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The Chair
Australian Accounting Standards Board
PO BOX 204
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28 February 2025

Dear Sir

EXPOSURE DRAFT 335 *GENERAL PURPOSE FINANCIAL STATEMENTS – NOT-FOR-PROFIT PRIVATE SECTOR TIER 3 ENTITIES*

Thank you for the opportunity to comment on the Board's Exposure Draft ED 335 which proposes a new Tier 3 general purpose financial reporting framework for eligible private sector not-for-profit entities.

Overall, we are supportive of having a separate Tier 3 reporting framework for smaller not-for-profit private sectors. However, we have concerns with labelling them as general purpose financial statements given some of the proposed Tier 3 recognition and measurement requirements (in particular for notable relationships and non-restatement of prior period errors) may result in the objective of general purpose financial reporting (as amended for not-for-profit entities in Aus 1.2.1 of the *Conceptual Framework Financial Reporting*) not being met. In our view, Tier 3 financial statements are not general purpose financial statements unless they provide useful information to users to enable them to allocate resources as outlined in Aus 1.2.1. We believe that the proposed additional disclosures, which do not require financial information, will not provide useful information to users for decision making (such as whether to make donations to a not-for-profit group).

In addition, given the regard for *IFRS for SMEs* and *International Non-Profit Accounting Guidance* (INPAG) in developing these Tier 3 proposals, we recommend the Board consider as part of its deliberations whether amendments to Tier 3 are needed because of updates to *IFRS for SMEs* (to be issued 27 February 2025) and the final INPAG (due in second half of 2025).

Please refer to Appendix 1 for our detailed comments on your specific matters for comment.

If you have any comments regarding this request, please do not hesitate to contact me.

Yours faithfully

Aletta Boshoff

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APPENDIX 1 – Specific matters for comment

Questions regarding the approach to developing the Tier 3 reporting requirements and major simplifications

Question 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.

BDO Comment - Question 1

We agree that the Board should treat 'user needs' and 'cost benefits' as overarching considerations when applying the principles laid out in BC8(a) to (e).

However, BC8(c) assumes that Tier 3 can deviate from the Tier 2 requirements as a proportionate response (costs vs. benefits) if the outcome still meets the needs of users. The example provided then suggests that users' needs could be met, reflecting an appropriate cost/benefit balance, via disclosures rather than measurement. This principle seems to support the Board's decisions to permit notable relationship disclosure instead of consolidation for controlled entities. We do not believe this approach aligns with principles for general purpose financial reporting given that the proposed disclosures do not fill the information gap. Please refer to our response to Question 14(a) for more information. We see non-consolidation as being different to the cost-benefit concession the Board has made for fair valuation of concessionary leases. The concession for leases relates to not having to apply fair value, and this concession has a sunset date when leases expire. However, for non-consolidation, this is a structural matter which does not have a sunset date (as for the leases).

Question 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 (i.e. entities with which the reporting entity has at least significant influence);

b) modified retrospective application (i.e. 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) i.e. 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.

BDO Comment - Question 2

We agree with all of the above proposals except for (a), (b) and (h). Please refer to our comments in our responses to Questions 14(a), 15(c) and 32(b) below.

Question 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

BDO Comment - Question 3

We agree.

Question 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.

BDO Comment - Question 4

We agree with the three-year preparation period for a final Tier 3 general purpose financial reporting Standard for not-for-profit private sector entities. The three-year period should provide sufficient time for these entities to adjust their systems and reporting processes to cater for Tier 3 or Tier 2 recognition, measurement and disclosure requirements.

Question 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.

BDO Comment - Question 5

The objective of the Tier 3 financial reporting framework outlined in paragraph 1.1. states (emphasis added):

"The objective of this Standard is to specify proportionate, simplified financial reporting requirements for general purpose financial statements prepared by not-for-profit private sector Tier 3

entities, to require the reporting of useful, consistent and transparent information by those entities in a manner that achieves an appropriate balance of costs and benefits."

In our view, the proposals do not all meet this objective. In addition to our responses on the specific matters for comment noted below, some unintended consequences include:

- For-profit entities, or entities with combined for-profit and not-for-profit objectives, may be incentivised to assert not-for-profit entity status in order to apply the simplified Tier 3 framework. This may present audit challenges.
- The number of accounting policy choices appears to result in the 'simplified and proportionate' objective not being met, and could result in information that may not be useful, consistent and transparent for users.
- Too many accounting policy choices means the objective of an appropriate balance of costs and benefits may also not be met because it will consume unnecessary time and resources, with unsophisticated preparers having to familiarise themselves with the different options and weigh up the pros and cons of each option. Examples of accounting policy choices include notable relationships, the statement of profit or loss and retained earnings vs. statement of changes in equity, being able to make an irrevocable election to measure certain investments at fair value through other comprehensive income rather than profit or loss, and the fair value option for subsequent measurement of intangibles).

