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28 February 2025

Dr Keith Kendall
Chair
Australian Accounting Standards Board
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Online via: www.aasb.gov.au/current-projects/open-for-comment

Dear Keith

ED335 General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities

I am pleased to make this submission on ED335 General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities (Tier3).

I have over 30 years' experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

Overall

The AASB has not applied its transaction neutral policy for not-for-profits, as it has excluded public sector NFP entities from the proposals without adequate reasons.

The AASB has also not applied its transaction neutral policy between for-profit and not-for-profit private sector entities, as it has excluded private sector for-profit entities without adequate reasons. There are tens of thousands of small businesses and SMEs that use financial information that could benefit from a simplified measurement and disclosure framework.

My main objections include:

- not include private-sector for-profits and the public sector (Question 1)
- referring to other standards (Question 9)
- not linking deferred revenue to the concept of obligation (Question 28)

I attach my detailed comments.

Yours sincerely

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ED335 Draft response

Question 1 - Principles of Tier 3

Scope

I do not agree with the principles as the AASB is only proposing changes for not-for-profit private sector entities. The AASB has not applied its transaction neutral policy between private and public sector entities.

While the AASB stated that it will look at public sector entities later, after the long-delayed project public sector reporting framework (that has an unknown expected completion date), this approach is contradictory to the approach by the AASB in the concurrently released ED334 to extend the new conceptual framework to not-for-profit public sector entities without completing that project.

The AASB has also not applied its transaction neutral policy between for-profit and not-for-profit private sector entities. I note that there are over 2 million businesses in Australia, and that there are over 50,000 businesses with 20 or more employees:

> ABS 8165.0 Counts of Australian Businesses, including Entries and Exits, July 2020 to June 2024, Table 13a
> https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/jul2020-jun2024
> Viewed 28 February 2025

Therefore, there are tens of thousands of businesses that use financial information that could benefit from a simplified measurement and disclosure framework. There appears to be a need for a reporting framework in Australia for those SMEs that is not based on thousands of pages of IFRS.

Application of principles

I do not believe the AASB has applied the principles appropriately, because it:

- mandates references to Tier 1 and Tier 2 standards (refer my response to Question 9)
- includes provisions for investment property (refer to my response to Question 22).

Question 2 – Recognition and measurement simplification requirements

2. Do you agree with the Board's Recognition and measurement simplification proposals:

(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);

No. I agree with having a choice, though not with having the choice being an accounting policy choice. The choice should be a year-by-year election, similar to the current intermediate parent election for preparing consolidated financial statements under AASB 10. Changing from one year to another, depending on circumstances, is far more complicated under the change in accounting policy requirements.

Having a choice not to present consolidated financial statements is similar to the intermediate parent provisions, and the same mechanisms should apply.

(b) modified retrospective application (i.e. no requirement to restate comparative period information) for changes in accounting policies or corrections of prior period errors;

No. I do not agree with not correcting an error in the prior period. It is known that the prior period results are incorrect and they should be corrected. Erroneous information should not be falsely presented as being correct.

To me, this is a question of integrity and ethics. I do not agree with issuing financial statements that include information that is known as wrong.

I agree with the modified retrospective application approach for changes in accounting policies. Under this approach the comparatives are accurately (presented fairly) for each financial period even if the policies are different.

(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;

No, I do not agree with deferring revenue based on "a common understanding". The deferral of revenue should be based on the conceptual framework, that is an obligation, similar to the requirements in ED335 for the recognition of a provision.

Recognising a liability for deferred revenue when there is no obligation is a wrong approach.

I provide more detail in my response to Question 28.

(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;

I agree.

(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;

I agree.

(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;

I agree.

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

I agree, subject to clarifications on whether the undiscounted amounts are current wages rates or future wage rates.

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

I do not agree. This is a consequence of my disagreement with the proposed requirement to apply AASB 5.

I agree with the indicators, though I think the list is incomplete (as it needs to include the held-for-sale / AASB 5 indicators).

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

While I am generally supportive, I have raised issues in my response to Question 25.

Question 3 - Structure of the [draft] Standard

I broadly agree with the structure, though I found the operation of “notable relationships” confusing. Refer to my responses to Question 14.

I agree with not separately disclosing agricultural assets, as I believe that there should not be any reference to outside standards.

