Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	AASB October 2025 (M215)
Topic:	**Redeliberation – Transition to Tier 3 and amendments to other Standards**	**Agenda Item:**	6.4
		Date:	16 September 2025
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Objective of this paper

1 The objective of this staff paper is for the Board to **decide** how to finalise the proposed requirements exposed in ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* regarding Section 29: *Transition to Tier 3 General Purpose Financial Statements* and Appendix C: *Amendments to other Australian Accounting Standards* of that ED.

Structure of this paper

2 This paper is structured as follows:

(a) Summary of staff recommendations (paragraph 3); and

(b) Background and reasons for bringing this paper to the Board (paragraphs 4 – 5);

(c) Section 29: *Transition to Tier 3 General Purpose Financial Statements*:

(i) Summary of proposals (paragraphs 6 – 10); and

(ii) Staff analysis of stakeholders' feedback and staff recommendations on Specific Matter for Comment 38 (paragraphs 11 – 16 and Table 2); and

(d) Appendix C: *Amendments to other Australian Accounting Standards*:

(i) Summary of proposals (paragraphs 17 – 18); and

(ii) Staff analysis of stakeholders' feedback and staff recommendations on Specific Matter for Comment 40 (paragraphs 19 – 24).

Summary of staff recommendations

3 Staff recommend the Board finalises the Tier 3 requirements, subject to any redrafting necessary to improve the clarity of the requirements:

(a) for transition to Tier 3 general purpose financial statements (GPFS) as exposed in ED 335 Section 29, except for the following amendments:

(i) removing the option in para. 29.4 to grandfather the application of Tier 1 or Tier 2 accounting policies for any or all assets or liabilities existing on the date of transition;

(ii) adding an explanation that the date of transition will be the same point in time whether Section 9 or Section 29 applies, unless a Tier 3 NFP entity transitioning via Section 29 elects to present full comparative information in accordance with the Tier 3 Standard via a note in the Basis for Conclusion accompanying the Tier 3 Standard;

(iii) adding a specific exemption that a parent entity first-time adopter of the Tier 3 Standard that elects to prepare consolidated financial statements and applies Section 29 may elect to apply Section 17 on a prospective basis to entity combinations that occurred before the date of transition to the Tier 3 Standard;

(iv) extending the optional relief for entities selecting Section 9 on transitioning to the Tier 3 reporting requirements to apply a modified retrospective approach to correcting prior period errors, with the exemption available only on transition to the Tier 3 Standard; and

(v) extending the scope of the transitional provisions in para. 29.11(e) so that an entity may elect to present changes in the fair value of its investments in notable relationship entities in other comprehensive income at the date of transition to the Tier 3 Standard. The transitional provision in para. 29.11(e) would be expressed as also including investments in associates and joint ventures; and

(b) for amendments to other Australian Accounting Standards to facilitate the application of the Tier 3 reporting requirements and transitioning from preparing Tier 3 GPFS to either Tier 1 or Tier 2 reporting requirements for the first time, as exposed in ED 335 Appendix C.

Background and reasons for bringing this paper to the Board

4 At the Board's May 2025 meeting (Meeting 212), the Board noted staff's collation of stakeholder feedback on ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*. In addition, in Agenda Paper 4.2 for Meeting 212, staff set out its proposed approach to the Board's redeliberations of ED 335 for the Board's decisions, particularly a categorisation of the redeliberation effort in light of the stakeholder feedback received on the ED. With one exception, the Board agreed with the staff's proposed categorisation.

5 For this Board meeting (Meeting 215), this paper provides a staff analysis of stakeholder feedback received on Section 29: *Transition to Tier 3 General Purpose Financial Statements* and Appendix C: *Amendments to other Australian Accounting Standards* of ED 335, developed having regard to the collation of submissions in Agenda Paper 4.3 for Meeting 212. The approach to developing this paper reflects the Board's agreement with the proposed categorisation in Agenda Paper 4.2 for Meeting 212 of:

(a) SMC 38 concerning Section 29 as 'Category B' (i.e. it is unclear whether the Board's proposals in ED 335 will be finalised in the manner exposed) – this is in view of the aspects of stakeholder feedback highlighted in row (1) of Table 2; and

(b) SMC 40 concerning Appendix C as 'Category A' (i.e. the feedback received suggests that the proposals in ED 335 are uncontentious).

Section 29: *Transition to Tier 3 General Purpose Financial Statements*

Summary of proposals in Section 29

6 The transitional provisions applying to first-time adopters of a Tier 3 Standard are set out in Section 29 of ED 335. As noted in paragraph BC130, the transitional requirements proposed in ED 335 were based mainly on AASB 1 *First-time Adoption of Australian Accounting Standards* with simplification of the expression. ED 335 also proposes requirements for transitioning from application of GPFS in accordance with Tier 3 reporting requirements to either Tier 1 or Tier 2 reporting requirements for the first time (or reverting from such GPFS to Tier 3 reporting requirements) as part of the amendments in other Australian Accounting Standards discussed further from paragraph 17.