Question 6

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

BDO Comment - Question 6

Tier 3 creates a new general purpose financial reporting framework, with different recognition and measurement requirements compared to Tier 1 and Tier 2 (which are the same). While different level of disclosures for each tier can be managed by auditors using different disclosure checklists, having different recognition and measurement requirements for not-for-profit private sector entities could pose challenges in practice. For example:

- Firms have to train auditors and preparers on the new recognition and measurement requirements for Tier 3 not-for-profit entities.
- Having had only one framework since the introduction of IFRS, auditors may find having two sets of rules confusing, particularly if their work covers clients falling into all 3 tiers.
- With the multitude of structures through which private sector not-for-profit entities operate, auditors will need to be across which ones require Tier 3 and which ones don't to ensure they are auditing according to the appropriate framework.
- Firms may need to amend their audit methodologies, tool and checklists to cater for Tier 3 recognition and measurement.

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Question 7

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

BDO Comment - Question 7

For groups with no subsidiaries, associates or joint ventures, and where there are no error restatements, given the size of the intended not-for-profit private sector entities that will be able to apply Tier 3, we agree that the proposals would result overall in financial statements that are useful to users.

However, given our major concerns noted regarding lack of consolidation/equity accounting (refer to our responses to Questions 14(a),14(b) and 21(a) and non-restatement of prior period errors (refer to our response to Question 15(c), we do not believe that the proposals overall result in financial statements that are useful to users.

Question 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 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

BDO Comment - Question 8

Please refer to our comments on Questions 9-40 below.

Questions regarding specific proposals for Tier 3 reporting requirements

Section 1: Objective, Scope and Application

Question 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. 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.

BDO Comment - Question 9

We agree with the above approach for all items other than (g) – AASB 141 *Agriculture*.

As noted in our response to the Discussion Paper, some private sector not-for-profit entities could be cultivating plants or rearing animals for communal purposes. To include AASB 141 in this 'scope out' means that Tier 3 entities are forced to adopt the 'fair value approach' in AASB 141, which in our view does not meet the cost/benefit principle for Tier 3 standard setting in BC8(e).

We recommend that the Board exclude AASB 141 from the list of standards in paragraph 1.3 of [Draft] Accounting Standard 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier Entities*. This will result in Tier 3 entities with biological assets being able to apply a simpler measurement approach in accordance with the hierarchy for setting accounting policies contained in paragraph 9.5(a) – principles and other reporting requirements in the Tier 3 standard dealing with similar and related issues (such as for inventories and property, plant and equipment, both which allow a 'cost approach').

We are also pleased to see that the Board has removed the following items from the list in the Discussion Paper:

- AASB 3 *Business Combinations*, instead inserting Tier 3 specific requirements in Section 17 (Entity Combinations)
- Service concession arrangements – as no specific guidance is included for Tier 3, entities will be able to apply the hierarchy contained in paragraph 9.5(a) – principles and other reporting requirements in the Tier 3 standard dealing with similar and related issues (such as for financial assets, property, plant and equipment and intangibles).

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

Question 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?

BDO Comment - Question 10

As noted in our response to the Discussion Paper (Question 14), we do not think a statement of changes in equity should be mandatory for not-for-private sector entities because the equity of these types of entities most commonly comprises balances of accumulated surplus and reserves such as asset revaluation reserves, etc. Details of movements in these reserves could be provided as notes to the financial statements, cross-referenced directly from the statement of financial position. If no statement of changes in equity is required, then the choice to present a statement of income and retained earnings should be removed as well (refer Question 11 below).

Question 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.

BDO Comment - Question 11

If the Board decides to proceed with the requirement for a statement of changes in equity (which we consider unnecessary – refer to our response to Question 10 above), we agree with the concept of

having a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity in certain limited circumstances. However, we believe there is an inconsistency between the wording in paragraph 2.20 and paragraph 5.4 that needs to be considered prior to the finalisation of the final Tier 3 standard.

Paragraph 2.20 (emphasis added)	Paragraph 5.4 (emphasis added)
"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 (see paragraph 5.4)."	"The statement of income and retained earnings presents an entity's profit or loss and changes in retained earnings for a reporting period. Paragraph 2.20 permits an entity to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity if the only changes to its 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."

Paragraph 5.4 notes that the statement of income and retained earnings presents an entity's profit or loss and changes in retained earnings for a reporting period.

Reading paragraphs 2.20 and 5.4 (emphasis added) together, it appears that the intention was to permit a statement of income and retained earnings where the entity's equity movements are only due to profit or loss for the year, or movements in retained earnings due to a retrospective restatement of retained earnings due to a change in accounting policy or error. See also paragraph 5.5 which emphasises this point.

We recommend that paragraphs 2.20 and 5.4 be amended to include the words shown in red below:

Paragraph 2.20 (emphasis added)	Paragraph 5.4 (emphasis added)
"If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, and movements in retained earnings due to 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 (see paragraph 5.4)."	"The statement of income and retained earnings presents an entity's profit or loss and changes in retained earnings for a reporting period. Paragraph 2.20 permits an entity to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity if the only changes to its equity during the periods for which financial statements are presented arise from profit or loss, and movements in retained earnings due to corrections of prior period errors and changes in accounting policy."

