Moore Australia Pty Ltd
Level 44, 600 Bourke Street
Melbourne VIC 3000
E ma@moore-australia.com.au
www.moore-australia.com.au

27 February 2025

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
VIC 9007

Dear Dr Kendall

Exposure Draft: ED 334 *Limiting the ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* and ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities.*

Thank-you for the opportunity to provide feedback on the Exposure Drafts ED 334 and ED 335. Overall we are supportive of the proposals in both Exposure Drafts.

Moore Australia is a network of independent accounting firms, with 13 offices and 500+ staff across Australia's capital cities and regional centres. We have a large portfolio of Not-for-Profit clients and are mindful of the challenges they currently face with meeting financial reporting obligations. Our feedback in this letter is the result of consultation across our network including both with audit teams and engagement teams that assist in preparing NFP financial statements as well as with our clients themselves.

Overall, we are supportive of the introduction of simplified accounting requirements for smaller Tier 3 NFPs. Our client base spans from traditional Not-for-Profit charities, regulated by the ACNC and associations as well as Aboriginal Corporations, regulated by the Office of the Registrar of Indigenous Corporations (ORIC). These diverse types of NFP organisations who would potentially apply this eventual standard have vastly different businesses and therefore financial reporting needs. However, we do agree that organisations that are likely to be in the scope of these proposals are simpler businesses with simpler financial reporting needs. As we note in our detailed responses to ED 335 in Appendix A, we encourage the Board to ensure that is working closely with the Australian Charities and Not-for-Profit Commission (ACNC), to ensure that the regulation between the AASB and the ACNC works together to ensure that there is no conflicting requirements, to streamline the regulation of the NFP sector.

Please see our detailed responses to the questions from the ED 335 in Appendix A and ED 334 in Appendix B.

If you wish to discuss our responses in more detail, please contact me via email (kristen.haines@moore-australia.com.au)

Yours faithfully

Kristen Haines

National Head of Technical Accounting and Sustainability Reporting

Moore Australia

Appendix A – Specific feedback on ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*

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

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

We are supportive of the proposed Tier 3 standard and the approach that the standard is taking. The Board has taken a practical approach to simplify the requirements and make them easier for preparers of the relevant financial statements to understand and apply. Generally, we think that the approach taken and the divergence from the requirements of Tier 1 and Tier 2 financial statements has been approached with the right balance, subject to the comments on specific requirements below. Whilst we believe that our comments below would enhance the final proposals, besides the deemed combination date (see comments in question 25 below), there are no comments that would stop us supporting the standard in its current form.

2. Do you agree with the Board proposals to simplify recognition and measurement requirements in the above-mentioned Tier 3 Standard including, but not limited to, the following requirements and options:

(a) an accounting policy choice to present consolidated financial statements or only separate financial statements with disclosures about the entity's notable relationships (ie entities with which the reporting entity has at least significant influence);

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

(c) a revenue recognition model with the ability to defer recognition of revenue if there is a common understanding that is evidenced between the provider and the entity on how the cash or other assets received should be used;

(d) no requirement to recognise lease assets or lease liabilities, and lease payments or income are recognised on a straight-line basis over the lease term;

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

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

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

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

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

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

We generally consider the simplified recognition and measurement requirements proposed above are appropriate, please refer to our responses to the specific questions on these different areas for further comments.

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

Whilst we agree in principle with the use of the simplified language, care needs to be taken where simplification of wording is used to convey concepts that the Board envisages to be consistent with the requirements in other AASB Accounting Standards. There is a risk that the change in wording may result in different interpretations being made. It is not uncommon for advisors and auditors to consider the minutiae of individual words when concluding on the appropriate treatment for something, therefore changes in the wording, could result in significant impact. Although it may appear to increase complexity for preparers by using the terminology from other AASB Accounting Standards, it may actually lead to less complexity in the long run, as there will not be new interpretations evolving of what is intended to be the same as existing concepts.

For illustrative purposes consider the following paragraphs:

ED 335	AASB 101 *Presentation of Financial Statements*
3.5 An entity shall classify an asset as current when: a) it expects to convert the asset to cash (eg by selling it), or consume it, within twelve months after the reporting date; b) it holds the asset primarily for the purpose of trading; or c) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date. An entity shall classify all other assets as non-current.	66 An entity shall classify an asset as current when: a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle; b) it holds the asset primarily for the purpose of trading; c) it expects to realise the asset within twelve months after the reporting period; or d) the asset is cash or a cash equivalent (as defined in AASB 107) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. An entity shall classify all other assets as non-current.

Whilst we cannot immediately identify any difference in interpretation in this specific paragraph, we question whether where the simplification of language is as minor as this example, that the risk of potentially divergent interpretations warrants the change. There does not appear to be sufficient benefit from the simplification to warrant the risk. This arises in multiple points through out the proposed standard.

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

We believe that this application date will be appropriate. For many NFP entities, they will not necessarily engage in forward planning for the changes, so the preparers may not need that long a lead time to implement the new standard. However, sufficient lead time is required for advisors, auditors and software providers time to get comfortable with the new requirements and to develop templates and resources to assist clients in complying with the proposed new standard.

These Advisors and Audit firms will have competing priorities if it is introduced earlier, which may mean less resources are able to be invested in the Tier 3 reporting. This is particularly with AASB 18 *Presentation and Disclosure of Financial Statements* being applicable for years beginning 1 January 2027 and the Introduction of Sustainability Reporting, which for the Advisors and Auditors that typically work with the relevant sized NFPs, will have a large cohort of their clients preparing sustainability reporting for the first time at 30 June 2028. Therefore, we strongly encourage application to be no earlier than 1 January 2029.