7 The Board's key proposals in Section 29, as highlighted in SMC 38, are that the Tier 3 Standard should provide:

(a) an election for first-time adopters of the Standard transitioning from application of Tier 1 or Tier 2 requirements of Australian Accounting Standards to:

(i) continue applying all related Tier 1 or Tier 2 recognition, measurement and disclosure requirements to some or all assets or liabilities existing on the transition date; or

(ii) apply the Tier 3 reporting requirements directly on a modified retrospective basis, as per paragraphs 29.3 and 29.4;

(b) optional relief from disclosing comparative information for the previous comparable period if the entity did not disclose comparative information in its most recent previous financial statements, as per paragraph 29.17(a); and

(c) optional relief from distinguishing corrections of prior period errors from changes in accounting policies when disclosing adjustments to the carrying amounts of assets, liabilities or items of equity on initial adoption, as per paragraph 29.17(b).

These optional reliefs are not time-limited.

8 The proposed optional reliefs referred to in paragraphs 7(b) and (c) are the same as those provided to for-profit private sector entities in AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (para. BC130(a) of ED 335), except that the reliefs (in AASB 1053 *Application of Tiers of Australian Accounting Standards* effected via AASB 2020-2) were time-limited. ED 334 also proposes the same optional and time-limited relief for NFP entities transitioning to Tier 2-compliant general purpose financial statements (GPFS), which the Board will be considering in Agenda Paper 5.1. In addition, ED 334 proposes amendments to AASB 1053 to incorporate flowcharts that illustrate the transitional provisions that apply to entities preparing, or ceasing to prepare, Tier 3 GPFS (these are included as part of the Appendix to Agenda Paper 5.1).

9 The Board decided not to propose any additional transitional relief for entities adopting the Standard prior to its application date.

10 Other noteworthy proposals in Section 29 of ED 335 are that:

(a) an entity transitioning to the Tier 3 Standard is not disqualified from being treated as a first-time adopter if it has previously applied the Standard (para. 29.1);

(b) on first-time adoption of the Tier 3 Standard, entities have the option of applying either:

(i) the transitional requirements in Section 29; or

(ii) the Tier 3 requirements directly by applying a modified retrospective approach to resulting changes in accounting policies as set out in Section 9 of the proposed Tier 3 Standard. Under the modified retrospective approach, the cumulative effects of changed accounting policies on prior periods are recognised in the current period's opening retained earnings, without restating comparative information presented for prior period(s);

(c) in relation to paragraph (b)(i), only entities electing to apply the transitional requirements in Section 29 can access the specific transitional reliefs proposed in para. 29.9 – 29.11 of ED 335; and

(d) the entity's date of transition to the Tier 3 Standard is:

(i) if the entity elects to apply the transitional requirements in Section 29, the beginning of the earliest period for which the entity presents full comparative information in accordance with the Tier 3 Standard in its first financial statements that conform to that Standard; or

(ii) if the entity elects to apply Section 9, the beginning of the current period in which the Tier 3 Standard is first applied.

Staff analysis of stakeholders' feedback, and staff recommendations, on SMC 38

Overview of stakeholder feedback received

11 As reported in Agenda Paper 4.3 considered at the May 2025 Board meeting, of the 18 comment letters that responded directly to ED 335 and the total number of participants who attended a virtual/in-person outreach session, 8 and 15 respondents, respectively, provided a response to SMC 38. SMC 38 asked whether respondents agree with the proposals referred to in paragraph 7 and with not providing additional transitional relief. The following table provides an overview of the responses received on SMC 38.

Table 1 SMC 38 responses

	Agree	Agree with exception	Disagree	Unsure
Out of 8 comment letters that commented on SMC 38	2 (25%)	6 (75%)	-	-
Out of 15 participants who attended a virtual/in-person outreach session and commented on SMC 38	12 (80%)	-	-	3 (20%)

12 Stakeholders generally agreed with the proposals, including that the transitional provisions provide ongoing relief and are available to entities whenever an entity reapplies the Tier 3 requirements or transitions from the Tier 1 or Tier 2 framework to the Tier 3 framework (subject to the restrictions in proposed para. 20B – 20C of AASB 1053).[1] Of the stakeholders

1 Proposed para. 20B of AASB 1053 states:
An entity that:
(a) has applied Tier 3 reporting requirements in a previous reporting period, but
(b) whose most recent previous annual financial statements did not contain an explicit and unreserved statements of compliance with Tier 3 reporting requirements; and
(c) is resuming the application of Tier 3 reporting requirements;
shall:

who provided written submissions on Section 29 of ED 335, two professional bodies (in a joint submission) and one professional services firm agreed with the proposals with no further comments. Five professional services firms and another professional body generally agreed with the proposals in Section 29, but expressed the concerns (and made related suggestions) noted in Table 2.

13 From virtual/in-person outreach, staff received comments that the transitional provisions could be expressed more clearly. Written submissions from a professional services firm and a professional body commented that Section 29 is difficult to understand and could be simplified and shortened significantly. Those comments will be addressed mainly in the drafting of the Tier 3 Standard, targeted for review by the Board in November 2025. For this Board meeting, staff re-examined the text of Section 29 to identify whether clarifying the requirements or improving internal consistency within the draft Standard gives rise to amendments that might be considered more than editorial. The resulting issues identified by staff are analysed in rows (2) – (5) of Table 2.