The additional proposed wording suggested above would make it clear that a statement of income and retained earnings is not permitted if there are equity movements during the period from changes in accounting policies or errors which do not result in a movement in retained earnings. An example of this could be an entity that changes its accounting policy for subsequent measurement of property,

plant and equipment from the cost to the revaluation model. On the date of revaluation, there will be a credit to the asset revaluation reserve in equity. This results from a change in accounting policy. Without our suggested amendments, paragraphs 2.20 and 5.4 could be understood to mean that a statement of income and retained earnings is permitted, with no need for a separate statement of changes in equity. However, please also refer to our response to Question 10 regarding the need for a statement of changes in equity.

We also note that the draft proposed wording mirrors that in AASB 1060, paragraph 62, and any changes to the Tier 3 wording should be made to AASB 1060 as well.

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

Question 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.

BDO Comment - Question 12

Statement of financial position and statement of profit or loss and other comprehensive income

We agree with the proposal for a materiality overlay to the proposed information to be presented in the statement of financial position (set out in paragraph 3.2) and the statement of profit or loss and comprehensive income (set out in paragraph 4.4). This is in contrast to the minimum line items

required by AASB 1060 for both of these statements. We also agree with the additional disclosures set out in paragraphs 3.8 and 4.5.

Statement of changes in equity

As noted in our response to Question 10 above, we do not think a statement of changes in equity should be mandatory for not-for-private sector entities because most of the appropriate information could be provided in the notes to the financial statements (as disclosures about movements in reserves). However, for entities that that choose to include one, we agree with the proposed information to be presented.

Given the specific materiality reference for line items to be included for the statement of financial position and statement of profit or loss and other comprehensive income (see paragraphs 3.2 and 4.4), and the absence of a materiality reference here, we suggest that the Board clarify that zero or not applicable line items can be omitted.

Statement of income and retained earnings

We agree with the proposed additional information regarding movements in retained earnings contained in paragraph 5.5.

Statement of cash flows

We agree with the Board's proposals in paragraphs 6.3 and 6.7 to allow entities to elect to present:

- Cash flows from investing activities and financing activities either separately or together, and
- Cash flows from operating activities using either the direct or indirect method.

Consistent with the requirements of AASB 1060, we also agree with the Board's decision not to require entities using the direct method to disclose a reconciliation of net cash flows from operating activities to profit or loss.

Notes

We agree with the proposed information to be included in the notes to the financial statements (this information is consistent with similar requirements in AASB 1060, paragraphs 90-103. We note the omission of disclosures for imputation credits as this would not be applicable for these smaller not-for-profit private sector entities.

Question 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.

BDO Comment - Question 13

We agree with the Board's proposal to require analysis of expenses using either a by nature or by function presentation format as this is consistent with AASB 1060.

However, given recent developments and AASB 18 *Presentation and Disclosure in Financial Statements* permitting a hybrid approach in future, we recommend the Board considers allowing Tier 3 not-for-profit private sector entities to adopt a similar hybrid approach for presentation of expenses.

Section 8: Notable Relationships and Consolidated and Separate Financial Statements

Question 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.

BDO Comment - Question 14(a)

As noted in our Discussion paper response, we do not agree with the Board's proposal to allow a parent entity to choose not to consolidate its subsidiaries, and instead prepare separate financial statements with disclosures about notable relationships (please refer to our response to Question 17 in the Discussion paper). Broadly, our reasons for preferring consolidation include:

- The mechanics of preparing consolidated financial statements are not complex for not-for-profit entities.
- Identifying subsidiaries is equally difficult for Tier 2 not-for-profit entities as for Tier 3 entities. As referenced in our response to ITC 51, in practice, not-for-profit entities may experience difficulty assessing whether they meet the 'power' criterion, i.e. determining the relevant activities, or the activities that significantly affect returns, as this can be judgemental. However, once determined, assessing whether the not-for-profit entity has power over the relevant activities, exposure to variable returns (which are very broad), and the ability to use power to affect the variable returns, is usually straight-forward. If the cost/benefit analysis for providing a non-consolidation choice focuses on the difficulty of identifying subsidiaries, the guidance in paragraphs 8.13 – 8.23 appears to provide a succinct set of principles for Tier 3 entities to identify subsidiaries more easily.
- Preparing separate financial statements with non-financial disclosure about notable relationships could undermine the usefulness and comparability between similar not-for-profit groups (usefulness being the objective of general purpose financial reporting referenced in paragraph 1.2 and Aus 1.2.1 in the Conceptual Framework).
- Without consolidated financial statements, there is a lack of transparency for funding providers. Some funders may potentially provide excess fund to individual entities in a group because they are unable to see the complete picture as to how much total funding a group receives from all sources on a consolidated basis. While some may argue that a funder could ask to see individual

financial statements for all group entities, this would not work if a group had numerous subsidiaries below regulatory reporting thresholds.

