Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M196
Topic:	**Tier 3 – staff analysis and application of the drafting approach to selected topics**	**Agenda Item:**	10.2.1
		Date:	6 June 2023
Contact(s):	Jim Paul jpaul@aasb.gov.au Maggie Man mman@aasb.gov.au Fridrich Housa fhousa@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High Low Drafting Exposure Draft

The objective of this paper

1 This paper provides the staff analysis and application of the drafting approach with the International Financial Reporting Standards for Small and Medium-Sized Entities Exposure Draft issued in September 2022 (IFRS for SMEs) as the starting point for drafting the three selected topics, showing the extent of the simplification based on consideration of the factors outlined in paragraph 14 of Agenda Paper 10.2.

2 The simplified drafting illustrates the omission of various paragraphs and words from the IFRS for SMEs ED, and adopts the simpler terminology and other wording of the New Zealand Tier 3 Standard in places. However, further simplification of the draft wording may be necessary to achieve the conciseness targeted by the Board. In this regard, staff welcome any suggestions from Board members regarding how to simplify the wording further while remaining consistent with the Board's proposals in its Tier 3 Discussion Paper (DP) (see Question 5 for Board members in Agenda Paper 10.2).

3 In relation to the drafting the three selected Tier 3 topics, International Non-Profit Accounting Guidance (INPAG) proposals have yet to be issued on the topics covered, and consideration will be given to UK FRS 102 and the UK Charities SORP once drafting is further progressed.

4 No decisions are required from the Board on this paper. This paper does not include any questions for Board members additional to those in Agenda Paper 10.2 (beneath Table 1 in paragraph 23 thereof).

Mark up of IFRS for SMEs ED and NZ Tier 3 Standard for three selected topics

Structure and Content of Tables below

Column 1 ("Tier 3 draft marked up for changes to IFRS for SMEs ED") sets out staff's initial draft of the requirements for each selected section of the Tier 3 ED. That draft wording shows by tracked changes how staff suggest modifying the IFRS for SMEs ED text to achieve the Board's simplification objectives for Tier 3 NFP entities.

- As noted in paragraph 11 of Agenda Paper 10.2, for Property, Plant and Equipment and Fair Value Measurement, the IFRS for SMEs ED was used as the starting point for drafting recognition and measurement requirements (before considering additional simplifications) in application of the Board's approach, because the Tier 3 recognition and measurement proposals for those topics are consistent with the Tier 2 requirements. Consistent with the Board's disclosure approach, AASB 1060 is the starting point for disclosures, before considering additional simplifications.
- As noted in paragraph 13 of Agenda Paper 10.2, the Tier 3 recognition proposal for borrowing costs differs from the Tier 2 requirement but is consistent with the IFRS for SMEs ED. Accordingly, the IFRS for SMEs ED is the starting point for drafting the recognition requirement, and a fit-for-purpose disclosure section is included (which aligns with the IFRS for SMEs ED), before considering additional simplification, in application of the Board's approach.

Column 2 shows the New Zealand Tier 3 Standard requirements corresponding to those in Column 1 to enable comparison with both the IFRS for SMEs ED and the staff-proposed wording developed by simplifying the IFRS for SMEs ED wording. There is very limited corresponding New Zealand text for the section on Fair Value Measurement, because the New Zealand Tier 3 Standard does not include guidance on fair value measurement; instead, it includes brief guidance on current value measurement.

Column 3 shows the staff's comments explaining aspects of the staff's suggested draft wording, particularly why the guidance in the IFRS for SMEs ED or the New Zealand Tier 3 Standard was included in, or excluded from, the initial draft wording in Column 1.

The Board's Tier 3 DP is referred to below simply as "the DP".

Legend for Column 3 ('Comments')

The comments in Column 3 are categorised by headings reflecting which of the factors in parts (a) to (d) of paragraph 14 of Agenda Paper 10.2 is applicable to the initial drafting suggestion for the paragraph in Column 1. Each descriptor refers to how the IFRS for SMEs ED text would be treated.

Legend	Description
(a) **Retained**	Retained the substance of the IFRS for SMEs ED text – addresses a common transaction and/or consistent with NZ Tier 3 Standard
(b) **Omitted**	Omitted the IFRS for SMEs ED wording – addresses an uncommon transaction and/or excluded from NZ Tier 3.
(c) **Added**	Added wording to the IFRS for SMEs ED to reflect NZ Tier 3 Standard, address NFP-specific issue not addressed by IFRS for SMEs ED and/or simplify application by reducing the need to apply judgement
(d) **Further simplification**	Further simplification by removing supplementary guidance, streamlining expression or simplifying language.
(e) **N/A**	There is no text for this row in either the IFRS for SMEs ED or the initial staff-proposed text for the Tier 3 ED.

Table 1: Property, Plant and Equipment

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
Scope of this section 17.1 This section applies to accounting for (a) property, plant and equipment; and ~~accounting for~~ (b) investment property whose fair value cannot be measured reliably ~~without undue cost or effort~~ on ~~an ongoing~~ a continuing basis~~.~~ (to which Section 16 *Investment Property* applies) ~~to investment property whose fair value can be measured reliably without undue cost or effort~~.	[*No corresponding wording*]	**Retained** Suggested edit to remove reference to "without undue cost or effort on an ongoing basis" from IFRS for SMEs ED paragraph 17.1, to align more closely with AASB 140, consistent with the Board's preliminary view in paragraph 5.144 of the DP, which does not support adding an "undue cost or effort" criterion. Other suggested deletion is for the same reason.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
17.2 Property, plant and equipment are tangible assets that <u>are</u>: (a) ~~are~~ held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) ~~are~~ expected to be used during more than one period.	A113. Property, plant and equipment (sometimes called fixed assets) are tangible items that are used in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one financial year.	**Retained** Reference to assets held "for rental to others" in IFRS for SMEs ED paragraph 17.2(a) is suggested to be retained, unlike in the NZ Tier 3 Standard, because AASB Research Report 19 indicates that, for multiple charity sub-types, a significant percentage report rental income.
~~17.3 Property, plant and equipment does not include:~~ ~~(a) biological assets related to agricultural activity other than bearer plants that, at initial recognition, can be measured separately from the produce on them without undue cost or effort (see Section 34 Specialised Activities). This section applies to such bearer plants but it does not apply to the produce on those bearer plants.~~ ~~(b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.~~	[*No corresponding wording*]	**Omitted** Based on the findings in Tables 12 and 13 of AASB Research Report 19, IFRS for SMEs ED paragraph 17.3 seems unlikely to affect many Tier 3 private sector NFPs; in addition, it is not in the NZ Tier 3 Standard.
~~Recognition~~ <u>Recording an item</u>		Staff suggest using "record" instead of "recognise" and "recording" instead of "recognition", consistent with widespread use of that wording in the NZ Tier 3 Standard, to use less technical expression.
17.4 An entity shall ~~recognise~~ <u>record</u> ~~the cost of~~ an item of property, plant and equipment as an asset ~~if, and only if:~~ <u>from when it is purchased by, or donated to, the entity.</u>	<u>When to record</u> When the property, plant and equipment is purchased or when it is donated (Table 3)	**Further simplification** It seems that the overwhelming majority of items of PP&E held to provide services to beneficiaries would be probable to provide at least some future benefits (also, asking Tier 3 private sector NFPs to assess probability would

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~(a) it is probable that future economic benefits associated with the item will flow to the entity; and~~ ~~(b) the cost of the item can be measured reliably.~~		seem difficult) and would be capable of reliable measurement (Tier 3 NFPs generally would not hold highly specialised, e.g. location-specific, assets or assets valued on the basis of highly uncertain future net cash inflows); also, recognition criteria are not included in the NZ Tier 3 Standard. Staff suggest aligning with the wording of the NZ Tier 3 Standard on when to record an item of property, plant and equipment.
~~17.5 Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this section when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.~~	[*No corresponding wording*]	**Omitted** Staff are not aware of requests from Tier 3 private sector NFPs for guidance on the items covered by IFRS for SMEs ED paragraph 17.5; in addition, such guidance is not included in the NZ Tier 3 Standard.
~~17.6 Parts of some items of property, plant and equipment may require replacement at regular intervals (for example, the roof of a building). An entity shall add to the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the entity. The carrying amount of those parts that are replaced is derecognised in accordance with paragraphs 17.27–17.30 regardless of whether the replaced parts had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, the entity may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Paragraph 17.16 provides that if the major components of an item of property, plant and~~	[*No corresponding wording*]	**Omitted** IFRS for SMEs ED paragraph 17.6 seems unduly complex for Tier 3 private sector NFPs and, in contrast with large public sector NFPs with infrastructure assets, seems unlikely to affect many assets of such entities; in addition, it is not included in the NZ Tier 3 Standard. Note also that the last sentence of IFRS for SMEs ED paragraph 17.6 repeats guidance set out in IFRS for SMEs ED paragraph 17.16, renumbered as paragraph 17.16A (see below).

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life.~~		
~~17.7 A condition of continuing to operate an item of property, plant and equipment (for example, a bus) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous major inspection (as distinct from physical parts) is derecognised. This is done regardless of whether the cost of the previous major inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.~~	[*No corresponding wording*]	**Omitted** Staff are not aware of requests from Tier 3 private sector NFPs for guidance on the items covered by IFRS for SMEs ED paragraph 17.7; in addition, such guidance is not included in the NZ Tier 3 Standard.
~~17.8 Land and buildings are separable assets and an entity shall account for them separately, even when they are acquired together.~~	[*No corresponding wording*]	**Omitted** IFRS for SMEs ED paragraph 17.8 overlaps the guidance in IFRS for SMEs ED paragraph 17.16A, which is where the separable nature of land and buildings affects the measurement of depreciation; and it is not included in the NZ Tier 3 Standard.
Initial ~~M~~measurement ~~at recognition~~		Staff suggest aligning with the NZ Tier 3 Standard's reference (in Table 3 thereof) to "Initial measurement". It seems clearer than "Measurement at recognition (or recording)", which literally does not exclude subsequent

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		measurement of an asset that continues to be recognised.[1]
17.9 Subject to paragraph 17.9A, ~~An entity shall measure~~ an item of property, plant and equipment ~~at initial recognition~~ shall initially be measured at its cost.	*Purchased*: Cost (cash price equivalent). [Table 3]	**Retained** In relation to the first line of IFRS for SMEs ED paragraph 17.9, staff consider there is no need to mention an "entity". In relation to the NZ Tier 3 Standard's reference to cost being the cash price equivalent, the corresponding IFRS for SMEs ED wording is in IFRS for SMEs ED paragraph 17.13; comments on that paragraph are provided below.
17.9A If an item of property, plant and equipment was donated to the entity, that entity may elect to initially measure the item either at: (a) its cost; or (b) its fair value as at the date of donation, measured in accordance with Section 13.	*Donated*: Current value (such as local council rateable value). [Table 3]	**Added** Consistent with the NZ Tier 3 Standard, guidance is suggested on how to initially measure donated assets. However, the wording of that suggested guidance differs from that in the NZ Tier 3 Standard, which refers to an alternative measure than fair value and therefore does not align with the Board's preliminary view in paragraph 5.146 of the DP. The DP (paragraph 5.146) refers to an option to initially measure "assets acquired for significantly less than fair value" by using the cost model or the fair value model. Staff suggest using the NZ Tier 3 terminology of

