis they represent a balanced and proportionate approach.

Question 35 – Property, plant and equipment, and investment property

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

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

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

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

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

BDO Comment – Question 35

As the 'cost' option is already available for concessionary leases, we agree with the Board's proposals to allow a similar option for donated inventory and other financial assets. However, we recommend that the Board clarifies the 'unit of account' for this option. That is, can it be applied on a transaction-by-transaction basis, for a class of assets, or for a whole category of asset?

We would like to see this option provided on a class basis. For example, NFP receives donated land, as well as a donated motor vehicle and some office equipment. All of these items form part of the 'property, plant and equipment' category, however, each of them is a separate class. In our view, NFP should be able to choose to apply fair value for the initial measurement of land, and possibly the motor vehicle, but should be able to apply a separate choice to initially measure the donated office equipment at cost.

Question 36 – Volunteer services

Paragraph 5.153 discusses the Board's preliminary view to propose retaining the option to permit, but not require, a smaller not-for-profit entity to recognise volunteer services received, or a class of volunteer services, if the fair value of those services can be measured reliably.

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

BDO Comment - Question 36

We agree with the Board's proposals. Given that Tier 1 and Tier 2 not-for-profit private sector entities have a choice whether to recognise volunteer services received at fair value (it is only mandatory for public sector entities), it should not be mandatory for Tier 3 entities as this would not be a proportionate response.

Question 37 - Borrowing costs

Paragraphs 5.154 to 5.156 discuss the Board's preliminary view to require all borrowing costs to be expensed in the period incurred for Tier 3 not-for-profit private sector entities.

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

BDO Comment - Question 37

We agree with the Board's proposal to require all borrowing costs on qualifying assets to be expensed as incurred.

Question 38 - Impairment of non-financial assets

Paragraphs 5.157 to 5.162 discuss the Board's preliminary view that the impairment model for non-financial assets of Tier 3 entities should:

(a) only require non-financial assets subsequently measured at cost or deemed cost to be subject to impairment testing;

(b) only require entities to consider whether non-financial assets are impaired when the asset has been physically damaged or when its service potential might have been adversely affected by a change in the entity's strategy or changes in external demand for the entity's services;

(c) require impairment of a non-financial asset to be recognised if its carrying amount exceeds its recoverable amount being the higher of its fair value less costs of disposal and its value in use. Tier 3 reporting requirements will include a rebuttable presumption that fair value less costs of disposal is expected to be the most appropriate measure of a non-financial asset's recoverable amount because non-financial assets are generally not held by not-for-profit private sector entities to generate cash flows; and

(d) allow entities to group non-financial assets that do not generate cash flows that are largely independent from other assets into cash-generating units for impairment purposes.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements discussed in paragraph 5.162? Please specify and explain why.

BDO Comment - Question 38

We agree with these proposals.

Question 39 - Assets held for sale

Paragraph 5.163 discusses the Board's preliminary view not to propose introducing any specific requirements for property, plant and equipment or other non-current assets that a smaller not-for-profit private sector entity intends to sell rather than hold for its continuing use.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 39

We agree with the Board's proposal on the basis that occurrences of small not-for-profit entities selling assets is likely to be infrequent and have immaterial impact. However, similar to the Board's approach for prohibiting hedge accounting, we think there is an argument for relieving smaller not-for-profit entities from applying AASB 5 when they hold non-current assets held for sale.

Question 40 - Intangible assets

Paragraphs 5.164 to 5.167 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 entities including the typical forms of any intangible assets held. This will help inform the Board's deliberations on intangible assets in a future Tier 3 Standard.

Are you aware of any intangible assets and their type, either internally generated or externally acquired, commonly held and recognised by smaller not-for-profit private sector entities? If so, please provide details of these assets.

BDO Comment - Question 40

Small not-for-profit entities could have a variety of intangibles and require simplified accounting requirements for these. Examples could include licences, non-refundable deposits, acquired software,internally generated software and R&D assets. We would therefore prefer Tier 3 simplified accounting for intangible assets that is less onerous than the requirements of AASB 138 *Intangible Assets*.

We also note that 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. Interpretation 132, however, does not clarify whether, for instance, a not-for-profit entity could capitalise development costs of a website that facilitates donors making donations to the not-for-profit entity. Many smaller not-for-profits have websites that facilitate them receiving donations from the general public. Accordingly, Tier 3 guidance would be useful in this context.

Question 41 - Leases

Paragraphs 5.168 to 5.178 discuss the Board's preliminary view on accounting requirements for leases, including:

(a) requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. A similar requirement would apply for lessors;

(b) concessionary lease arrangements ('peppercorn' leases) would be accounted for in the same manner as other leases; and

(c) not including specific requirements for sale and lease back transactions, or for manufacturer or dealer lessors.

Do you agree with the Board's preliminary view? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Do you prefer that Tier 3 accounting requirements should be consistent with AASB 16 *Leases*? Please explain why.

To the best of your knowledge, are sale and lease back transactions common for smaller not-for-profit private sector entities?

BDO Comment - Question 41

We agree with these proposals on the basis they represent a balanced and proportionate approach.

Question 42 - Income (including Revenue)

Paragraphs 5.179 to 5.188 discuss the Board's preliminary view that income recognition for Tier 3 entities should require an entity to assess whether a transaction is based on a common understanding, evidenced by the transfer provider in writing or some other form, that the entity is expected to use the inflows of resources in a particular way or act or perform in a particular way that results in outflows of resources, including:

(a) transferring goods or services;

(b) performing a specified activity;

(c) incurring eligible expenditure for a specified purpose; and

(d) using the inflows of resources in respect of a specified period.

Income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash (receivable).

Do you agree? Why or why not? If you disagree, do you prefer any other alternative approach as discussed in paragraph 5.186? Please specify and explain why.

BDO Comment - Question 42

We agree with these proposals on the basis they represent a balanced and proportionate approach.

Question 43 - Employee benefits

Paragraphs 5.189 to 5.199 discuss the Board's preliminary view that employee benefits expense is measured at the undiscounted amount of the obligation to the employee for:

(a) non-accumulation paid absences and termination benefits when the event occurs; and

(b) all other employee benefits when an employee has rendered the services that entitles the employee to consideration.

A provision for employee benefits is measured at the undiscounted future outflow expected to be required (including consideration of future pay increases) to settle the present obligation.

The Board has not yet determined the form of guidance to be developed to support preparers in determining the likelihood that an outflow of economic benefits that will be required to settle these obligations.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives, for example Tier 3 requirements should require future outflows of employee benefits expenses to be discounted? Please specify and explain why.

Are you aware of any industry-specific probability guidance that relates to employee benefits such as a long service leave? Please specify the source of that guidance.

BDO Comment - Question 43

We agree with these proposals on the basis they represent a balanced and proportionate approach.

Question 44 - Employee benefits

Paragraph 5.200 discusses that the Board has not developed any other special requirements for accounting for termination benefits and defined benefit plans.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 44

We agree with these proposals on the basis they represent a balanced and proportionate approach. We also note that defined benefit arrangements are relatively uncommon, and it is unlikely many, if any, not-for-profit entities remunerate their employees with defined benefit arrangements.

Question 45 - Other topics to be included in Tier 3 requirements

Paragraphs 5.201 to 5.219 discuss the Board's preliminary view that Tier 3 reporting requirements would be similar to those specified in the New Zealand Tier 3 reporting requirements for the following topics:

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

(b) events after reporting period;

(c) expenses;

(d) foreign currency transactions;

(e) income taxes;

(f) going concern;

(g) offsetting; and

(h) provisions, contingent liabilities and contingent assets.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

BDO Comment - Question 45

We agree on the basis this represents a balanced and proportionate approach.

Section 6 - Disclosure Approach

Question 46

Paragraphs 6.1 to 6.11 discuss the Board's preliminary view that disclosure requirements for Tier 3 not-for-profit private sector entities should be developed based on the following principle:

(a) for transactions where there is a recognition and measurement difference between Tier 3 reporting requirements and Tier 2 general purpose financial statements, Tier 3 reporting requirements will:

  (i) adopt appropriate disclosure requirements from comparable jurisdictions, pronouncements or frameworks, if available; or

  (ii) develop fit-for-purpose disclosure requirements if there are no comparable recognition and measurement requirements from other jurisdictions, pronouncements or frameworks. Fit-for-purpose disclosure requirements could be developed based on the disclosure requirements in AASB 1060 where the recognition and measurement requirements could be analogised to the Tier 3 reporting requirements.

(b) for transactions where the recognition and measurement requirements for Tier 3 reporting requirements are the same as, or similar to, the corresponding recognition and measurement requirements for Tier 2 general purpose financial statements, the disclosure requirements in AASB 1060 will be used as a starting point with further consideration of simplifications that may be appropriate.

Do you agree? Why or why not? If you disagree, what alternative approach do you suggest? Please specify and explain why.

BDO Comment - Question 46

We agree in principle with the proposed approach.

Question 47

Paragraph 6.12 discusses the Board's preliminary view on the disclosure requirements for property, plant and equipment, and investment property would be for:

(a) initial measurement of non-financial assets acquired at significantly less than fair value – develop fit-for-purpose disclosures based on AASB 1060 as required for concessionary leases; and

(b) subsequent measurement of property, plant and equipment – adopt AASB 1060 disclosures with simplification of the language. No specific disclosures required for borrowing cost.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

BDO Comment - Question 47

We agree in principle with the proposed approach.

Question 48

Paragraph 6.13 discusses the Board's preliminary view on the disclosure requirements for leases would be for:

(a) lessee – adopt IFRS for SMEs Standard disclosures for operating leases; and

(b) lessor – adopt AASB 1060 disclosures for operating leases with simplification of the language.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

BDO Comment - Question 48

We agree in principle with the proposed approach.

Question 49

Paragraph 6.14 discusses the Board's preliminary view on the disclosure requirements for changes in accounting policies and correction of errors would be for:

(a) changes in accounting polices – develop fit-for-purpose disclosures based on AASB 1060 and removing non-applicable disclosures; and

(b) correction of errors – adopt New Zealand Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit).

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

BDO Comment - Question 49

We agree in principle with the proposed approach.

Deloitte.

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31 March 2022

The Chair
Australian Accounting Standards Board
PO Box 204
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via email: standard@aasb.gov.au

Dear Keith

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

Deloitte is pleased to respond to Australian Accounting Standards Board ('AASB' or 'Board') Discussion Paper – *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* (DP).

We appreciate the opportunity to comment on the Board's proposal to develop a stand-alone accounting standard on the simpler accounting requirements for smaller not-for-profit private sector entities.

We are fully supportive of the Board's efforts in making the financial reporting easier and more relevant for the not-for-profit sector which includes the development of the appropriate reporting requirements for a third tier. To achieve a successful development of the appropriate reporting requirements for a third tier that is proportional, we think it is important for the Board (as a standard-setter) to work hand-in-hand with the Australian Charities and Not-for-profit Commission 'ACNC' (as the regulator) as it moves forward with its proposals in finalising its future financial reporting framework for private sector not-for-profit entities to ensure that the ACNC thresholds will integrate well with the revised AASB framework.

While we agree with many of the Board's proposals around the simplification/development of the accounting requirements for smaller not-for-profit entities on the basis that it is the appropriate proportionate response for cost-benefit reasons, we do have comments around certain matters, including:

- Income – We agree with the Board's view around simplified income accounting. While we find the proposed criteria reasonable and appropriate for smaller not-for-profit entities, we note that the reference to 'common understanding' may prove to have some application and audit challenges.

Accordingly, we believe it would be helpful if the Board supplement the income requirements with guidance to assist entities apply it in practice in a consistent manner.

- Leases – We agree with the Board's view around simplified lease accounting. However, we believe that if leases are off balance sheet, it is important to have clear disclosures (e.g., the lease term, lease liability and lease commitments) to help users understand the lease arrangements in place. Furthermore, we also believe that the Board should ensure it gives consideration around transition requirements (e.g., in cases when entities move from Tier 2 to Tier 3) to provide adequate guidance for entities in navigating the changes.
- Consolidated vs. separate financial statements – Regarding the Board's requirement on disclosure of information on its significant relationships when a parent prepares separate financial statements as its only financial statements, we believe it is important to ensure that the disclosure requirements around the significant relationships are not too onerous for the preparers and well-supported by AASB guidance considering the size of these smaller not-for-profit entities.
- Subsequent measurement of basic financial assets – We agree with the Board's approach in developing simpler reporting requirements for identified 'basic' financial instruments, but we have concerns around the absence of the option for entities to measure financial assets at fair value through profit or loss which we understand is the common practice for not-for-profit entities in measuring units held in management investment schemes.
- Cost as an estimate for fair value – We agree with the Board's view around cost being an appropriate estimate for fair value in certain instances, but we think it is important that cost is only used in very limited circumstances as it should not be an easy opt-out for entities that simply do not want to invest in the cost of obtaining the fair value measurement.

Our detailed responses to the AASB Questions for respondents in the DP are outlined in the Appendix.

Please contact me at +61 3 9671 7871 or moverton@deloitte.com.au if you wish to discuss any of our comments.

Yours sincerely

Moana Overton
Partner

APPENDIX – DETAILED RESPONSES TO THE AASB QUESTIONS FOR RESPONDENTS IN DP

Question 1

Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements.

Do you agree? Why or why not? If you disagree with the Board's view, how do you propose the Board stratify entities amongst the available reporting tiers?

We agree with the Board's approach not to establish reporting thresholds, but we think it is important for the Board to work closely with the ACNC as it moves forward with its proposals in finalising its future financial reporting framework for private sector not-for-profit entities to ensure that the ACNC thresholds will integrate well with the revised AASB framework.

The successful development of the appropriate reporting requirements for a third tier that is proportional is dependent on AASB's understanding of which entities this third tier would relate to. In our view, it would be challenging for the AASB to set a standard if it has no oversight on what type of entity it is setting the standard for. Accordingly, it would be beneficial for the Board to work closely with the ACNC so as to assist the Board in working out which ACNC threshold might be suitable for this new tier.

The AASB's financial reporting framework project for private sector not-for-profit entities is aimed at making the reporting easier and more relevant for the not-for-profit sector, but in order to achieve that, it is necessary for the AASB (as a standard-setter) to work hand-in-hand with the ACNC (as the regulator) as the new thresholds that are set by the ACNC will affect the revised financial reporting requirements that will be set by the AASB.

Question 2

Paragraphs 1.9 to 1.11 discuss the Board's view that it does not intend to develop proposals for reporting service performance information as part of this project.

Do you agree? Why or why not? If you disagree with the Board's view, what requirements do you think entities should be required to apply? Would these requirements apply to all not-for-profit private sector entities or only be reporting requirements of a specified reporting tier?

We agree that the AASB should not develop proposals for reporting service performance information as part of this project. Service performance reporting is a project of a high importance in the not-for-profit space as many of the not-for-profit private entities financial statement users would find service performance disclosures useful for accountability and decision making.

We believe it is imperative for the AASB to proceed with a stand-alone project on service performance reporting with the aim of making significant progress as soon as possible and rather than addressing it as part of this project to avoid any delays.

Question 3

The 'objective' and 'primary users' incorporated in the Framework for the Preparation and Presentation of Financial Statements include modifications for not-for-profit entities.

Paragraphs 1.14 to 1.16 discuss the Board's Conceptual Framework: Not-for-Profit Amendments project and how it interacts with this project. Do you agree that the Framework for the Preparation and Presentation of Financial Statements (including the modifications for not-for-profit entities) appropriately:

a) **depicts the objective of general purpose financial reporting for not-for-profit private sector entities; and**

b) **identifies the set of primary users of the financial statements of a not-for-profit entity.**

Why or why not? If you disagree, what is your reasoning?

The Board plans to extend the application of the Conceptual Framework for Financial Reporting to all not-for-profit entities once the modifications for not-for-profit entities are included and on the release of a Tier 3 Standard. Do you have any other concerns about applying the Conceptual Framework for Financial Reporting to smaller not-for-profit private sector entities that have not already been noted in paragraph 1.14? If so, please describe them.

We agree that the *Framework for the Preparation and Presentation of Financial Statements* (including the modifications for not-for-profit entities) appropriately depicts the objective of general purpose financial reporting for not-for-profit private sector entities and identifies the set of primary users of the financial statements of a not-for-profit entity.

Question 4

As noted in paragraph 1.18, the Board intends to align the timing of any new Tier 3 reporting requirements with the timing of any extension of the Australian Accounting Standards to a broader set of not-for-profit private sector entities.

Do you agree? Why or why not?

We agree with this approach as we believe it is imperative to have a smooth transition for affected entities and the alignment of timing will help achieve that by ensuring that only a single consistent description of 'reporting entity' will apply.

Question 5

Paragraphs 2.5 to 2.7 propose to extend the set of not-for-profit private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1. The effect is that more entities will be required to prepare general purpose financial statements when required to prepare financial statements that comply with Australian Accounting Standards. Do you agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply? Why or why not? If not, what alternative approach do you suggest?

We agree with the Board's approach in superseding the reporting entity concept as we believe that the current self-assessment application of the concept by entities results in increased judgement and divergence in practice.

Question 6

Paragraphs 2.10 to 2.12 propose the introduction of a simpler further reporting tier (Tier 3) for not-for-profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards, which serves as a proportionate response for smaller sized entities with less complex transactions and events. Do you agree? Why or why not? If not, what alternative approach do you suggest?

We agree with the introduction of a differential framework with a simpler reporting tier (Tier 3) for smaller not-for-profit entities with less complex transactions. In developing this new simpler Tier 3, we would reiterate our earlier point for the Board to work closely with ACNC to ensure that the new Tier is fit for purpose.

Question 7

Paragraphs 2.13 to 2.17 discuss the Board's view to not develop a fourth tier of accounting for not-for-profit private sector entities. Do you agree? Why or why not? If not, what alternative approach do you suggest?

We agree with the Board's view not to develop a fourth tier of accounting for not-for-profit entities as we believe it may not be worthwhile for the Board to dedicate its limited resources given the small population of entities that would fall into this tier and the limited number of users of these financial statements.

Question 8

Paragraphs 3.1 to 3.5 discuss the Board's view to not make changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards, as presently modified for not-for-profit private sector entities. Do you agree? Why or why not?

We agree that the Board should not amend the existing requirements for Tier 1 and Tier 2 (as presently modified for private sector not-for-profit entities) as we do not believe the amendments are warranted and would affect comparability with for-profit private sector entities operating in the same industry (e.g., aged care industry).

Question 9

Paragraphs 4.3 to 4.6 discuss the Board's view to specify Tier 3 reporting requirements in a single stand-alone accounting standard. The stand-alone pronouncement is expected to:

a) specify only accounting requirements for transactions, events and conditions that are common to a smaller not-for-profit entity;

b) in the main, not require an entity to refer to requirements set out in other Australian Accounting Standards; and

c) express accounting requirements in a manner that is easy to understand by preparers and users who do not consider themselves to be "accounting experts".