Staff analysis of stakeholders' comments on Section 29: SMC 38

14 The stakeholder feedback on SMC 38 is discussed in Table 2 below, categorised into:

(a) comments from stakeholders who generally supported the proposed transitional requirements but expressed disagreement with a particular proposal (see row (1)); and

(b) issues identified by the staff in response to stakeholders' comments that the transitional requirements should be expressed more clearly and succinctly (see rows (2) – (3)).

15 In addition, Table 2 discusses potential amendments as a consequence of Board decisions, at its July 2025 and August 2025 Board meetings, about other sections of the Tier 3 Standard (see rows (4) – (5)).

(d) apply all relevant requirements of Section 29 of AASB 10XX, or the option for modified retrospective application of Tier 3 reporting requirements of AASB 10XX; or

(e) not apply Section 29 of AASB 10XX, or the option for modified retrospective application of Tier 3 reporting requirements in accordance with Section 9 of AASB 10XX, if the entity applied all applicable recognition and measurement requirements of AASB 10XX.

Proposed paragraph 20C states:

Entities described in paragraph 20B(a)–(c) resume the application of Tier 3 reporting requirements effectively using the same approach as an entity would for first transitioning to Tier 3 reporting requirements set out in paragraph 18E. Accordingly, an entity that did not comply with Tier 3 reporting requirements due solely to omitting some disclosures, but otherwise continued to apply all applicable recognition and measurement requirements of AASB 10XX, is prohibited from applying either Section 9 or Section 29 of AASB 10XX on returning to Tier 3 reporting requirements. Instead, it continues applying applicable recognition and measurement requirements, whether it had previously initially applied Section 9 or Section 29 of AASB 10XX. However, if such an entity did not continue to apply all applicable recognition and measurement requirements of AASB 10XX in its most recent previous annual financial statements, that entity is required to apply Section 29 of AASB 10XX, or the option for modified retrospective application of Tier 3 reporting requirements in accordance with Section 9 of AASB 10XX, on resuming the application of Tier 3 reporting requirements.

Detailed outline of concerns expressed in stakeholders' feedback on SMC 38 and staff analysis

Table 2 SMC 38: Stakeholder comments and staff analysis and recommendations

Stakeholder comments	**Staff analysis**
Disagreement with proposed requirements	
<u>(1) Grandfathered Tier 1 or Tier 2 treatments</u> Five of the six professional services firms that provided written submissions expressed concerns with the proposed transitional relief to allow entities to elect to continue to adopt the existing Tier 1 or Tier 2 requirements for any or all assets or liabilities existing on the transition date on first-time application of the Tier 3 Standard.[2] Four of them expressed a view that the transitional relief would increase complexity, and reduce comparability and understandability, of Tier 3 financial statements for users and that its costs would exceed any potential benefits. In addition, individual firms: (a) highlighted that the proposed option would permit inconsistent treatment of items within the same class of assets and liabilities. For example, some items such	The Board had not considered transitional provisions in its predecessor Tier 3 DP as the Board considered it premature to develop any transitional provisions without seeking feedback on whether stakeholder support or otherwise exists for its proposed preliminary views in the DP. When developing the ED 335 proposals, the Board noted that some respondents to the predecessor Tier 3 DP (including 2 professional services firms) expressed concern about some Tier 3 NFP entities having incurred the cost of adopting existing Tier 1/Tier 2 reporting requirements, such as those in AASB 16 *Leases*, only to be required to undo that work if they adopt the Tier 3 Standard.[3] However, from its targeted outreach, some Project Advisory Panel members expressed a view that it would be easier for entities to transition fully to Tier 3 reporting requirements on the transition date because carrying forward accounting under Tier 1/Tier 2 reporting requirements might increase complexity.[4] The Board noted that requiring preparers to make adjustments to derecognise assets and liabilities previously recognised under the applicable Tier 1/Tier 2 requirements may be complex and costly especially for smaller NFP entities, albeit it being a one-off adjustment. The Board also considered allowing assets/liabilities recognised under Tier 1/Tier 2 requirements to continue to be treated under those requirements would be appropriate. This approach aligns with transitional provisions in AASB 1, to allow some exceptions to retrospective application of other Australian Accounting Standards. The Board considered assets and liabilities existing on the transition date would eventually be derecognised (e.g. right-of-use assets would eventually be written off in accordance with AASB 16, or financial assets/liabilities would eventually be disposed of). However, not

2 Para. 29.4 of ED 335 provides the optional relief, which states:
In relation to some or all assets or liabilities existing on the transition date, first-time adopters of this Standard transitioning under this section from application of Tier 1 or Tier 2 requirements of Australian Accounting Standards (as referred to in AASB 1053) may elect to continue applying all related Tier 1 and Tier 2 recording, measurement and disclosure requirements to those assets or liabilities.

