Pitcher Partners

Level 13, 664 Collins Street
Docklands, VIC 3008

Postal address
GPO Box 5193
Melbourne, VIC 3001

+61 3 8610 5000

pitcher.com.au

Ref: KLB

20 February 2025

Dr. Keith Kendall
Chair
Australian Accounting Standards Board
Level 14, 530 Collins Street
Melbourne VIC 3000

Via email: standard@aasb.gov.au

Dear Dr. Kendall

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

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on the AASB's *Exposure Draft* ED 335 – *General Purpose Financial Statements – Tier 3 Not-for-Profit Private Sector Entities)* (the ED).

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners network are full service firms and we are committed to high ethical standards across all areas of our practice. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities, not-for-profit entities and small to medium sized enterprises.

We support a simpler reporting framework for NFPs in the form of the proposed Tier 3 reporting requirements. This will provide an opportunity for NFPs currently adopting the Tier 2 reporting requirements, as well as those currently preparing special purpose financial statements to adopt a consistent simpler model of reporting.

We are generally supportive of the ED as drafted, except for some specific areas which we have listed below:

- We would prefer the ED to have its own summarised conceptual framework, rather referring preparers to the full conceptual framework should the need arise.
- We consider the requirements for financial statement presentation could be made simpler for these entities, rather than adopt the Tier 2 requirements.
- We consider the transition provisions could be simplified by removing the option to keep the Tier 1/2 reporting requirements for assets and liabilities existing at the date of transition. While we understand this is to keep some flexibility and make it easier for NFPs to adopt Tier 3, we believe it introduces complexity in the ED that is not needed.

We also consider that NFP reporting on the whole should be reviewed in light of the upcoming international non-profit accounting guidance to be issued by a leading globally representative collation led by Humentum and the Chartered Institute of Public Finance and Accountancy in the UK. This review should assess whether our current NFP reporting is fit for purpose or whether some amendments are required for NFPs currently adopting Tier 1/2.

Our comments are based on using a maximum threshold for applying the Tier 3 requirements of $3 million revenue, referred to in the proposal as a reference point for identifying transactions and balances of smaller NFP private sector entities that might be permitted to apply Tier 3 general purpose financial statements. As indicated in the proposals, any such threshold is within the remit of legislation and/or regulators and not the AASB.

We encourage the AASB to facilitate this change through their connections with Commonwealth Treasury (and other relevant legislators/regulators) in a way that does not cause practical issues for NFPs as they move between Tier 2 and Tier 3 based on revenue numbers (which can be unpredictable for some NFPs due to the timing of receipts of one-off bequests or capital grants). This can be achieved in a number of ways including by specific application to the regulator, drafting of legislation to allow an averaging approach over several years, or consideration of 2 of the last 4 years (as was done in the recent Pillar 2 legislation issued by Treasury).

We commend the AASB staff on their consultation process on this topic, and do appreciate our involvement in the NFP Panel which has been assisting the AASB in developing this ED. Our detailed comments are included in the attached Appendix.

Please contact Ms Kerry Hicks, Director – Technical Standards (02 9228 2272 or kerry.hicks@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely
PITCHER PARTNERS

K L Byrne
Partner

Kerry Hicks
Director, Technical Standards

APPENDIX

SPECIFIC MATTERS FOR COMMENT

Question 1
Do you agree with the principles on which the ED is based, described in paragraph BC8. If you disagree, please explain why.

Response:

We agree with the principles on which the ED is based with two exceptions.

The principles summarised from BC8 comprise:

(a) The development of Tier 3 requirements is subject to the AASB NFP Entity Standard-Setting Framework.

(b) Tier 3 financial statements are general purpose financial statements.

(c) Desired consistency with the Tier 2 accounting principles, where warranted, considering the proportionate response to the costs incurred by certain entities while still meeting the needs of users.

(d) Where possible leverage information management uses to make decisions about the entity's operations, within the context of the AASB's CF.

(e) Developing reporting requirements that do not impose disproportionate costs for preparers when compared to the benefits of that information for users of financial statements.

Firstly, as highlighted in our previous submission on this topic. We would prefer the document have its own separate summarised Conceptual framework (CF) specific to the type of entities that the application of Tier 3 is focused on. This would mean that in applying (d) above, management does not have to consider a very comprehensive CF with NFP elements intermingled with FP elements.

