



Project:	Not-for-Profit Private Sector Financial Reporting Framework	Meeting:	AASB March 2026 (M219)
Topic:	Not-for-Profit Private Sector Financial Reporting Framework – Due process	Agenda Item:	3.1
		Date:	4 March 2026
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		Decision-Making:	High
		Project Status:	Finalising Standard

Objective of this agenda item

- 1 The objective of this agenda paper is for the Board to decide whether to proceed to a pre-ballot draft of the Tier 3 Standard resulting from ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*. To this end, this paper:
 - (a) describes the due process conducted in relation to developing Australian Accounting Standard AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* (Tier 3 Standard); and
 - (b) analyses whether the nature and extent of changes to the proposals in ED 335 warrant re-exposure of the proposals.
- 2 Agenda Paper 4.2 at this meeting seeks the Board’s decision on whether to proceed to a pre-ballot draft of Amending Standard AASB 2026-X *Amendments to Australian Accounting Standards – Extending the Application of the Conceptual Framework and Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*.

Structure of this paper

- 3 This paper is structured as follows:
 - (a) Background and reasons for bringing this paper to the Board (paragraphs 4 – 7);
 - (b) Key milestones (paragraphs 8 – 10);
 - (c) Summary of the steps taken and how ‘comply or explain’ elements have been addressed in the AASB Due Process Framework (paragraphs 11 – 14);
 - (d) Re-exposure considerations (paragraphs 15 – 20); and
 - (e) Staff recommendations (paragraphs 21 – 22).

Background and reasons for bringing this paper to the Board

- 4 The Board decided at its May 2025 meeting to proceed with developing a Tier 3 Accounting Standard with simplified recognition, measurement, presentation and disclosure requirements for not-for-profit (NFP) private sector entities, and to commence redeliberations of the proposals in ED 335.¹

1 Per [minutes](#) of the 1 May 2025 AASB meeting

- 5 The Board commenced its redeliberations of the proposals in ED 335 at the July 2025 Board meeting (M213) and completed the majority of its technical decisions in the February 2026 Board meeting (M218). A summary of the Board’s revisions to its proposals in ED 335 is presented in Appendix A.
- 6 Paragraph 7.5.4 of the [AASB Due Process Framework for Setting Standards](#) (AASB Due Process Framework) states that when the Board has reached a general agreement on the technical matters in the project and considered the likely impact of the pronouncement, including the Impact Analysis^{2,3} (refer Agenda Paper 3.5) or similar document [a cost/benefit analysis], staff are to present a paper to the Board:
- (a) summarising the steps taken by the Board in developing the pronouncement;
 - (b) setting out how the ‘comply or explain’ due process elements set out in the AASB Due Process Framework have been addressed;
 - (c) assessing whether the proposals can be finalised or whether they should be re-exposed; and
 - (d) recommending whether the pronouncement should be issued under section 334 of the *Corporations Act 2001*.
- 7 This paper outlines the steps taken in developing the Tier 3 Standard to help the Board determine whether its due process has been sufficiently applied, enabling it to assess whether to proceed to a pre-ballot draft Standard.

Key milestones

- 8 Key milestones in the development of AASB 10XX are summarised in the following table.

Date	Milestone
November 2019	The Board approved the project plan <i>NFP Private Sector Financial Reporting Framework</i> . The project plan outlined the objective to develop a simple, proportionate, consistent and transparent financial reporting framework for all NFP private sector entities in Australia.
February 2021 – August 2022	The Board decided to develop a consultation paper containing the preliminary views for Tier 3 reporting requirements and the removal of the ability to prepare special purpose financial statements (SPFS) for certain NFP entities. The Board deliberated the proposals for Tier 3 reporting requirements.
September 2022	The Board published a Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities) – to gather views on its preliminary views about an additional third reporting tier for use by NFP private sector entities and its intention to remove the capacity for NFP entities to prepare SPFS under Australian Accounting Standards.

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- 2 Paragraph 7.5.4 references the Regulation Impact Statement. This document has since been superseded by the Impact Analysis.
- 3 The [Australian Government Policy Impact Analysis](#) contains seven questions:
- (1) What is the problem you are trying to solve and what data is available?
 - (2) What are the objectives, why is government intervention needed to achieve them, and how will success be measured?
 - (3) What policy options are you considering?
 - (4) What is the likely net benefit of each option?
 - (5) Who did you consult and how did you incorporate their feedback?
 - (6) What is the best option from those you have considered and how will it be implemented?
 - (7) How will you evaluate your chosen option against the success metrics?

Date	Milestone
October 2022 – March 2023	AASB staff conducted stakeholder outreach activities to gather feedback on the Discussion Paper
May 2023	<p>The Board received 263 responses from online surveys and 14 written submissions, and conducted several outreach events attended by over 280 attendees. The Board considered the preliminary analysis of stakeholder feedback supporting the proposals in the Discussion Paper and decided to proceed with:</p> <ul style="list-style-type: none"> • the development of a Tier 3 Accounting Standard with simplified accounting requirements for smaller NFP private sector entities; and • removing the ability of certain NFP entities to prepare SPFS under Australian Accounting Standards.
June 2023 – September 2024	The Board deliberated the development of its Exposure Draft for the proposed Tier 3 financial reporting framework for NFP private sector entities.
October 2024	The Board published ED 335 <i>General Purpose Financial Statements — Not-for-Profit Private Sector Tier 3 Entities</i> .
November 2024 – February 2025	AASB staff conducted stakeholder outreach activities to gather feedback on the Exposure Draft.
May 2025	The Board considered the feedback received on ED 335 and decided to continue the project and began redeliberation of the proposals.
July 2025 – February 2026	The Board completed the majority of its technical decisions based on stakeholder feedback.

- 9 ED 335 posed 40 specific matters for comments and four general matters for comment. The AASB received:
- (a) 12 survey responses;
 - (b) 21 formal written submissions;⁴ and
 - (c) feedback from five outreach sessions attended by 75 attendees jointly conducted with ED 335.
- 10 Comment letters, survey responses and roundtable feedback formed the basis for the Board’s redeliberation of the ED 335 proposals in July 2025 to February 2026. The Board’s decisions from these meetings were incorporated into the overall revisions reflected in the working draft of the Tier 3 Standard presented in February 2026 and at this meeting.

Summary of the steps taken and how ‘comply or explain’ elements have been addressed in the AASB Due Process Framework

- 11 When developing new and amending Standards, the AASB Due Process Framework identifies both ‘mandatory’ due process steps (paragraph 6.5) for domestic proposals for new and amending Standards and ‘comply or explain’ due process steps (paragraph 6.6).
- 12 Depending on the Board’s assessment of stakeholder feedback, the AASB Due Process Framework notes that additional public consultation on revised proposals may be required to finalise a pronouncement.

4 Of the 21 written submissions, 18 were received directly on ED 335 and 3 were submissions on ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* that contained comments on ED 335.

- 13 Table 1 summarises the due process steps and the actions taken by the AASB to date based on the ‘mandatory’ and ‘comply or explain’ due process steps.

Table 1 Due Process Steps and Actions taken by the AASB

Due Process		AASB Actions
Identifying the accounting or external reporting issues to be addressed, the scope of the issue and the rationale for needing a standard-setting solution [<i>paragraph 6.5(a)</i>]	Mandatory	Achieved: The Board approved the not-for-profit private sector financial reporting framework project plan and in the Basis for Conclusions accompanying ED 335, which identified the issues with the current financial reporting regime, with the objective of the project to lead the development of a simple, proportionate, consistent and transparent financial reporting framework for all NFP private sector entities in Australia. This step addresses the Impact Analysis questions 1 and 2.
Debating proposals in one or more public meetings [<i>paragraph 6.5(b)</i>]	Mandatory	Achieved: Board discussions of its proposals in public based on stakeholder feedback in AASB meetings throughout the project – refer to project summary.
Using an evidence-informed approach to standard-setting to ensure regulatory action is warranted, including completing before finalisation a Regulation Impact Statement or similar assessments in the Basis for Conclusions [<i>paragraph 6.5(c)</i>]	Mandatory	Achieved: Staff have prepared and submitted to the Office of Impact Analysis an Impact Analysis of the costs and benefits of issuing the Tier 3 Standard (together with the proposals for an amending Standard containing amendments to the <i>Conceptual Framework</i> and other relevant Australian Accounting Standards) – refer Agenda Paper 3.5). Staff have also included in the Basis for Conclusions discussion of how the standard-setting has been evidence-informed. This step addresses Impact Analysis questions 4 and 6.
Exposing for public comment a draft of any proposals [<i>paragraph 6.5(d)</i>]	Mandatory	Achieved: ED 335 was published for a 120-day comment period (November 2024 – February 2025 inclusive). This step addresses Impact Analysis questions 4, 5 and 6. In addressing the policy options being considered, the AASB published a Discussion Paper prior to ED 335, which outlined the proposed options under consideration. See further information below. This step addresses questions 3 – 7 of the Impact Analysis.
Making public submissions received, summaries of outreach events and other targeted consultations [<i>paragraph 6.5(e)</i>]	Mandatory	Achieved: Submissions on ED 335 were published on the AASB website and summaries of feedback were presented at the 1 May 2025 Board meeting (see Agenda Papers 3.2 , 3.3 , 4.3 and 4.4).

Due Process		AASB Actions
Considering in a timely manner the feedback received from comment letters and other outreach events and addressing in the Basis for Conclusions of any final pronouncements how the feedback has been addressed [paragraph 6.5(f)]	Mandatory	Achieved: Stakeholder comments were considered by the Board in its redeliberations following the comment period closing for ED 335: this occurred at the AASB Board meetings held in July 2025, August 2025, October 2025, November 2025 and February 2026. The Board’s decisions, resulting from its redeliberation of stakeholder feedback on the Exposure Drafts, are documented in the Basis for Conclusions. This step addresses Impact Analysis questions 4, 6 and 7.
Considering whether the proposals should be exposed again [paragraph 6.5g)]	Mandatory	At this meeting, the Board is asked to consider whether the proposals should be re-exposed. The staff analysis in this regard is set out in paragraphs 15 – 21 of this paper.
Reporting to the Financial Reporting Council on the due process followed [paragraph 6.5(h)]	Mandatory	Conditional, subject to the Board agreeing with the staff’s recommendation that due process has been met.
Publishing a discussion document before an Exposure Draft is developed. The comment period for a domestic discussion paper is generally 120 days [paragraph 6.6(a)]	Comply or Explain	Comply: Discussion Paper <i>Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)</i> was published in September 2022 with a 180-day comment period (October 2022 – March 2023 inclusive).
Establishing a project advisory panel, implementation or transition resource group or other type of specialist advisory group, ensuring broad representation of relevant stakeholders, with at least one Board member [paragraph 6.6(b)]	Comply or Explain	Comply: The Not-for-Profit Project Advisory Panel was established in 2021 as an informal consultative group of experts to assist with the direction of the project, offering early development of proposals and helping to establish relationships with key stakeholders.
Holding roundtables and education sessions to solicit feedback [paragraph 6.6(c)]	Comply or Explain	Comply: Held roundtables (in-person and virtual) and meetings with stakeholders on ED 335 in December 2024 – February 2025. A webcast was published online, which provided an overview of the key proposals in ED 335. ⁵

5 The roundtable and education were conducted with ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* given the interaction between the exposure drafts.

