Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M213
Topic:	**Collation of feedback on ED 335**	**Agenda Item:**	4.3
		Date:	15 April 2025
Contact(s):	Maggie Man mman@aasb.gov.au Jim Paul jpaul@aasb.gov.au Evelyn Ling eling@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High High Project redeliberations

Background and purpose of this paper

1 The AASB issued two Exposure Drafts (EDs) in October 2024 with a 4-month consultation period closing 28 February 2025:

(a) ED 334 *Limiting the Ability of Not-for-Profit Entities to prepare Special Purpose Financial Statements*, which includes proposed amendments to the Conceptual Framework for Financial Reporting; and

(b) ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*.[1]

2 ED 335 proposes a new Australian Accounting Standard containing simplified recognition, measurement and disclosure requirements developed for use by smaller Not-For-Profit (NFP) private sector entities. ED 335 works in conjunction with ED 334 which contains the proposals to require more NFP entities to prepare general purpose financial statements (GPFS) when financial statements are prepared in accordance with a directive that they comply with Australian Accounting Standards. In recognition of the impact of the proposal to NFP private sector entities. The effect of ED 335 is that the minimum requirements for GPFS of NPF private sector entities would be a new Tier 3 GPFS reporting tier. ED 335 proposals are intended to serve as a proportionate reporting response for smaller NFP private sector entities.

3 ED 335 closed for comment on 28 February 2025. The Board received a preliminary update of the feedback received on the exposure draft at its 6-7 March 2025 meeting.[2] The purpose of this agenda paper is to present an updated collation of the feedback received on that exposure draft, including a summary of the feedback from the written submissions received. This paper supports Agenda Paper

1 See website for ED 334 and ED 335.

2 Refer Agenda Paper 6.2 of the AASB 6-7 March 2025 meeting. Agenda Paper 6.1 summarised the feedback on ED 335 received to 13 February 2025. This comprised mainly feedback from various outreach sessions and from the AASB online survey. Staff provided a verbal update to the Board at the Board meeting of the key themes from further feedback received to the date of the Board meeting; in the main, being from the written submissions received.

4.1, which will inform the Board's decision on whether to decide whether to proceed with its NFP Financial Reporting Framework project, and Agenda Paper 4.2, which addresses staff's categorisation of the topics in ED 335 that require more significant redeliberation efforts. This paper does not include any questions for the Board. The collation of feedback on ED 334 is presented in Agenda Paper 3.1 for this meeting.

Structure of this paper

4 This paper is structured as follows:

(a) overview of all outreach activities conducted (paragraph 5 and Table 1); and

(b) summary of responses on the following Specific Matters for Comment (SMCs) and General Matters for Comment (GMCs) in ED 335 (paragraphs 6 – 12):

(i) SMC 1 – SMC 8 relating to the approach to developing Tier 3 reporting requirements and major simplifications (Table 2); and

(ii) SMC 9 – SMC 40 relating to proposed Tier 3 accounting requirements for key topics, and GMC 41 – GMC 44 (Table 3).

Overview of outreach activities, online surveys and written submissions received

5 Table 1 below is a summary of all activities conducted, including the number of attendees/respondents from each outreach activity on ED 335, and survey and submissions received in total.

Table 1 Summary of outreach activity conducted, online surveys and written submissions received on ED 335

Outreach activity	Number of attendee/ submissions received	Profile of attendees/written submissions (where identifiable)
Online survey[3]	12[4]	8 preparers 1 advisor 2 users 1 x mixed role (preparer/advisor/auditor)
5 x AASB virtual and in-person outreach sessions[5]	75	Mixed of stakeholders consisting of preparers, advisors, representatives of professional bodies, academics, regulators and staff of professional services firms/professional bodies
4 x Externally organised sessions/meetings	N/A	Mixed of stakeholders consisting of individual preparers/advisors, academics, regulators and staff of professional services firms/professional bodies

3 An online survey was developed to support the issue of ED 335 which contains all the SMCs and GMCs in ED 335. As noted in paragraph 1 in Agenda Paper 4.5 at this meeting, ED 335 contains a question pertaining to the Board's proposals in ED 334 SMC 4 to extend the population of entities required to prepare GPFS. Respondents' feedback on ED 334 SMC 4 is reflected in Agenda Paper 3.1.