Secondly, in respect of (a) above, we note that the AASB NFP Entity Standard Setting Framework will need to be amended for Tier 3 as it currently only deals with Tier 1 and Tier 2. Further, we note that Tier 3 has moved further away from transaction neutrality using IFRS for SMEs as a base, which we do not see as a problem, but it will no longer fit neatly into the AASB NFP Entity Standard Setting Framework. We recommend that the Framework is updated simultaneously with the issue of the Tier 3 standard.

APPENDIX

Question 2
Do you agree with the Board proposals to simplify recognition and measurement requirements in the ED 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 (b) Modified retrospective application 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 (f) Measuring loans, including concessional loans, at their face value, 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 (i) Applying a book value method for all entity combinations? If you disagree with any of the above simplified recognition and measurement requirements, please explain your reasons and why.

Response:

We support Tier 3, with simplified recognition and measurement requirements, because NFPs have much lower thresholds for legislative reporting than the for-profit sector. Further, Tier 3 proposals provide a proportionate response for smaller entities to adopt a consistent approach in the preparation of general purpose financial statements (GPFS).

(a) We support the Board's proposal to provide NFPs with a choice as to whether they consolidate their subsidiaries or prepare separate financial statements. While we appreciate this could lead to a lack of comparability and lack of transparency, we would expect the number of entities impacted to be minimal given the application to smaller NFPs.

(b) We support the modified retrospective approach for changes in accounting policies. For corrections of prior period errors, we would prefer that entities have the ability to correct the error in the comparative period (s), rather than the opening balance of the current period, if they choose. Such an approach allows entity to apply the Tier 1/2 treatment to such errors if the resources and costs allow.

    Whilst we support the disclosures added by the Board around prior period errors, we consider that if the error is a straightforward error in the comparative period that is easily adjusted, entities should be allowed to do this.

(c) We support the proposed revenue recognition model and the guidance provided in the ED on 'common understanding'.

APPENDIX

(d) We support the proposal to not recognise lease assets or lease liabilities in Tier 3 and to recognise lease payment/income on a straight-line basis over the lease term. Recognising leases on balance sheet in accordance with AASB 16 *Leases* can be costly and complex which would exceed any benefit to users for small and medium NFP entities. We do not see a straight-lining approach as a difficult or costly exercise in the event that lease incentives are provided.

(e) We support the proposal to measure donated assets either at cost or fair value, and we support the relevant disclosures proposed regarding such assets as we consider it is important that users understand donated assets that are controlled by the entity and not fully reflected in the statement of financial position.

(f) We support the proposal to recognise concessional loans at their face value, this eliminates the need for the determination of a market interest rate, calculating the effective interest rate, and applying discounting techniques – all of which can be complex for a small/medium sized NFP.

(g) We support measuring employee entitlements that are accumulated on an undiscounted basis. This is often common practice today on smaller NFPs, the discounting effect is usually concluded as immaterial. See further discussion on the employee benefits changes in Question 33.

(h) We support the simplified impairment indicators for impairment assessment of non-financial assets on the basis that this is not a common area for small/medium NFPs to need to assess and the costs of applying AASB 136 *Impairment of Assets* for these entities would largely exceed the benefits provided to users.

(i) We support the proposal to require the book value method for entity combinations, subject to the proposed exemption relating to material assets or liabilities that do not have an existing carrying amount recorded in accordance with Australian Accounting Standards. Entity combinations in small/medium sized NFPs are not common, however, they do occur. Applying the Tier 1 / 2 requirements to those that occur is not helpful as it is complex and can result in divergence in practice.

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.

Response:

We agree with the structure of the [draft] Standard and the principle of using simplified language to express the Tier 3 reporting requirements.

APPENDIX

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. Early adoption would be permitted. Do you agree with this proposal? If you disagree, please explain why.

Response:

We support an adoption period of at least three years, with the ability for entities to early adopt the proposals if they consider appropriate. However, we note that if legislative change is coming in relation to these proposals (such as introducing thresholds for application in both the *Corporations Act 2001* and the *Australian Charities and NFP Commission Act 2012*) perhaps the application needs to be linked to the date of such legislative change.

We recommend the AASB liaise with Treasury and government regulators to determine the best way forward in this regard.

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.

Response:

We have not identified any unintended consequences that might arise from the proposals.

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

Response:

No specific auditing or assurance challenges have been identified.

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

Response:

We believe the proposals will result in financial statements that are useful to users.

While there are a few additional accounting policy choices available to NFP when adopting these proposals (as compared to Tier 2) making them less comparable, these choices are generally in areas not often entered into by entities of the size envisaged by the AASB.