Do you agree? Why or why not? If you disagree with the Board's view, which aspect(s) of the standalone accounting standard as listed in (a) – (c) concerns you the most? Please explain.

We agree with the Board's approach to include the Tier 3 reporting requirements in a stand-alone accounting standard as we believe this approach is consistent with AASB 1060 which will make application easier for the smaller not-for-profit entities.

Question 10

As discussed in paragraphs 4.10 to 4.14, Tier 3 not-for-profit private sector entities can opt-up to Tier 1 or Tier 2 reporting requirement in its entirety. However, the Board has not yet formed a view on whether it should restrict the range of accounting policies available to an entity preparing Tier-3- compliant financial statements. 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.

We believe that entities preparing Tier 3 compliant financial statements should not have the ability to opt up to an accounting policy under Tier 1 or Tier 2 Australian Accounting Standards as this will result in divergent practice between Tier 3 entities which will not benefit users of these financial statements.

In our view, a smaller not-for-profit private sector entity that would otherwise be eligible to prepare Tier 3 compliant financial statements should have the option to prepare Tier 1 or Tier 2 compliant financial statements, but we do not agree with the opt-up on an individual accounting policy basis as it reduces comparability.

Question 11

Paragraphs 4.15 to 4.20 discuss the Board's preliminary view on the transactions and other events and conditions that may not be covered in a Tier 3 Standard. The types of items the Board intends to scope out from the Tier 3 Standard include:

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

b) insurance contracts issued, reinsurance contracts held, 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 in Section 5 of this Discussion Paper.

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?

We agree with the above list of items to be scoped out from the Tier 3 Standard as the above-named topics are generally not commonly seen in smaller not-for-profit entities.

Question 12

Paragraphs 4.21 to 4.23 discuss the Board's preliminary view on the hierarchy for entities to apply in developing accounting policies when preparing Tier 3 general purpose financial statements for transactions and other events outside the scope of the Tier 3 requirements. That is, an entity should:

a) **first apply Tier 2 reporting requirements; and**

b) **otherwise apply judgment to develop an accounting policy by reference to:**

   i. **principles and requirements in Tier 3 reporting requirements dealing with similar or related issues; and**

   ii. **the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework that don't conflict with Tier 3 reporting requirements.**

When developing an accounting policy, an entity may also consider principles and requirements in Tier 1 and Tier 2 reporting requirements, or pronouncements of other standard-setting bodies with a similar conceptual framework, other accounting literature and accepted industry practices

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

We agree with the Board's proposed hierarchy for the development of accounting policies for transactions outside of scope of Tier 3 requirements as we believe using the equivalent Tier 2 accounting requirement as the starting point when developing the Tier 3 accounting policy will help facilitate comparability between tiers and reduce the application of judgement as compared to developing an accounting policy solely based on Tier 3 requirements.

Question 13

Paragraphs 4.24 to 4.27 discuss the Board's view to limit revisiting its Tier 3 reporting requirements to no more than once every AASB agenda consultation cycle (5 years) and only when if there is a substantive case, in accordance with the AASB Due Process Framework for Setting Standards, for doing so. Do you agree? Why or why not? If you disagree with the Board's view, how often do you prefer the Board should revisit its Tier 3 reporting requirements? Please explain.

We agree with the Board's proposal around the maintenance and update of Tier 3 reporting requirements as this is consistent with the Board's current approach to other issued Australian Accounting Standards.

Question 14

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

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

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

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

We agree with the Board's proposal around the Tier 3 primary financial statements. On the statement of changes in equity (SOCIE), we believe that it is not necessary for it to form part of the Tier 3 GPFS as the Tier 3 is intended to capture smaller not-for-profit entities and therefore the information to be contained in the SOCIE is not expected to be detailed. While we note that with financial assets that are held to generate both income and capital in return are subsequently measured at fair value through other comprehensive income, this may result in increased attention to the SOCIE, we think that the costs to prepare a SOCIE may outweigh the benefits of the information in the SOCIE for many smaller not-for-profit entities.

Question 15

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

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

We agree with the Board's view in the interests of maintaining consistency of presentation of financial statements across the different reporting tiers and we believe the 'supplementary material' approach would be the most helpful to preparers in developing a set of financial statements that best tell their story.

Question 16

Paragraph 5.25 to 5.33 discuss the Board's preliminary view to require the statement of cash flows to present:

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

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

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

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

We agree with the Board's view around the requirements for the statement of cash flows. We believe as many smaller not-for-profit entities are already using the direct method for cash flows from operating activities, the presentation requirement would be consistent with the broader practice. We also support the Board's view not to require a split between cash flows from investing activities and cash flows from financing activities as we expect such transactions to be limited for smaller not-for-profit entities.

Question 17

Paragraph 5.34 to 5.47 discusses the Board's preliminary view to allow an entity to present either:

a) **separate financial statements as its only financial statements, even if it has subsidiaries, however, require information on the parent's significant relationships; or**

b) **consolidated financial statements consolidating all its controlled entities**

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements, for example Tier 3 accounting requirements should require an entity with subsidiaries to prepare consolidated financial statements in accordance with AASB 10? Please specify and explain why.

We agree with the Board's view to allow Tier 3 entities with a choice to prepare separate financial statements or consolidated financial statements. We note that many not-for-profit entities which are currently preparing SPFS are not consolidating their subsidiaries and have only presented separate financial statements (instead of consolidated financial statements). Accordingly, as the new Tier 3 is intended to provide simpler accounting requirements targeted for smaller not-for-profit entities, we believe it is important that the Board continues to provide a choice for such entities to present separate financial statements given cost-benefit considerations.

Regarding the Board's requirement for disclosure of information on its significant relationships when a parent prepares separate financial statements as its only financial statements, we believe it is important to ensure that the disclosure requirements around the significant relationships are not too onerous for the preparers and well-supported by AASB guidance that appropriately considers the size of these smaller not-for-profit entities.

Question 18

Paragraph 5.48 to 5.54 discuss the Board's preliminary view on the accounting requirements for a parent that presents separate financial statements to measure its interest in subsidiaries either:

a) **at cost;**

b) **at fair value through other comprehensive income; or**

c) **using the equity method of accounting.**

Do you agree? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Please specify and explain why.

We agree with the Board's view as we note that while most not-for-profit entities will be likely choose to measure its interests in subsidiaries at cost, it would be beneficial to provide not-for-profit entities with the other measurement options so they can choose to present it in the way that is most useful to the readers of the financial statements.

Question 19

Paragraph 5.55 to 5.60 discuss the Board's preliminary view to develop a requirement for a modified retrospective approach to apply to changes in accounting policies and correction of accounting errors.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements for changes in accounting policies and correction of accounting errors; for example, should Tier 3 accounting requirements continue to require the accounting treatment specified by AASB 108 to retrospectively reflect voluntary changes in accounting policies and correction of accounting errors? Please explain your answer.

We agree with the Board's view for a modified retrospective approach for cost-benefit reasons.

Question 20

Paragraph 5.61 discusses the Board's proposal to develop a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's view for a modified retrospective approach for cost-benefit reasons.

Question 21

Paragraphs 5.62 to 5.76 discuss the Board's preliminary views with respect to the accounting for financial instruments, in particular to develop simpler reporting requirements only for the identified 'basic' financial instruments.

The Board intends to require certain 'more complex' financial instruments to be accounted for in accordance with AASB 9 (or other Australian Accounting Standard, as appropriate) if the financial instrument is not otherwise addressed by a topic-based Tier 3 requirement. In addition, the Board intends not to specifically highlight or address particular financial instruments or transactions considered in AASB 9, AASB 132 and AASB 139 where these items and transactions are not common to not-for-profit private sector entities.

Do you agree with the Board's approach to the identified 'basic' financial instruments? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's approach in developing simpler reporting requirements for identified 'basic' financial instruments as smaller not-for-profit entities do not typically have very complex financial instruments. We agree with the list of 'basic' financial instruments identified by the Board. However, we would request the Board to complete some further targeted research around the absence of the option for entities to measure financial assets at fair value through profit or loss which we understand is the common practice for not-for-profit entities in measuring units held in management investment schemes.

Question 22

Paragraphs 5.77 to 5.80 discuss the accounting for embedded derivatives. The Board has formed a preliminary view that a proportionate response for Tier 3 reporting requirements is not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable and measurable, including any embedded derivatives.

The Board is seeking to understand the extent to which a smaller not-for-profit private sector entity is likely to have derivatives embedded within its contracts, or enter into arrangements or contracts that may result in a derivative financial instrument. This will help inform the Board how it should approach these instruments in a future Tier 3 Standard.

Are you aware of any clauses in contracts of smaller not-for-profit private sector entities that would give rise to a derivative? Have you provided an arrangement with another party or entered into a net settled contract that would meet the definition of a derivative? Please explain.

We are not aware of clauses in common contracts of smaller not-for-profit private sector entities that would give rise to a derivative, and this is consistent with our understanding that smaller not-for-profit entities typically do not have derivatives embedded within its contracts.

Question 23

Paragraphs 5.81 to 5.82 discuss the Board's preliminary view that an entity preparing Tier 3-compliant financial statements will not have access to hedge accounting.

Do you agree? Why or why not? Please specify and explain why. Are you aware if smaller not-for-profit private sector entities use hedge accounting?

We agree with the Board's view as we are not aware of many smaller not-for-profit private sector entities that use hedge accounting.

Question 24

Paragraphs 5.83 to 5.85 discuss the Board's preliminary view to develop a requirement for basic financial assets and financial liabilities to be initially measured at their fair value. Transaction costs and fees incurred by the entity to acquire a financial asset or assume a financial liability are to be immediately expensed.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's view as we believe initial measurement at fair value is the most appropriate for smaller not-for-profit entities in the interests of maintaining comparability between tiers of reporting for not-for-profit entities.

Question 25

Paragraphs 5.86 to 5.104 discuss the Board's preliminary develop a requirement for basic financial assets and financial liabilities to be subsequently measured as follows:

a) **basic financial assets that are held to generate both income and a capital return – at fair value through other comprehensive income; and**

b) **other basic financial assets and financial liabilities – at cost. Interest income and interest expense on these instruments are to be recognised as amounts accrue or are incurred, calculated by reference to the contractual interest rate. Any initial premium or discount on acquisition of the basic financial asset or financial liability is to be amortised on a straight-line basis over the life of the instrument, unless another systematic basis or shorter period is more reflective of the period to which the premiums or discounts relate.**

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Consistent with our comments to question 21, we have concerns around the absence of the option for entities to measure financial assets at fair value through profit or loss which we understand is the common practice for not-for-profit entities in measuring units held in management investment schemes.

Question 26

Paragraphs 5.105 to 5.108 discuss the Board's preliminary view to develop a requirement for impairment of basic financial assets measured at cost to be recognised when it is probable that some or all of the amount owed will not be collectible. The impairment loss is to be measured at the anticipated uncollectible amount.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's proposed impairment model being an incurred loss model. While we see merit in the expected loss model under AASB 9 including the enhancement of comparability between tiers, we believe the incurred loss model is the appropriate proportionate response to smaller not-for-profit entities which are unlikely to have sophisticated credit risk management policies.

Question 27

Paragraphs 5.109 to 5.114 discuss the Board's preliminary view to develop a requirement that a financial asset is derecognised only when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset.

The Board also formed a preliminary view not to address instances of debt instrument exchanges or modification of the terms of a financial liability as part of its Tier 3 Standard. An entity treats a modification of the terms of a financial liability or an exchange of a debt instrument for a different debt instrument as an extinguishment of the original financial liability.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's view as we believe this is the appropriate proportionate response for smaller not-for-profit entities which are unlikely to have complex modifications of financial assets and financial liabilities.

Question 28

Paragraphs 5.115 to 5.119 discuss the Board's preliminary view to not depart from the principles of AASB 13 Fair Value Measurement when developing reporting requirements for Tier 3 not-for-profit private sector entities as it thinks maintaining a consistent understanding of 'fair value' across the different reporting tiers is important.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements Tier 3 not-for-profit private sector entities? Please specify and explain why.

We agree with the Board's view not to depart from the principles of AASB 13 as we believe it is important to have a consistent basis of fair value across the different reporting tiers. Given that smaller not-for-profit entities are not likely to have a sophisticated financial reporting function, we also agree with the Board's view to express AASB 13 in a manner that would be easier for preparers of Tier 3 GPFS to follow.

Question 29

Paragraphs 5.120 to 5.121 discuss the Board's preliminary view that cost may be an appropriate estimate for fair value when cost represents the best estimate of fair value within a wide range of possible fair value measurements for instances described in paragraph 5.120.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's view around cost being an appropriate estimate for fair value in certain instances, but we think it is important that cost is only used in very limited circumstances as it should not be an easy opt-out for entities that simply do not want to invest in the cost of obtaining the fair value measurement.

Question 30

Paragraphs 5.125 to 5.126 discuss the Board's preliminary view to develop Tier 3 reporting requirements that are consistent with the requirements in AASB 102 Inventories.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's view to develop Tier 3 reporting requirements for inventories that are consistent with AASB 102 to maintain comparability between the reporting tiers.

Question 31

Paragraphs 5.128 discusses the accounting for biological assets if not scoped out from a Tier 3 Standard. The Board's preliminary view is not to include biological assets and agricultural produce at the point of harvest in a Tier 3 Standard as discussed in paragraphs 4.20.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the accounting for biological asset should be included in a Tier 3 Standard and accounted for in accordance with the requirements for inventory? Please specify and explain why.

We agree with the Board's view around the accounting for biological assets.

Question 32

Paragraphs 5.129 to 5.132 discuss the Board's preliminary view to develop a requirement for interests in associates and joint ventures to be measured:

for a Tier 3 not-for-profit private sector entity that is:

- **a)** **a parent entity that presents consolidated financial statements or it is not a parent entity, the entity applies the equity method of accounting consistent with the requirements in AASB 128 Investments in Associates and Joint Ventures to its interests in associates and joint ventures; and**
- **b)** **a parent entity that presents separate financial statements as its only financial statements, the entity does not apply the equity method of accounting to measure its interest in associates and joint ventures.**

The Board has not yet discussed other exemptions and exceptions to applying the equity method as it is only consulting on its general approach to accounting for interests in associates and joint ventures at this stage of its project.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why

We agree with the Board's view around the accounting for interests in associates and joint ventures as we believe it is the appropriate proportionate response for smaller not-for-profit entities.

Question 33

Paragraphs 5.133 to 5.134 discuss the Board's preliminary view to allow an accounting policy choice to require an investor that presents separate financial statements, whether in addition to consolidated financial statements or equity-accounted financial statements, to measure its interest in associates and joint ventures as either:

- **a)** **at cost; or**
- **b)** **at fair value through other comprehensive income.**

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's view in providing an accounting policy choice between cost and fair value to entities in measuring its interest in associates and joint ventures.

Question 34

Paragraphs 5.135 to 5.144 discuss the Board's preliminary view to require property, plant and equipment and investment property, other than with respect to borrowing costs, to be recognised and measured in a consistent manner to Tier 2 Australian Accounting Standards.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements such as not to allow smaller not-for-profit private sector entities to revalue their noncurrent assets? Please specify and explain why.

We agree with the Board's view for investment property and property, plant and equipment to be accounted for in a manner that is consistent with Tier 2 Australian Accounting Standards to maintain comparability between the different reporting tiers.

Question 35

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

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

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

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

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

We agree with the Board's view to allow an accounting policy choice in the initial measurement of non-financial assets acquired for significantly less than fair value. This is consistent with the accounting policy choice between cost and fair value provided by the Board for the initial measurement of right-of-use asset for concessionary leases under AASB 16. Given this is conceptually similar to concessionary leases, we support the adoption of a consistent approach in providing an accounting policy choice to not-for-profit entities and we further note that it is also important to have similar disclosure requirements to be made under the cost approach, in line with the additional disclosures currently required by not-for-profit entities which choose to measure right-of-use assets under concessionary leases at cost.

Question 36

Paragraphs 5.153 discusses the Board's preliminary view to propose retaining the option to permit, but not require, a smaller not-for-profit entity to recognise volunteer services received, or a class of volunteer services, if the fair value of those services can be measured reliably.

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

We agree with the Board's view to allow smaller not-for-profit entities the option to recognise volunteer services in line with the requirements under AASB 1058.

Question 37

Paragraphs 5.154 to 5.156 discuss the Board's preliminary view to require all borrowing costs to be expensed in the period incurred for Tier 3 not-for-profit private sector entities.

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

We agree with the Board’s view around the expensing of borrowing costs as we believe it is the appropriate proportionate response for smaller not-for-profit entities.

Question 38

Paragraphs 5.157 to 5.162 discuss the Board’s preliminary view that the impairment model for non financial assets of Tier 3 entities should:

a) **only require non-financial assets subsequently measured at cost or deemed cost to be subject to impairment testing;**

b) **only require entities to consider whether non-financial assets are impaired when the asset has been physically damaged or when its service potential might have been adversely affected by a change in the entity’s strategy or changes in external demand for the entity’s services;**

c) **require impairment of a non-financial asset to be recognised if its carrying amount exceeds its recoverable amount being the higher of its fair value less costs of disposal and its value in use. Tier 3 reporting requirements will include a rebuttable presumption that fair value less costs of disposal is expected to be the most appropriate measure of a non-financial asset’s recoverable amount because non-financial assets are generally not held by not-for-profit private sector entities to generate cash flows; and**

d) **allow entities to group non-financial assets that do not generate cash flows that are largely independent from other assets into cash-generating units for impairment purposes.**

Do you agree? Why or why not? If you disagree with the Board’s view, do you prefer other alternative requirements discussed in paragraph 5.162? Please specify and explain why.

We agree with the Board’s view around the impairment of non-financial assets as we believe it is the appropriate proportionate response for smaller not-for-profit entities.

Question 39

Paragraphs 5.163 discusses the Board’s preliminary view not to propose introducing any specific requirements for property, plant and equipment or other non-current assets that a smaller not-for-profit private sector entity intends to sell rather than hold for its continuing use.

Do you agree? Why or why not? If you disagree with the Board’s view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board’s view as we believe this is the appropriate proportionate response to smaller not-for-profit entities which are unlikely to have frequent assets held for sale.

Question 40

Paragraphs 5.164 to 5.167 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 entities including the typical forms of any intangible assets held. This will help inform the Board’s deliberations on intangible assets in a future Tier 3 Standard.

Are you aware of any intangible assets and their type, either internally generated or externally acquired, commonly held and recognised by smaller not-for-profit private sector entities? If so, please provide details of these assets.

In our experience, smaller not-for-profit entities do not commonly have significant balances of intangible assets in their financial statements. The most common type of intangible assets we have encountered are software assets that are recognised by smaller not-for-profit entities.

Question 41

Paragraphs 5.168 to 5.178 discuss the Board's preliminary view on accounting requirements for leases, including:

a) **requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. A similar requirement would apply for lessors;**

b) **concessionary lease arrangements ('peppercorn' leases) would be accounted for in the same manner as other leases; and**

c) **not including specific requirements for sale and lease back transactions, or for manufacturer or dealer lessors.**

Do you agree with the Board's preliminary view? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Do you prefer that Tier 3 accounting requirements should be consistent with AASB 16 Leases? Please explain why.