3 See Agenda Paper 3.4 for the Board's meeting on 6 – 7 June 2024

4 See Agenda Paper 3.4, para. 41(b)

Stakeholder comments	Staff analysis
as long-term leases may have terms exceeding 10 years and indefinite-life intangible assets may also exist for an extended period, resulting in mixed treatment for a number of years, which could reduce comparability; (b) considered the rationale for the Board providing the transitional relief was not explained in the Basis for Conclusions; (c) anticipated minimal adoption of the transitional provisions given the complexity of Tier 1/Tier 2 requirements, the extended period for initial application and the simplification objectives of Tier 3 reporting; and (d) expressed concern that the requirements of para 29.4 may be unclear since para. 29.7(b) modifies the option to grandfather Tier 1/Tier 2 treatments by requiring an entity to cease recording items as assets or liabilities if the Standard does not permit such recording. They suggested an amendment to para. 29.7(b) such that it is read consistent in meaning with "cease recording items as assets or liabilities if this Standard does not permit a policy	permitting grandfathering of Tier 1/Tier 2 treatments of assets and liabilities existing at the date of transition to the Tier 3 reporting requirements would enhance consistency between entities applying the Tier 3 Standard. On balance, the Board decided to permit grandfathering of Tier 1/Tier 2 treatments of assets and liabilities existing at the date of transition to the Tier 3 reporting requirements because it is simpler than the alternative. The Board concluded the approach is also consistent with transitional requirements in other jurisdictions, likely to achieve a better balance of costs and benefits, and unlikely to be applied to a wide range of assets and liabilities[5]. In relation to the stakeholder feedback on Section 29 of ED 335, staff note that the Board did not specifically previously consider the assets/liabilities existing on the balance sheet with long lives/maturities. Staff agree that allowing entities to apply Tier 1/Tier 2 recognition and measurement (R&M) requirements for some assets and liabilities with long lives/maturities – while requiring Tier 3 R&M for other items within the same class of assets/liabilities – could result in long-term mixed treatments. This would reduce the comparability and understandability of Tier 3 financial statements. Staff also acknowledge that there may be some proposed transitional provisions such as for revenue where an entity has an option not to change accounting policies for any in-progress contacts and such contracts could be for use of a long-lived asset. However, staff consider the relief is still confined to that specific transaction/asset rather than giving a blanket grandfathering option. One potential response to those concerns would be to permit Tier 3 NFP entities to grandfather the application of Tier 1/Tier 2 reporting requirements for classes of assets/liabilities that include legacy assets/liabilities at the date of transition (thus also including assets/liabilities arising after the date of transition). This approach would ensure consistent treatment for classes of items affected by the grandfathered Tier 1/Tier 2 requirements. However, this would cause Tier 3 financial statements to adopt mixed reporting frameworks for an indefinite period and reduce comparability between Tier 3 financial statements. It would also reduce the understanding of the accounting policies 'generally adopted' by entities purported to apply Tier 3 reporting requirements. Therefore, staff consider that grandfathering Tier 1/Tier 2 reporting requirements on a class of assets/liabilities basis would not

5 See minutes of Board Meeting 204 held on 6 – 7 June 2024

Stakeholder comments	Staff analysis
which would give rise to those assets or liabilities".	support the Board's objective of developing a commonly understood framework of simplified reporting requirements for Tier 3 NFP entities. The Board previously noted the possible issue of its approach could reduce comparability between Tier 3 entities. Nevertheless, because of: • the high percentage of the admittedly small number of written submitters that disagreed with the blanket grandfathering option; • the blanket grandfathering option would be unlikely to be applied to a large range of assets and liabilities; • the trade-off between ongoing complexity if the grandfathering option is retained in the Tier 3 Standard and the one-off complexity of Tier 3 NFP entities making adjustments to align with Tier 3 reporting requirements on initial adoption of the Standard; • the fact that removing the option would simplify further the text of Section 29; and • new evidence from stakeholder feedback suggesting that long lives/maturities assets/liabilities could result in long-term mixed treatments, **staff recommend** removing the option in para. 29.4 of ED 335 to grandfather the application of Tier 1 or Tier 2 accounting policies for any or all assets or liabilities existing on the date of transition. As noted earlier in the analysis, some other paragraphs of ED 335 propose limited grandfathering of existing accounting policies, drafted using the IFRS for SMEs ED (as documented in Agenda Paper 3.11 for the Board's September 2024 meeting). Examples of these relate to derecognition of financial assets and financial liabilities[6] (para. 29.10(a)) and revenue recognition (para. 29.11(d)). Those exemptions are similar to those provided to Tier 1 and Tier 2 entities in AASB 1 and AASB 1053. Staff do not propose to amend those specific exemptions even if the option in para. 29.4 is removed.

6 Staff consider that omitting the option in para. 29.4 of ED 335 should not entail omitting or modifying the prohibition in para. 29.10(a) of retrospectively changing the entity's derecognition policies for financial assets and financial liabilities. Unlike the proposed option to generally grandfather the application of Tier 1/Tier 2 reporting requirements for any or all assets or liabilities existing on the date of transition, the prohibition in para. 29.10(a) is consistent with the transitional provisions applicable under Tier 1/Tier 2 reporting requirements (per para. B2 of AASB 1). In addition, the grandfathering in para. 29.10(a) is narrower in scope, applying only for derecognition of financial assets and financial liabilities.