Due Process		AASB Actions
Undertaking fieldwork [<i>paragraph 6.6(d)</i>]	Comply or Explain	Explain: The AASB did not specifically seek to have entities field test the proposals in ED 335. The Tier 3 Standard specifies accounting policies that many smaller not-for-profit private sector entities are likely already applying. It also introduces accounting policies unique to Tier 3, which are intended to simplify reporting compared to Tier 1 and Tier 2 requirements (for example, policies related to the preparation of consolidated or separate financial statements). In addition, the effective date for the Tier 3 Standard is for reporting periods beginning on or after 1 July 2029, providing sufficient time to address implementation issues before the Standard becomes effective, without the need for fieldwork.

- 14 The analysis presented in the table shows that the AASB has:
- (a) by the end of this meeting, conducted all mandatory due process requirements; and
 - (b) either complied with or provided an explanation in respect of all other potential due process steps.

Re-exposure considerations

- 15 As noted in Table 1, one of the mandatory due process steps is assessing whether the proposals can be finalised or whether they should be re-exposed, either fully through a new consultation process or partially through a ‘fatal flaw’ limited re-exposure.
- 16 The criteria against which the need for re-exposure is assessed is specified in paragraph 7.7.1 of the AASB Due Process Framework, and is as follows:
- (a) In considering whether there is a need for re-exposure, the AASB uses criteria similar to the IASB:
 - (i) extent of new substantive issues not considered during the initial consultation (eg new requirements, terminology and/or examples);
 - (ii) extent of change to original proposals (structural changes excluded);
 - (iii) extent of input from interested parties and whether any key stakeholders have not provided input; and
 - (iv) any new evidence on the extent and nature of the issue being addressed.
 - (b) The more extensive and fundamental the changes from the ED and current practice, the more likely the proposals should be re-exposed, albeit with a shortened exposure period. However, the AASB also considers the costs of delaying improvements to financial reporting and the urgency of the need for change.
 - (c) More weight is given to changes in recognition and measurement requirements than to disclosures in assessing whether to re-expose.
- 17 Paragraph 7.6.7 of the AASB Due Process Framework states that where there is some change from the ED but not enough to warrant re-exposure, a ‘fatal-flaw review’ version of a pronouncement may also be issued for a short period for public comment as a final opportunity to identify any further unintended consequences of the proposals, prior to voting by the Board.

Staff overall analysis of the extent of changes from ED 335 made in response to stakeholder feedback

18 Staff have identified a total of 78 changes arising from substantive Board-minuted decisions, on reflecting revisions the Board made in response to stakeholder feedback or further Board redeliberations. These changes are categorised into

- (a) changes to recognition and/or measurement requirements;
- (b) changes to disclosures;
- (c) changes to classification or presentation; and
- (d) clarification of requirements.

Table 2 provides a summary of those categorised changes, while Appendix A provides a detailed overview of the 78 changes, including the Board’s decisions and staff analysis against the re-exposure criteria listed in paragraph 16. Staff have also made further amendments to reduce verbosity and to make minor technical and editorial changes or improvements following further staff consideration of the ED (refer the working draft of the Standard, presented as Agenda Paper 10.2 of the AASB November 2025 meeting and Agenda Paper 4.1 of the February 2026 meetings), but have not included those changes in Table 2 .

Table 2 Summary of categorised changes to ED 335 proposals based on the Board's decisions on how it should finalise the Tier 3 requirements

Category of changes	Number of changes based on Board’s decisions to date ⁶	Sections impacted and summary of changes
(a) Changes to recognition and/or measurement requirements	19	<p><u>Section 9</u></p> <p>(1) require full retrospective restatement of prior period amounts presented to correct prior period errors (including making Tier 2-aligned note disclosures), instead of requiring the modified retrospective restatement (and reduced disclosures)</p> <p><u>Section 10</u></p> <p>(2) specify AASB 9 only applies to those complex or uncommon financial instruments listed in the Tier 3 Standard</p> <p>(3) changes to calculation of interest income/expenses (i.e. not limited by the carrying amount of the financial asset or financial liability at the beginning of a period)</p> <p>(4) no longer require the recognition of a commitment to provide a loan at a below-market rate</p> <p>(5) impairment losses are measured as the difference between the asset’s carrying amount and estimated future cash flows receivable, rather than the present value of estimated cash flows discounted at the asset’s contractual interest rate</p> <p><u>Section 13</u></p> <p>(6) transaction costs incurred in acquiring investments in associates and joint ventures to be expensed immediately</p> <p>(7) option to not adjust accounting policies of an investee</p> <p>(8) in relation to a joint venturer contributing or selling assets to the joint venture, refer to the joint venturer</p>

6 Some bullet points encompass multiple changes.

Category of changes	Number of changes based on Board's decisions to date ⁶	Sections impacted and summary of changes
		<p>having lost control of those assets, rather than having lost the significant risks and rewards of ownership of those assets</p> <p><u>Section 14</u></p> <p>(9) require investment property measured under the fair value model to be measured under the cost model in Section 15 until disposal of the investment property if the entity determines that the fair value is not reliably measurable on a continuing basis</p> <p><u>Section 17</u></p> <p>(10) entity combination date is when the acquirer gains control of the acquired entity/operating unit</p> <p>(11) extending the exemption from fair value measurement to include donated non-financial assets acquired at a nominal or significantly discounted amount, where those assets were initially measured at cost.</p> <p>(12) the exemption from measuring assets at fair value applies to any acquired unrecognised donated non-financial assets for which the acquiree had not paid any consideration in exchange</p> <p>(13) internally generated intangible assets acquired in entity combinations are not recognised</p> <p><u>Section 22</u></p> <p>(14) the loss of service potential for inventories held for distribution is measured by reference to the cost or current replacement cost of the inventories, as appropriate, rather than to the more easily determinable amount</p> <p><u>Section 28</u></p> <p>(15) remove grandfathering option for the application of Tier 1/Tier 2 accounting policies</p> <p>(16) add optional exemption to apply entity combinations requirements prospectively to entity combinations that occurred before the transition date</p> <p>(17) allow the carrying amount based on previous accounting policies as an additional option for determining deemed cost for investments in subsidiaries, associates, joint ventures and notable relationship entities</p> <p>(18) require a parent entity that applies the optional relief to apply Section 17 to entity combinations prospectively to cease recognition of any balance of goodwill existing as at the transition date</p> <p>(19) on transition for entities applying a modified retrospective approach to changes in accounting policies under Section 9, to add option to apply modified retrospective approach to correction of prior period errors</p>
(b) Changes to disclosures	11	<p><u>Sections 2-7</u></p> <p>(1) require an entity that accounts for investments in notable relationship entities to present the same</p>

Category of changes	Number of changes based on Board's decisions to date ⁶	Sections impacted and summary of changes
		<p>financial statement line items as those specified for investments in associates and joint ventures</p> <p><u>Section 14</u></p> <p>(2) remove disclosures for commitments for repairs, maintenance or enhancements</p> <p><u>Section 15</u></p> <p>(3) remove requirement to disclose the nature and amount of loans for which items of property, plant and equipment are pledged as security</p> <p><u>Section 16</u></p> <p>(4) remove requirement to disclose whether an independent valuer was involved for revalued intangible assets</p> <p>(5) remove requirement to disclose the nature and amount of loans for which items of intangible assets are pledged as security.</p> <p>(6) remove requirement to disclose the line items in the statement of profit or loss and other comprehensive income (or alternative statements) that include any amortisation of intangible assets</p> <p><u>Section 19</u></p> <p>(7) provide an impracticability exemption from disclosures about contingent liabilities and contingent assets, with disclosure of applying the exemption</p> <p>(8) remove requirement to disclose guarantees</p> <p><u>Section 22</u></p> <p>(9) require impairment losses to be disclosed separately from depreciation and amortisation expenses</p> <p><u>Section 28</u></p> <p>(10) for an entity that applied all relevant Tier 3 recognition and measurement requirements but did not make an unreserved statement of compliance, require disclosure of the reason why the entity stopped fully applying the Tier 3 reporting requirements and why it is resuming</p> <p><u>Appendix C</u></p> <p>(11) require entities that transition from Tier 3 to Tier 2 by applying one or more exemptions in Appendix F of AASB 1053 to disclose that fact</p>
(c) Changes to classification or presentation	4	<p><u>Sections 2-7</u></p> <p>(1) dual classification of expenses permitted</p> <p><u>Section 18</u></p> <p>(2) removed requirement to separate cost of services from lease payments for lessees.</p> <p><u>Section 20</u></p> <p>(3) require an entity to classify a deferred revenue obligation (or part thereof) as current if it expects the liability to be reduced and revenue recognised within twelve months after the reporting date</p> <p><u>Section 28</u></p>

Category of changes	Number of changes based on Board's decisions to date ⁶	Sections impacted and summary of changes
		(4) extend scope of option to make an irrevocable election at the transition date to present changes in fair value in other comprehensive income for investments in notable relationship entities, associates and joint ventures
(d) Clarification of requirements	44	<u>Multiple sections, including Glossary of terms</u> The changes were mainly to clarify the requirements, including illustrative examples or structural changes without changing the Board's intent, and to address stakeholder feedback

19 Staff consider the Board's revisions to its proposals in ED 335 overall do not meet the re-exposure criteria listed in paragraph 16. In relation to:

- (a) the extent of new substantive issues not considered during the initial consultation – the Board's revisions did not result in new substantive issues that were not considered during the initial consultation. In the 17 instances where changes affect recognition or measurement requirements, most of those changes are aimed at simplifying the requirements. Overall (and in almost every case), such changes are expected to reduce costs for preparers relative to those originally envisaged, based on staff analysis and stakeholder feedback;
- (b) the extent of change to original proposals – the Board's revisions do not constitute extensive changes to the original proposals. Most of the changes (44 instances) are clarifications intended to improve the understandability of the requirements or structural changes aimed at improving readability;
- (c) extent of input from interested parties and whether any key stakeholders have not provided input – the Board's revisions were made in response to stakeholder comments received during the consultation of ED 335, as well as feedback from earlier consultation on the predecessor Discussion Paper outlining the original proposals. As per paragraph 9, the Board received feedback via different avenues, consisting of written submissions, online surveys, roundtables and targeted outreach. This indicates significant engagement with stakeholders on ED 335 through a variety of formats designed to facilitate and maximise stakeholder feedback. Accordingly, no key stakeholders have been excluded from the consultation process; and
- (d) any new evidence on the extent and nature of the issue being addressed – the stakeholder feedback did not introduce new evidence except for evidence on which some Board revisions of recognition and measurement requirements were based (i.e. in response to compelling new reasons raised by stakeholders that had not been previously considered by the Board). These reasons highlighted that the potential cost or complexity of the original proposals were likely to outweigh the expected benefits, prompting the Board to revise its approach.