To the best of your knowledge, are sale and lease back transactions common for smaller not-for-profit private sector entities?

We agree with the Board's view around simplified lease accounting as we believe it is the appropriate proportionate response for smaller not-for-profit entities. However, we believe that if leases are off balance sheet, it is important to have clear disclosures (e.g., the lease term, lease liability and lease commitments) to help users understand the lease arrangements in place. Furthermore, we also believe that the Board should ensure it gives consideration around transition requirements (e.g., in cases when entities move from Tier 2 to Tier 3) to provide adequate guidance for entities in navigating the changes.

Question 42

Paragraphs 5.179 to 5.188 discuss the Board's preliminary view that income recognition for Tier 3 entities should require an entity to assess whether a transaction is based on a common understanding, evidenced by the transfer provider in writing or some other form, that the entity is expected to use the inflows of resources in a particular way or act or perform in a particular way that results in outflows of resources, including:

a) **transferring goods or services;**

b) **performing a specified activity;**

c) **incurring eligible expenditure for a specified purpose; and**

d) **using the inflows of resources in respect of a specified period.**

Income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash (receivable).

Do you agree? Why or why not? If you disagree, do you prefer any other alternative approach as discussed in paragraph 5.186? Please specify and explain why.

We agree with the Board's view around simplified income accounting as we believe it is the appropriate proportionate response for smaller not-for-profit entities. We note that the proposed approach is more meaningful for smaller not-for-profit entities as it is consistent with the income-expense matching principle which will also assist to align management accounts to the statutory accounts. While we find the proposed criteria reasonable and appropriate for smaller not-for-profit entities, we note that the reference to 'common understanding' may prove to have some application and audit challenges. Accordingly, we believe it would be helpful if the Board supplement the income requirements with guidance to assist entities apply it in practice in a consistent manner.

Question 43

Paragraphs 5.189 to 5.199 discuss the Board's preliminary view that employee benefits expense is measured at the undiscounted amount of the obligation to the employee for:

- **a) non-accumulation paid absences and termination benefits when the event occurs; and**
- **b) all other employee benefits when an employee has rendered the services that entitles the employee to consideration.**

A provision for employee benefits is measured at the undiscounted future outflow expected to be required (including consideration of future pay increases) to settle the present obligation.

The Board has not yet determined the form of guidance to be developed to support preparers in determining the likelihood that an outflow of economic benefits that will be required to settle these obligations.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives, for example Tier 3 requirements should require future outflows of employee benefits expenses to be discounted? Please specify and explain why.

Are you aware of any industry-specific probability guidance that relates to employee benefits such as a long service leave? Please specify the source of that guidance.

We agree with the Board's view around employee benefits as we believe it is the appropriate proportionate response for smaller not-for-profit entities.

Question 44

Paragraph 5.200 discusses that the Board has not developed any other special requirements for accounting for termination benefits and defined benefit plans.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's view as we believe this is the proportionate response to smaller not-for-profit entities which are unlikely to have defined benefit plans or incur termination benefits.

Question 45

Paragraph 5.201 to 5.219 discuss the Board's preliminary view that Tier 3 reporting requirements would be similar to those specified in the New Zealand Tier 3 reporting requirements for the following topics:

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

b) **events after reporting period;**

c) **expenses;**

d) **foreign currency transactions;**

e) **income taxes;**

f) **going concern;**

g) **offsetting; and**

h) **provisions, contingent liabilities and contingent assets.**

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the Board's view around the selected topics although we note that income tax may not be highly relevant for many not-for-profit entities as they are commonly tax-exempt.

Question 46

Paragraphs 6.1 to 6.11 discuss the Board's preliminary view that disclosure requirements for Tier 3 not-for-profit private sector entities should be developed based on the following principle:

a) **for transactions where there is a recognition and measurement difference between Tier 3 reporting requirements and Tier 2 general purpose financial statements, Tier 3 reporting requirements will:**

   i. **adopt appropriate disclosure requirements from comparable jurisdictions, pronouncements or frameworks, if available; or**

   ii. **develop fit-for-purpose disclosure requirements if there are no comparable recognition and measurement requirements from other jurisdictions, pronouncements or frameworks. Fit-for-purpose disclosure requirements could be developed based on the disclosure requirements in AASB 1060 where the recognition and measurement requirements could be analogised to the Tier 3 reporting requirements.**

b) **for transactions where the recognition and measurement requirements for Tier 3 reporting requirements are the same as, or similar to, the corresponding recognition and measurement requirements for Tier 2 general purpose financial statements, the disclosure requirements in AASB 1060 will be used as a starting point with further consideration of simplifications that may be appropriate**

Do you agree? Why or why not? If you disagree, what alternative approach do you suggest? Please specify and explain why.

We agree with the Board's view around the development principles of disclosure requirements for Tier 3 not-for-profit private sector entities. We believe the AASB 1060 disclosure requirements are an appropriate basis to use as a starting point with further simplifications to be made for Tier 3 not-for-profit entities.

Question 47

Paragraphs 6.12 discusses the Board's preliminary view on the disclosure requirements for property, plant and equipment, and investment property would be for:

a) **initial measurement of non-financial assets acquired at significantly less than fair value – develop fit-for-purpose disclosures based on AASB 1060 as required for concessionary leases; and**

b) **subsequent measurement of property, plant and equipment – adopt AASB 1060 disclosures with simplification of the language. No specific disclosures required for borrowing cost.**

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We agree with the Board's view around the disclosure requirements for property, plant and equipment, and investment property as we believe it is the appropriate proportionate response for smaller not-for-profit entities.

We believe using the equivalent Tier 2 disclosure requirements as the starting point to develop fit-for-purpose Tier 3 disclosure requirements will help facilitate comparability between tiers and reduce the reporting burden via necessary simplifications of the requirements.

Question 48

Paragraphs 6.13 discusses the Board's preliminary view on the disclosure requirements for leases would be for:

a) **lessee – adopt IFRS for SMEs Standard disclosures for operating leases; and**

b) **lessor – adopt AASB 1060 disclosures for operating leases with simplification of the language.**

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We agree with the Board's view around the disclosure requirements for leases as we believe it is the appropriate proportionate response for smaller not-for-profit entities. Consistent with our response to question 41, we believe that if leases are off balance sheet, it is important to have clear disclosures (e.g., the lease term, lease liability and lease commitments) to help users understand the lease arrangements in place. On that note, we find the example disclosures of leases in Paragraph 6.13 of the DP to be adequate to achieve this purpose.

Question 49

Paragraph 6.14 discusses the Board's preliminary view on the disclosure requirements for changes in accounting policies and correction of errors would be for:

a) **changes in accounting polices – develop fit-for-purpose disclosures based on AASB 1060 and removing non-applicable disclosures; and**

b) **correction of errors – adopt New Zealand Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit).**

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We agree with the Board's view around the disclosure requirements for leases as we believe it is the appropriate proportionate response for smaller not-for-profit entities.

31 March 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
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Via website: www.aasb.gov.au

Dear Keith

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

As the representatives of over 300,000 professional accountants, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on the above Discussion Paper (DP). We make this submission on behalf of our members and in the public interest.

CPA Australia and CA ANZ commend the Australian Accounting Standards Board (AASB) for its considerable efforts in developing the DP. We strongly support the proposals to develop and introduce a new Tier 3 accounting standard (T3 Standard) which offers smaller not-for-profit (NFP) private sector entities a proportionate, consistent, and comparable basis for their financial reporting needs. Such a standard is absolutely essential if there is going to be a change to the ability of certain private sector NFP entities to prepare special purpose financial statements (SPFS) when satisfying legislative requirements requiring compliance with accounting standards.

Given the significance of these reforms, we have greatly appreciated the opportunity to engage regularly with the AASB throughout the development phase of these proposals and have continued to consult widely with our members and other stakeholders in developing our recommendations.

We are pleased to offer our overall support for the proposed simplifications to the full recognition and measurement requirements of IFRS that are being offered in the DP. In particular, the simplifications of key areas of complexity including revenue/income, leases, consolidation, and financial instruments are welcomed by our members and should provide a more appropriate reporting solution for this sector's reporting needs.

Our support for these proposals has been informed by both member engagement, as noted above, and by the following research projects that we have conducted while these proposals were being developed:

- CPA Australia funded research examined how stakeholders use the annual report (including financial statements) of NFP organisations and so will provide valuable insights to the AASB in further developing these and other NFP related reporting requirements. The research also found that overall, the NFP sector faces challenges when preparing financial statements applying current accounting standards.

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- CA ANZ funded research conducted in 2019 on the planned implementation of the special purpose reporting reforms which noted that over 80% of NFP respondents sought reduced recognition and measurement requirements and over 87% sought reduced disclosures. This has been supplemented by data from the 2022 CA ANZ IFRS Survey which indicated that members continue to seek simplified recognition, measurement and disclosure requirements for smaller entities in both the for-profit and NFP sectors.

Tier 3 proposals – some key recommendations

Our detailed responses to the specific questions raised by the AASB on these Tier 3 proposals are provided in the **Attachment** to this letter. However, we wish to emphasise the following key recommendations:

Stand-alone accounting standard

We agree with the AASB preliminary view (paragraph 4.3) that the Tier 3 reporting requirements should be presented as a single stand-alone accounting standard. However, to be effective, the T3 Standard needs to be as comprehensive as possible so that the need to refer to accounting requirements in higher tiers occurs only in rare circumstances. Therefore, we recommend that the AASB undertake additional outreach and research in order to ensure that the reporting needs of the target NFP audience are clearly identified and addressed within the T3 Standard.

Revenue

We support the AASB's proposals to simplify the recognition of revenue in this sector. However, we consider that the simplified terminology being proposed for revenue recognition still presents interpretative challenges that will be difficult for the sector to overcome, making it challenging for them to implement the new requirements in a consistent and cost-effective manner. We therefore recommend that the AASB considers other simpler and more robust criteria for the deferral of income, as detailed in our response to Question 42.

We also note that the existing legislative reporting thresholds for a wide range of legal entities are linked to reported revenue. Therefore, the impact of this simplification will need to be carefully considered in implementing the T3 Standard. This is because it will impact replacement thresholds and transition provisions as well as the transitional and education strategies needed to support these. We discuss this issue further under broader policy issues below.

Disclosures

We are concerned that the AASB's proposed approach to disclosures for Tier 3, as set out in Section 6 of the DP, will result in a level of disclosure that places an excessive and unnecessary burden on entities to whom the T3 Standard is targeted. As noted above, the findings from the 2022 CA ANZ IFRS Survey indicated that over 75% of entities applying AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060) still consider the level of disclosure required in AASB 1060 needs to be reduced for those entities within its scope. We therefore recommend that the AASB focuses on providing additional simplifications of both content and language in all areas of disclosure to ensure the entire T3 Standard contains fit for purpose disclosures in a NFP context.

International developments

We note that the AASB is a participant in the International Financial Reporting for Non-Profit Organisations (IFR4NPO) project that is seeking to develop international financial reporting guidance for NFPs (now titled INPAG). Whilst the AASB has decided to proceed with the development of a domestic, financial reporting framework for Australian NFPs, some of our stakeholders have suggested that there is benefit in Australia adopting internationally accepted NFP financial reporting guidance.

One of the reasons that the AASB decided to not pursue the potential adoption of a IFR4NPO-based financial reporting solution was the need for a more immediate financial reporting solution for Australian NFPs. The AASB was of the view that this may not be feasible with the IFR4NPO project, given the timelines proposed for that project. Whilst we appreciate the rationale behind this decision, we suggest that the AASB continues to monitor the progress of the IFR4NPO project and its potential future suitability for NFP financial reporting in Australia. In particular, the progress and timing of the IFR4NPO project might now be sufficiently closely aligned with the development of the T3 Standard to justify the AASB waiting for the finalisation (or close to finalisation) of the IFR4NPO project to inform the accounting requirements in the T3 Standard.

We also recommend that the AASB closely monitors the development of and amendments to the New Zealand External Reporting Board (XRB) Tier 3 and Tier 4 NFP accounting standards and incorporate their experience and learning into the development of Australian specific Tier 3 reporting requirements.

Broader policy issues

If the T3 Standard is to become an effective part of Australia's reporting framework it is necessary to clearly indicate which NFPs are able to apply the new standard in preparing their financial statements. We therefore offer our views on how this might best be quickly and effectively implemented, given the significance of the much-needed reform.

Regulatory reform

We agree with the AASB's view that the establishment of appropriate reporting thresholds for NFPs is within the remit of relevant NFP legislation or regulatory authority. However, as identified in the AASB Research Report 10 (Legislative and Financial Reporting Requirements), there are numerous NFP legislative/regulatory requirements that currently require preparation of financial statements/financial information. The time, and necessary legislative action required to ensure that all these requirements are amended to both recognise the proposed new T3 Standard and to set out relevant reporting thresholds that will establish which NFPs can apply the T3 Standard, is likely to be considerable. Therefore, we are of the view that it is inappropriate to view this approach as the only implementation option.

Our proposal for a transitional threshold

As an interim solution, whilst regulatory reform progresses, we propose that the AASB introduces a transitional mechanism into the T3 Standard that targets the standard to those entities for whom it is intended. Based on feedback from our members and our own analysis, we suggest that the mechanism be based on revenue and set at an upper threshold limit of between $5m–$10m. This would allow NFPs with revenue below a yet to be decided amount within this range, to adopt the T3 Standard to prepare financial statements that could state compliance with Australian Accounting Standards (AAS). We discuss our rationale for this approach in more detail in our response to Question 1.

Transition and educational support

Such a significant change to our regulatory framework will require a significant transitional period and a comprehensive plan for transition that addresses:

- The necessary regulatory reforms noted above, which should be supported by a targeted communications program for all relevant regulators that details the AASB's recommendations for legislative change and associated educational and transitional considerations.
- The need for a supporting conceptual framework that reflects the NFP sector's needs.
- Education initiatives on the new requirements that will both explain them and serve to improve the overall financial literacy of the NFP sector, which could be a key benefit of these reforms.
- Strategies to address implementation challenges identified during transition.
- Strategies to address insights from post-implementation reviews conducted on broader NFP standards.

Our response to Question 4 provides further details on this issue and includes a recommendation for a formal Transition Resource Group, similar to that established by the IASB for IFRS 15 *Revenue from Contracts with Customers*.

Research

The DP notes these proposals for the development of a T3 Standard are premised on stakeholder feedback and research findings that indicate that smaller NFP entities find the current Tier 2 reporting requirements overly complex to apply. Much of the data being relied on was originally published in June 2014 as AASB Research Report No.1 (Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements).

We appreciate that the AASB is aware of, and has been involved in, various academic and research initiatives that will likely inform this project. However, the original research findings, with their important focus on the nature of the sector and its use of special purpose reporting, are likely to be outdated and may not reflect changes that have occurred in the sector since the research was undertaken. We therefore believe the research findings that underpin this project should be updated before finalising the proposed T3 Standard, as a necessary precursor to its effective implementation.

Such research should provide a clearer indication of the current size, nature and reporting practices of the population and the spread of the various regulators which will be crucial to supporting the implementation of this standard.

Broadening the scope of the proposed T3 Standard

While our members welcome the AASB's development of a T3 Standard for the NFP sector, they remain of the view that there is a place for a T3 Standard for similar-sized entities in the for-profit sector. Such a standard would provide proportionate relief from the full recognition and measurement requirements of IFRS on a cost-benefit basis in this sector. We therefore recommend that the AASB consider commencing a project following publication of the T3 Standard, to explore how it could be repurposed to apply to similar sized entities in the for-profit sector.

Conclusion

We look forward to continuing engagement with the AASB, our members, regulators, and other stakeholders in further developing these proposals. We would also like to express our gratitude to a working group of our members who provided direct input to the development of this submission.

If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Yours sincerely

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Simon Grant FCA
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Attachment

Introduction

Question 1. Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements.

Do you agree? Why or why not? If you disagree with the Board's view, how do you propose the Board stratify entities amongst the available reporting tiers?

We agree with the AASB's view that the responsibility for setting reporting thresholds should be with the relevant NFP regulator. Therefore, if the AASB is to operationalise the new T3 standard, collaboration with relevant regulators will be essential to ensure all financial reporting related laws and regulations are amended. We note that paragraph 1.2 of the DP identifies that such an initiative has been included as a potential future project. We recommend that this collaboration includes a communications program, aimed at all relevant regulators in each jurisdiction, detailing the recommendations for legislative change and associated educational and transitional considerations. Our experience with the special purpose reporting reforms in the for-profit sector indicates this would be of value in achieving ideal outcomes.

Notwithstanding the above, feedback from our members is that a Tier 3 general purpose financial reporting standard is an essential part of the Australian financial reporting framework and needs to be implemented as soon as possible. Therefore, we do not support the AASB waiting for this legislative solution as the only implementation option.

Instead, as noted in the cover letter, we propose that the AASB introduces into the T3 Standard a transitional mechanism that targets the standard to those entities for whom it is intended. Based on feedback from our members and our own analysis, we suggest the upper transitional threshold should be based on revenue and set between $5m–$10m. This will mean that, in the transitional period, NFPs with revenue below a yet to be decided amount within this range would be able to adopt the T3 Standard to prepare their financial statements.

We note that paragraph 1.3(a) of the DP states that the AASB's authority does not extend to establishing thresholds that dictate whether an entity must prepare financial statements that comply with Australian Accounting Standards (AAS). It also states that the AASB has the authority to constrain or require the use of a tier of GPFS by certain entities by limiting the application of specified AAS. We note here that the T3 Standard is a tier of GPFS.

We believe that the AASB has already successfully exercised its authority through SAC 1 *Definition of the Reporting Entity* (SAC 1), which introduced the "reporting entity" concept into our regulatory framework, as a method of providing effective differential reporting, almost 30 years ago. We also note that, more recently, it introduced the concept of "public accountability" as a means of providing futher differential reporting relief. Therefore, we believe that the AASB does have, and should exercise, the authority to determine who should be permitted to apply this new T3 Standard in order to ensure that the standard is implemented as soon as possible.

We believe that implementing a numerical threshold for differential reporting for the NFP sector is not inconsistent with the principles that are inherent in SAC 1 or the use of the "public accountability" concept as a delineator between Tier 1 and Tier 2 General Purpose Financial Statements (GPFS). Rather than using the more general and judgemental concepts of "reporting entity" or "public accountability", this approach simply provides a more concrete, quantitative delineator.

We acknowledge that our recommendation for a transitional threshold is a broad range, which reflects the lack of current data about the scope and size of the NFP sector. We therefore recommend that the AASB undertakes further research to identify the appropriate transitional threshold within our recommended \$5m–\$10m range. As part of this research, consideration will need to be given to the likely impact of the proposed simplification of revenue recognition requirements in the T3 Standard. We believe that the move away from the requirements of AASB 15 *Revenue from Contracts with Customers* (AASB 15) will result in changes to the reported revenue of many entities on transition. It may also introduce a level of fluctuation into an NFP's revenue going forward which may make the use of an average revenue threshold over 2–3 years a more appropriate basis on which to set the transitional threshold.