MOORE

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

The Board is encouraged to work with the ACNC to ensure that these proposals do not increase the overall complexity of regulation of the relevant NFP entities in totality, or limit the benefit of some of the simplifications proposed. Two specific examples are

- *Revenue model and ACNC Size assessment*

  Due to the simplified revenue recognition model, complexity will arise if the relevant NFPs still have to determine revenue in accordance with AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income for Not-for-Profits* to determine the size thresholds for ACNC reporting, but then if they want to prepare Tier 3 financial statements, determine revenue based on the new proposed requirements. This increases complexity because they now need to use two different system to determine income which can be challenging to do, and it doesn't alleviate the relevant NFP entities from the complexities of determining revenue under AASB 15 and AASB 1058.

- *KMP disclosures, where the proposals are not to provide them, but the ACNC still specifically requires these disclosures.*

  This inconsistency of disclosure requirements, significantly increases the complexity of financial reporting, because the proposed Tier 3 Standard, would no longer be the 'single truth' that it was intended to be as the relevant NFP entities would need to be looking at the ACNC requirements on top of the standard. This increases the risk that the relevant entities don't meet all their reporting obligations.

These unintended consequences could offset many of the benefits of simplification and actually make compliance more complex for the relevant NFP entities.

In addition to the interaction with ACNC requirements, the Board should also ensure that they are engaging with state regulators as well, to ensure that the requirements meet their needs. The benefits of simplification would be lost if the standard did not meet the needs of the state regulators such that although the relevant NFP entities might be permitted to produce tier 3 financial statements accepted for ACNC purposes, they are not accepted by the state regulators, resulting in the relevant entity ultimately not being able to benefit from the proposed standard.

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

We have not identified any auditing or assurance challenges, beyond the comments in the specific questions below, where there is potential for significant professional judgements to be applied, or areas where we question if the requirements are consistent with the conceptual framework.

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

Yes, we consider that these proposals broadly create the right balance between simplification for preparers but still providing useful information to users. We consider that it is important that the Tier 3 proposals continue to be prepared on an accrual basis, and not be prepared on a cash basis, to ensure that they continue to be relevant to users.

8. Do you have any other comments on the proposals? If so, please explain the issue and if you disagree with a particular proposal, please explain your reasons why. Also, if you would like to provide more responses to some or all of the specific proposals of the Tier 3 reporting requirements and general matters for comment, please refer to questions 9–44 and respond on those for which you have views. The paragraph references in the questions below are to the [draft] Tier 3 Standard (AASB 10XX) unless otherwise indicated.

We have no additional comments beyond those noted in the specific questions below.

Section 1: Objective, Scope and Application

9. The [draft] Tier 3 Standard (AASB 10XX) (paragraph 1.3) proposes that entities would apply the recording, measurement, presentation and transition requirements of the following Australian Accounting Standards, and any related disclosure requirements (other than transition) in AASB 1060:

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

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

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

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

(e) AASB 9 Financial Instruments and other applicable Australian Accounting Standards, in relation to complex financial instruments identified in Section 10: Financial Instruments of this [draft] Standard;

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

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

This approach has been proposed based on the Board's assessment that the topics listed are either not common for smaller NFP private sector entities (refer to paragraphs BC10–BC12 in the Basis for Conclusions for the evidence considered by the Board) or else their complexity warrants the application of those Standards.

Do you agree with the above approach? If you disagree, please explain which Australian Accounting Standards Tier 3 entities should or should not apply and the reasons why. Are there any other requirements or Sections in the [draft] Standard that you consider address transactions or circumstances that are uncommon for smaller NFP private sector entities and which should not be included in the Standard? If yes, what are the requirements or Sections, and please explain your views.

We generally agree with the appropriateness of not including these topics in the Tier 3 standard, because it is not common in practice for NFP entities to have these types of transactionsand therefore it is appropriate to just refer them to the relevant AASB Accounting Standards for these topics. This approach simplifies the Tier 3 standard.

However, we do question whether non-current assets classified as held for sale, are any less common in NFP entities than it is in for-profit entities, such that we encourage the Board to consider whether it should just be included in the Tier 3 standard. Whilst we accept that discontinued operations may be less common, we think that guidance on non-current assets held for sale, potentially should be included to ensure that it is an appropriate single source of guidance for NFP entities.

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

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

(a) a statement of financial position as at the reporting date;

(b) either:

(i) a single statement of profit or loss and other comprehensive income for the reporting period displaying all items of income and expense recorded during the period, including those items recorded in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income; or

(ii) a separate statement of profit or loss and a separate statement of comprehensive income. If an entity chooses to present both a statement of profit or loss and a statement of comprehensive income, the statement of comprehensive income

begins with profit or loss and then displays the items of other comprehensive income;

(c) a statement of changes in equity for the reporting period;

(d) a statement of cash flows for the reporting period; and

(e) notes, comprising material accounting policy information and other explanatory information?

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

No, we do not agree that a statement of changes in equity is required (See question 11 below), however we do agree that the income statement, statement of financial position and cash flow statement are all required to ensure that that users have a clear understanding of the entity's financial position and performance.

For further simplification, the choice of preparing a single statement of profit or loss and other comprehensive income or separate statements could be eliminated and potentially just require the two statement approach especially when combined with the requirements of 2.20 (as discussed in question 11 below).

We also have concerns about mandating that the financial statements are presented in AUD (2.25(d)). Whilst we appreciate that most relevant NFP entities operate in Australia, we believe there might be some organisations, that operate in other jurisdictions, such as charities working in specific third world countries, where AUD may not be the functional currency. Rather than being definitive that the financial statements must be presented in AUD, the Board should consider whether it is more appropriate to make it a rebuttable presumption. Having to translate the financial statements to AUD is an additional level of complexity for these NFP entities.

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

Yes, we agree that this should be an option, and actually be encouraged as the default option unless you do have additional reserves etc that need to be recognised. This aligns with the principles of simplification and often the additional information provided by the Statement of Changes in Equity out way the costs of preparing it, as it is often poorly done and not well understood by preparers or users.