I suggest moving paragraph 3.11 to just after paragraph 3.6 (which it refers to).

Paragraph 4.2 appears to be a duplication of paragraph 2.19.

I suggest that paragraph 5.2, that currently refers to “investments” be replaced by “contributions”, as not-for-profits often do not have shares, and contributions to equity are made by contributions.

Question 4 - Effective date

I agree with the effective date.

As noted above, I believe that the standard should be applicable to for-profit private sector and public sector entities at the same time.

Question 5 - Unintended consequences.

Unintended consequences are likely to occur because the AASB has not applied its transaction neutral policy between for-profit and not-for-profit private sector entities and between private and public sector entities.

There are also likely to be unintended consequences with the proposed mandating of not correcting known errors. I provide more details in my response to Question 15.

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

There are likely to be auditing and assurance challenges with the proposed mandating of not correcting known errors. I provide more details in my response to Question 15.

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

If the issues I disagree with are resolved, I believe that the proposals will result in financial statements to users for the entities in scope.

As I have stated above, I believe that the proposals should also apply to for-profit private sector and public sector entities.

Question 8 - Any other comments

Refer below comments.

Question 9 - Inclusion of IFRS recognition and measurement requirements.

I do not agree with any mandatory reference to outside standards. This standard should be stand-alone.

I disagree with ED334 paragraph BC17 that is premised on the standard having to "address the whole breadth of transactions, other events and conditions addressed by Tier 1 and Tier 2". It does not. The standard is aimed for simpler less complex entities.

Also, IFRS for SMEs and the upcoming INPAG standard have been drafted as stand-alone standards. If they can do it, I think the AASB can as well.

Also, for each of the standards identified, I propose treatments that do not mandate specific reference to other standards. These treatments do not prevent preparers using other standards to develop a policy, if such policy is not in conflict with other provisions of this standard.

(a) AASB 2 *Share-based Payment*, in relation to share-based payment arrangements;

As I stated above, I do not agree with any inclusion of outside standards. This standard should be stand-alone.

In the highly unusual situation of an in-scope entity issuing equity, then an appropriate accounting policy can be determined based on the provisions of this standard. That accounting policy could be determined with reference to AASB 2.

(b) AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts*, or AASB 17 *Insurance Contracts*, in relation to insurance contracts;

As I stated above, I do not agree with any inclusion of outside standards. This standard should be stand-alone.

Entities issuing insurance contracts to the public should not be in-scope of the standard, being excluded on the public accountability criteria.

(c) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, in relation to assets held for sale;

As I stated above, I do not agree with any inclusion of outside standards. This standard should be stand-alone.

The relevant provisions of AASB 5 should be included in this standard, without the need to require users, preparers and auditors, to refer to another standard.

Relevant provisions would include the need for an impairment assessment if planning to sell.

Provisions of AASB 5 that should not be included in this standard are the need to reclassify assets and liabilities as held-for-sale, and provisions around discontinued operations.

(d) AASB 6 *Exploration for and Evaluation of Mineral Resources*, in relation to exploration for, and evaluation of, mineral resources;

As I stated above, I do not agree with any inclusion of outside standards. This standard should be stand-alone.

Also, the provisions of AASB 6 are contrary to the provisions in the proposals in relation intangible assets.

If an entity (likely to be for-profit anyway) is undertaking exploration and evaluation activities, and is in-scope, then they can apply the provisions of this standard in relation to intangible assets, or apply Tier 1 / Tier 2 standards.

(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;

As I stated above, I do not agree with any inclusion of outside standards. This standard should be stand-alone.

I do not see why the standard is requiring AASB 9 to apply to complex financial instruments. That is, what is in AASB 9 that is not already in this standard?

This standard already has a fair value requirement. The standard expands the fair value movement in equity approach to more financial instruments that AASB 9.

Requiring the application of AASB 9 would involve the following implications:

- applying the SPPI (sole payments of principal and interest) and business model tests to the financial instruments
- applying a far more restricted fair value through reserves approach (i.e. only to equity instruments of the issuer (which would have to be assessed)).

(f) AASB 119 *Employee Benefits*, in relation to obligations arising under a defined benefit plan; and

As I stated above, I do not agree with any inclusion of outside standards. This standard should be stand-alone.