4 48 responses were received to the survey in total. However, 31 of the responses were unusable because the respondents did not answer any questions. Those responses were removed from the analysis. Five respondents responded only to SMC 4 of ED 334 and their submissions were excluded from the analysis in this paper.

5 Staff used polling questions with regard to certain ED 335 SMCs at the virtual outreach sessions to solicit feedback from participants. Not all participants in attendance responded to the polling questions. Respondents were not polled at the in-person outreach sessions.

Outreach activity	Number of attendee/ submissions received	Profile of attendees/written submissions (where identifiable)
Written submissions	20 (18 directly responded to ED 335 and 3 responded to ED 334 which contained comments relevant to ED 335)	• **7 Professional Services firms** ○ Pitcher Partners (PP#1) ○ Moore Australia (MA#4) ○ Saward Dawson (SD#7) ○ KPMG (KPMG#10) ○ Grant Thornton (GT#13) ○ BDO (BDO#15) ○ RSM Australia (Agenda Paper 3.3 RSM ED334#15) • **2 Regulators** ○ Office of the Registrar of Indigenous Corporations (ORIC#6) ○ Australian Charities and Not-for-profits Commission (ACNC#8) • **6 Professional Bodies**[6] ○ CPA Australia and Chartered Accountants Australia and New Zealand (joint submission) (CPA/CAANZ#11) and (Agenda Paper 3.3 CPA/CAANZ ED334#10) ○ Law Council of Australia (Agenda Paper 3.3 LCA ED334#7) ○ Australian Institute of Company Directors (Agenda Paper 3.3 AICD ED334#11) ○ Queensland Law Society (QLS#17) ○ Institute of Public Accountants (IPA#18) • **7 Other** ○ Theatre Network Australia (TNA#2) ○ National Association for Visual Arts (NAVA#3) ○ Wodonga Urban Land Care Network (WULN#5) ○ The Australian Dance Council – Ausdance Vic (ADC#9) ○ Equity Trustees (ET#12) ○ Justice Connect (JC#14) ○ David Hardidge (DH#16)

6 While the CPA and CAANZ provided a joint submission to ED 335, staff have counted them as being from two professional bodies. However, for staff analysis purposes, staff have referred to their joint submission as one written submission. Furthermore, staff incorporated insights from their ED 334 submission (referenced in Agenda Paper 3.3 CPA/CAANZ ED334#10) without categorising it as a formal ED 334 submission, ensuring unique submitters are counted once to avoid duplication.

Summary of feedback

6 As discussed in Agenda Paper 6.2 at the March 2025 Board meeting, the matters for comment included in ED 335 were divided into two main sections:

(a) Specific Matters for Comment SMCs 1 – 8: These questions sought feedback on the overall approach to developing Tier 3 reporting requirements, including major proposed recognition/measurement simplifications; and

(b) Specific Matters for Comment SMCs 9 – 40 and General Matters for Comment GMCs 41 – 44: These questions requested feedback on the proposed recognition, measurement and disclosure requirements for each section of the proposed Tier 3 Standard and its glossary of terms.

7 This structure of matters for comment was adopted in acknowledgment of the time constraints faced by smaller entities, while still providing a platform for technical advisors and practitioners to offer comprehensive feedback on the proposed requirements.

8 Staff analysed the results of these two sections separately for the following reasons:

(a) Response patterns: Smaller entities are expected to primarily respond to the first section, as evidenced by the online survey responses where no respondents provided feedback on SMCs 9 to 40 (with or without GMCs 41 to 44);

(b) Feedback weighting: The SMCs for major simplifications overlap those for individual sections, which could skew results;

(c) Interpretation of feedback: Overall support for major simplifications does not necessarily negate specific concerns raised in other sections. Stakeholders are more likely to express disagreements or concerns rather than detailing reasons for agreement with each section of the proposed Tier 3 Standard; and

(d) Comprehensive analysis: Separate analysis ensures a more accurate representation of stakeholder views, considering the different focus and depth of responses in each section.

9 Further, the online surveys encompassed all SMCs in ED 335. However, due to time constraints during virtual and in-person outreach events, staff did not seek feedback on all SMCs in these sessions. Specifically, SMCs 1-8, which address the overall structure, development principles and significant simplifications of Tier 1/Tier 2 recognition/measurement requirements in the proposed Tier 3 requirements, were not discussed during outreach sessions or in other stakeholder engagements. As such, the feedback in Table 2 is sourced from online surveys and written submissions. Staff also excluded the SMCs marked with an asterisk in Table 3 from both the virtual and in-person outreach events.

