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

Dear Keith

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

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

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

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

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

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

Yours faithfully

KHaines

Kristen Haines

National Head of Technical Accounting

Moore Australia

Appendix

Question 1

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

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

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

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

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

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

Question 2

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

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

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

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

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

Question 3

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

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

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

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

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

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

Question 4

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

Do you agree? Why or why not?

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

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

Question 5

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

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

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

Question 6

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

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

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

Question 7

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

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

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

Question 8

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

Do you agree? Why or why not?

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

Question 9

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

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

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

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

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

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

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

Question 10

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

In your opinion, should an entity preparing Tier-3-compliant financial statements have the ability to opt up to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards for:

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

b) all transactions, events and circumstances, regardless of whether they are covered in the Tier 3 reporting requirements.

Do you agree? Why or why not? Please explain your answer.

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

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

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

Question 11

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

a) biological assets, and agricultural produce at the point of harvest;
b) insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features;
c) expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource is demonstrable;
d) business combinations;
e) obligations arising under a defined benefit superannuation plan;

f) ***share-based payment arrangements;***
g) ***the accounting by an operator in a service concession arrangement; and***
h) ***financial assets and financial liabilities other than those identified in Section 5 of this Discussion Paper.***

Do you agree? Why or why not? If you disagree, which of the balances, transactions and events do you think should be included in the Tier 3 Standard?

We generally agree with the proposed exclusions and agree that the types of transactions listed are not likely to occur in the smaller NFP sector. However, we are aware of business combinations do arise, such as amalgamations and demerger of NFPs. Therefore, we would encourage you to provide guidance on how to account for such transactions. The approach in AASB 3 *Business Combinations* may not be fit for purpose for these smaller NFPs, and it may be more appropriate to allow the charities to recognise the assets acquired at the book value of the previous NFP rather than requiring the acquirer to do a purchase price allocation at fair value. In addition the extent of the disclosures should also be simplified.

Question 12

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

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

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

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

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

Question 13

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

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

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

Question 14

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

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

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

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

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

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

Question 15

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

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

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

Question 16

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

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

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

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

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

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

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

Consolidated financial statements

Question 17

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

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

b) consolidated financial statements consolidating all its controlled entities.

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

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

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

Separate financial statements of the parent

Question 18

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

a) at cost;

b) at fair value through other comprehensive income; or

c) using the equity method of accounting.

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

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

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

Changes in accounting policies and correction of accounting errors

Question 19

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

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

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

Changes in accounting estimates

Question 20

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

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

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

Financial instruments

Question 21

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

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

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

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

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

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

Question 22

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

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

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

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

Question 23

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

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

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

Question 24

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

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

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

Question 25

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

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

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

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

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

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

Question 26

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

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

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

Question 27

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

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

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

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

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

Fair value measurement

Question 28

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

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

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

Question 29

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

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

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

Inventory

Question 30

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

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

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

Question 31

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

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

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

Investments in associates and joint ventures

Question 32

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

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

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

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

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

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

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

Separate financial statements of the investor

Question 33

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

a) at cost; or

b) at fair value through other comprehensive income.

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

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

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

Property, plant and equipment, and investment property

Question 34

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

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

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

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

Question 35

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

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

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

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

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

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

Volunteer Services

Question 36

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

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

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

Borrowing costs

Question 37

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

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

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

Impairment of non-financial assets

Question 38

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

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

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

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

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

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

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

Assets held for sale

Question 39

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

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

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

Intangible assets

Question 40

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

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

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

Leases

Question 41

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

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

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

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

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

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

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

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

Income (including Revenue)

Question 42

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

a) transferring goods or services;

b) performing a specified activity;

c) incurring eligible expenditure for a specified purpose; and

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

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

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

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

Employee benefits

Question 43

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

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

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

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

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

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

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

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

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

Question 44

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

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

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

Other topics to be included in Tier 3 reporting requirements

Question 45

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

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

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

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

Question 46

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

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

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

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

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

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

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

Question 47

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

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

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

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

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

Question 48

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

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

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

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

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

Question 49

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

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

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

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

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