20 As noted in paragraph 17, the Board may issue a 'fatal-flaw review' version of a pronouncement for a short period for public comment as a final opportunity to identify any further unintended consequences of the proposals, prior to voting by the Board. However, staff do not consider this step necessary as this project has already undergone extensive consultation since its inception in 2021, including targeted stakeholder engagement throughout development as well as public consultation. Given that a fatal-flaw review is not a mandatory step, and staff analysis indicates that the nature and extent of revisions do not trigger the re-exposure criteria, staff do not recommend proceeding with a fatal-flaw review.

Staff recommendation

- 21 Based on the staff analysis in paragraphs 19 and 20, **staff recommend** that the revisions to ED 335 proposals do not warrant re-exposure or issuance of a 'fatal-flaw review' version of a pronouncement prior to voting on a final pronouncement.

Question to Board members

- 1) Do Board members agree with the staff recommendation in paragraph 21 that the revisions to ED 335 proposals do not warrant re-exposure or issuance of a 'fatal-flaw review' version of a pronouncement prior to voting on a final pronouncement?
If not, what do Board members suggest?

- 22 If the Board agrees with staff recommendation that the revisions to ED 335 proposals do not warrant re-exposure or issuance of a 'fatal-flaw review' version of a pronouncement prior to voting on a final pronouncement, then the staff view is that the AASB's due process conducted to date has met all mandatory due process requirements and either complied with or provided an explanation in respect of all other potential due process steps. Consequently, **staff recommend** that the Board should proceed to a pre-ballot draft of a Standard AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*, for subsequent voting on a ballot draft out of session and issue under section 334 of the *Corporations Act 2001*.

Questions to Board members

- 2) Do Board members agree with the staff recommendation in paragraph 21 that the due process conducted in developing AASB 10XX has met the criteria in the AASB Due Process Framework?
- 3) If so, do Board members agree with the staff recommendation in paragraph 21 to proceed to a pre-ballot draft of a Standard AASB 10XX for subsequent voting and issue? If not, what do Board members suggest?

Appendix A: Detailed analysis of the extent of changes from ED 335 made in response to stakeholder feedback

The following table presents the detailed analysis of the assessment of the extent of changes made to the proposal in ED 335 based on the Board's decisions on how to finalise the Tier 3 requirements and staff analysis of whether the Board's revisions meet the re-exposure criteria specified in paragraph 16.

ED 335 proposals	Board decisions
Section 1: Objective, Scope and Application	
<p>The Board proposed to issue a stand-alone Tier 3 Standard containing the Tier 3 requirements that are common to Tier 3 entities and directs an entity to apply the topic-based Accounting Standards for specified transactions, events and conditions.</p> <p>A Tier 3 entity is defined as an entity without public accountability and that qualifies to apply the Tier 3 Standard under the applicable legislative or other reporting requirements.</p>	<p>Addressed at AASB Board meeting (M213) in Agenda Paper 5.1.</p> <p>The Board decided on three clarification changes being:</p> <ul style="list-style-type: none"> • topic-based Accounting Standards apply to specified transactions, events and conditions within their scope • a Tier 3 entity is defined as an entity without public accountability and not prohibited from applying the Tier 3 Standard under the applicable legislative or other reporting requirements • clearly explaining the NFP entities to which the Tier 3 Standard is intended to apply <p>More specifically, the Board's revisions to its proposals are to:</p> <ul style="list-style-type: none"> • give clearer direction that entities applying the Tier 3 Standard are required to apply identified Tier 2 pronouncements for specified transactions, other events and conditions within the scope of those Tier 2 pronouncements. This is in line with the Board's objective of developing a stand-alone Standard that addresses transactions, other events and conditions common to Tier 3 entities and on consideration that more complex transactions warrant more complex accounting, regardless of the size of the entity. • address stakeholder concerns that smaller NFP private sector entities may have been unintentionally excluded from preparing Tier 3 GPFS, which was not the Board's intention. The Board aimed to allow early adoption of the Tier 3 Standard, recognising that legislative restrictions on which NFP private sector entities may prepare Tier 3 GPFS may not be in place at the time the final Standard is issued. Providing more explanation of the NFP entities that can apply the Tier 3 Standard also gives more clarity to stakeholders. <p><u>Staff analysis</u></p> <p>Staff consider these changes made by the Board are clarifications rather than substantive revisions. They do not introduce new requirements or concepts that were not considered during ED 335 consultation, nor do they significantly alter the original proposals. Stakeholder input has already been received on the relevant issues, and no new evidence has emerged that would warrant re-exposure. Therefore, staff consider that the changes do not meet the criteria for re-exposure.</p>

ED 335 proposals	Board decisions
Section 2-7 relating to primary financial statements.	
<p>The Board proposed that Tier 3 entities present a complete set of financial statements comprised of:</p> <ul style="list-style-type: none"> • a statement of financial position; • a statement of profit or loss and other comprehensive income or a separate statement of profit or loss and a separate statement of comprehensive income; • a statement of changes in equity; • a statement of cash flows; • notes to the financial statements; and • comparative information. <p>Under specified conditions, a statement of income and retained earnings may be presented instead of a statement of comprehensive income and a statement of changes in equity.</p> <p>An entity is required to present an analysis of expenses by either nature or function, while seeking stakeholders' views on whether to develop a more principles-based approach for Tier 3 entities to better present expenses (and, if so, what that approach would look like).</p> <p>Two alternate approaches to the indirect method of presenting cash flows from operating activities are provided.</p> <p>Cash flows from investments and interest paid on loans are classified under operating activities per para. 6.4(g) but under operating or other activities per para. 6.13.</p>	<p>Addressed at AASB Board meeting (M213) in Agenda Paper 5.3.</p> <p>The Board decided on four clarification, one presentation and one disclosure change(s) as follows:</p> <p><u>Clarification changes</u></p> <ul style="list-style-type: none"> • Add guidance on disclosing liabilities with covenants. • Clarify the difference between the alternative approaches to presenting cash flows from operating activities under the indirect method. • Clarify that cash receipts from investment and cash receipts from/payments under loans held for dealing or trading purposes are cash flows from operating activities. • Align titles of financial statements in the Tier 3 Standard with those used in AASB 18 <i>Presentation and Disclosure in Financial Statements</i> <p><u>Presentation changes</u></p> <ul style="list-style-type: none"> • Permit dual classification of expenses by nature and function if more useful. <p>The Board's clarification and presentation revisions to its proposals are to:</p> <ul style="list-style-type: none"> • clarify the difference between the alternative approaches to presenting cash flows from operating activities under the indirect method, as stakeholders had provided comments that the two approaches appear to be similar. • add the guidance from the subparagraphs of para. 47A in AASB 1060 on disclosing liabilities with covenants (originally omitted from the Tier 3 requirements for brevity) to address stakeholder comments that the proposed disclosure requirements are would help users apply the requirements. • clarify that cash receipts from investments (such as interest and dividends) and receipts or payments from loans necessarily arise from operating activities if the investments or loans are held for dealing or trading purposes. This revision addresses stakeholder concerns that all cash receipts from investments and receipts from, or payments to, loans would be classified as arising from operating activities regardless of whether the investments or loans are held for dealing or trading purposes. • allow Tier 3 entities to present expenses by nature and function as stakeholders have indicated it is the existing SPFS practice of NFP entities and highlighted that this dual classification method is now permitted under AASB 18 <i>Presentation and Disclosure in Financial Statements</i>. <p><u>Disclosure change</u></p>

ED 335 proposals	Board decisions
	<ul style="list-style-type: none"> require an entity that accounts for investments in notable relationship entities to present the same financial statement line items as those specified for investments in associates and joint ventures. This change is to ensure consistency of the requirements for entities that account for investments in notable relationship entities rather than as associates and joint ventures. <p><u>Staff analysis</u></p> <p>Staff consider the changes primarily clarify existing proposals and respond to stakeholder feedback without deviating from the proposals previously consulted on. They do not introduce new substantive issues, significantly alter the original proposals, or affect recognition and measurement requirements. As such, staff consider the changes do not meet criteria for re-exposure.</p>
Section 8: Consolidated and Separate Financial Statements	
<p>The Board proposed that an entity may treat its investments in subsidiaries/associates/joint ventures/joint operations as a single class, that is, notable relationship entities. The assessment of this class is based on whether or not the holding represents at least an interest in an associate (i.e. at least significant influence in that other entity) vs. an interest in an ordinary financial asset. An entity that treats investments as relating to notable relationship entities would not prepare consolidated financial statements.</p> <p>Entities that elect to classify investments in notable relationship entities as a single class would measure their investments at:</p> <ul style="list-style-type: none"> cost; fair value through profit or loss (unless the entity makes an irrevocable election to present changes in fair value through other comprehensive income (FVTOCI) by type of investment at initial recognition); or their equity method-based amount. <p>Disclosures are required about notable relationship entities, including their name, primary purpose and relationship with the reporting entity.</p> <p>Alternatively, an entity may treat investments in subsidiaries/associates/joint ventures/joint operations as separate classes of assets. For a Tier 3 entity that does not collectively classify all its investments as investments in notable relationship entities and is identified as a parent entity, consolidated financial statements are required. Investments in associates</p>	<p>Addressed at AASB Board meeting (M214) in Agenda Paper 4.2.</p> <p>The Board’s revision to its proposal was five clarification changes being to:</p> <ul style="list-style-type: none"> clarify the operation of Section 8 and its requirements, including the interaction between Sections 8 and 13 to address stakeholder comments to improve the clarity of the intended requirements. clarify that separate financial statements have the same meaning as in Tier 1/ Tier 2 reporting requirements. This revision addresses stakeholder comments that ‘separate financial statements’ is used in the draft Tier 3 requirements with an inconsistent meaning to the meaning of that term when it is applied in Tier 1/Tier 2 reporting requirements, which can create confusion. clarify that if an entity elects to measure and recognise its first investment in a notable relationship entity at FVTOCI, that measurement approach must be applied consistently to all of the entity’s investments in notable relationship entities. The change also addresses the stakeholder request for clarification that the election for investments in notable relationship entities to be measured at FVTOCI is required to be applied consistently for all investments in notable relationship entities to preclude measurement elections being made on an asset-by-asset basis. clarify the relationship between power and the right to appoint key management personnel. This revision addresses stakeholder feedback requesting to make the guidance more relevant. clarify that an entity discontinues fair value measurement and applies the cost model for investments in unlisted equity instruments, including investments in notable relationship entities, and investments in subsidiaries, associates and joint ventures in separate financial statements, when the variability in the range of reasonable fair value measurements is significant and their probabilities cannot be reasonably assessed. This revision was made for