We acknowledge that there is a risk that introducing a transitional threshold as proposed could become the de-facto permanent threshold for regulatory purposes. However, we note that the AASB has indicated that its discussions with Commonwealth and State/Territory NFP regulators suggest they are receptive to a proposed new T3 Standard and the resulting necessity for amendment to the relevant regulations in due course. We therefore strongly encourage the AASB to continue to actively work with Commonwealth and State/Territory NFP regulators. Such engagement should both assist in the identification of the appropriate transitional threshold within our recommended range and ensure that the relevant statutory financial reporting requirements are amended to accommodate the T3 Standard.

If the AASB does proceed with introducing a transitional threshold as proposed, we suggest this could be included as part of any "transitional provisions" section of the T3 Standard. These can then be reviewed and amended once there is no longer a need for the transitional threshold. Alternatively, the transitional threshold could be included as a guideline in the Basis for Conclusions accompanying the standard. This latter approach would be similar to the "low value asset" amount reflected in the Basis for Conclusions relating to AASB 16 *Leases.*

We offer the following analysis in support of our \$5m–10m revenue-based threshold proposal:

- **Revenue basis** – It is certainly possible that other criteria (e.g., using costs rather than revenue, as is the case in New Zealand or a combination of revenue and other criteria) could be employed in determining the appropriate basis for the threshold. However, most NFP laws and regulations in Australia use revenue as their basis for determining thresholds for financial reporting purposes. Therefore, we believe it would be more efficient and more familiar to most stakeholders to continue to determine such thresholds based on revenue.
- **Upper limit of range** – The DP suggests that the T3 Standard could be suitable for NFPs with revenue between \$500k and \$3m, the parameters for a medium-sized charity under the Australian Charities and Not-for-profits Commission (ACNC) legislation. We also note that the 2018 independent review of the ACNC legislation recommended the revenue threshold for medium-sized charities be revised to between \$1m and \$5m. Although both of these thresholds were the

bases for differential assurance requirements, we believe that they are the lowest level at which a differential financial reporting requirement should commence. This is because, given the widespread current use of special purpose reporting in this sector, there are many larger NFPs for whom a Tier 3 level of reporting would still provide the necessary level of accountability on a cost-benefit basis. In particular, we note that many for-profit entities of equivalent size are not required to report and lodge financial statements under the *Corporations Act 2001* size test. Therefore, we believe that an upper threshold somewhere in the $5m–$10m may be the most suitable benchmark.

- **Lower limit of range** – We recommend that the AASB does not include a lower amount for NFPs that can adopt the T3 Standard. This is because we believe that it would create unnecessary problems for entities required by legislation to prepare financial reports in accordance with accounting standards. For example, under the *Corporations Act 2001*, a public company limited by guarantee with revenue above $250k is required to prepare financial reports. Placing a lower threshold of, say $300k, would mean a public company limited by guarantee with revenue of $275k, would not be able to adopt the T3 Standard. Therefore, the T3 Standard should be available to any entity who wishes to use it (limited only at the maximum revenue end of the range).

Question 2. Paragraphs 1.9 to 1.11 discuss the Board's view that it does not intend to develop proposals for reporting service performance information as part of this project.

Do you agree? Why or why not? If you disagree with the Board's view, what requirements do you think entities should be required to apply? Would these requirements apply to all not-for-profit private sector entities or only be reporting requirements of a specified reporting tier?

We agree with the AASB's intention not to develop service performance reporting requirements as a part of this project. Given the importance of and complexity of this topic, we agree that the inclusion of service performance requirements in the T3 Standard would unnecessarily delay its finalisation. We therefore support the AASB's proposal to commence a separate dedicated project that considers establishing service performance reporting for the entire NFP sector, including both private and public sector NFPs.

As the AASB progresses the project on service performance reporting, we recommend reference is made to developments on this topic as part of the IFR4NPO project, particularly in the context of private sector NFPs.

Question 3. The 'objective' and 'primary users' incorporated in the Framework for the Preparation and Presentation of Financial Statements include modifications for not-for-profit entities. Paragraphs 1.14 to 1.16 discuss the Board's Conceptual Framework: Not-for-Profit Amendments project and how it interacts with this project. Do you agree that the Framework for the Preparation and Presentation of Financial Statements (including the modifications for not-for-profit entities) appropriately:

(a) depicts the objective of general purpose financial reporting for not-for-profit private sector entities; and

(b) identifies the set of primary users of the financial statements of a not-for-profit entity. Why or why not? If you disagree, what is your reasoning?

The Board plans to extend the application of the Conceptual Framework for Financial Reporting to all not-for-profit entities once the modifications for not-for-profit entities are included and on the release of a Tier 3 Standard. Do you have any other concerns about applying the Conceptual Framework for Financial Reporting to smaller not-for-profit private sector entities that have not already been noted in paragraph 1.14? If so, please describe them.

As noted in our response to Question 12, the development of fit-for-purpose reporting requirements for NFPs should be underpinned by amendments to the Conceptual Framework for Financial Reporting (conceptual framework).

We agree that it is necessary for the conceptual framework to appropriately depict the objective of general purpose financial reporting and identify users of financial statements prepared by NFP private sector entities. However, we believe that this is challenging without a clear and comprehensive view of the population to which the T3 Standard is to be targeted. Therefore, we support an update to AASB Research Report 1 (Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements), as noted in our cover letter. This will provide a clearer understanding of the extent of the regulatory reform required and the nature of the regulated NFP population being targeted by the T3 Standard.

We also recommend that the AASB considers the IFR4NPO project that includes proposals for a conceptual basis for the reporting entity concept and for identifying primary users NFP financial statements.

For the reasons stated above, we are unable to express other views on the appropriateness of any potential amendments on this proposal without considering such modifications to the conceptual framework.

Question 4. As noted in paragraph 1.18, the Board intends to align the timing of any new Tier 3 reporting requirements with the timing of any extension of the Australian Accounting Standards to a broader set of not-for-profit private sector entities.

Do you agree? Why or why not?

We agree with the AASB view that the effective dates of the:

- Tier 3 reporting requirements,
- The amendments to extend the application of AAS to a broader set of NFP entities, and
- Stage 1 amendments to the conceptual framework

should be aligned to ensure consistent application of the conceptual framework and smooth transition to the T3 Standard. However, we refer to our comments in respect of the conceptual framework in our response to Question 3 above.

The selection of an effective date needs to benefit from the learnings of the for-profit reform project and take into consideration both the significant resource constraints of the NFP sector and the necessary transition and education resources that will need to be provided to underpin the transition (see the comments in our cover letter).

Our experience with the implementation of the financial reporting reforms in the for-profit sector has indicated that the process is complex and that it is not easy to both foresee where the challenges might arise, and to resolve them. Examples include:

- financial reporting by Australian Financial Services (AFS) licensees (which has now been addressed),
- financial reporting requirements applicable to Queensland Building and Construction Commission (QBCC) licensees (awaiting final resolution), and
- Special Disability Trusts (now addressed through an amendment to relevant statutory requirements).

A matter of particular concern was the challenge of effectively communicating the scope of the reforms, which was complex due to the legislative framework, and which required clear and constant messaging.

Since there is an even greater number of regulators and laws governing the NFP sector, we suggest that the AASB set up a Transition Resource Group similar to that established by the IASB for IFRS 15 *Revenue from Contracts with Customers*. Such a group could assist with:

(i) ensuring the effective and smooth operationalising of the T3 Standard,

(ii) communicating with regulators about the need for and nature of necessary changes and associated educational and transitional considerations,

(iii) assisting regulators with their messaging on the impact on regulated populations, and

(iv) ensuring that the impact on regulated populations is consistent with the AASB's stated objectives for the T3 Standard.

Extending the differential reporting framework for not-for-profit entities

Question 5. Paragraphs 2.5 to 2.7 propose to extend the set of not-for-profit private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1. The effect is that more entities will be required to prepare general purpose financial statements when required to prepare financial statements that comply with Australian Accounting Standards.

Do you agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply? Why or why not? If not, what alternative approach do you suggest?

We are unable to form a view on this proposal without a clear understanding of all the types of NFP entities that will transition to preparing GPFS under the proposed T3 Standard. This clarity of scope, and resulting associated regulatory reform was identified by the AASB as an essential element of its reforms to the for-profit sector reporting, in order to ensure that:

- the costs of transition did not outweigh the benefits, and
- all relevant regulators understand and appropriately implement the changes.

As noted in our response to Question 4, there were some unintended consequences arising from the for-profit financial reporting reform project which are still being resolved. In addition the complexity of the scope clause, while essential to the effective targeting of the reforms, necessitated both the AASB and the professional accounting bodies expending considerabe effort to ensure all stakeholders clearly understood the new requirements.

Given the NFP sector is already faced with limited resources and a complex and inconsistent regulatory framework (as identified in AASB Research Report 10), the need for a clear understanding of affected NFP entities is even more critical. Therefore, we recommend that the AASB takes a similar approach to understanding the impact of the T3 Standard on the target population of the NFP sector in implementing these latest set of reforms.

As noted in our response to Question 1, we believe introducing a transitional threshold and corresponding amendments to statutory reporting requirements would ensure that appropriate GPFS reporting requirements are only imposed on an appropriate population of NFPs. However, it is not possible to identify unintended consequences and unnecessary overregulation within the regulatory framework without more detailed analysis and a clear understanding of the population that will be impacted by the T3 Standard.

Of particular concern will be legislation that applies to both for-profits and NFPs, such as Aged Care legislation. Although this legislation requires GPFS it does not stipulate the type of GPFS. Consideration will need to be given to how the differential reporting regimes applicable to for-profits and NFPs will apply in such cases.

Question 6. Paragraphs 2.10 to 2.12 propose the introduction of a simpler further reporting tier (Tier 3) for not-for-profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards, which serves as a proportionate response for smaller sized entities with less complex transactions and events.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

We agree with the AASB that introducing a third tier would provide smaller NFPs with proportionate financial reporting requirements when they are required to prepare financial statements in compliance with AAS.

As recommended in our cover letter, the AASB should consider commencing a project once the T3 Standard is published, to explore how it could be repurposed to apply to entities in the for-profit sector. Our members support the principle of reduced recognition and measurement for both the for-profit and NFP sectors. Given the transaction-neutral approach to standard-setting that the AASB adopts we believe there is a place for a T3 Standard in the for-profit sector as well.

Question 7. Paragraphs 2.13 to 2.17 discuss the Board's view to not develop a fourth tier of accounting for not-for-profit private sector entities.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

We agree with the AASB's preliminary view that it should not develop a fourth tier of reporting for NFPs at this stage as we do not believe that cash-based accounting is an appropriate basis for preparing GPFS.

However, very small NFPs would find it beneficial if the AASB developed and issued guidance on cash accounting that sits outside the scope of GPFS. Some legislative requirements in Australia place an obligation on all NFPs within their remit to prepare financial statements, or some financial information. We would hope that the regulatory reforms precipitated by the T3 Standard may assist in ensuring reporting requirements are proportional for all entities. With that in mind, where very small NFPs remain subject to such statutory financial reporting obligations, we recommend that the AASB considers the XRB's Tier 4 NFP cash-based accounting standard as appropriate guidance for these entities.

Tier 1 and Tier 2 reporting requirements

Question 8. Paragraphs 3.1 to 3.5 discuss the Board's view to not make changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards, as presently modified for not-for-profit private sector entities.

Do you agree? Why or why not?

We agree with the AASB that changes to the existing requirements in Tier 1 and Tier 2 standards should not be made by this project. However, we note that there could be potential amendments in the future as a result of the post-implementation reviews being undertaken through Invitation to Comment 50 (income of NFP entities) and Invitation to Comment 51 (various topics).

Setting of Tier 3

Question 9. Paragraphs 4.3 to 4.6 discuss the Board's view to specify Tier 3 reporting requirements in a single stand-alone accounting standard. The stand-alone pronouncement is expected to:

(a) specify only accounting requirements for transactions, events and conditions that are common to a smaller not-for-profit entity;
(b) in the main, not require an entity to refer to requirements set out in other Australian Accounting Standards; and
(c) express accounting requirements in a manner that is easy to understand by preparers and users who do not consider themselves to be "accounting experts".

Do you agree? Why or why not? If you disagree with the Board's view, which aspect(s) of the standalone accounting standard as listed in (a) – (c) concerns you the most? Please explain.

We agree with the AASB's proposal to specify Tier 3 reporting requirements in a single stand-alone accounting standard that is drafted with the needs of simpler NFPs in mind. We also recommend that this standard should be developed to be as self-contained and comprehensive as possible in order to maximise its usefulness to this sector. Therefore, we encourage the AASB to ensure, by updated research and liason with sector stakeholders, that it addresses all the common transactions of NFPs that fall within its intended scope.

Question 10. As discussed in paragraphs 4.10 to 4.14, Tier 3 not-for-profit private sector entities can opt-up to Tier 1 or Tier 2 reporting requirement in its entirety. However, the Board has not yet formed a view on whether it should restrict the range of accounting policies available to an entity preparing Tier-3-compliant financial statements. 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.

The feedback we received from our stakeholders suggests Tier 3 entities should only be permitted to opt up to Tier 2 (or Tier 1) in its entirety.

We are of the view that a free choice approach, as explained in paragraph 4.11(a) of the DP, would undermine the comparability of financial statements and consistency of application of the recognition and measurement requirements. Restricting accounting policy choices will also make the T3 Standard simpler to understand and apply, reducing the cost of compliance. Therefore, we do not believe that opting up by class of transactions should be permitted. We recognise that this will require the T3 Standard to be comprehensive and self-contained, but we believe that this is the most appropriate way to make the standard workable for this sector.

We also note that the AASB has proposed to introduce accounting policy choices in certain circumstances (e.g., an accounting policy choice to prepare separate financial statements with additional disclosures or consolidated financial statements). We assume that in such situations where accounting policy choices are allowed in the T3 Standard, alternative accounting requirements will be covered within T3 Standard without having to opt up to a higher tier.

Finally, we suggest that the AASB gives consideration to including requirements for opting down which are currently not addressed by the DP. This would allow NFPs currently preparing financial statements based on a higher tier of reporting (Tier 1 or 2), that are eligible to apply the T3 Standard, being able to elect to report under the T3 Standard.

Question 11. Paragraphs 4.15 to 4.20 discuss the Board's preliminary view on the transactions and other events and conditions that may not be covered in a Tier 3 Standard. The types of items the Board intends to scope out from the Tier 3 Standard include:

(a) biological assets, and agricultural produce at the point of harvest;
(b) insurance contracts issued, reinsurance contracts held, 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 in Section 5 of this Discussion Paper.

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?

We broadly agree with the list of transactions/events proposed to be omitted from the T3 Standard except for (d) business combinations and (h) referring to non-basic financial assets and liabilities.

In respect of (d), feedback from our members indicates that mergers and amalgamations are common in the NFP sector, even amongst smaller NFPs.

We therefore suggest that the AASB undertakes further research to understand whether business combinations, in particular mergers/amalgamations, are economically significant and prevalent within smaller NFPs. Such understanding would justify and support the development of some suitably modified requirements. We acknowledge that any consolidation requirements included in the T3 Standard may be of some assistance to NFPs in addressing organic growth. Providing some limited and simplified guidance based on AASB 3 *Business Combinations* is likely to be helpful.

In respect of (h), feedback from our members is that the current list of basic financial instruments is insufficient to represent a comprehensive response to accounting for these instruments. Therefore, this would require those applying the T3 Standard to opt up to Tier 2 for financial instruments. We do not believe this requirement to opt up is necessary or appropriate (see our response to Question 21).

We do not support the proposals in paragraph 4.16 and Figure 4.1 *Tier 3 transactions and other events and conditions*, which note that a stand-alone T3 Standard may also include cross references to other AAS, allow opt-up to higher tiers, and which suggests an accounting hierarchy when a transaction is scoped out from the T3 Standard.

We believe that such a framework is too complex and costly to implement and that it is vital that the T3 Standard should be developed to be as comprehensive and self-contained as possible, ensuring there is only minimal need to refer to other AAS.

Question 12. Paragraphs 4.21 to 4.23 discuss the Board's preliminary view on the hierarchy for entities to apply in developing accounting policies when preparing Tier 3 general purpose financial statements for transactions and other events outside the scope of the Tier 3 requirements. That is, an entity should:

(a) first apply Tier 2 reporting requirements; and
(b) otherwise apply judgment to develop an accounting policy by reference to:
   (i) principles and requirements in Tier 3 reporting requirements dealing with similar or related issues; and
   (ii) the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework that don't conflict with Tier 3 reporting requirements.

When developing an accounting policy, an entity may also consider principles and requirements in Tier 1 and Tier 2 reporting requirements, or pronouncements of other

standard-setting bodies with a similar conceptual framework, other accounting literature and accepted industry practices.

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

We do not agree with the hierarchy suggested by the AASB in developing accounting policies. We consider reference to similar or related requirements in the T3 Standard should come first before considering Tier 2. Since the objective of the project is to develop simpler requirements, considering the principles and requirements in the T3 Standard should be prioritised.

Such an approach will require the T3 Standard to be as comprehensive as possible, as noted in our response to Question 10, to eliminate the need for any opting up to Tier 2.

We consider modifications to the conceptual framework (stage 2) should also be completed to effectively implement the option suggested in paragraph 4.21(b). If the T3 Standard is to become a recognised standard that will give rise to GPFS for NFPs, an underlying consistent conceptual framework is essential.

Question 13. Paragraphs 4.24 to 4.27 discuss the Board's view to limit revisiting its Tier 3 reporting requirements to no more than once every AASB agenda consultation cycle (5 years) and only when if there is a substantive case, in accordance with the AASB Due Process Framework for Setting Standards, for doing so.

Do you agree? Why or why not? If you disagree with the Board's view, how often do you prefer the Board should revisit its Tier 3 reporting requirements? Please explain.

We agree with the AASB's proposal to limit revisiting the T3 Standard in line with the AASB agenda consultation cycle (every 5 years). This presumes there will be a normal post-implementation review two years after its issue. We also recommend revisiting our proposed transitional threshold two to three years after the effective date, at which time also the progress of regulatory reform will need to be considered.

Primary Financial statements

Question 14. Paragraphs 5.10 to 5.16 discuss the Board's preliminary view that Tier 3 general purpose financial statements comprise a statement of profit and loss and other comprehensive income, statement of financial position, statement of cash flows and explanatory notes.

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

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

(b) Do you think the statement of changes in equity should also form part of the Tier 3 general purpose financial statements? If you support including a statement of changes in equity,

do you think the information presented should be required as a separate statement or as part of the notes to the financial statements?

