

27 February 2025

Dr Keith Kendall
Board Chair
Australian Accounting Standards Board

Via email: Standards@asb.gov.au

Dear Dr Kendall

ED335

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

Our comments and recommendations regarding The Exposure Draft are provided in this submission.

Saward Dawson operates in Melbourne, Australia. Our clients come from a range of industries and include large private businesses, small to medium enterprises, and a significant number of private sector not-for-profit entities. We are focused on enhancing the relevance, reliability and understandability of financial reporting for users.

Saward Dawson is widely recognised as a firm with clear expertise in the not-for-profit private sector space for over 20 years. We work with hundreds of charities and other not-for-profit entities. We aim to actively advocate on behalf of the sector. Our involvement includes:

- AASB NFP PAP member
- ACNC Professional Advisors Group
- Chair of CAANZ NFP Discussion Group
- Chair Not-For-Profits Accountants Network

We have provided our feedback with reference to the questions asked within the discussion paper within Appendix 1.

We have identified a number of items that we think are significant but are not specifically included within the ED335 questions and have highlighted these below for your consideration.

Removal of special purpose and impact on entities larger than smaller entities / proposed threshold

Although we are very supportive of the implementation of Tier 3 in order to provide simplification for small NFPs, we remain concerned about the removal of special purpose for those entities above any Tier 3 threshold where potentially significant impact of adoption of Tier 2 appears to be largely accepted.

In our discussions with other accountants, our clients and many other NFPs, we hear many concerns in relation to the current Accounting Standards that have been raised, considered and altered for Tier 3 that could also be considered appropriate for larger entities. In particular:

- The complexity of AASB15 regarding the identification of the customer for grants and the complexity of application of satisfying sufficiently specific performance obligations.
- The AASB15 requirement for deferral of upfront fees does not reflect the commercial reality and is broadly disagreed with by schools, sporting clubs and other member based organisations.
- The application of AASB16 on property leases where the capitalisation on the balance sheet has added complexity and confusion to preparers and users of the financial report.
- The restriction of AASB9 in relation to investments in equity instruments only being available for FVOCI treatment. Most portfolios contain managed funds and other items that do not meet the requirement. An allowance for active market or tradeable investments would be a more appropriate class of assets where FVOCI is available.

We think these issues should be considered for Tier 2 as part of the removal of special purpose financial reports.

Consolidation

We acknowledge the post implementation review in relation to AASB 10 NFP and control. We are highly supportive of the review. Our submission has detailed the concerns of many of our clients where entities that have a different charitable purpose and different primary users should not be required to consolidate as this represents a cost that does not provide any user benefit and actually diminishes user understanding of individual entity performance.

Our strong view remains that AASB10 Appendix E should be amended prior to removal of special purpose. We welcome any opportunity to engage with the AASB on this matter. We think failure to do so will result in substantial increases in accounting and audit costs with no or negative benefit on users.

We appreciate your consideration of our submission and in particular the items raised above. We are more than happy to discuss any of the above matters with you. Please do not hesitate to contact us should you wish to discuss further any matters arising from this submission.

Yours Sincerely



Jeff Tulk
Partner

Appendix 1

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

1. Agree
2. (a) Agree
- 2.(b) Agree in relation to a change in accounting policy as both policies can be disclosed in the notes. Disagree in relation to material misstatement due to fraud or error. Given the error is required to be quantified and corrected as an opening adjustment and disclosure of the nature of the error is required, we see little or no cost or simplification benefit compared to actually correcting the comparative which then provides more accurate comparability and accuracy to the financial report.
- 2.(c) Agree
- 2.(d) Agree
- 2.(e) Agree
- 2.(f) Agree
- 2.(g) Agree
- 2.(h) Agree
- 2.(i) Agree except we disagree with the proposal in relation to deemed acquisition date (refer to response to question 25)
3. Agree. We note that a number of sections appear to basically contain an extract a selection of existing accounting standard paragraphs. Where the expectation is that the recognition and measurement requirements are the same as Tier 2, it may be helpful to include that within guidance or appendix so that is clear even though the standard requirements are not as comprehensive.
4. Agree
5. Yes. We do not agree that the scope (paragraph 1.2) where entities can only apply Tier 3 where “qualifying as Tier 3 entities under the applicable legislative or other reporting requirements” is appropriate. We think this restriction is highly likely to have unintended consequences where entities are forced into Tier 2 when any legislation requiring compliance with accounting standards is applicable to an NFP entity is not amended by the effective date for removal of special purpose.

We think the scope should be as follows:

“Not-for-profit private sector entities without public accountability except where precluded from applying Tier 3 under the applicable legislative or other reporting requirements shall..... ”

We think this will enable a NFP to adopt Tier 3 where regulators / legislators fail to appropriately prioritise legislative amendments.

6. (i) Refer to response to 2(b). Where a material error exists in the comparative financial statements, we think that stating that the financial statements are true and fair in accordance with the accounting policies is challenging for both directors and auditors.