Therefore, overall, we consider these Tier 3 financial statements will be useful to users as they will be more comparable than currently exists (with many entities of this size preferring to adopt special purpose financial statements) and will bring all those NFPs applying Tier 3 to a minimum base level of accounting.

APPENDIX

Question 8
Do you have any other comments on the proposals?

Response:

We also consider that NFP reporting on the whole should be reviewed in light of the upcoming international non-profit accounting guidance to be issued by a leading globally representative collation led by Humentum and the Chartered Institute of Public Finance and Accountancy in the UK. This review should assess whether our current NFP reporting is fit for purpose or whether some amendments are required for NFPs currently adopting Tier 1/2.

Section 1: Objectives, Scope and Application (Question 9)
The ED 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: - AASB 2 (in relation to share-based payment arrangements); - AASB 4 (in relation to insurance contracts), AASB 5 (in relation to assets held for sale); - AASB 5 (in relation to non-current assets held for sale and discontinued operations); - AASB 6 (in relation to exploration for, and evaluation of mineral resources); - AASB 9 (in relation to complex financial instruments only); - AASB 119 (in relation to obligations arising under a defined benefit plan only); and - AASB 141 (in relation to biological assets, and agriculture produce at the point of harvest). Do you agree with the above approach? If you disagree, please explain. 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 of Sections, and please explain your views?

Response:

We agree with this proposal, as we consider it is unlikely that NFPs applying Tier 3 would have any of these types of transactions.

APPENDIX

Section 2: Financial Statement Presentation (Questions 10 and 11)
10. Do you agree that entities applying the proposed Tier 3 reporting requirements should prepare a complete set of financial statements that includes all of the following: a) A statement of financial position; b) Either a single statement of profit or loss and other comprehensive income showing all items of income and expense or a separate statement or profit or loss and a separate statement of comprehensive income. c) A statement of changes in equity d) A statement of cash flows e) Notes, comprising material accounting policy information and other explanatory information. If you disagree, please explain. 11. Do you agree that a single statement of income and retained earnings can only be presented (in place of the statement of comprehensive income and statement of changes in equity) when the only changes to equity during the periods for which the financial statements are presented arise from profit or loss, corrections of prior period errors or changes in accounting policies? If you disagree, explain why.

Response:

10. We agree with the need for a), d) and e) as indicated above. However, we consider that b) and c) could be simplified for NFPs under the Tier 3 reporting regime. This is because we consider that ‘other comprehensive income’ is confusing terminology for many NFPs.

    We prefer that b) instead include a requirement for a separate statement of income and expenses (using IFR4NPO terminology in Exposure Draft Part 1) for all entities. This would eliminate the choice proposed – providing one way of presenting the surplus/deficit of the NFP – thereby making it simpler for users to understand and for preparers.

    Considering the basis for conclusions written by the Board when they considered b) above (BC33 to BC36), we do not believe that sufficient consideration has been given to user needs in this regard, and we do not consider the users find the inclusion of OCI items for this size of NFP useful in assessing NFP performance.

    Regarding c) and the proposed requirement for a statement of changes in equity. We consider equity less relevant for a NFP entity and therefore propose that the requirement for a statement of changes in equity (‘SOCIE’) is removed. Any reserves held by the NFP will be clearly articulated in the statement of financial position and the notes to the financial statements, which should provide all necessary information in respect of these reserves.

    We do appreciate that our recommendation means that these financial statements will be presently differently to Tier 2 entities. However, our recommendation allows for a simpler, consistent and comparable approach for entities within the scope of Tier 3 reporting. Our recommendation on removing the SOCIE is also different to the international proposals, as mentioned above. However, such international proposals are not targeted at a Tier 3 NFP level but for all NFPs of all sizes.

APPENDIX

11. We disagree with this proposal. Having a choice between these two statements based on certain criteria is confusing to preparers and users of financial statements. Instead, equity information should be detailed in the notes that support the statement of financial position. This recommendation is a simpler, consistent and comparable approach for entities within the scope of Tier 3 reporting.

Sections 3 – 7 Presentation and Disclosure Requirements (Questions 12 and 13)
12. Do you agree with the proposed information to be presented in: a) paragraphs 3.2 and 3.8 for the statement of financial position b) paragraphs 4.4 and 4.5 for the statement of profit or loss and comprehensive income c) paragraph 5.3 for the statement of changes in equity d) paragraph 5.5 for the statement of income and retained earnings e) a statement of cash flows classified by operating activities and other activities as proposed in paragraphs 6.3 and 6.7 f) the notes to the financial statements as set out in Section 7. 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. 13. Do you agree with 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 develop a more principles-based approach to help preparers classify and present expenses to provide useful information to users? Please provide reasons for your response.