BDO Comment – Question 14(a) – Additional comment regarding the mechanics of consolidation procedures

Paragraph 8.27 assumes that the subsidiary uses the same accounting policies as the group and requires adjustments to the investee's financial statements where this is not the case. While possibly a rare occurrence, this could pose significant application issues where the subsidiary is a Tier 2 entity.

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.

BDO Comment - Question 14(b)

As discussed in our response to Question 14(a) above, we do not agree with the concept of identifying notable relationships for disclosure, thus avoiding the need to consolidate subsidiaries and equity account investments in associates and joint ventures.

If the Board decides to proceed along this path, we agree that an entity would only have a notable relationship if it had at least significant influence over the other entity.

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

BDO Comment - Question 14(c)

As discussed in our response to Question 14(a) above, we do not agree with the concept of identifying notable relationships for disclosure, thus avoiding the need to consolidate subsidiaries and equity account investments in associates and joint ventures.

However, if the Board proceeds with this proposal, we agree that ALL NOTABLE RELATIONSHIPS in separate financial statements must be measured using one of the options in paragraph 8.5. That is, they are either all measured at cost, all at fair value through profit or loss (except that there can be an irrevocable election to measure a particular investment on initial recording at fair value through other comprehensive income), or all using the equity method.[Notes 1,2]

We expect many not-for-profit entities will opt for the easiest option, i.e. cost. However, given that cost may be a nominal amount, or NIL if there is no ownership interest, the additional disclosures in

paragraph 8.6 about the notable relationship may not be that useful given no financial information/data about the notable relationship entities is required.

Note 1: BDO Comment - Further comments on the workings of paragraph 8.5

Assuming all notable relationships must be measured using one of the measurement bases outlined in paragraph 8.5, it is not clear how paragraph 8.5(b) will operate in practice. Paragraph 8.5(b) reads as follows:

"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"

This suggests that while all notable relationships are measured at fair value, an irrevocable election can be made at initial recording for individual notable relationship investments. We are unsure whether this is what the Board intended. We recommend that the wording below paragraph 8.5(c) is expanded to clarify whether or not applying the same accounting policy for all notable relationships allows having some notable relationships at fair value through profit or loss and some through other comprehensive income.

Note 2: BDO Comment - Further comments on the interaction of paragraph 8.5 (measurement of notable relationships in separate financial statements) and paragraph 8.37 (measurement of investments in subsidiaries, associates and joint ventures in separate financial statements)

We note that paragraph 8.36 defines 'separate financial statements' as:

(a) a second set of financial statements that a parent entity elects to present in addition to consolidated financial statements, or

(b) financial statements prepared by an investor that is not a parent, with one or more investments in associates or joint ventures.

The accounting in separate financial statements by these entities for their investments in identified associates and joint ventures is described in paragraph 8.37, which permits the choice of cost, fair value through profit or loss (or though other comprehensive income where an irrevocable election has been made on initial recording) or using the equity method. The same method is used for all investments in a single class. For example, presumably this means all investments in associates could be measured using one of these three measurement bases and all investments in joint ventures using another basis.

The above accounting appears to conflict with paragraph 8.5 (notable relationships). While the measurement choices are the same, paragraph 8.5 requires all notable relationships to be measured using the same measurement basis in separate financial statements, whereas paragraph 8.37 permits different measurement bases for different classes.

We assume that the reason for the difference is that notable relationships have not been separately identified as subsidiaries, associates and joint ventures, and as such, are all treated the same. The Basis for Conclusions did not seem to explain the rationale for this different treatment, and we recommend that the Board expand its discussion to address this.

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.

BDO Comment - Question 14(d)

If the Board proceeds with these proposals, we agree with the disclosures required in paragraphs 8.6 and 8.7. Given there is no requirement to distinguish one type of notable relationship from another (e.g. subsidiary, significant influence or joint control), paragraph 8.6 contains no disclosure as to the type of notable relationship (paragraph 8.6(b) merely requires disclosure of a description of the relationship). However, we would also recommend requiring disclosure of financial data regarding notable relationships (e.g. total income, total assets, total liabilities), unless impracticable.

BDO comment - Additional overall comments on Section 8, #1

The current drafting of section 8 and 13 seems overly complicated (please refer to our further comments to Question 21 below).

If the Board's objective was not to require consolidation or equity accounting by entities with notable relationships, this would assume the financial statements are always separate financial statements and the only relevant paragraphs would be 8.1 – 8.7. In such cases, the entity would not assess whether any of those notable relationships were subsidiaries, associates or joint ventures.

However, the Board has provided a choice in paragraph 8.10 whereby a parent can choose to present consolidated financial statements (guidance in paragraph 8.24-8.35), or separate financial statements (as per the notable relationship requirements in paragraphs 8.5-8.7).