1 Note that the IFRS for SMEs ED's paragraph 17.9 uses "measure … at initial recognition" instead of "measure … at recognition", implicitly conceding that paragraph 15 of IAS 16 (read together with its heading) is insufficiently clear for SMEs.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		"donated assets" for brevity and clarity, with the longer phrase used in the Basis for Conclusions to explain the meaning of "donated assets". The DP (paragraph 5.146) also refers to using either the cost model or fair value model for initial measurement. In AASB 116, references to the cost model and fair value model are included in paragraphs 30 and 31 in the context of *subsequent* measurement. Staff suggest that it would seem unreasonable to require Tier 3 NFP entities to continue measuring an asset at fair value (or the class to which it belongs) simply as a result of using fair value for initial measurement of donated assets, when that is not required for Tier 1 or Tier 2 NFP entities. Therefore, 'model' is not used in draft paragraph 17.9A.
Elements of cost 17.10 The cost of an item of property, plant and equipment comprises all of the following: (a) its purchase price, ~~including legal and brokerage fees, import duties and non-refundable purchase taxes,~~ after deducting trade discounts and rebates. (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management~~. These can include the costs of site preparation, initial delivery and handling, installation and assembly and testing of functionality~~ (e.g. legal fees and installation costs).	[*No corresponding wording*]	**Further simplification** IFRS for SMEs ED paragraph 17.10 is edited to reflect the Board's preliminary views in paragraph 5.137 of the DP.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
(c) the initial estimate of ~~the costs of dismantling and removing the item and restoring the site on which it is located, the~~ any related restoration, rehabilitation or other "make good" obligation ~~for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period~~.		
17.11 The following costs are not costs of an item of property, plant and equipment and ~~an entity~~ shall ~~recognise them~~ be recorded as an expense when they are incurred: (a) costs of opening a new facility; (b) costs of introducing a new ~~product~~ good or service (including costs of advertising and promotional activities); (c) costs of ~~conducting business~~ operating in a new location or with a new class of ~~customer~~ beneficiaries (including costs of staff training); and (d) administration and other general overhead costs~~; and~~. ~~(e) borrowing costs (see Section 25 *Borrowing Costs*).~~	[*No corresponding wording*]	**Retained** Reference to the exclusion of borrowing costs from the cost of an item of PP&E in IFRS for SMEs ED paragraph 17.11(e) is suggested to be omitted because the drafting style being employed is to minimise cross-references within the ED; the treatment of borrowing costs would be addressed in a separate section on them.
~~17.12 The income and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognised in profit or loss if those operations are not necessary to bring the item to its intended location and operating condition.~~	[*No corresponding wording*]	**Omitted** IFRS for SMEs ED paragraph 17.12 seems unlikely to affect many Tier 3 private sector NFPs; and is not included in the NZ Tier 3 Standard.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~**Measurement of cost**~~ ~~17.13 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the present value of all future payments.~~	*Purchased*: Cost (cash price equivalent).	**Omitted** Staff suggest excluding the reference to 'cash price equivalent' in IFRS for SMEs ED paragraph 17.13 and the NZ Tier 3 Standard because (as explained below): (a) IFRS for SMEs ED paragraph 17.13 indicates the term needs explanation, and therefore seems to lack simplicity; and (b) the explanation provided in the second sentence of IFRS for SMEs ED paragraph 17.13 seems potentially inconsistent with the principles in full IFRS (Tier 2) recognition and measurement. In relation to (a) above, staff observe that, in contrast with the discounting requirement in IFRS for SMEs ED paragraph 17.13, the DP proposed (in paragraph 5.193(b)(ii)(2)) that an employee benefits provision is "… measured at the undiscounted future outflow expected to be required to settle the present obligation …" (for the reasons stated in DP paragraph 5.194). In relation to (b) above, staff are concerned that the second sentence of IFRS for SMEs ED paragraph 17.13 focuses on how to measure the cost of an asset where settlement is deferred, whereas the corresponding guidance in full IFRS (set out in IAS 16 paragraph 23) focuses on separate recognition of interest

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		where settlement is deferred. That sentence in IAS 16 paragraph 23 is: "If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with IAS 23." The IASB's Bases for Conclusions on the IFRS for SMEs Standard and its IFRS for SMEs ED do not include any clarification of the reasons for using different wording from that in IAS 16. Staff consider that, if reference were to be made to deferred settlement in relation to the measurement of an asset's cost, the wording in IAS 16 quoted above would be preferable to that in IFRS for SMEs ED paragraph 17.13 (but without its reference to capitalising interest, and referring to "interest expense" rather than just "interest"). Staff consider that excluding any mention of an asset's cash price equivalent in relation to the measurement of its cost would be a proportionate response to the concerns noted above, and would not cross the line between a drafting simplification and a change of a decision by the Board reflected in the DP).
~~**Exchanges of assets**~~ ~~17.14 An item of property, plant or equipment may be acquired in exchange for a non-monetary asset, or assets, or a combination of~~	[*No corresponding wording*]	**Omitted** Exchanges of non-monetary assets seem unlikely to affect many Tier 3 private sector

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~monetary and non-monetary assets. An entity shall measure the cost of the acquired asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the carrying amount of the asset given up.~~		NFPs; in addition, guidance on them is not included in the NZ Tier 3 Standard. Furthermore, the "commercial substance" test seems likely to be difficult for Tier 3 private sector NFPs to apply, given their non-commercial orientation. There is also no Aus paragraph on this that could assist.[2] Staff note that INPAG is likely to issue proposed guidance on exchanges of non-monetary assets (in its second ED, targeted for issue in Q2 2023); however, INPAG guidance is not targeted to Tier 3-sized NFP entities. Staff note that if this paragraph were included in the Tier 3 ED, it would be necessary to address whether there is an inconsistency between permitting donated assets to be measured at a minimal or nil value (per the preliminary view in paragraph 5.148 of the DP) and requiring initial measurement of PP&E at a higher amount if the entity gives some (possibly modest) non-monetary consideration in exchange.
Measurement after initial ~~recognition~~ <u>recording</u> 17.15 An entity shall choose either the cost model in paragraph 17.15A or the revaluation model in paragraph 17.15B as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. An entity shall apply the cost model to investment property whose fair value cannot be measured reliably	A129. As specified in Table 3, purchased property, plant and equipment is generally measured on a cost basis. However, an entity may elect to revalue a class of property, plant and	**Retained** Only the first sentence of IFRS for SMEs ED paragraph 17.15 has corresponding wording in the NZ Tier 3 Standard.

2 see AASB Staff Paper: *Modifications to Australian Accounting Standards for Not-for-Profit Entities* (April 2020).

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~without undue cost or effort~~ on a continuing basis. An entity shall ~~recognise~~ record the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred.	equipment. An entity is more likely to make such an election when the value of an asset is expected to increase over that asset's life.	Staff do not suggest including a sentence like the third sentence of NZ paragraph A129 in the AASB Tier 3 ED, because it is more an observation than a policy; in addition, the sentence does not address whether the election provides useful information to users of financial statements of Tier 3 private sector NFPs (subject to cost/benefit considerations).
[*No corresponding wording*]	A130. When electing to apply a revaluation approach, the subsequent measurement approach shall be applied to all assets within that class of property, plant and equipment.	**N/A** Staff consider that NZ Tier 3 paragraph A130 is covered by the first sentence of IFRS for SMEs ED paragraph 17.15, and therefore that it is unnecessary to include that NZ paragraph in the Tier 3 ED.

Note to Board members

An example of the need to exercise judgement to distinguish drafting amendments and changes of the Board's decisions is provided below in the suggested additional paragraph 17.15.1 regarding the need to continue to revalue a class of property, plant and equipment once the revaluation model is adopted for subsequent measurement. Staff consider that this requirement is consistent with the Tier 2 criteria for changing back an accounting policy voluntarily adopted. However, because that implication is not stated explicitly in Tier 2 recognition and measurement requirements, the potential for different interpretations exists, and therefore the draft paragraph 17.15.1 might be regarded as a departure from the Tier 2 requirements.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
17.15.1 Electing to revalue a class of property, plant and equipment after initially recording an item is an accounting policy choice. Therefore, once a class of property, plant and equipment is revalued it shall continue to be measured on the revaluation	A135. Electing to revalue a class of property, plant and equipment after initial recognition of the purchased asset, is an accounting policy choice.	**Added** It seems likely to be less burdensome to stipulate the proposed addition to the IFRS for

<table>
<tr><th>Tier 3 draft marked up for changes to IFRS for SMEs ED</th><th>NZ Tier 3 Standard</th><th>Comments on why source is included in/excluded from draft wording in left column</th></tr>
<tr><td><u>model thereafter (rather than reverting to being measured under the cost model).</u></td><td>Therefore, once a class of property, plant and equipment is revalued, the entity will need to continue measuring that class of assets at revalued amounts thereafter (rather than reverting to asset cost).</td><td>SMEs ED in paragraph 17.15.1 than to leave it to Tier 3 NFP entities to assess whether reverting to the cost model would result in reporting information that (in terms of the criteria for a voluntary change in accounting policy set out in paragraph 10.8(b) of the IFRS for SMEs) “results in … reliable and more relevant information”. Therefore, staff suggest aligning with the NZ Tier 3 Standard paragraph A135, which complements a highly similar requirement to that in paragraph 10.8(b) of the IFRS for SMEs (NZ paragraph A215(b) refers to an accounting policy that “results in more faithfully representative or more relevant information”).</td></tr>
<tr><td><u>17.15.2 For the purposes of paragraph 17.15, a class of property, plant and equipment is a grouping of assets of a similar nature or function. Possible classes of property, plant and equipment are:</u>
<u>(a) Land;</u>
<u>(b) Buildings;</u>
<u>(c) Motor vehicles;</u>
<u>(d) Furniture and fixtures;</u>
<u>(e) Office equipment;</u>
<u>(f) Computers (including software); and</u>
<u>(g) Machinery.</u></td><td>A131. A class of property, plant and equipment is a grouping of assets of a similar nature or function. Possible types of property, plant and equipment are:
(a) Land;
(b) Buildings;
(c) Motor vehicles;
(d) Furniture and fixtures;
(e) Office equipment;
(f) Computers (including software); and
(g) Machinery.</td><td>Added
Staff suggest adding to the IFRS for SMEs ED wording guidance aligned closely with paragraph A131 of the NZ Tier 3 Standard. Staff consider such guidance would be highly useful for Tier 3 NFP entities without adding much text.</td></tr>
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Tier 3 draft marked up for changes to IFRS for SMEs ED		NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
	Cost model		
17.15A	An entity shall measure an item of property, plant and equipment after initial ~~recognition~~ recording at cost less any accumulated depreciation and any accumulated impairment losses (which are recorded and measured in accordance with Section 27 *Impairment of Assets*).	[*No corresponding wording*]	**Retained** Adding words in parentheses here and in paragraph 17.15B is suggested to avoid the need for a separate sub-section on Impairment in paragraphs 17.24 – 17.26.

Note to Board members

Staff retained the IFRS for SMEs ED sub-section on "Revaluation model" (see paragraphs 17.15B – 17.15D below) as a placeholder, pending the future Board decision noted in footnote 12 on page 60 of the DP (i.e. whether, instead, to simply cross-refer to the revaluation guidance in AASB 116 & AASB 140).

	Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
	Revaluation model		
17.15B	An entity shall measure an item of property, plant and equipment whose fair value can be measured reliably at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses (which are recorded and measured in accordance with Section 27). Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Section 12 *Fair Value Measurement* provides guidance on determining fair value. ~~If an item of property, plant and equipment is revalued, the entire~~	A132. When an entity elects to revalue a class of property, plant and equipment, it shall measure an item of property, plant and equipment at its current value less any subsequent accumulated depreciation and subsequent accumulated impairment losses. A133. When a revaluation approach is applied, the current value shall be based on a valuation by a suitably qualified independent valuer or, for	**Retained** Staff suggest omitting the last sentence of IFRS for SMEs ED paragraph 17.15B because it overlaps the first sentence of paragraph 17.15. NZ Tier 3 paragraph A133 on the determination of 'current value' does not have a counterpart in IFRS for SMEs ED Section 17, because the IFRS for SMEs ED includes guidance on current value in a separate section

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~class of property, plant and equipment to which that asset belongs shall be revalued.~~	land and buildings, a local council rateable value may be used. A136. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date. A137. Where an entity elects to revalue its land and buildings based on a local council rateable value, it is only required to revalue its land and buildings when that value is updated. The entity shall also disclose, in the notes to the performance report, that the local council rateable value may not reflect current market value.	on fair value measurement (see draft Section 12)[3].
[*No corresponding wording*]	A134. When an entity elects to revalue a class of property, plant and equipment, it is still required to recognise depreciation on the individual assets. In such cases, depreciation shall be calculated based on the revalued amount from the date of the asset's most recent revaluation.	**N/A** Staff think it seems unnecessary to add NZ paragraph A116.2 to the IFRS for SMEs ED wording, in light of the reference to "subsequent accumulated depreciation" in paragraph 17.15B of that ED.

3 The section numbering used at this early stage of drafting is the same as in the IFRS for SMEs ED. However, that numbering is likely to change as the Tier 3 ED drafting progresses, because of differences between the scope of the Board's ED and that of the IFRS for SMEs ED.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
Reliable measure of fair value		Staff suggest relocating this sub-section on reliable measurement from Section 12 of the IFRS for SMEs ED (which incorporates IFRS 13 requirements) to this section because the reliable measurement criterion for fair value measurement is stipulated in paragraph 31 of AASB 116. In addition, a similar paragraph to paragraph 12.19 of the IFRS for SMEs ED is set out in paragraph 26 of AASB 116.
~~12.18 A valuation technique would be expected to arrive at a reliable measure of the fair value if:~~ ~~(a) it reasonably reflects how the market could be expected to price the asset; and~~ ~~(b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.~~	[*No corresponding wording*]	**Omitted** Staff consider that the criteria for reliable measurement of an asset's fair value in IFRS for SMEs ED paragraph 12.18 are likely to be too abstract for Tier 3 private sector NFPs. This paragraph is, essentially, a statement of objectives, and its achievement is based on the following more specific criteria in paragraphs 12.19 and 12.20.
12.19 The fair value of ~~investments in assets~~ an asset ~~that do not have a quoted market price in an active market~~ is reliably measurable if: (a) a market price of an identical or similar asset is observable close to the measurement date; or (b) either: (i) the variability in the range of reasonable fair value measures is ~~not~~ insignificant for that asset; or	[*No corresponding wording*]	**Retained** In relation to the stem of IFRS for SMEs paragraph 12.19, staff suggest that the criterion of an asset having a quoted market price in an active market should (with some modification: see next comment paragraph below) be addressed explicitly in newly created sub-paragraph (a). This is because staff disagree with the stem of IFRS for SMEs ED paragraph 12.19 only implying (rather than stating explicitly) that the fair value of an asset

	Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
	(~~b~~ii) the probabilities of the various measures within the range can be reasonably assessed and used in estimating fair value.		with a quoted market price in an active market would be reliably measurable. In addition, staff suggest that this criterion should be modified in line with the suggested omission of the fair value hierarchy (which would avoid needing to distinguish Level 1 and Level 2 measurements).
12.20	For assets for which a market price of an identical or similar asset is not observable, ~~T~~there are many situations in which the variability in the range of reasonable fair value measures ~~of assets that do not have a quoted market price~~ is likely ~~not~~ to be insignificant. Normally it is possible to estimate the fair value of an asset that an entity has acquired from an outside party. However, if the range of reasonable fair value measures is significant and the probabilities of the various measures cannot be reasonably assessed, the entity is precluded from measuring the asset at fair value.	[*No corresponding wording*]	**Retained** Staff consider that, if the text of IFRS for SMEs ED paragraph 12.19 (see above) is included in the Tier 3 ED, it would be helpful and proportionate to also include paragraph 12.20. The absence of corresponding NZ wording reflects that this paragraph has been relocated from the IFRS for SMEs ED section on Fair Value Measurement, and the NZ Tier 3 Standard does not include requirements for fair value measurement.

Note to Board members

The words in parentheses in first sentence of IFRS for SMEs ED paragraph 12.21 (below) are a placeholder, pending staff assessment of the undue cost or effort exemption in Section 11 (on Financial Instruments) of the IFRS for SMEs ED as drafting progresses.

	Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
12.21	If a reliable measure of fair value is no longer available for an asset measured at fair value (or is not available without undue cost or effort when such an exemption is provided (for example, see	[*No corresponding wording*]	**Retained**

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
paragraphs 11.14(c) and 11.56(b)), its carrying amount at the last date the asset was reliably measurable becomes its new cost. An entity shall measure the asset at this cost amount less ~~impairment~~ any accumulated depreciation and any accumulated impairment losses until a reliable measure of fair value becomes available (or becomes available without undue cost or effort when such an exemption is provided).		Regarding the second sentence of IFRS for SMEs ED paragraph 12.21, marked-up edit is suggested for consistency with IFRS for SMEs ED paragraph 17.15A.
Recording revaluation increases and decreases		Suggested sub-heading was added as a result of the suggested transfer of the sub-section on reliable measurement of fair value from IFRS for SMEs ED Section 12 to this section.
17.15C If ~~an asset's~~ the carrying amount of a class of assets is increased as a result of a revaluation, the net revaluation increase shall be ~~recognised~~ recorded in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the net revaluation increase shall be ~~recognised~~ recorded in profit or loss to the extent that it reverses a net revaluation decrease of the same class of assets previously ~~recognised~~ recorded in profit or loss.	A139. If an entity elects to revalue a class of assets it shall: (a) Present a separate property, plant and equipment revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A145); [and] (b) Recognise revaluation gains for the class as "Gains/(losses) on the revaluation of property, plant and equipment" directly in accumulated funds through the property, plant and equipment revaluation reserve, unless they reverse a	**Retained** Regarding suggested edits to paragraphs 17.15C & 17.15D: adopting a whole-of-class approach to revaluation increases and decreases would be consistent with NFP modifications in AASB 116 (closely following the wording in paragraphs Aus39.1 & Aus40.1 thereof) and the principles in NZ Tier 3 Standard paragraphs A118.1(b) & (c). In contrast with the treatment of revaluation increases in IFRS for SMEs ED paragraph 17.15C, NZ Tier 3 paragraph A118.1(a) requires the entry for revaluation increases to be made directly in equity without passing through other comprehensive income (OCI) (to avoid introducing the concept of OCI to the NZ Tier 3 Standard). However, the NZASB position differs from the AASB's preliminary view on OCI

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
	revaluation loss recognised as an expense in a prior period;	expressed in paragraph 5.13 of the DP. Therefore, staff suggest conforming to the wording in IFRS for SMEs ED paragraph 17.15C for the use of OCI to recognise net revaluation increases.
[*No corresponding wording*]	A140. For the purpose of applying paragraph A139 revaluation gains and losses relating to individual assets of the revalued class of property, plant and equipment shall be offset against other assets of that class but shall not be offset against assets of different classes.	**N/A** NZ Tier 3 paragraph A140 seems essentially to repeat IFRS for SMEs ED paragraph 17.15C (including suggested edits). Therefore, staff suggest not to include it in the AASB Tier 3 ED.
17.15D If ~~an asset's~~ the carrying amount of a class of assets is decreased as a result of a revaluation, the net revaluation decrease shall be ~~recognised~~ recorded in profit or loss. However, the net revaluation decrease shall be ~~recognised~~ recorded in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that same class of assets. The net revaluation decrease ~~recognised~~ recorded in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.	A139. If an entity elects to revalue a class of assets it shall: … (c) Recognise revaluation losses for the class as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains they are recognised as “Gains/(losses) on the revaluation of property, plant and equipment” directly in accumulated funds through the property, plant and	**Retained** Regarding the reference in NZ Tier 3 paragraph A139 to particular revaluation losses being recognised directly in accumulated funds through a revaluation reserve, see comment above adjacent to IFRS for SMEs ED paragraph 17.15C.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
	equipment revaluation reserve; …	
Depreciation 17.16 An entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life. The resulting depreciation charge for each period shall be recorded in profit or loss unless another section of this Standard requires the cost to be recorded as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of inventories (see Section 13 *Inventories*). Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.	Depreciation expense: Record the expense at year end based on the established depreciation rate. (*Table 2*) Change measurement at balance date: *Record depreciation*: spread the cost of the asset over the expected useful life of the asset, using a structured method such as a straight line or diminishing value. (*Table 3*)	**Retained** This paragraph includes text transferred from IFRS for SMEs ED paragraphs 17.18, 17.17 and 17.20 (in that order) to state the general principles before addressing components with dissimilar useful lives.
17.16A If the major components of an item of property, plant and equipment have significantly different useful lives or patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets shall be depreciated over their useful lives as a single asset. ~~With some exceptions, such as quarries and sites used for landfill, l~~Land has an unlimited useful life and therefore is not depreciated.	Note that land is not depreciated. (*Table 3*)	**Retained** Deletion of text from third sentence of IFRS for SMEs ED paragraph 17.16A (as renumbered) is suggested because: (a) it seems unlikely that many Tier 3 private sector NFPs would operate quarries or sites used for landfill; and (b) that text is not included in the NZ Tier 3 Standard.
~~17.17 The depreciation charge for each period shall be recognised in profit or loss unless another section of this Standard requires the cost to be recognised as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of inventories (see Section 13 *Inventories*).~~	[*No corresponding wording*]	**Retained** Staff suggest moving the text of IFRS for SMEs ED paragraph 17.17 up into paragraph 17.16, as renumbered (hence the classification of this paragraph as 'retained').