Response:

12. Our comments on each section are detailed below:
    a) The information outlined in paragraphs 3.2 and 3.8 of the ED is appropriate for disclosure in the statement of financial position. However, we consider the inclusion of common equity line items as well (as highlighted in our recommendation in Question 11).

    b) Section 4 can be simplified to just include a statement of income and expenses, rather than present a single-statement approach and a two-statement approach. Therefore, paragraphs 4.4 and 4.5 can similarly be simplified to remove the other comprehensive income disclosures.

    c) As outlined in Questions 10 and 11 above, we do not support the inclusion of a statement of changes in equity. Information to be presented as detailed in paragraph 5.3 showing the movements in each component of equity, should instead be included in Section 7 as part of the notes to the financial statements

    d) See comments in 12c) above and Question 11. The requirement in paragraph 5.5 for the disclosure of a movement reconciliation for retained earnings should be included in section 7 as part of the notes to the financial statements.

    e) We support the simplifications to disclosure for the statement of cash flows in paragraph 6.3 to 6.6. However, we do not support presenting two options for presentation – being the indirect method and the direct method. Having one option would be simpler for NFPs of this size. Our preference is the direct method as this method has been adopted commonly in Australia to date.

f) We support the requirements of Section 7, along with the inclusion of additional items as highlighted in 12c) and 12d) above.

13. We support the guidance outlined in paragraph 4.10 regarding the disclosures required in the analysis of expenses. However, we also recommend the inclusion of explicit permission to present the analysis on a mixed basis as is the requirement in the upcoming replacement to AASB 101, AASB 18 *Presentation and Disclosure in Financial Statements.*

Section 8: Notable relationships and Consolidated and Separate Financial Statements (Question 14)
14. Do you agree with the proposed Tier 3 reporting requirements in Section 8? If you disagree, please explain.

Response:

Yes, we agree with the reporting requirements except in relation to the disclosure requirement contained in paragraph 8.6.

The requirements in Section 8 allow an entity to:

(a) Present consolidated financial statements in which it consolidates its subsidiaries; or

(b) Present, as its only financial statements, separate financial statements that do not consolidate its subsidiaries.

We do not support the inclusion of notable relationship disclosure about whether the financial statements are audited or reviewed as required by 8.6(d). We consider these are not necessary as they are not required in Tier 2 financial statements and could be difficult to obtain in circumstances where the entity is an associate or JV.

Section 9: Accounting Policies, Estimates and Errors (Question 15)
15. Do you agree with the proposed Tier 3 reporting requirements in Section 9? If you disagree, please explain.

Response:

We agree with the proposed Tier 3 reporting requirements in Section 9 of the ED to apply a modified respective approach without restating comparatives for changes in accounting policies.

We agree with the proposed Tier 3 reporting requirements in Section 9 of the ED in calculating the effect of a change in accounting estimate on a prospective basis.

However, we disagree with the proposed Tier 3 reporting requirements in Section 9 of the ED in requiring an entity to correct a material prior period error using a modified retrospective approach only without restating comparative periods. We consider that if entities wish to adopt the Tier 1/2 approach of retrospective restatement of the error, they should be provided with that as an option. This may depend on the nature of the error and whether the comparative adjustment is straightforward. If so, the benefit of comparability could outweigh the cost of changing the comparatives.

APPENDIX

Section 10: Financial Instruments (Questions 16 – 18)
16. Do you agree that the proposed Tier 3 reporting requirements for financial instruments should apply to the following financial assets and financial liabilities as being commonly held by Tier 3 entities or basic financial instruments: a) Cash and cash equivalents b) Trade and other receivables c) Security 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 preferences shares held in listed and non-listed entities h) Trade and other payables i) Loans? If you disagree, please explain.
17. Do you agree that an entity applying the proposed Tier 3 reporting requirements should apply AASB 9 to account for the following complex financial instruments or financial instruments less commonly held by Tier 3 entities: a) Unlisted purchased debt instruments b) Acquired equity instruments other than non-convertible ordinary and preference shares c) Financial guarantee contracts d) Derivatives e) Commitments to provide a loan at a below-market interest rate. If you disagree, please explain.
18. Do you agree with the Tier 3 reporting requirements developed for financial assets and financial liabilities that are basic or commonly held by Tier 3 entities as set out in paragraph 10.2? These include: (a) Initial measurement at fair value (excluding transaction costs) except for a concessional loan which shall be recorded initially at its transaction price. (b) For financial assets acquired or originated by the entity to generate both income and a capital return, subsequent measurement is at fair value at the end of each reporting period, except when a reliable measure of FV is unavailable. Changes to the FV 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 included changes in the fair value of that class in other comprehensive income. (c) An entity applying Tier 3 reporting requirements is not permitted to apply hedge accounting (except as noted in the transitional provisions). a) An entity shall assess whether there is objective evidence of impairment of any financial asset or group of financial assets. If you disagree, please explain.

