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SAWARD DAWSON

31 March 2023

Dr Keith Kendall
Board Chair
Australian Accounting Standards Board

Via email: Standards@aasb.gov.au

Dear Dr Kendall

Discussion Paper

Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)

Our comments and recommendations regarding The Discussion Paper are provided in this submission.

Saward Dawson operates in Melbourne, Australia. Our clients come from a range of industries and include large private businesses, small to medium enterprises, and a significant number of private sector not-for-profit entities. We are focused on enhancing the relevance, reliability and understand ability of financial reporting for users.

Saward Dawson is widely recognised as a firm with clear expertise in the not-for-profit private sector space for over 20 years. We work with hundreds of charities and other not-for-profit entities. We aim to actively advocate on behalf of the sector. Our involvement includes:

- AASB NFP PAP member
- ACNC Professional Advisors Group
- Chair of CAANZ NFP Discussion Group
- Chair Not-For-Profits Accountants Network

We have provided our feedback with reference to the questions asked within the discussion paper within Appendix 1.

We have identified a number of items that we think are significant and have highlighted these below for your consideration.

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Removal of special purpose and impact on entities larger than smaller entities / proposed threshold

Although we are very supportive of the implementation of Tier 3 in order to provide simplification for small NFPs, we remain concerned about the about the removal of special purpose for those entities above a Tier 3 threshold where potentially significant impact of adoption of Tier 2 appears to largely accepted.

In our discussions with other accountants, our clients and many other NFPs, we hear many concerns in relation the current Accounting Standards that have been raised and considered for Tier 3 simplification. In particular:

- The complexity of AASB15 regarding the identification of the customer for grants and the complexity of application of satisfying sufficiently specific performance obligations.
- The AASB15 requirement for deferral of upfront fees does not reflect the commercial reality and is broadly disagreed with by schools, sporting clubs and other member based organisations.
- The application of AASB16 on property leases where the capitalisation on the balance sheet has added complexity and confusion to preparers and users of the financial report.
- The restriction of AASB9 in relation to investments in equity instruments only being available for FVOCI treatment. Most portfolios contain managed funds and other items that do not meet the requirement. An allowance for active market or tradeable investments would be a more appropriate class of assets where FVOCI is available.
- The recent SaaS IFRIC decision where comparatively large investments are made which future benefit is expected over an extended period is required to be expensed as incurred.

We think these issues need to be considered for Tier 2 as part of the removal of special purpose financial reports.

Consolidation

We acknowledge the post implementation review in relation to NFP and control. We are highly supportive of the review. Our submission will focus on the concerns of many of our clients where entities that have a different charitable purpose and different primary users should not be required to consolidate as this represents a cost that does not provide any user benefit and actually diminishes user understanding of individual entity performance.

Inconsistency in Tier 3 proposals in relation to policy choice and simplification

We note inconsistency within Tier 3where under certain sections existing policy choice is proposed to be restricted even where choice exists within Tier 2 (e.g. the removal of FVTPL as an option for investments) while in other areas additional choice (e.g. recording non inventory donated assets at cost or fair value) is proposed or remains.

The discussion paper reasons are based on comparability and simplicity in certain sections but these are not considered in other areas.

We think that maintaining policy choice, in particular where it exists within Tier 2 should continue to be available. We do not think choice should be removed in the name of simplification.

Related Party Disclosures within AASB1060

The ACNC application of AASB124 for special purpose reporters from 1 July 2023 is resulting in a number of concerns being identified in relation to the disclosure requirements for the following:

1 Donations from KMP or other related parties where the donor receives no benefit in return. We observe that such donations are often given on the basis of anonymity. We think clarification around the application of materiality in relation to such transactions may be helpful and if a higher than traditional threshold (e.g. only if considered to result in economic dependency) would be appropriate for these donations.

2 The disclosure of the amount of remuneration paid for a spouse or child of a member of KMP. This is of particular concern when there is only one (or a small number) staff member that is related and accordingly will result in disclosure of a person's wage. We note that this is then a higher disclosure than the grouped disclosure within KMP remuneration. Where the related person is not a member of the KMP and the salary can be demonstrated to be benchmarked against internal policy, award or other market analysis we think the AASB should consider if the requirement to disclose the amount be removed.

We appreciate your consideration of our submission and in particular the items raised above. We are more than happy to discuss any of the above matters with you.

Please do not hesitate to contact us should you wish to discuss further any matters arising from this submission.

Yours Sincerely

Jeffrey Tulk

Jeff Tulk
Partner

Appendix 1

In summary we hold the following views:

Question 1

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

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

We agree.

The setting of reporting thresholds would be the remit of the regulatory authority. We anticipate that Tier 3 will be attractive option to entities above the current ACNC medium reporting thresholds and the AASB should have an active role in articulating the characteristics of entities where they think Tier 3 remains appropriate.

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.

We don't think service performance reporting should form part of this project or the broader AASB agenda. We think that regulators like the ACNC should prescribe a directors report similar to The Corporations Act requirements if service performance reporting is seen as beneficial for particular sectors.

