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.