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
Depreciable amount and depreciation period		Staff suggest making this heading subordinate to that for "Depreciation" (unlike in the IFRS for SMEs ED).
17.21 An entity shall consider all the following factors in determining the useful life of an asset: (a) the expected usage of the asset~~. Usage is~~, assessed by reference to the asset's expected capacity or physical output. (b) expected physical wear and tear~~, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle~~. (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the ~~market~~ external demand for the ~~product or service~~ output (goods or services) of the asset. ~~Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset.~~ (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.	[*No corresponding wording*]	**Further simplification** Staff suggest moving the text of IFRS for SMEs ED paragraph 17.21 up here to commence this sub-section, for a more logical order (e.g. to precede guidance on reviewing/revising an asset's useful life). Paragraph 17.19 (below) proposes limiting the potential trigger events requiring reassessment of an asset's residual value or useful life. Staff do not consider those limits should be placed on the factors for determining an initial estimate of an asset's useful life (in paragraph 17.21). This is because it seems likely that the factors in paragraph 17.21 would routinely be considered by a Tier 3 NFP entity when it acquires a depreciable asset. For example, on making an initial estimate of an asset's useful life, it is reasonable to expect the entity to consider legal limits on the use of the asset, even if it is considered non-proportionate for the entity to be required to continually monitor possible subsequent events that might change legal limits on the asset's use. Staff suggest omitting the elaboration of 'physical wear and tear' from IFRS for SMEs ED paragraph 17.21(b) because it seems

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		inessential to an understanding of the principle. Staff suggest omitting the second sentence of IFRS for SMEs paragraph 17.21(c) because it seems generally irrelevant to Tier 3 private sector NFPs.
~~17.18 An entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life.~~	[*See wording adjacent to IFRS for SMEs ED paragraphs 17.16 and 17.16A for corresponding NZ wording*]	**Retained** Staff suggest moving the text of IFRS for SMEs ED paragraph 17.18 up into paragraph 17.16, as renumbered (hence the classification of this paragraph as 'retained').

Note to Board members

An example of the need to exercise judgement to distinguish drafting amendments and changes of the Board's decisions is provided below in suggested modifications to IFRS for SMEs ED paragraph 17.19 (marked up below) to restrict the potential trigger events requiring reassessment of the residual value or useful life of an asset. The suggested trigger events parallel the Board's analogous proposal in the DP that (as a departure from strict conformity to the Tier 2 requirements) potential impairment of an asset needs to be considered only upon the occurrence of specified trigger events. However, because that Board proposal regarding potential impairment addresses an analogous issue to that addressed by paragraph 17.19, the suggested marked-up amendments to IFRS for SMEs ED paragraph 17.19 might be regarded as a change of the Board's DP proposals.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
17.19 ~~Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement and changes in market prices~~ <u>If an asset has been damaged physically or its capacity to provide services has been affected adversely as a result of either:</u>	[*No corresponding wording*]	**Further simplification** Staff suggest restricting the potential trigger events requiring reassessment of the residual value or useful life of an asset in the guidance based on IFRS for SMEs ED paragraph 17.19, to

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
(a) the entity having changed its strategy; or (b) being affected by a reduction in external demand for its services, this may indicate that the residual value or useful life of an asset has changed since the most recent annual reporting date. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The entity shall account for the change in residual value, depreciation method or useful life as a change in an accounting estimate in accordance with Section 10 *Accounting Policies, Estimates and Errors*.		parallel the Board's analogous proposal in DP paragraph 5.160(b) that consideration of potential impairment needs to be considered only upon the occurrence of specified trigger events. Staff suggest this restriction because, as with potential impairment of non-financial assets, it might be more costly than the resulting benefits to users of financial statements if a Tier 3 NFP entity needs to consider all the potential factors mentioned in the first sentence of IFRS for SMEs ED paragraph 17.19.
17.20 ~~Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.~~ Depreciation of an asset ceases when the asset ~~is derecognised~~ ceases to be recorded. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.	[*No corresponding wording*]	**Retained** Staff suggest moving the first sentence of IFRS for SMEs ED paragraph 17.20 up into paragraph 17.16 (as renumbered).
Depreciation method		Staff suggest making this heading subordinate to that for "Depreciation" (unlike in the IFRS for SMEs ED).
17.22 An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method. ~~A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate.~~	[*No corresponding wording*]	**Further simplification** Staff suggest omitting the third sentence of IFRS for SMEs ED paragraph 17.22 because it seems generally irrelevant to Tier 3 private sector NFPs.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
17.23 If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an entity expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The entity shall account for the change as a change in an accounting estimate in accordance with Section 10.	[*No corresponding wording*]	**Retained** Staff consider that the requirement in IFRS for SMEs ED paragraph 17.23 should be straight-forward to understand. In addition, it does not compel an entity to search for indications of changes in the pattern of consumption of an asset's future economic benefits. Therefore, staff consider that this requirement is generally proportionate. However, staff note that the draft Tier 3 ED wording for selected topics in Agenda Paper 10.2 (based on the analysis in this paper) is an initial draft, on which suggestions for greater brevity are invited, and note that this paragraph would be a more likely candidate for omission if further simplification were thought appropriate.
~~**Impairment**~~ ~~**Recognition and measurement of impairment**~~ ~~17.24 At each reporting date, an entity shall apply Section 27 *Impairment of Assets* to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises or reverses an impairment loss.~~	<u>When to record impairment</u> *Asset to be sold*: If the market price for an equivalent asset falls below the carrying amount of the asset. *Asset to be used*: If the value to the entity in using the asset falls below the carrying amount of the asset (for example, the entity no longer provides the service supported by the asset). [Table 3]	**Omitted** Staff suggest including signposts to the section on Impairment in paragraphs 17.15A and 17.15B instead, to streamline this section on PP&E.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~Compensation for impairment~~ ~~17.25 An entity shall include in profit or loss compensation from third parties for items of property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable.~~	[*No corresponding wording*]	**Omitted** Staff suggest omitting this sub-section because compensation for impairment seems unlikely to affect many Tier 3 private sector NFPs; in addition, guidance on this issue is not included in the NZ Tier 3 Standard.
~~Property, plant and equipment held for sale~~ ~~17.26 Paragraph 27.9(f) states that a plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset's recoverable amount for the purpose of determining whether the asset is impaired.~~	[*No corresponding wording*]	**Omitted** Staff suggest omitting IFRS for SMEs ED paragraph 17.26 because it repeats guidance from another section.
~~Derecognition~~ <ins>Ceasing recording an item</ins> 17.27 An entity shall ~~derecognise~~ <ins>cease recording</ins> an item of property, plant and equipment <ins>when</ins>: (a) <ins>it is sold</ins> ~~on disposal~~ <ins>or otherwise disposed of</ins>; or (b) ~~when~~ no future economic benefits are expected from its use or disposal.	<ins>When to no longer record</ins> When sold, otherwise disposed of or written off. [Table 3]	**Retained** Staff suggest replacing jargonistic 'derecognise/derecognition' with 'cease recording' for plainer English. Edits to IFRS for SMEs ED paragraph 17.27(a) are suggested to align more closely with wording in the NZ Tier 3 Standard. However, staff do not suggest including the NZ Tier 3 wording that an asset is no longer recorded "when (it is) … written off", because that wording seems circular (that is, being written off is one form of derecognition (ie, an <ins>outcome</ins> of applying criteria), and it would seem to be circular if it were also to be a criterion for derecognition). Instead, staff prefer the wording in IFRS for SMEs ED

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		paragraph 17.27(b) that "no future economic benefits are expected from its use or disposal".

Note to Board members

An example of the need to exercise judgement to distinguish drafting amendments and changes of the Board's decisions is provided below in suggested additional paragraph 17.27A, which provides a practical expedient limiting the range of factors that might need to be considered in identifying whether an asset is expected to generate no future economic benefits from its use or disposal. Staff consider that this draft practical expedient is consistent with the Board's analogous DP proposal that (as a departure from strict conformity to the Tier 2 requirements) potential impairment of an asset needs to be considered only upon the occurrence of specified trigger events. However, because that Board proposal regarding potential impairment addresses an analogous issue to that addressed by paragraph 17.27(b) above, the suggested wording in draft paragraph 17.27A might be regarded as a change of the Board's proposals.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
17.27A For the purposes of paragraph 17.27(b), an entity needs to consider the possibility that no future economic benefits are expected from the use or disposal of an asset only when: (a) the asset has been damaged physically; or (b) the entity has changed its strategy or been affected by a reduction in external demand for its services and in either case the asset's capacity to provide services might have been affected adversely as a result.	[*No corresponding wording*]	**Further simplification** Practical expedient suggested to be added to the guidance based on IFRS for SMEs ED paragraph 17.27, to parallel the Board's analogous proposal in DP paragraph 5.160(b) that consideration of potential impairment needs to be considered only upon the occurrence of specified trigger events. Staff suggest this practical expedient because, as with potential impairment of non-financial assets, it might be costly to consider whether a loss of future economic benefits (in this case, a total loss) might have occurred.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
17.28 An entity shall ~~recognise~~ record the gain or loss upon ~~the derecognition of~~ ceasing to record an item of property, plant and equipment immediately in profit or loss ~~when the item is derecognised~~ (unless Section 20 *Leases* requires otherwise on a sale and leaseback). The entity shall not classify such gains as revenue.	A139. If an entity elects to revalue a class of assets it shall: … (d) Recognise any gains on disposal over the carrying amount within other revenue in the statement of financial performance as "Gains/(losses) on disposal of property, plant and equipment".	**Retained** As a placeholder, the parenthetical comment regarding a sale and leaseback in the first sentence of IFRS for SMEs ED paragraph 17.28 has been retained pending a Board decision, in light of Research Report 19 and feedback on the DP, whether to develop specific requirements for sale and leaseback arrangements (paragraph 5.176 of the DP states that the Board had yet to determine its view on this issue).
[*No corresponding wording*]	A141. Some or all of the revaluation gains included in accumulated funds in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognised. This may involve transferring some or all of the gains when the assets of the revalued class of property, plant and equipment to which they relate are retired or disposed of. Transfers from the revaluation reserve to accumulated surpluses or deficits are not made through the statement of financial performance.	**N/A** Staff are not aware that guidance on this possibility discussed in NZ Tier 3 paragraph A141 is sought by Australian Tier 3 private sector NFPs. In addition, the IASB decided to exclude the corresponding wording in IAS 16 from the IFRS for SMEs ED. Therefore, staff suggest not to include a corresponding paragraph in the Tier 3 ED.
17.29 ~~The date of disposal of an item is the date the recipient obtains control of that item in accordance with the requirements in paragraphs 23.83–23.87 for determining when a promise is satisfied.~~ Section 20 applies to disposal by a sale and leaseback.	[*No corresponding wording*]	**Omitted** Deletion of the first sentence of IFRS for SMEs ED paragraph 17.29 is suggested because the wording refers to the revenue recognition

