28 February 2025

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Via online submission www.aasb.gov.au

Dear Keith

Exposure Draft: ED 335 General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia represent over 310,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout Australia, New Zealand and internationally. We welcome the opportunity to provide feedback on the above Exposure Draft (the ED) and make this submission on behalf of our members and in the public interest.

Overall feedback

We are strong supporters of the not-for-profit (NFP) sector and many of our members are involved with the sector as advisors, auditors, employees and volunteers. We therefore strongly support the Australian Accounting Standards Board (AASB) efforts to improve the transparency and accountability of reporting in the NFP private sector via the creation of a new, fit-for-purpose Tier 3 reporting standard for smaller NFPs. The proposed Tier 3 standard will ensure many NFPs that currently prepare Special Purpose Financial Statements (SPFS) will instead prepare a fit-for-purpose General Purpose Financial Statements (GPFS) when complying with their statutory or other financial reporting obligations. We commend the AASB for incorporating the feedback provided in our joint submission on the preceding Discussion Paper – *Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)* (the Tier 3 DP), as well as input from its broader stakeholder engagement, resulting in the proposed Tier 3 standard that represents a well-balanced approach, and offers a proportionate reporting solution for smaller NFPs for whom Tier 2 reporting would be unduly burdensome and costly.

Content of the Tier 3 standard

Our detailed responses to the specific questions raised in the ED on these Tier 3 proposals are provided in the **Attachment** to this letter and provide overall support for the requirements that are being proposed. However, we have identified several areas where we believe some further refinement is necessary.

Ensuring Tier 3 is an effective standalone standard

As noted in our response to the Tier 3 DP, we believe that it is critical that the Tier 3 standard operates as a standalone alternative and does not require references to Tier 1 and Tier 2 standards to fill gaps. While we commend the AASB for its efforts to ensure the standard does address common transactions, we are concerned that some of its references back to Tier 1 and 2 standards are unhelpful. In particular our feedback is that any requirement to apply AASB 9 *Financial Instruments* (AASB 9), even for rare complex financial instruments is inappropriate. We therefore recommend that this reference to applying AASB 9 be removed and replaced with simplified recognition and measurement requirements for complex financial instruments. NFPs should be allowed to develop their own accounting policies for complex financial instruments, guided by the principles of paragraphs 9.3–9.6.

Other specific requirements

While we agree with most of the requirements being proposed, we do not support:

- The requirement to allow a modified retrospective approach to the treatment of errors. We prefer that a full retrospective approach be applied to these items (see our response to Question 15).
- The requirement to include equity accounting as a measurement basis for standalone financial statements (see our response to Question 14).
- Excluding disclosures for key management personnel which we believe are an important governance related disclosure (see our response to Question 37).

Additional guidance and wording clarifications

We have also recommended that the AASB enhance the clarity of a number of the different requirements as set out in the Attachment, particularly as they relate to deferring revenue (Question 19) and fair value (Question 28), ensuring that guidance is precise and easily interpretable by NFPs adopting the standard.

Implementation concerns and scoping issues

As outlined in our joint submission to ED 334 – *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* (ED 334), the effective implementation of the standard depends on clearly defining the NFPs to which it applies. We agree with the AASB that making application of the Tier 3 standard effective through appropriate legislative requirements is the most effective approach to achieve this. However, there needs to be an interim or transitional mechanism that will allow for the application of the standard to the right cohort of NFPs, which should be through a suitable provision in the standard.

The AASB has indicated which NFPs it believes the Tier 3 standard is designed for (NFPs with revenue between $500,000–$3m, based on the Australian Charities and Not-for-profits Commission (ACNC) medium charity threshold) by using ACNC medium-sized charities as a reference point for identifying transactions and balances of smaller NFPs that may be able to prepare Tier 3 GPFS. However, this approach leaves many NFPs with a significant lack of certainty about the scope of the new Tier 3 standard as to which NFPs it will be applicable to. This has several significant implications, including:

- Making it difficult to assess the effectiveness of transition provisions, particularly the incentives for early adoption.
- Failing to provide NFPs with the certainty needed to determine whether transitioning from preparing SPFS to Tier 2 or Tier 3 reporting best suits their circumstances.
- Failing to clarify how the upper revenue limit will be enforced to prevent larger NFPs, which should be reporting under the Tier 2 standards, from inappropriately adopting the new Tier 3 standard.

We therefore reiterate the position expressed in our joint submission to the preceding Tier 3 DP that legislative change should not be viewed as the sole pathway for implementing this much-needed standard. Instead, clear scoping provisions within the standard itself are essential to ensure its successful and effective adoption, whilst legislation is being amended to recognise the standard. Our response to ED 334 proposes a temporary threshold mechanism to address this issue.

Effective date and transition concerns

Given the implementation complexities outlined above, we do not support the sunsetting of early adoption concessions. We believe these concessions should remain available to incentivise and facilitate adoption, regardless of when the transition occurs.

We agree with the proposed effective date after a minimum three years from the issuance of the standard. However, the timeline should also take in to account the time required for legislative reforms and be supported by a comprehensive education program to strengthen the sector, particularly in addressing existing challenges related to gaps in accounting skills and resource constraints.

Extension to the for-profit sector

While we welcome the AASB's development of a Tier 3 standard for the NFP sector, we are of the view that there is a place for a Tier 3 standard for similar-sized entities in the for-profit sector. Such a standard would provide proportionate relief from the full recognition and measurement requirements of Tier 1 and Tier 2 standards on a cost-benefit basis in this sector. Therefore, as noted in our response to the Tier 3 DP, we continue to recommend that the AASB consider commencing a project following publication of the NFP Tier 3 standard, to explore how it could be repurposed to apply to similar sized entities in the for-profit sector.

Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Ram Subramanian at ram.subramanian@cpaaustralia.com.au (CPA Australia) or Amir Ghandar at amir.ghandar@charteredaccountantsanz.com (CA ANZ).

Yours sincerely

Elinor Kasapidis
Chief of Policy, Standards and External Affairs
CPA Australia

Simon Grant FCA
Group Executive – Advocacy and International Development
Chartered Accountants Australia and New Zealand

Attachment

Responses to specific questions raised in the ED

Approach to developing the Tier 3 reporting requirements and major simplifications

1. **Do you agree with the principles on which the [draft] AASB 10XX General Purpose Financial Statements - Not-for-Profit Private Sector Tier 3 Entities is based, described in paragraph BC8 to this ED? If you disagree, please explain why.**

We broadly agree with the principles that have been applied in developing the proposed Tier 3 standard. Our outreach indicates preparers are supportive of the simplifications provided by the Tier 3 standard which will proportionately reduce the reporting burden, promote consistency and transparency not apparent in SPFS.

As outlined in our joint submission to ED 334, we recommend the AASB clearly define the applicability of the new standard by introducing size thresholds within the standard itself as an interim measure, until the necessary legislative reforms are implemented.