10 The feedback presented in Table 2 and Table 3 is organised under each ED 335 Matter for Comment. In some instances, stakeholders provided comments without specifically responding to a particular Matter for Comment. In other instances, stakeholder comments to a particular Matter for Comment appeared to better respond to a different Matter for Comment, or to a Matter for Comment in ED 334. Staff employed judgement in collating such comments in this agenda paper.[7]

7 This includes not collating certain feedback in this paper, but instead presenting it in Agenda Paper 3.1.

11 Summary of the feedback received relating to SMCs 1-8 is set out in Table 2 below:[8]

Table 2 Quantitative summary of responses to SMCs 1 – 8 (sourced from the online surveys and written submissions, as stated in paragraph 9)

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
Q1) Principles for developing AASB 10XX General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities	21 (11 surveys + 10 written submissions from PP#1, MA#4, ORIC#6, SD#7, ACNC#8, KPMG#10, CPA/CAAANZ#11, BDO#15, IPA#18, AICD ED 334#11)	5 (5 written submissions from DH#16, LCA ED334#7, JC#14, QLS#17, RSM ED334#15)	1 (1 survey)	From those who agreed: ○ Five professional services firms (PP#1, MA#4, SD#7, KPMG#10, BDO#15), two regulators (ORIC#6, ACNC#8) and four professional bodies (CPA/CAANZ#11, IPA#18, AICD ED334#11) generally agreed with the principles. However, some of these stakeholders provided the following comments: ○ PP#1 preferred the Tier 3 Standard to contain its own summarised Conceptual Framework so that management does not have to consider a comprehensive Conceptual Framework with both NFP and for-profit elements. They also consider the AASB NFP Entity Standard Setting Framework will need to be amended to accommodate Tier 3 since it only references Tier 1 and Tier 2, and to address the possible departure of Tier 3 requirements from sector neutrality; ○ CPA/CAANZ#11 suggested specifying an interim annual revenue threshold of $5M until the necessary legislative reforms are completed to provide clarity to NFP entities transitioning from SPFS to GPFS. IPA#18 recommended that the AASB works with regulators to determine the appropriate Tier 3 threshold or, alternatively, include a reference point for the size range of Tier 3 entities that the Standard was developed for, within the scope paragraph without the need for readers to source that information from the basis for conclusions. KPMG#10 also received feedback from stakeholders requesting clarification of the eligibility of the application of the Tier 3 financial reporting framework when transitioning to GPFS and whether regulators could consider a revenue threshold higher than the reference point of ACNC 'medium' size charities as a broader range of entities would benefit from the simplified reporting requirements. They suggested that greater transparency on the communications with regulators on the current developments will provide clarity to stakeholders; and ○ BDO#15) generally agreed with the principles except with BC8(c) assumes that Tier 3 requirements may depart from Tier 2 requirements supported by disclosures, which

8 SMC 8 invited stakeholders to provide any additional comments. However, staff did not specifically request feedback on SMC 8 during outreach sessions, and stakeholders did not offer any input through the online survey. Consequently, feedback on SMC 8 is only attributable from written submissions.

9 Some questions in the online survey allowed respondents to select "not applicable to my organisation/decision making (N/A)". These respondents did not provide comments if they selected N/A. As such, staff have inferred that these respondents did not disagree with the proposals.