Defined benefit plans are very uncommon for in-scope entities.

I do not see the need to recognise and apply the complex provisions for defined benefit plans for SMEs and recognise an asset / surplus on-balance sheet.

I believe that recognising a liability for any deficit would be useful and relevant. I believe that simplified provisions, such as referring to the last actuarial or balance sheet, could be used without having to apply the complexities of AASB 119.

(g) AASB 141 *Agriculture*, in relation to biological assets, and agricultural produce at the point of harvest.

As I stated above, I do not agree with any inclusion of outside standards. This standard should be stand-alone.

I do not believe that requiring SMEs to apply mark-to-market accounting, and the complexities of bearer plants, is useful.

In my experience, SMEs subject to AASB 141 have been involved in short-term crops or farming. I believe that a cost model is appropriate.

Question 10 – Complete set of financial statements

I agree.

Question 11 - Single statement of income and retained earnings

I agree.

Question 12 – Proposed information in primary financial statements

I agree broadly with the proposals.

Paragraph 4.10 The classification of expenses by nature or function should be reviewed given the outcome of AASB 18 that indicated that many entities use a mixed disclosure approach - something I found surprising.

Paragraph 6.12 - I suggest that the example in paragraph 6.12 for cash flows to be netted, be changed to something more suitable for entities applying this standard – as they are unlikely to be borrowing and repaying short-term loans.

Paragraph 6.19 does not make sense – that is an entity has cash on its balance sheet, but cannot use it. I suggest that the wording be changed to reflect a group context, or if retained for an entity context, changed to refer to restrictions (e.g. Unspent government grants and subsidies)

> Original per AASB 107
>
> 48 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.
>
> Per ED335
>
> 6.19 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are unavailable for use by the entity. Cash and cash equivalents held by

an entity may be unavailable for use by the entity because of, among other reasons, foreign exchange controls or legal restrictions.

Also refer paragraph 8.35(d) on disclosure of restricted cash in a group.

I am having trouble understanding paragraph 7.3. It does not seem to have been translated properly from AASB 101.

Original per AASB 101

112 The notes shall:

…

(b) disclose the information required by Australian Accounting Standards that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

Per ED335

7.3 The notes shall:

…

(b) disclose material information that is not presented elsewhere in the financial statements and either specifically required by this Standard or otherwise relevant to an understanding of any of the financial statements.

Question 13 – Classification of expenses

I agree.

Question 14 - Notable Relationships and Consolidated and Separate Financial Statements

Consolidation choice

As I state above under Question 2(a), I do not agree with the decision to present or not present consolidated financial statements as an accounting policy choice. I agree with having a choice, though not with having the choice being an accounting policy choice. The choice should be a year-by-year election, similar to the current intermediate parent election for preparing consolidated financial statements under AASB 10. Changing from one year to another, depending on circumstances, is far more complicated under the change in accounting policy requirements.

Notable relationships

I found the area of notable relationships (consolidated financial reports, equity accounting) confusing. On my first reading it seemed that preparers had to determine whether they control an entity or not, and whether they have significant influence or not. In other areas it seemed that there was not a need to distinguish between control and joint control / significant influence.

It seems that an entity has to apply the control criteria in order to determine whether or not it chooses to prepare consolidated financial statements. There is also a reference in paragraph 8.36 (separate financial statements) that refers to parent, implying the need to determine if any investments are controlled.

It seems that an entity has to determine whether it has (at least) significant influence in an entity in order to determine whether it has a notable relationship.

Similarly, for section 13, an entity needs to know if it is a parent or not.

While the notable relationship concept may assist in not requiring an entity to distinguish between control and joint control / significant influence, it does not prevent the need to assess joint control / significant influence (vs something less).

Separate financial statements

I found the references and operation of separate financial statements confusing. The term seems to be used before the term is defined (much later in paragraph 8.36).

I also do not think the nuance between individual financial statements and separate financial statements is clear. This is important when consolidated financial statements are not prepared by choice.

Other

Paragraph 8.22 (determining power) appears very for-profit focused.

Question 15 - Accounting Policies, Estimates and Errors

As I state above under Question 2(b), I do not agree with not correcting an error in the prior period. It is known that the prior period results are incorrect and they should be corrected. Erroneous information should not be falsely presented as being correct.