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<p>and joint ventures are measured in consolidated financial statements using the equity method of accounting.</p> <p>While the initial accounting for the combination activity has been amended, the ongoing consolidation requirements/procedures are consistent with Tier 2 requirements with simplification in disclosures compared with Tier 2 requirements. A parent entity may present separate financial statements in addition to its consolidated financial statements, measuring its investments its subsidiaries, associates and joint ventures at cost, fair value or by applying the equity method. The same measurement basis must be applied for all assets in the same class, but different measurement bases may be elected for different classes. The accounting for joint operations is based on an entity's share of any jointly controlled assets, liabilities, revenue and expenses of the entity's interest in a joint operation.</p>	<p>consistency with Section 10 in recognition that an entity's investment in a notable relationship entity may also be in the form of unlisted equity shares. The conditions for discontinuing measuring an investment at fair value were also simplified so they arise only when the variability in the range of reasonable fair value measurements is significant, and the probabilities of the various measurements cannot be reasonably assessed. This latter change was also made applicable to financial instruments and investments in associates and joint ventures to ensure consistency within the Standard.</p> <p><u>Staff analysis</u></p> <p>Staff consider the changes are clarifications rather than substantive new requirements, and do not alter the exposed recognition or measurement principles. The changes were developed in direct response to stakeholder feedback considered during the ED 335 consultation. The section contains edits that are of a structural nature rather than adding new requirements. Therefore, staff consider the changes do not meet the criteria for re-exposure.</p>
Section 9: Accounting Policies, Estimates and Errors	
<p>The Board proposed to apply a prospective approach to account for changes in accounting estimates, and a modified retrospective approach to account for changes in accounting policies and the correction of prior period errors. That approach adjusts the opening balances of the current reporting period for the cumulative effect of the change, and comparative information is not restated.</p> <p>If the Tier 3 Standard does not specifically address a transaction, other event or condition, management applies a 'hierarchy approach' and uses its judgement to develop and apply accounting policies considering:</p> <ul style="list-style-type: none"> • the principles and other reporting requirements in the Tier 3 Standard dealing with similar and related issues; and • the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the <i>Conceptual Framework for Financial Reporting</i>, to the extent they do not conflict with Tier 3 reporting requirements. <p>Management may also consider Tier 2 requirements and guidance.</p> <p>An entity can opt to apply Tier 1 or Tier 2 accounting requirements in their entirety.</p>	<p>Addressed at AASB Board meeting (M213) in Agenda Paper 5.2.</p> <p>The Board's revision to its proposals is one recognition change (including a consequential disclosure change), which is to require full retrospective restatement to correct prior period errors (and related disclosures to align with AASB 1060). This change was decided in view of many stakeholders disagreeing with the proposal not to require a full retrospective approach to correction of prior period errors. The Board considered stakeholders' feedback that the cost savings from not restating comparative information may be minimal given the need to determine the nature and cumulative effect of the error regardless.</p> <p><u>Staff analysis</u></p> <p>This revision modifies the approach to correction of errors in ED 335. However, staff consider the modification reflects stakeholders' feedback and aligns with existing Tier 2 practice. Staff also consider corrections of prior period errors should be needed only infrequently. For these reasons, staff consider that the changes do not meet the criteria for re-exposure.</p>

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Section 10: <i>Financial Instruments</i>	
<p>The Board proposed that the Tier 3 requirements for financial instruments within the Tier 3 Standard apply to ‘basic’ financial instruments and financial instruments that are commonly held by NFP private sector Tier 3 entities. For more ‘complex’ financial instruments and those that are less commonly held by NFP private sector Tier 3 entities, the Tier 3 Standard would direct entities to apply the recognition and measurement requirements of AASB 9 <i>Financial Instruments</i> and other applicable Australian Accounting Standards, and the Tier 2 disclosure requirements.</p> <p>In general, basic or commonly held financial instruments are recognised initially at fair value, excluding transaction costs and fees incurred in acquiring the financial instruments.</p> <p>Subsequent measurement proposals were as follows:</p> <p>(a) Investments in equity instruments and other financial assets acquired or originated by the entity to generate both income and a capital return are measured at fair value. Changes are presented in profit or loss unless the entity elects irrevocably to present changes in other comprehensive income (i.e. FVTOCI) for a class of financial assets, with the election to be made on initial recognition of the first asset in that class;</p> <p>(b) Other financial assets are measured at cost less any accumulated impairment losses; and</p> <p>(c) Financial liabilities are measured at cost.</p> <p>Concessional loans received or granted are initially measured at their transaction price (being cash borrowed/lent) and subsequently measured at cost less any accumulated impairment losses.</p> <p>The Tier 3 requirements specify when a reliable measure of an unlisted equity instrument’s fair value is unavailable as at the measurement date. In these instances, the financial asset is measured at cost, being its last reliably determinable fair value.</p> <p>Interest income and expenses are measured by reference to the carrying amount of the financial instrument at the beginning of the period multiplied by the contractual interest rate for the period.</p>	<p>Addressed at the AASB Board meeting (M215) in Agenda Paper 6.1.</p> <p>The Board’s revision to its proposal was four recognition and measurement changes and four clarification changes, being:</p> <p><u>Recognition and measurement changes</u></p> <ul style="list-style-type: none"> • To specify that AASB 9 (or other relevant Standards) applies only to the more complex financial instruments and those not commonly held by Tier 3 entities that are listed in para. 10.3 of ED 335. This ensures that entities will be required to develop an appropriate accounting policy for other such financial instruments, and not be automatically required to apply AASB 9 to financial assets or liabilities other than those listed in para. 10.3. This revision ensures that if new financial instruments are developed but are not listed among the basic or commonly held instruments listed in para. 10.2, but may still possess basic features, an entity is not forced to apply AASB 9 to recognise those financial instruments. This approach is expected to reduce costs compared with the proposals in the ED. • To no longer require the recognition of a commitment to provide a loan at a below-market rate. This revision was based on a conclusion, upon redeliberation, that requiring these loan commitments to be accounted for under AASB 9 may not provide a conceptually faithful representation of the loan commitments when considered alongside the accounting for a concessional loan, which is measured initially at transaction price and subsequently at cost less accumulated impairment losses. The revision would also align the accounting with other commitments to provide a loan similarly (i.e. not recognised until drawn). This change, while not based on the reasons provided by stakeholders that it may be common for Tier 3 entities to provide commitments at below-market rates, does address their concern that entities would be required to apply AASB 9 to those commitments. • To specify that the calculation of interest income and expenses is determined by reference to the contractual interest rate of the financial instrument. The ED 335 proposal did not take into account that the carrying amount of the financial asset/liability might not be the same as the face value, or that the carrying amount might change during the period. • To specify that impairment losses are measured as the difference between the asset’s carrying amount and the estimated future cash flows receivable. The ED 335 proposal did not take into account financial assets with interest cash flows expected to remain at the contractually agreed amount even if the full principal amount is not recoverable, resulting in a gain or loss arising on settlement of the asset. <p><u>Clarification changes</u></p>

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<p>A financial asset measured at cost is impaired only when there is objective evidence of impairment. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's contractual interest rate.</p> <p>Hedge accounting is not permitted by the Tier 3 Standard. Entities are also not required to separately recognise and measure embedded derivatives and derivatives such as interest rate swaps and forward exchange contracts, which would be subject to Tier 2 reporting requirements.</p> <p>The Tier 3 Standard would direct entities to apply the recognition (and other) requirements of AASB 9 and other applicable Standards to commitments to provide a loan at a below-market rate.</p>	<ul style="list-style-type: none"> • To explicitly specify that an entity need not separately recognise and measure embedded derivatives. This revision is necessary to effect the Board's decision not to require preparers to identify whether embedded derivatives exist in a contract and the conditions of AASB 9 are met to recognise and measure those embedded derivatives. • To clarify that all financial assets held (rather than acquired or originated) to generate both income and a capital return for the entity are to be measured at fair value. This revision responds to the stakeholder concern that management may change its intent for investing in the asset from when it was originally acquired or originated. • To clarify that the fair value of financial instruments within Section 10 is determined consistently with Tier 1/Tier 2 reporting requirements, but that there is an exception from fair value measurement when certain conditions are met. This revision responds to stakeholder concern that the ED 335 proposals appear to indicate that the fair value of some unlisted equity instruments would not be reliably measurable, which deviates from AASB 13 indicating that fair value for an equity instrument is always able to be determined. • To clarify that separate disclosure is required for those fair value measurements that are based on a quoted price in an active market for an identical asset or liability. This revision responds to stakeholder concerns that it was not clear whether the disclosures are required for fair value amounts that are based on level 1 or level 2 inputs even though the intent of the disclosure is to separately distinguish those fair value measurements that are based on valuation techniques (i.e. where an input is the quoted price of a similar but not identical asset or liability) from those that are not. <p><u>Staff analysis</u></p> <p>Staff consider that the revisions do not introduce new recognition or measurement requirements that are substantively different from those proposed in the ED. Instead, the revisions are necessary to provide clarity to the scope and application of existing proposals, such as specifying that AASB 9 applies only to specified financial instruments, and making the list complete to enable entities to apply the hierarchy approach to develop an accounting policy based on Tier 3 requirements rather than requiring entities to apply AASB 9 directly, thereby reducing ongoing cost. The decision to explicitly not require the recognition of commitments to provide loans at below-market rates addresses stakeholder concerns which initially required these loans to be recognised in accordance with AASB 9 . Other revisions noted were made to enhance clarity and consistency with Tier 1/Tier 2 requirements and do not introduce substantive differences or significantly alter the original proposals. The revisions reflect a thorough consideration of stakeholder feedback and implementation of the proposals, and there is no indication that key stakeholders were excluded from the consultation process, nor has new evidence emerged that would materially affect the</p>

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	nature and scope of the issues being addressed. As such, considering the above, staff do not consider the Board’s revisions to its proposals meet the re-exposure criteria.
Section 11: Fair Value Measurement	
<p>The Board proposed that the Tier 3 requirements should contain the same definition of fair value as the Tier 2 requirements but should not include a fair value hierarchy.</p> <p>Tier 3 has fewer disclosures than Tier 2 for property, plant and equipment, investment property, inventories, intangible assets and financial instruments if an entity elects to measure them at fair value or apply the revaluation model for subsequent measurements.</p> <p>Similar to Tier 2 NFP public sector entity requirements, there is also a practical expedient provided for Tier 3 NFP entities on when an entity needs to consider whether an asset's highest and best use might differ from its existing use.</p>	<p>Addressed at AASB Board meeting (M213) in Agenda Paper 5.2.</p> <p>The Board’s revision to its proposals was one clarification change, which was to remove ‘in general’ from para. 11.7 to limit the scope of when an entity considers whether a different use by market participants would maximise the value of an asset. This change was made in response to stakeholder feedback to remove the uncertainty about whether market participants assumptions still need to be estimated even if the practical expedient for presuming an entity’s current use of a non-financial asset is its highest and best use is satisfied.</p> <p><u>Staff analysis</u></p> <p>Staff consider the removal of "in general" from paragraph 11.7 is a clarification that narrows interpretive uncertainty, rather than introducing a new substantive requirement. It does not change recognition or measurement principles and responds to stakeholder feedback, meaning the revision does not meet the re-exposure criteria.</p>
Section 12: Inventories	
<p>The Board proposed that the Tier 3 requirements be consistent with Tier 2 requirements, except that the Tier 3 requirements:</p> <ul style="list-style-type: none"> • will not address how to account for reversal of any previously recognised write-downs of inventories; • will permit, but not require, the allocation of production overheads to all inventories’ cost of conversion; • do not require consideration of the cost of inventories purchased on deferred settlement terms; and • provide an accounting policy choice to initially measure donated inventories at cost or current replacement cost. Where the cost basis is selected, disclosures about the entity’s dependence on donations and the nature and terms of the donation arrangement are required. 	<p>Addressed at the AASB Board meeting (M213) in Agenda Paper 5.5.</p> <p>The Board decided to finalise the Tier 3 requirements for Section 12 broadly consistent with the proposals exposed in ED 335 except for revisions that were generally clarification in nature. In response to stakeholder feedback, the Board made four clarification changes being:</p> <ul style="list-style-type: none"> • clarifying that the accounting policy choice for initial measurement of donated inventory can be made for each individual item of inventory; • adding the term ‘net realisable value’ after considering stakeholders' desire to use some already established IFRS terminologies; • removing reference to course materials under development as a type of inventory since this category would be better treated in the intangible assets section; and • relocating the guidance on measuring a loss of service potential of inventories held for distribution to Section 22: <i>Impairment of Assets</i>, and clarifying that measurement of recoverable amount for such inventories is required when one of the impairment indicators is present. <p><u>Staff analysis</u></p>