<u>Tier 3 Primary Financial Statements and Notes – Presentation and Disclosure Requirements (Sections 3–7)</u>

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

(a) the statement of financial position as set out in paragraph 3.2 and in the statement of financial position or the notes for items set out in paragraph 3.8 when those amounts are material to an understanding of the entity's financial position;

(b) the statement of profit or loss and comprehensive income as set out in paragraph 4.4 when those amounts are material to an understanding of the entity's financial performance, including separately disclosing the items set out in paragraph 4.5;

(c) the statement of changes in equity as set out in paragraph 5.3;

(d) the statement of income and retained earnings as set out in paragraph 5.5 in addition to the other information required in Section 4: Statement of Profit or Loss and Other Comprehensive Income;

(e) ***a statement of cash flows that presents cash flows for a reporting period classified by operating activities and other activities, which encompass investing activities and financing activities. In commenting on this, please indicate whether you agree with the proposals that (as set out in paragraphs 6.3 and 6.7, respectively):***

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

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

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

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

We Generally agree with the proposals, but have the following specific observations around specific wording in the requirements:

Balance sheet

In 3.2(k) you refer to financial liabilities excluding provisions. This suggests that provisions are a subset of financial liabilities, which we do not agree with, and would recommend the board removing this reference to the provisions in this clause.

In a set of simplified requirements, it appears that the requirements in 3.8 duplicate a lot of the requirements in 3.2, especially when some line items such as property, plant, and equipment, don't even have suggested disaggregation in 3.8. The Boards should consider whether these paragraphs can be aggregated for simplicity, or whether additional disaggregation could be required, and include it in the relevant sections of the proposed standard (e.g. include something in section 15 for property, plant, and equipment).

The requirement in 3.11 to provide disclosures regarding liabilities with covenants, is very principles based. In order to provide additional simplification for preparers, the Board should consider whether it would be beneficial to provide more specific requirements, as preparers may not understand what is required of them based on the current wording.

Statement of Profit or Loss

We think the disclosures required for the statement of profit and loss, should be more closely aligned with the requirements in AASB 18 *Presentation and Disclosure in Financial Statements,* as this will be the applicable general requirements standard when the proposed Tier 3 standard comes into effect. In particular, we consider that entities should have the option of presenting their analysis of expenses as a mixture of function and nature, rather than requiring it to be solely one method. Not only is this consistent with AASB 18 it is also consistent with what we see a number of relevant NFP entities want to do in practice anyway.

Statement of cash flows

Paragraph 6.4(g) indicates that interest and other receipts from investments and loans and interest paid are examples of operating cash flows. With the introduction of AASB 18 *Presentation and Disclosure of Financial Statements* and the related amendments to AASB 107 *Statement of Cash flows,* we would consider it would be more appropriate that these types of cash flows be classified as investing/ financing cash flows rather than operating, and would recommend that the Board considers updating this guidance. This would also have consequential amendments needed in paragraph 6.14.

In the interest of simplification, we would encourage the Board to requiring operating cash flows to be calculated using the direct method. As this method is the most common method use by Australian entities, it would only require a change by a limited number of entities who aren't already using it, and by reducing the options in the final standard would make it simpler to apply.

If however, the indirect method was to be retained as an option, It is not clear to us what the difference is between the guidance in 6.8 and 6.9 are regarding preparing the indirect method of calculating the operating cash flows. The two approaches appear to be the same although paragraph 6.9 starts with 'alternatively'. If there are differences in these methods, they should be more clearly articulated, or if they are in principle the same, consider deleting 6.9 to reduce confusion and make it simpler for preparers to understand.

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

Whilst we agree in principle that either option should be allowable, in practice we find that many NFP entities do not summarise their expenses into categories and often want to present all their expenses as they are presented in the trial balance, which is not necessarily user friendly. Additional guidance and direction on how to summarise and classify expenses would be beneficial to improve the quality of reporting in this area.

Section 8: Notable Relationships and Consolidated and Separate Financial Statements

14. Do you agree with the proposed Tier 3 reporting requirements in Section 8?

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

We agree that consolidation should be optional in the new standard.

We also think that the existing requirements to assess control in AASB 10 *Consolidated Financial Statements* can be very challenging to apply in the NFP space where often there is no equity interest in other entities and the return is often not financial. However, as consolidation is going to be optional, and based on discussions with our clients, not many entities would elect to consolidate, it does not appear to be necessary for the Board to reconsider the control assessment criteria for Tier 3 NFP entities.

Section 9: Accounting Policies, Estimates and Errors

15. Do you agree with the proposed Tier 3 reporting requirements in Section 9

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

We generally agree with the proposed requirements, however we note the following:

Accounting policies – topics not dealt with in Tier 3 Standard

We recommend the Board considering whether, requirements should just default to Tier 1 & Tier 2 requirements when a topic is not dealt with in the Tier 3 standard. Whilst we appreciate that there are views that the accounting treatment in other AASB standards may be too complex, the Tier 3 standard is intended to address the majority of transactions faced by the relevant NFP entities anyway, therefore there should only be the occasional exception, generally more complex transactions that it would impact.

Also, many advisors and auditors would likely to default to the existing Tier 1 & Tier 2 requirements if an issue it is not covered in the Tier 3 standard. However by allowing entities to choose different accounting policy will lead to more diversity in practice, reducing the comparability of the financial statements. The Board has already taken his approach for those specific types of transactions noted in paragraph 1.3 of the proposed standard, and therefore it would be appropriate to have a consistent approach rather than different approach for different transactions.

Accounting policies – electing Tier 1 or 2 for transactions in scope of Tier 3 Standard

Some clients have expressed a view to us that they would like the option to be able to select to apply Tier1 or Tier 2 recognition and measurement requirements for individual transactions that would otherwise be in scope of the Tier 3 requirements. The example provided was to recognised leases on balance sheet in accordance with AASB 16 *Leases*. The rationale being that although they wanted the simplicity of applying Tier 3 reporting, they were conscious of how different their financial statements could look to other larger similar entities which are applying Tier 1 or Tier 2 requirements. The entity in question was a small school and was concerned that compared to larger schools they would appear to have a lot lower assets due to not recognising the leases on balance sheet.