If the Board proceeds with these proposals, we recommend that a new paragraph is added before 8.1 to explain that entities with notable relationships can choose to either:

(a) Not assess if they have subsidiaries, associates and joint ventures, preparing separate financial statements, and measuring these notable relationships as described in paragraph 8.5 and disclosing information in paragraph 8.7, or

(b) Assess if they have subsidiaries, associates and joint ventures, preparing consolidated financial statements (paragraph 8.24-8.35, though we would recommend keeping the consolidation requirements in a completely separate section), or if they are an investor that is not a parent, preparing financial statements which equity account investments in associates and joint ventures (paragraph 13.16).

Entities applying option (b) could choose to also prepare separate financial statements and apply the measurement requirements in paragraph 8.37.

Entities applying option (b) would not need to comply with the notable relationship requirements in paragraphs 8.1-8.7.

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Section 9: Accounting Policies, Estimates and Errors

Recognition and measurement requirements

Question 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.

BDO Comment - Question 15(a)

We agree with this approach. In many cases, voluntary changes in accounting policies will involve changes from a cost to a fair value/revaluation model which occur at a point in time, or changing costing methodologies (see paragraph 9.9) which could be costly to implement if retrospective restatement is required.

(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.

BDO Comment - Question 15(b)

We agree with this approach.

(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.

BDO Comment - Question 15(c)

We do not agree with this approach for correcting prior period errors because not restating comparatives impacts the usefulness and comparability of financial information, with information regarding stewardship being lost. We note the greater emphasis that the Conceptual Framework gives to stewardship/accountability than the *Framework for the Preparation and Presentation of Financial Statements*, and in our view, restating prior period information provides users with information regarding stewardship and management competence. In particular, see proposed amendments to the Conceptual Framework for not-for-profit entities contained in ED 334, including paragraphs Aus 1.16.1, Aus 1.18.1 and Aus 18.1.

Noting paragraph 9.3 which says that an entity need not follow a requirement in this Standard if the effect of doing so would not be material, we recommend that the Board require retrospective restatement for material errors.

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.

BDO Comment - Question 15(d)

In our view, the disclosures in paragraphs 9.26 – 9.27 do not suffice. We recommend a full retrospective approach for correcting errors, with disclosures consistent with AASB 1060, paragraph 110.

Section 10: Financial Instruments

Recognition and measurement requirements

Question 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 (e.g. 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 payables ('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?

BDO Comment - Question 16

We agree with these proposals.

Question 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?

BDO Comment - Question 17

We agree with these proposals.

Recognition and measurement requirements

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 (i.e. the amount of cash lent), as per paragraphs 10.5 and 10.6, respectively.

BDO Comment - Question 18(a)

We agree with these 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.

BDO Comment - Question 18(b)

We agree with these proposals in principle, but the following issues are unclear:

As it is currently drafted, paragraph 10.7(a) could be interpreted as requiring Tier 3 entities to only measure those financial assets that have been originated or acquired to generate 'both income and a capital return' at fair value, thereby prohibiting those entities from classifying financial assets that have been originated or acquired by the entity either to only generate income or to only generate capital return at fair value. However, we understand the AASB's intention to be that Tier 3 entities should measure all financial assets that generate returns in the form of income and capital (irrespective of the purpose for which the Tier 3 entity originated or acquired the financial asset) at fair value. If this is the case, we recommend the AASB amend paragraph 10.7(a) and/or provide application guidance that clarifies the AASB's intentions. While we agree that Tier 3 entities should classify, for instance, investments in listed equities at fair value and investments in unlisted bonds at cost less any accumulated impairment losses, as paragraph 10.7(a) is currently drafted we do not consider that the requirements would facilitate these accounting treatments consistently across Tier 3 entities.

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.

BDO Comment - Question 18(c)

We agree with these proposals. However, please note our response to Question 38(a) below. We do not believe that, on transition, Tier 3 entities should be able to continue their Tier 1 or Tier 2 accounting for transactions that have simplified measurement requirements.

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).

BDO Comment - Question 18(d)

We agree with the proposal for an incurred loss impairment model.

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.

BDO Comment - Question 18(e)

We agree with these proposed disclosures.

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Section 11: Fair Value Measurement

Question 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.

BDO Comment - Question 19

We agree with these proposals.

Section 12: Inventories

Question 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.

BDO Comment - Question 20(a)

We agree with these proposals.

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.

BDO Comment - Question 20(b)

We agree with these proposals.

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.

BDO Comment - Question 20(c)

We agree with the disclosures required in paragraphs 15.29-15.30 as they related to donated inventories initially measured at cost. Although paragraph 15.29 requires disclosure for 'a donated

item' (i.e. unit of account is a single item), whereas paragraph 15.30 only requires disclosure for each item that is individually material, and permits aggregation for assets of a similar nature. In our view, this is a proportionate response.

Section 13: Investments in Associates and Joint Arrangements

Question 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.

BDO Comment - Question 21(a)

We do not agree with the proposals in paragraph 13.13.

Section 13 outlines the measurement and disclosure requirements for investments in associates and joint ventures (when the entity has identified certain investments as such).