Response:

16. We agree that the proposed Tier 3 requirements should only apply to basic financial instruments. We note that those listed are examples of basic financial instruments, and we agree with these as common examples in the sector of such a size. We would not support these examples of basic instruments to be a fixed concrete listing – as financial instruments can change over time which means a fixed concrete listing may become out of date very soon.

APPENDIX

17. For those instruments not commonly held by NFPs, we agree that if a NFP enters into such an instrument they should follow the accounting outlined in AASB 9. The number of NFPs that we consider would be impacted by this proposal is minimal, if any.

18. We are supportive of the proposed Tier 3 reporting requirements as outlined in the ED for the initial recording of financial assets and financial liabilities at fair value, concessional loans being recorded initially at transaction price, the requirements to fair value financial assets acquired or originated by the entity to generate both income and a capital return at fair value (except in the case where a reliable measurement of fair value for an unlisted equity instrument cannot be made), not permitting entities to apply hedge accounting and the simper model for assessment impairment of financial assets held at cost based on whether there is objective evidence of impairment.

Section 11: Fair Value Measurement (Question 19)
19. Do you agree that the proposed Tier 3 reporting requirements, including the definition of fair value, should remain consistent with Tier 2 reporting requirements? If you disagree, please explain.

Response:

Yes, we agree with the proposed Tier 3 reporting requirements outlined in Section 11 and support a consistent definition being used for ‘fair value’ to that in Tier 2.

Section 12: Inventories (Question 20)
20. Do you agree with the proposed Tier 3 reporting requirements in Section 12? If you disagree, please explain.

Response:

We agree with the proposed Tier 3 reporting requirements for inventory which include the policy election of initially measuring donated inventory at either its cost to the entity or at a reliable estimate of current replacement cost as at the date of donation.
Further we support the disclosures proposed in relation to donated items that are recorded at cost.

Section 13: Investments in Associates and Joint Arrangements (Question 21)
21. Do you agree with the proposed Tier 3 reporting requirements in Section 13? If you disagree, please explain.

Response:

We agree with the proposed Tier 3 reporting requirements for investments in associates and joint arrangements. These proposals require an investor to account for investments in associates and joint ventures that are not consolidated using either the cost model, the equity method or the fair value model. We also note that the existence of these in NFPs that are likely to be eligible for Tier 3 is likely to be infrequent.

We note in paragraph 10.27 (as well as some other paragraphs) there is reference to ‘active market’. Discussion of the meaning of ‘active market’ does not occur within the ED and it is not defined in Appendix A. We suggest that if this term is used, it is at least defined in Appendix A.

APPENDIX

Sections 14 and 15: Investment Property and Property, Plant and Equipment (Questions 22 and 23)
22. Do you agree with the proposed Tier 3 reporting requirements in Sections 14 and 15 that align the reporting requirements with Tier 2, except for the language and further reduced disclosures? If you disagree, please explain.
23. In relation to the proposed measurement choice to measure donated non-financial assets at either cost to the entity or fair value as at the date of the donation, the AASB is seeking information on the cost to smaller NFP entities of obtaining the fair value of donated non-financial assets.

Response:

22. We agree with the Tier 3 reporting requirements in Sections 14 and 15 which align with the Tier 2 requirements, except in relation to the proposed measurement choice (between the cost to the entity and the fair value as at the date of donation) for donated non-financial assets, the language used and further reduced disclosures.

23. The cost to smaller NFPs of obtaining the fair value of donated non-financial assets is very much dependent on the nature of the non-financial asset. For example, if the donated asset was a car, the Red Book valuation would be appropriate and is freely available. However, if the asset was a piece of artwork or a building, the need for a qualified valuer to may be required. Any cost of obtaining fair value information will reduce the funds available for the NFP to spend on their activities and will be a higher proportion of their expenditure for smaller NFPs, than larger NFPs.

