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1 March 2023

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

Via email: standard@aasb.gov.au

Dear Dr. Kendall

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

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

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

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

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

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

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

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

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

Yours sincerely

K L Byrne
Partner

Kerry Hicks
Director, Technical Standards

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

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

Response:

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

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

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

2. We agree with this approach.

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

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

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

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

Response:

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

   However, we do not support the removal of the reporting entity concept for those NFPs that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards. We consider mandating the preparation of GPFSs to those entities preparing financial statements outside of legislative requirements to be burdensome for no real user benefit, given that the users themselves, via the constituting document or other document, determine the appropriate form of financial statements to be prepared. Whilst broadening the application to these types of entities would be consistent with that done in the for-profit sector, with the benefit of grandfathering relief, application of these requirements in the for-profit sector has been confusing, has ongoing consequences and is not subject to any oversight as this environment is wholly unregulated. In our opinion, such NFP private sector entities should be permitted to continue to prepare special purpose financial statements.

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

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

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

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

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

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Questions 9 to 13 Single standard, accounting policy choices, scoping, hierarchy and frequency of updates (summarised)

9. Do you agree with the Board's view to specify Tier 3 reporting requirements in a single stand-alone accounting standard? Why or why not?

10. Do you consider an entity preparing Tier 3-compliant financial statements should have the ability to opt up to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards for:

a) Transactions, events and circumstances covered in Tier 3 reporting requirements that are specifically permitted by the Board only; or

b) All transactions, events and circumstances, regardless of whether they are covered in Tier 3 reporting requirements?

Why or why not?

11. The Board proposes to not cover the following items in a Tier 3 Standard, do you agree? Why or why not?

a) Biological assets

b) Insurance contracts

c) Exploration and evaluation of mineral resources expenditure

d) Business combinations

e) Obligations arising under defined benefit superannuation plans

f) Share-based payment arrangements

g) Service concession arrangements

h) Financial assets and financial liabilities other than those specifically identified in the Discussion Paper.

12. The hierarchy for entities to apply in developing accounting policies when preparing Tier 3 financial statements for transactions and other events outside the scope of the Tier 3 requirements is to:

a) First apply Tier 2 reporting requirements; and

b) Otherwise apply judgement to develop an accounting policy by reference to the principles and requirements in Tier 3 requirements dealing with similar or related issues and the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework.

Do you agree? Why or why not?

13. The Board intends on only reviewing Tier 3 reporting requirements no more than once every five years and only if there is a substantive case in doing so. Do you agree? Why or why not?

Response:

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

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

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

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

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

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

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

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

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

Response:

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

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

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

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

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

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

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

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

Response:

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

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

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

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

Response:

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

21, 23, 26 and 27

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

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

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

Response:

28. and 29.

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

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

Response:

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

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

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

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

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

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

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

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

Response:

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

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

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

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

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

Response:

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

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

    However, we encourage the Board to explore an even simpler approach that incorporates the matching of income with expenditure in a manner consistent with the requirements of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. For example, if the entity is clearly 'the seller' of goods or services, income is recognised as/when those goods or services are sold or delivered, if not, income is recognised on a

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systematic basis over the periods in which the entity expenses the costs of the activity to which the income relates. This may be a simpler method that users and NFPs understand.

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

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

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

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

Response:

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