To me, this is a question of integrity and ethics. I do not agree with issuing financial statements that include information that is known as wrong.

I do not believe that it is inappropriate to prohibit the correction of an error.

I do not believe that including note disclosure, or the auditor including an emphasis of matter (drawing attention to the error) as being sufficient to overcome the need to correct a known error.

I agree with the modified retrospective application approach for changes in accounting policies. Under this approach the comparatives are accurately (presented fairly) for each financial period even if the policies are different.

Agriculture

As I state above under Question 9(g), I do not believe that requiring SMEs to apply AASB 141 (i.e. mark-to-market accounting), and the complexities of bearer plants, is useful.

In my experience, SMEs subject to AASB 141 have been involved in short-term crops or farming. I believe that a cost model is appropriate.

Question 16 – Basic financial Instruments

There is no obvious distinction between basic financial instruments and complex financial instruments. Therefore, it is not clear when to apply which provisions.

The main omission from basic financial instruments are hybrid financial instruments, particularly the hybrids issued by the banks (and others) that have a debt like return, but have associated franking credits. Sometimes these instruments are classified as equity by the issuer, sometimes as debt.

I note the warnings by ASIC for investors, and APRA wanting to remove certain hybrids:

> [Hybrid securities and notes - Moneysmart.gov.au](https://moneysmart.gov.au/investments-paying-interest/hybrid-securities-and-notes)
> https://moneysmart.gov.au/investments-paying-interest/hybrid-securities-and-notes
> Viewed, 28 February 2025
>
> [APRA to phase out AT1 as eligible bank capital | APRA](https://www.apra.gov.au/news-and-publications/apra-to-phase-out-at1-as-eligible-bank-capital)
> https://www.apra.gov.au/news-and-publications/apra-to-phase-out-at1-as-eligible-bank-capital
> Viewed, 28 February 2025

Question 17 - Complex financial instruments

As I state above under Question 9(e), I do not agree with any inclusion of outside standards. This standard should be stand-alone. I do not see why the standard is requiring AASB 9 to apply to complex financial instruments. That is, what is in AASB 9 that is not already in this standard?

This standard already has a fair value requirement. The standard expands the fair value movement in equity to more financial instruments that AASB 9.

Requiring the application of AASB 9 would involve the following implications:

- applying the SPPI (sole payments of principal and interest) and business model tests to the financial instruments
- applying a far more restricted fair value through reserves approach (i.e. only to equity instruments of the issuer (which would have to be assessed).

Financial guarantees

I believe that applying the provision requirements give a suitable approach, without having to go to AASB 9. Using the provisions standard, is what we used prior to the introduction of IFRS / IAS 39.

Commitments to provide a loan at a below-market interest rate

I don't see the point of going to and applying AASB 9 for commitments to provide a loan at a below-market interest rate, when such loans are measured at cost under this standard, and the below-market rates component is not expensed.

Question 18 - Recognition and measurement requirements

Impairment

The impairment provisions include:

10.18 (e) observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recording of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

10.19 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the debtor or issuer operates.

The above seems a bit vague for a general provision, and not specific for individual borrowers.

Transaction costs

I do not agree with the expensing up-front of transaction costs. These can be significant. I believe there should be some way to amortise these costs (presumably on a straight-line basis) over the life of the loan – like we had before the introduction of IFRS / IAS 39.

Mandatory fair value measurement

I believe that the scope for mandatory fair value measurement will unintentionally include some instruments that should be better recognised at cost (principal and interest). The mandatory requirement applies to “financial assets acquired or originated by the entity to generate both income and a capital return”. This will include many corporate and government bonds that are often issued or purchased on-market at amounts different to par value, with the yield (interest and capital gain / loss) representing the interest return. Sometimes bonds are purchased below par value (positive capital return), sometimes above par value (negative capital return).

Disclosures

Paragraph 10.25

I believe the disclosures of financial assets at different measurement methods should be by class, so the details can be reconciled to what is in the balance sheet.

Paragraph 10.27

I do not understand what the following paragraph means. Does it mean the equivalent of Level 1, or Level 1 and Level 2, as Level 2 is “based on” quoted prices.