Section 16: Intangible Assets (Question 24)
24. Do you agree with the proposed Tier 3 reporting requirements in Section 16? If you disagree, please explain.

Response:

Yes, we agree with the proposed Tier 3 reporting requirements in Section 16 which is consistent with the Tier 2 reporting requirements except for:

(a) Donated intangibles where any entity will have a choice between initially recognising the asset at cost or fair value, consistent with the requirements in Sections 14 and 15
(b) Requiring the expense of internally generated intangibles rather than distinguishing between research and development costs
(c) Accounting for all intangibles as if they have a finite life up to a period not exceeding ten years.

We consider the proposals above, remove much of the complexity associated with the accounting for intangible assets and therefore result in simplified recognition and measurement for entities that Tier 3 will be applicable to.

Further simplification that could be introduced by the AASB includes removal of the fair value option for intangible assets (contained in paragraphs 16.15 and 16.16), as this is rarely (if at all) applied by any private sector NFP entity given the nature of intangible assets that they hold.

APPENDIX

Section 17: Entity Combinations (Question 25)
25. Do you agree with the proposed Tier 3 reporting requirements in Section 17? If you disagree, please explain.

Response:

Yes, we support the proposed Tier 3 reporting requirements (b) to (e) as outlined in Section 17 which require:

(a) The combination date to be the beginning of the reporting period during which the combination occurred.

(b) The use of the combined existing carrying amounts of assets, liabilities and equity to become the carrying amounts of the reporting entity.

(c) If a material asset or liability did not have a carrying amount, it shall be initially measured at its fair value, unless the item was a donated item that the entity had elected to measure at cost.

(d) Any difference between the carrying amount of the consideration paid and the carrying amount of the net assets recorded to be recognised directly in equity.

(e) The adjustment of the carrying amounts at the combination date for uniformity of accounting policies across the combining entities.

However, we do not support (a) above which requires the 'deemed combination date' being the beginning of the reporting period during which the combination occurred. Whilst this is being proposed as a simplification, we do not support it because it would mean the combined entity must include financial information of the other NFP for a period where they had no control of the other entity/business. This may occur in the NFP itself or upon consolidation. This could cause practical issues in not having information to support transactions included within the NFP pre the effective date of the combination. Further, those charged with governance may not be willing to authorise the financial statements containing information for an entity or a business that they were not in a position to govern during that pre-combination period. We recommend the proposal is amended to require the combination to be accounted for from the effective date.

Section 18: Leases (Question 26)
26. Do you agree with the proposed Tier 3 reporting requirements in Section 18? If you disagree, please explain.

Response:

Yes, we agree with the proposed Tier 3 reporting requirements in Section 18, which require:

a) a lessee to record lease payments as an expense over the lease term on a straight-line basis (unless another systematic basis is more appropriate), even if the payments are not on that basis.

b) a lessor to record assets subject to leases in its statement of financial position and to record lease income (excluding amounts for services) in the profit or loss over the lease term on a straight-line basis (unless another systematic basis is more appropriate).

APPENDIX

Section 19: Provisions and Contingencies (Question 27)
27. Do you agree with the proposed Tier 3 reporting requirements in Section 19 which align with Tier 2 reporting requirements except in relation to simplified disclosures? If you disagree, please explain.

Response:

Yes, we agree with the proposed Tier 3 reporting requirements. We understand from the key facts document issued with the ED that provisions are not required to be discounted. However, reading Section 19 within the ED we did not see this communicated clearly. We recommend that this is clarified.

Section 20: Revenue (Questions 28 - 29)
28. Do you agree with the proposed Tier 3 reporting requirements in Section 20? If you disagree, please explain.
29. Do you agree that the proposed Tier 3 reporting requirements should exclude the following: a) reference to variable consideration from the initial measurement requirements for accounts receivable; and b) any requirements addressing how to account for any implicit financing period provided to a provider when measuring the amounts of accounts receivable arising from a transfer of goods or service to a customer of beneficiary? If you disagree, please explain.

Response:

28. Yes, we agree with the proposed Tier 3 reporting requirements for revenue, which include:

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

- i. recognise a deferred revenue obligation 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 does not exist, record revenue simultaneously with initially recording the asset at the earlier of receiving the cash or other asset and obtaining control or a right to receive the cash or other asset.