- Paragraph 13.12 describes the measurement of associates and joint ventures in consolidated financial statements of a parent entity investor, and equity accounting is required. This is consistent with Tier 1 and Tier 2 requirements.
- Paragraph 13.13 describes the measurement of associates and joint ventures in financial statements that are not consolidated. That is, the financial statements are for an investor which is not a parent. We are unsure why a measurement choice has been provided given that Tier 1 and Tier 2 requirements in these circumstances would require equity accounting.

  To avoid confusion, we would prefer equity accounting be required. In this case, various paragraphs need to be moved around:

  - The requirements in paragraphs 13.14-13.15 (cost model) and paragraphs 13.17-13.18 (fair value model) would be better placed in section 8
  - Various disclosures in paragraphs 13.25(a), 13.26 and 13.28 (cost and fair value model) would need to be moved to section 8
  - Paragraph 8.8(c) needs amending to refer only to situations where the notable relationship entity is an associate or joint venture and the reporting entity's investment in it is accounted for using the equity method (see paragraph 13.16) – noting that the reporting entity's financial statements are for the investor that is not a parent.

We also recommend the Board clarify whether equity accounting an associate where the investor has no financial interest will result in the investor accounting for its interest at cost (Nil), with no equity accounted adjustments as noted in paragraph 13.16.

BDO Comment - Question 21(a) - Mechanics of the equity method - Adjustment for the difference between consideration paid and share of net assets acquired

Paragraph 13.16 sets out the principles for Tier 3 entities applying equity accounting. We agree with the proposals, in particular the simplification regarding the adjustments for the difference between the consideration paid by the acquirer and the share of net assets acquired. Recognising the difference on 'Day One' in equity (rather than in goodwill and profit or loss) eliminates the need for enduring profit or loss adjustments to the entity's share of the associate or joint venture's profit or loss after acquisition – this should be a big time and cost saver for Tier 3 entities.

BDO Comment - Question 21(a) - Mechanics of the equity method - Investee's accounting policies

Paragraph 13.16(g) assumes that the investee uses the same accounting policies as the investor and requires adjustments to the investee's financial statements where this is not the case. While possibly a rare occurrence, this could pose significant application issues where the investee is a Tier 2 entity.

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.

BDO Comment - Question 21(b)

We agree with the disclosure proposals.

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

Question 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.

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BDO Comment – Question 22(a) – Measurement of donated items

We agree with these proposals and are pleased to see that the option is available for each individual property donated.

BDO Comment – Question 22(a) – Scope of section 15 (paragraph 15.1)

Paragraph 15.1(b) notes that section 15 (for property, plant and equipment) only applies to investment property the fair value of which cannot be measured reliably on a continuing basis. It is silent as to whether section 15 applies, as appropriate, to investment property where entities have chosen a cost basis (refer paragraph 14.8).

We assume that all relevant parts of section 15 apply to entities choosing a cost model for investment property, including measuring the property at cost less accumulated depreciation and impairment losses (see paragraph 15.12, 15.16-15.22).

We recommend that the scope of section 15 to clarified in a final Tier 3 standard.

BDO Comment – Question 22(a) – Residual value and useful life assessment

We agree with the Board's approach in paragraphs 15.19 and 15.22 to not require an annual assessment of residual values and useful lives of property, plant and equipment as required for Tier 2 (AASB 116, paragraph 51).

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.

BDO Comment – Question 22(b)

We agree with the disclosures required in paragraphs 15.29-15.30 as they related to donated items of property, plant and equipment initially measured at cost. Although paragraph 15.29 requires disclosure for 'a donated item' (i.e. unit of account is a single item), paragraph 15.30 only requires disclosure for each item that is individually material, and permits aggregation for assets of a similar nature. In our view, this is a proportionate response.

However, we are unsure what the disclosures contained in paragraph 14.2 are intended to cover. Paragraph 14.2 requires disclosures from paragraphs 15.27-15.28 for investment properties under the circumstances described in paragraph 14.13 (which deals with gains or losses on disposals or retirements on investment properties). Perhaps one or both of these references is incorrect.

Question 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?

BDO Comment - Question 23

While we are unsure of a range for the costs of valuations for donated investment properties and property, plant and equipment, whatever the cost, amounts could be better spent achieving the objectives of the entity. In addition, some donated properties may have caveats on usage which could increase the cost of obtaining valuations as adjustments will need to be made to comparable property valuations where there is unrestricted usage.

Section 16: Intangible Assets

Question 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.

BDO Comment - Question 24(a)

We agree with this proposal.

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.

BDO Comment - Question 24(b)

We agree with this proposal.

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.

BDO Comment - Question 24(c)

We do not agree with this proposal. Very few intangible assets meet the ‘active market’ criterion so that for-profit entities can use the revaluation model, and it is likely that fewer not-for-profit entities will be able to comply. Further, the judgement and costs involved for not-for-profit entities to apply a revaluation model are likely to be disproportionate to the benefits.

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.

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BDO Comment - Question 24(d)

We agree with the proposal for a maximum useful life for indefinite-lived intangible assets of 10 years.

