Q15 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?

Further to IPA's response to Question 14, we prefer the approach of presenting information on the face of the financial statement that is consistent with AASB 1060 with supplementary material to assist the entities in presenting the information. IPA acknowledges that the 'supplementary approach' would require entities to make more judgement compared to the 'tailoring' or 'checklist' approach. However, IPA is of the view that the benefits of the 'supplementary approach' outweigh the disadvantages of the alternative approaches.

Q16 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.

Refer to our response for Question 14.

Q17. 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.

Determining whether a smaller entity 'controls' its subsidiaries for the purposes of preparing consolidated financial statements is likely to be a challenge. However, consolidated financial statements do provide useful information about the entity. Consequently, IPA supports the proposed approach that permits an entity to present the information as per (a) and (b) above as the most appropriate approach in comparison to the other approaches outlined in the Discussion Paper. Consequently, IPA would not support the partially consolidated financial statements, nor departing from the meaning of 'control' that is applied in Tier 1 and Tier 2, as to do so would decrease the comparability between entities and may be subject to abuse.

Q18. 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.

IPA is of the view that the to permit choices (as per (a) to (c) above) for a parent to measure its interest in subsidiaries would move away from the objective of simplifying reporting requirements for smaller entities and provide consistency and comparability of financial reports. IPA would prefer that the Board undertake research, if it has not already done so, as to the approaches that are commonly applied by smaller entities and analyse the costs and benefits of each approach. The research would inform the Board in its decision to either mandate an approach or permit choices only in certain circumstances.

Financial instruments Questions 21-27

The accounting standards for financial instruments are complex to understand and apply. Additionally, the requirements in the standards relate to complex financial instruments that are held by larger entities with only a small component of the standards being applicable to smaller entities. Financial instruments is therefore an area where significant simplification would be of benefit to smaller entities. Consequently, IPA supports the approach of developing simpler reporting requirements for 'basic financial instruments' and requiring certain 'more complex' financial instruments to be accounted for in accordance with AASB 9 (**Q21**). This approach would ensure that financial instruments are accounted for correctly and disclosed on a consistent basis.

IPA is of the view that where financial instruments that are not addressed in the Tier 3 Standard would not be common to a Tier 3 entity and if the entity holds such financial instruments, the accounting would be subject to the proposed hierarchy of accounting policy as per Q12. Accordingly, IPA's views on the remaining questions on financial instruments requirements for Tier 3 are:

- Not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable and measurable, including any embedded derivatives (**Q22**).
- Not to have access to hedge accounting (**Q23**).
- Develop a requirement for basic financial assets and financial liabilities to be initially measured at their fair value, with transaction costs and fees incurred by the entity to acquire a financial asset or assume a financial liability to be immediately expensed (**Q24**).
- Develop a requirement for basic financial assets and financial liabilities to be subsequently measured:
    - For basic financial assets that are held to generate both income and a capital return – measured at fair value through other comprehensive income.
    - For other basic financial assets and financial liabilities – measured 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 (**Q25**).

- 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. (**Q26**).
- 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. Additionally, the Tier 3 Standard should not address debt instrument exchanges or modification of the terms of a financial liability as part of its. A modification of the terms of a financial liability or an exchange of a debt instrument for a different debt instrument is treated as an extinguishment of the original financial liability (**Q27**).

Q36. 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.

IPA supports the recognition and disclosure of volunteer services, as they provide useful information on an entity's reliance on volunteer services for an entity's operation. However, measuring these services at fair value can be subjective and costly. Accordingly, IPA supports permitting an entity the option to recognise volunteer services, where the entity has the capacity to do so.

Q40. 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.

The common types of intangible assets that small entities are likely to have are software, goodwill and trademarks. As such, it would be useful if the Tier 3 Standard includes the accounting for the common types of intangible assets.

TABLE 1: Proposed areas in Discussion Paper that IPA support

The table below contains the proposed areas in the Discussion Paper that IPA supports.

	Questions	IPA's view
Q2	**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.**	IPA supports developing reporting service performance information as a separate project
Q8	**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.**	IPA supports not making changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards
Q11	**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:** (i) **biological assets, and agricultural produce at the point of harvest;** (ii) **insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features;** (iii) **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;** (iv) **business combinations;** (v) **obligations arising under a defined benefit superannuation plan;** (vi) **share-based payment arrangements;** (vii) **the accounting by an operator in a service concession arrangement; and** (viii) **financial assets and financial liabilities other than those identified in Section 5 of this Discussion Paper.**	IPA supports scoping out items (i) to (viii) from the Tier 3 Standard, as the items would not be common to smaller NFP private entities.
Q12	**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.**	IPA supports the hierarchy for entities to apply in developing accounting policies (as outlined in the question and paragraph 4.21 of the Discussion Paper).

	Questions	IPA's view
Q13	**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.**	IPA supports the approach to the maintenance and update of Tier 3 reporting requirements (as outlined in the question and paragraphs 4.24 to 4.27 of the Discussion Paper).
Q19	**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.**	IPA supports developing a modified retrospective approach to apply to changes in accounting policies and correction of accounting errors.
Q20	**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.**	IPA supports developing a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108.
Q21	**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.**	IPA supports the approach for simpler reporting requirements for 'basic financial instruments' and require certain 'more complex' financial instruments to be accounted for in accordance with AASB 9.
Q28	**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.**	IPA supports not departing from the principles of AASB 13.
Q29	**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.**	IPA supports the approach 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
Q30	**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*.**	IPA supports developing Tier 3 requirements that are consistent with AASB 102.

<table>
<tr><th></th><th>Questions</th><th>IPA's view</th></tr>
<tr><td>Q31</td><td>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.</td><td>Not applicable, as IPA supports biological assets being scoped out of the Tier 3 Standard (as per Q11).</td></tr>
<tr><td>Q32</td><td>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.</td><td>IPA supports developing the requirement for interests in associates and joint ventures as per Q32.</td></tr>
<tr><td>Q33</td><td>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.</td><td>IPA supports allowing 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 at cost of FVTOCI as per Q33.</td></tr>
<tr><td>Q34</td><td>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.</td><td>IPA supports requiring property, plant and equipment and investment property, other than borrowing costs, to be recognised and measured consistent with Tier 2 Standards.</td></tr>
<tr><td>Q35</td><td>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.</td><td>IPA supports the proposals as per Q35.</td></tr>
<tr><td>Q37</td><td>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.</td><td>IPA supports expensing borrowing costs in the period in which they are incurred.</td></tr>
</table>

	Questions	IPA's view
Q38	**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.**	IPA supports the proposals as per Q38.
Q39	**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.**	IPA supports the proposals as per Q39.
Q41	**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.**	IPA supports the proposals as per Q41.

	Questions	IPA's view
Q42	**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).**	IPA supports the proposals as per Q42.
Q43	**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.**	IPA supports the proposals as per Q43.
Q44	**Paragraph 5.200 discusses that the Board has not developed any other special requirements for accounting for termination benefits and defined benefit plans.**	IPA supports the proposals as per Q44, as smaller entities are unlikely to have termination benefits or defined benefit plans. Where this is not the case, additional requirements can be developed as part of the Post-Implementation Review of the Tier 3 Standard.

	Questions	IPA's view
Q45	**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.**	IPA supports the proposals as per Q45.
Q46	**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.**	IPA supports the proposals as per Q46.