29. Yes, we agree with the proposed Tier 3 reporting requirements, as these areas impacting revenue are not suitable for simplified reporting, given their complexity.

APPENDIX

Section 21: Expenses (Question 30)
30. Do you agree with the proposed Tier 3 reporting requirements 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? If you disagree, please explain.

Response:

Yes, we agree with the proposed Tier 3 reporting requirements for expenses.

Section 22: Borrowing costs (Question 31)
31. Do you agree with the proposed Tier 3 reporting requirements to require an entity to record all borrowing costs as an expense in profit or loss in the period in which they accrue? If you disagree, please explain.

Response:

Yes, we agree with the proposed Tier 3 reporting requirements, and note it is consistent with the IFRS for SMEs requirements.

Section 23: Impairment of Assets (Question 32)
32. Do you agree with the proposed Tier 3 reporting requirements in Section 23? If you disagree, please explain.

Response:

Yes, we support the proposed Tier 3 reporting requirements for impairment of assets which require:

An entity to assess the possibility that non-financial assets are impaired when and only when:

(a) They have been damaged physically or are perishable items that have spoilt or become obsolete; or

(b) 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.

APPENDIX

Section 24: Employee Benefits (Question 33)
33. Do you agree with the proposed Tier 3 reporting requirements in Section 24? If you disagree, please explain.

Response:

Yes, we agree with the proposed Tier 3 reporting requirements which require measuring employee entitlements that are accumulated on an undiscounted basis.

While the basis for conclusion [BC121] indicates that future pay increases do not need to be considered when measuring employee benefits, the explanation on this in paragraph 24.7 of the ED is unclear as it says the measured amount should be at 'the undiscounted amount of employee benefits expected to be paid' – which infers that future pay rises should be considered in the measurement. We suggest this is clarified.

Section 25: Income Tax (Question 34)
34. Do you agree with the proposed Tier 3 reporting requirements to require an entity to record income tax expense for the income tax payable for the period? If you disagree, please explain.

Response:

Yes, we agree with the proposed Tier 3 reporting requirements. We consider this area will not significantly impact the majority of NFP entities as they generally do not pay tax.

Section 26: Foreign Currency Translation (Question 35)
35. Do you agree with the proposed Tier 3 reporting requirements 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? If you disagree, please explain.

Response:

Yes, we agree with the proposed Tier 3 reporting requirements.

Section 27: Events Occurring after the Reporting Period (Question 36)
36. Do you agree with the proposed Tier 3 reporting requirements which align with Tier 2 reporting requirements? If you disagree, please explain.

Response:

Yes, we agree with the proposed Tier 3 reporting requirements which align with the Tier 2 reporting requirements.

APPENDIX

Section 28: Related Party Disclosures (Question 37)
37. Do you agree with the proposed Tier 3 reporting requirements which align with Tier 2 reporting requirements except for not requiring disclosures of: a) Key management personnel compensation; and b) Donations received by the entity from a related party, unless evidence indicates the donations could influence the entity's activities or use of resources? If you disagree, please explain.

Response:

Yes, we agree with the proposed Tier 3 reporting requirements which align with Tier 2 reporting requirements with the exceptions noted in the question above. The concern with disclosing key management personnel compensation (KMP) with entities of this size is because there is likely to be only one KMP and therefore highlighting that person's compensation could result in privacy issues. This was a matter identified by Treasury and the ACNC in the latest regulations requiring large charities that prepare special purpose financial statements to disclose KMP compensation, where they gave an exemption to charities that only had one remunerated KMP.

Section 29: Transition to Tier 3 General Purpose Financial Statements (Question 38)
38. Do you agree with the transitional requirements proposed in Section 29 and that no additional transitional relief should be available for entities adopting the Standard early? If you disagree, please explain.

Response:

We do not agree with the proposed transitional requirements as proposed in paragraphs 29.3 (a) and 29.4. For the remainder of Section 29, while we agree in principle, we do find this section difficult to understand and it could benefit from more simplified language being used to explain the requirements.

Paragraphs 29.3(a) and 29.4 involve allowing a Tier 3 adopter that previously adopted Tier 1 or Tier 2 requirements to elect to continue to adopt the existing Tier 1 or Tier 2 recording, measurement and disclosure requirements whilst applying the Tier 3 requirements.

The Board has not provided any basis for its decision for this election in the basis for conclusions.