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		model for transfers of assets to customers, which seems unduly complex for Tier 3 private sector NFPs. Regarding the second sentence of IFRS for SMEs ED paragraph 17.29, see the comment above on paragraph 17.28.
17.30 An entity shall determine the gain or loss arising from ~~the derecognition of~~ ceasing to record an item of property, plant and equipment as the difference between the net ~~disposal~~ sale proceeds, if any, and the carrying amount of the item.	[*No corresponding wording*]	**Retained** Staff consider the requirement in IFRS for SMEs ED paragraph 17.30 is important, simple and concise. Therefore, staff consider that including it in the Tier 3 ED would be proportionate.
Disclosures 17.31 An entity shall disclose the following for each class of property, plant and equipment determined in accordance with paragraph 4.11(a) and separately for investment property carried at cost less accumulated depreciation and impairment: (a) a description of the asset class (for example, equipment or furniture); (~~a~~b) the measurement bases used ~~for determining the gross carrying amount~~; ~~(b) the depreciation methods used;~~ ~~(c) the useful lives or the depreciation rates used;~~ (~~d~~c) the ~~gross~~ carrying amount ~~and the accumulated depreciation (aggregated with accumulated impairment~~	A223. For each class of property, plant and equipment recorded in the statement of financial position, the entity shall disclose in the notes to the performance report: (a) A description of the asset class (for example, equipment, furniture); (b) The carrying amount of the asset class at the beginning of the financial year; (c) The depreciation and/or impairment expense	**Further simplification** The suggested modifications to IFRS for SMEs ED paragraph 17.31 involve various omissions from those illustrated in 'paragraph 1' on pages 91 – 92 of the DP; these omissions are mainly to achieve further simplification by reference to the NZ Tier 3 Standard (see specific comments below). Staff also suggest adding the disclosure in paragraph 17.31(a), which is included in NZ Tier 3 paragraph A223(a). Regarding IFRS for SMEs ED paragraph 17.31(b) [as renumbered], the NZ Tier 3 Standard does not require disclosure of gross amounts of assets separately from their related

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~losses)~~ at the beginning and end of the reporting period; ~~and~~ ~~(e) a reconciliation of the carrying amount at the beginning and end of the reporting period, showing separately:~~ ~~(i) additions;~~ ~~(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with AASB 5 and other disposals;~~ ~~(iii) acquisitions through business combinations;~~ (~~iv~~d) increases or decreases resulting from revaluations under paragraphs 17.15B – 17.15D and from impairment losses ~~recognised~~ recorded or reversed in other comprehensive income in accordance with Section 27; ~~(v) transfers to and from investment property carried at fair value through profit or loss (see paragraph 16.8);~~ (~~vi~~e) impairment losses ~~recognised~~ recorded or reversed in profit or loss in accordance with Section 27; and (~~vii~~f) depreciation.~~; and~~ ~~(viii) other changes.~~ ~~This reconciliation need not be presented for prior periods.~~	recorded for the asset class for the financial year; (d) The amount of any revaluation gain/loss recognised in the revaluation reserve for the financial year (where the entity has elected to measure such items at revalued amounts); and (e) The carrying amount of the asset class at the end of the financial year.	accumulated depreciation and related accumulated impairment losses. Staff think simply requiring disclosure of carrying amounts would be likely to be more proportionate for Tier 3 NFP entities. Accordingly, staff suggest omitting reference to 'gross carrying amount' from this disclosure. Staff suggest omitting IFRS for SMEs ED paragraphs 17.31(b) and (c) [as originally numbered], consistent with the NZ Tier 3 Standard, notwithstanding those disclosures are required by AASB 1060. This is because those disclosures do not seem proportionate for Tier 3 NFP entities (in particular, disclosure of useful lives seems inconsistent with simplifying Tier 3 financial statements). Regarding IFRS for SMEs ED paragraph 17.31(c) [as renumbered]: as noted above, the NZ Tier 3 Standard does not require disclosure of gross amounts of assets separately from their related accumulated depreciation and related accumulated impairment losses. Staff think simply requiring disclosure of carrying amounts would be proportionate for Tier 3 NFP entities. Regarding IFRS for SMEs ED paragraph 17.31(e) [as originally numbered], staff observe that the NZ Tier 3 Standard does not require disclosure of such a reconciliation. Staff think such reconciliations are unlikely to be proportionate for Tier 3 NFP entities, and that (as per the NZ Tier 3 Standard) more targeted disclosure of some key line items would be more

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		appropriate. This is reflected in the suggested retention of some line items in IFRS for SMEs ED paragraph 17.31(e). Words that are both underlined and struck through in IFRS for SMEs ED paragraph 17.31(e)(ii) [as originally numbered] were added to the IFRS for SMEs ED wording by AASB 1060 paragraph 134(e)(ii). As with additions, these (and other) disposals are reconciliation items not considered particularly useful (or therefore proportionate) for Tier 3 NFP entities.

Note to Board members

Investment property is only covered to the extent of its coverage in IFRS for SMEs ED Section 17 (see IFRS for SMEs ED paragraphs 17.1, 17.15, 17.31 and the disclosure requirement for particular investment properties in IFRS for SMEs ED paragraph 17.32(c) below). Depending on Board members' comments about the initial draft section on Property, Plant and Equipment, staff would plan to address in the next draft whether to integrate all requirements for Investment Property with the section on Property, Plant and Equipment (aligning with the structure of the DP) as a means of maximising simplification.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
17.32 An entity shall also disclose the following: (a) the existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for ~~liabilities~~ loans (including the nature and amount of loans that are secured); (b) the amount of contractual commitments for the acquisition of property, plant and equipment; and	A229. If an entity has used any of its assets as security for loans borrowed, the entity shall disclose in the notes to the performance report information about: (a) The nature and amount of the loan that is secured; and	**Retained** With the exception of the suggested amendment to IFRS for SMEs ED paragraph 17.32(a) explained below, the disclosures in paragraph 17.32 (as marked up) align with those illustrated in 'paragraph 2' on page 92 of the DP.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
(c) if the entity has investment property whose fair value cannot be measured reliably, ~~without undue cost or effort~~ it shall disclose that fact and the reasons why fair value ~~measurement would involve undue cost or effort~~ cannot be measured reliably for those items of investment property.	(b) The nature and amount of the asset(s) used as security.	The suggested amendment to IFRS for SMEs ED paragraph 17.32(a) would align more closely with NZ Tier 3 paragraph A229, which appears to provide more useful information (enabling identification of the extent to which the assets have been pledged as security) while remaining proportionate for Tier 3 NFP entities. Staff think the disclosure in IFRS for SMEs ED paragraph 17.32(b), although not mirrored in the NZ Tier 3 Standard, is likely to be proportionate for Tier 3 NFP entities because it is likely to be useful to assessments of the implications of the entity's need to fund the acquisition. Changes to IFRS for SMEs ED paragraph 17.32(c) are suggested to reflect the wording in AASB 1060 paragraph 135(c).
17.33 If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following: (a) the effective date of the revaluation; and (b) whether an independent valuer was involved~~;~~. ~~(c) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and~~ ~~(d) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.~~	A142. If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following in the notes to the performance report: (a) The basis (valuation by a suitably qualified independent valuer or current local council rateable value); (b) The date of the valuation; and	**Further simplification** The disclosures in IFRS for SMEs ED paragraph 17.33(a) and (b) align with those illustrated in 'paragraph 3' on page 92 of the DP. However, as explained below, the disclosures in (c) and (d) of 'paragraph 3' on page 92 of the DP are not suggested to be included in the Tier 3 ED. The disclosure in IFRS for SMEs ED paragraph 17.33(c) was omitted from both AASB 1060 and 'paragraph 3' on page 92 of the

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
	(c) The revaluation gain/loss for the period that has been recognised in the revaluation reserve.	DP. Staff consider that there is not a case for requiring this disclosure for Tier 3 NFP entities when it is not required for Tier 2 simplified disclosures.
	A224. The entity shall disclose the source and date of the valuation of assets for any assets recorded at valuation (such as significant donated assets) and any other assets for which the entity has chosen to disclose a current value (cross-reference omitted).	AASB 1060 paragraph 136(c) also required disclosure of "the methods and significant assumptions applied in estimating the items' fair values", which is reflected in 'paragraph 3(c)' on page 92 of the DP. This disclosure is included in the current IFRS for SMEs Standard, but was proposed to be deleted in the IASB ED to amend that Standard. In addition, the disclosure is not required by the NZ Tier 3 Standard. Therefore, it is not suggested here. The requirement in IFRS for SMEs ED paragraph 17.33(d) [as originally numbered] is reflected in 'paragraph 3(d)' on page 92 of the DP. Regarding the requirement therein to disclose "the revaluation surplus, indicating the change for the period", staff think these disclosures are likely to be addressed elsewhere in the Tier 3 ED (e.g. see overlap with paragraph 17.31(d) disclosure), and will monitor this as drafting proceeds. Regarding the requirement in IFRS for SMEs ED paragraph 17.33(d) [as originally numbered] to disclose "any restrictions on the distribution of the balance [of the revaluation surplus] to shareholders", staff observe that distributions to owners would be unusual for NFP entities and their disclosure is not proposed in the NZ

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		Tier 3 Standard. Therefore, staff suggest that this disclosure would be inapplicable to Tier 3 NFP entities and should be omitted from the Tier 3 ED.
[*No corresponding wording*]	A137. Where an entity elects to revalue its land and buildings based on the local council rateable value … The entity shall also disclose, in the notes to the performance report, that the local council rateable value may not reflect current market value.	**N/A** This NZ Tier 3 Standard paragraph is repeated from above for ease of reference. It is inapplicable to the Board's Tier 3 proposals.
[*No corresponding wording*]	A138. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may choose to disclose that current value, and the basis (valuation by an independent valuer or the local council rateable value) and date of that valuation in the notes to the performance report.	**N/A** Staff suggest not to add guidance that an entity may voluntarily disclose particular types of information, because Tier 3 NFP entities should be able to reach that conclusion without the guidance.
17.33A Where, in accordance with paragraph 17.9A(a), an entity elects to initially measure at cost a donated item of property, plant and equipment, it shall disclose information that helps users of financial statements to assess: (a) the entity's dependence on donations of assets; and (b) the nature and terms of the donation arrangement, including:	***Significant Donated Assets not Recorded*** A227. When significant donated assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A128), the entity shall disclose in the notes to the performance report a description of	**Added** Paragraphs 17.33A and 17.33B were drafted to implement the Board's preliminary view in paragraph 6.12 regarding non-financial assets acquired for significantly less than fair value (being fit-for-purpose disclosures based on AASB 1060 paragraphs 151 – 152), and effectively cover the subject matter of the

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
(i) a description of the donated asset and the class of assets to which it relates; (ii) any amounts owing to the donor at the reporting date; and (iii) restrictions on the use of the donated asset imposed by the donor. 17.33B The disclosures in paragraph 17.33A shall be provided for each donated asset that is individually material to assessing the aspects in part (a) or (b) of paragraph 17.33A. However, such disclosures shall be aggregated for donated assets of a similar nature. The entity shall consider the level of detail necessary to enable those assessments by users of financial statements. The disclosures shall be aggregated or disaggregated so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items with substantially different characteristics.	the asset, categorised by class where appropriate.	disclosures required by NZ Tier 3 Standard paragraph A194. The wording of paragraphs 17.33A and 17.33B is slightly modified from the example on page 91 of the DP, to reduce further references made to objectives and judgements and add paragraph 17.33A(b) [which corresponds to paragraph 151(b) of AASB 1060] to explicitly require disclosure of information about the nature and terms of the donation arrangement.
[*No corresponding wording*]	***Significant Heritage Assets not Recorded*** A228. When significant heritage assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A126), the entity shall disclose in the notes to the performance report a description of the asset, categorised by class where appropriate.	**N/A** Staff did not add draft guidance along the lines of NZ Tier 3 paragraph A228, because appropriate disclosures about unrecognised heritage assets is a potentially complex issue and more information would be needed to determine whether adding that complexity would be proportionate for Tier 3 NFP entities (such assets were not mentioned in Research Report 19).
[*No corresponding wording*]	***Assets Held on Behalf of Others*** A230. Where an entity is acting on behalf of another entity as its trustee, nominee	**N/A** Staff suggest not to add guidance along the lines of NZ Tier 3 paragraph A230, because

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
	or agent, the following matters shall be disclosed in the notes to the performance report: (a) A description of the assets which it holds in this capacity; and (b) The name of the entity on whose behalf the assets are held.	disclosures of assets held on behalf of others (and not controlled by the entity)—termed ‘administered items’ in AASB 1060 paragraphs 219 – 220—are only required for government departments.

