Deloitte.

Deloitte Touche Tohmatsu

ABN 74 490 121 060
477 Collins Street
Melbourne, VIC, 3000
Australia

Phone: +61 3 9671 7000
www.deloitte.com.au

31 March 2022

The Chair
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

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

MOverton

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.