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.

BDO Comment - Question 24(e)

We agree with the disclosures but if the option to apply a revaluation model is removed, the disclosures contained in paragraphs 16.25(b), 16.25(e) and paragraph 16.28 will no longer be relevant.

Section 17: Entity Combinations

Question 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).

BDO Comment - Question 25(a)

We agree with these proposals.

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).

BDO Comment - Question 25(b)

BC97 does not clearly explain why the fair value requirement is needed and requires further explanation if the Board proceeds with these proposals.

When considering an entity combination that occurs during a reporting period between entities that already apply Tier 3, we cannot see why paragraph 17.6 is needed. Paragraph 17.5 requires the combined existing carrying amounts of the assets, liabilities and items of equity to be used in the financial statements of the combined entity. If either of those entities had previously applied cash

accounting, they would have had to transition to the Tier 3 recognition and measurement requirements in accordance with transition paragraph 29.3, i.e. either apply:

- The transition requirements in section 29 (this allows limited exemptions from full retrospective restatement), or
- All relevant Tier 3 recognition and measurement requirements by applying section 9 (changes in accounting policies on a modified retrospective basis).

Therefore, we are unsure of where these 'missing' assets and liabilities come from.

However, in a situation where one of the combining entities is too small to require Tier 3 financial statements, and uses cash accounting, we can see that there could be unrecorded assets and liabilities, for example:

(a) The entity could have donated assets such as inventories, property, plant and equipment which are unrecorded because no cash was paid

(b) The entity could have unrecorded material assets which it had expensed

(c) The entity would have unrecorded liabilities because it is not applying accrual accounting.

Regarding (a), the option to initially measure these types of assets at cost (nil) should be available in this instance so that the fair value requirement in paragraph 17.6 is not required. Paragraph 17.7 is not clear on this because it says (emphasis added):

> *"…If a combining entity was donated a non-financial asset before the entity combination without paying consideration in return and elected to initially measure that asset at its cost (nil) in accordance with paragraphs 12.8, 14.6, 15.4 or 16.4, the donated asset is excluded from the application of paragraph 17.6."*

We interpreted the underlined section above to mean that the fair value option could only be avoided for unrecorded donated assets if the entity had elected as part of its cash accounting to initially measure the item at cost, which is unlikely given the entity was applying cash accounting. We recommend paragraph 17.6 be amended to clarify that the election can be made as part of the initial accounting for the entity combination.

Regarding (b) and (c) we agree with the fair value requirement in paragraph 17.6

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.

BDO Comment - Question 25(c)

We agree with these proposals.

Disclosure requirements

d) The disclosure requirements relating to the entity combination in paragraphs 17.11 and 17.12.

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

BDO Comment - Question 25(d)

We agree the proposed disclosures.

Section 18: Leases

Question 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 straight-line 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.

BDO Comment - Question 26(a)

We agree with these proposals. We also agree with the proposals to simplify lease accounting by lessors, whereby lessors do not have to classify leases as operating or financing, and the asset subject to the lease (e.g. building) is retained on the balance sheet.

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.

BDO Comment - Question 26(b)

We agree with these proposals.

Section 19: Provisions and Contingencies

Question 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.

BDO Comment - Question 27

Disclosures

We agree with the simplified disclosures proposed for provisions, outlined in section 19.

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However, we note that the disclosures in paragraph 19.9(b) and (c) require information regarding the amounts of provisions and expected uncertainties, but not the timing. In contrast, paragraphs 19.12(c) and 19.17 require disclosure about timing.

While paragraph 19.9(d) requires additional explanations if there is significant uncertainty about the classification of a provision into its current and non-current portions, this does not provide sufficient information about timing. That is, non-current means anything beyond 12 months, whereas the provision may only be required to settle in 20 years. We recommend that paragraph 19.9 be amended to include reference to 'timing'.

Measurement

BC16(d) refers to retaining Tier 2 requirements for provisions, contingent liabilities and guarantees and firm commitments, except for simplifying the expression and disclosures. However, the Board's key facts, page 7, says that future cash flows used to determine the best estimate of the amount to be paid are not discounted. We question whether, in this instance, the Board has applied the approach laid out in BC16(d) to retain Tier 2 reporting requirements, and would recommend clarification to BC16(d) in the final standard.

In addition, we cannot see that the Board has implemented its approach to not require cash flow discounting. Paragraph 19.7 explains how to measure provisions. It merely refers to using 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. Given that 'best estimate' is elaborated in some detail in AASB 137, users may assume that discounting is required. We recommend that paragraph 19.7 be amended to clarify that cash flows are not discounted.

Section 20: Revenue

Question 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.

BDO Comment - Question 28(a)

We agree with the proposals for recognising and measuring revenue in paragraphs 20.5-20.23.

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

BDO Comment - Question 28(b)

We agree with these proposals.

Question 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.

BDO Comment - Question 29

We agree that Tier 3 reporting requirements should exclude both of the above items because it would be too complex and costly for Tier 3 entities to apply.