Question 3

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

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

(b) identifies the set of primary users of the financial statements of a not-for-profit entity.

Why or why not?

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

We agree with the approach and have not identified concerns at this stage.

Question 4

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

Do you agree? Why or why not?

We agree.

The alignment of the timing of effectiveness would be beneficial unless it would result in significant delays and uncertainty.

Question 5

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

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

We agree.

We think the development of Tier 3 with appropriate modifications to accounting treatment and disclosure requirements with adequate lead time and explanatory information is appropriate.

Question 6

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

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

We agree.

Question 7

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

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

We agree.

We see little benefit in developing Tier 4.

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?

No. We do not agree.

We think the removal of special purpose has a significant impact on medium and larger organisations that are larger than what is the likely size (revenue less than $3m) of application for Tier 3.

We think the feedback from Tier 3 should be considered for Tier 1 and Tier 2 in particular in relation to simplifying revenue recognition, leases and in particular consolidation requirements.

We also think disclosure requirements for related parties should be reconsidered for transactions like donations where no benefit is received by the related party and commercially sensitive items like disclosure of a related party wage amount for a spouse or child of a related party exists.

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.

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.

Our preliminary view is that opt up should only be available to opt up for all transactions and events to a higher Tier so that disclosure on what Tier an entity is reporting under is clear.

Question 11

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

a biological assets, and agricultural produce at the point of harvest;

b insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features;

c expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource is demonstrable;

d business combinations;

e obligations arising under a defined benefit superannuation plan;

f share-based payment arrangements;

g the accounting by an operator in a service concession arrangement; and

h financial assets and financial liabilities other than those identified in Section 5 of this Discussion Paper.

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

We agree.
We rarely see transactions of the nature listed above in smaller not-for-profit entities. We note that mergers / takeovers are not uncommon, and some guidance may be helpful in those circumstances.

Question 12

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

a first apply Tier 2 reporting requirements; and

b otherwise apply judgment to develop an accounting policy by reference to:

 i principles and requirements in Tier 3 reporting requirements dealing with similar or related issues; and

 ii the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework that don't conflict with Tier 3 reporting requirements.

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

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

We agree.

Question 13

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

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

We agree.

After a period of 2 – 3 years a post implementation review may be helpful in addressing issues that become apparent as a result of practical implementation.

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.

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

We agree with Part (a)

In relation to part (b) we think the current requirements of AASB1060 should be applied to enable removal of the SCE in certain circumstances but allow the statement to be included for entities with multiple reserve accounts that are often present in not-for-profits.

Question 15

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

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

We agree.

Although a prescribed set of information on the balance sheet may be appropriate we do not think this is possible or appropriate for the profit and loss which in our experience are often tailored to reflect the entities unique circumstances and user group.

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.

We think maintaining a consistent approach to what is current practice is appropriate. The majority of small entities required to lodge financial reports would already prepare this statement.

Question 17

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

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

b consolidated financial statements consolidating all its controlled entities.

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

We agree.

We think that controlled / parent entity relationships should be disclosed in the financial report (as detailed in paragraph 5.53 of the discussion paper) along with related party transactions in a stand alone set of financial reports.

We think that in the event that a user of consolidated information exists the disclosures mentioned above would enable them to access the publicly available information of group entities and combine them themselves. We think the cost of consolidation significantly outweighs the benefits for smaller organisations.

We think the current not-for-profit requirements in relation to determining control under AASB10 has fundamental issues. In particular, where the entities have different charitable purposes. Our submission in relation to ITC 51 will detail these issues.

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.

In our experience, most not-for-profit parent entities would hold investments at cost. We observe this is often low or nil value. We support this method.

We do not think either (b) or (c) is likely to be utilised very often and would argue that consolidation is a better option than fair value or equity method.

Question 19

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

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

We agree that changes in accounting policies where a disclosure of the prior period policy and current period policy occurs should not require retrospective restatement. This approach has been reasonably common under transitional provisions.

We question if it is appropriate for a material error in a prior period that is not in compliance with the accounting policy notes and accounting standards should just be left and corrected as an opening correction in the current period. We have concerns in stating that the accounts are true and fair in accordance with the accounting policies when the comparative information is known to be materially incorrect along with materially distorting the current period.

Question 20

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

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

We agree.

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 proposed approach.

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.

In our experience these scenarios are not common.

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?

No. We don't agree. We are aware of some smaller NFPs operating overseas that utilise forward contracts in relation to future cash outflows. We think that referring to AASB9 if they wish to hedge account would not be unreasonable.

Question 24

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

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

We agree.

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.

No. We do not agree.

We do not think that removing the choice of FVOCI is simplification or provides any benefit.

In our experience the concept of OCI is not well understood.

We are aware of many NFPs with investment holdings. These almost always contain managed funds and other investments which, given the restrictions within AASB9 of using FVOCI for equity instrument only, have recorded their investments at FVOCI. This includes general purpose reporters and special purpose reporters complying with recognition and measurement.