Stakeholder comments	Staff analysis
	Regarding the other stakeholder comments noted adjacently, it would be unnecessary to address concerns about the interaction of para. 29.4 and 29.7(b) if Board members agree with the staff recommendation. If the Board agrees with the staff recommendation to remove the option in para. 29.4 of ED 335, staff will re-examine whether there should be further exemptions or relief (in addition to row (3) below regarding relief for business combinations). For example, when developing the transitional provisions, the Board noted it did not need to provide specific transitional provisions for entities that may have a hedging relationship because of its proposal to provide a blanket exemption to allow entities to continue their Tier 1/Tier 2 accounting policies for existing assets/liabilities on the transition date. The Board may wish to consider providing a transitional provision for entities with hedging relationships that existed on the transition date to continue hedge accounting until the hedging relationships cease. Staff will bring further analysis for the Board to consider as part of drafting targeted for review by the Board in November 2025.
Responding to general request from stakeholders for clarifications and redrafting	
<u>(2) Clarity of 'date of transition'</u> On re-examining the draft text of Section 29, staff noted that the meaning of 'date of transition' to the Tier 3 Standard is potentially unclear.	As noted in paragraph 10(d) above, para. 29.6 of ED 335 proposed that the date of transition to the Tier 3 Standard is: (a) if the entity elects to apply Section 29, the beginning of the earliest period for which the entity presents full comparative information in accordance with the Tier 3 Standard in its first financial statements that conform to that Standard; or (b) if the entity elects to apply Section 9, the beginning of the current period in which the Tier 3 Standard is first applied (with the cumulative effect of changed accounting policies on the carrying amounts of assets and liabilities recorded as at the date of transition). Determining the date of transition is important because that is the date from which the Tier 3 Standard's requirements must be complied with (per para. 29.7) and because the requirements in para. 29.9 to make Tier 3-compliant accounting estimates for the first time have regard to the transition date. For example, under para. 29.11(a), a Tier 3 NFP entity may elect to measure the cost of a non-financial asset at its fair value or current replacement cost (as applicable) at the date of transition; any changes in fair value or current replacement cost between the date of transition and the current period are ignored for the purposes of establishing the asset's deemed cost.

Stakeholder comments	Staff analysis
	Staff note that the descriptions of the 'date of transition' in para. 29.6(a) and (b) may, under certain circumstances, lead to the identification of the same date of transition despite differences in wording. This could potentially confuse readers of the Tier 3 Standard, who might wonder why the text in (a) and (b) differs if the date of transition would be the same regardless. However, if a Tier 3 NFP entity transitioning to the Tier 3 reporting requirements via Section 29 presents full comparative information in its first Tier 3-compliant financial statements, the date of transition would be the beginning of the annual period immediately preceding the current annual period in which the Tier 3 Standard is first applied. Otherwise, the date of transition would be the beginning of the current period in which the Tier 3 Standard is first applied. Therefore, **staff recommend** adding an explanation that the date of transition will be the same point in time whether Section 9 or Section 29 applies, unless a Tier 3 NFP entity transitioning via Section 29 elects to present full comparative information in accordance with the Tier 3 Standard. This might be via a note in the Basis for Conclusions accompanying the Tier 3 Standard.
<u>(3) Exemption for business combinations</u> On re-examining the draft text of Section 29, staff noted that, despite ED 335 proposing an option whether a parent entity prepares consolidated financial statements, the transitional requirements might be more onerous than those in Tier 1 or Tier 2 reporting requirements (as set out in AASB 1 *First-time Adoption of Australian Accounting Standards*), which would be inconsistent with the drafting principle not to impose more onerous requirements than those applying to Tier 2 entities.	AASB 1 Appendix C provides an exemption for first-time adopters of Australian Accounting Standards for entities (whether they are transitioning to Tier 1 or Tier 2 requirements) that apply AASB 1 on transition, in relation to past business combinations. It includes: "A first-time adopter may elect not to apply AASB 3 retrospectively to past business combinations (business combinations that occurred before the date of transition to Australian Accounting Standards). However, if a first-time adopter restates any business combination to comply with AASB 3, it shall restate all later business combinations and shall also apply AASB 10 from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to Australian Accounting Standards, and it shall also apply AASB 10 from 30 June 20X6." (para. C1) ED 335 did not include a proposed equivalent exemption. The staff analysis for Section 29 in Agenda Paper 3.11[7] for the Board meeting in September 2024 argued that an exemption (such as the exemption in para. 35.10(a) of the revised IFRS for SMEs Accounting Standard (February 2025)) is unnecessary because of:

7 Agenda Paper 3.11 is accessible in the Board Member Only section of the AASB web site.

Stakeholder comments	Staff analysis
	• the Board's proposal to allow a Tier 3 NFP parent entity the election to present consolidated financial statements; and • the proposal to require the book-value method to account for entity combinations means Tier 3 NFP entities would not restate the carrying amounts of assets and liabilities unless they elect to restate comparative amounts for one or more prior periods. On re-examining this issue, staff considered the circumstances of a first-time adopter of the Tier 3 Standard that previously prepared consolidated financial statements and elects to continue doing so, and its accounting treatment of the relevant entity combination differed from that in Section 17: *Entity Combinations* of ED 335 (i.e. it did not apply the book-value method to measure the resulting assets, liabilities and equity items). If the Board agrees with the staff recommendation to remove the optional relief in para. 29.4 of ED 335 to grandfather the application of Tier 1/Tier 2 accounting requirements for any or all assets or liabilities existing on the date of transition, then none of the exemptions in Section 29 of ED 335 would exempt that Tier 3 NFP entity from needing to restate its financial statement amounts by no later than the beginning of the current period in which the Tier 3 Standard is first applied to align with the requirements of Section 17. Therefore, on reflection, staff consider the absence of such an exemption would make the transitional requirements of the Tier 3 Standard more onerous than the transitional requirements of AASB 1. Staff also consider that, even if the preparation of consolidated financial statements by Tier 3 NFP parent entities is uncommon, that is insufficient reason to retain a more onerous transitional requirement with potentially significant preparation costs for affected entities. Therefore, the Board might consider providing a specific transitional provision in this regard to encourage entities already preparing consolidated financial statements that comply with AASB 3 and AASB 10 to allow these entities not to change their current accounting for consolidation of past business combinations (i.e. based on AASB 3 acquisition method accounting), rather than requiring affected entities to identify the book values to comply with the proposed accounting for entity combinations in Section 17. Staff note that entities that elect to continue their Tier 1/Tier 2 accounting for consolidation on the transition date may also carry forward goodwill, the recognition of which is not permitted by the Tier 3 requirements. However, staff note that when developing the option to grandfather Tier 1 or Tier 2 treatments, the Board acknowledged the possibility of goodwill remaining on the Tier 3 balance sheet indefinitely. Since there is no guidance on how to account for goodwill in the Tier 3 Standard, an entity would apply the Tier 3 hierarchy approach to develop an accounting policy dealing with