Whilst we have some sympathy for this view, we generally consider that as entities could have the option to prepare Tier 2 (or Tier 1) financial statements in their entirety, to increase the comparability of the Tier 3 financial statements, and ensure that the intended simplification is maintained, entities should not be able to elect to apply individual Tier 1 or Tier 2 reporting requirements to specific transactions otherwise in the scope of the proposed Tier 3, as noted in paragraph 9.6.

Errors

Whilst we support the modified retrospective approach for addressing change in accounting policies and errors, as it is easier to apply, we believe that relevant NFP entities should have the option to retrospectively adjust the comparative period for restatement of errors. There may be errors that arise that are so material that the NFP wishes to restate the comparative period so that there is better comparability between the current year and the comparative period. In reality the modified retrospective approach does not correct the prior period error, it just ensures that the effects are removed in the current period, and therefore as restating comparative periods provides better information to users, we would be supportive of this being optional.

<u>Section 10: Financial Instruments</u>

Scope of requirements

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

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

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

Yes, we agree that the above financial instruments are basic instruments, which should be subject to the proposed Tier 3 accounting requirements.

We recommend the Board considers making this an exhaustive list of is in the scope of Tier 3. Whilst we appreciate the challenges this may cause, we do consider that it is simpler for preparers who may not be familiar with financial instruments and are likely to struggle to determine what instruments are similar to these types of instruments and be able to determine if something is in or our of scope of the Tier 3 requirements. Reducing this level of judgement, will also ensure consistency of what instruments the tier 3 reporting requirements are applied to.

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

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

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

(c) financial guarantee contracts;

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

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

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

As per question 16 above. We are comfortable with these instruments being excluded both because they are either complex or uncommon. Whilst we believe the list of what should be included in the scope of the Tier 3 standard should be an exhaustive list, we do consider that it is still useful to provide this illustrative list of items that are excluded from the scope. Providing this illustrated list will assist preparers who may not be overly familiar with financial instruments to easily identify what is not in scope of the requirements.

Recognition and measurement requirements

18. Do you agree with the Tier 3 reporting requirements developed for financial assets and financial liabilities that are basic or commonly held by Tier 3 entities as set out in paragraph 10.2?

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

We generally agree with the proposed requirements for financial instruments. The simplifications are pragmatic and are reflective of how users and preparers of the relevant NFP financial statements view financial instruments, thus making the information relevant and useful.

Fair value through OCI

We are supportive of the FVTOCI option being retained in the proposed Tier 3 standard as a number of the relevant NFP entities do currently use this option. However, we think the that it would be more appropriate for the election to be made on an individual asset basis rather than at a class of asset basis. Assets of the same class, such as shares, may be held for different purposes, therefore it appears to be inappropriate that the decision should have to be made by a class of asset level, especially when under AASB 9 the decision can be made at an individual asset level.

Hedge Accounting
We agree with the proposed ban on hedge accounting by Tier 3 entities. This is consistent with the other simplifications in the proposed tier 3 standard including expensing of borrowing costs etc, to permit hedge accounting would add significant complications to the application of the standard reducing comparability. We are not aware or any relevant NFP entities who has entered into derivative contracts, much less attempted to apply hedge accounting, however consider it appropriate that if an NFP is sophisticated enough to be contemplating hedge accounting, it is sophisticated enough to be preparing Tier 1 or Tier 2 financial statements as well.

Impairment
We agree with this proposed simplification and return to an incurred loss model. Whilst some clients expressed concern that impairments may not be identified early enough, we consider that the expected loss model is not well understood by preparers or users of the relevant NFP financial statements and therefore the incurred loss model provides more useful information to users. It also reduces the complexity of application and requires less judgement by preparers.

Fair Value
We have some concerns about the requirements in 10.12 that discusses when a fair value of an unlisted equity instrument is unavailable, and the Board may wish to consider how this paragraph is phrased. We believe we understand the intention behind this paragraph, but AASB 13 would say that a fair value is basically always able to be determined, even if it is a level 3 fair value in the fair value hierarchy with a lot of assumptions and judgements. We recommend that the Board consider rewording this paragraph to discuss where determining the fair value of equity instruments would require undue cost and efforts (or words to a similar effect), rather than when it is unavailable.

Section 11: Fair Value Measurement

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

Yes, we agree that the definition of fair value should remain constituent with Tier 2 reporting requirements, as this is a fundamental concept and to diverge from the known fair value concept would make the financial statements harder to understand and create confusion amongst users as to what fair value is.

However, whilst this is not an issue that is specific to the relevant NFP entities, consideration should be given to whether additional guidance can be provided on determining fair value for heritage assets including artwork, as from experience we have had a number of relevant NFP entities that hold these types of assets and have difficulties in valuing these assets.

Section 12: Inventories

20. Do you agree with the proposed Tier 3 reporting requirements in Section 12?

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

Yes, we generally agree with the requirements for accounting for inventory. It would be beneficial though to clarify whether the requirements in 12.8, relating to donated inventory, is an accounting policy choice or a free selection for each separate donation.

We also note that in 12.2 'educational/ training course material under development' are noted as a type of inventory. We would not have expected this to be captured within the inventory section, and consider this the development of Intellectual Property, which should be treated under the intangibles section of the proposed standard, rather than as part of inventory. It is not clear how this could be treated as part of inventory, and we recommend that the Board reconsider this.

MOORE

Section 13: Investments in Associates and Joint Arrangements

21. Do you agree with the proposed Tier 3 reporting requirements in Section 13?If you disagree with any of the requirements, please explain why.

Yes, we agree with the proposed requirements for associates and joint arrangements and consider them appropriately consistent with the requirements in relation to consolidation.

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

22. Do you agree with the proposed Tier 3 reporting requirements in Section 14 and Section 15 that align the reporting requirements with Tier 2 reporting requirements except for language and further reduced disclosures? If you disagree with any of the requirements, please explain why.