10.27 For all financial assets and financial liabilities measured at fair value, the entity shall disclose separately the fair value amounts that are, and are not, based on a quoted price in an active market.

Paragraph 10.30

Similar to paragraph 10.25, I believe that the disclosures should be able to be reconciled to what is in the balance sheet.

Other

Paragraph 10.10(a) should change reference from “share investment” to “equity investment”, as NFPs often do not have shares.

Question 19 - Fair Value Measurement

I do not agree with the provisions in relation to current use under paragraph 11.7:

> 11.7 An entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that it is highly probable that a different use by market participants would maximise the value of the asset. In general, this exception would occur only when it is highly probable that, within one year of the asset's measurement date, the asset will either be sold to a buyer who would use the asset for a different use or be redeployed by the entity.

The above appears to require the consideration of market participants, which is contrary to the recent changes to the AASB 13 for the public sector (which would be relevant for private-sector NFPs) that current use should be the default.

Question 20 – Inventories

Inventories held for distribution and loss of service potential

I found that paragraph 12.6 on inventories impairment confusing. Paragraph 12.6 seems to indicate that there is a loss of service potential indicated by current replacement cost being lower than cost. I agree that yes, this would indicate in impairment.

However, paragraphs 12.4 and 12.5 seems to prohibit an impairment write-down to only the events in paragraph 23.3 – that does not include such impairment indicators.

Yet, paragraph 23.5 seems to require impairment for inventories held for distribution to be assessed irrespective of the paragraph 23.3.

Question 21 - Investments in Associates and Joint Arrangements

Application of notable relationships vs joint control / significant influence

As I stated above under Question 14, I found the area of notable relationships (consolidated financial reports, equity accounting) confusing. On my first reading it seemed that preparers had to determine whether they control an entity or not, and whether they have significant influence or not. In other areas it seemed that there was not a need to distinguish between control and joint control / significant influence.

It appears to me that entities will need to distinguish between control and significant influence for paragraph 13.1(a) (consolidated financials are prepared) and paragraph 13.2 determining the entity is not a parent.

Also, paragraph 13.3 when determining an associate vs a subsidiary or joint arrangement.

Joint operation through a vehicle

Is it intended to exclude the possibility of a joint operation through a separate vehicle?

I read the provisions as not allowing for such a situation that is permitted under AASB 11 (for example paragraph B21).

Transaction costs

Paragraph 13.16 (equity method) appears inconsistent with section 9 by allowing transaction costs to be included in cost.

Disclosures

I do not agree with the disclosures around discontinued operations, consistent with my views above that entities applying this standard should not have to apply AASB 5.

Question 22 - Investment Property and Property, Plant and Equipment

Investment property

I believe that investment property should be excluded from the standard.

I believe that cost, or revaluation through reserves, are appropriate accounting for the entities within the scope of this standard.

Property, plant and equipment

I do not agree with limiting the review of depreciation rates and useful lives to the limited circumstances listed of change in strategy and external demand.

There are myriads of reasons why the depreciable life of an individual piece of plant and equipment will change, other than those situations.

Disclosures – Assets from grants

I believe that disclosures relating to assets from donors is also relevant when the assets are donated through capital grants.

Disclosures – Donated (and granted) assets at fair value

I do not agree with omitting disclosures relating to restrictions etc. from assets held at fair value. I believe the disclosures are relevant to all assets, irrespective of how they are valued.

Question 23 – Cost of donated PPE

I do not believe that it is particularly difficult obtaining such information.

In my experience, I have not come across the inability to obtain such information or make a reasonable estimate.

Question 24 - Intangible Assets

I do not agree with the inclusion of the provisions for revalued intangible assets (with reference to an active market), because basically there are not any (except for some cryptocurrencies).

Question 25 - Entity Combinations

Question 25(a) Combination date

I do not agree with the combination date being the start of the reporting period. While I can understand that sometimes the combination date is difficult to determine, this is ridiculous – both in terms of length of time, which could be up to a year before, and being contrary to the principles of consolidation of requiring activities to be consolidated that are not controlled.

I suggest including some guidance, for the few situations that don't have a transfer date in the agreement, about using the start of the reporting month and no material transactions.

