received, or a class of volunteer services, if the fair value of those services can be measured reliably.

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

We agree with the AASB's proposals as this approach is consistent with that taken in AASB 1058 *Income of Not-for-profit Entities*.

We also note that the AASB does not intend to develop disclosures around other non-IFRS information including remuneration and fundraising/volunteer services and nor does it intend to extend disclosures about an entity's related parties beyond what is currently required in AAS (paragraph 1.12), despite recognising the usefulness of this information to the users of NFP financial statements.

However, in the interests of ensuring that the T3 Standard is stand-alone and comprehensive, we believe that it is important to ensure that any disclosures that are considered useful for NFPs, even if not IFRS-based, including disclosures relating to volunteer services, should be incorporated into the T3 Standard as it is developed. The DP states that the AASB does not intend to consider these matters during 2022–2026, which may create an information gap for users.

Borrowing costs

Question 37. Paragraphs 5.154 to 5.156 discuss the Board's preliminary view to require all borrowing costs to be expensed in the period incurred for Tier 3 not-for-profit private sector entities.

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

We agree with the AASB's proposals as this approach represents the simplest accounting policy choice. Moreover, we do not expect smaller NFPs to incur substantial borrowing costs.

Impairment of non-financial assets

Question 38. Paragraphs 5.157 to 5.162 discuss the Board's preliminary view that the impairment model for non-financial assets of Tier 3 entities should:

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

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

(c) require impairment of a non-financial asset to be recognised if its carrying amount exceeds its recoverable amount being the higher of its fair value less costs of disposal and its value in use. Tier 3 reporting requirements will include a rebuttable presumption that fair value

less costs of disposal is expected to be the most appropriate measure of a non-financial asset's recoverable amount because non-financial assets are generally not held by not-for-profit private sector entities to generate cash flows; and

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

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

Feedback from our members is that the AASB's proposed simplfied impairment model set out in paragraph 5.160 will provide necessary and effective simplifications to the complex task of assessing impairment.

Assets held for sale

Question 39. Paragraph 5.163 discusses the Board's preliminary view not to propose introducing any specific requirements for property, plant and equipment or other non-current assets that a smaller not-for-profit private sector entity intends to sell rather than hold for its continuing use.

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

We agree with the AASB that specific requirements for non-current assets held for sale are unnecessary in the T3 Standard. Similar to the AASB's expectations, feedback from our members is that such occurrences are infrequent amongst smaller NFPs.

However, according to paragraph 5.163 the AASB expects the accounting treatment to be consistent with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (AASB 5). It is not clear whether it will be a mandatory requirement to follow AASB 5 in such circumstances. Further, given our previous recommendation that the T3 Standard should be as self-contained as possible. In the unlikely event that the AASB receives feedback that there is a need to specify accounting requirements for non-current assets held for sale, the AASB should consider including the necessary simplified requirements within the T3 Standard.

Intangible assets

Question 40. Paragraphs 5.164 to 5.167 discuss that the Board has not yet formed a view to develop requirements for accounting of intangible assets in a Tier 3 Standard. The Board is seeking to understand the extent of use of intangible assets by smaller not-for-profit private sector entities including the typical forms of any intangible assets held. This will help inform the Board's deliberations on intangible assets in a future Tier 3 Standard.

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

Technology-based activities are increasing in our economy and feedback from our members is that NFPs, including smaller ones that are the focus of the T3 Standard, are engaging in, and being impacted by, such activities. Common examples are software and crypto assets (including cryptocurrencies) which can either be donated or acquired. In addition, other intangible assets such as copyrights, licences, trademarks etc., can also either be donated or acquired by smaller NFP entities.

While we acknowledge that intangible assets may not be commonly acquired or held by smaller NFPs, we believe there is sufficient evidence of a need for a proportionate accounting requirement for intangible assets in the T3 Standard. Such guidance should clearly articulate the characteristics of an intangible asset, in order to address some of the current practical challenges being encountered with the application of AASB 138 to the digital economy, while also making it clear that there is a demonstrable need to achieve a future economic benefit.

Leases

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

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

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

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

We agree with the AASB's preliminary view that lessees should recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is available and more appropriate. Feedback from our members is that the current requirements in AASB 16 are too complex which has meant many NFPs preparing SPFS have not applied these new requirements. We understand that those that have transitioned to preparing GPFS under Tier 2 have incurred substantial costs in applying the AASB 16 requirements.

In developing the T3 Standard we recommend that the AASB includes specific guidance on the application of the straight-line basis expense common to contractual circumstances such as rent free periods or rents with annual or other subsequent increases.

Income (including revenue)

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

(a) transferring goods or services;
(b) performing a specified activity;
(c) incurring eligible expenditure for a specified purpose; and
(d) using the inflows of resources in respect of a specified period.
Income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash (receivable).

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

We agree with the AASB's view that income recognition should be simplified for smaller NFPs. However, feedback we have received from our stakeholders suggests that the AASB's proposed approach could introduce further complexities. Introducing new terms such as "common understanding" and "other customary forms" could lead to interpretative challenges and inconsistent application. We also understand that some of the fact patterns being envisaged may not be common amongst smaller NFPs.

This is of particular concern because many of Australia's legislative reporting thresholds are underpinned by revenue, making it vital that revenue is recognised consistently year on year by the NFP sector.

We therefore suggest that the AASB considers other more robust criteria in allowing deferral of income. In this regard we recommend that the AASB explores the following in developing its proposals further:

- Therequirements in the IPSASB's recently approved IPSAS 47 *Revenue*,
- The proposals being developed as part of the IFR4NPO project, and
- The guidance in AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* (AASB 120) which recognises management intention or established plans that demonstrate the future application of funds etc.