(a) We agree that the four primary financial statements identified in paragraph 5.10(a)-(d) should form part of a GPFS for a Tier 3 NFP entity. This preserves basic reporting consistency between all three reporting tiers which will assist both preparers and users' understanding of the financial statements.
However, we suggest that consideration be given to whether there is a need for "other comprehensive income" to be included either as part of the statement of profit and loss and other comprehensive income, or as a separate statement. Given the aim of the project is to simplify financial reporting requirements for smaller NFPs, if there are simpler options for presenting financial information normally presented in Other Comprehensive Income, such options should be explored. For example, it may be possible to present the information as a separate section of the Statement of Profit and Loss, below the profit/loss or operating surplus/deficit line.

We also recommend that in developing the Exposure Draft for the T3 Standard, consideration be given to labelling the individual financial statements using more NFP friendly terminology e.g., statement of financial performance as opposed to statement of profit or loss. This would align with the approach used in the XRB Tier 3 NFP Standard.

(b) Feedback we have received indicates that the statement of changes in equity (SOCE) provides useful information to users, especially when an entity has reserves other than retained earnings (e.g., revaluation reserve, restricted reserves). Whilst there may be additional costs in preparing such information, the benefits to users are likely to exceed any additional costs.

However, there is differing feedback on whether the SOCE should be included as a part of primary financial statements or included as a disclosure in the notes to the financial statements. For example, in circumstances where the only reserve to record is retained earnings, a separate SOCE is not necessary to convey relevant information. To address the differing views, we suggest providing a choice as to the presentation of the SOCE information. That is, either as a primary financial statement or as a disclosure in the notes to the financial statements.

Question 15. Paragraphs 5.20 to 5.24 discuss the Board's preliminary view that the information to be presented on the face of the statement of the financial position and statement of profit or loss and other comprehensive income should be consistent with those specified by AASB 1060 supplemented by explanatory guidance and education materials to help entities present information on the face of the financial statements.

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

Subject to our response to Question 14, we agree with the AASB's preliminary view to develop presentation requirements consistent with AASB 1060, supported by supplementary material. This approach maintains basic consistency in the presentation of financial statements across all three reporting tiers while allowing flexiblity for management to determine the extent of presentation on the face of the primary financial statements, based on the needs of their users. This will be important in encouraging NFPs to consider their financial statements as a communication tool rather than as a regulatory compliance exercise.

Question 16. Paragraph 5.25 to 5.33 discuss the Board's preliminary view to require the statement of cash flows to present:

(a) cash flows from operating activities separately from other cash flows;
(b) cash flows from operating activities using the direct method; and
(c) cash and cash equivalents as specified by AASB 1060.

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

We agree with the AASB's preliminary view to present cash flows from operating activities separately from other cash flows using the direct method.

However, we have received mixed feedback from our members about whether it is appropriate to separate or combine investing and financing cash flows. While the separation can add complexity, feedback received is that NFP entities in the Tier 3 target range have both types of cash flows and that separately categorising and disclosing them can be an educational tool for both preparers and users in better understanding their operations.

It is also important to ensure that the presentation requirements that are developed should not create unnecessary compliance costs by requiring changes to accounting software or systems being used by many smaller NFP entities. We therefore recommend that in finalising these requirements, the AASB considers these issues and also develops educative material on the value of the statement of cash flows and how it should be read in conjunction with the other primary financial statements and explanatory notes.

We also agree with the AASB decision, set out in paragraph 5.33 of the DP, to include short-term, highly liquid investments as cash equivalents provided that they are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. This retains consistency with the statement of cash flows specified by AASB 1060 and best reflects the practice of smaller NFPs.

Consolidated financial statements

Question 17. Paragraph 5.34 to 5.47 discusses the Board's preliminary view to allow an entity to present either:

(a) separate financial statements as its only financial statements, even if it has subsidiaries, however, require information on the parent's significant relationships; or

(b) consolidated financial statements consolidating all its controlled entities.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements, for example Tier 3 accounting requirements should require an entity

with subsidiaries to prepare consolidated financial statements in accordance with AASB 10? Please specify and explain why.

We agree with the AASB's preliminary view to optionally exempt a parent entity from presenting consolidated financial statements and present separate financial statements as its only set of financial statements.

However, we believe the following issues need to be addressed in further developing this standard:

- The extent of disclosures required for a parent's significant relationship(s), and what a significant relationship is, are not yet clear. A significant relationship could be any relationship not necessarily within the remit of control.
- Additional guidance that will address the challenges associated with identifying control/subsidiaries and recognising an entity as a parent in the NFP sector, which many of our stakeholders have identified as an area of challenge. In this regard the issues identified in the control discussion in ITC 51 Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements, relating to NFP's concerns about identifying control in the context of consolidation are of relevance and will need to be addressed for the T3 Standard also. The guidance produced by the XRB on identifying relationships for financial reporting purposes (XRB EG A9) may be of assistance.
- The nature of the significant relationship disclosures, foreshadowed in paragraph 5.53-54 of the DP to support parent entity only financial statements.

The DP does not clarify whether the AASB intends to develop any simplified reporting requirements for consolidated financial statements under the T3 Standard, or whether this will be an area where an NFP will be required to opt up in order to ascertain consolidation requirements. Our preferred approach, in the interests of making the T3 Standard comprehesive and stand-alone, is that the AASB develop simplified consolidation requirements within the T3 Standard for NFPs that choose to prepare consolidated financial statements.

Separate financial statements of the parent

Question 18. Paragraph 5.48 to 5.54 discuss the Board's preliminary view on the accounting requirements for a parent that presents separate financial statements to measure its interest in subsidiaries either:

(a) at cost;

(b) at fair value through other comprehensive income; or

(c) using the equity method of accounting.

Do you agree? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Please specify and explain why.

Where an NFP parent entity chooses to prepare separate, rather than consolidated, financial statements we believe that for most entities, it will be sufficient to account for interests in subsidiaries at cost. However as noted in paragraphs 5.53 and 54 of the DP additional disclosures that detail the nature of the significant relationships and, if control exists, why consolidation is not considered appropriate will be necessary.

We do not believe that the use of equity accounting in this circumstance is appropriate as it is inconsistent with the decision not to consolidate, as that decision recognises the actual nature of the NFP relationships. We also do not support including the option to measure such interests at fair value through other comprehensive income (noting our response to Question 14). Consistent with our view that T3 accounting policy choices should be limited, we believe this adds unnecessary complexity and will reduce comparability and consistency of accounting practices within the NFP population. However, if, as the AASB continues to develop its proposals regarding the application of control in the NFP sector (as noted in our response to Question 17) evidence of a significant need to provide an accounting policy choice where subsidiaries are held as financial investment vehicles may appear. Under these circumstances fair value through other comprehensive income should be considered as a policy option (see also our response to Question 33).

Changes in accounting policies and correction of accounting errors

Question 19. Paragraph 5.55 to 5.60 discuss the Board's preliminary view to develop a requirement for a modified retrospective approach to apply to changes in accounting policies and correction of accounting errors.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements for changes in accounting policies and correction of accounting errors; for example, should Tier 3 accounting requirements continue to require the accounting treatment specified by AASB 108 to retrospectively reflect voluntary changes in accounting policies and correction of accounting errors? Please explain your answer.

We agree with the AASB's preliminary view to require a modified retrospective basis to recognising a voluntary change in accounting policy. However, we do not agree that this approach should also be applied to the correction of prior period errors.

Instead, we recommend that comparatives and opening retained earnings should be adjusted where prior period accounting errors are identified. Feedback from our members is that such adjustments will ensure users have all the necessary comparable information in respect of accounting errors that may have occurred in a previous year or years. Our members are also of the view that the benefits of making such adjustments will exceed costs.

Changes in accounting estimates

Question 20. Paragraph 5.61 discusses the Board's proposal to develop a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

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We agree with the AASB's proposal to develop a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108). We believe the requirements of AASB 108 are not complex and have been effectively applied by many different entities over many years.

Financial instruments

Question 21. Paragraphs 5.62 to 5.76 discuss the Board's preliminary views with respect to the accounting for financial instruments, in particular to develop simpler reporting requirements only for the identified 'basic' financial instruments.

The Board intends to require certain 'more complex' financial instruments to be accounted for in accordance with AASB 9 (or other Australian Accounting Standard, as appropriate) if the financial instrument is not otherwise addressed by a topic-based Tier 3 requirement. In addition, the Board intends not to specifically highlight or address particular financial instruments or transactions considered in AASB 9, AASB 132 and AASB 139 where these items and transactions are not common to not-for-profit private sector entities.

Do you agree with the Board's approach to the identified 'basic' financial instruments? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

In general, we agree with the AASB's preliminary view to develop simpler requirements for basic financial instruments and to require application of AASB 9 for more complex financial instruments (subject to our comments below).

We also agree that the current list of basic financial instruments identified under paragraph 5.69 does include many of the common financial instruments of smaller NFPs. However, feedback from our members is that the list may benefit from further research in order to ensure that the list of basic financial instruments is as comprehensive as possible. For example, some smaller NFPs may enter into a commitment to provide a loan to another smaller NFP at a below-market interest rate. Currently, this type of financial instrument is considered a 'more complex' financial instrument, which we do not consider is necessarily appropriate. Similarly, financial guarantees are common and should be addressed by a Tier 3 standard.

We appreciate the rationale behind the proposal to require opting up to AASB 9, AASB 132 and AASB 139 if the accounting requirements for a financial instrument are not addressed by the T3 Standard. However, feedback we have received is that requiring smaller NFPs to apply these standards could be challenging. Therefore, it is essential to reduce, as much as possible, the circumstances when smaller NFPs have to refer to the Tier 1 and 2 standards, by ensuring that the T3 Standard addresses a more comprehensive set of financial instruments.

We also note that the recent IASB Exposure Draft for an updated IFRS for SMEs proposes removing the option to opt up to IAS 39/IFRS 9 *Financial Instruments*. We suggest that the AASB considers a similar approach to develop self-contained accounting requirements for financial instruments within the T3 Standard.

Question 22. Paragraphs 5.77 to 5.80 discuss the accounting for embedded derivatives. The Board has formed a preliminary view that a proportionate response for Tier 3 reporting requirements is not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable and measurable, including any embedded derivatives.

The Board is seeking to understand the extent to which a smaller not-for-profit private sector entity is likely to have derivatives embedded within its contracts, or enter into arrangements or contracts that may result in a derivative financial instrument. This will help inform the Board how it should approach these instruments in a future Tier 3 Standard.

Are you aware of any clauses in contracts of smaller not-for-profit private sector entities that would give rise to a derivative? Have you provided an arrangement with another party or entered into a net-settled contract that would meet the definition of a derivative? Please explain.

Feedback from our members indicated that contracts containing derivatives were not common in the NFP sector. We therefore agree with the AASB's preliminary view to not require an entity to separately recognise certain derivative financial instruments, including embedded derivatives.

Question 23. Paragraphs 5.81 to 5.82 discuss the Board's preliminary view that an entity preparing Tier 3-compliant financial statements will not have access to hedge accounting.

Do you agree? Why or why not? Please specify and explain why. Are you aware if smaller not-for-profit private sector entities use hedge accounting?

We agree with the AASB's preliminary view that hedge accounting as an accounting policy choice as part of the T3 Standard should not be allowed. Feedback we have received is that hedging of financial instruments is not common amongst smaller NFPs and therefore requirements for hedging are not required in a comprehensive T3 Standard dealing with financial instruments.

As AASB 9 includes hedge accounting, if an option to opt up to AASB 9 is included in the T3 Standard, it could give rise to a potential conflict with the proposed removal of hedge accounting requirements from the T3 Standard.

Question 24. Paragraphs 5.83 to 5.85 discuss the Board's preliminary view to develop a requirement for basic financial assets and financial liabilities to be initially measured at their fair value. Transaction costs and fees incurred by the entity to acquire a financial asset or assume a financial liability are to be immediately expensed.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB's preliminary view that basic financial assets and financial liabilities should be initially measured at fair value, with associated transaction fees and costs expensed. Feedback we have received indicates that it is common for the transaction price to equal fair value in the case of financial assets acquired or financial liabilities assumed by smaller NFPs.

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However, in circumstances where financial instruments are donated rather than acquired, the transaction price may not equal fair value. In such circumstances, we suggest additional disclosures should be developed to ensure relevant information is made available to users.

Question 25. Paragraphs 5.86 to 5.104 discuss the Board's preliminary develop a requirement for basic financial assets and financial liabilities to be subsequently measured as follows:

(a) basic financial assets that are held to generate both income and a capital return – at fair value through other comprehensive income; and

(b) other basic financial assets and financial liabilities – at cost. Interest income and interest expense on these instruments are to be recognised as amounts accrue or are incurred, calculated by reference to the contractual interest rate. Any initial premium or discount on acquisition of the basic financial asset or financial liability is to be amortised on a straight-line basis over the life of the instrument, unless another systematic basis or shorter period is more reflective of the period to which the premiums or discounts relate.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB's preliminary view that there should only be a single accounting method for the subsequent measurement of financial assets or financial liabilities and that this method be based on the nature of the asset/liability. This simplifies the accounting for the preparer and improves comparability between entities. We therefore support the use of fair value through other comprehensive income (noting our response to Question 14) for basic financial assets that are held to generate both income and a capital return. We support valuation at cost for all other basic assets and liabilities.

We agree with the AASB's preliminary view of aligning investment in units held in a managed investment scheme with that of ordinary shares (paragraphs 5.90–5.91).

We agree with the proposal that the recognition of interest income/expenses should be based on the contractual rate and not the effective interest rate and that the impairment of basic financial assets measured at cost should be based on the incurred loss model.

We agree with the AASB's view not to use amortised cost as a measurement basis given the complexities in the application of the effective interest rate method.

Question 26. Paragraphs 5.105 to 5.108 discuss the Board's preliminary view to develop a requirement for impairment of basic financial assets measured at cost to be recognised when it is probable that some or all of the amount owed will not be collectible. The impairment loss is to be measured at the anticipated uncollectible amount.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Based on feedback from our members, we support the proposed incurred loss impairment model (paragraph 5.107) as we believe this is less complex to apply. Adopting this approach by reference to either a probability-weighted estimate or 'most likely outcome' is likely to provide the necessary flexibility, whilst also ensuring user-relevant information is provided.

Question 27. Paragraphs 5.109 to 5.114 discuss the Board's preliminary view to develop a requirement that a financial asset is derecognised only when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset.

The Board also formed a preliminary view not to address instances of debt instrument exchanges or modification of the terms of a financial liability as part of its Tier 3 Standard. An entity treats a modification of the terms of a financial liability or an exchange of a debt instrument for a different debt instrument as an extinguishment of the original financial liability.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB's preliminary view that a financial asset should be derecognised only when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset. However, we note that much of the terminology used originates from AASB 9 and can be difficult to understand for those dealing with basic financial instruments in smaller NFPs. Accordingly, we recommend that simpler terminology be used in describing the requirement and/or that guidance be developed and provided to explain the terminology.

Fair value measurement

Question 28. Paragraphs 5.115 to 5.119 discuss the Board's preliminary view to not depart from the principles of AASB 13 Fair Value Measurement when developing reporting requirements for Tier 3 not-for-profit private sector entities as it thinks maintaining a consistent understanding of 'fair value' across the different reporting tiers is important.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements Tier 3 not-for-profit private sector entities? Please specify and explain why.

In principle, we agree with the view that fair value should have the same meaning as in AASB 13 *Fair Value Measurement* (AASB 13). However, as noted in paragraph 5.117, measuring fair value following the framework set out in AASB 13 may pose application challenges for NFPs, especially for those NFPs that currently prepapre SPFS to satisfy their legislative obligations. We therefore agree with the AASB's proposals to express the AASB 13 framework in a manner that is easier for preparers applying the T3 Standard. We will provide our feedback on these simpler proposals when they are developed and published for comment.

We note that the recently closed Exposure Draft of revisions to the IASB's IFRS for SMEs standard is proposing simplifying the requirements in IFRS 13 *Fair Value Measurement* for its intended audience. This work may assist the AASB in progressing its proposals.

Question 29. Paragraphs 5.120 to 5.121 discuss the Board's preliminary view that cost may be an appropriate estimate for fair value when cost represents the best estimate of fair value within a wide range of possible fair value measurements for instances described in paragraph 5.120.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We understand the rationale for the AASB's preliminary view that cost may be an appropriate estimate for fair value when it represents the best estimate of fair value as described. However, we do not believe that NFPs should be put in a position whereby they are required to determine whether or not this is the case. Therefore we support the inclusion of a rebuttable presumption that "cost is the best estimate of fair value" as an effective means of simplifying the application of this requirement.

Likley scenarios where this presumption would be rebutted would be those where financial assets are donated or gifted (with a cost of nil) or acquired by an NFP at a concessional value. These circumstances are the ones where we would support NFPs needing to determine an appropriate value for recognition purposes. As noted in our response to Question 24, in such circumstances we suggest additional disclosures should be developed to ensure relevant information is made available to users.

Inventory

Question 30. Paragraphs 5.125 to 5.126 discuss the Board's preliminary view to develop Tier 3 reporting requirements that are consistent with the requirements in AASB 102 Inventories.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB's proposals as the requirements in AASB 102 *Inventories* are not complex and have been effectively applied by many different types of entities over many years.

However, we note that some additional NFP specific guidance or supporting application material on valuing donated inventory would be of benefit in the T3 Standard as this is a regular area of member concern.

Biological assets

Question 31. Paragraph 5.128 discusses the accounting for biological assets if not scoped out from a Tier 3 Standard. The Board's preliminary view is not to include biological assets and agricultural produce at the point of harvest in a Tier 3 Standard as discussed in paragraphs 4.20.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the accounting for biological asset should be included in a Tier 3 Standard and accounted for in accordance with the requirements for inventory? Please specify and explain why.

We have not received feedback that indicates there is a need for accounting requirements for biological assets to be included in the T3 Standard. Unless the AASB receives feedback to the contrary, or identifes this as a need from its further research into common transactions, we agree with the AASB's preliminary view.

Investments in associates and joint ventures

Question 32. Paragraphs 5.129 to 5.132 discuss the Board's preliminary view to develop a requirement for interests in associates and joint ventures to be measured:

for a Tier 3 not-for-profit private sector entity that is:

(a) a parent entity that presents consolidated financial statements or it is not a parent entity, the entity applies the equity method of accounting consistent with the requirements in AASB 128 Investments in Associates and Joint Ventures to its interests in associates and joint ventures; and

(b) a parent entity that presents separate financial statements as its only financial statements, the entity does not apply the equity method of accounting to measure its interest in associates and joint ventures.

The Board has not yet discussed other exemptions and exceptions to applying the equity method as it is only consulting on its general approach to accounting for interests in associates and joint ventures at this stage of its project.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB's preliminary view, explained in paragraph 5.131(a). that, when consolidated financial statements are being prepared by the NFP parent entity,

interests in associates and joint ventures should be accounted for using the equity method. Consistent with the feedback received by the AASB, that is noted in paragraph 5.130, we have not received feedback expressing concerns around requiring the equity method of accounting for interests in associates and joint ventures.