We agree with these requirements and believe that they bring an appropriate level of simplification to accounting for the relevant NFP entities. Whilst we acknowledge that there may be limited circumstances where entities wish to capitalise borrowing costs into the cost of an asset, we believe that expensing the interest expense and not allowing capitalisation, is an appropriate requirement to encourage consistency across entities and ensure that the accounting is understood by preparers and users.

We did note at 15.11(f) software has been included as part of the computer class of property, plant, and equipment. Whilst we would not expect either computers or software to be a class of asset that an entity elects to carry at fair value, we do not think it is appropriate to identify software as part of the computer class, as we believe it should be a separate asset accounted for in accordance with section 16 (Intangibles). This would be more consistent with existing accounting requirements.

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

We do not have any information at hand as to the costs of obtaining the fair value of donated non-financial assets, however, as it is optional, the cost should not be a deciding factor in whether to permit it in the accounting requirements. In addition, from our experience, for NFPs preparing SPFS currently, it is generally only large significant donations such as properties or vehicles that a NFP would look to fair value, where the cost of obtaining the fair value is not prohibitive compared to the value of the asset being received.

Section 16: Intangible Assets

24. Do you agree with the proposed Tier 3 reporting requirements in Section 16?

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

We agree that the proposed requirements significantly simplify the accounting requirements for intangible assets. Whilst we initially had some concerns about the requirement to expense all internally generated intangibles, in particular for research based NFPs, on further investigation we believe that most of these entities are in the research phase and do not currently capitalise costs associated with their research activities anyway. Accordingly, consider that this is likely to have minimal impact on these types of entities.

For the purposes of simplification, consideration could be given to the removal of the revaluation option for intangibles. Given the current limited application of that option in applying AASB 138 *Intangible Assets* and the challenges in identifying active markets for the intangibles, removing that option is likely to impact only a very minor number of entities, and would simplify application as there would be less debate and engagement required with auditors regarding both the appropriateness of carrying it at fair value and the determination of that fair value.

Section 17: Entity Combinations

25. Do you agree with the proposed Tier 3 reporting requirements in Section 17?

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

We generally agree with the accounting principles that the acquired assets and liabilities shall be recognised at their existing carrying amount and no goodwill shall be recognised. We think that this an appropriate simplification for the relevant NFPs, reflecting their level of sophistication. Not recognising goodwill is also appropriate given these are not profit focused entities.

We do however have fundamental concerns with the deemed combination date being the start of the financial reporting period in which the combination occurred. We believe that assuming that the combination date is before control is obtained is inconsistent with the Conceptual Framework. This approach would result in the relevant NFP recognising assets and liabilities that do not reflect economic resources controlled by the entity (Conceptual Framework 4.3) or liabilities that are not present obligations of the entity (Conceptual Framework 4.26). Consequently, this will result in income and expenses also being recognised that are not attributable to the entity as well.

The Board could consider the following practical expedient, which may result in a similar simplification without risking having potentially over 11 months of results inappropriately included. Entities could be permitted to adjust the combination date by no more than 16 days (either forwards or backwards) to the beginning or end of the month of acquisition as long as no material events have occurred in the acquiree in that period. This would at least permit the simplification of moving to a month end, rather than having to do a combination mid-month, and if no material events have occurred, it is unlikely that the resulting combination would be materially different from doing the combination as at the actual acquisition date.

Section 18: Leases

26. Do you agree with the proposed Tier 3 reporting requirements in Section 18?

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

We had mixed views on the appropriateness of these requirements. There were some thoughts that this was still too complex, and it would be more appropriate to allow the rental expense to just be recognised on a cash basis, rather than having to straight-line it as the requirements apply. These people considered that accounting for it on a cash basis with disclosures of lease commitments, would provide sufficient transparency and meet the information needs of the users of the relevant NFPs financial statements.

Others whilst acknowledging that the cash basis would be simpler to apply, believe that proposed approach of straight-lining the rental expense over the lease term was the right balance between simplifying existing requirements and still applying the fundamental principles of accrual accounting. There is no rationale why the leases should be taken to a cash basis of accounting, when the Board is not proposing cash basis for a wide range of other items including general expenses etc.

Section 19: Provisions and Contingencies

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

Yes, we agree that the proposed requirements are appropriate and consistent with the principles of accrual accounting. The ability to use current costs, rather than discounting projected future costs, is an appropriate simplification for the relevant NFP entities whilst still providing valuable information to users.

Section 20: Revenue

28. Do you agree with the proposed Tier 3 reporting requirements in Section 20?

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

Whilst we are generally supportive of these simplified requirements and consider them much easier to apply than the existing requirements of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income for Not-for-Profits*. We have concerns over the use of the term 'common understanding' and how easily that can be interpreted. Whilst we appreciate and can see that it does not necessarily have the same meaning as 'sufficiently specific' which currently exists in AASB 15, we do feel that similar issues are going to arise in determining whether a common understanding arises.

For example, consider a grant that has been given to a NFP to support programs to support disadvantaged youth over the next two years. Where previously there would have been debate as to whether what they had to do was sufficiently specific, similar debate is likely to arise as to whether there is a common understanding as to what they need to do. This also may be driven by the nature of the NFP itself. If the NFPs whole mission is to support disadvantaged youth you might not be able to determine that there is a common understanding as to what they need to do as it is no different to their general activities that they undertake. However, if the NFP supported youth more generally, and this was some more specific project within their remit to support disadvantaged youth, you may be able to conclude in that instance that there was a common understanding, because it is a more specific remit than the NFPs general aims.

Whilst we appreciate that this is discussed in 20.24(d), we do not believe that the just supporting operating costs is really a good basis for a common understanding as all general donations for example are to support the operating costs of an NFP.

One other concern is with the wording of 20.3(a)(i) and whether this is inconsistent with the principle of control that is directly addressed in AASB 15.69. If the asset provided is a non-cash asset and it is being consumed in providing a good or service back to the person that has provided it, then do we really have control over the asset to justify the recognition of revenue? The Board is encouraged to consider whether this is actually requiring the NFP to recognise items as assets that the NFP does not actually control and therefore would not be consistent with the Conceptual Framework.