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
				they consider inconsistent with the principles for general purpose financial statements as they perceived that the notable relationship disclosures complementing the proposed non-consolidation option would not fill the information gap. They see the proposals differing from the cost-benefit concession the Board made for fair values of concessionary leases, which ends when the lease expires but in contrast non-consolidation does not have a sunset date. <u>From those who disagreed:</u> • Two professional bodies (LCA ED334#7 and QLS#17), one professional services firm (RSM ED334#15) and two other stakeholders (JC#14, DH#16) disagreed with the principles and provided the following comments: o DH#16 disagreed that the AASB is only proposing changes for NFP private sector entities, citing inconsistency with the Board's transaction-neutral policy. They noted that the NFP public sector framework project will be conducted in a different phase, which contradicts the approach of ED 334 to extend the new conceptual framework to NFP public sector entities. They noted that there are over 2 million businesses in Australia, of which 50,000 businesses have 20 or more employees (based on ABS data). Therefore, they consider a simplified measurement and disclosure framework may benefit those small and medium enterprises. They also consider the principles have not been applied appropriately because entities would be required to apply Tier 1/Tier 2 requirements under para. 1.3 of ED 335, and disagreed with the inclusion of investment property in the Tier 3 Standard. Their rationale is provided in response to SMC 9 and SMC 22; o LCA ED334#7, JC#14 and QLS#17 raised concerns that the definition of 'smaller NFP private sector entities' is unclear due to varying use of the term 'small' by different regulators with different thresholds. For example, the ACNC classifies 'extra small' charities as having less than $50k turnover. In QLD, four of five associations have less than $100k of income, and 90% of Victorian associations have less than $250K annual turnover. They suggested the Board should develop Tier 4 reporting requirements that could address the needs of a significantly large cohort of very small NFP entities. They noted the complexity of Tier 3 requirements might deter voluntary audits or lead to modified audit opinions if Tier 3 requirements were not implemented even though these entities have no legislative requirement to prepare financial statements in accordance with Australian Accounting Standards. A comprehensive education program and legislative review are recommended to ensure reporting outcomes are proportionate to the risks faced by entities in the scope of the proposals. They noted consistency in fundraising legislation remains a challenge, but the successful

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
				implementation of these measures will depend on the cooperation between state/territory legislators and regulators and the Commonwealth; and ○ RSM ED334#15 disagreed because the proposals provide different recognition and measurement requirements for Tier 3 entities, representing a break from the AASB's previous approach to the Australian financial reporting framework to apply the same recognition and measurement requirements for all entities regardless of size. They suggested the AASB introduce a revised Tier 3 with further reduced disclosures but no separate recognition and measurement requirements. They provided the following reasons why they disagree with the proposals: ▪ Departure from a single basis of recognition and measurement detracts from consistency and comparability of financial statements and it appears counter-intuitive to solve the SPFS problem by introducing a solution that formalises the existing problems; ▪ Creation of an additional burden and cost on entities who may move between the tiers would be relatively frequent due to the narrow 'window' of the revenue range in which Tier 3 requirements were developed; ▪ Additional burden on NFP entities to provide training to their finance team in the new requirements or to source assistance from outside consultants. There will be an additional burden on auditors when performing assurance services for Tier 3 financial statements. They also noted many entities may be in scope due to their constituting document or the needs of funding bodies, and not all auditors will wish to incur the cost and difficulty involved in upskilling their audit staff on the new framework, resulting in less choice and likely higher cost for Tier 3 entities; and ▪ A framework too complex for entities within the Tier 3 range would equally be too costly and complex for an entity with revenue of $4M or $10M. They considered the solution to resolving the underlying issue is to reduce the complexity and challenges in the existing financial reporting framework for all NFP entities, noting the biggest issue faced by these entities is AASB 1058, which they considered has decreased understanding of financial information presented to users of the statements. As such, they suggested the AASB should seek to develop a similar Tier 3 revenue model to be applied to all NFP entities, not just Tier 3 entities, which would be likely to reduce the reporting burden for NFP entities rather than developing a separate Tier 3 recognition and measurement framework for a subset of NFP entities.