Table 2: Fair Value Measurement

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
Scope of this section 12.1 This section applies when another section requires or permits fair value measurements or disclosures about fair value measurements ~~except:~~. ~~(a) share-based payment transactions within Section 26 *Share-based Payment*; and~~ ~~(b) leasing transactions within the scope of Section 20 *Leases*.~~	[*No corresponding wording*]	**Further simplification** Staff consider it is important to clarify the scope of this section, and therefore that including IFRS for SMEs ED paragraph 12.1 would be proportionate.
~~12.2 The disclosures required by this section are not required for:~~ ~~(a) plan assets measured at fair value in accordance with Section 28 *Employee Benefits*; and~~ ~~(a) assets for which the recoverable amount is fair value less costs of disposal in accordance with Section 27 *Impairment of Assets*.~~	[*No corresponding wording*]	**Omitted** An implication of aligning with the disclosures in AASB 1060 (before considering any further simplification where possible) is that no disclosures about fair value measurements additional to those in the section on Property, Plant and Equipment would be required for Tier 3 NFP entities. Therefore, IFRS for SMEs ED paragraph 12.2 is inapplicable.
Measurement 12.3 The objective of a fair value measurement is to estimate the price at which an orderly transaction (not a forced transaction) to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).	A133. When a revaluation approach is applied, the current value shall be based on a valuation by a suitably qualified independent valuer or, for land and buildings, a local council rateable value may be used.	**Retained** Staff consider that IFRS for SMEs ED paragraph 12.3 is fundamental to fair value measurement and therefore should be included in the Tier 3 ED.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
[*No corresponding wording*]	A137. Where an entity elects to revalue its land and buildings based on a local council rateable value, it is only required to revalue its land and buildings when that value is updated. The entity shall also disclose, in the notes to the performance report, that the local council rateable value may not reflect current market value.	**N/A** NZ Tier 3 Standard paragraph A137 addresses a measurement technique that would not necessarily represent fair value. In view of the Board's decision to conform to AASB 13 for fair value measurements, staff consider that this NZ paragraph is inapplicable to the Tier 3 ED.
12.4 Fair value is a market-based measurement, not an entity-specific measurement. Therefore, it is measured using the assumptions that market participants would use when pricing the asset or liability at the measurement date,~~. An entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.~~ ~~12.5 When measuring fair value an entity shall take~~ taking into account the characteristics of the asset or liability ~~if~~ that market participants would take ~~those characteristics~~ into account ~~when pricing the asset or liability at the measurement date~~. Such characteristics include, for example: (a) the condition and existing location of the asset; and (b) legal restrictions, if any, on the sale or use of the asset (see paragraph 12.11(b)).	[*No corresponding wording*] [*No corresponding wording*]	**Further simplification** Staff consider that the third sentence of IFRS for SMEs ED paragraph 12.4 is a restatement of the need to use the assumptions of market participants. Therefore, staff suggest omitting that sentence to achieve further simplification. The reference to an asset's existing location was added to IFRS for SMEs ED paragraph 12.5(a) because staff think it would be helpful to Tier 3 NFP entities, without adding length. It should not cause incompatible outcomes compared with NZ Tier 3 entities because NZ PBE IPSAS 17 (apparently the most pertinent NZ source, but not part of the Tier 3 Standard) adopts that position (paragraphs AG2(a) and AG9).

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~12.6 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:~~ ~~(a) in the principal market for the asset or liability; or~~ ~~(b) in the absence of a principal market, in the most advantageous market for the asset or liability.~~ ~~The entity must have access to the principal (or most advantageous) market at the measurement date. If there is no observable market, the entity shall assume that a transaction takes place at the measurement date as a basis for estimating fair value.~~	[*No corresponding wording*]	**Omitted** Staff consider that differences between the principal and most advantageous markets should be unusual for non-financial assets of Tier 3 NFP entities, which would tend to hold those assets for use rather than sale and not to be traded in different markets. Because of these aspects, staff consider the guidance in IFRS for SMEs ED paragraphs 12.6 and 12.7 would be likely to be confusing, and would not be proportionate for Tier 3 NFP entities.
~~12.7 In the absence of evidence to the contrary, the market in which an entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.~~	[*No corresponding wording*]	
12.8 The market price ~~in the principal (or most advantageous) market~~ used to measure the fair value of the asset or liability shall not be adjusted for transaction costs (ie, costs directly attributable to selling an asset or transferring a liability, such as costs of marketing an asset for sale). Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction.	[*No corresponding wording*]	**Retained** Suggested addition of "costs directly attributable to selling an asset or transferring a liability" in the first sentence of IFRS for SMEs ED paragraph 12.8 is based on definition of 'transaction costs' in Appendix A of AASB 13. (Since drafting this addition, staff plan drafting the AASB ED to include a glossary of defined terms. This drafting will be revisited to reflect that approach.) Regarding the suggested addition of an example of 'transaction costs' in the first sentence of IFRS for SMEs ED paragraph 12.8, neither AASB 13 nor the IASB Basis for Conclusions on IFRS 13 provides an example of 'transaction costs'; therefore, this example was added for Tier 3 NFP readers.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
12.9 If location is a characteristic of the asset, the asset's market price ~~in the principal (or most advantageous) market~~ shall be adjusted for transport costs.	[*No corresponding wording*]	**Further simplification** See comments above on omitted paragraphs 12.6 and 12.7.

Note to Board members

An example of the need to exercise judgement to distinguish drafting amendments and changes of the Board's decisions is provided below in the suggested changes to IFRS for SMEs ED paragraph 12.11(c) [proposed to become paragraph 12.10(c)] regarding an asset's "financially feasible use" and the staff comments on the options for simplification to that paragraph. Simplification of (c) brings the risk of inadvertently changing the meaning, and therefore departing from the Board's proposal to be consistent with the fair value measurement framework in AASB 13. However, staff think that the proposed clarification and simplification of (c) are substantially consistent with the Board's Tier 3 proposals. Nevertheless, staff note that the proposed amendment might be regarded as a change of the Board's proposals.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
Highest and best use for non-financial assets 12.10 A fair value measurement of a non-financial asset (such as an item of property, plant and equipment) assumes a market participant would use the asset for its highest and best use, which takes into account: ~~a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.~~	[*No corresponding wording*]	**Further simplification** Staff suggest merging paragraphs 12.10 and 12.11 to improve conciseness.
~~12.11 The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:~~ (a) ~~a use that is physically possible takes into account~~ the asset's physical characteristics ~~of the asset that market participants~~	[*No corresponding wording*]	**Further simplification** The wording of IFRS for SMEs ED paragraph 12.11(c) concerning an asset's "financially feasible use" presents a challenge for application and understandability in a NFP environment because of its emphasis solely on a market

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~would take into account when pricing the asset~~ (for example, the location or size of a property); (b) ~~a use that is legally permissible takes into account~~ any legal restrictions ~~on the use of the asset that~~ affecting the market participant's ~~would take into account when pricing~~ use of the asset (for example, the zoning regulations applicable to a property); and (c) ~~a use that is financially feasible takes into account~~ whether ~~a~~ the use makes financial sense, i.e. it would generate~~s~~ at least a ~~adequate income or cash flows that market participants would require from an investment in that~~ market rate of return on investing in the asset ~~put to that use~~ or sufficient goods/services to beneficiaries to justify buying the asset.		return on investment. When the Board developed AASB 2022-10 to provide guidance for public sector NFP entities on fair value measurement, it decided a case had not been made to modify AASB 13 for application by private sector NFP entities (largely because the Board did not receive requests for such guidance).[4] However, if the Board includes guidance on 'highest and best use' in its Tier 3 Standard, the counter-intuitive reference to 'market return on investment' in respect of an asset's 'financially feasible use' might be quite confusing for Tier 3 entities, which would tend to be less well-resourced than larger NFP entities to interpret such guidance or obtain advice about it. Therefore, staff think consideration should be given to modifying the guidance to clarify this issue. Adding to the end of (c) wording such as that below (from AASB 2022-10 paragraph Aus28.1 for public sector NFPs) could overcome the potential for confusion, but would add undue complexity: However, for a non-financial asset not held primarily for its ability to generate net cash inflows, the asset's use is financially feasible if market participants (including, but not limited to, similar not-for-profit entities) would be willing to invest in the asset's service capacity, considering both the capability of the asset to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services. Instead, staff drafted a simplified version of (c), including a simplified extract from AASB 2022-10 paragraph Aus28.1. Simplification of (c) brings the risk of inadvertently

4 See paragraphs BC269 – BC273 of the Board's Basis for Conclusions on AASB 2022-10.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		changing the meaning, but this risk arises to a greater or lesser degree in all modifications of the full IFRS wording (even in the IFRS for SMEs). The other option identified by staff is excluding (c) altogether. However, staff consider that financial feasibility (called 'financial sense' in the draft Tier 3 wording, to use plainer English) is an important part of the fair value concept, and omitting it might create a risk of over-estimates of fair value. That is, staff are concerned that excluding (c) would cross the line between a drafting amendment and an amendment of Tier 3 proposals in the DP (the latter would require a decision by the Board supported by a staff analysis). Therefore, staff consider it would be more appropriate, at least within the confines of the drafting process, to simplify (c) along the lines marked up in the left column.

Note to Board members

An example of the need to exercise judgement to distinguish drafting amendments and changes of the Board's decisions is provided below in the suggested addition of a practical expedient to IFRS for SMEs ED paragraph 12.12 to limit the circumstances in which a Tier 3 NFP entity would need consider whether an asset's highest and best use might differ from its existing use. The suggested amendments to IFRS for SMEs ED paragraph 12.12 are a condensed version of the practical expedient provided in AASB 2022-10 (paragraphs Aus29.1 and Aus29.2) for public sector NFPs. There is a significant risk that those suggested amendments would constitute a change of the Board's DP proposal (in paragraph 5.116) that "fair value should have the same meaning as in AASB 13", because the practical expedient in AASB 2022-10 was identified as a potential source of non-compliance with IFRS 13 (Basis for Conclusions on AASB 2022-10, paragraph BC38(b)).