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	Staff consider the revisions overall do not change recognition or measurement principles and respond to stakeholder feedback, meaning the revisions do not meet the re-exposure criteria.
Section 13: Investments in Associates and Interests in Joint Arrangements	
<p>The Board proposed that the Tier 3 requirements for an investor that is not a parent and treats its investments in associates/joint ventures/joint operations as separate classes measures its investments in associates and joint ventures at:</p> <ul style="list-style-type: none"> • cost; • fair value with recognised changes through profit or loss, except that if an investment is held to generate both income and a capital return, the investor may make an irrevocable election on initial recognition of a particular investment, to present changes in other comprehensive income. The election is applied on a class of instruments basis; or • using the equity method of accounting. <p>Joint operations are recognised based on the investor’s share of the assets, liabilities, revenues, and expenses of the joint operation. However, the ED implies joint operations cannot be held through a separate vehicle.</p> <p>Entities measuring investments in joint ventures by applying the equity method are required to eliminate their share of unrealised profits and losses related to its transactions with the investee, but no similar requirement is provided for an entity that is a joint operator to eliminate its share of unrealised gains and losses related to its transactions with the joint operation. In addition, ED 335 specified that when a joint venturer contributes or sells assets to the joint venture, and the assets are retained by a joint venture, the joint venturer recognises the portion of the gain or loss attributable to the other venturers’ interests, provided that the joint venturer has transferred the significant risks and rewards of ownership of those assets.</p> <p>The equity method is largely consistent with Tier 2 requirements, except that:</p> <ul style="list-style-type: none"> • an investment is initially measured at the investor’s share of the carrying amounts of net assets of the investee; 	<p>Addressed at the AASB Board meeting (M214) in Agenda Paper 4.4.</p> <p>The Board decided to finalise the Tier 3 requirements for Section 13 largely consistent with the proposals exposed in ED 335, except for the following revisions. The Board made three recognition and measurement changes and five clarification changes as follows:</p> <p style="text-align: center;"><u>Recognition and measurement changes</u></p> <ul style="list-style-type: none"> • In response to stakeholder feedback, the Board decided to: <ul style="list-style-type: none"> ○ in relation to applying the equity method of accounting, require transaction costs incurred in acquiring an associate or joint venture to be expensed as incurred. This revision was made for internal consistency with other sections (i.e. Sections 10 and 17) of the Tier 3 Standard, which require transaction costs to be expensed rather than capitalised. This change responds to stakeholder feedback that preferred transaction costs to be expensed, consistent with AASB 3’s treatment of acquisition-related costs. ○ in relation to applying the equity method of accounting, allow, but not require, an investor to adjust an investee’s financial statements to reflect the application of the investor’s accounting policies. This revision acknowledges that mandating uniform accounting policies adds complexity to the accounting for associates or joint ventures (where control does not exist and it is often difficult for investors to mandate the provision of aligned information). Rather than requiring adjustments unless impracticable, the Board opted to provide entities with an election, offering flexibility to adjust the investee’s accounting policies for uniformity instead. ○ refer, in relation to a joint venturer contributing or selling assets to the joint venture, to the joint venturer having lost control of those assets (instead of having transferred the significant risks and rewards of ownership of those assets). The Board made this change for consistency with the derecognition of financial and non-financial assets in the Tier 3 Standard being based on the concept of control, as was noted by some stakeholders. <p style="text-align: center;"><u>Clarification changes</u></p> <ul style="list-style-type: none"> • not articulate how the consideration paid for the associate or joint venture should be determined. This revision was made for internal consistency with other sections, which are silent on what ‘consideration paid’ means or do not define cost in relation to an asset’s purchase price for investment property or property, plant and equipment in Sections 14 and

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<ul style="list-style-type: none"> • the consideration/transaction price of the acquisition is measured by reference to the carrying amounts of the investor’s net assets given in exchange (i.e. book values of the buyer), rather than fair value; • the difference between the transaction price and the investor’s share of the carrying amounts of net assets of the investee is recognised directly in equity; and • an impracticability exemption is provided from the requirement for an investor to adjust the financial statements of the investee to reflect the effect of different accounting policies. <p>Investors that measure their investments in associates or joint ventures at cost are required to disclose the information required for notable relationship entities (e.g. name, primary purpose and relationship with the reporting entity).</p> <p>An investor using the fair value model uses the cost model for any investment in an associate or a joint venture for which fair value cannot be measured reliably at the measurement date.</p>	<p>15. This revision also aligned with the Board’s decision not to explain how an entity should measure non-financial assets transferred in exchange for another non-financial asset.</p> <ul style="list-style-type: none"> • clarify that a joint arrangement held through a separate vehicle can be classified as a joint operation. In contrast with ED 335, joint operators are (consistent with Tier 2 requirements) required to eliminate their share of any unrealised gains and losses related to their transactions with the joint operations. The Board’s original intent was to align with Tier 2 classification requirements for joint arrangements. As such, this revision aligns with the Board’s original intent. • clarify that the election to measure an investment in an associate or a joint venture at FVTOCI applies to all associates and all joint ventures, respectively. This clarification addresses ambiguity in the requirements and aligns with Section 10, which requires that where an irrevocable election is made to present changes in the fair value of a financial asset through other comprehensive income, that election must be applied consistently to all financial assets within the same class. • clarify that an investment in an associate or a joint venture measured under the fair value model continues to be treated as measured under that model even when its fair value is not reliably measurable at the reporting date. This clarification was made for consistency with Section 10 and so that, if a reliable measure of fair value subsequently becomes available, restarting fair value measurement of the asset will be treated as a change in accounting estimate. • as noted for Section 8, the conditions for discontinuing measuring an investment at fair value were simplified. An entity may discontinue fair value measurement for investments in associates or joint ventures only when the variability in the range of reasonable fair value measurements is significant and the probabilities of those measurements cannot be reasonably assessed. <p><u>Staff analysis</u></p> <p>Staff consider that the Board’s revisions to Section 13 do not constitute substantive changes to the proposals in ED 335. The amendments are primarily clarifications intended to improve internal consistency across the Tier 3 Standard and respond to stakeholder feedback. For example, clarifications regarding joint arrangements and the fair value election for associates and joint ventures are consistent with the Board’s original intent and align with principles already established in other sections. The changes also do not introduce any new requirements, alter recognition or measurement requirements or increase the burden on preparers. Therefore, staff consider the revisions do not meet the re-exposure criteria.</p>

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Section 14: Investment Property	
<p>The Board proposed that the Tier 3 recognition and measurement requirements be consistent with Tier 2 requirements including for an entity that subsequently measures investment property at cost applies the cost model; except:</p> <ul style="list-style-type: none"> • borrowing costs are excluded from the cost of qualifying investment property; • the asset is assessed for impairment based on limited indicators (refer to Section 22: <i>Impairment of Assets</i>); • the accounting for reversal of impairment losses is not addressed; and • Tier 3 requirements provide an accounting policy choice to initially measure at cost or fair value investment property acquired for significantly less than fair value. Where the cost basis is selected, disclosures about the entity’s dependence on donations and the nature and terms of the donation arrangement are required. 	<p>Addressed at the AASB Board meeting (M213) in Agenda Paper 5.5.</p> <p>The Board decided to finalise the Tier 3 requirements for Section 14 largely in line with the proposals exposed in ED 335 except for one disclosure change and one measurement change.</p> <p><u>Disclosure change</u></p> <ul style="list-style-type: none"> • to remove disclosure requirements of commitments for repairs, maintenance or enhancements of investment property. These disclosures were removed to maintain internal consistency, as similar disclosures are not required for property, plant and equipment, and to align with the objective of developing simpler Tier 3 requirements. <p><u>Measurement change</u></p> <ul style="list-style-type: none"> • require investment property measured under the fair value model to be measured under the cost model in Section 15 until disposal of the investment property if the entity determines that the fair value is not reliably measurable on a continuing basis. This change, while not prompted by stakeholder feedback, was to align with Tier 2 requirements and the change reduces complexity, given that entities would not need to determine when a property would once again be reliably measurable to reapply the fair value model. <p><u>Staff analysis</u></p> <p>Staff consider the revisions do not constitute substantive changes as both changes provide simpler requirements than what was exposed and would reduce costs for preparers. Therefore, staff consider the Board’s revisions do not meet the re-exposure criteria.</p>
Section 15: Property, Plant and Equipment	
<p>The Board proposed that the Tier 3 requirements recognition and measurement requirements be consistent with Tier 2 requirements except:</p> <ul style="list-style-type: none"> • borrowing costs are not capitalisable as part of the cost of qualifying property, plant and equipment, • an asset is assessed for impairment based on limited indicators (refer to Section 22: <i>Impairment of Assets</i>) • the accounting for reversals of impairment losses is not addressed; • the cost of self-constructed property, plant and equipment does not need to include an allocation of the depreciation of other assets used to construct the property, plant and equipment; 	<p>Addressed at the AASB Board meeting (M213) in Agenda Paper 5.5.</p> <p>The Board decided to finalise the Tier 3 requirements for Section 15 largely consistent with the proposals exposed in ED 335, except for two clarification changes and one disclosure change.</p> <p><u>Clarification changes</u></p> <ul style="list-style-type: none"> • clarify that parts of Section 15 apply to investment property measured at cost. • remove a reference to software, and to add a reference to land and buildings, as examples of a class of assets. <p><u>Disclosure change</u></p> <ul style="list-style-type: none"> • remove requirement to disclose the nature and amount of loans for which items of property, plant and equipment are pledged as security.