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

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

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

If you disagree, please explain why.

Yes, we think this proposed treatment is appropriate. We do not often see variable consideration in practice at NFPs and therefore consider excluding them to be appropriate. As the requirements around interest are being proposed to be removed in a number of areas including provisioning, it would be appropriate to also exclude the time value of money from the revenue recognition as well for simplification purposes. In practice, where NFPs have grants that extend over 2-3 years, the NFPs are not currently imputing interest components on them, even when these are being accounted for under AASB 15.

Section 21: Expenses

30. Do you agree with the proposed Tier 3 reporting requirements in Section 21 to record expenses upon the recording of a decrease in assets, or an increase in liabilities, and only in relation to amounts paid and payable by the entity with resources it controls, as per paragraphs 21.1 and 21.2? If you disagree, please explain why.

Yes, we agree that the accounting for expenses on an accruals basis is appropriate. We would not support a cash basis for expense recognition as we do not consider that to be consistent with the Conceptual Framework.

Section 22: Borrowing Costs

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

Yes, we agree with expensing all borrowing costs. We do not see many NFPs with significant borrowings or constructing large assets that would qualify for capitalisation. The only reason the Board may want to consider including capitalisation of borrowing costs, would be if it was decided to require interest to be imputed for significant financing on grants received in advance, where those grants are being used towards the construction of qualifying assets. (see question 29 above)

Section 23: Impairment of Assets

32. Do you agree with the proposed Tier 3 reporting requirements in Section 23?

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

We are not sure the proposals here provide adequate simplification for the relevant NFP entities. The biggest challenge for NFPs is around the actual testing of impairment, rather than identifying when an impairment test might be required. Whilst simplifying when an impairment test is required has some benefits, the need to do the full impairment test following the principles of AASB 136 still poses the same challenges that these entities currently face.

It is not clear from the proposals if you are having to test for impairment at an individual asset level or at a CGU level. Whilst there is the rebuttable presumption that FVLCD is the most appropriate measure, which may indicate you can assess at an individual asset level, VIU would require testing at a CGU level, as would the indicator requirements in 23.3(b). If the testing could be performed at an individual asset level, this may sufficiently simplify the impairment requirements.

Section 24: Employee Benefits

33. Do you agree with the proposed Tier 3 reporting requirements in Section 24?

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

Yes, we generally agree with these proposals, and consider that they are reasonable simplifications and will make the recognition of employee benefits simpler.

The one area that may create additional complexity for NFPs currently preparing SPFS is in relation to Long Service Leave (LSL). Whilst the ability to use the current salary and not discount the provision are greatly beneficial, in practice, most SPFS do not take into account the probability of the staff members remaining for the 7 years (or the relevant LSL entitlement period for a particular state). Instead, they will take an arbitrary position to recognise 100% of the LSL entitlement for all employees who have been there 5 years. We encourage the Board to consider whether there are any further simplifications that can be achieved in the calculation, even if it is limited to commentary on how the probability aspect of the estimate can be determined.

MOORE

Section 25: Income Tax

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

Yes, we agree that this is an appropriate simplification, the number of NFP who are taxpayers are minimal, and as users of these financial statements often do not understand the concept of deferred taxes, any inclusion of it would reduce the usability of the financial statements. However, the Board should consider whether disclosures should be required of any used tax losses available to offset future taxable income, as this could be a highly beneficial future benefit to the relevant NFP entities.

Section 26: Foreign Currency Translation

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

As per our response to Question 10, we do not agree that the financial statements should be mandatorily presented in AUD. However, we do agree with the proposed requirements to translate back to the functional currency of the entity, which may or may not be AUD.

Section 27: Events Occurring after the Reporting Period

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

Yes, we agree with these proposals and believe that they are well understood in practice and does not create any unnecessary burden on the relevant NFP entities to apply these requirements.

Section 28: Related Party Disclosures

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

(a) key management personnel compensation; and

(b) donations received by the entity from a related party, unless evidence indicates the donations could influence the entity's activities or use of resources, as per paragraph 28.10?

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

Our most significant concern with regards to the related party disclosures is the inconsistency between the requirements of this proposed Tier 3 standard and the disclosure requirements of the ACNC that require KMP disclosures to be made. Having inconsistencies between the AASB requirements and the ACNC requirements creates additional complexities and confusion for preparers in preparing the financial statements as they no longer have a single truth for preparing the financial statements, which was the intention of this proposed standard. Therefore, we would strongly encourage the Board to have discussions with the ACNC to ensure that there is consistency in the requirements.

Our view is that is KMP remuneration is an important disclosure for NFP entities, as users are often interested in what the KMP are extracting from the entity.

Whilst we are comfortable with the concept behind only requiring donations to be disclosed if there is evidence it could influence the entity, in the interest of reducing the judgement required to apply the proposed standard and general simplification, the board should consider whether the disclosure of donations should just be a required disclosure. The concept of materiality would still apply to minor amounts, but it may make application of the requirements easier.

Section 29: Transition to Tier 3 General Purpose Financial Statements

38. Do you agree with the transitional requirements proposed in Section 29

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

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

We generally agree with the transition proposals and agree that no additional transitional relief for entities that early adopt the standard early.

One potential concern with the transitional relief that permits entities to continue their existing treatment for assets and liabilities that exist as at transition date. Items such as long-term leases, that still have 10+ years or indefinite life intangible assets may remain existing for an extended period, resulting in mixed treatment for a number of years which could reduce comparability.

Appendix A: Glossary of terms

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

We agree in principle with the cross referencing to the body of the standard for the definitions but feel that not all definitions are clear with in the body. For example, accounting policies are clearly defined in 9.2 but accounting estimates is not as clearly defined in 9.17 or exit price in 11.2. Clearer articulation is required in the body if the cross referencing is to occur.

Appendix C: Amendments to other Australian Accounting Standards

40. Do you agree with the proposed amendments to AASB 1053 Application of Tiers of Australian Accounting Standards

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

Yes, we agree with the proposals to amend 1053. They are appropriate transitional requirements, between the tiers and are consistent with the intention of the overall proposals.