Question 25(b) Recording and measurement principles

Mandatory fair value

I do not agree with the mandatory fair valuing of assets (paragraph 17.6). The paragraph appears contrary to other provisions of the standard that allow donated assets to be recognised at their cost (possibly nil). While the provisions do require previously donated assets to continue to be recognised at nil, this seems to require additional paperwork for entities to keep track of whether assets were donated or not, including fully depreciated assets.

I also believe that the paragraph will be inoperable, as it refers to if a "material asset or liability … does not have a carrying value". If an asset or liability does not have a carrying value, then it will not be material – unless you are implicitly requiring all assets and liabilities to be fair valued and the fair values used as a reference.

Also, the requirements refer to donated assets "without paying any consideration". This exception appears to exclude (and therefore require mandatory fair values) for assets acquired significantly below fair value, such as for $1.

Intangibles

Paragraph 16.16 Acquisition as part of an entity combination. I believe that this paragraph should be moved (or at least cross-referenced to) to section 17, as it involves an exception to the recording and measurement principles of paragraphs 17.5 to 17.9 – that is, as intangibles would generally have a nil carrying value, they keep that carrying value rather than be fair valued.

Use of book value

I agree with the use of book values, with the qualifications given above. In my experience, most of the material uplifts for business combinations relate to property, and the mandated recognition of intangibles under AASB 3 (e.g. customer contracts etc).

Question 25(c) - No recognition of goodwill / gain on acquisition

I am uncertain about the proposal to write-off goodwill / gain on acquisition to equity.

In practice, I have not had had problems with the recognition of goodwill for business combinations. Though I note that some work I did 10-15 years ago in relation to combinations of credit unions showed a diversity of treatments as to where the net credit went (equity, P&L etc.)

Question 26 – Leases

I agree with not recognising leases on balance sheet.

I broadly agree with straight-lining lease payments (including rent free periods). However, the provisions around straight-lining minimum lease payments needs further work to avoid the problems we had under AASB 117. This includes having to include fixed increases (e.g. 4%) in minimum lease payments, but not including CPI increases, despite the incre4ases operating for similar economic reasons. Another issue is how to deal with fixed increases (e.g. 4%) when there are market reviews (that may or may not have ratchet clauses to the previous rent).

I found the following paragraph confusing, and believe it should be re-written to emphasis that each are amortised separately, and can be netted off:

> 18.3 For the purposes of paragraph 18.2, the costs to be recorded as an expense over the lease term shall be increased by any initial direct costs of the lessee (i.e. incremental costs directly attributable to negotiating and arranging a lease) and reduced by the benefit of any upfront lease incentive (for example, a rental holiday period), with the effect that those costs/incentives are spread over the term of the lease.

I am not sure how upfront lease incentives such as cash, or non-cash (such as PPE fitouts) are dealt with under the proposals.

Question 27 - Provisions and Contingencies

I do not agree with paragraph 19.5 (reliable estimate). The guidance about when a minimum can be estimated, then use the minimum should be included.

Paragraph 19.10 – Should be drafted as a court case not yet determined or settled, not just referring to settled.

Question 28 – Revenue

Question 28(a) – Deferral based on common understanding

I do not agree with the proposals for deferral of a common understanding. For deferral, and therefore be recognised as a liability, there must be an obligation. It is critical to distinguish between a gift and an obligation, even if it is difficult.

The need for an obligation is required for the recognition of a provision. The same should apply for deferral of revenue.

I suggest referring to the current developments of INPAG and the recently released IPSAS 46 to identify requirements and guidance for NFP grant accounting.

For paragraph 20.9 (evidence of a common understanding), each of the examples appear to be enforceable as a legal or constructive obligation. What examples are there for the proposed deferral that is not a legal or constructive obligation – the issue I raised above?

Question 28 – Capital grants

I do not believe that capital grants are adequately dealt with.

For example., if there is a requirement to use a building (using donated / grant money) for specific activities, is the revenue deferred or not? I believe that it should, even if such deferral is not permitted under current AASB 1058.

While paragraph 20.12 states that capital grants are not deferred, this is contrary to other provisions of the standard about a common understanding of how the asset is used.

Question 28 – other

Paragraph 20.1. Is it intended that the deferral provisions only apply to the entity's "ordinary activities", and not all grants?

