Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

The Chair
Australian Accounting Standards Board
PO BOX 204
Collins Street West
Melbourne VIC 8007

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

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

BDO

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.

BDO

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.

BDO

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

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.