Therefore, staff propose to bring this issue to a future Board meeting at which re-deliberations of the Board's proposals are made.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
12.12 An entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that it is highly probable that a different use by market participants would maximise the value of the asset. In general, this exception would occur only when it is highly probable that, within one year of the asset's measurement date, the asset will either be sold to a buyer who would use the asset for a different use or be redeployed by the entity.	[*No corresponding wording*]	**Further simplification** The suggested amendments to IFRS for SMEs ED paragraph 12.12 are a condensed version of the practical expedient provided in AASB 2022-10 (paragraphs Aus29.1 and Aus29.2) for public sector NFPs. Staff consider that this practical expedient should also be available for Tier 3 NFPs. However, for the reasons stated in the Note to Board members immediately above this row, staff consider that including this practical expedient would create a risk of creating a amendment to the Board's proposals in the DP.
~~12.13 If the highest and best use of a non-financial asset provides maximum value to market participants through its use in combination with other assets (and liabilities) as a group, the fair value of the asset would assume that the asset would be used with those other assets (and liabilities) and that those complementary assets (and liabilities) would be available to market participants. Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets and liabilities within which the asset would be used.~~	[*No corresponding wording*]	**Omitted** Staff suggest excluding this paragraph because it seems unduly complex for Tier 3 private sector NFPs, and is not included in the NZ Tier 3 Standard.
Valuation techniques 12.14 When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique. The entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.	[*No corresponding wording*]	**Retained** Staff observe that IFRS for SMEs ED paragraph 12.14 does not use 'active market' as a determinant for when another valuation technique must be used. Staff note that,

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		consequently, it would be unnecessary to distinguish Level 1 and Level 2 inputs to apply this requirement (with which staff agree).
12.15 Three widely used valuation techniques are the market approach, the cost approach and the income approach. An entity shall use valuation techniques consistent with one or more of these approaches to measure fair value: (a) the market approach uses prices and other relevant information generated by market transactions involving identical or comparable ~~(that is, similar)~~ assets~~,~~ or liabilities ~~or a group of assets and liabilities, such as a business. For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables~~. This would often be the case for financial assets and non-financial assets such as land, non-specialised buildings and non-specialised motor vehicles. (b) the cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost: see paragraph 12.15A). (c) the income approach ~~converts~~ discounts future ~~amounts (for example,~~ cash flows or income and expense~~s)~~ items to ~~a single current (that is, discounted) amount~~ their present value. ~~Those valuation techniques include, for example:~~ ~~(i) present value techniques;~~ ~~(ii) option pricing models; and~~ ~~(iii) the multi-period excess earnings method, which is used to measure the fair value of some intangible assets.~~	[*No corresponding wording*]	**Further simplification** Staff suggest simplifying the wording of IFRS for SMEs ED paragraph 12.15(c) because the income approach would seem likely to have limited applicability to Tier 3 NFPs; however, staff suggest retaining mention of the income approach for the sake of completeness.
12.15A From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset ~~of comparable utility, adjusted for obsolescence~~ with the same age, technology, service capacity and condition	[*No corresponding wording*]	**Added** Draft paragraph 12.15A is additional to the IFRS for SMEs ED text. It is verbatim to paragraph B9

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
as that of the asset held. That is because a market participant buyer would not pay more for an asset than the ~~amount for which it could replace the~~ cost of replacing its service capacity ~~of that asset~~. ~~Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases~~ One reason the current replacement cost method ~~is~~ may be used ~~to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities~~ is that the asset is specialised and without readily observable market evidence.		of AASB 13, and is shown as clean text to show how staff would suggest editing it for the Tier 3 ED. Staff suggest adding it because the cost approach is likely to be important to a range of assets held by private sector NFPs (especially because the income approach will have limited relevance), and therefore is an aspect of IFRS that seems important to include in Tier 3 NFP guidance.
BC.XX Although the objective of a fair value measurement of an asset is to estimate the asset's selling price, sometimes the observable selling price of a similar asset might not represent faithfully the selling price of the asset being measured (in terms of paragraph 12.14, it might not be a *relevant* observable input). For example, the only observable selling price for a similar asset to a specialised asset held by the entity might be for a sale of that similar asset for scrap value at the end of its economic life. Where the entity's specialised asset has not reached the end of its economic life, its selling price might be represented more faithfully by, for example, using the cost approach (ie current replacement cost) referred to in paragraphs 12.15(b) and 12.15A.	[*No corresponding wording*]	**N/A** Staff suggest complementing paragraph 12.15A with a Basis for Conclusions paragraph, because paragraph B9 of AASB 13 might not be intuitive to apply, particularly for Tier 3 NFP entity readers. This suggested paragraph would, in due course, be included in the Basis for Conclusions instead of the body of the Tier 3 ED; hence it is classified as "not applicable". Drafting of the Basis for Conclusions will follow drafting of the ED's proposed requirements.

Note to Board members

One of the more significant aspects of the draft wording in this selected Tier 3 topic is the suggested addition of paragraphs 12.15A and BC.XX (or similar wording) to, respectively, reproduce paragraph B9 of AASB 13 and provide context for why applying the cost approach might be both necessary and consistent with the selling price principle underlying fair value for assets.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~12.16 Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with Section 10. However, the disclosures in Section 10 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.~~	[*No corresponding wording*]	**Omitted** Staff consider that the guidance in IFRS for SMEs ED paragraph 12.16 is not essential to understanding the key features of a fair value measurement and therefore that inclusion of that paragraph would not be proportionate.
~~12.17 If an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a dealer market), the price within the bid–ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorised within the fair value hierarchy (that is Level 1, 2 or 3; see paragraphs 12.22–12.27). The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.~~	[*No corresponding wording*]	**Omitted** Staff suggest excluding IFRS for SMEs ED paragraph 12.17 because Tier 3 NFP entities would not be expected to encounter many situations in which significant bid-ask spreads arise for assets or liabilities measured at fair value.
~~Reliable measure of fair value~~ ~~12.18 A valuation technique would be expected to arrive at a reliable measure of the fair value if:~~ ~~(a) it reasonably reflects how the market could be expected to price the asset; and~~ ~~(b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.~~	[*No corresponding wording*]	**Retained** Staff illustrated relocating this sub-section on reliable measurement from Section 12 of the IFRS for SMEs ED to the section on PP&E to make it more reader-friendly because the reliable measurement criterion for fair value measurement is stipulated in paragraph 31 of AASB 116. In addition, a similar paragraph to paragraph 12.19 of the IFRS for SMEs ED is set out in paragraph 26 of AASB 116. Staff will revisit the location of this sub-section as drafting of the other sections of the Tier 3 ED progresses.
~~12.19 The fair value of investments in assets that do not have a quoted market price in an active market is reliably measurable if:~~ ~~(a) the variability in the range of reasonable fair value measures is not significant for that asset; or~~		

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~(b) the probabilities of the various measures within the range can be reasonably assessed and used in estimating fair value.~~		Note that some of the text relocated from this sub-section to the section on PP&E is omitted there; this is identified in that section.
~~12.20 There are many situations in which the variability in the range of reasonable fair value measures of assets that do not have a quoted market price is likely not to be significant. Normally it is possible to estimate the fair value of an asset that an entity has acquired from an outside party. However, if the range of reasonable fair value measures is significant and the probabilities of the various measures cannot be reasonably assessed, the entity is precluded from measuring the asset at fair value.~~		
~~12.21 If a reliable measure of fair value is no longer available for an asset measured at fair value (or is not available without undue cost or effort when such an exemption is provided (for example, see paragraphs 11.14(c) and 11.56(b)), its carrying amount at the last date the asset was reliably measurable becomes its new cost. An entity shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available (or becomes available without undue cost or effort when such an exemption is provided).~~		

Note to Board members

An example of the need to exercise judgement to distinguish drafting amendments and changes of the Board's decisions is staff's tentative suggestion to exclude the fair value hierarchy in AASB 13 from the Tier 3 ED. This is despite paragraph 5.117 of the DP stating that: "the Board considers it important for fair value measurement in Tier 3 financial statements to be determined in a manner consistent with the framework set out in AASB 13, including by reference to a specified hierarchy …". However, IFRS for SMEs ED paragraph 12.14 (which staff propose including in the Tier 3 ED) requires fair value estimates to maximise the use of relevant observable inputs and minimise the use of unobservable inputs; the fair value hierarchy classifies the outcomes of applying that principle and requires differentiated disclosures for different levels of the fair value hierarchy (the IASB's Basis for Conclusions on IFRS 13, paragraphs BC166 – BC221, does not identify any other role for the fair value hierarchy). In addition, that Basis for Conclusions states that "IFRS 13 does not contain a hierarchy of valuation techniques …" (paragraph BC142).

For the reasons explained above, staff consider that a section on the fair value hierarchy is only necessary if it were decided that disclosure should be made of the levels of the fair value hierarchy at which the fair values of assets are measured. Under the Board's disclosure approach for Tier 3 NFP entities, drafting the proposed disclosures about fair value measurements for Tier 3 NFP entities should start with those in AASB 1060, with consideration of further simplification. However, AASB 1060 includes no disclosure requirements for fair value measurements. Therefore, under the Board's proposals in the DP, disclosures based on the fair value hierarchy would not be included in the Tier 3 ED. In addition, staff observe that applying the fair value hierarchy might involve significant judgements and be costly for Tier 3 NFP entities to apply, without significant apparent benefits to users of financial statements of Tier 3 NFP entities, and therefore suggest that including the fair value hierarchy would be unlikely to be proportionate. Consequently, staff consider there is a case for concluding that it would be compatible with the Board's preliminary decisions (i.e. subject to considering stakeholders' feedback) to propose excluding any guidance on the fair value hierarchy from the drafting of the Tier 3 ED – this is the staff's tentative suggestion reflected in the draft wording (or lack thereof) below.

However, staff consider there is a significant risk that excluding the explicit fair value hierarchy in AASB 13 could constitute a change of the Board's proposals in the DP, and therefore propose to bring this issue to a future Board meeting at which deliberations are made on the issues raised in the feedback to the DP on the topic.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~Fair value hierarchy~~ ~~12.22 This section establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (Level 3 being the lowest level input).~~	[*No corresponding wording*]	**Omitted** This section would only be needed if it were decided that disclosure should be made of the Levels at which the fair values of assets are measured. As mentioned in the Note to Board members above, staff suggest not to require such disclosures.
~~Level 1 inputs~~ ~~12.23 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the~~		

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~most reliable evidence of fair value and shall normally be used without adjustment to measure fair value whenever available.~~		
~~12.24 If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity.~~		
~~Level 2 inputs~~ ~~12.25 Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:~~ ~~(a) quoted prices for similar assets or liabilities in active markets.~~ ~~(b) quoted prices for identical or similar assets or liabilities in markets that are not active.~~ ~~(c) inputs other than quoted prices that are observable for the asset or liability, for example:~~ ~~(i) interest rates and yield curves observable at commonly quoted intervals;~~ ~~(ii) implied volatilities; and~~ ~~(iii) credit spreads.~~ ~~(d) market-corroborated inputs.~~		
~~12.26 An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.~~		

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~***Level 3 inputs***~~ ~~12.27 Level 3 inputs are unobservable inputs for the asset or liability. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust this data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (for example, an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available.~~		

Note to Board members on the disclosures below: The IFRS for SMEs ED disclosures in paragraphs 12.28 – 12.32 (reproduced below) were not included in AASB 1060 (paragraph IG1 of AASB 1060 indicates that the Standard superseded all the disclosure requirements of AASB 13; no replacement disclosures are included therein), and therefore staff suggest excluding them from the Tier 3 ED. Therefore, consistent with AASB 1060, staff suggest including no disclosure requirements for fair value measurements in this section. However, suggested disclosures about revalued assets (namely, the effective date of the revaluation and whether an independent valuer was involved) are included in paragraph 17.33 of the section on Property, Plant and Equipment.