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<ul style="list-style-type: none"> the useful life, residual value and depreciation method are reviewed only when there is an indicator that there has been a significant change in the expected pattern of consumption of future economic benefits since the last annual reporting date or when one of the impairment indicators is present; and Tier 3 requirements provide an accounting policy choice to initially measure at cost or fair value property, plant and equipment acquired for significantly less than fair value. Where the cost basis is selected, disclosures about the entity's dependence on donations and the nature and terms of the donation arrangement are required. 	<p><u>Staff analysis</u></p> <p>Staff consider the revisions overall do not change recognition or measurement principles and only make clarifications to address stakeholder feedback; and that removing an exposed disclosure requirement would reduce costs for preparers. Therefore, the revisions do not meet the re-exposure criteria.</p>
Section 16: Intangible Assets	
<p>The Board proposed that the Tier 3 requirements be consistent with Tier 2 requirements except:</p> <ul style="list-style-type: none"> all expenditure incurred internally on intangible assets, including for both research and development activities, is to be expensed immediately; all intangible assets are treated as having a finite useful life. The useful life is determined based on the contractual or other legal rights, the period over which the entity expects to use the asset or based on management's best estimate but not exceeding ten years; the useful life, residual value and amortisation method are reviewed only if an impairment indicator has occurred since the last annual reporting date; and Tier 3 requirements provide an accounting policy choice to initially measure at cost or fair value intangible assets acquired for significantly less than fair value. Where the cost basis is selected, disclosures about the entity's dependence on donations and the nature and terms of the donation arrangement are required. 	<p>Addressed at the AASB Board meeting (M214) in Agenda Paper 4.1.</p> <p>The Board decided to finalise the Tier 3 requirements largely consistent with the proposals exposed in ED 335, except for three disclosure changes, being to remove the following disclosure requirements:</p> <ul style="list-style-type: none"> whether an independent valuer was involved when intangible assets are stated at revalued amounts. the nature and amount of loans for which items of intangible assets are pledged as security. identification of the line items in the statement of profit or loss and other comprehensive income (or alternative statements) that include any amortisation of intangible assets. <p>The Board considered these proposed disclosure requirements more burdensome than those for Tier 1/Tier 2 entities, which do not have an equivalent requirements.</p> <p><u>Staff analysis</u></p> <p>Staff consider the revisions overall do not change recognition or measurement principles, and note that the re-exposure criteria states that less weight should be given to changes to disclosure requirements. In any case, the removal of disclosure requirements would reduce costs for preparers. Therefore, staff consider the Board's revisions do not meet the re-exposure criteria.</p>
Section 17: Entity Combinations	

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<p>The Board proposed that the Tier 3 requirements for the accounting of entity combinations (for both the acquisition of a subsidiary and other entity combinations) should require:</p> <ul style="list-style-type: none"> • the carrying amounts of the assets, liabilities and items of equity of the entity to be combined, adjusted to achieve uniformity of accounting policies, • fair value measurement of material assets (both externally acquired or internally generated intangible assets and non-intangible assets) and liabilities that do not have an existing carrying amount recognised in accordance with Australian Accounting Standards; • the entity combination to be recognised at the ‘deemed combination date’, being the beginning of the reporting period during which the entity combination occurred; and • any differences between the carrying amount of the consideration paid and the carrying amount of the net assets recognised in the combination is recognised directly in equity. 	<p>Addressed at the AASB Board meeting (M214) in Agenda Paper 4.3.</p> <p>The Board’s revision to its proposal resulted in four recognition and measurement changes and two clarification changes, being:</p> <p style="padding-left: 20px;"><u>Recognition and measurement changes</u></p> <ul style="list-style-type: none"> • to require an entity combination to be recognised from the date the acquirer gains control of the acquired entity/operating unit, rather than at a deemed combination date. This revision responded to stakeholder feedback, citing potential assurance challenges, risks of manipulation of financial statements and practical issues in accessing financial records prior to obtaining control. • to extend the exemption from fair value measurement to include donated non-financial assets acquired at a nominal or significantly discounted amount, where those assets were initially measured at cost. This revision responded to stakeholder feedback that the Board's initial proposal appeared to limit the exemption only to donated assets measured at cost under the Tier 3 Standard. However, the Board recognised that in other instances, the acquiree may have prepared special purpose financial statements and/or applied cash accounting, or may have recognised assets at nominal amounts but subsequently did not recognise and measure them in accordance with Australian Accounting Standards. This revision ensures these assets are also exempt from fair value measurement requirements, with the carrying amounts of such donated assets determined as if the Tier 3 Standard had always been applied (e.g. the cost of a donated building is subject to depreciation from when it is available for use). • to add a clarification that the exemption from measuring assets at fair value applies to any acquired unrecognised donated non-financial assets for which the acquiree had not paid any consideration in exchange. The Board added this clarification to address stakeholder comment that the proposals appear to exclude donated non-financial assets held by an acquiree that does not comply with Australian Accounting Standards even though these assets would not be so different to donated non-financial assets acquired or donated at a nominal or significantly discounted amount • to specify that internally generated intangible assets acquired in an entity combination are not recognised. This revision aligned with the broader approach not to require recognition of donated non-financial assets acquired without paying consideration, and supports the use of the book value method for entity combinations. <p style="padding-left: 20px;"><u>Clarification changes</u></p>

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	<ul style="list-style-type: none"> to clarify that it is the acquiree’s accounting policies that must be adjusted before the carrying amounts of the acquiree’s assets, liabilities and items of equity are combined with those of the acquirer. This revision addressed stakeholder feedback that the original drafting implied flexibility in whether the acquirer’s or the acquiree’s accounting policies could be adjusted, potentially leading to inconsistent application. to clarify that, in relation to the proposed requirement for fair value measurement of a material asset or liability of a combining entity that does not have an existing carrying amount recognised in accordance with AAS, an entity is not required to determine the fair value of all assets and liabilities in order to determine whether particular assets or liabilities are material to the entity. The Board added this clarification to remove an unintended implication that all acquired assets and liabilities must be fair valued for the purposes of determining which items needed to be initially measured at fair value in applying entity combination accounting. This clarification was achieved by replacing “material” with “major”, in relation to assets and liabilities. <p><u>Staff analysis</u></p> <p>Staff consider that the Board’s revisions do not introduce fundamentally new concepts or requirements beyond those contemplated in ED 335. Rather, the changes are primarily clarifications and refinements aimed at further simplifying the proposals in response to stakeholder feedback.</p> <p>While the combination date was revised from a deemed date to the actual date of gaining control, this change directly reflects stakeholder concerns. Importantly, this revision does not significantly alter the core principles for accounting for entity combinations. Accordingly, staff do not consider that the Board’s revisions meet the criteria for re-exposure.</p>
Section 18: Leases	
<p>The Board proposed Tier 3 reporting requirements for leases that require the lessee (lessor) to recognise the lease payments associated with the lease arrangement, including a concessionary lease, as an expense (income) on a straight-line basis over the term of the agreement unless another systematic basis is more representative of the time pattern of the consumption by the entity of the asset’s benefit. There are no reporting requirements for sale and leaseback arrangements.</p> <p>Lessees and lessors are required to separate the cost of services (e.g. insurance and maintenance) as part of the lease from the underlying lease payments.</p>	<p>Addressed at the AASB Board meeting (M213) in Agenda Paper 5.2.</p> <p>The Board decided to finalise the Tier 3 requirements largely consistent with the proposals exposed in ED 335, except for one classification change, being that lessees are not required to separate the cost of services from lease payments. The Board made this decision after considering feedback from stakeholders that there was a lack of guidance on the method of separating the cost of services from lease payments.</p> <p><u>Staff analysis</u></p> <p>Staff consider the revision does not substantively change recognition or measurement principles and is a presentation/classification or disclosure amendment. Therefore, the revision does not meet the re-exposure criteria.</p>
Section 19: Provisions and Contingencies	

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<p>The Board proposed that the Tier 3 requirements be consistent with Tier 2 requirements except that:</p> <ul style="list-style-type: none"> provisions are measured at the entity’s best estimate of the amount to be paid, taking into account current information about conditions existing at the end of the reporting period, rather than its best estimate of the expenditure required to settle the present obligation at the end of the reporting period; where an entity acquires a contingent liability in a transaction treated as an entity combination, contingent liabilities are not recognised, but disclosures of the contingent liability are required instead; an impracticability exemption from the disclosures about contingent liabilities and contingent assets is not provided; there are specific disclosure requirements for guarantees; and for each class of provisions, disclosure is not required of the expected amount and timing of any resulting payments. 	<p>Addressed at the AASB Board meeting (M213) in Agenda Paper 5.5.</p> <p>The Board decided to finalise the Tier 3 requirements largely consistent with the proposals exposed in ED 335, except for one clarification change and two disclosure changes, being:</p> <p><u>Clarification change</u></p> <ul style="list-style-type: none"> to clarify that provisions are measured at the entity’s best estimate of the undiscounted amount to be paid. <p><u>Disclosure changes</u></p> <ul style="list-style-type: none"> to provide an impracticability exemption from the disclosures about contingent liabilities and contingent assets in Section 19 (other than brief descriptions) and to require disclosure of when the exemption has been applied. The Board added this exemption because, although it originally considered impracticability exemptions might require increased exercise of judgement, its inclusion aligns with Tier 2 disclosure requirements (and therefore avoids Tier 3 disclosure requirements about contingent liabilities and contingent assets being more onerous than the corresponding Tier 2 requirements). to delete the specific disclosure requirements for guarantees. The Board deleted the proposed disclosure requirements because they are not required by Tier 2 reporting requirements and as requiring disclosures of guarantees does not align with the requirements of Section 10, which directs Tier 3 entities to apply AASB 9 to financial guarantee contracts. <p><u>Staff analysis</u></p> <p>Staff consider the revisions to be clarification in nature and to make the disclosure requirements less onerous (aligning with Tier 2 disclosure requirements); therefore, they do not meet the re-exposure criteria.</p>
Section 20: Revenue	
<p>The Board proposed that the Tier 3 requirements for revenue recognition to apply a single income recognition model where an entity defers recognition of income from inflows of resources if there is a common understanding evidenced between the entity and the provider of the asset. The common understanding between the entity and the provider is that the entity will perform in a particular manner resulting in the related expenditure, transfer or using up of that asset or other assets of the entity with a similar value.</p> <p>Examples of an unsatisfied commonly understood expected use of resources transferred to the entity are using those resources to transfer goods or services to customers or beneficiaries, and an expectation to use</p>	<p>Addressed at the AASB Board meetings (M215 and M218) in Agenda Papers 6.2 and 4.1 respectively</p> <p>The Board decided to finalise the Tier 3 requirements largely consistent with the proposals exposed in ED 335 except for revisions that were generally clarification in nature. The Board decided on the following seven clarification changes and one presentation change to:</p> <p><u>Clarification changes</u></p> <ul style="list-style-type: none"> include brief guidance that internal expectations communicated by an entity’s management regarding the intended use of an asset received do not, on their own, give rise to a deferred revenue obligation if those expectations were formed and communicated after the asset has been received. This revision was in direct response to stakeholder feedback seeking clarification of the requirements on whether internal expectations and decisions about the use of funds