We think that segregating operating and investing activities within the statement of profit and loss allows entities to clearly explain and separate the impact for readers of the financial reports. We see no benefit in the use of OCI which is more difficult to track, reconcile and requires far more detailed analysis of investment reports to ensure investment returns of fair value movements are fully reconciled as returns are "above the line" while fair value movements are "below the line".

Should the AASB think that restricting the choice to only one of FVOCI and FVTPL then we strongly recommend FVTPL is adopted.

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.

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.

Question 28

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

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

We agree.

Question 29

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

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

We agree.

In our experience such investments are not common.

Question 30

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

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

We agree.

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.

We agree.

We think it is reasonable to account for biological assets under the inventory standard in particular those with limited lifecycle (e.g. expect to be realised within 12 months). We are aware of some circumstances where such assets are donated. We think these should be able to be recorded at cost rather than fair value similar to the proposal in question 30 above.

Question 32

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

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

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

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

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

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

We agree.

Question 33

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

a at cost; or

b at fair value through other comprehensive income.

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

We agree with the policy choice for the reason explained in the discussion paper. However, we refer to our previous comments regarding FVOCI and think that FVTPL is more appropriate.

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 agree.

We note that in relation to land and buildings held at fair value we are aware of a number of entities who have expressed the desire to not depreciate the building or have chosen not to as a special purpose reporter. They represent (and valuations would support) that the buildings are typically not declining in value and accordingly depreciation of them is subsequently reversed and therefore is considered to distort the profit and loss.

Question 35

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

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

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

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

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

We agree with (a)

We do not agree with (b). We think the determination of fair value of other donated goods (in particular property or items of plant equipment) is not onerous and is typically done for insurance purposes anyway. We have not heard concerns from our clients in relation to obtaining fair value of property plant and equipment as onerous.

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 think that this is option is rarely adopted by smaller entities and the costs and control environment required to substantiate is often prohibitive or not sufficient for assurance purposes. If the AASB aim to use Tier 3 to increase comparability and consistency between organisations within Tier 3 we think this would be an area where removal of the option is appropriate.

Question 37

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

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

We do not agree.

In other areas of the discussion paper, policy choice has been proposed. We are aware of a number of smaller entities that have borrowed specifically in relation to property redevelopment. We think that allowing such entities to choose to capitalise borrowing costs in accordance with existing standard should be available if the AASB is allowing policy choice in other areas (e.g. volunteer services) of Tier 3.

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.

In relation to (b) we think that ceasing to utilise the asset may be a worthwhile inclusion to provide further clarity in particular if intangible assets are subject to this impairment model.

Question 39

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

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

We agree.

Question 40

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

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

In our experience intangibles are not uncommon. They include software and related development, developments costs for courses and other accreditation for members and students etc. Goodwill exists in limited circumstances.

We think that simplification / clarification of treatment of implementation cost in relation to SaaS arrangements should be considered by the AASB. CRM and donor management systems implementation costs are very common even in smaller organisations.

Question 41

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

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

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

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

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

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

We strongly agree.

We have many organisations who followed recognition and measurement for all accounting standards prior to AASB16 who have not adopted this standard and remain special purpose reporters primarily because of AASB16.

AASB 16 calculations are complex and the feedback we have received for NFP organisations has been overwhelming in the view that AASB16 results in less meaningful and more confusion for the private sector not-for-profit users of financial statements.

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.

We have observed the difficulties in application of AASB15. We think the proposal above represents a suitable simplification. We think some clear examples of treatment when donations are provided in response to a specific campaign to illustrate the application would be very helpful.

Question 43

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

- a non-accumulation paid absences and termination benefits when the event occurs; and
- b all other employee benefits when an employee has rendered the services that entitles the employee to consideration.

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

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

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

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

We agree with the simplification being proposed. However, we think further simplification would be appropriate detailed as follows.

1 For non-vesting personnel leave this is typically not recorded as typically the entitlement increases year on year on a group basis. We think that the AASB should consider a default of not recording other than in certain circumstances where the above fact pattern does not occur.

2 The application of probabilities in our experience has little benefit given lower value balances are mainly impacted. A simple approach of recording all liabilities from year 1 or recording all liabilities after an employee is 50% of the way to vesting would simple and appropriate.

We note that probability volatility is higher in smaller organisations and it is less reliable to use history as a prediction of the future.

3 We think it would be helpful that the standard includes an explicit statement in relation to the inclusion of on-costs in calculating the liability.

Question 44

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

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

We agree.

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.

We agree.

Question 46

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

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

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

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

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

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

We agree.

Question 47

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

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

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

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

We agree that simple language disclosures of accounting policies based on existing requirements is appropriate. If borrowing costs are material, we see no reason that a simple accounting policy statement shouldn't be included.

Question 48

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

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

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

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

We agree.

Question 49

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

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

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

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

We agree with the proposed approach. We refer to early question regarding our concerns in relation to correction of errors.