However, paragraph 5.131(b) proposes that even if the NFP entity is not a parent (and hence not preparing consolidated accounts), it still needs to apply the equity method of accounting. We do not support this approach and believe that the rationale in paragraphs 5.133 and 5.134 which allows either the cost or fair value method to be used to account for investments in associates and joint ventures may be more appropriate in these circumstances. However, in progressing this particular suggestion, please refer to our comments in our response to Questions 18 and 33.

Separate financial statements of the investor

Question 33. Paragraphs 5.133 to 5.134 discuss the Board's preliminary view to allow an accounting policy choice to require an investor that presents separate financial statements, whether in addition to consolidated financial statements or equity-accounted financial statements, to measure its interest in associates and joint ventures as either:

(a) at cost; or

(b) at fair value through other comprehensive income.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We understand the rationale behind the AASB's preliminary view to allow an accounting policy choice. Measurement at cost may be appropriate where the NFP's interest in an associate or joint venture is to further its NFP objectives whilst measurement at fair value may be appropriate where the interest is an investment (subject to our response to Question 18).

However, our preference is that accounting policy choices in the T3 Standard should be limited wherever possible. Therefore, we recommend that the AASB establishes whether there is a prevalence of smaller NFPs holding interests in associates or joint ventures as an investment. If this is not common, we suggest limiting the accounting policy choice to just cost.

Property, plant and equipment, and investment property

Question 34. Paragraphs 5.135 to 5.144 discuss the Board's preliminary view to require property, plant and equipment and investment property, other than with respect to borrowing costs, to be recognised and measured in a consistent manner to Tier 2 Australian Accounting Standards.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements such as not to allow smaller not-for-profit private sector entities to revalue their noncurrent assets? Please specify and explain why.

We agree with the AASB's preliminary view to require property, plant and equipment to be recognised and measured consistently with the Tier 1 and Tier 2 requirements.

However, feedback from our members is that an additional simplification that requires investment property to be accounted for in the same way as property plant and equipment would be beneficial. This is because our members feel that the need to address separate classification, measurement, recognition and disclosure requirements for investment properties may create unecessary complexity while providing little additional information value for users.

We also agree with the AASB's view, as stated in paragraph 5.140, that additional guidance and educational material to support application of the revaluation model would be helpful.

Non-financial assets aquired for significantly less than fair value

Question 35. Paragraphs 5.145 to 5.152 discuss the Board's preliminary view to allow an entity the following accounting policy choice for initial measurement of non-financial assets acquired for significantly less than fair value:

(a) inventory to be measured at cost or at current replacement cost; and
(b) other non-financial assets to be measured at cost or at fair value.
The Board also decided not to permit an entity to subsequent apply the revaluation or fair value model if the donated non-financial asset were initially measured at cost.

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

We agree with the AASB's view that smaller NFPs may encounter difficulties in applying the principles in AASB 13 for the initial measurement of non-financial assets acquired for significantly less than fair value. However, we are concerned about the omission in financial statements of important information relating to philanthropic giving through donated non-financial assets at less than market value. In particular, we note that such information will be of statistical relevance to the targets for doubling philanthropic giving by 2030 announced by the Assistant Minister for Competition, Charities and Treasury. This announcement also signposts the commencement of a Productivity Commission review aimed at providing a roadmap to achieving this objective.

For the reasons stated above, we suggest that the AASB considers introducing a requirement to initially measure non-financial assets acquired for significantly less than fair value as follows:

- At fair value, where the value can be easily obtained (e.g., property with readily identifiable market value), or
- At cost, where the value cannot be easily obtained, complemented by additional disclosures. Such additional disclosures may be of particular relevance where the non-financial assets are donated and the cost is nil.

Where a NFP has recognised non-financial assets acquired at significantly less than fair value or at cost, we agree with the proposal to not permit an entity to subsequently apply the revaluation or fair value model.

Where a NFP applies the cost model on initial measurement, as noted above, there is the potential for loss of important information to users as noted above. To address this, we support the AASB's intention (paragraph 5.147) to develop appropriate disclosures to supplement the accounting policy choice made.

Volunteer services

Question 36. Paragraph 5.153 discusses the Board's preliminary view to propose retaining the option to permit, but not require, a smaller not-for-profit entity to recognise volunteer services

received, or a class of volunteer services, if the fair value of those services can be measured reliably.

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

We agree with the AASB's proposals as this approach is consistent with that taken in AASB 1058 *Income of Not-for-profit Entities*.

We also note that the AASB does not intend to develop disclosures around other non-IFRS information including remuneration and fundraising/volunteer services and nor does it intend to extend disclosures about an entity's related parties beyond what is currently required in AAS (paragraph 1.12), despite recognising the usefulness of this information to the users of NFP financial statements.

However, in the interests of ensuring that the T3 Standard is stand-alone and comprehensive, we believe that it is important to ensure that any disclosures that are considered useful for NFPs, even if not IFRS-based, including disclosures relating to volunteer services, should be incorporated into the T3 Standard as it is developed. The DP states that the AASB does not intend to consider these matters during 2022–2026, which may create an information gap for users.

Borrowing costs

Question 37. Paragraphs 5.154 to 5.156 discuss the Board's preliminary view to require all borrowing costs to be expensed in the period incurred for Tier 3 not-for-profit private sector entities.

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

We agree with the AASB's proposals as this approach represents the simplest accounting policy choice. Moreover, we do not expect smaller NFPs to incur substantial borrowing costs.

Impairment of non-financial assets

Question 38. Paragraphs 5.157 to 5.162 discuss the Board's preliminary view that the impairment model for non-financial assets of Tier 3 entities should:

(a) only require non-financial assets subsequently measured at cost or deemed cost to be subject to impairment testing;
(b) only require entities to consider whether non-financial assets are impaired when the asset has been physically damaged or when its service potential might have been adversely affected by a change in the entity's strategy or changes in external demand for the entity's services;
(c) require impairment of a non-financial asset to be recognised if its carrying amount exceeds its recoverable amount being the higher of its fair value less costs of disposal and its value in use. Tier 3 reporting requirements will include a rebuttable presumption that fair value

less costs of disposal is expected to be the most appropriate measure of a non-financial asset's recoverable amount because non-financial assets are generally not held by not-for-profit private sector entities to generate cash flows; and

(d) allow entities to group non-financial assets that do not generate cash flows that are largely independent from other assets into cash-generating units for impairment purposes.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements discussed in paragraph 5.162? Please specify and explain why.

Feedback from our members is that the AASB's proposed simplfied impairment model set out in paragraph 5.160 will provide necessary and effective simplifications to the complex task of assessing impairment.

Assets held for sale

Question 39. Paragraph 5.163 discusses the Board's preliminary view not to propose introducing any specific requirements for property, plant and equipment or other non-current assets that a smaller not-for-profit private sector entity intends to sell rather than hold for its continuing use.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB that specific requirements for non-current assets held for sale are unnecessary in the T3 Standard. Similar to the AASB's expectations, feedback from our members is that such occurrences are infrequent amongst smaller NFPs.

However, according to paragraph 5.163 the AASB expects the accounting treatment to be consistent with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (AASB 5). It is not clear whether it will be a mandatory requirement to follow AASB 5 in such circumstances. Further, given our previous recommendation that the T3 Standard should be as self-contained as possible. In the unlikely event that the AASB receives feedback that there is a need to specify accounting requirements for non-current assets held for sale, the AASB should consider including the necessary simplified requirements within the T3 Standard.

Intangible assets

Question 40. Paragraphs 5.164 to 5.167 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 entities including the typical forms of any intangible assets held. This will help inform the Board's deliberations on intangible assets in a future Tier 3 Standard.

Are you aware of any intangible assets and their type, either internally generated or externally acquired, commonly held and recognised by smaller not-for-profit private sector entities? If so, please provide details of these assets.

Technology-based activities are increasing in our economy and feedback from our members is that NFPs, including smaller ones that are the focus of the T3 Standard, are engaging in, and being impacted by, such activities. Common examples are software and crypto assets (including cryptocurrencies) which can either be donated or acquired. In addition, other intangible assets such as copyrights, licences, trademarks etc., can also either be donated or acquired by smaller NFP entities.

While we acknowledge that intangible assets may not be commonly acquired or held by smaller NFPs, we believe there is sufficient evidence of a need for a proportionate accounting requirement for intangible assets in the T3 Standard. Such guidance should clearly articulate the characteristics of an intangible asset, in order to address some of the current practical challenges being encountered with the application of AASB 138 to the digital economy, while also making it clear that there is a demonstrable need to achieve a future economic benefit.

Leases

Question 41. Paragraphs 5.168 to 5.178 discuss the Board's preliminary view on accounting requirements for leases, including:

(a) requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. A similar requirement would apply for lessors;

(b) concessionary lease arrangements ('peppercorn' leases) would be accounted for in the same manner as other leases; and

(c) not including specific requirements for sale and lease back transactions, or for manufacturer or dealer lessors.

Do you agree with the Board's preliminary view? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Do you prefer that Tier 3 accounting requirements should be consistent with AASB 16 Leases? Please explain why.

To the best of your knowledge, are sale and lease back transactions common for smaller not-for-profit private sector entities?

We agree with the AASB's preliminary view that lessees should recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is available and more appropriate. Feedback from our members is that the current requirements in AASB 16 are too complex which has meant many NFPs preparing SPFS have not applied these new requirements. We understand that those that have transitioned to preparing GPFS under Tier 2 have incurred substantial costs in applying the AASB 16 requirements.

In developing the T3 Standard we recommend that the AASB includes specific guidance on the application of the straight-line basis expense common to contractual circumstances such as rent free periods or rents with annual or other subsequent increases.

Income (including revenue)

Question 42. Paragraphs 5.179 to 5.188 discuss the Board's preliminary view that income recognition for Tier 3 entities should require an entity to assess whether a transaction is based on a common understanding, evidenced by the transfer provider in writing or some other form, that the entity is expected to use the inflows of resources in a particular way or act or perform in a particular way that results in outflows of resources, including:

(a) transferring goods or services;
(b) performing a specified activity;
(c) incurring eligible expenditure for a specified purpose; and
(d) using the inflows of resources in respect of a specified period.
Income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash (receivable).

Do you agree? Why or why not? If you disagree, do you prefer any other alternative approach as discussed in paragraph 5.186? Please specify and explain why.

We agree with the AASB's view that income recogntion should be simplified for smaller NFPs. However, feedback we have received from our stakeholders suggests that the AASB's proposed approach could introduce further complexities. Introducing new terms such as "common understanding" and "other customary forms" could lead to interpretative challenges and inconsistent application. We also understand that some of the fact patterns being envisaged may not be common amongst smaller NFPs.

This is of particular concern because many of Australia's legislative reporting thresholds are underpinned by revenue, making it vital that revenue is recognised consistently year on year by the NFP sector.

We therefore suggest that the AASB considers other more robust criteria in allowing deferral of income. In this regard we recommend that the AASB explores the following in developing its proposals further:

- Therequirements in the IPSASB's recently approved IPSAS 47 *Revenue*,
- The proposals being developed as part of the IFR4NPO project, and
- The guidance in AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* (AASB 120) which recognises management intention or established plans that demonstrate the future application of funds etc.

Feedback from our members also supports the inclusion of specific guidance on the issue of identifying principal versus agent in the T3 Standard.

Employee benefits

Question 43. Paragraphs 5.189 to 5.199 discuss the Board's preliminary view that employee benefits expense is measured at the undiscounted amount of the obligation to the employee for:

(a) non-accumulation paid absences and termination benefits when the event occurs; and

(b) all other employee benefits when an employee has rendered the services that entitles the employee to consideration.

A provision for employee benefits is measured at the undiscounted future outflow expected to be required (including consideration of future pay increases) to settle the present obligation.

The Board has not yet determined the form of guidance to be developed to support preparers in determining the likelihood that an outflow of economic benefits that will be required to settle these obligations.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives, for example Tier 3 requirements should require future outflows of employee benefits expenses to be discounted? Please specify and explain why.

Are you aware of any industry-specific probability guidance that relates to employee benefits such as a long service leave? Please specify the source of that guidance.

We agree that it is necessary to simplify the accounting for employee benefits but believe that further thought and clarity needs to be given to the AASB's proposed simplification criteria.

For example, clarity is required around whether the future outflow expected is an inflation adjusted value, and if it is, whether an adjustment is required for such inflation. Similarly, clarity is needed around whether probability should be taken into consideration, for example, when calculating accumulated long service leave.

We also note that recent legislative changes to the *Fair Work Act 2009* have converted some eligible casual employment to permanent part-time or full-time status which could increase the likelihood of termination benefits (including long service leave) being recognised by the NFP sector in the future. This will make the provision of clear guidance in this area of increasing importance.

Question 44. Paragraph 5.200 discusses that the Board has not developed any other special requirements for accounting for termination benefits and defined benefit plans.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

As noted in our response to Question 43, we believe termination benefits could be a material accounting matter for smaller NFPs and we therefore suggest clear guidance in this area would be of value.

Other topics to be included in Tier 3 reporting requirements

Question 45. Paragraphs 5.201 to 5.219 discuss the Board's preliminary view that Tier 3 reporting requirements would be similar to those specified in the New Zealand Tier 3 reporting requirements for the following topics:

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

(b) events after reporting period;

(c) expenses;

(d) foreign currency transactions;

(e) income taxes;

(f) going concern;

(g) offsetting; and

(h) provisions, contingent liabilities and contingent assets.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Whilst we appreciate the rationale provided in footnote 18 on page 76 of the DP that led to the AASB's preliminary view that reporting requirements for the above topics could be aligned with those specified in the XRB's Tier 3 NFP Standard, it is not clear why this is the best approach in Australia.

The various laws, size and characteristics of entities in our NFP sector are different to those of New Zealand and therefore it would assist stakeholders if these simplifications were more clearly explained in the context of the Australian financial reporting environment. This would clarify how the Tier 3 requirements relate to those of Australia's current Tier 2 regime (which now differs from that in New Zealand) and would identify New Zealand specific jurisdictional issues that are not relevant to the Australian environment.

We also suggest developing simplifications for provisions and contingent liabilities which may be complex areas of accounting for smaller NFPs, but which provide important information for users.

Question 46. Paragraphs 6.1 to 6.11 discuss the Board's preliminary view that disclosure requirements for Tier 3 not-for-profit private sector entities should be developed based on the following principle:

(a) for transactions where there is a recognition and measurement difference between Tier 3 reporting requirements and Tier 2 general purpose financial statements, Tier 3 reporting requirements will:
   - **(i) adopt appropriate disclosure requirements from comparable jurisdictions, pronouncements or frameworks, if available; or**
   - **(ii) develop fit-for-purpose disclosure requirements if there are no comparable recognition and measurement requirements from other jurisdictions, pronouncements or frameworks. Fit-for-purpose disclosure requirements could be developed based on the disclosure requirements in AASB 1060 where the recognition and measurement requirements could be analogised to the Tier 3 reporting requirements.**

(b) for transactions where the recognition and measurement requirements for Tier 3 reporting requirements are the same as, or similar to, the corresponding recognition and measurement requirements for Tier 2 general purpose financial statements, the disclosure requirements in AASB 1060 will be used as a starting point with further consideration of simplifications that may be appropriate.

Do you agree? Why or why not? If you disagree, what alternative approach do you suggest? Please specify and explain why.

While we support the use of AASB 1060 as a baseline for disclosure, the feedback we received from our outreach activities, and from the 2022 CA ANZ IFRS Survey, indicates that the disclosure requirements in AASB 1060 still do not strike the right cost/benefit balance. We therefore recommend that the AASB considers developing further simplified fit-for-purpose disclosure requirements for the T3 Standard, regardless of whether recognition and measurement requirements in the T3 Standard are different to the Tier 2 requirements.

Question 47. Paragraph 6.12 discusses the Board's preliminary view on the disclosure requirements for property, plant and equipment, and investment property would be for:

(a) initial measurement of non-financial assets acquired at significantly less than fair value – develop fit-for-purpose disclosures based on AASB 1060 as required for concessionary leases; and
(b) subsequent measurement of property, plant and equipment – adopt AASB 1060 disclosures with simplification of the language. No specific disclosures required for borrowing cost.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We broadly agree with the AASB's proposed approach. However feedback from our members is that the disclosure requirements in AASB 1060 would still result in an overall level of disclosure that is excessive for the needs of smaller NFPs. For example, we believe the disclosure proposed for movements in property, plant and equipment (example 1(e) on pages 91–92 of the DP) will be an excessive requirement for smaller NFPs. Therefore, we believe there is a need to more carefully assess all proposed disclosures on a cost/benefit basis.

Question 48. Paragraph 6.13 discusses the Board's preliminary view on the disclosure requirements for leases would be for:

(a) lessee – adopt IFRS for SMEs Standard disclosures for operating leases; and
(b) lessor – adopt AASB 1060 disclosures for operating leases with simplification of the language.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We broadly agree with the AASB's proposed approach. However, feedback from our members is that the proposed disclosure requirements would still produce an overall level of disclosure that is excessive for the needs of smaller NFPs. Therefore, we believe there is a need to develop disclosures which strike the right balance for cost/benefit reasons.

Question 49. Paragraph 6.14 discusses the Board's preliminary view on the disclosure requirements for changes in accounting policies and correction of errors would be for:

(a) changes in accounting polices – develop fit-for-purpose disclosures based on AASB 1060 and removing non-applicable disclosures; and

(b) correction of errors – adopt New Zealand Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit).

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We agree with the AASB's proposed approach for similar reasons to those provided in our response to Question 19 and, subject to our recommendation in our response to Question 19 on restating comparatives, for prior period accounting errors.

Australian Government

Australian Charities and Not-for-profits Commission

31 March 2023

Australian Accounting Standards Board (**AASB**)

Submitted via http://www.aasb.gov.au/current-projects/open-forcomment/

Our reference: ACNCSUB2023/2

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

The Australian Charities and Not-for-profits Commission (**ACNC**) welcomes the opportunity to comment on the AASB's ***Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities).*** We understand the objective of the AASB is to support development of a simple, proportionate, consistent, and transparent financial reporting framework for application by smaller Not-for-Profit (NFP) entities and remove the ability of certain NFP entities to prepare special purpose financial statements (SPFS).

About the ACNC

The ACNC is the national regulator of charities. The ACNC does not regulate not-for-profit entities that are not registered charities. The objects of the *Australian Charities and Not-for-profits Commission Act 2012* (Cth) (**ACNC Act**) are to:

- maintain, protect and enhance public trust and confidence in the Australian not-for-profit sector
- support and sustain a robust, vibrant, independent and innovative Australian not-for-profit sector
- promote the reduction of unnecessary regulatory obligations on the Australian not-for-profit sector.

The ACNC maintains a free and searchable online public register of charities (**the Charity Register**). In most cases, each charity's entry includes details about its location, activities, its people, its governing rules and annual reporting, including finances. The Charity Register helps the public to understand the work of the charity sector and provides for transparency of charities. There are currently around 60,000 registered charities in Australia.