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided

Q2) Major simplifications of recognition and measurement (R&M) requirements	23
	(10 surveys + 13 written submissions from PP#1, TNA#2, NAVA#3, MA#4, ORIC#6, SD#7, ACNC#8, KPMG#10, CPA/CAANZ #11, GT#13, BDO#15, DH#16, IPA#18)
		3
		(2 surveys + 1 written submission from WULN#5)
			-	From those who agreed:
				• Two stakeholders (TNA#2, NAVA#3) supported the introduction of Tier 3 GPFS. Many art organizations with a turnover of less than $250,000 already prepare GPFS due to funding agreements, and the introduction of Tier 3 GPFS may simplify their reporting requirements, provided the requirements align with existing sector practice, such as being supported by accounting software; and
				• One regulator (ORIC#6) agreed with the major simplifications with no further comments. Six professional services firms (PP#1, MA#4, SD#7, KPMG#10, BDO#15, GT#13), another regulator (ACNC#8), three professional bodies (CPA/CAANZ#11, IPA#18) and one stakeholder (DH#16) generally agreed except for some proposals, specifically:
				  ○ All six professional services firms, CPA/CAANZ#11 and DH#16 disagreed with requiring application of the modified retrospective approach to error correction. KPMG#10 considered a level of comparability among results presented in the financial statements to be critical to users' understanding of the performance of the entity. All firms suggested the requirements for correction of prior period errors should align with existing Tier 2 reporting requirements, which already contain an exemption allowing entities not to restate retrospectively if it is impracticable to do so. DH#16 noted for integrity and ethical reasons, financial statements should not be issued if they include a known error;
				  ○ PP#1, MA#4, SD#7, KPMG#10, IPA#18PP#1 and DH#16 disagreed with the application of a deemed combination date in entity combinations with more specific comments provided on SMC 25 (see Table 3). PP#1 also caveated that their comments are based on a smaller NFP entity with a maximum revenue threshold of $3 million;
				  ○ BDO#15, as per their response on SMC 1, disagreed with allowing an accounting policy choice to present consolidated or separate financial statements and considered the indicators of impairment of non-financial assets are incomplete. GT#13 also considered not requiring the preparation of consolidated financial statements may not provide users of the proposed Tier 3 financial statements with fulsome information regarding the performance of the entity reported upon and contradicts the Board's direction with regards to for-profit entities whereby the ultimate Australian parent entity is required to prepare consolidated statements. DH#16 supported the choice to prepare consolidated financial statements but disagreed with making it an accounting policy choice as it would be difficult to make changes from year to year. They suggested applying the same mechanism for an

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
				intermediate parent entity election for preparing consolidated financial statements (see further comments on SMC 14 in Table 3); ○ ACNC#8 disagreed with applying a straight-line basis for recognising lease expenses/income, especially where lease incentives/discounts are involved, and preferred recognition on a cash basis to better reflect the lease agreement. They also opposed allowing a choice between cost and fair value for donated non-financial assets and advocated for fair value unless impracticable. They noted 40% of charities are registered deductible gift recipients and would require the donor to measure any donations of assets at market value.[10] They also noted similar concerns that applying the book value method may not reflect the true economic value of combined entities in an entity combination but did not oppose the proposals. IPA#18 recommended that the most relevant and reliable accounting treatment should be prescribed for donated non-financial assets, with alternative accounting treatment only if impracticable. Specifically, they proposed initial measurement of donated non-financial assets at fair value unless fair value cannot be measured reliably; ○ DH#16 disagreed with deferring revenue based on "a common understanding", which should instead be based on an obligation identified in the conceptual framework, similar to the proposed recognition for provisions. They consider deferral of revenue where there is no obligation is a wrong approach. While DH#16 agreed with the proposed impairment indicators, they considered AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* indicators should also be included; and ○ IPA#18 considered the draft Standard to contain too many choices, which would require entities to apply judgement to analyse to determine the accounting treatment. This undermines the principles of considering the user needs and cost/benefit consideration because choices would make the Standard harder to comply with and make it difficult to compare financial statements across entities. They particularly highlighted Section 2: Financial Statement Presentation, which offers too many options for presentation and disclosure, and suggested that the AASB conducts research on the best option as the proposed requirement and gather more stakeholder feedback on which presentation approach would meet stakeholder needs the most. They also consider that permitting the use of different titles for financial statements other than those used in the Standard may make it difficult to compare financial statements across entities and add another area where judgment