While we understand the AASB's reasons for not specifying the thresholds, the lack of clarity creates significant uncertainty about which NFPs will be required to apply this standard. We note that the Basis for Conclusions paragraph BC7 states that the AASB developed the proposed Ter 3 standard based on the revised ACNC 'medium' size charity threshold (revenue of $500,000 to less than $3 million) as a reference point for transactions and balances. Our detailed comments are based on the reporting requirements for NFPs of a similar or equivalent size.

Additionally, we wish to highlight that the threshold proposed in ED 335 differs significantly from the threshold we recommended in our joint submission on the Tier 3 DP. We recommended in our submission to ED 334 that the AASB should prescribe the applicability of the Tier 3 standard to all NFPs that are required to report under accounting standards that have revenue below an upper threshold that we propose should be $5m in annual revenue.

2. **Do you agree with the Board proposals to simplify recognition and measurement requirements in the abovementioned Tier 3 Standard including, but not limited to, the following requirements and options:**
   (a) an accounting policy choice to present consolidated financial statements or only separate financial statements with disclosures about the entity's notable relationships (ie entities with which the reporting entity has at least significant influence);
   (b) modified retrospective application (ie no requirement to restate comparative period information) for changes in accounting policies or corrections of prior period errors;
   (c) a revenue recognition model with the ability to defer recognition of revenue if there is a common understanding that is evidenced between the provider and the entity on how the cash or other assets received should be used;
   (d) no requirement to recognise lease assets or lease liabilities, and lease payments or income are recognised on a straight-line basis over the lease term;

(e) an accounting policy choice to measure donated non-financial assets at cost (which could be nil or a nominal amount) or at their fair value;

(f) measuring loans, including concessional loans, at their face value (the outstanding amount of loan principal) ie without the requirement to discount them to their present value;

(g) measuring short-term and long-term employee benefits on an undiscounted basis;

(h) indicators of impairment of non-financial assets are very limited and simplified; and

(i) applying a book value method for all entity combinations?

If you disagree with any of the simplified recognition and measurement requirements, please explain your reasons why.

We support the basis of all the simplifications set out in (a)–(i) above except for the simplification proposed in point (b) dealing with prior period errors for the reasons explained in our response to Question 11.

3. Do you agree with the structure of the [draft] Standard, including the use of simplified language to express the Tier 3 reporting requirements? If you disagree, please explain your reasons.

Whilst we support the structure of the Tier 3 standard and the use of simplified language to communicate the reporting requirements, we reiterate the recommendation in our joint submission to the Tier 3 DP that the standard should be a single, standalone document with minimal reference to higher tier standards when specific requirements are not covered within the standard itself.

4. The AASB is proposing that the effective date of a final Standard would be at least three years after the issue of that pronouncement (for example, if the Standard is issued in December 2025, the effective date would not be earlier than annual periods beginning on or after 1 January 2029). Early adoption would be permitted. Do you agree with this proposal? If you disagree, please explain why.

We agree that when the standard is considered in isolation, a three-year timeframe as an implementation period with early adoption permitted provides sufficient time for NFPs to adapt to the new financial reporting requirements. However, the effectiveness of this approach presumes a fairly homogeneous legislative environment for NFPs which does not exist. Therefore, the effectiveness of this period and the early adoption incentives are dependent on obtaining sufficient traction with all the sector's regulators to ensure that supporting legislation is enacted in this time frame and still leaves sufficient time for impacted NFPs to understand their new reporting responsibilities and make the necessary changes.

We therefore recommend, as set out in our response to ED 334 that the AASB include an interim threshold within the standard, so its immediate application is not dependent on legislative change.

5. Have you identified any unintended consequences that might arise from the proposals? If yes, please explain what they are and how they can be mitigated.

The new standard is primarily designed for adoption by smaller NFPs in the private sector. However, in the absence of legislation mandating its adoption, and with no mandatory application clause from the AASB, there is a risk that larger NFPs without public accountability could adopt the standard even when Tier 2 financial statements could be more appropriate from their users' perspective.

The lack of a clear consistent application clause could further exacerbate the inconsistencies in reporting requirements that already apply to NFPs, as they remain subject to varying federal, state and territory legislation.

6. **Do the proposals create any auditing or assurance challenges? If so, please explain those challenges.**

As noted in our response to Question 5, the lack of a clear authoritative application could lead to larger NFPs without public accountability adopting the Tier 3 standard even when financial statements based on Tier 2 accounting standards could be more appropriate from their users' perspective. Such a situation could place auditors in a difficult position, needing them to advocate for users' interests without authoritative support.

There are also concerns relating to audit judgement and the application of materiality, as the concept of materiality could be interpreted differently in the NFP sector. Existing practice guides primarily focus on investor decision-making, which may not be relevant for NFPs. Providing additional guidance on materiality in the context of the Tier 3 standard for assurance practitioners would help address these differences.

As outlined in our response to Question 11, the feedback we received from our members indicated that if the AASB proceeds with its proposed requirement to apply the modified retrospective approach for correction of prior period errors, it could pose ethical challenges for auditors signing financial statements where they may have some concern that prior period information has been intentionally misstated and any correction required is not adequately disclosed through restate comparatives (see the application of ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.)

Furthermore, where the Tier 3 standard introduces new principles or terminology, additional guidance should be provided to support the interpretation and application of the requirements. For example, the proposed revenue recognition requirements introduce the term "common understanding" which differs from the "sufficiently specific" principle in Tier 2. Therefore, we are concerned that this is another potential auditing challenge, and to address this we recommend additional guidance to ensure consistency of application.

In addition, our experience with the transition from SPFS to GPFS based on Tier 2 in the for-profit sector demonstrated the significant strain it placed on auditors. While the transition to Tier 3 is expected to be simpler, it will still impose a burden on an already stretched sector. To support an effective transition, it is essential to establish clear timeframes, allow for long lead times and provide comprehensive educational materials across the sector.

7. **Would the proposals result overall in financial statements that are useful to users?**

We agree that the proposed Tier 3 standard is a significant improvement over SPFS for those NFPs with legislative reporting obligations that require compliance with accounting standards, It offers important improvements to consistency, transparency and comparability within the cohort of smaller NFPs that will be of benefit to all users, including regulators, and provide more robust data on which to base sector wide decisions.

8. **Do you have any other comments on the proposals? If so, please explain the issue and if you disagree with a particular proposal, please explain your reasons why. Also, if you**

CHARTERED ACCOUNTANTS AUSTRALIA + NEW ZEALAND

Chartered Accountants Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 1 9290 1344
W: charteredaccountantsanz.com
ABN: 50 084 642 571

CPA AUSTRALIA

CPA Australia
L20, 28 Freshwater Place, Southbank
Victoria 3006
P: +1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

would like to provide more responses to some or all of the specific proposals of the Tier 3 reporting requirements and general matters for comment, please refer to questions 9–44 and respond on those for which you have views. The paragraph references in the questions below are to the [draft] Tier 3 Standard (AASB 10XX) unless otherwise indicated.

See our responses to questions 9–44.