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<p>the resources over a specified period. An entity shall subsequently reduce the deferred obligation (liability), and simultaneously recognise revenue for the same amount, as the deferred revenue obligation is satisfied by the entity.</p> <p>Sales of assets are identified as revenue in two places, with consequential ambiguity about whether all sales of assets occurring within the entity's ordinary activities are included in revenue.</p> <p>Debtors are measured initially at fair value, estimated as the amount of consideration to which the entity expects to be entitled, and subsequently are assessed for impairment.</p> <p>The recognition of volunteer services is consistent with Tier 2 requirements, which permit but do not require the recognition of volunteer services received as income if the fair value of those services can be measured reliably, with disclosures.</p> <p>Pledge assets are not recognised until the promised assets are received.</p> <p>The Board proposed to exclude any explicit reference to variable consideration in the initial measurement requirements for accounts receivable, and any explicit requirement to account for any implicit financing to a customer.</p>	<p>communicated to the grantor after the receipt of assets are sufficient to establish a common understanding.</p> <ul style="list-style-type: none"> • clarify in some Illustrative Examples that the 'common understanding' referred to in the examples exists regardless of whether the reporting entity has an enforceable obligation to provide the promised goods or services. This revision was in direct response to stakeholder concern that the proposed illustrative examples would appear to require an enforceable legal or constructive obligation. The revisions would clarify that enforceability is not a condition of whether a common understanding exists, per the Board's intent. • add an illustrative example of a charity that establishes a common understanding with donors when it raises donations for a specified appeal but also indicates that if greater funds are raised than needed for the intended purposes, the excess funds will be redirected to an alternative charitable purpose. Similar to the above, this revision addresses stakeholder feedback seeking clarification to address a common practice issue in the charitable sector. • clarify in the scope paragraph that sales of assets are revenue when they arise in the course of the entity's ordinary activities. This revision was to correct ambiguous drafting where the proposals could be read as excluding sales of assets, such as cash sales of inventories, derived from the entity's ordinary activities from being recognised as revenue, which is not the Board's original intent. • replace the reference to fair value as the initial measurement requirement for debtors with a reference to transaction price. This revision was made to address stakeholder feedback that the proposal could be interpreted as requiring fair value measurements inconsistent with Tier 1/Tier 2 requirements, which was not the Board's intent. The change simplifies the requirement and avoids unintentionally requiring entities to include estimates of expected impairment losses or variable consideration in the initial measurement of debtors. • clarify that if a pledge has been made to the entity and is probable to result in an inflow of economic benefits, the disclosure requirements for contingent assets would apply to the pledge. This revision responds to the stakeholder suggestion to link the disclosure requirements for contingent assets with pledges. • clarify that the timing of revenue recognition is not necessarily based on the timing of use of the funds in delivering the agreed performance. This revision was made to address inconsistent approaches to the timing of revenue recognition previously reflected across different parts of Section 20, and to clarify that revenue is recognised when the entity's commitment under the transaction is satisfied, rather than when the assets received (or other assets of similar value) are consumed. <p><u>Presentation change</u></p>

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	<ul style="list-style-type: none"> Require an entity to classify a deferred revenue obligation (or part thereof) as current if it expects the liability to be reduced and revenue recognised within twelve months after the reporting date. This revision was needed to clarify and provide guidance on how an entity classifies revenue obligations into current and non-current portions; otherwise, any deferred revenue obligation expected, but not due (e.g. because the entity has discretion over the timing of satisfying its obligation), to be settled within twelve months would be classified as non-current. <p><u>Staff analysis</u></p> <p>Staff consider the revisions made to the revenue proposals are clarification or presentation in nature and do not introduce new recognition or measurement principles, nor do they represent fundamental changes to the proposals in the ED. These changes were made in direct response to stakeholder feedback and are intended to improve clarity, mainly by clarifying or adding illustrative examples, correcting drafting inconsistencies, and better reflecting the Board’s original intent. Replacing the reference to fair value with transaction price for initial measurement of debtors simplifies the requirement and avoids unintended implications but does not change the principle of initial measurement under Tier 3. Because staff consider the revisions to be clarification or presentation in nature only, staff consider they do not meet the re-exposure criteria.</p>
Section 21: Expenses	
<p>The Board proposed that the Tier 3 requirements include some general guidance on accounting for expenses, similar to the New Zealand Tier 3 Standard, which is to recognise expenses based on accrual accounting.</p>	<p>Addressed at the AASB Board meeting (M213) in Agenda Paper 5.5</p> <p>The Board decided to finalise the Tier 3 requirements with no amendments except for editorial changes to clarify the requirements. Staff consider that the revisions are editorial changes only; hence the revisions do not meet the re-exposure criteria.</p>
Section 22: Borrowing Costs	
<p>The Board proposed that the Tier 3 requirements require all borrowing costs to be expensed in the period in which they are incurred.</p>	<p>Addressed at the AASB Board meeting (M213 and M216) in Agenda Paper 5.5 and Agenda Paper 10.2, respectively.</p> <p>The Board decided to remove this section as the accounting requirements are already provided in Section 10. As this is a structural change only, staff consider it does not meet the re-exposure criteria.</p>
Renumbered Section 22: Impairment of Assets	

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<p>The Board proposed that the Tier 3 requirements for impairment of assets in Section 23 require non-financial assets subsequently measured at cost or deemed cost to be assessed for impairment only when:</p> <ul style="list-style-type: none"> the asset is physically damaged; or the asset's service potential or capacity to generate sales revenue might have been adversely affected by a change in the entity's strategy or changes in external demand for the entity's goods or services. <p>The recoverable amount of a non-financial asset (other than inventory) is the higher of the asset's fair value less costs to sell and its value in use. However, a rebuttable presumption is that fair value less cost to sell is expected to be the most appropriate measure of a non-financial asset's recoverable amount.</p> <p>For inventories, the recoverable amount is the selling price of the item less the costs to complete and sell it.</p> <p>Guidance is included for identifying and measuring a loss of service potential of inventories held for distribution. The proposals require an entity to measure the loss of service potential for inventories held for distribution simply by reference to which is more easily determinable between cost or current replacement cost.</p> <p>The Tier 3 requirements do not address how to account for the reversal of previously recognised impairment losses. They also do not include guidance on recognising and measuring impairment of cash-generating units.</p>	<p>Addressed at the AASB Board meetings (M214 and M216) in Agenda Paper 4.1 and Agenda Paper 10.2 respectively.</p> <p>The Board decided to finalise the Tier 3 requirements largely consistent with the proposals exposed in ED 335 except, in response to stakeholder feedback, to provide two clarification changes, one disclosure change and one measurement change being:</p> <p><u>Clarification changes</u></p> <ul style="list-style-type: none"> that the recoverable amounts of non-financial assets (other than inventory) are measured at an individual asset level. This revision addressed stakeholder feedback that it was unclear from the proposals whether impairment is to be tested on an individual basis or at a cash-generating unit level. Since the Board decided that it would not develop guidance on cash-generating units (CGUs) as part of its proposals that no goodwill is recognised for entity combinations and testing CGUs could be complex for smaller NFP private sector entities, as such, the Board decided that impairment should be tested on an individual basis. only non-financial assets are assessed for impairment in Section 22, as intended. The Board noted that ED 335 included proposed disclosure requirements for impairment of investments in associates and joint ventures. <p><u>Disclosure change</u></p> <ul style="list-style-type: none"> require impairment losses to be disclosed separately from depreciation and amortisation expenses, in response to stakeholder feedback that impairment losses are different in nature from depreciation and amortisation, therefore warranting separate disclosure. <p><u>Measurement change</u></p> <ul style="list-style-type: none"> clarify that the loss of service potential for inventories held for distribution is measured by reference to the cost or current replacement cost of the inventories, as appropriate, rather than to the more easily determinable amount. The clarification was made by the Board because it considered that its proposals to allow the more easily determinable measurement would always be the cost basis, which might lead to inappropriate outcomes in some cases, depending on the nature of the inventory held for distribution (e.g. cost may be more appropriate for damaged goods that need to be scrapped vs. current replacement cost may be more appropriate for goods with minor damage that could be on-sold) <p><u>Staff analysis</u></p> <p>Staff consider that the revisions overall do not change recognition or measurement principles and are primarily clarifications or disclosure amendments. The measurement change relates to the manner of application of an unamended measurement principle and in the Board's view is</p>

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	proportionate. Therefore, the revisions do not meet the re-exposure criteria since less weight is given to changes to disclosures.
Renumbered Section 23: Employee Benefits	
<p>The Board proposed that the Tier 3 requirements for employee benefits are:</p> <ul style="list-style-type: none"> • to recognise an expense when an employee has rendered the services entitling them to compensation, except where the costs form part of the cost of an asset; • to require outstanding employee benefit obligations to be recognised as a provision (liability), measured at the undiscounted amount of the employee benefits expenses (i.e. not require considering future pay increases when measuring provisions for employee benefits); • not to recognise provisions for non-vesting accumulating employee benefits unless the amounts are due and payable; • not to account for employee benefits differently according to whether they are short-term benefits or long term benefits; and • to require entities to apply AASB 2 <i>Share-based Payments</i> and AASB 119 <i>Employee Benefits</i> for employee benefits in the form of share-based payments and contributions to a defined benefit plan where offered. 	<p>Addressed at the AASB Board meeting (M213 and M218) in Agenda Papers 5.5 and 4.1 respectively.</p> <p>The Board decided to finalise the Tier 3 requirements with no amendments to the recognition and measurement principles, except making editorial changes to the employee benefit illustrative example to make the requirements clearer, to cease referring to ‘provisions’, ‘vesting benefits’ and ‘non-vesting benefits’ for enhanced clarity, without changing the meaning. Further clarification has been made to specify that outstanding employee benefit obligations are measured at the undiscounted amount of the employee benefits expenses, and that “not requiring consideration of future pay increases” means excluding both approved pay increases and any potential future pay increases when measuring these provisions. As such, the revisions do not meet the re-exposure criteria.</p>
Renumbered Section 24: Income Taxes	
<p>The Board proposed that the Tier 3 requirements are to recognise income tax expenses in the current period based on, in descending order:</p> <ol style="list-style-type: none"> 1) the entity’s tax assessment for the period; 2) its tax return for the period; or 3) an estimate of the amounts to be included in the tax return. <p>Income tax payable is recognised at the end of the period and measured as the sum of the estimated income tax payable for the period and any outstanding unpaid income tax. Deferred tax assets and liabilities are not recognised.</p>	<p>Addressed at the AASB Board meetings (M213 and M218) in Agenda Papers 5.5 and 4.1 respectively.</p> <p>The Board decided to finalise the Tier 3 requirements with no amendments except for editorial changes to clarify the requirements. Staff consider that the revisions are of clarification in nature only; hence the revisions do not meet the re-exposure criteria.</p>
Renumbered Section 25: Foreign Currency Translation	