(ii) We are aware of ACNC group reporters where the group does not represent a group based on the accounting standard definitions of control or where additional entities that are not part of the group may be controlled. These grouping provision contradictions will need to be considered as part of the legislative implications on the removal of special purpose.

7. Yes. Overall, we agree the proposals for simplification that strike a reasonable balance for the benefit of both preparers and users.
8. Refer responses to questions 9–44.

Questions regarding specific proposals for Tier 3 reporting requirements

Section 1: Objective, Scope and Application

9. Agree with the current inclusions and exclusions from the proposed standard.

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

10. Agree
11. Agree

Tier 3 Primary Financial Statements and Notes – Presentation and Disclosure Requirements

12. Agree
13. Agree

Section 8: Notable Relationships and Consolidated and Separate Financial Statements

14. Agree

In relation to paragraphs 8.13 – 8.23 the proposed standard would appear to be extracts from the current Tier 2 requirements. We think the AASB has the opportunity to significantly simplify the language (a stated objective for Tier 3) in relation to control and in particular the application in the typical private sector NFP arrangements where a parent entity has rights to appoint the majority of the board of a subsidiary. In addition, it is unclear why private sector not-for-profit examples contained in Appendix E of AASB10 have not been included within the illustrative examples for Tier 3 and the principles have not been included in the standard.

I note the AASB comment in BC46. It is unclear if the AASB intends to wait until it finalises its post implementation review in relation to control and then amend these paragraphs prior to issuing the Tier 2 standard. We think this is required.

We refer to our comments at the beginning of this submission, our submission in relation to the post implementation review and again highlight our view that Appendix E of AASB 10 is flawed and amendments should be completed prior to the removal of special purpose reporting.

Section 9: Accounting Policies, Estimates and Errors Recognition and measurement requirements

15. Agree other than in relation to correction of errors. Refer comments in question 2(b).
In addition, we think the drafting of paragraphs 9.22 to 9.25 is unclear if not material errors can be amended on the modified retrospective approach or if only material errors can be amended. We think they should be able to and this should be clarified.

Section 10: Financial Instruments

Scope of requirements

16. Agree
17. Agree. Our experience is that very few smaller NFP's have these more complex instruments.

Recognition and measurement requirements

- 18.(a) Agree
- 18.(b) Agree other than in relation to the requirement that changes in the fair value of such financial assets shall be included in profit or loss, unless the entity elects irrevocably, on initial recording of the first asset in a class of financial assets, to include changes in the fair value of that class in other comprehensive income. Given the broad selection of policy choice and the ability to change policies in many other areas of the standard, we do not think that an entity should not have the ability to change accounting policy in relation to if FVTPL or FVTOCI. We regularly observe a change in the purpose of an investment portfolio (e.g. from holding for long term growth in reserves to using gains to fund operations) that could warrant a different accounting policy. Likewise, as KMP change, different views on the appropriate accounting policy can occur. Accordingly, we think the highly restrictive wording adopted from AASB9 should be removed. If the AASB is concerned about entities regularly swapping between the categories we think requiring disclosure for the reason for the change in policy could be included in the standard.
- 18.(c) Agree
- 18.(d) Agree
- 18.(e) Agree

Section 11: Fair Value Measurement

19. Agree

Section 12: Inventories

20. Agree

Section 13: Investments in Associates and Joint Arrangements

21. Agree

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

22. Agree. We think fair value for material PPE items would result in more accurate financial reporting, however we understand the pragmatic cost / benefit of the allowance for cost as a choice.

We note that paragraph 15.11 class of assets is different to AASB116 paragraph 37. We think that Tier 3 classes should be the same as Tier 2. In particular, buildings should not be a separate class, rather land and buildings should be a class. The current drafting could be interpreted in a way where land can be recorded at fair value and a building at cost which can result in overstating the value of the assets that cannot be physically separated.

23. No comment as our observation is valuation costs can vary quite significantly even for similar assets.

Section 16: Intangible Assets

24. Agree. I am not aware of any smaller NFPs adopting a fair value revaluation model for intangible assets. On this basis the AASB could consider the option detailed in paragraph 16.5.

Section 17: Entity Combinations

- 25.(a) Disagree. We strongly disagree with the concept of a deemed combination date. This will result in an entity including transactions within its financial report that existed before control. This would include both operating income, expenses as well as one off items like property sales or legal costs etc. We think this could result in an entity reporting losses as a result of the operating losses recorded by the other entity prior to the actual combination. In our experience financial distress is often a driver of a combination. We think this reporting requirement is misleading to any user.

We also think this may cause significant difficulties from an accounting and auditing perspective as the ability to access records / understand transactions etc prior to control may be limited or simply not exist resulting in issues for both directors and auditors signing off on financial reports.

We think the standard should allow for the recording of assets and liabilities at either the carrying value or fair value at the combination date based on control.