Section 21: Expenses

Question 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.

BDO Comment - Question 30

We agree with these proposals.

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Section 22: Borrowing Costs

Question 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.

BDO Comment - Question 31

We agree with this proposal.

Section 23: Impairment of Assets

Question 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.

BDO Comment - Question 32(a)

We agree with this proposal. However, refer to our comment for Question 32(b) below.

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 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

BDO Comment - Question 32(b)

We agree with these proposed impairment indicators set out in paragraph 23.3 but we also consider that additional impairment indicators should be added, being changes in the technological, legislative and market environment.

We also note that the scope of section 23 covers all assets other than financial assets within the scope of section 10 (Financial Instruments) and non-financial assets regularly revalued to fair value. This leaves the scope of section 23 to cover:

(a) Inventories

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(b) Property, plant and equipment

(c) Investment properties

(d) Investments in associates and joint ventures measured at cost (paragraph 13.14)

(e) Investments in associates and joint ventures measured using the equity method (paragraph 13.16(d)).

However, the examples provided in paragraph 23.3 of the types of assets covered include only (a) and (b) above. We assume that by including only (a) and (b) as examples, the Board's intention was not to limit the application of Section 23 to just those two asset types. However, for clarity, we believe it should be made clear that section 23 also applies to (c), (d) and (e).

Section 24: Employee Benefits

Question 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;

BDO Comment - Question 33(a)

We agree with this proposal.

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 (i.e. an amount is due and payable to the employee) at the end of the reporting period, as per paragraph 24.4; and

BDO Comment - Question 33(b)

We agree with this proposal.

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.

BDO Comment - Question 33(c)

We agree with this proposal regarding no discounting. However, if there is no discounting, it should be clear that the amounts of employee benefits 'expected to be paid' should based on salary levels at the reporting date (as shown in IE3 or Example D). Assuming future increases in salary levels with no

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discounting would result in overstating provisions. Paragraph 19.7 (measurement of provisions) refers to 'current information about conditions existing at the end of the reporting period'. We recommend that similar wording be added to paragraph 24.7 to clarify this point.

Section 25: Income Tax

Question 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.

BDO Comment - Question 34

We agree with these proposals, including no recognition of deferred taxes.

Section 26: Foreign Currency Translation

Question 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.

BDO Comment - Question 3

We agree with these proposals.

Section 27: Events Occurring after the Reporting Period

Question 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

BDO Comment - Question 36

We agree with these proposals.

Section 28: Related Party Disclosures

Question 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:

BDO

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

BDO Comment - Question 37

We agree with these proposals.

Section 29: Transition to Tier 3 General Purpose Financial Statements

Question 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.

BDO Comment - Question 38(a)

We do not agree with this proposal because it will result in mixed measurement models – with some assets and liabilities measured using Tier 1 or Tier 2 requirements, and others using Tier 3.

In addition, paragraph 29.4 will allow assets and liabilities from the same class to be measured on these different bases. For example, pre-existing leases at transition date could continue to be capitalised as right-of-use assets and lease liabilities while new leases entered into after transition date are expensed.

Even more confusing for users, would be where, for example, some leases at transition date are measured under Tier 1 or Tier 2, and others are written off.

Paragraph 29.2 requires that Tier 3 financial statements confirm with the requirements of the Tier 3 standard in all respects. We recommend that the only exceptions to this should be the mandatory exceptions contained in paragraph 29.10 and the optional exemptions in paragraph 29.11.

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

BDO Comment - Question 38(b)

We agree with this proposal.

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).

BDO Comment - Question 38(c)

We agree with this proposal.

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.

BDO Comment - Question 38 - No additional transitional relief

We agree with this proposal not to provide an additional transitional relief for early adopters of Tier 3 because entities transitioning early already:

- Have the option to apply the modified retrospective restatement approach in Section 9 (comparatives are not restated) – see paragraph 29
- Need not disclose comparative information for the previous comparable period if it did not disclose comparable information in its most recent previous financial statements – see paragraph 29.5
- Do not have to distinguish corrections of prior period errors from changes in accounting policies – see paragraph 29.17(b).

Appendix A: Glossary of terms

Question 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.

BDO Comment - Question 39

We think it would be more helpful to include the complete definition in both the Glossary and in the body of the Standard. This is because the Standard is lengthy and finding definitions would require some effort going backwards and forwards between the Glossary and the body of the Standard. Also, Appendix A of other Australian Accounting Standards contains the definitions for defined terms used in the various standards. For consistency, we recommend the same apply to the Glossary in Appendix A.

BDO

Question 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.

BDO Comment - Question 40(a)

We agree with Tier 3 entities being those without public accountability. However, we recommend the Board considers framing the second limb in a positive manner, i.e. a Tier 3 entity is one where legislation, the constituting or other document permits application of the Tier 3 framework. Written in the negative will allow larger not-for-profit entities to adopt Tier 3 until such time as regulators/legislators introduce thresholds for Tier 3.

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.

BDO Comment - Question 40

We agree with these proposals.