We do not support this election, as it makes the transition provisions more complex, and makes the Tier 3 financial statements less comparable and less understandable by users and preparers on an ongoing basis. Therefore, we consider the costs in doing this would outweigh any potential benefits.

We also consider this election would be unlikely to be taken up, as NFPs of this size generally would require assistance in developing some of the more complex Tier 1 and Tier 2 requirements (such as leases).

APPENDIX

Appendix A: Glossary of terms (Question 39)
39. Do you agree that the glossary should include cross-references to terms that are defined in the body of the 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?

Response:

We consider there is no need for duplication between the body of the Standard and the glossary contained in Appendix A, as we consider there is a need to keep the standard as streamlined as possible to make this easier for users to read.

Appendix C: Amendments to other Australian Accounting Standards (Question 40)
40. Do you agree with the proposed amendments to AASB 1053 *Application of Tiers of Australian Accounting Standards*? If you disagree, please explain.

Response:

We support the proposed amendments to AASB 1053 as they do provide a degree of flexibility when moving between tiers.

We note that entities transitioning from Tier 3 to Tier 2 for the first time are not required to:

(a) Restate comparative information

(b) Provide comparative information for new disclosures

(c) Distinguish correction of errors made in periods prior to first-time adoption of the Tier 2 reporting requirements and changes in accounting policies.

Whilst this is different to for-profit entities having to prepare Tier 2 for the first time, we note that NFPs have much lower reporting thresholds and NFPs can tend to have big swings in revenue due to one-off bequests and one-off capital grants. Therefore, we accept this simplification given it is provided for as an election, otherwise a NFP will need to restate comparative information.

GENERAL MATTERS FOR COMMENT

Questions 41 - 44
41. Has the *AASB Not-for-Profit Entity Standard Setting Framework* been applied appropriately in developing the proposals in this ED? 42. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals? 43. Are the proposals in the best interests of the Australian economy? 44. Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative or qualitative?

APPENDIX

Response:

41. We note that the AASB NFP Entity Standard Setting Framework will need to be amended for Tier 3 as it currently only deals with Tier 1 and Tier 2. Further, we note that Tier 3 has moved further away from transaction neutrality using IFRS for SMEs as a base, which we do not see as a problem, but it will no longer fit neatly into the AASB NFP Entity Standard Setting Framework. We recommend that the Framework is updated simultaneously with the issue of the Tier 3 standard.

42. Our comments are based on using a maximum threshold for applying the Tier 3 requirements of $3 million revenue, referred to in the proposal as a reference point for identifying transactions and balances of smaller NFP private sector entities that might be permitted to apply Tier 3 general purpose financial statements. As indicated in the proposals, any such threshold is within the remit of legislation and/or regulators and not the AASB.

    We encourage the AASB to facilitate this change through their connections with Commonwealth Treasury (and other relevant legislators/regulators) in a way that does not cause practical issues for NFPs as they move between Tier 2 and Tier 3 based on revenue numbers (which can be unpredictable for some NFPs due to the timing of receipts of one-off bequests or capital grants). This can be achieved in a number of ways including by specific application to the regulator, drafting of legislation to allow an averaging approach over several years, or consideration of 2 of the last 4 years (as was done in the recent Pillar 2 legislation issued by Treasury).

    Without legislative change, the Tier 3 reporting requirements could potentially be adopted by any sized NFP entity. In that case, our comments contained in this appendix on the simplifications proposed in the ED would likely be different.

43. Yes, the proposals are in the best interests of the Australian economy as it promotes improved consistency for NFP entities of a certain size reporting under legislative requirements. This will benefit preparers as well as users of the financial statements as the financial statements will be easier to read, simpler to prepare and will be comparable between entities. This is especially important for charities, whose financial statements are readily available for free on the ACNC website.

44. The benefits of the proposals are as mentioned in Question 43 above. We do note that because of the simplification proposals there are more options available to entities applying the Tier 3 reporting requirements than Tier 2 – which may result in less comparability. However, we consider this will not be a significant issue since common practice will develop amongst entities of this size and they will likely choose the simplest option.

    The costs are difficult to quantify as it is dependent on what type of financial statements entities currently prepare – general purpose financial statements versus special purpose financial statements. And further if they prepare special purpose financial statements – the cost to implement the proposals will depend on which accounting policies they already adopt (for example, do they already have leases on their balance sheet or do they expense leases?).

    As always, with new standards, there will be an initial cost in preparing templates and adopting policies. However, once this is done, the ongoing cost should be less given the simpler accounting policy options.