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The impact on the charity sector

We see the potential benefits of the proposed Tier 3 reporting framework for its simplicity and standardisation of concepts that have not applied neatly to the NFP sector.

We have provided general comments below which are focused on the impact of the new reporting framework on registered charities. The Appendix provides our response to questions asked by the AASB in Part A and Part B of the Discussion Paper.

The ACNC is supportive of changes that provide simple and consistent financial reporting within the charity sector. This helps build public trust and confidence in a sector mostly made up of small charities (65.3% are small, and 31.4% of these have less than $50,000 in annual revenue) and run by volunteers (51% of charities report not having any paid staff at all). Small charities are not required by the ACNC legislative framework to submit a financial report. Medium and large charities (those with revenue of $500,000 or more) must submit a financial report.

Our analysis of charity financial reports shows application of the 'reporting entity' concept varies considerably across the sector. We estimate 20 per cent of all registered charities (12,000) will be impacted by change to the 'reporting entity' concept; and more than two thirds (about 70 per cent) of all medium and large charities will need to transition from SPFS to Tier 3.

Tier 3 introduces accounting treatment of recognition and measurement that a charity preparing SPFS might not previously apply. These are complex to some, and many charities may not have or be able to easily acquire, accounting knowledge, technical expertise, or the resources (pro bono access to sector practitioners or the funds to pay them) to apply Tier 3. Charities may also face additional challenges including having to make consequential changes to their own governing document (i.e., because it references the preparation of financial report in accordance with the Australian accounting standards), introduce new systems and record keeping measures (to effectively implement Tier 3), while keeping up with any reporting obligations to regulators (to avoid penalty or other administrative actions) and or to funders and donors.

In the further development of the new accounting standards, there needs to be an appropriate balance between the objectives of simplicity and consistency, and a standard that is fit for purpose across the charity sector.

Careful consideration be given to transition processes, including the need to strengthen the sectors' financial literacy and capability so that they can confidently apply the standard. The ACNC will support the AASB in its efforts to develop simple, clear, easy to understand guidance materials on Tier 3. It will also support the AASB in any work it carries out it does to improve the sector's general financial understanding and reporting capabilities. Improving the financial literacy and capability of registered charities will help them comply with their reporting obligations to the ACNC and other agencies, and thereby increase their transparency and accountability to the public.

The ACNC has considerable guidance materials and resources to support charities. This includes a free suite of online courses designed to enhance leadership and accountability within the charity sector. We have two courses that focus on charity reporting obligations, explaining the ACNC legislative reporting requirements, and we will work to update these courses if changes to the not-for-profit financial reporting framework eventuate.

The duration of any transition process will also be important. As outlined in more detail in the Appendix, the ACNC may need to make changes to its legislative framework which can be a time-consuming process. Other regulatory bodies may also need to make similar changes to their legislative and or policy frameworks, and funders may need to amend specific reporting and accounting obligations in their guidelines and agreements.

General comments that inform our additional comments at the Appendix.

We support the proposal that Tier 3 adopt a single self-contained accounting standard which would serve as a 'one-stop shop' for charities.

We support a model that excludes the most complex items and transactions that rarely occur, whilst acknowledging the challenge inherent in balancing comprehensiveness with inclusion only of the most common transactions.

We support the simplification of the standards and the provision for discretion in application of, for example, the consolidated financial statement requirements.

Additional matter for consideration

As the AASB is the standard setter, we appreciate that it does not have authority to definitively set the thresholds at which each tier applies. However, in considering the implementation of this framework, we are concerned that with each regulator at the Commonwealth, state or territory government level setting their own thresholds for applying Tier 3 (whether by virtue of legislation or administrative process), this could lead to confusion and unnecessary red tape for the sector.

Having to be aware of and report on different requirements for different government bodies is likely to create additional burden for charities. We note that the lack of consistency in financial reporting requirements across Australia has been a persistent issue predating the establishment of the ACNC, which was intended to operate as a 'one stop shop'.

We consider that the Tier 3 framework presents an opportunity to harmonise reporting by establishing a single set of revenue thresholds for the charity and broader NFP sector. We highly value the approach taken to bring together Commonwealth, state and territory governments to collaborate on a single national fundraising framework. We suggest that the Tier 3 proposal could be used to leverage momentum and bring together regulatory bodies to agree on uniform Tier 3 reporting thresholds.

Further questions

Please contact Mel Yates at Melville.Yates@acnc.gov.au or 03 9275 9595.

Sincerely,

Sue Woodward AM
Commissioner
Australian Charities and Not-for-profits Commission

Enc: Appendix – Response to specific questions for comment

Appendix – Response to specific questions

PART A – EXTENDING THE DIFFERENTIAL REPORTING FRAMEWORK

Question 1

Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements.

Do you agree? Why or why not? If you disagree with the Board's view, how do you propose the Board stratify entities amongst the available reporting tiers?

The AASB should establish clear reporting thresholds for Tier 3 reporting. Introduction of reporting thresholds will provide clarity and promote consistency within the entire not-for-profit sector. We understand that the AASB are currently conducting research into common transactions and practices within the not-for-profit sector. Findings from this research, together with other relevant research findings should be used to determine the appropriate thresholds, as well as with consultation with the sector.

We note that under the ACNC's current legislative framework, medium and large charities (annual revenue of $500,000 or more) are required to prepare and lodge an annual financial report. Small charities may also need to prepare an annual financial report if required by their governing document, grant application or terms of a funding agreement, or some other regulators.

The ACNC has reached a streamlined reporting arrangement with all state and territory regulators that also regulate incorporated associations and fundraisers. These regulators recognise financial reports (prepared under the ACNC framework) even if they do not strictly align with their current thresholds. We understand that some jurisdictions are seeking to align their incorporated associations thresholds with the ACNC's reporting thresholds.

Regarding the sector's ability to comply, we remain concerned that given the sector is predominantly operated by volunteers, particularly in smaller charities, and these charities may have resource constraints, there may be a lack of technical expertise and capacity to understand and comply with Tier 3 reporting.

Question 2

Paragraphs 1.9 to 1.11 discuss the Board's view that it does not intend to develop proposals for reporting service performance information as part of this project.

Do you agree? Why or why not? If you disagree with the Board's view, what requirements do you think entities should be required to apply? Would these requirements apply to all not-for-profit private sector entities or only be reporting requirements of a specified reporting tier?

We agree with the proposal of the AASB to exclude Service Performance Reporting (**SPR**) as part of this project, whilst acknowledging that SPR may help charities to communicate their impact (in addition to their current avenues, such as their annual reports, web pages, social media and in their annual reporting to the ACNC).

Implementing SPR as part of this project would add to the already significant reporting burden associated with transitioning to the new framework. The potential complexities involved in developing service performance information requires careful consideration and this is best done separately to this initiative.

Registered charities share common characteristics and reporting challenges with non-profit organisations worldwide and therefore there is an opportunity to learn from international experience. The ACNC suggests that the AASB leverage any advancements in the international development of 'narrative reporting' through the Exposure Draft of the International Non-Profit Accounting Guidance.

Question 3

The 'objective' and 'primary users' incorporated in the Framework for the Preparation and Presentation of Financial Statements include modifications for not-for-profit entities. Paragraphs 1.14 to 1.16 discuss the Board's Conceptual Framework: Not-for-Profit Amendments project and how it interacts with this project. Do you agree that the Framework for the Preparation and Presentation of Financial Statements (including the modifications for not-for-profit entities) appropriately:

- ***(a) depicts the objective of general-purpose financial reporting for not-for-profit private sector entities; and***
- ***(b) identifies the set of primary users of the financial statements of a not-for-profit entity.***

Why or why not? If you disagree, what is your reasoning?

The Board plans to extend the application of the Conceptual Framework for Financial Reporting to all not-for-profit entities once the modifications for not-for-profit entities are included and on the release of a Tier 3 Standard. Do you have any other concerns about applying the Conceptual Framework for Financial Reporting to smaller not-for-profit private sector entities that have not already been noted in paragraph 1.14? If so, please describe them.

The ACNC supports a fit-for-purpose conceptual framework for the sector. We agree the framework should deliver the objective of general purpose financial reporting in the not-for-profit sector, particularly as it relates to accountability to the public.

We also agree the primary users of financial reports in the not-for-profit sector will be different to the for-profit sector. Annual financial reports submitted by registered charities are available on the Charity Register, and can be accessed by a variety of users, including donors and funding bodies, members and beneficiaries, professional advisors, researchers, journalists, regulators, and government officials.

We have some concerns about the expansion of the Conceptual Framework for Financial Reporting, which removes the subjective assessment of ‘reporting entity’ in SAC 1. Some of these concerns include:

1. The removal of the definition of ‘reporting entity’ in SAC 1 means that charities will no longer be able to prepare SPFS. The removal of the ability to prepare SPFS will have a significant impact on the sector, and it is important that the AASB provide detailed guidance and support to charities who will need to transition from SPFS to Tier 3. Guidance will need to reflect the variety of SPFS currently being prepared by charities.

2. Some charities that currently prepare SPFS may not be able to adopt Tier 3, for example, if they exceed the Tier 3 threshold. It is unclear whether these charities will be ready to transition to Tier 2 or above. It is important that any future outreach and consultation for Tier 3 includes charities that are above the minimum intended threshold (especially those preparing SPFS) to raise their awareness and understanding of the potential impact.

3. The inclusion of not-for-profit modifications may pose difficulties for entities that need to consolidate financial statements including for-profit and not-for-profit subsidiaries.

Question 4

As noted in paragraph 1.18, the Board intends to align the timing of any new Tier 3 reporting requirements with the timing of any extension of the Australian Accounting Standards to a broader set of not-for-profit private sector entities.

Do you agree? Why or why not?

The ACNC agrees with the AASB’s approach. The AASB should provide sufficient lead time for the mandatory adoption of General Purpose Financial Statements by charities and should engage in an extensive educational campaign (including the development of simple, plain English guidance for charities preparing SPFS) to minimise the reporting burden and help support a successful implementation.

Question 5

Paragraphs 2.5 to 2.7 propose to extend the set of not-for-profit private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1. The effect is that more entities will be required to prepare general purpose financial statements when required to prepare financial statements that comply with Australian Accounting Standards.

Do you agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply? Why or why not? If not, what alternative approach do you suggest?

We support the extension of the Australian Accounting Standards to the not-for-profit private sector in principle. The proposed change to supersede SAC 1 means that charities will no longer be able to prepare SPFS for the purpose of meeting ACNC legislative reporting requirements.

The removal of SPFS aligns with changes in the for-profit sector, following AASB 2020-2 *Amendments to Australian Accounting Standards*, which also removed SPFS for some for-profit private sector entities.

The move towards general purpose financial reporting for both for-profit and not-for-profit entities (which includes charities) enhances transparency and accountability through the provision of consistent and comparable financial information.

However, the ACNC recognises that the transition to any new reporting standard will be a complex and challenging process, and it is important to ensure that charities are not unduly burdened by these changes. Half of all charities are run by volunteers.[1] We expect this will add to the administrative burden on charities.

It will be important for the AASB to consult with the sector to help shape the transition process including the practical support that charities may need to be able to successfully implement their transition. Guidance and support will need to consider the varying levels of technical expertise and accounting knowledge of the sector. The ACNC is willing to discuss how we can assist the AASB with this process.

Question 6

Paragraphs 2.10 to 2.12 propose the introduction of a simpler further reporting tier (Tier 3) for not-for profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards, which serves as a proportionate response for smaller sized entities with less complex transactions and events.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

The ACNC supports the introduction of a consistent framework to replace SPFS. We support a proportionate approach to reporting based on reporting thresholds. The discussion paper does not establish reporting thresholds. This makes it difficult to determine whether Tier 3 is proportionate.

As previously noted, the ACNC regulates a diverse charity sector – half of which have revenue less than $250,000.[2] Under the ACNC's legislative framework, charities with annual revenue of $500,000 or more are required to prepare and lodge a financial report. We note our legislation does not empower the ACNC to determine which charities must apply a particular tier of the Australian Accounting Standards.

[1] Australian Charities and Not-for-profits Commission, Australian Charities Report 8th edition, 2022
[2] Australian Charities and Not-for-profits Commission, Australian Charities Report 8th edition, 2022

Regardless of the maximum reporting threshold, the AASB's guidance needs to reflect the diversity and level of knowledge within the charity sector.

The ACNC encourages the AASB to consult with the charities when determining how to determine when to apply Tier 3. Our response to Question 1 and 5 also addresses the question of thresholds (and we suggest utilising current research to help inform thinking on an appropriate threshold).

Question 7

Paragraphs 2.13 to 2.17 discuss the Board's view to not develop a fourth tier of accounting for not-for-profit private sector entities.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

The ACNC does not require charities with revenue below $500,000 to prepare financial statements. These charities are only required to provide financial information in the Annual Information Statement.

We do not see a need for a fourth tier.

Question 8

Paragraphs 3.1 to 3.5 discuss the Board's view to not make changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards, as presently modified for not-for-profit private sector entities.

Do you agree? Why or why not?

The ACNC cannot comment on this question as the discussion paper does not specify a threshold for Tier 3.

Please refer to our response to Question 3 (point 2) in relation to charities who may exceed the threshold for Tier 3 and may therefore have to comply with Tier 1 or 2 reporting requirements.

Additionally, we understand there may be possible changes from the post-implementation reviews being conducted through Invitation to Comment 50 – *Income of Not-for-Profit Entities* and Invitation to Comment 51 – *Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements*. These note these reviews could potentially inform changes to accounting standards for charities applying Tier 1 and 2 Australian Accounting Standards.

PART B: PROPOSED TIER 3 REPORTING REQUIREMENTS

Question 9

Paragraphs 4.3 to 4.6 discuss the Board's view to specify Tier 3 reporting requirements in a single stand-alone accounting standard. The stand-alone pronouncement is expected to:

(a) specify only accounting requirements for transactions, events and conditions that are common to a smaller not-for-profit entity;
(b) in the main, not require an entity to refer to requirements set out in other Australian Accounting Standards; and
(c) express accounting requirements in a manner that is easy to understand by preparers and users who do not consider themselves to be "accounting experts".

Do you agree? Why or why not? If you disagree with the Board's view, which aspect(s) of the standalone accounting standard as listed in (a) – (c) concerns you the most? Please explain.

We support the decision to specify Tier 3 reporting requirements in a single stand-alone accounting standard. However, we acknowledge that despite the AASB's efforts to express the Tier 3 standards in an easily understandable manner, some organisations in the sector with limited financial literacy and technical expertise may find it challenging to apply. Therefore, the ACNC is willing to work with the AASB and the charity sector to provide additional support and guidance to these organisations to ensure they can comply with the new reporting requirements effectively. It is important to ensure that the introduction of Tier 3 does not inadvertently create further barriers for smaller organisations.

Question 10

As discussed in paragraphs 4.10 to 4.14, Tier 3 not-for-profit private sector entities can opt-up to Tier 1 or Tier 2 reporting requirement in its entirety. However, the Board has not yet formed a view on whether it should restrict the range of accounting policies available to an entity preparing Tier-3- compliant financial statements. 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.

The ACNC considers that allowing entities preparing Tier 3 financial statements to 'opt-up' to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards may complicate the reporting process and adversely impact the main objective of promoting consistency and comparability of financial information. Therefore, we recommend that Tier 3 applicable entities should have the option to opt-up to Tier 1 or 2 in its entirety. However, we are open to feedback from the sector regarding any specific class of transactions where an opt-up might be appropriate. In such cases, we suggest that the opt-up paragraph should be written in a clear and easy-to-understand manner.

Question 11

Paragraphs 4.15 to 4.20 discuss the Board's preliminary view on the transactions and other events and conditions that may not be covered in a Tier 3 Standard.

The types of items the Board intends to scope out from the Tier 3 Standard include: (a) biological assets, and agricultural produce at the point of harvest; (b) insurance contracts issued, reinsurance contracts held, 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 in Section 5 of this Discussion Paper.

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?

We support the scoping out of more complex items from the standard as set out in the question. We do not believe that the potential benefits of increased consistency in the treatment of affected transactions or disclosures justify the added complexity for Tier 3 entities. In our analysis of charities' annual financial reports, we found that these transactions or events are rare.

There is one exception to this, which is business combinations. Business acquisitions and mergers are not uncommon within the sector, and we have seen more than 1200 charities apply for voluntary revocation citing mergers as their reason. Therefore, we recommend that further consideration be given to how aspects of AASB 3 Business Combinations could be adapted for inclusion within Tier 3.

Question 12

Paragraphs 4.21 to 4.23 discuss the Board's preliminary view on the hierarchy for entities to apply in developing accounting policies when preparing Tier 3 general purpose financial statements for transactions and other events outside the scope of the Tier 3 requirements. That is, an entity should:
(a) first apply Tier 2 reporting requirements; and
(b) otherwise apply judgment to develop an accounting policy by reference to:
- ***(i) principles and requirements in Tier 3 reporting requirements dealing with similar or related issues; and***
- ***(ii) the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework that don't conflict with Tier 3 reporting requirements.***

When developing an accounting policy, an entity may also consider principles and requirements in Tier 1 and Tier 2 reporting requirements, or pronouncements of other standard-setting bodies with a similar conceptual framework, other accounting literature and accepted industry practices.

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

We do not agree with the suggested hierarchy for developing policies outside the scope of Tier 3 requirements. Instead, we suggest that preparers should have the flexibility to choose whichever option from the list best suits their needs. We believe that this approach will provide a more appropriate and tailored solution for reporting on these transactions. We acknowledge that this may adversely impact the consistency and comparability of financial information in some cases but considering that these transactions are likely to be uncommon in the sector generally, we feel that flexibility for preparers is the primary concern here.

We acknowledge that introducing choice and flexibility may have the unintended consequence of increasing the compliance burden for preparers, therefore clear guidance as to when to exercise that flexibility will be essential.

Question 13

Paragraphs 4.24 to 4.27 discuss the Board's view to limit revisiting its Tier 3 reporting requirements to no more than once every AASB agenda consultation cycle (5 years) and only when if there is a substantive case, in accordance with the AASB Due Process Framework for Setting Standards, for doing so.

Do you agree? Why or why not? If you disagree with the Board's view, how often do you prefer the Board should revisit its Tier 3 reporting requirements? Please explain.

We agree with the view for revisiting Tier 3 no more than once in every AASB agenda consultation cycle. And we highlight the need for a thorough and robust post-implementation review after the issue of Tier 3. We also note that many not-for-profit entities may not become aware of the new requirements until Tier 3 is mandated, therefore the requirements should not be revisited too soon unless there is a major concern.

Question 14

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

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

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

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

For 14 (a), we agree with maintaining the provision of a statement of profit and loss and other comprehensive income, statement of financial position, statement of cash flows and explanatory notes.

For 14 (b), we see the benefits of the statement of changes in equity to provide information, such as reserves, accounting for errors or changes to accounting policies. However, our interactions with charity stakeholders indicate the statement is less commonly used or relied upon by users. From a cost-benefit perspective, we recommend that the statement of changes in equity is optional. In providing reporting simplification, Tier 3 should not require more than the existing Tier 2 requirements (para. 26 of AASB 1060 permits a single statement to combine income and retained earnings when criteria outlined in para. 62 are met).