MOORE

Appendix B – Specific feedback on ED 334 *Limiting the Ability for Not-for-Profit Entities to Prepare Special Purpose Financial Statements*

Applying the* Conceptual Framework *to not-for-profit entities

1. Paragraph Aus1.1 of the proposed amendments to the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) extends the applicability of the pronouncement to apply also to not-for-profit private and public sector entities that:

(a) are required by legislation to comply with either Australian Accounting Standards or accounting standards;

(b) are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after a specified date; or

(c) elect to prepare general purpose financial statements.

The *Framework for the Preparation and Presentation of Financial Statements* and SAC 1 *Definition of the Reporting Entity* are superseded for an entity when the *Conceptual Framework* applies to the entity.

Do you agree with the proposed amendments to extend the application of the *Conceptual Framework* to not-for-profit entities, including the proposed amendments to the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1? If you disagree, please explain why.

We agree with the proposed changes to the Conceptual Framework. Whilst we agree that the requirements around constituting documents or other documents, create some additional level of complexity, we would prefer to have consistency across both for-profit and NFP entities, rather than having different requirements for the different sectors.

In addition, we believe there are very few NFP entities that would not be required to prepare reporting for the ACNC or other regulatory bodies, that would have constituting or other documents, which would require financial statements in accordance with Australian Accounting Standards, such that we think that it would capture such a small cohort that the inconvenience to those entities does not outweigh the ease of consistent requirements.

The insertion of the date is an appropriate relief to ensure that those small number of entities that are likely to be impacted, to rectify any related documents.

From an assurance perspective, the constituting or other document requirement does create some challenges, because it is challenging for auditors to ensure that they have reviewed all documents to ensure that there is no documents that would require Australian Accounting Standards to be complied with. However, as long as the onus on determining the reporting basis sits with the Entity itself and the auditor is not signing off on the appropriateness of the basis of financial reporting, we believe this risk is appropriately mitigated.

2. The AASB is proposing to insert a number of 'Aus' paragraphs into the Conceptual Framework so that the pronouncement is suitable for use as a conceptual framework document for not-for-profit entities.

(a) Do you agree with the proposed 'Aus' paragraphs to be added to Chapter 1 The objective of general purpose financial reporting and Chapter 2 Qualitative characteristics of useful financial information of the Conceptual Framework, including the amendments to:

(i) distinguish donors from other funders (see proposed paragraph Aus1.2.1);

MOORE

(ii) clarify that transactions in equity instruments and distributions to investors typically do not occur in not-for-profit entities (see proposed paragraph Aus1.15.1);

(iii) clarify that information about a not-for-profit entity's past financial performance and how its management discharged its stewardship responsibilities is usually helpful for predicting the volume and cost of future services and the sustainability of future service delivery (see proposed paragraph Aus1.16.1); and

(iv) delink, for not-for-profit entities, the results of confident, more informed user decision making and more efficient functioning of capital markets and a lower cost of capital (see proposed paragraph Aus2.41.1)?

If you disagree, please explain why.

We generally agree with the amendments proposed to the conceptual framework and consider that they reflect the needs of NFP financial statements. However, we do question whether the amendments to the section on 'the cost constraint on useful financial reporting' sufficiently acknowledges the particular costs for NFP entities in preparing financial statements. This amendment focuses solely on the benefits of useful financial reporting. Whilst we agree with the comments on why financial reporting is useful, acknowledgement of the lack of knowledge and resources especially in the private NFP sector, and the additional burdens that they seem to bare in preparing financial statements could also be beneficial, especially as it supports the rationale for producing the proposed tier 3 reporting requirements.

With the intention of ensuring that the framework is sufficiently future proof, we encourage the Board to consider, whether the framework is sufficiently reflective of the purpose of financial statements for not-for-profit entities, to support the service performance reporting project that you are currently undertaking. In particular, whether Aus1.3.1 and Aus1.16.1 need further enhancements to adequately capture the scope of service performance reporting, beyond merely financial information such that any service performance reporting could be captured within the general purpose financial reports.

(b) Do you agree with the proposed 'Aus' paragraphs to be added to Chapter 4 The elements of financial statements, including the amendments to:

(i) clarify, for a not-for-profit entity, the relationship between the potential to produce economic benefits and service potential (see proposed paragraph Aus4.4.1);

(ii) clarify, for a not-for-profit entity, the relationship between cash inflows and the definition of an asset (see proposed paragraphs Aus4.16.1 and Aus4.16.2); and

(iii) explain how references in the Conceptual Framework to an equity claim should be interpreted, because a not-for-profit entity would not typically have equity claims on its assets (see proposed paragraph Aus4.67.1)?

If you disagree, please explain why.

Yes we are comfortable that these proposed amendments reflect the nature of the NFP sector and are appropriate for inclusion in the conceptual framework.

(c) Do you agree with the proposed 'Aus' paragraphs to be added to Chapter 6 Measurement, including the amendments to:

(i) clarify that, for a not-for-profit entity, the predictive value of historical cost information and current cost information is not limited to predicting future margins (see proposed paragraphs Aus6.30.1 and Aus6.41.1); and

(ii) clarify that the selection of an appropriate measurement basis for non-financial assets held by a not-for-profit entity for their service potential rather than their potential to generate cash inflows is not necessarily informed by how those cash inflows are generated (see proposed paragraph Aus6.56.1)?

If you disagree, please explain why.

Yes we are comfortable with these proposed amendments reflect the nature of the NFP sector and are appropriate for inclusion in the conceptual framework.

(d) Do you agree, overall, with the limited proposed amendments to the Conceptual Framework? If you disagree, please explain why.

Yes we are supportive of the changes to the conceptual Framework, and ensure that it is appropriate for both the for-profit and NFP sectors. Excluding the additional considerations that we recommend to ensure that it is sufficient to support the service performance reporting project.

