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Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
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Our ref Submission - ED 334
Contact Heng, Kim (+61 2 9455 9120)

27 February 2025

Dear Dr Kendall

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

KPMG Australia (KPMG) is pleased to have the opportunity to comment on ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* (ED335). Our comments on ED 334 *Limiting the Ability of Not-for-Profit Entities to prepare Special Purpose Financial Statements* (ED334) are contained in a separate submission and therefore, our comments in this submission are focused on ED 335.

We broadly support the proposals, as a whole, set out in ED 335. Overall, we believe the proposed simplified reporting requirements are consistent with the AASB's primary objective of developing a differential reporting tier that reduces financial reporting burden for smaller not-for-profit (NFP) entities.

With the proposals in ED 334, certain NFP entities will be required to transition from preparing special purpose financial statements (SPFS) to general purpose financial statements (GPFS). We received feedback from stakeholders requesting clarification on the eligibility of the application of the Tier 3 financial reporting framework when transitioning to GPFS, in particular, whether the regulators will consider a revenue threshold higher than the reference point of ACNC 'medium' size charities (entities with revenue of $500,000 or more and less than $3 million), such that a broader number of entities could benefit from the simplified reporting requirements. We understand the AASB has been engaging with the regulators on the eligibility requirements but greater transparency on those communications will provide clarity to stakeholders on the current developments.

Whilst the proposed Tier 3 reporting requirements have simplified recognition and measurement principles, we recommend the AASB provide education sessions to stakeholders enabling them to understand the differences to Tier 1 and Tier 2 reporting requirements. Further, we recommend these education sessions cover the application of simplified recognition and measurement principles for preparers transitioning to the Tier 3 reporting requirements.

We have set out our detailed comments to select questions in the Appendix to this letter. We agree with the questions that have not been reproduced in the Appendix and do not have specific comments on these proposals.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact Julie Locke on (02) 6248 1190, or myself on (02) 9455 9120.

Yours faithfully

Kim Heng
Partner
KPMG Australia

Appendix

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

2. Do you agree with the Board proposals to simplify recognition and measurement requirements in the above-mentioned 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 broadly agree with the proposed requirements and options as set out above, except for the comments below.

(b) Modified retrospective for changes in accounting policies or corrections of prior period errors

We have, however, received feedback from stakeholders, in relation to (b) and in particular on the requirement on correction of errors. The concern relates to the risk of impairing the comparability of the current and prior year financial result. We understand comparability is not the primary premise in developing the Tier 3 reporting requirements but maintaining a certain level of comparability among the results presented in the financial statements is critical for users of the financial statements to understand the performance of the entity.

Furthermore, both Tier 1 and Tier 2 reporting requirements already contain exemptions allowing entities to not restate retrospectively if it is impractical to do so. We suggest the Tier 3 reporting requirements have the same requirements and exemptions as those in Tier 2 and this specific modified retrospective exemption is not required in Tier 3.

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 broadly agree with the proposal, in particular, the permission of early adoption. Our view is that ED 335 should have the same effective date as ED 334 as currently proposed.

   Should the proposals in ED 334 and those in ED 335 not be required at the same time, at a minimum, the Tier 3 reporting requirements should be made available for early adoption (assuming the regulatory eligibility requirements are in place) when the proposals in ED 334 are effective such that eligible NFP entities that will be required to transition from SPFS to GPFS under ED 334 would be able to apply the Tier 3 reporting requirements when preparing GPFS. Permitting early adoption also incentivises eligible NFP entities to transition early to GPFS.

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***.

   Under the current proposals in ED 334 and ED 335, a cohort of NFP entities that are required to report under the ACNC Act might be eligible to apply the Tier 3 reporting requirements. Revenue is the primary threshold to determine the financial reporting obligations of charities under the ACNC Act.

   As currently proposed, certain simplified recognition and measurement principles under the Tier 3 reporting requirements will likely result in a different revenue amount compared to the Tier 1 and Tier 2 reporting requirements (i.e. the proposed simplified revenue recognition under the Tier 3 reporting requirements versus the requirements under AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit entities)*. Our question is, when determining revenue as required by legislation, which recognition and measurement principles should entities apply? We understand this is not under the remit of the AASB but suggest this matter be brought to the regulators for clarification.

Questions regarding specific proposals for Tier 3 reporting requirements

Financial Instruments - Recognition and measurement requirements

18. Hedge accounting

We have a consistent view, as expressed in our submission on the *Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)*, that smaller NFP entities applying Tier 3 reporting requirements should have an accounting policy choice to apply hedging accounting, albeit we recognise this would not be a common circumstance. Continuing to allow an accounting policy to apply hedge accounting would be consistent to the current proposals as set out under paragraph 10.3 requiring an entity to apply the requirement of AASB 9 and other applicable Australian Accounting Standards to account for more complex financial instruments and financial instruments not commonly held by NFP private sector Tier 3 entities.

Entity combinations - Recognition and measurement requirements

25. Deemed combinations date

We received feedback from stakeholders concerning entity combinations and the 'deemed combination date', being the beginning of the reporting period. Taking this approach might potentially distort the consolidated financial performance presented. For example, under the current proposals, two entities will combine the carrying amount of their assets, liabilities and equity as at the beginning of the reporting period despite the actual timing of the entity combination. Consequently, the combined financial performance presented would include pre-combination transactions and events which does not reflect the post-combination performance of the combined entity distorting the financial performance presented.

Furthermore, having to consolidate financial performance prior to the acquisition date could impose an unnecessary burden on the acquirer as they may not have access to such information or records.

Related party disclosures

37. Key management personnel compensation

We recommend the disclosure requirements on key management personnel (KMP) compensation be maintained, i.e. align with the current Tier 2 reporting requirements. Often, how a KMP is remunerated is a point of interest for the stakeholders of NFP entities, i.e. grantors and donors. Providing such disclosures improves the transparency of whether KMPs are appropriately remunerated and how funds are spent. Instead of removing this requirement from the Tier 3 reporting requirements, regulators can always exercise discretion for not requiring such disclosures when deemed appropriate. At a minimum, we recommend the Tier 2 reporting requirement on KMP compensation be maintained.