Feedback from our members also supports the inclusion of specific guidance on the issue of identifying principal versus agent in the T3 Standard.

Employee benefits

Question 43. Paragraphs 5.189 to 5.199 discuss the Board's preliminary view that employee benefits expense is measured at the undiscounted amount of the obligation to the employee for:

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

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

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

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

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

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

We agree that it is necessary to simplify the accounting for employee benefits but believe that further thought and clarity needs to be given to the AASB's proposed simplification criteria.

For example, clarity is required around whether the future outflow expected is an inflation adjusted value, and if it is, whether an adjustment is required for such inflation. Similarly, clarity is needed around whether probability should be taken into consideration, for example, when calculating accumulated long service leave.

We also note that recent legislative changes to the *Fair Work Act 2009* have converted some eligible casual employment to permanent part-time or full-time status which could increase the likelihood of termination benefits (including long service leave) being recognised by the NFP sector in the future. This will make the provision of clear guidance in this area of increasing importance.

Question 44. Paragraph 5.200 discusses that the Board has not developed any other special requirements for accounting for termination benefits and defined benefit plans.

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

As noted in our response to Question 43, we believe termination benefits could be a material accounting matter for smaller NFPs and we therefore suggest clear guidance in this area would be of value.

Other topics to be included in Tier 3 reporting requirements

Question 45. Paragraphs 5.201 to 5.219 discuss the Board's preliminary view that Tier 3 reporting requirements would be similar to those specified in the New Zealand Tier 3 reporting requirements for the following topics:

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

(b) events after reporting period;

(c) expenses;

(d) foreign currency transactions;

(e) income taxes;

(f) going concern;

(g) offsetting; and

(h) provisions, contingent liabilities and contingent assets.

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

Whilst we appreciate the rationale provided in footnote 18 on page 76 of the DP that led to the AASB's preliminary view that reporting requirements for the above topics could be aligned with those specified in the XRB's Tier 3 NFP Standard, it is not clear why this is the best approach in Australia.

The various laws, size and characteristics of entities in our NFP sector are different to those of New Zealand and therefore it would assist stakeholders if these simplifications were more clearly explained in the context of the Australian financial reporting environment. This would clarify how the Tier 3 requirements relate to those of Australia's current Tier 2 regime (which now differs from that in New Zealand) and would identify New Zealand specific jurisdictional issues that are not relevant to the Australian environment.

We also suggest developing simplifications for provisions and contingent liabilities which may be complex areas of accounting for smaller NFPs, but which provide important information for users.

Question 46. Paragraphs 6.1 to 6.11 discuss the Board's preliminary view that disclosure requirements for Tier 3 not-for-profit private sector entities should be developed based on the following principle:

(a) for transactions where there is a recognition and measurement difference between Tier 3 reporting requirements and Tier 2 general purpose financial statements, Tier 3 reporting requirements will:
   - **(i) adopt appropriate disclosure requirements from comparable jurisdictions, pronouncements or frameworks, if available; or**
   - **(ii) develop fit-for-purpose disclosure requirements if there are no comparable recognition and measurement requirements from other jurisdictions, pronouncements or frameworks. Fit-for-purpose disclosure requirements could be developed based on the disclosure requirements in AASB 1060 where the recognition and measurement requirements could be analogised to the Tier 3 reporting requirements.**

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

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

While we support the use of AASB 1060 as a baseline for disclosure, the feedback we received from our outreach activities, and from the 2022 CA ANZ IFRS Survey, indicates that the disclosure requirements in AASB 1060 still do not strike the right cost/benefit balance. We therefore recommend that the AASB considers developing further simplified fit-for-purpose disclosure requirements for the T3 Standard, regardless of whether recognition and measurement requirements in the T3 Standard are different to the Tier 2 requirements.

Question 47. Paragraph 6.12 discusses the Board's preliminary view on the disclosure requirements for property, plant and equipment, and investment property would be for:

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

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

We broadly agree with the AASB's proposed approach. However feedback from our members is that the disclosure requirements in AASB 1060 would still result in an overall level of disclosure that is excessive for the needs of smaller NFPs. For example, we believe the disclosure proposed for movements in property, plant and equipment (example 1(e) on pages 91–92 of the DP) will be an excessive requirement for smaller NFPs. Therefore, we believe there is a need to more carefully assess all proposed disclosures on a cost/benefit basis.

Question 48. Paragraph 6.13 discusses the Board's preliminary view on the disclosure requirements for leases would be for:

(a) lessee – adopt IFRS for SMEs Standard disclosures for operating leases; and
(b) lessor – adopt AASB 1060 disclosures for operating leases with simplification of the language.

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

We broadly agree with the AASB's proposed approach. However, feedback from our members is that the proposed disclosure requirements would still produce an overall level of disclosure that is excessive for the needs of smaller NFPs. Therefore, we believe there is a need to develop disclosures which strike the right balance for cost/benefit reasons.

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Question 49. Paragraph 6.14 discusses the Board's preliminary view on the disclosure requirements for changes in accounting policies and correction of errors would be for:

(a) changes in accounting polices – develop fit-for-purpose disclosures based on AASB 1060 and removing non-applicable disclosures; and
(b) correction of errors – adopt New Zealand Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit).

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

We agree with the AASB's proposed approach for similar reasons to those provided in our response to Question 19 and, subject to our recommendation in our response to Question 19 on restating comparatives, for prior period accounting errors.