Section 1: Objective, Scope and Application

9. **The [draft] Tier 3 Standard (AASB 10XX) (paragraph 1.3) proposes that entities would apply the recording, measurement, presentation and transition requirements of the following Australian Accounting Standards, and any related disclosure requirements (other than transition) in AASB 1060:**
   - **(a) AASB 2 Share-based Payment, in relation to share-based payment arrangements;**
   - **(b) AASB 4 Insurance Contracts and AASB 1023 General Insurance Contracts, or AASB 17 Insurance Contracts, in relation to insurance contracts;**
   - **(c) AASB 5 Non-current Assets Held for Sale and Discontinued Operations, in relation to assets held for sale;**
   - **(d) AASB 6 Exploration for and Evaluation of Mineral Resources, in relation to exploration for, and evaluation of, mineral resources;**
   - **(e) AASB 9 Financial Instruments and other applicable Australian Accounting Standards, in relation to complex financial instruments identified in Section 10: Financial Instruments of this [draft] Standard;**
   - **(f) AASB 119 Employee Benefits, in relation to obligations arising under a defined benefit plan; and**
   - **(g) AASB 141 Agriculture, in relation to biological assets, and agricultural produce at the point of harvest.**

   This approach has been proposed based on the Board's assessment that the topics listed are either not common for smaller NFP private sector entities (refer to paragraphs BC10–BC12 in the Basis for Conclusions for the evidence considered by the Board) or else their complexity warrants the application of those Standards. Do you agree with the above approach? If you disagree, please explain which Australian Accounting Standards Tier 3 entities should or should not apply and the reasons why.

We broadly agree that the accounting requirements covered in the proposed list of Australian Accounting Standards are complex and uncommon in smaller NFPs. In line with our recommendation to make the standard a standalone document, we recommend that the AASB allow NFPs to develop their own accounting policies using the principles set out in paragraphs 9.3–9.6 rather than requiring them to follow the requirements of a higher tier standard.

In particular, as detailed in our responses to Questions 16 and 17, we suggest that requiring Tier 3 NFPs to refer to AASB 9 for even rare circumstances is likely to prove problematic and so there is a need for simplified requirements based on AASB 9 for all complex instruments to be included in the Tier 3 standard. We also believe that the AASB's list of basic instruments is incomplete.

We have also received feedback that the wording of paragraph 1.3 does not clearly indicate that the standards listed in paragraph 1.3 have been excluded from the Tier 3 standard due to their limited relevance to Tier 3 NFPs. As previously stated, while we strongly recommend that the Tier 3 standard be a completely standalone document, if the AASB decides to proceed with its proposed requirements, we suggest revising paragraph 1.3 to explicitly clarify that transactions covered by this standard are uncommon for Tier 3 NFPs and should only be applied when relevant.

Are there any other requirements or Sections in the [draft] Standard that you consider address transactions or circumstances that are uncommon for smaller NFP private sector entities, and which should not be included in the Standard? If yes, what are the requirements or Sections, and please explain your views.

We believe the Board's decisions in this regard are adequate and we have not identified any such requirements or sections in the [draft] Standard.

Tier 3 Primary Financial Statements (Section 2: Financial Statement Presentation)

10. Do you agree that entities applying the proposed Tier 3 reporting requirements should prepare the financial statements set out in paragraph 2.19 of AASB 10XX, that is, a complete set of financial statements, which includes all of the following:

- **(a) a statement of financial position as at the reporting date;**
- **(b) either:**
  - **(i) a single statement of profit or loss and other comprehensive income for the reporting period displaying all items of income and expense recorded during the period, including those items recorded in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income; or**
  - **(ii) a separate statement of profit or loss and a separate statement of comprehensive income. If an entity chooses to present both a statement of profit or loss and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income;**
- **(c) a statement of changes in equity for the reporting period;**
- **(d) a statement of cash flows for the reporting period; and**
- **(e) notes, comprising material accounting policy information and other explanatory information?**

If you disagree, please explain which financial statements should be required by Tier 3 reporting requirements and the reason why?

We agree with the content of a complete set of financial statements for a Tier 3 NFP as set out in paragraph 2.19. This preserves basic reporting consistency between all three reporting tiers which will assist both preparers and users' understanding of the financial statements. In addition, we commend the AASB for allowing NFPs to label the individual financial statements, and the corresponding key line items within them using more sector specific terminology, as outlined in paragraph 2.24 of the ED.

As indicated in our joint submission to the Tier 3 DP, we support the choice to present either a single statement of profit or loss and other comprehensive income or a separate statement of profit or loss and a separate statement of comprehensive income. This approach allows the preparer to determine which format is most suitable for their entity, resulting in more useful and relevant financial statements for users.

In addition, we appreciate the AASB taking into consideration our comments on the importance of the Statement of Changes in Equity (SOCE) and including it in the complete set of financial statements for a Tier 3 NFP.

However, we wish to reiterate that in certain circumstances, such as where the only reserve to record is retained earnings, a separate SOCE is not necessary to convey relevant information. We maintain our previous recommendation that in such situations, a choice should be provided as to presenting the SOCE information as either a primary financial statement or a disclosure in the notes to the financial statements, based on user needs. We believe this will assist in encouraging NFPs to consider their financial statements as a communication tool rather than a regulatory compliance exercise.

11. Do you agree with paragraph 2.20, which specifies that if the only changes to equity during the periods for which financial statements are presented arise from profit or loss, corrections of prior period errors and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity? If you disagree, please explain why.

We support the AASB's proposal that a single statement of income and retained earnings be presented in place of the statement of comprehensive income and statement of changes in equity, where the only changes to equity during the periods for which financial statements are presented arise from profit or loss, corrections of prior period errors and changes in accounting policy. Consistent with Tier 2 requirements, this will make presentation simpler for preparers without sacrificing information usefulness.

Tier 3 Primary Financial Statements and Notes – Presentation and Disclosure Requirements (Sections 3–7)

12. Do you agree with the proposed information to be presented in:

- **(a) the statement of financial position as set out in paragraph 3.2 and in the statement of financial position or the notes for items set out in paragraph 3.8 when those amounts are material to an understanding of the entity's financial position;**
- **(b) the statement of profit or loss and comprehensive income as set out in paragraph 4.4 when those amounts are material to an understanding of the entity's financial performance, including separately disclosing the items set out in paragraph 4.5;**
- **(c) the statement of changes in equity as set out in paragraph 5.3;**
- **(d) the statement of income and retained earnings as set out in paragraph 5.5 in addition to the other information required in Section 4: Statement of Profit or Loss and Other Comprehensive Income;**
- **(e) a statement of cash flows that presents cash flows for a reporting period classified by operating activities and other activities, which encompass investing activities and financing activities. In commenting on this, please indicate whether you agree with the proposals that (as set out in paragraphs 6.3 and 6.7, respectively):**

(i) an entity may elect to present cash flows from investing activities and financing activities either separately or together; and

(ii) an entity may elect to present cash flows from operating activities using either the direct or indirect method; and

(f) the notes to the financial statements as set out in Section 7: Notes to the Financial Statements?

If you disagree with any of the requirements, please explain which information should or should not be presented in the respective primary financial statements or in the notes, with your reasons.