Question 15

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

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

We agree there is a need for more consistent line items in financial statements. Through our interactions with smaller registered charities regarding financial reporting, it is apparent that many organisations prefer a more prescriptive approach, such as a "checklist" or "tailoring" approach. This approach would provide explicit reporting requirements and reduce the subjective and judgmental aspects of the reporting process, making it easier for these organisations to transition to new reporting standards despite limited resources.

Question 16

Paragraph 5.25 to 5.33 discuss the Board's preliminary view to require the statement of cash flows to present:
(a) cash flows from operating activities separately from other cash flows;
(b) cash flows from operating activities using the direct method; and
(c) cash and cash equivalent as specified by AASB 1060.

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

For 16(a), we agree. Feedback received from charity stakeholders is that information contained in the statement of cashflows is useful to users, especially the cash flows from operating activities. To simplify Tier 3 and minimise regulatory burden in relation to the statement of cash flows, we propose there will be less need to separately distinguish cash flows from investment activities and financing activities.

For 16(b), we agree that the sector should be given a choice of using the direct or indirect method.

For 16(c), we agree cash and cash equivalent presentation should be consistent with AASB 1060.

Question 17

Paragraph 5.34 to 5.47 discusses the Board's preliminary view to allow an entity to present either:
(a) separate financial statements as its only financial statements, even if it has subsidiaries, however, require information on the parent's significant relationships; or

(b) consolidated financial statements consolidating all its controlled entities.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements, for example Tier 3 accounting requirements should require an entity with subsidiaries to prepare consolidated financial statements in accordance with AASB 10? Please specify and explain why.

We agree with the proposal for a Tier 3 standard to exempt parent entities from preparing consolidated financial statements. This approach is consistent with the ACNC legislation which assesses a charity's revenue and reporting financial information at the registered charity level, even if the charity exercises control over subsidiaries. However, the option to prepare consolidated financial statements should still be available, particularly for those entities that already do so.

Regarding parent entities that prepare separate financial statements, we agree that disclosing information about their interests in other entities would be adequate for transparency purposes.

Question 18

Paragraph 5.48 to 5.54 discuss the Board's preliminary view on the accounting requirements for a parent that presents separate financial statements to measure its interest in subsidiaries either:
(a) at cost;
(b) at fair value through other comprehensive income; or
(c) using the equity method of accounting.

Do you agree? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Please specify and explain why.

We agree and encourage the AASB to consider the views of sector practitioners regarding the most cost-efficient ways of measuring a charity' interest in subsidiaries, presumably using the at cost or equity method.

Question 19

Paragraph 5.55 to 5.60 discuss the Board's preliminary view to develop a requirement for a modified retrospective approach to apply to changes in accounting policies and correction of accounting errors.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements for changes in accounting policies and correction of

accounting errors; for example, should Tier 3 accounting requirements continue to require the accounting treatment specified by AASB 108 to retrospectively reflect voluntary changes in accounting policies and correction of accounting errors? Please explain your answer.

We agree with the requirement for a modified retrospective approach to reflect changes in accounting policies and correction of accounting errors. However, we note that a prior year error presents a higher risk to the understanding of financial information where a full retrospective correction is not required. Therefore, additional disclosure about the error including how it occurred, is warranted. This disclosure is not expected to be burdensome when an entity is already required to disclose what the error is and how it is corrected. Providing additional disclosure about the underlying cause of the error can enhance transparency and improve users' understanding of the issue, which may have a material impact on a user's decision.

Question 20

Paragraph 5.61 discusses the Board's proposal to develop a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We encourage the AASB to consider the views of sector practitioners in relation to the requirement of accounting for changes in accounting estimates to provide relevant and useful information in a cost-efficient manner.

Question 21 to 27 – Financial instruments

We support the initiative of identifying basic financial instruments to simplify AASB 9 for a wider range of the sector (Q21). Also, we agree with the proposal not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable or measurable (Q22). We agree that Tier 3 should not cover hedge accounting (Q23). For other questions regarding the initial and subsequent measurements, impairment and derecognition, we encourage the AASB to consider the views of sector practitioners.

Question 28 to 29 – Fair value measurement

We agree with the preliminary view not to depart from the principles of AASB 13 when developing Tier 3 to maintain consistency across different reporting tiers (Q28). We also agree that cost may be an appropriate estimate with an exception for those donated financial assets for which the value is easily obtainable (Q29).

Question 30

Paragraphs 5.125 to 5.126 discuss the Board's preliminary view to develop Tier 3 reporting requirements that are consistent with the requirements in AASB 102 Inventories.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree non-donated inventory should be accounted for consistently with AASB 102. To date, we have not received any feedback or comments from the sector regarding any areas of concern or potential opportunities for simplification to reduce reporting costs for inventory.

Question 31

Paragraph 5.128 discusses the accounting for biological assets if not scoped out from a Tier 3 Standard. The Board's preliminary view is not to include biological assets and agricultural produce at the point of harvest in a Tier 3 Standard as discussed in paragraphs 4.20.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the accounting for biological asset should be included in a Tier 3 Standard and accounted for in accordance with the requirements for inventory? Please specify and explain why.

Agree, refer to response in Q11.

Question 32

Paragraphs 5.129 to 5.132 discuss the Board's preliminary view to develop a requirement for interests in associates and joint ventures to be measured:
for a Tier 3 not-for-profit private sector entity that is:

(a) a parent entity that presents consolidated financial statements or it is not a parent entity, the entity applies the equity method of accounting consistent with the requirements in AASB 128 Investments in Associates and Joint Ventures to its interests in associates and joint ventures; and
(b) a parent entity that presents separate financial statements as its only financial statements, the entity does not apply the equity method of accounting to measure its interest in associates and joint ventures.

The Board has not yet discussed other exemptions and exceptions to applying the equity method as it is only consulting on its general approach to accounting for interests in associates and joint ventures at this stage of its project.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Refer to our response in Q17. For reporting simplification, we also consider a disclosure note would be adequate for transparency purposes. However, the extent of details to be included in a disclosure note should meet the information needs of users of Tier 3 charities.

Question 33

Paragraphs 5.133 to 5.134 discuss the Board's preliminary view to allow an accounting policy choice to require an investor that presents separate financial statements, whether in addition to consolidated financial statements or equity-accounted financial statements, to measure its interest in associates and joint ventures as either:
(a) at cost; or

(b) at fair value through other comprehensive income.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Building upon our responses in Q17 and Q32, we generally favour restricting the availability of accounting policy choices within Tier 3 in the interest of reporting consistency and comparability. However, we note this may not be applicable for many entities intended to use Tier 3. Therefore, we agree that accounting policy choice should be permitted, particularly if such a choice aligns with preference of the sector practitioners.

Question 34

Paragraphs 5.135 to 5.144 discuss the Board's preliminary view to require property, plant and equipment and investment property, other than with respect to borrowing costs, to be recognised and measured in a consistent manner to Tier 2 Australian Accounting Standards.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements such as not to allow smaller not-for-profit private sector entities to revalue their non-current assets? Please specify and explain why.

We support a simple and consistent treatment of property, plant, and equipment, as well as investment property. Our review of charities' financial reports indicates that revaluation of property, plant, and equipment is infrequent. However, since investment property is a significant non-current asset that usually appreciates in value rather than depreciates, allowing its revaluation would be appropriate. Generally, we do not consider any upward revaluation gain is part of a charity's revenue. Refer to Q37 in relation to borrowing costs.

Question 35

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

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

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

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

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

We disagree regarding the choice to allow measuring donated non-financial assets at cost. While we acknowledge the benefits of simplifying reporting for charities that do not need to determine the fair value of any in-kind donations, we believe that any material donated non-financial asset should at least be evaluated for fair value or an estimate. We also note that under

Australian Taxation Office requirements, it is up to the donor to let the deductible gift recipient know the market value of non-cash donations.

It is worth noting that the Productivity Commission is conducting an inquiry into philanthropy. Should many charities choose to measure donated non-financial assets at cost, which is typically zero or a nominal amount, charity financial statements may not appropriately reflect philanthropic giving arising from non-financial assets even though some of these gifts, such as real estate, can be substantial.

Question 36

Paragraph 5.153 discusses the Board's preliminary view to propose retaining the option to permit, but not require, a smaller not-for-profit entity to recognise volunteer services received, or a class of volunteer services, if the fair value of those services can be measured reliably.

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

We agree charities should continue to have the option allowed in AASB 1058 *Income of Not-for-profit Entities*. Our view is that such an option should always be voluntary, noting that recognising and measuring volunteer services reliably could result in additional costs for charities and could potentially impact on their financial reporting requirements under proportionate reporting regimes where revenue determines the level of reporting required.

Question 37

Paragraphs 5.154 to 5.156 discuss the Board's preliminary view to require all borrowing costs to be expensed in the period incurred for Tier 3 not-for-profit private sector entities.

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

We agree with the non-capitalisation of borrowing costs as this enables these costs to be expensed in the period they are incurred without the need for a judgemental process, making it a more straightforward approach.

Question 38

Paragraphs 5.157 to 5.162 discuss the Board's preliminary view that the impairment model for non-financial assets of Tier 3 entities should:
(a) only require non-financial assets subsequently measured at cost or deemed cost to be subject to impairment testing;
(b) only require entities to consider whether non-financial assets are impaired when the asset has been physically damaged or when its service potential might have been adversely affected by a change in the entity's strategy or changes in external demand for the entity's services;
(c) require impairment of a non-financial asset to be recognised if its carrying amount exceeds its recoverable amount being the higher of its fair value less costs of disposal and its value in use. Tier 3 reporting requirements will include a rebuttable presumption

that fair value less costs of disposal is expected to be the most appropriate measure of a non-financial asset's recoverable amount because non-financial assets are generally not held by not-for-profit private sector entities to generate cash flows; and
(d) allow entities to group non-financial assets that do not generate cash flows that are largely independent from other assets into cash-generating units for impairment purposes.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements discussed in paragraph 5.162? Please specify and explain why.

We have not received any feedback from the sector, nor have we identified any significant issues with the impairment model. Therefore, we are inclined to support the preference of the sector's practitioners to provide relevant and useful information in a cost-effective manner.

Question 39

Paragraph 5.163 discusses the Board's preliminary view not to propose introducing any specific requirements for property, plant and equipment or other non-current assets that a smaller not-for-profit private sector entity intends to sell rather than hold for its continuing use.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We do not form a view to this question but agree to consider the frequency of such transactions within Tier 3 intended entities for reporting simplification purposes.

Question 40

Paragraphs 5.164 to 5.167 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 entities including the typical forms of any intangible assets held. This will help inform the Board's deliberations on intangible assets in a future Tier 3 Standard.

Are you aware of any intangible assets and their type, either internally generated or externally acquired, commonly held and recognised by smaller not-for-profit private sector entities? If so, please provide details of these assets.

We are not aware of any significant intangible assets held by the Tier 3 intended charities. The cost of including specific accounting requirements within Tier 3 appears to outweigh the benefits of accounting for uncommon transactions.

Question 41

Paragraphs 5.168 to 5.178 discuss the Board's preliminary view on accounting requirements for leases, including:

(a) requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. A similar requirement would apply for lessors;
(b) concessionary lease arrangements ('peppercorn' leases) would be accounted for in the same manner as other leases; and
(c) not including specific requirements for sale and lease back transactions, or for manufacturer or dealer lessors.

Do you agree with the Board's preliminary view? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Do you prefer that Tier 3 accounting requirements should be consistent with AASB 16 Leases? Please explain why.

To the best of your knowledge, are sale and lease back transactions common for smaller not-for-profit private sector entities?

We support the simplification of lease accounting for charities. We have heard that the current approach in AASB 16 is challenging for some charities and confusing for users of charity financial reports. We also support treating concessionary leases in the same way that does not require charities to undertake any fair value measurement, instead a simple disclosure note would be sufficient.

Question 42

Paragraphs 5.179 to 5.188 discuss the Board's preliminary view that income recognition for Tier 3 entities should require an entity to assess whether a transaction is based on a common understanding, evidenced by the transfer provider in writing or some other form, that the entity is expected to use the inflows of resources in a particular way or act or perform in a particular way that results in outflows of resources, including:
(a) transferring goods or services;
(b) performing a specified activity;
(c) incurring eligible expenditure for a specified purpose; and
(d) using the inflows of resources in respect of a specified period.
Income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash (receivable).

Do you agree? Why or why not? If you disagree, do you prefer any other alternative approach as discussed in paragraph 5.186? Please specify and explain why.

We agree that Tier 3 income recognition should reflect a charity's operations through an expense-matching model. This approach is expected to simplify the application of AASB 15 and AASB 1058. It is also important to include the definition of revenue within the income recognition section.

To minimise potential confusion, we will work closely with the AASB as there would be two sets of income recognition models between Tier 3 and other tiers for charities to determine their size thresholds.

We also suggest the income recognition section should consider including ‘principal vs agent’ in simple language within Tier 3. This would avoid the need to address it in the Conceptual Framework. When a charity receives a grant on behalf of another charity and then forwards it to the second charity (sometimes known as auspicing), it appears to present challenges for some charities to determine if they are acting as principal (recognising the gross amount as revenue) or agent (recognising any fee or commission as revenue).

Question 43

Paragraphs 5.189 to 5.199 discuss the Board’s preliminary view that employee benefits expense is measured at the undiscounted amount of the obligation to the employee for:
(a) non-accumulation paid absences and termination benefits when the event occurs; and
(b) all other employee benefits when an employee has rendered the services that entitles the employee to consideration.
A provision for employee benefits is measured at the undiscounted future outflow expected to be required (including consideration of future pay increases) to settle the present obligation.
The Board has not yet determined the form of guidance to be developed to support preparers in determining the likelihood that an outflow of economic benefits that will be required to settle these obligations.

Do you agree? Why or why not? If you disagree with the Board’s view, do you prefer other alternatives, for example Tier 3 requirements should require future outflows of employee benefits expenses to be discounted? Please specify and explain why.

Are you aware of any industry-specific probability guidance that relates to employee benefits such as a long service leave? Please specify the source of that guidance.

We agree that simplifying the accounting for employee benefits by not requiring adjustments for inflation or a discount rate is beneficial. However, we recognise that some level of probability assessment is still necessary.

To reduce the reporting burden on probability assessment, we would welcome the introduction of a general sector-specific set of probabilities within Tier 3. This would reduce the reporting burden on charities from conducting their own probability assessment.

Question 44

Paragraph 5.200 discusses that the Board has not developed any other special requirements for accounting for termination benefits and defined benefit plans.

Do you agree? Why or why not? If you disagree with the Board’s view, do you prefer other alternatives? Please specify and explain why.

We are not aware of any feedback or observation on this topic.

Question 45

Paragraphs 5.201 to 5.219 discuss the Board's preliminary view that Tier 3 reporting requirements would be similar to those specified in the New Zealand Tier 3 reporting requirements for the following topics:
(a) commitments (disclosed in the notes to the financial statements);
(b) events after reporting period;
(c) expenses;
(d) foreign currency transactions;
(e) income taxes;
(f) going concern;
(g) offsetting; and
(h) provisions, contingent liabilities and contingent assets.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We are unable to form a view on this question as it is unclear whether there is a need within the sector for Tier 3 to address all the topics mentioned. For instance, all registered charities are exempt from income taxes, although we acknowledge that some not-for-profits are taxable. It is an example about the need and relevance of addressing certain issues in the Tier 3 reporting framework to ensure there is appropriate guidance.

Question 46

Paragraphs 6.1 to 6.11 discuss the Board's preliminary view that disclosure requirements for Tier 3 not-for-profit private sector entities should be developed based on the following principle:
(a) for transactions where there is a recognition and measurement difference between Tier 3 reporting requirements and Tier 2 general purpose financial statements, Tier 3 reporting requirements will:
> ***(i) adopt appropriate disclosure requirements from comparable jurisdictions, pronouncements or frameworks, if available; or***
> ***(ii) develop fit-for-purpose disclosure requirements if there are no comparable recognition and measurement requirements from other jurisdictions, pronouncements or frameworks. Fit-for-purpose disclosure requirements could be developed based on the disclosure requirements in AASB 1060 where the recognition and measurement requirements could be analogised to the Tier 3 reporting requirements.***

(b) for transactions where the recognition and measurement requirements for Tier 3 reporting requirements are the same as, or similar to, the corresponding recognition and measurement requirements for Tier 2 general purpose financial statements, the disclosure requirements in AASB 1060 will be used as a starting point with further consideration of simplifications that may be appropriate

Do you agree? Why or why not? If you disagree, what alternative approach do you suggest? Please specify and explain why.

We agree that AASB 1060 should be the starting point for developing Tier 3 disclosure requirements. While we understand that the 'bottom-up' approach has been deemed inappropriate, we see the value in focusing on the information needs of users of Tier 3 financial statements rather than comparing with Tier 2 requirements.

In our review of charities' financial statements, we observed that some disclosure notes were included simply to meet relevant requirements, resulting in 'boilerplate disclosures' that may not provide useful or relevant information in the context of the charity. Therefore, we believe that Tier 3 disclosure requirements should prioritise meeting the information needs of users.

Question 47

Paragraph 6.12 discusses the Board's preliminary view on the disclosure requirements for property, plant and equipment, and investment property would be for:
(a) initial measurement of non-financial assets acquired at significantly less than fair value – develop fit-for-purpose disclosures based on AASB 1060 as required for concessionary leases; and
(b) subsequent measurement of property, plant and equipment – adopt AASB 1060 disclosures with simplification of the language. No specific disclosures required for borrowing cost.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We suggest identifying common information needs from users in the disclosure notes to complement the figures already included in the financial statement. This approach would help to ensure that only key information is disclosed, which would in turn reduce the reporting burden. Any views from sector practitioners to provide relevant and useful information in a cost-effective manner would be valuable in addressing this matter.

Question 48

Paragraph 6.13 discusses the Board's preliminary view on the disclosure requirements for leases would be for:
(a) lessee – adopt IFRS for SMEs Standard disclosures for operating leases; and
(b) lessor – adopt AASB 1060 disclosures for operating leases with simplification of the language.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We disagree with the example disclosure requirements and suggest a single set of disclosures that can apply to both lessee and lessor. We see a need to simplify language and terminology.

As an example of disclosure requirements for leases, we suggest disclosing the following information:

- A description of the lease asset
- Lease terms and payments
- Any restrictions or dependencies on the use of the lease asset.

Question 49

Paragraph 6.14 discusses the Board's preliminary view on the disclosure requirements for changes in accounting policies and correction of errors would be for:
(a) changes in accounting polices – develop fit-for-purpose disclosures based on AASB 1060 and removing non-applicable disclosures; and
(b) correction of errors – adopt New Zealand Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit).

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why

We agree with the AASB's proposed disclosure requirements for changes in accounting policies and correction of errors. Refer to our response in Q19.