We understand that the deemed combination date concept may have been proposed due to the difficulty on occasion (although we don't think this is common) on determining when the control actually occurred. We think a pragmatic approach of either selecting a date or using a date where it is clear that control existed is a far better way to address the issue.

In addition, the requirements of paragraph 17.5 contradict with paragraph 8.28 where income and expenses are recorded only for the period of control.

- 25.(b) Refer comment above
25.(c) Agree
25.(d) Agree.

Section 18: Leases

26. Agree. We observe that where leases contain an annual increase that is similar to inflation expectations, that straight line calculations do not occur as either they are considered immaterial, or preparers are not aware of this requirement. We think the AASB should consider a paid basis where no significant incentives / lease free periods exist.

Section 19: Provisions and Contingencies

27. Agree

Section 20: Revenue

- 28.(a) Agree with additional clarifications required. We think that the removal of the enforceability requirement will lead to far more significant amounts of revenue being deferred.

We note that paragraph 20.9 does not require the provider of the asset (donor / grantor) to specify use of funds to meet deferral requirement but that written communication to the asset provider or representation to customers is sufficient to result in the deferral of revenue. We think the standard should be clarified as whether communication solely from the entity to the grantor, after the asset is provided, about the purpose or the period to which the asset will be used is sufficient to establish common understanding. We think Example G should be extended to include an additional example where the entity communicates its internal expectation and decision about the use of funds to the grantor after receipt.

We observe that many organisations raise funds for a particular program or activity (e.g. a natural disaster) via websites where a common understanding and intent by the entity exists to use the funds in a particular way (e.g. disaster response). Typically, such campaigns include an ability for an entity to use those funds on other activities or “where most needed”. We think an implementation example with this particular fact pattern and where funds get ‘repurposed’ would be highly beneficial.

- 28.(b) Agree. In relation to volunteer services, we do not think the disclosure requirement in paragraph 20.29 that contain a “shall disclose” requirement should be more onerous than the Tier 2 requirement of AASB1058 paragraph 27 which contain an “encouraged to disclose” statement. We think the AASB1058 wording should be replicated in Tier 3.
29. Agree.

Section 21: Expenses

30. Agree.

Section 22: Borrowing Costs

31. Agree. We are aware of some smaller NFPs capitalising borrowing costs when undertaking a significant property redevelopment / renovation. However, we do not think the requirement would impact user understanding and accordingly we don't disagree with the proposal.

Section 23: Impairment of Assets

32. Agree

Section 24: Employee Benefits

33. Agree

Section 25: Income Tax

34. Agree. We are aware of some smaller NFPs subject to income tax under the principal of mutuality that revalue property assets which may result in a material deferred tax liability. We think it would be helpful for the standard to clearly state that deferred tax assets and deferred tax liabilities are not recorded to avoid any confusion.

Section 26: Foreign Currency Translation

35. Agree

Section 27: Events Occurring after the Reporting Period

36. Agree

Section 28: Related Party Disclosures

37. Agree. In relation to paragraph 28.10(b) we think the wording should be amended to:
“...unless evidence indicates that the material donations could materially influence the entity’s activities ”

Section 29: Transition to Tier 3 General Purpose Financial Statements

38.(a) Disagree. We think that given the extended length of application and the simplification objectives of Tier 3 that the election option allowing first-time adopters of the Standard transitioning from application of Tier 1 or Tier 2 requirements of Australian Accounting Standards to continue applying all related Tier 1 or Tier 2 recognition, measurement and disclosure requirements to some or all assets or liabilities existing on the transition date is not required and will result in inconsistency and confusion over multiple years of reporting.

38.(b) Agree

38.(c) Agree

Appendix A: Glossary of terms

39. Agree

Appendix C: Amendments to other Australian Accounting Standards

40. No comment

General matters for comment

41. No comment

42. We are not aware of any current regulator / legislator project to consider amending legislation in relation to the application of Tier 3 thresholds. We think that without clear understanding on what entities can apply Tier 3, consideration of implications of issuing the standard prior to the development of thresholds needs to occur and potentially further guidance issued. We think this needs to be addressed and the AASB, ACNC and ASIC should actively consider this issue including ensuring appropriate consultation occurs before any legislative or regulation amendment occurs.

We also refer to our response to question 5 where we think a scope amendment to the standard to substantially mitigate the risk of regulator / legislator inactivity.

43. No comment

44. Although some costs on transition will occur in relation to accounting and audit costs, we don't think these will be significant to individual entities. We think the potential savings in relation to Tier 3 entities reduced complexity and optional consolidation proposal will result in significant savings for some entities as opposed to applying Tier 2. We refer to our introductory comments that the concessions provided within Tier 3 should be actively considered for entities above the Tier 3 threshold given the proposal to remove special purpose.

We also refer to our response to question 5 regarding a suggested amendment to the scope of the standard.