Broadly, we support the proposed information to be presented in the statements and notes to the financial statements, noting that it is consistent with the Tier 2 requirements where relevant and uses simplified language. We commend the AASB on including relevant guidance within the ED that is tailored to the preparers of Tier 3 GPFS.

13. Do you agree the guidance provided for presenting an analysis of expenses using a classification based on either their nature or function within the entity in paragraph 4.10 will be helpful to preparers in disaggregating expenses to provide useful information consistently to users of the financial statements? If you disagree, would you prefer the AASB develops a more principles-based approach to help preparers classify and present expenses to provide useful information to users? Please provide your reasons for your response.

We do not agree with the proposed approach in paragraph 4.10. In our view, a hybrid approach combining elements of nature and function analyses to produce a single analysis is likely to meet the needs of a broad range of stakeholders in the NFP sector. We also note that New Zealand adopts this approach for its Tier 3 simplified accruals-based standard for NFPs.

Section 8: Notable Relationships and Consolidated and Separate Financial Statements

14. Do you agree with the proposed Tier 3 reporting requirements in Section 8? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) As per paragraph 8.10, an entity applying the Tier 3 reporting requirements that has identified it has subsidiaries shall either:

(i) present consolidated financial statements in which it consolidates its subsidiaries; or

(ii) present, as its only financial statements, separate financial statements that do not consolidate its subsidiaries.

(b) A notable relationship entity exists when the reporting entity has at least significant influence over the entity (with or without holding an investment in the other entity's equity instruments, if any exist), as set out in paragraph 8.1.

(c) A reporting entity with one or more notable relationships preparing separate financial statements shall make an accounting policy election under paragraph 8.5, to measure its investments in notable relationship entities at any of:

(i) cost;

(ii) fair value through profit or loss, unless the entity makes an irrevocable election at the initial recording of a particular investment to present changes in its fair value in other comprehensive income; or

(iii) its equity method-based amount.

(a) and (b) We agree with the proposed Tier 3 reporting requirements set out in paragraphs 8.10 and 8.1.

(c) We support the use of cost or fair value through profit and loss as accounting policy elections for notable relationships when separate financial statements are presented. However, we do not support the inclusion of equity accounting as an option because that choice is inconsistent with the decision not to consolidate and introduces known complexities around the fundamental principles that underly equity accounting.

Disclosure requirements

(d) A reporting entity with one or more notable relationships that presents separate financial statements and does not present consolidated financial statements is required to disclose the items in paragraphs 8.6 and 8.7 for each notable relationship entity. If you disagree with any of the requirements, please explain why.

We agree with the disclosure items in paragraphs 8.6 and 8.7 when separate financial statements are presented.

Section 9: Accounting Policies, Estimates and Errors Recognition and measurement requirements

15. Do you agree with the proposed Tier 3 reporting requirements in Section 9? Your response may address, but need not be limited to, the following requirements:

(a) An entity shall account for changes in accounting policies other than transitional provisions using a modified retrospective approach without restating information presented for comparative periods, as set out in paragraphs 9.11–9.12.

(b) The effect of a change in accounting estimates shall be applied prospectively from the date of the change in estimates, as set out in paragraph 9.19.

(c) An entity shall correct a material prior period error using a modified retrospective approach without restating comparative periods, as set out in paragraphs 9.24–9.25.

Disclosure requirements

(d) An entity shall disclose, for each prior period error, a description of the error and how it was corrected and, to the extent practicable, the amount of the correction to the opening balances of assets, liabilities and items of equity for the current period, as per paragraph 9.26.

If you disagree with any of the requirements, please explain why.

Consistent with our joint submission to the Tier 3 DP, we agree with a modified retrospective approach for recognising voluntary changes in accounting policies. However, we do not agree that this approach should also be applied to the correction of prior period errors. Comparative periods should be restated where material prior period accounting errors are identified to provide a complete view of the entity's position, and feedback from our members indicates that such a benefit exceeds the associated cost.

We also do not support the disclosure requirements for prior period errors as per paragraph 9.26, as we believe disclosure alone is insufficient. The effects of corrections of errors should be presented as retrospective adjustments of prior periods, consistent with paragraph 46 of AASB 108, paragraph 55 of AASB 1060 and paragraph 5.8 of IFRS for SMEs. Restatement of comparative information presented for prior periods provides useful information and context to users and therefore should be included on the face of the financial statements.

Section 10: Financial Instruments Scope of requirements

16. Do you agree that the proposed Tier 3 reporting requirements for financial instruments should, as set out in paragraph 10.2, apply to the following financial assets and financial liabilities arising from financial instruments identified as commonly held by Tier 3 entities or basic financial instruments in Section 10, being:

- **(a) cash and cash equivalents;**
- **(b) trade and other receivables ('debtors');**
- **(c) security bonds (eg residential bonds);**
- **(d) term deposits;**
- **(e) government and listed corporate bonds;**
- **(f) units held in managed investment schemes, unit trusts and similar investment vehicles;**
- **(g) non-convertible ordinary and preference shares held in listed and non-listed entities, including shares redeemable for a known amount of cash or the cash equivalent of their share of the investee's net assets;**
- **(h) trade and other payable ('creditors'); and**
- **(i) loans (amounts borrowed or lent, whether bearing interest at fixed or variable rates, interest-free or including terms that create leverage)?**

If you disagree, which financial instruments should or should not be subject to the proposed Tier 3 reporting requirements for basic financial instruments or financial instruments commonly held by Tier 3 entities, and why?

We acknowledge and support the AASB's approach to simplify the financial instruments requirements by identifying basic or commonly held financial instruments and including simplified requirements in the Tier 3 standard. However, we remain concerned that the list of basic instruments is not sufficiently comprehensive because it does not address:

- Requirements for Tier 3 NFPs that may be committed to provide a loan to another entity at an interest rate below market interest rate; or
- Financial guarantees (see our response to Question 17).

Feedback we have received indicates that any requirement to apply AASB 9 *Financial Instruments* (AASB 9), even for rare complex financial instruments is inappropriate. We therefore recommend that this reference to applying AASB 9 be removed and replaced with simplified recognition and measurement requirements for complex financial instruments. NFPs should be allowed to develop their own accounting policies for complex financial instruments, guided by the principles of paragraphs 9.3–9.6. If a NFP applies paragraphs 9.3–9.6, we expect that it would automatically reach the conclusion that the complex financial instruments should be measured at fair value.

17. Do you agree that an entity applying the proposed Tier 3 reporting requirements should apply AASB 9 Financial Instruments and other applicable Australian Accounting Standards to account for the following complex financial instruments or financial instruments less commonly held by Tier 3 entities identified in paragraph 10.3:

(a) unlisted purchased debt instruments such as unlisted corporate bonds and convertible notes;

(b) acquired equity instruments other than non-convertible ordinary and preference shares;

(c) financial guarantee contracts;

(d) derivatives such as interest rate swaps and forward exchange contracts; and

(e) commitments to provide a loan at a below-market interest rate?

If you disagree, which financial instruments held by Tier 3 entities should or should not be accounted for in accordance with AASB 9, and why?