10 ATO website accessed on 4 March 2025.

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
				will need to be applied. They also suggested the proposed accounting for financial instruments may benefit from more simplification (see Table 3). From those who disagreed: • Where is a standard for micro charities with minimal cash income and few assets or liabilities? The Board is out of touch with reality (preparer); • Makes for additional complication and unnecessary extra rules re accounting that require us as preparers of different types of entities' financial statements to remember which rules apply to which entities – we need one set of measurement and disclosure rules not more red tape (a stakeholder that indicated they are a preparer/auditor/advisor); and • An NFP entity stakeholder (WULN#5) with annual revenue of just under $500k currently prepares audited financial acquittal reports in accordance with their grant funding agreements. They considered that, even under the simplified Tier 3 reporting framework, there will be substantial upskilling of their volunteer treasurer and committee members. This will increase reliance on paid professional services, diverting funds from their charitable activities. They encourage more comprehensive field testing with diverse smaller NFP entities before finalising changes.
Q3) Structure of the Standard	21 (11 surveys + 10 written submissions from PP#1, MA#4, ORIC#6, SD#7, ACNC#8, KPMG#10, CPA/CAANZ #11, BDO#15, DH#16, IPA#18)	0	1 (1 survey)	From those who agreed: • Five professional services firms (PP#1, MA#4, SD#7, KPMG#10, BDO#15), three professional bodies (CPA/CAANZ#11, IPA#18) and one stakeholder (DH#16) broadly agreed with the structure and the principles of using simplified language to express the Tier 3 reporting requirements. However, some of these stakeholders noted the following: o MA#4 cautioned that simplification of wording to convey concepts consistent with existing Australian Accounting Standards could lead to inconsistent interpretation and add complexity to the requirements for advisors and auditors. They provided para. 3.5 as an example of the difference in language used in ED 335 compared to para. 66 in AASB 101 *Presentation of Financial Statements*, resulting in minor simplification but insufficient benefit from the simplification to warrant the risk of divergence in interpretation; o SD#7 recommended incorporating guidance or an appendix that clearly identifies which sections or requirements are expected to align with Tier 2 recognition and measurement requirements even if the requirements are not as comprehensive as Tier 2; o CPA/CAANZ#11 reiterated their comments on the Tier 3 Discussion Paper that the Standard should be a single, standalone document with minimal reference to higher

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
				tier Standards occurring only for transactions, other events or conditions not covered within the Tier 3 Standard; ○ DH#16 found the operation of notable relationships hard to understand and provided some suggestions for the drafting of the section relating to primary financial statements (see related SMC 12 in Table 3); and ○ IPA#18 found the drafting unnecessarily verbose, with new terms inconsistent with existing standards, making ED 335 unclear, incomplete and difficult to navigate. They suggested editorial changes in various sections and recommended a review to simplify and shorten sentences, noting that Section 11: *Fair Value Measurement* was well-written; and • Two regulators (ORIC#6, ACNC#8) agreed with the structure and language, but ACNC#8 suggested further tailoring of NFP language within the Tier 3 Standard to reflect the charitable sector.
Q4) Proposed effective date	24 (12 surveys + 12 written submissions from PP#1, MA#4, ORIC#6, SD#7, ACNC#8, KPMG#10, CPA/CAANZ #11, JC#14, BDO#15, DH#16, IPA#18, AICD ED334#11)	3 (3 written submissions from TNA#2, NAVA#3, ADC#9)	0	<u>From those who agreed:</u> • A preparer agreed with the timetable, but stated that a Standard for micro charities must be developed; and • Five professional services firms (PP#1, MA#4, SD#7, KPMG#10, BDO#15), four professional bodies (CPA/CAANZ#11, IPA#18, AICD ED334#11), two other stakeholders (JC#14, DH#16) and two regulators (ORIC#6, ACNC #8) broadly agreed with an adoption period of at least three years. These stakeholders provided the following comments: ○ PP#1 encouraged the AASB to liaise with Treasury and government regulators on linking the application date with any known legislative changes; ○ MA#4 considered sufficient lead time is needed to develop templates and resources to assist NFP entities with the proposed new Standard. Advisors and auditors will also have competing priorities (e.g. AASB 18 *Presentation and Disclosure in Financial Statements* – effective from 1 January 2027; and sustainability reporting from 30 June 2028) and strongly encourage application no earlier than 1 January 2029; ○ KPMG#10 considered the effective date for both ED 335 and ED 334 proposals should be the same. In the event that the effective date is different, then they consider early adoption should be made available for Tier 3 reporting requirements (assuming the regulatory eligibility requirements are in place) to allow entities transitioning from SPFS to GPFS to apply Tier 3 reporting requirements. Permitting early adoption may incentivise eligible NFP entities to transition early to GPFS;