Paragraph 20.3(b). I do not agree with the wording of paragraph 20.3(b) which refers to recognising revenue when there is a right to receive the asset. This provision does not cater for situations of the right to receive a future cash payment (i.e. recognise as WIP as the work is performed).

Paragraph 20.5. I disagree with the wording that a receivable is recognised at fair value – the amount recognised is the amount expected to be received – not a market participant / exit price fair value of that amount.

Paragraph 20.13. I was confused as to the point of the following paragraph:

> 20.13 Internal expectations or decisions by those charged with governance about how or when the entity expects to use funds received from donations, grants and bequests are not relevant when determining whether a deferred revenue obligation of the entity exists.

Question 29 – Revenue – specific matters

I agree with not including any explicit reference to variable consideration.

I agree with not including significant financing provisions.

Question 30 – Expenses

I agree with the proposals.

Question 31 – Borrowing costs

I agree with the proposals.

Question 32 – Impairment

Inventories

As I state above under question 20, I found the inventories impairment requirements confusing – where some paragraphs appear to restrict impairment assessments, and others not (e.g. paragraph 23.5).

Impairment losses

Paragraph 23.9 - It would appear that an impairment loss on an asset where fair value is temporarily suspended (and therefore cost used) would be recognised in P&L instead of the asset revaluation reserve. Or is that deliberate?

Disclosures

I do not agree with the disclosures. I believe that disclosures relating to inventories should be made.

Question 33 – Employee benefits

Measurement

It is not clear whether the "amount of employee benefit expected to be paid", requires an estimate of an inflation adjusted amount (as that is the amount that would be expected to be paid), or expected to be paid based on balance date rates.

I believe that if the amounts are undiscounted, that the amount expected to be paid should not be inflated.

While BC121 appears to say don't include future pay increases (i.e. no inflation increases), such a provision should be included in the standard, not in the Basis for Conclusions, where it is even less likely to be read by users than the Basis for Conclusion in Tier 1 and tier 2 standards.

Question 34 – Income taxes

I agree with the proposals to use the tax payable method.

Question 35 – Foreign currency translation

I agree with the proposals.

Question 36 – Events occurring after balance date

Paragraph 27.2 – The reference to “settlement” of a court case should be clarified. Settlement for a court case is often referred to in the context of agreeing to terminate proceedings with an agreed settlement. However, I believe that in the context, settlement should include a court decision, as well as the parties agreeing to settle proceedings.

Question 37 - Related Party Disclosures

I agree with the removal of the KMP remuneration requirements.

I am uncertain about the provisions for donations received by the entity from a related party, as I have not worked these through with practical examples.

Also, in relation to donations, (and for deferred revenue the lack of distinguishing between a gift and a future obligation) it is not clear whether grants are included as “donations”.

KMP transactions

I believe that KMP transactions (excluding remuneration) should be included in the disclosures.

Disclosures

I believe that the relevant related party should be named.

Paragraph 28.9. Impairments linked to related parties. This paragraph uses terms that do not seem to be defined or used elsewhere in the standard, i.e. uncollectable receivables, (spelt uncollectible in paragraph BC72) and bad or doubtful debts.

Question 38 - Transition to Tier 3 General Purpose Financial Statements

No comment.

Question 39 - Appendix A: Glossary of terms

I agree that the glossary should include cross-references to terms that are defined in the body of the [draft] Standard.

The following terms used in the standard, appear to be missing from the Glossary,

- Active market
- Contingent rent
- Constructive obligation
- Lease term
- Variable lease payments

Question 40 - Amendments to other Australian Accounting Standards

No comment.

General matters for comment

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

The AASB has not applied its transaction neutral policy for not-for-profits, as it has excluded public sector NFP entities from the proposals without adequate reasons.

The AASB has also not applied its transaction neutral policy between for-profit and not-for-profit private sector entities, as it has excluded private sector for-profit entities without adequate reasons.

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

I expect that there will be many, though I have not started to work through them yet.

Some legislative requirements do not require compliance with Australian accounting standards, or accounting standards, so will not be impacted (unless they change the legislation).

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

The proposals should be expanded to private-sector for-profit entities and the public sector to gain the most for the Australian economy.

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

The proposals will provide a much simpler financial reporting framework for those in scope. However, similar entities in the private-sector for-profit entities and the public sector will not gain those benefits.