As noted in our response to Question 16, we do not agree that Tier 3 NFPs should be required to apply AASB 9, even in exceptional circumstances. We recommend a simplified approach for these more complex instruments based on our recommendations in our response to Question 16.

Recognition and measurement requirements

18. Do you agree with the Tier 3 reporting requirements developed for financial assets and financial liabilities that are basic or commonly held by Tier 3 entities as set out in paragraph 10.2? Your response may address, but need not be limited to, the following requirements.

(a) An entity shall record financial assets and financial liabilities initially at fair value (excluding transaction costs and fees incurred by the entity), except that a concessional loan shall be recorded initially at its transaction price (ie the amount of cash lent), as per paragraphs 10.5 and 10.6, respectively.

Subject to our responses to Questions 16 and 17, we agree with the proposals.

(b) As per paragraph 10.7, financial assets acquired or originated by the entity to generate both income and a capital return (including all investments in equity instruments) shall be measured at fair value as at the end of each reporting period, except when a reliable measure of the fair value of an investment in an unlisted equity instrument is unavailable. Changes in the fair value of such financial assets shall be included in profit or loss, unless the entity elects irrevocably, on initial recording of the first asset in a class of financial assets, to include changes in the fair value of that class in other comprehensive income.

We agree with the proposed requirements.

(c) As per paragraph 10.8, except for transitional provisions in paragraph 29.4, an entity applying the Tier 3 reporting requirements is not permitted to apply hedge accounting,

regardless of whether the financial instruments in the hedging relationship are accounted for in accordance with the requirements of this Standard or AASB 9.

We agree with not permitting the application of hedge accounting for Tier 3 NFPs. Feedback we have received indicates that hedge accounting is uncommon for Tier 3 NFPs, therefore we do not consider the requirement necessary for Tier 3 NFPs.

(d) As per paragraph 10.17, an entity shall assess whether there is objective evidence of impairment of any financial assets, or group of financial assets, for debtors within the scope of Section 20: Revenue and any other financial assets measured at cost as set out in paragraph 10.7(b).

We agree with the proposed requirements.

Disclosure requirements

(e) The disclosure requirements relating to financial assets and financial liabilities in paragraphs 10.25– 10.30. If you disagree with any of the requirements, please explain why.

We support the proposed disclosure requirements.

Section 11: Fair Value Measurement

19. Do you agree that the proposed Tier 3 reporting requirements in Section 11, including the definition of fair value, should remain consistent with Tier 2 reporting requirements for the reasons explained in paragraphs BC74–BC77? If you disagree, please explain why

We agree that the definition of fair value should remain consistent with the Tier 2 reporting requirements. Whilst we support the simplifications made to the fair value measurement requirements in the ED, we recommend some further guidance and simplifications below:

- Remove paragraph 11.4 referencing a prohibition from adjusting market price for transaction costs. When considering market price, we do not believe transaction costs are likely to have a significant impact on market price for fair value measurement purposes in the case of NFPs applying the Tier 3 standard.
- Remove paragraph 11.5 relating to transport costs. Without any guidance on the circumstances when transport costs may be relevant, we believe this is likely to unnecessarily complicate fair value measurement.
- Further guidance would be welcome for the application of the “cost approach” set out in paragraphs 11.9(b) and 11.10. We recommend providing some simplified guidance based on the Australian implementation guidance for not-for-profit public sector entities set out in paragraphs F8–F15 of Appendix F to AASB 13 *Fair Value Measurement* (AASB 13).
- Further guidance would also be welcome on the concept of economic obsolescence that can be a common factor when considering fair value measurement for non-financial assets held by NFPs applying the Tier 3 standard. We recommend providing simplified guidance based on paras F16–F19 of Appendix F to AASB 13 to address this.
- We recommend clarifying the rationale for including a one year period for the “highest and best use” exception in paragraph 11.7.

Section 12: Inventories

20. Do you agree with the proposed Tier 3 reporting requirements in Section 12? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) An entity may elect to initially measure the cost of donated inventory either at its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or at a reliable measure of its current replacement cost as at the date of donation as per paragraph 12.8.

Paragraph 12.4 sets out the overall initial and subsequent measurement requirements for inventories. However, for subsequent measurement, we suggest incorporating the requirements currently set out in Section 23 Impairment of Assets, into Section 12, as a separate sub-section. Also, since the term "*estimated selling price less costs to complete and sell them*" is more commonly referred to as net realisable value, we suggest including in brackets at the end of the paragraph, "also referred to a net realisable value."

Whilst we agree with initially measuring the cost of donated inventory at its cost to the entity, we believe the NFP should be able to choose the broader fair value measurement basis rather than the narrower current replacement cost as an alternative for initial measurement of donated inventory. We note the rationale for using current replacement cost as an alternative in paragraph BC 68 but given that inventories are non-financial in nature, a broader fair value approach (that includes current replacement cost) would be appropriate. Where current replacement cost is used in measuring inventories at fair value the requirements and guidance set out in Section 12 would remain appropriate. Feedback we have received from public sector stakeholders who currently use current replacement cost is that this can be a challenging measurement basis in some circumstances. Therefore, if the final Tier 3 standard is limited to the use of current replacement cost as an alternative measurement basis, we recommend expanding paragraph 11.10 to include additional guidance on estimating current replacement cost. Some further examples illustrating the practical application of current replacement cost would also be helpful.

We support the provision of illustrative examples (Examples A and B) to assist with applying concepts such as "service potential" and "physical obsolescence" when measuring inventories. It would also be helpful if some guidance is provided around what is meant by both service potential and physical obsolescence in this context. We also note the use of the term "economic obsolescence" in paragraph 12.6 with no further guidance on how to apply this concept. We believe it would be appropriate to provide guidance on applying the concept of economic obsolescence both for inventories and for general fair value measurement as noted in our response to Question 19.

(b) Requirements concerning the techniques and formulae for measuring the cost of particular items of inventory are set out in paragraphs 12.13 and 12.14. The Board is particularly interested in whether the requirements are useful and proportionate for preparers of Tier 3 general purpose financial statements.

Subject to our response to Question 20(a) and subject to the suggestions set out below, we agree with the proposed requirements concerning the techniques and formulae for measuring particular items of inventory.

Recording inventories received to address a crisis situation

Paragraph 12.3 specifies that inventories should be recorded at the time they are received (at some or nil monetary value). We recommend adding similar exemptions from recording inventories received in a crisis situation set out in INPAG ED 3 (AG12.11, AG13.8–AG13.9), which exempts and entity from recognising inventories received during a crisis situation and only requires provision of disclosures about the affected item(s).

Other permitted exceptions to recognising inventories

We also suggest considering the proposed permitted exceptions in INPAG ED 2 (G13.5) concerning:

- Recognition of low value items for resale, which provides an option to recognise revenue and assets only when sold, measured at sale amount.
- Items for own use or distribution, which provides an option to recognise revenue and expense only when used or distributed.