An implication of aligning with AASB 1060 is that disclosures about whether fair value measurements are at Level 1, 2 or 3 of the fair value hierarchy would not be required: this is relevant to the note to Board members above.

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
Disclosures ~~12.28 An entity shall disclose for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition:~~ ~~(a) the carrying amount at the end of the reporting period;~~ ~~(b) the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3); and~~ ~~(c) a description of the valuation technique(s) it used for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, and the inputs used in the fair value measurement.~~	A138. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may choose to disclose that current value, and the basis (valuation by an independent valuer or the local council rateable value) and date of that valuation in the notes to the performance report.	**Omitted** See Note to Board members above.
~~12.29 For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall disclose:~~ ~~(a) total gains or losses for the period recognised in profit or loss, and the line items in profit or loss in which those gains or losses are recognised; and~~ ~~(b) total gains or losses for the period recognised in other comprehensive income, and the line items in other comprehensive income in which those gains or losses are recognised .~~		
~~12.30 An entity shall determine appropriate classes of assets and liabilities on the basis of:~~ ~~(a) the nature, characteristics and risks of the asset or liability; and~~		

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~(b) the level of the fair value hierarchy within which the fair value measurement is categorised.~~		
~~12.31 A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.~~		
~~12.32 An entity shall present the quantitative disclosures required by paragraphs 12.28 – 12.31 in a table unless another format is more appropriate.~~		
~~**Appendix to Section 12**~~ ~~**Guidance on fair value measurements**~~ ~~*This appendix accompanies, but is not part of, Section 12.*~~ ~~These examples portray hypothetical situations illustrating the judgements that might apply when an entity measures assets and liabilities at fair value in different valuation situations. Although some aspects of the examples may be present in actual fact patterns, all the relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying Section 12.~~	[*No corresponding wording*]	**Omitted** Staff suggest omitting the illustrative examples in IFRS for SMEs ED Section 12 from the Tier 3 ED because, at this stage, it seems doubtful that it would be proportionate to include illustrative examples that seem inessential to applying the Tier 3 guidance.
~~**Example 1—Highest and best use (land)**~~ ~~12A.1 An entity acquires land in a business combination. The land is currently developed for industrial use as a site for a factory. The current use of the land is presumed to be its highest and best use unless market or other factors suggest a different use. Nearby sites have recently been developed for residential use as sites for high-rise apartment buildings. On the basis of that development and recent zoning and other changes to facilitate that development, the entity determines that the land currently used as a site for a factory could be~~		

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~developed as a site for residential use (that is, for high-rise apartment buildings) because market participants would take into account the potential to develop the site for residential use when pricing the land.~~		
~~12A.2 The highest and best use of the land would be determined by comparing both of the following:~~ ~~(a) the value of the land as currently developed for industrial use (that is, the land would be used in combination with other assets, such as the factory, or with other assets and liabilities).~~ ~~(b) the value of the land as a vacant site for residential use, taking into account the costs of demolishing the factory and other costs (including the uncertainty about whether the entity would be able to convert the asset to the alternative use) necessary to convert the land to a vacant site (that is, the land is to be used by market participants on a standalone basis).~~ ~~The highest and best use of the land would be determined on the basis of the higher of those values. In situations involving real estate appraisal, the determination of highest and best use might take into account factors relating to the factory's operations, including its assets and liabilities.~~		
~~Example 2—Level 1 principal (or most advantageous) market~~ ~~12A.3 An asset is sold in two different active markets at different prices. An entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. In Market A, the price that would be received is CU26, transaction costs in that market are CU3 and the costs to transport the asset to that market are CU2 (that is, the net amount that would be received is CU21). In Market B, the price that would be received is CU25,~~		

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~transaction costs in that market are CU1 and the costs to transport the asset to that market are CU2 (that is, the net amount that would be received in Market B is CU22).~~		
~~12A.4 If Market A is the principal market for the asset (that is, the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transport costs (CU24).~~		
~~12A.5 If neither market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs (that is, the net amount that would be received in the respective markets).~~		
~~12A.6 Because the entity would maximise the net amount that would be received for the asset in Market B (CU22), the fair value of the asset would be measured using the price in that market (CU25), less transport costs (CU2), resulting in a fair value measurement of CU23. Although transaction costs are taken into account when determining which market is the most advantageous market, the price used to measure the fair value of the asset is not adjusted for those costs (although it is adjusted for transport costs).~~		
~~Example 3—Restriction on the sale of an equity instrument~~ ~~12A.7 An entity holds an equity instrument (a financial asset) for which sale is legally or contractually restricted for a specified period. (For example, such a restriction could limit sale to qualifying investors.) The restriction is a characteristic of the instrument and, therefore, would be transferred to market participants. In that case the fair~~		

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~~value of the instrument would be measured on the basis of the quoted price for an otherwise identical unrestricted equity instrument of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction. The adjustment would reflect the amount market participants would demand because of the risk relating to the inability to access a public market for the instrument for the specified period. The adjustment will vary depending on all the following:~~ ~~(a) the nature and duration of the restriction;~~ ~~(b) the extent to which buyers are limited by the restriction (for example, there might be a large number of qualifying investors); and~~ ~~(c) qualitative and quantitative factors specific to both the instrument and the issuer.~~		
~~Example 4—Restrictions on the use of an asset~~ ~~12A.8 A donor contributes land in an otherwise developed residential area to a not-for-profit neighbourhood association. The land is currently used as a playground. The donor specifies that the land must continue to be used by the association as a playground in perpetuity. Upon review of relevant documentation (for example, legal and other), the association determines that the fiduciary responsibility to meet the donor's restriction would not be transferred to market participants if the association sold the asset, that is, the donor restriction on the use of the land is specific to the association. Furthermore, the association is not restricted from selling the land. Without the restriction on the use of the land by the association, the land could be used as a site for residential development. In addition, the land is subject to an easement (that is, a legal right that enables a utility to run power lines across the land). Following is an analysis of the effect on the fair value measurement of the land arising from the restriction and the easement:~~		

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~~(a) donor restriction on use of land. Because in this situation the donor restriction on the use of the land is specific to the association, the restriction would not be transferred to market participants. Therefore, the fair value of the land would be the higher of its fair value used as a playground (that is, the fair value of the asset would be maximised through its use by market participants in combination with other assets or with other assets and liabilities) and its fair value as a site for residential development (that is, the fair value of the asset would be maximised through its use by market participants on a stand-alone basis), regardless of the restriction on the use of the land by the association.~~ ~~(b) easement for utility lines. Because the easement for utility lines is specific to (that is, a characteristic of) the land, it would be transferred to market participants with the land. Therefore, the fair value measurement of the land would take into account the effect of the easement, regardless of whether the highest and best use is as a playground or as a site for residential development~~		

Table 3: Borrowing Costs

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
~~**Scope of this section**~~ 25.1 ~~This section specifies the accounting for borrowing costs.~~ Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. ~~Borrowing costs include:~~ ~~(a) interest expense calculated using the effective interest method as described in Section 11 *Basic Financial Instruments*;~~ ~~(b) finance charges in respect of finance leases recognised in accordance with Section 20 *Leases*; and~~ ~~(c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.~~	Interest expense: This category is the amount paid during the period which relates to borrowings. Includes any interest amount owing but not yet paid. [Table 2]	**Further simplification** The description of 'borrowing costs' in IFRS for SMEs ED paragraph 25.1 is the same as that in the Tier 2 Standard; staff agree with the IASB's view not to use different terminology to describe 'borrowing costs' for simplified reporting. Regarding IFRS for SMEs ED paragraph 25.1(a), the Board's proposal in paragraph 5.101(b) of the DP is, instead, that interest is calculated based on the contractual interest rate. Staff think it would be unnecessary to repeat the use of that rate if it is included in the section on Financial Instruments. Regarding IFRS for SMEs ED paragraph 25.1(b), this component of borrowing costs under the IFRS for SMEs ED proposal would not arise under the Board's proposal in paragraph 5.172 of the DP that lessees should recognise lease payments as an expense a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. That is, lease payments would not be bifurcated between

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		repayments of lease liabilities and payments of finance charges. Regarding IFRS for SMEs ED paragraph 25.1(c), staff consider that such exchange differences would occur with insufficient frequency for Tier 3 NFP entities to merit including this guidance; in addition, guidance on this issue is not included in the NZ Tier 3 Standard.
~~Recognition~~ ~~25.2~~ An entity shall ~~recognise~~ record all borrowing costs as an expense in profit or loss in the period in which they ~~are incurred~~ accrue.	Interest expense: Record the expense as it is incurred during the period. [Table2]	**Retained** Regarding IFRS for SMEs ED paragraph 25.2, staff consider that "accrue" covers more succinctly the essence of the NZ Tier 3 guidance that interest expense includes any interest owing but not yet paid (which might not be clear from using the IFRS for SMEs ED reference to borrowing costs that "are incurred"). Staff suggest that, if the longer NZ Tier 3 guidance adjacent to IFRS for SMEs ED paragraph 25.1 in the row above (i.e. that interest expense includes any amount owing but not yet paid) were to be included, it would be appropriate to also state that interest expense excludes amounts that accrued in a previous period but were paid in the current period. Because the resulting wording would appear to lack succinctness, staff suggest

Tier 3 draft marked up for changes to IFRS for SMEs ED	NZ Tier 3 Standard	Comments on why source is included in/excluded from draft wording in left column
		that a reference should simply be made to recording borrowing costs that accrue during the period.
~~**Disclosures**~~ ~~25.3 Paragraph 5.5(b) requires disclosure of finance costs. Paragraph 11.48(b) requires disclosure of total interest expense (using the effective interest method) for financial liabilities that are not at fair value through profit or loss. This section does not require any additional disclosure.~~	*The New Zealand Tier 3 Standard does not mandate the disclosure of borrowing costs or interest.*	**Omitted** Staff suggest conforming to the New Zealand Tier 3 Standard's position of not requiring the disclosure of borrowing costs or interest. This would be consistent with the Board's proposal in the DP (in Table 6.1 beneath paragraph 6.12).
~~1060.162 An entity shall disclose the amount of borrowing costs capitalised during the period.~~	[*No corresponding wording*]	Staff suggest excluding AASB 1060 paragraph 162 because the proposed Tier 3 recognition requirement differs from the Tier 2 requirement; therefore, the AASB 1060 disclosure is inapplicable.
~~1060.163 A not-for-profit public sector entity shall disclose the accounting policy adopted for borrowing costs.~~	[*No corresponding wording*]	Staff suggest excluding AASB 1060 paragraph 163 because the proposed Tier 3 recognition requirement differs from the Tier 2 requirement; therefore, the AASB 1060 disclosure is inapplicable.

Note to Board members (*for information only, at this stage*)

Staff considered whether, for brevity, to simply include the guidance on the treatment of borrowing costs within the section on Property, Plant and Equipment (thus avoiding the space taken by creating a separate section). However, Tier 3 NFP entity preparers who are inexpert in accounting standards might not know where to look for the guidance on borrowing costs. Therefore, staff suggest that the guidance should not be included in that section. If the New Zealand Tier 3 Standard approach of providing guidance on various categories of expense were to be replicated in the Board's ED, consideration could be given to providing the brief guidance on the treatment of borrowing costs in a section on expenses.