Stakeholder comments	Staff analysis
	similar or related issues to treat goodwill as intangible assets subject to Tier 3 impairment requirements. Based on the analysis above, **staff recommend** adding a specific exemption that a parent entity first-time adopter of the Tier 3 Standard that: • applies Section 29; and • elects to prepare consolidated financial statements may elect to apply Section 17 on a prospective basis to entity combinations that occurred before the date of transition to the Tier 3 Standard. If the Board agrees with this staff recommendation, staff will address in the Standard's drafting (targeted for review by the Board in November 2025) whether to also exempt from retrospective application of the Tier 3 requirements some or all past acquisitions of investments in associates and interests in joint arrangements (paralleling the exemption in AASB 1, para. C5).
Potential amendments relating to prior Board decisions	
<u>(4) Retrospective correction of prior period errors</u> At its July 2025 meeting, the Board <u>decided</u> to finalise the Tier 3 requirements for Section 9 *Accounting Policies, Estimates and Errors* as exposed in ED 335, except to require 'full' retrospective correction of prior period errors and related disclosures to align with the corresponding Tier 2 reporting requirements. Consequently, changes in accounting policy (which would be recognised on a modified retrospective basis) would be treated differently from corrections of prior period	For entities applying either Section 9 or Section 29 to transition to Tier 3 reporting requirements, para. 29.17(b) of ED 335 proposed optional relief from distinguishing corrections of prior period errors from changes in accounting policies when disclosing adjustments to the carrying amounts of assets, liabilities or items of equity on initial adoption. It does not include an optional relief from restating comparative period information, like the optional relief for first-time adoption of AASB 1060 via AASB 1 in para. E5 – E6 of AASB 1053. When developing the proposals, the Board considered that it did not need to provide the optional relief from restating comparative period information because of its proposals to provide the option to apply Section 9, which requires a modified retrospective application for changes in accounting policies and corrections of prior period errors.[9] However, the Board decided at its July 2025 meeting to specify different ongoing requirements for changes in accounting policy (i.e. modified retrospective application) and corrections of prior period errors (i.e. full retrospective application). Therefore, the Board's decision would have the following

9 Refer to <u>Agenda Paper 3.4</u> presented at the 6-7 June 2024 Board meeting.

Stakeholder comments	Staff analysis
errors, which would affect the presentation of comparative information differently.[8]	implications for the period in which corrections of prior period errors are presented on transition to the Standard: • A Tier 3 NFP entity that selects the application of Section 9 on transitioning to the Tier 3 Standard would be required to restate comparative period information only for any correction of prior period errors while a modified retrospective approach applies to changes in accounting policies (i.e. adjustments are made to the opening balances for the current period only). • There would be a conflict between those requirements and the optional relief from distinguishing prior period errors and changes in accounting policies. Since entities are required to restate comparative period information for corrections of errors, they would be required to distinguish the restatements from those that are changes from accounting policies. This might nullify the optional relief. The questions the above-mentioned Board decision raises are: (a) whether the first-time optional relief from distinguishing corrections of prior period errors and changes in accounting policies proposed in para. 29.17(b) should be retained for a Tier 3 NFP entity that transitions by applying Section 9 on first-time adoption of the Tier 3 reporting requirements; and (b) if so, whether an additional relief should be provided to allow entities applying Section 9 on first-time transition to elect to apply a modified retrospective approach to correcting prior period errors on transition to the Tier 3 Standard. Staff consider that the transition requirements for the Tier 3 Standard should not be more onerous than those specified for for-profit entities (or those proposed for NFP entities in ED 334) when first adopting Tier 2 reporting. Therefore, staff consider that entities that select Section 9 on transitioning to the Tier 3 Standard should be allowed to apply a modified retrospective approach to correcting prior period errors – but only on transition to the Tier 3 Standard. Therefore, **staff recommend** extending the optional relief for entities applying Section 9 on transitioning to the Tier 3 reporting requirements to apply a modified retrospective approach to

8 This Board decision will be reflected in amendments to para. 9.24 of ED 335 regarding how an entity corrects a prior period error.

<table>
<tr><th>Stakeholder comments</th><th>Staff analysis</th></tr>
<tr><td></td><td>correcting prior period errors – but this exemption would apply only on transition to the Tier 3 Standard.