Disclosure requirements

(c) Where an entity has elected to initially measure at its cost to the entity donated item(s) of inventory in accordance with the option in paragraph 12.8(a), it shall, as specified by paragraph 12.20, make the same disclosures about donated item(s) as those required by paragraphs 15.29 and 15.30 of Section 15: Property, Plant and Equipment for donated items of property, plant and equipment that the entity elected to initially measure at cost. If you disagree with any of the requirements, please explain why.

We agree with the proposed disclosure requirements.

Section 13: Investments in Associates and Joint Arrangements

21. Do you agree with the proposed Tier 3 reporting requirements in Section 13? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) An investor shall account for its investments in associates and joint ventures in financial statements that are not consolidated financial statements using one of the methods set out in paragraph 13.13

(i) the cost model;

(ii) the equity method; or

(iii) the fair value model.

Disclosure requirements

(b) The disclosure requirements relating to investments in associates and joint ventures in paragraphs 8.6 (where applicable), 10.25, 10.27 and 13.25-13.28.

If you disagree with any of the requirements, please explain why.

As noted in our response to Question 8, we do not support the use of equity accounting as a measurement approach. Its use is inconsistent with the decision not to consolidate subsidiaries.

Chartered Accountants Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 1 9290 1344
W: charteredaccountantsanz.com
ABN: 50 084 642 571

CPA Australia
L20, 28 Freshwater Place, Southbank Victoria 3006
P: +1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

We support the proposals for the accounting for associates and joint ventures using the cost model or the fair value model subject to the following comments:

- Inclusion of specific requirements for the subsequent measurement of associates and joint arrangements would be useful.
- Paragraph 13.20 refers to the transfer of "significant risks and rewards." We suggest replacing this with the transfer of "control."
- Inclusion of a specific reference in paragraphs 13.25–13.28 to which disclosures are required for associates and joint arrangements when consolidated financial statements are prepared would be well received.

Section 14: Investment Property and Section 15: Property, Plant and Equipment

22. Do you agree with the proposed Tier 3 reporting requirements in Section 14 and Section 15 that align the reporting requirements with Tier 2 reporting requirements except for language and further reduced disclosures? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) Allowing Tier 3 entities to elect to measure donated non-financial assets as per paragraph 14.6(a) and paragraph 15.4(a) at either:

(i) cost to the entity (which might be nil, a nominal amount or another significantly discounted amount); or

(ii) fair value as at the date of donation.

Disclosure requirements

(b) Where an entity has elected to initially measure at its cost to the entity donated non-financial assets in accordance with the option in paragraph 14.6(a) or 15.4(a), it shall make disclosures set out in paragraphs 15.29 and 15.30.

If you disagree with any of the requirements, please explain why.

We generally agree with the proposals for accounting for investment property, and property, plant and equipment, subject to the following comments:

- Paragraph 14.12 should also include transfers in accordance with paragraph 14.11 – we note that a change of use or transfer of property could lead to a reclassification; i.e. ceasing to be recorded as an investment property. However, the paragraphs appear mutually exclusive.
- We suggest providing guidance on what disclosed information would be suitable to assess a NFP's dependence on donations of property, plant and equipment (paragraph 15.29(a)).
- Section 18 (Leases) scopes out investment property accounted for under Section 14. However, this section does not currently address the accounting for leased investment property. For example, paragraph 14.4 requires recording of an investment property that is purchased by, or donated to, the entity. It also needs to include investment property that is "leased by" the entity. Similarly, the initial and subsequent measurement considerations for leased investment property needs to be developed in included under this section.

Chartered Accountants
Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 1 9290 1344
W: charteredaccountantsanz.com
ABN: 50 084 642 571

CPA Australia
L20, 28 Freshwater Place, Southbank
Victoria 3006
P: +1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

Some member feedback suggests that investment property may be removed from the Tier 3 standard on the basis that small to medium sized NFPs are unlikely to hold and manage income generating assets or hold them for capital gain. We also note that AASB Research Report 19 Common Financial Statement Items: Charities with $0.5 to $3 million revenue (April 2023) cites such assets as being proportionately minimal.

23. In relation to the proposed measurement choice in Question 22(a), the AASB is seeking information on the cost to smaller NFP entities of obtaining the fair value of donated non-financial assets. If possible, please provide an estimated cost of obtaining the fair value of donated non-financial assets. Are there any types of non-financial assets for which it is more costly to obtain a fair value?

Based on feedback during our outreach activities, we have heard that the cost for smaller NFPs to obtain the fair value of donated investment property, and property, plant and equipment, is usually not a significant concern. Low volume, high value, commercial or investment market items are generally more easily valued against market benchmarks. However, we understand there may be a considerable valuation cost for NFPs holding more exotic investments.

Feedback we have received has not raised the costs of obtaining valuations as a significant concern, particularly given that market values are often useful for governance reasons.

Section 16: Intangible Assets

24. Do you agree with the proposed Tier 3 reporting requirements in Section 16? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

- **(a) An entity records an intangible asset when it is purchased by or donated to the entity, measured initially at cost or, if donated to the entity, either at cost to the entity or fair value, as per paragraphs 16.3 and 16.4.**
- **(b) Expenditure incurred internally on an intangible item, including all expenditure for both research and development activities, shall be recorded as an expense when incurred, as set out in paragraph 16.7.**
- **(c) An entity shall choose either the cost model in paragraph 16.14 or the revaluation model in paragraph 16.15 as its accounting policy for the subsequent measurement of a class of intangible assets.**
- **(d) All intangible assets shall be accounted for as if they have a finite useful life; however, if the useful life of an intangible asset is indefinite, the useful life shall be determined based on management's best estimate but shall not exceed ten years, as set out in paragraphs 16.17–16.18.**

Disclosure requirements

- **(e) The disclosure requirements relating to intangible assets in paragraphs 16.25–16.29. If you disagree with any of the requirements, please explain why.**

We agree with the proposed recognition, measurement and disclosure requirements.

Section 17: Entity Combinations

25. Do you agree with the proposed Tier 3 reporting requirements in Section 17? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) As of the deemed combination date, the combined existing carrying amounts of the assets, liabilities and items of equity of the entities subject to the combination become the carrying amounts of the assets, liabilities and items of equity of the reporting entity. The deemed combination date is the beginning of the reporting period during which the entity combination occurred (paragraph 17.5).

(b) If a material asset or liability of an entity subject to the combination does not have an existing carrying amount recorded in accordance with Australian Accounting Standards, it shall initially be measured at its fair value as at the deemed combination date as set out in paragraph 17.6. However, if a combining entity was donated a non-financial asset before the entity combination without paying any consideration in return and elected to initially measure that asset at its cost (nil) in accordance with the Tier 3 Standard, the donated asset is excluded from the requirement to be measured at fair value as at the deemed combination date (paragraph 17.7).

(c) Any difference between the carrying amount of the consideration paid by an acquirer of the other combining entities and the carrying amount of the net assets recorded in the combination is recorded directly in equity. An entity combination does not give rise to the recording of goodwill as set out in paragraph 17.7. Disclosure requirements

(d) The disclosure requirements relating to the entity combination in paragraphs 17.11 and 17.12. If you disagree with any of the requirements, please explain why.