3. The AASB reviewed the adequacy of the not-for-profit modifications in the Framework for the Preparation and Presentation of Financial Statements to address a view that further consideration should be given to the identification of users of financial statements and to the emphasis given to stewardship/accountability, amongst other matters. The AASB concluded that, with minor updates, those modifications are suitable for inclusion in the Conceptual Framework as applicable to Australian not-for-profit entities. The AASB observed that the Conceptual Framework gives greater emphasis to stewardship/accountability than the Framework for the Preparation and Presentation of Financial Statements. Therefore, the AASB decided not to add a project to its work program to further develop the Conceptual Framework for these or other more significant or complex conceptual issues affecting not-for-profit entities. The AASB made this decision on considering the effort involved with undertaking a project in this regard versus the urgency of such a project when considered against its existing other work program priorities.

Do you agree with the AASB's decision to no longer undertake a project that would consider the more significant and complex conceptual issues affecting not-for-profit entities? If you disagree, please explain why.

Yes we agree that the proposed changes to the framework appear to be sufficient to address conceptual issues affecting not-for-profit entities. We do not consider that it is necessary to undertake a larger project and believe that the AASB should focus on other higher priorities on their work plan.

Limiting the ability of certain not-for-profit entities to prepare special purpose financial statements

4. The AASB is proposing to extend the application of Australian Accounting Standards to more not-for-profit entities by no longer predicating the applicability of a Standard on such an entity's identification as a reporting entity (as defined by SAC 1). The proposals amend requirements for not-for-profit public sector entities but do not affect for-profit public sector entities, except where these entities are consolidated or otherwise incorporated into a not-for-profit public sector entity's financial statements.

Do you agree with the proposed amendments to AASB 1057 Application of Australian Accounting Standards to extend the application of Australian Accounting Standards to, in general, not-for-profit entities that are required:

(a) by legislation to comply with either Australian Accounting Standards or accounting standards; or

(b) only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document is created or amended on or after a specified date;

such that these entities are required to prepare general purpose financial statements?

If you disagree, please explain what you suggest instead and why.

For the purposes of this question, the specified date would be the first effective date of a Standard resulting from this Exposure Draft. For example, if the effective date of a final Standard is for annual periods beginning on or after 1 January 2029, the specified date would be 1 January 2029.

See our response to Question 1 above. Yes we do believe that the approach taken is appropriate and less subjective than the concept of reporting entity, ensuring that there is more consistency in determining who has to prepare GPFS.

<u>Disclosures in special purpose financial statements</u>

5. ***The AASB is proposing to amend AASB 1054 Australian Additional Disclosures and AASB 1057 to require a not-for-profit private sector entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards to disclose the information specified by paragraphs 8, 9 and 9A of AASB 1054 in special purpose financial statements, including information about its adopted accounting policies and changes in those accounting policies (proposed paragraphs 9A(b) and 9A(c) of AASB 1054).***

   Do you agree with this proposal? If you disagree, please explain why.

We consider that it is appropriate that the small number of entities that are not preparing GPFS purely because their constituting or other document have not been updated since the amendments come into affect, should still have to provide the disclosures proposed in the amendments to AASB 1054. We also think it is appropriate that the requirements for the NFP entities is consistent with for-profit entities. However, in practice this is very challenging to enforce, and consideration should be given as to whether the challenge of enforcing it mitigates any benefits that are gained from requiring this disclosure in the first instance.

<u>Transitional provisions</u>

6. ***The AASB is proposing to provide limited transitional relief to an entity that is a first-time adopter of Australian Accounting Standards and that elects to apply AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.***

   Do you agree with the proposals set out in Appendix F in AASB 1053 and paragraph Aus12.2 of AASB 1 First-time Adoption of Australian Accounting Standards? If you disagree, please explain why.

Yes it is appropriate that that NFP entities that are transitioning from SPFS to Tier 2 GPFS are offered the same relief as for-profit entities when they went through the similar transition. These reliefs worked well when the for-profit entities transitioned and therefore is appropriate to use again for the NFP entities. However, we do think that this relief should be ongoing and not only for those that are early adopting, due to the lower resources available in NFP entities and therefore it would be beneficial to have these as ongoing reliefs. In addition as per our comments in Appendix A regarding the application date of the new Tier 3 standard, making transitional relief that is only available to early adopters is designed to encourage early adoption, and due to resource constraints we do not think encouraging early adoption of the new requirements will be beneficial.

7. ***The AASB is proposing to amend paragraph 20A of AASB 1053 to allow not-for-profit entities transitioning from unconsolidated Tier 2 – Simplified Disclosures general purpose financial statements to consolidated Tier 2 – Simplified Disclosures general purpose financial statements to apply AASB 1 when preparing consolidated financial statements for the first time.***

   Do you agree with the proposed amendments to paragraph 20A of AASB 1053? If you disagree, please explain why.

Yes we agree that this is an appropriate approach, consistent with how it was handled for for-profit entities that went through similar transitions and allowing such entities the choice in treatment of how to transition to consolidated financial statements for the first time. There is no reason why the NFP shouldn't get similar transitional relief.

<u>Effective date of the proposals</u>

8. ***The AASB is proposing that the effective date of a final Standard would be at least three years after the issue of that pronouncement (for example, if the Standard is issued in December 2025, the effective date would not be earlier than annual periods beginning on or after 1 January 2029). Earlier adoption would be permitted.***

   Do you agree with this proposal? If you disagree, please explain why.

As noted in Appendix 1, Question 4, whilst we do not think the application date is an issue for the NFP entities themselves, we do not believe the accounting industry including auditors and advisors have the capacity to implement the changes earlier than 1 January 2029, due to competing priorities from the introduction of AASB 18 *Presentation and Disclosure of Financial Statements* and Sustainability Reporting. If the requirements around constituting or other documents remains in the final Conceptual Framework, sufficient lead time needs to be provided after the implementation of the above mentioned changes so Advisors can ensure that they have adequately addressed this with their clients and where possible ensured that relevant NFPs are not unintentionally having to prepare general purpose financial statements.

END SUBMISSION