Staff note that it might be unclear in ED 335 whether entities applying Section 29 are required to restate comparative period information to conform to Tier 3 R&M requirements (staff’s understanding is that the Board’s intention is not to require an entity to restate comparative period information). Also, it might be unclear whether entities applying Section 29 are required to correct prior period errors retrospectively or correct them as an adjustment to the opening balances for the current period if comparatives are not restated. Staff are currently analysing the application of the requirements for entities applying Section 29 and will bring recommendations to the Board for consideration at a future meeting.</td></tr>
<tr><td><u>(5) Fair value through other comprehensive income measurement and recognition election for investments in notable relationship entities</u>

At its August 2025 meeting, the Board decided to clarify that if the fair value through other comprehensive income (FVTOCI) measurement and recognition election is made in accounting for the entity’s first investment in a notable relationship entity, then that measurement approach applies to all of the entity’s investments in notable relationship entities.</td><td>Staff considered whether, for consistency with this amendment to the ED 335 proposals, any amendment(s) of the transitional provisions in Section 29 of the draft Tier 3 Standard should be made. Para. 29.11(e) of ED 335 includes a similar provision for financial assets as follows:

“For a class of financial assets acquired or originated by the entity to generate both income and a capital return for it, and measured at fair value as at each measurement date in accordance with paragraph 10.7(a), the date of transition to this Standard may be deemed to be the date of initial recording of the first asset in that class. Consequently, if such a class of financial assets were held upon the date of transition to this Standard, the irrevocable election permitted by paragraph 10.7(a) to present changes in the fair value of that class in other comprehensive income may be made as at the date of transition to this Standard by deeming that date to be the date of initial recording of the first asset in that class.”

However:
para. 29.11(e) makes no reference to investments in notable relationship entities, which are to be recognised and measured in accordance with Section 8 of the Tier 3 Standard; and
para. 29.11(e) is expressed as applying to a class of financial assets measured at fair value in accordance with paragraph 10.7(a). Therefore, it does not cater for FVTOCI measurement of investments in associates and joint ventures, as addressed in para. 13.18 of ED 335.</td></tr>
</table>

Stakeholder comments	Staff analysis
	Therefore, to provide similar relief, **staff recommend** extending the scope of the transitional provisions in para. 29.11(e) so that: • an entity may elect to present changes in the fair value of its investments in notable relationship entities in other comprehensive income at the date of transition to the Tier 3 Standard; and • the transitional provision in para. 29.11(e) would be expressed as also including investments in associates and joint ventures.

Staff recommendations

16 In view of the generally supportive stakeholder feedback summarised in Table 1, the staff analysis of stakeholders' comments in Table 2, the staff recommendations on the stakeholder comments in Table 2 are that the proposals in Section 29 of ED 335 should be retained in the Tier 3 Standard as exposed, subject to any drafting issues to be considered at a future meeting (targeted to be November 2025), except for the following amendments:

(a) removing the option in para. 29.4 to grandfather the application of Tier 1 or Tier 2 accounting policies for any or all assets or liabilities existing on the date of transition to that Standard;

(b) adding an explanation that the date of transition will be the same point in time whether Section 9 or Section 29 applies, unless a Tier 3 NFP entity transitioning via Section 29 elects to present full comparative information in accordance with the Tier 3 Standard via a note in the Basis for Conclusion accompanying the Tier 3 Standard;

(c) adding a specific exemption that a parent entity first-time adopter of the Tier 3 Standard that elects to prepare consolidated financial statements and applies Section 29 may elect to apply Section 17 on a prospective basis to entity combinations that occurred before the date of transition to the Tier 3 Standard;

(d) extending the optional relief for entities selecting Section 9 on transitioning to the Tier 3 reporting requirements to apply a modified retrospective approach to correcting prior period errors, with the exemption available only on transition to the Tier 3 Standard; and

(e) extending the scope of the transitional provisions in para. 29.11(e) so that an entity may elect to present changes in the fair value of its investments in notable relationship entities in other comprehensive income at the date of transition to the Tier 3 Standard. The transitional provision in para. 29.11(e) would be expressed as also including investments in associates and joint ventures.

Question 1 to Board members

Do Board members agree with the staff recommendations to finalise the Tier 3 requirements in Section 29 of ED 335 as exposed, subject to any redrafting necessary to improve the clarity of the requirements, except for the amendments listed in paragraph 16?

If not, what do Board members suggest?

Appendix C: *Amendments to other Australian Accounting Standards*

Summary of proposals in Appendix C

17 Appendix C of ED 335 proposed amendments to Australian Accounting Standards to facilitate the application of Tier 3 reporting requirements and transitioning from preparing GPFS in accordance with Tier 3 reporting requirements to either Tier 1 or Tier 2 reporting requirements for the first time (or reverting from such GPFS to Tier 3 reporting requirements). At a high level, the main proposed amendments to AASB 1053 include:

(a) Specifying the characteristics of entities that may, as a minimum, apply Tier 3 reporting requirements. A similar amendment is also proposed for AASB 1057 *Application of Australian Accounting Standards*;

(b) Introducing requirements for:

(i) first-time application of Tier 3 reporting requirements;

(ii) reapplication of Tier 3 reporting requirements; and

(iii) entities transitioning from Tier 3 reporting requirements to Tier 1 or Tier 2 reporting requirements.