We generally agree with the proposed recognition, measurement and disclosure requirements for entity combinations, subject to the following comments:

- In addition to providing a description of an operating unit (paragraph 17.4), it would also be helpful if a description of an “entity” is provided.
- Paragraph 17.6 presumes that either Australian Accounting Standards have been applied to the financial statements of the combining entities, or fair value information is available for the assets and liabilities of the combining entities. It is possible that neither criterion is met in some instances. For example, it is possible that combining entities have previously not applied Australian Accounting Standards in the preparation of their financial statements. Equally, as envisaged in the ED, fair value information may not be available for some or all of the assets/liabilities of the combining entities. We suggest accounting requirements and guidance is developed and included for such circumstances.
- We suggest a specific reserve be created for the difference arising on entity combinations (paragraph 17.7) to distinguish from other reserves held in equity, including subsequent measurement and accounting requirements for such a reserve.
- Some guidance around what constitutes a “major” entity combination envisaged by disclosure paragraph 17.12 would be helpful.
- We suggest that the Basis for Conclusions explanation in paragraph BC99 could be included in Section 17: Entity Combinations to explain the purpose of entity combinations which is distinct from the Tier 2 requirements for other combinations.

Section 18: Leases

26. Do you agree with the proposed Tier 3 reporting requirements in Section 18? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) A lessee records lease payments (excluding costs for services such as insurance and maintenance) as an expense, and the lessor records lease income in profit or loss, over the lease term on a straightline basis, unless another systematic basis is more representative of the time pattern of the lessee's benefit from the leased asset, as set out in paragraphs 18.2 and 18.5. Disclosure requirements

(b) The proposed disclosures for lessees and lessors in paragraphs 18.8–18.13. If you disagree with any of the requirements, please explain why.

We generally agree with the proposals for the accounting for leases, subject to our comments in response to Question 22regarding leased investment property held by lessees.

Section 19: Provisions and Contingencies

27. Do you agree with the proposed Tier 3 reporting requirements in Section 19, including aligning with Tier 2 requirements as explained in paragraph BC16 except for simplified disclosures for provisions, contingent assets, contingent liabilities and guarantees and firm commitments? If you disagree with any of these requirements, please explain why.

We agree with the proposals for the accounting for provisions and contingencies.

Section 20: Revenue

28. Do you agree with the proposed Tier 3 reporting requirements in Section 20? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) As per paragraph 20.3, on initial recording of an asset provided to the entity, the entity shall:

(i) record a deferred revenue obligation (liability) if the entity and the provider of the asset have a common understanding that, in response, the entity will perform in a particular manner resulting in the expenditure, transfer or using up of that asset or other assets of the entity with a similar value; or

(ii) if a deferred revenue obligation liability does not exist, record revenue simultaneously with initially recording the asset at the earlier of receiving the cash or other asset and obtaining control of a right to receive the cash or other asset.

Disclosure requirements

(b) The disclosure requirements as set out in paragraphs 20.25‐20.30 ‐ in particular, that an entity' s total revenue for the period shall be disaggregated into categories that help users of its financial statements assess the nature, amount, timing and uncertainty

of each dissimilar type of revenue recorded (paragraph 20.25). If you disagree with any of the requirements, please explain why.

We generally agree with accounting requirements for revenue, subject to the following comments:

- Paragraph 20.1(a)(i) excludes from revenue, inflows from sales of assets. Since inventories are also assets and the inflows from sales of inventories will give rise to revenue, this statement is incorrect. We request this be addressed.
- Paragraph 14.3(b) excludes property held for “sale in the ordinary course of business” from Section 14 (Investment Property). However, this suggests NFPs could hold property (land or a building, or part of a building, or both) that may be sold in the ordinary course of business. Both Section 15 (paragraph 15.25) and Section 20 (paragraph 20.1(a)(i)) preclude recognition as revenue, gains/inflows arising from sales of assets. Whilst we do not envisage NFPs will generally hold property for “sale in the ordinary course of business,” conceptually, if a NFP were to do so, it could be argued that any gains arising from such sales should be treated as revenue. We suggest considering this and addressing it by requiring such gains/inflows to be accounted for as revenue in these circumstances.
- We welcome the requirement for a “common understanding” between the NFP and a customer/provider to be present in order for revenue to be deferred. However, we suggest introducing some further material within the section (in addition to the one reference we have identified in paragraph 20.24(a)) that considers the provision of goods/services to a third party beneficiary other than the customer/provider, as this is likely to be a common occurrence with grants, donations and other funding arrangements. Such material could potentially be included within the section on “satisfying deferred revenue obligations” (paragraphs 20.11–20.13), including scenarios where benefits are derived by third parties at a future date that requires deferral of revenue.

29. There is no explicit reference to variable consideration in the initial measurement requirements for accounts receivable, and no explicit requirement to account for any implicit financing to a provider on the grounds that these circumstances are likely to be uncommon, and the inclusion of such requirements is unlikely to be proportionate for Tier 3 entities. Do you agree that the proposed Tier 3 reporting requirements should exclude the following:

(a) any reference to variable consideration from the initial measurement requirements for accounts receivable in Section 20; and

(b) any requirements addressing how to account for a significant financing period provided to a provider, when measuring the amounts of accounts receivable arising from a transfer of goods or service to a customer or beneficiary in paragraph 20.3?

If you disagree, please explain why.

We agree with these proposals.

Section 21: Expenses

30. Do you agree with the proposed Tier 3 reporting requirements in Section 21 to record expenses upon the recording of a decrease in assets, or an increase in liabilities, and only

in relation to amounts paid and payable by the entity with resources it controls, as per paragraphs 21.1 and 21.2? If you disagree, please explain why.

We agree with the accounting requirements for expenses.

Section 22: Borrowing Costs

31. Do you agree with the proposed Tier 3 reporting requirements in Section 22 to require an entity to record all borrowing costs as an expense in profit or loss in the period in which they accrue, as set out in paragraph 22.1? If you disagree, please explain why.

We agree with the accounting requirements for borrowing costs.

Section 23: Impairment of Assets

32. Do you agree with the proposed Tier 3 reporting requirements in Section 23? Your response may address, but need not be limited to, the following requirements.

Scope of requirements

(a) Section 23 applies to all assets other than financial assets within the scope of Section 10: Financial Instruments and non-financial assets regularly revalued to fair value, as per paragraph 23.2.

Recognition and measurement requirements

(b) An entity is required to assess the possibility that any non-financial assets are impaired, as set out in paragraph 23.3, when, and only when:

(i) they have been damaged physically or are perishable items that have spoilt or become obsolete; or

(ii) the entity has changed its strategy or been affected by a reduction in external demand for

(iii) the entity has changed its strategy or been affected by a reduction in external demand for its goods or services and in either case the asset's capacity to provide goods or services or generate sales revenue might have been affected adversely as a result. If you disagree with any of the requirements, please explain why.

We agree with the above proposals except for paragraph 23.12 which states "impairment losses recorded in profit or loss may be disclosed jointly with depreciation/amortisation expense". We are of the view that these expenses are different in nature and should be separately disclosed.