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<p>The Board proposed the Tier 3 requirements for any foreign currency amounts to be translated using the exchange rate on the date of the transaction and the exchange rate at the end of the reporting period for monetary asset and liability balances.</p> <p>An entity shall present amounts in the financial statements in Australian dollars.</p>	<p>Addressed at the AASB Board meetings (M213 and M218) in Agenda Papers 5.4 and 4.1 respectively</p> <p>The Board decided to finalise the Tier 3 requirements to add one clarification change that exchange gains/losses on monetary items are recognised in profit or loss, in response to stakeholder feedback.</p> <p>Staff consider that the revision is of clarification in nature only; hence the revision does not meet the re-exposure criteria.</p>
Renumbered Section 26: <i>Events Occurring after the Reporting Period</i>	
<p>The Board proposed that the Tier 3 requirements for events occurring after the reporting period be consistent with Tier 2 requirements, which are:</p> <ul style="list-style-type: none"> • to adjust amounts recognised in an entity’s financial statements and update the related disclosures to reflect events that occur after the reporting period, but before the financial statements are authorised for issue, and provide evidence of conditions that existed at the end of the reporting period; and • not to adjust the amounts recognised for events after the end of the reporting period indicating conditions that arose after that date, but to provide disclosures about those events. 	<p>Addressed at the AASB Board meetings (M213 and M218) in Agenda Papers 5.5 and 4.1 respectively.</p> <p>The Board decided to finalise the Tier 3 requirements with no amendments except for editorial changes to clarify the requirements. Staff consider that the revisions are of clarification in nature only; hence the revisions do not meet the re-exposure criteria.</p>
Renumbered Section 27: <i>Related Party Disclosures</i>	
<p>The Board proposed that the Tier 3 requirements for related party disclosures be consistent with Tier 2 requirements except:</p> <ul style="list-style-type: none"> • not to require disclosure of key management personnel compensation; and • not to require disclosure of donations from related parties unless evidence indicates the donations could influence the entity’s activities or use of resources. <p>The proposal also provide guidance that related party exists by virtue of relationship of significant influence.</p>	<p>Addressed at the AASB Board meetings (M215 and M218) in Agenda Papers 6.3 and 4.1 respectively.</p> <p>The Board decided to finalise Tier 3 requirements largely as exposed except for including the related party definition in the body of the Standard rather than in the glossary of terms as well as clarifying the interaction between Section 8 and Section 27, that is, that an entity and the reporting entity are also related to each other if a notable relationship exists between the entities or the entities are notable relationship entities of the same third entity rather than avoiding emphasising uncertainty in establishing the nature of a relationship. Given the revision is simply to change the location of the definition, staff do not consider it meets the re-exposure criteria.</p>
Renumbered Section 28: <i>Transition to Tier 3 General Purpose Financial Statements</i>	
<p>The Board proposed that SPFS preparers or Tier 1 or Tier 2 preparers transitioning to the Tier 3 requirements be subject to the following provisions:</p>	<p>Addressed at the AASB Board meetings (M215 and M218) in Agenda Papers 6.4 and 4.1 respectively.</p>

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<ul style="list-style-type: none"> • an election for first-time adopters of the Standard transitioning from application of Tier 1 or Tier 2 requirements to: <ul style="list-style-type: none"> ○ grandfather 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 ○ apply the Tier 3 requirements directly on a modified retrospective basis. • 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; and • 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. <p>These optional reliefs are not time-limited.</p> <p>An entity's transition date to the Tier 3 Standard is:</p> <ol style="list-style-type: none"> (i) if the entity elects to apply the transitional requirements in Section 28, 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 the Tier 3 requirements directly on a modified retrospective basis, the beginning of the current period in which the Tier 3 Standard is first applied. 	<p>The Board's revisions to its proposals were five recognition and measurement changes, one presentation changes, one disclosure change and one clarification change, being:</p> <p><u>Recognition and measurement changes</u></p> <ul style="list-style-type: none"> • to remove the option to grandfather the application of Tier 1 or Tier 2 accounting policies for any or all assets or liabilities existing on the transition date. This decision was made in response to stakeholder concerns that long-lived or long-maturity assets and liabilities could result in prolonged mixed treatments, thereby reducing comparability between Tier 3 entities over an indefinite period. Therefore, consistent with the prohibition of hedge accounting noted above in relation to Section 10, hedge accounting would not be permitted in relation to any assets or liabilities existing on the transition date. • for entities applying the transitional provisions in Section 28, to add a specific exemption allowing a parent entity that is a first-time adopter of the Tier 3 Standard and elects to prepare consolidated financial statements to apply the Tier 3 requirements for entity combinations prospectively for combinations occurring before the transition date. This revision ensures that entities are not required to apply the book-value method or restate pre-transition carrying amounts, following the removal of the grandfathering option noted above. • allowing the carrying amount in the entity's most recent previous financial statements as an additional option for determining the deemed cost at the transition date of investments in subsidiaries, associates, joint ventures and notable relationships entities. This revision aligns with the flexibility in Tier 2 transitional provisions in AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> and enables entities not to be restricted to fair value as the only measure of the deemed cost of investments in subsidiaries, associates, joint ventures and notable relationship entities. Instead, allowing use of the carrying amount in the entity's most recent previous financial statements avoids imposing unnecessary transition costs. • for a parent entity that applies the optional relief to apply Section 17 to entity combinations prospectively, any balance of goodwill existing at the transition date shall cease to be recognised as at that date. This change is to align with the Board's ongoing prohibition of goodwill's recognition when applying the Tier 3 Standard and reducing the cost and complexity associated with requiring an entity to consider amortisation and/or impairment of goodwill. • for entities applying a modified retrospective approach to changes in accounting policies under Section 9 to extend the optional relief to apply a modified retrospective approach to correction of prior period errors. This revision was made in light of the Board's decision to require a full retrospective approach for correcting prior period errors when the transitional provisions are not being applied. The revision preserves the option, when transitioning to the Tier 3 reporting

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	<p>requirements, not to distinguish corrections of prior period errors from changes in accounting policy.</p> <p><u>Presentation changes</u></p> <ul style="list-style-type: none"> for entities applying the transitional provisions in Section 28, to extend the scope of the transitional provisions to permit entities making an irrevocable election to present changes in the fair value of investments in notable relationship entities, associates and joint ventures in other comprehensive income (i.e. FVTOCI) to do so at the transition date as if it were the date of initial recording of the first asset in the class. This revision broadens the presentation election for the deemed date of initial recording beyond the original ED 335 proposal, which was limited to financial assets acquired or originated by the entity to generate income and a capital return. <p><u>Disclosure change</u></p> <ul style="list-style-type: none"> to require disclosures, by an entity that applied all relevant Tier 3 recognition and measurement requirements but did not make an unreserved statement of compliance, of the reason why the entity stopped fully applying the Tier 3 reporting requirements and why it is resuming. <p><u>Clarification change</u></p> <ul style="list-style-type: none"> to add an explanation that the transition date remains the same regardless of whether an entity applies the Tier 3 requirements directly on a modified retrospective basis or via Section 28, unless the entity elects to present full comparative period information in accordance with the Tier 3 Standard. This change, along with general structural improvements, responds to stakeholder feedback that the requirements were difficult to understand and could be simplified. <p><u>Staff analysis</u></p> <p>Staff consider the revisions overall do not substantively change recognition or measurement principles and do not introduce fundamentally new requirements or concepts. Rather, the changes are refinements and aim to ease implementation and improve the clarity of the requirements. The removal of the option to grandfather Tier 1/Tier 2 accounting policies is a direct response to a strong consensus in stakeholder feedback, particularly from professional services firms. These stakeholders expressed concerns that the grandfathering option would increase complexity and reduce the comparability and understandability of Tier 3 financial statements. They also noted the cost of the relief would likely exceed any potential benefits, and adoption of the proposed grandfathering option is likely to be minimal given the complexity of Tier 1/Tier 2 requirements. This demonstrates that key stakeholders have provided input, including their suggested alternatives, which were considered by the Board, with the revisions reflecting stakeholders' views.</p>

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	<p>The other changes to recognition and measurement requirements are optional and expected to provide further relief or reduce cost and complexity.</p> <p>Changes such as clarifying the transition date, adding exemptions regarding prospective application of entity combinations, and extending presentation options for FVTOCI for investments in notable relationships entities, associates or joint ventures are refinements rather than new principles. They enhance flexibility and reduce implementation burden, aligning with stakeholder expectations and the objective of developing a simplified Tier 3 framework that is relatively easy to implement. In addition, staff consider the changes are not extensive or fundamental in nature and primarily involve clarifications and structural improvements rather than altering the core proposals.</p> <p>As such, staff considered the revisions do not meet the re-exposure criteria.</p>
<i>Glossary</i>	
<p>The Board proposed to include a glossary of terms, which was developed from a combination of sources, such as the IFRS for SMEs Accounting Standard, the International Non-Profit Accounting Guidance (now Standard) alongside the New Zealand Tier 3 Standard and new definitions unique to the Tier 3 Standard.</p>	<p>Addressed at the AASB Board meeting (M213 and M218) in Agenda Papers 5.5 and 4.1 respectively.</p> <p>The Board’s revision to its proposal was one clarification change to include equivalent or make consistent the definitions with Tier 2 terminology/definitions within the glossary of terms or within the body of the Tier 3 Standard, where the same meaning is intended, as well as including any missing terms not currently defined. These revisions were made in response to stakeholder feedback to include the Tier 2 terminologies/definitions if the Tier 3 requirements do not deviate from the Tier 2 requirements, since stakeholders may already be familiar with those terms. Other changes were to include more terms in the glossary and to bring the definition of related party into Section 27.</p> <p>Given that the revisions do not change any recognition or measurement requirements and simplifications have been made to provide more clarity to stakeholders, staff consider that the Board’s revisions do not meet the re-exposure criteria.</p>
<i>Appendix C: Amendments to other Australian Accounting Standards</i>	
<p>The Board proposed amendments to other Australian Accounting Standards being:</p> <ul style="list-style-type: none"> • AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i> to: <ul style="list-style-type: none"> ○ specify the entities that may, at a minimum, apply the Tier 3 reporting requirements; ○ introduce requirements for first-time application of Tier 3 reporting requirements; 	<p>Addressed at the AASB Board meetings (M215 and M218) in Agenda Papers 6.4 and 4.1 respectively</p> <p>The Board decided to finalise the proposed amendments to other Australian Accounting Standards with no substantive recognition and measurement amendments. The Board’s revisions to its proposals were one set of clarification changes and one disclosure change, being:</p> <p><u>Clarification change</u></p> <ul style="list-style-type: none"> • changes were made to clarify and correct the accuracy of those charts and flowcharts now included in ED335. <p><u>Disclosure change</u></p>

ED 335 proposals	Board decisions
<ul style="list-style-type: none"> ○ introduce requirements for reapplication of Tier 3 reporting requirements; ○ introduce requirements for entities transitioning from Tier 3 reporting requirements to Tier 1 or Tier 2 reporting requirements. Entities transitioning to Tier 1 requirements for the first time shall apply all the relevant requirements of AASB 1. Entities transitioning to Tier 2 requirements apply either all the relevant requirements of AASB 1 or Tier 2 requirements directly in AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. Entities applying Tier 2 reporting requirements for the first time may elect the following exemptions (proposed as a new paragraph in AASB 1053), not to: <ul style="list-style-type: none"> ▪ 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; ▪ provide comparative information for new disclosures made in accordance with the Tier 2 reporting requirements; or ▪ distinguish corrections of errors made in periods prior to first-time adoption of the Tier 2 reporting requirements and changes in accounting policies. ● AASB 1057 <i>Application of Australian Accounting Standards</i> to specify the not-for-profit private sector entities that applies the Tier 3 reporting requirements are those that does not have public accountability; is not prohibited from applying the Tier 3 reporting requirements by legislation or its constituting document or another document; and either is required to or elects to apply the Standard. ● Charts 1,2 and 4 and transitional scenarios were previously presented in ED 334 which incorporated the introduction of the Tier Standards. 	<ul style="list-style-type: none"> ● to include a requirement for entities that transition from Tier 3 to Tier 2 by applying one or more exemptions in Appendix F of AASB 1053, which was amended to be ongoing transitional relief instead of short-term (rather than the previously proposed paragraph in AASB 1053)to disclose that fact. <p><u>Staff analysis</u></p> <p>Given the changes are to clarify the requirements and less weight is given to changes to disclosures, staff consider the Board’s revisions do not meet the re-exposure criteria.</p>