(c) These entities noted in 17(b)(iii) transitioning:

(i) to Tier 1 reporting requirements for the first time shall apply all the relevant requirements of AASB 1 (para. 25); and

(ii) to Tier 2 reporting requirements for the first time shall apply either all the relevant requirements of AASB 1 or Tier 2 reporting requirements directly using the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (para. 26 of AASB 1053). Entities applying Tier 2 reporting requirements for the first time may elect not to:

(A) restate comparative information presented for prior periods as if the Tier 2 reporting requirements had been applied from the beginning of the earliest prior period presented;

(B) provide comparative information for new disclosures made in accordance with the Tier 2 reporting requirements; or

(C) distinguish corrections of errors made in periods prior to first-time adoption of the Tier 2 reporting requirements and changes in accounting policies (para. 27).

18 SMC 40 asked for stakeholders' views on whether they agreed with the proposed amendments to AASB 1053.

Staff analysis of stakeholders' feedback, and staff recommendation, on SMC 40

Overview of stakeholder feedback received

19 As reported in Agenda Paper 4.3 considered at the May 2025 Board meeting, of the 18 comment letters that responded directly to ED 335, 6 respondents provided a response to SMC 40. Staff did not ask Question SMC 40 at virtual/in-person outreach sessions. The following table provides an overview of the responses received on SMC 40. All 6 comment letters agreed, or agreed with an exception, with the Board's proposals in SMC 40; and were submitted by 4 professional services firms and 3 professional bodies (2 in a joint submission).

Table 3 SMC 40 responses

	Agree	Agree with exception	Disagree	Unsure
Out of 6 comment letters that commented on SMC 40	4 (67%)	2 (33%)	-	-

20 Three professional services firms and one professional body agreed with the proposed amendments to other Australian Accounting Standards in Appendix C, including the transition relief provided to entities from Tier 3 to Tier 2 reporting requirements (which they considered to be a simplification relevant to NFP entities that might need to transition between reporting tiers due to receiving a one-off bequest and/or capital grant).

21 However, a few stakeholders agreed with some exceptions as follows:

(a) one professional services firm disagreed with the proposed characteristics of NFP entities to which the Tier 3 reporting requirements shall, as a minimum, be applied (re: SMC 40(a)). The firm recommended the Board considers framing the second limb to the effect that Tier 3 entity is one where legislation, the constituting or other document permits application of the Tier 3 framework. They considered this amendment would ensure larger NFP entities are prevented from adopting the Tier 3 framework until regulators/legislation introduce thresholds for Tier 3; and

(b) two professional bodies (in a joint submission) agreed with the amendments, but advocated an interim or transitional threshold mechanism to amendments within AASB 1053 as part of their comments on ED 334.

Staff analysis and recommendation of stakeholders' comments on Appendix C: SMC 40

22 The Board considered the issue relating to reporting thresholds at its July 2025 meeting. Having regard to Agenda Paper 5.1 for that meeting, the Board decided to confirm its proposals in ED 355 by finalising Section 1 as exposed in ED 335, without specifying any reporting thresholds or making the application of the Tier 3 Standard dependent on a legal authority specifically permitting such application.[10] Similarly, the Board decided to amend AASB 1053 to make the *Conceptual Framework for Financial Reporting* and Australian Accounting Standards applicable to the NFP entities, without an interim or transitional threshold mechanism to those amendments within AASB 1053.

23 Staff note that the main aspect of SMC 40 yet to be redeliberated by the Board is that referred to in SMC 40(b) (see paragraph 17(b) above) – that is, the proposed requirements for an entity transitioning from applying Tier 3 reporting requirements to applying Tier 1 or Tier 2 reporting requirements for the first time.[11] Of the 6 comment letters that commented on the Board's proposals in SMC 40 (all of which agreed, or agreed with an exception), none expressed any disagreement with the Board's proposals in SMC 40(b).

24 In view of the generally supportive stakeholder feedback summarised in Table 3, the Board's decisions in response to the stakeholders' concerns noted in paragraph 21, and the fact that the stakeholder feedback did not provide new compelling evidence that should cause the Board to change its views on the key proposals, staff recommend that the proposals in Appendix C of ED 335 should be retained in the Tier 3 Standard as exposed, subject to any drafting issues to be considered at a future meeting (targeted to be November 2025).

Question 2 to Board members

Do Board members agree with the staff recommendation to finalise the amendments to other Australian Accounting Standards in Appendix C as exposed in ED 335, subject to any redrafting necessary to improve clarity of the requirements?

If not, what do Board members suggest?

10 Refer to 3 July 2025 Board meeting minutes.

11 Agenda Paper 5.1 seeks a Board decision about whether to finalise the proposed transitional requirements for an entity transitioning from special purpose financial statements to Tier 2 reporting requirements for the first time. The form of proposed transitional relief is the same as that applying to entities transitioning from Tier 3 reporting requirements to Tier 2 reporting requirements. While ED 334 had proposed that the relief be available only to early adopters of the issued requirements, staff recommendation is to remove the proposed limit on the availability of the short-term exemptions applying to entities preparing financial statements that comply with Tier 2 Australian Accounting Standards – Simplified Disclosures