Section 24: Employee Benefits

33. Do you agree with the proposed Tier 3 reporting requirements in Section 24? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

An entity is required to:

(a) record a provision for employee entitlements to future leave or payments in lieu of leave accumulated as at the end of the reporting period as a result of employee services received until that date, as per paragraph 24.3;

(b) record a provision for non-vesting leave only if, and to the extent that, the leave has been taken by an employee and has not been paid by the entity (ie an amount is due and payable to the employee) at the end of the reporting period, as per paragraph 24.4; and

(c) measure the provision for employee benefits payable to employees, and related employee benefit expenses, at the undiscounted amount of employee benefits expected to be paid, as per paragraph 24.7. If you disagree with any of the requirements, please explain why.

We agree with the accounting requirements for employee benefits.

Section 25: Income Tax

34. Do you agree with the proposed Tier 3 reporting requirements in Section 25 to require an entity to record income tax expense for the income tax payable for the period? The liability for income tax at the end of the reporting period shall be measured as the sum of the estimated income tax payable for the period and any income tax assessed in respect of a prior period (or periods) and unpaid at the end of the reporting period, as per paragraph 25.1. If you disagree with any of the requirements, please explain why.

We agree with the accounting requirements for income tax.

Section 26: Foreign Currency Translation

35. Do you agree with the proposed Tier 3 reporting requirements in Section 26 to require an entity with transactions or balances that are not denominated in Australian dollars to translate their amounts to Australian dollars by translating transactions using the exchange rate on the date of the transaction, and translating monetary asset and liability balances using the exchange rate at the end of the reporting period, as per paragraph 26.1? If you disagree with any of the requirements, please explain why.

We agree with the accounting requirements for foreign currency translation.

Section 27: Events Occurring after the Reporting Period

36. Do you agree with the proposed Tier 3 reporting requirements in Section 27, which align with Tier 2 reporting requirements? If you disagree with any of the requirements, please explain why.

We agree with the accounting requirements for events occurring after the reporting period.

Section 28: Related Party Disclosures

37. Do you agree with the proposed Tier 3 reporting requirements in Section 28, which align with Tier 2 reporting requirements except for not requiring disclosure of:

(a) key management personnel compensation; and

(b) donations received by the entity from a related party, unless evidence indicates the donations could influence the entity' s activities or use of resources, as per paragraph 28.10? If you disagree with any of the requirements, please explain why.

We generally agree with the accounting requirements for related party disclosures, subject to the exemption for disclosure of compensation made to key management personnel. Given legislative requirements can impose such requirements as noted in paragraph BC125 (e.g., ACNC for some charities), we believe it is appropriate for the Tier 3 standard to include disclosures of compensation paid to key management personnel that is aligned with the Tier 2 disclosure requirements.

Section 29: Transition to Tier 3 General Purpose Financial Statements

38. Do you agree with the transitional requirements proposed in Section 29? Your response may address, but need not be limited to, the following requirements.

(a) Allowing first-time adopters of the Standard transitioning from application of Tier 1 or Tier 2 requirements of Australian Accounting Standards an election to (1) continue applying all related Tier 1 or Tier 2 recognition, measurement and disclosure requirements to some or all assets or liabilities existing on the transition date or (2) apply the Tier 3 reporting requirements directly on a modified retrospective basis, as per paragraphs 29.3 and 29.4.

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

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

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

Do you agree with the proposed transitional requirements in Section 29, as explained in paragraphs BC129– BC133, and that no additional transitional relief should be available for entities adopting the Standard early? If you disagree with any of the requirements, please explain why, including what additional transition relief should be given to entities adopting the Standard early and the reasons for your proposal.

We support these proposals which are consistent with the for-profit reforms and incentivise adoption.

Appendix A: Glossary of terms

39. Do you agree that the glossary should include cross-references to terms that are defined in the body of the [draft] Standard? If not, do you consider it would be more helpful to include the complete definition in both the glossary and the body of the Standard? Please include your reasons why.

We agree that the glossary should include cross-references to terms that are defined in the body of the Tier standard. A plain English approach, where every defined term is clearly highlighted each time it appears, could improve usability and educational outcomes.

Chartered Accountants Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 1 9290 1344
W: charteredaccountantsanz.com
ABN: 50 084 642 571

CPA Australia
L20, 28 Freshwater Place, Southbank
Victoria 3006
P: +1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

Appendix C: Amendments to other Australian Accounting Standards

40. Do you agree with the proposed amendments to AASB 1053 Application of Tiers of Australian Accounting Standards? Your response may address, but need not be limited to, comments on the following requirements.

- **(a) Tier 3 reporting requirements shall, as a minimum, apply to the GPFS of NFP private sector entities that do not have public accountability and are not prohibited from applying Tier 3 reporting requirements by the relevant legislation, constituting document or other document, as per proposed additional paragraph 16A of AASB 1053.**
- **(b) An entity transitioning from preparing GPFS in accordance with Tier 3 reporting requirements to preparing:**
  - **(i) GPFS in accordance with Tier 1 reporting requirements for the first time shall apply all the relevant requirements of AASB 1 First-time Adoption of Australian Accounting Standards, as per proposed additional paragraph 25 of AASB 1053; and**
  - **(ii) GPFS in accordance with Tier 2 reporting requirements for the first time shall apply either all the relevant requirements of AASB 1 or Tier 2 reporting requirements directly using the requirements in AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, as per proposed additional paragraph 26 of AASB 1053. These entities applying Tier 2 reporting requirements for the first time may elect not to:**
    - **A. restate comparative information presented for prior periods as if the Tier 2 reporting requirements had been applied from the beginning of the earliest prior period presented;**
    - **B. provide comparative information for new disclosures made in accordance with the Tier 2 reporting requirements; or**
    - **C. distinguish corrections of errors made in periods prior to first-time adoption of the Tier 2 reporting requirements and changes in accounting policies, as per proposed additional paragraph 27 of AASB 1053. If you disagree with any of the amendments, please explain why.**

We support these proposals which are consistent with the for-profit reforms and incentivise adoption. For detailed comments see our response to ED 334.

General matters for comment

The AASB would also particularly value comments on the following general matters:

41. Has the AASB Not-for-Profit Entity Standard-Setting Framework been applied appropriately in developing the proposals in this Exposure Draft?

Subject to our comments in our submission in response to ED 334, we believe the AASB has applied the NFP standard setting framework appropriately in developing the proposals in this ED.

42. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

The potential regulatory issues that may impact the effective implementation of the proposals are outlined in our response to ED 334.

43. Are the proposals in the best interests of the Australian economy?

We believe the proposals in this ED are in the best interest of the Australian economy provided that the implementation issues outlined in our response to ED 334 are appropriately addressed.

44. Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals

We have no comments.

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Chartered Accountants Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 1 9290 1344
W: charteredaccountantsanz.com
ABN: 50 084 642 571

CPA AUSTRALIA

CPA Australia
L20, 28 Freshwater Place, Southbank
Victoria 3006
P: +1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452