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
				○ CPA/CAANZ#11 supported the 3-year timeframe only if the Standard includes their suggestion of an interim threshold to allow entities to effectively early adopt the Standards proposed in ED 334 and ED 335 without depending on legislative change; ○ JC#14 considered a long lead time is crucial, taking into consideration the number of other reforms impacting the sector; ○ DH#16 considered the standard should be applicable to for-profit private sector and NPF public sector entities at the same time; and ○ ACNC#8 considered legislative amendments are needed to implement these reforms and the lead time would allow for education for the sector. Similarly, AICD ED334#11 considered the AASB and ACNC and other regulators undertake a broad awareness-raising campaign through factsheets, free webinars, and other complementary channels to educate NFPs of the new standard and any interaction with existing accounting standards. From those who disagreed: • Two stakeholders (TNA#2, NAVA #3) recommended a phased implementation over 3 or more years would allow organisations to develop internal capacity before full compliance is required. They consider many members have limited financial management staff and need time to integrate changes without disrupting core activities. While one stakeholder (ADC#9) recommends the transition period be extended, without indicating for how long, so that small-medium NFPs have time to plan for the change.
Q5) Unintended consequences arising from the proposals	10 (2 surveys + 8 written submissions from MA#4, ORIC#6, SD#7, ACNC#8, KPMG#10, CPA/CAANZ #11, BDO#15, DH#16)	14 (10 surveys + 4 written submissions from PP#1, TNA#2, NAVA#3, IPA#18)	0	From those who responded yes: • One preparer stated that the only point I see is the value of the NFP, there are several NFP that receive minor amounts of funds which I hope Tier 3 would cover, but as I run 3 NFPs as treasurer, I would be concerned of confusion. It would appear this is the same system used by the Office of Fair Trading QLD. If it is so, then it should be fine; • Another preparer stated that micro charities will wind up because of this bureaucratic burden; • Two professional services firms (MA#4, KPMG#10) considered the difference in revenue recognition models between the Tier 2 and Tier 3 requirements may increase complexity in ACNC size assessments. MA#4 also noted that the inconsistency between the ACNC requirements and proposed Tier 3 Standard regarding whether disclosure is required of KMP compensation may increase complexity and risk that relevant entities don’t meet all their reporting requirements. These unintended consequences may negate the benefits of

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
				the simplifications in the Tier 3 Standard. They encouraged the AASB to also engage with state regulators to ensure the proposals meet their needs; • Another professional services firm (SD#7) disagreed with para. 1.2 regarding the scope if entities can apply Tier 3 where "qualifying as Tier 3 entities under the applicable legislative or other reporting requirements". They consider the current drafting would be likely to cause unintended consequences of restricting entities from applying the draft Tier 3 Standard and forcing those entities to apply Tier 2 requirements if any legislation requiring compliance with accounting standards is not amended by the effective date for the removal of SPFS. They recommended rewording the requirement as "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…"; • A regulator (ORIC#6) considered the introduction of simplified recognition and measurement requirements could reduce comparability, but the proposal strikes a balance between reducing compliance burdens and preserving the integrity and usefulness of financial reporting. They suggested some mitigation initiatives, which could include transitional support and education to preparers, auditors and users to improve understanding of the new framework and a post-implementation review to assess whether the simplified Standard is achieving its objectives without causing excessive comparability issues; • Another regulator (ACNC#8) and two professional bodies (CPA/CAANZ#11) noted that the absence of clear eligibility criteria for Tier 3 raises concerns that larger charities may adopt it even though the Tier 3 framework is designed for smaller charities. They consider a lack of clear criteria may confuse NFP entities, such as those transitioning from SPFS, who may be unclear about which Tier of GPFS to adopt and this might further exacerbate the inconsistencies in reporting requirements that are already subject to varying federal, state and territory legislation; • Another professional services firm (BDO#15) considered the objective of the Standard has not been met given the Standard contains too many accounting policy choices, which: o will consume unnecessary time and resources, with unsophisticated preparers having to familiarise themselves with the different options and weigh up the pros and cons of each option; and o may result in information not useful, consistent and transparent to users.

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
				They also consider the Tier 3 Standard may incentivise for-profit entities or entities with combined for-profit and NFP objectives to assert a NFP status in order to apply the simplified Tier 3 framework, which may pose audit challenges; and • A stakeholder (DH#16) considered the transaction-neutral policy between for-profit and NFP private sector and public sector entities not being applied, and not mandating correction of known errors, may lead to unintended consequences. From those who responded no: • A professional services firm (PP#1) and another professional body (IPA#18) did not identify any unintended consequences arising from the proposals; and • Two stakeholders (TNA#2, NAVA#3) indicated that small organisations with turnover of less than $250,000 without funding-driven audit requirements would be most affected as some of their members only prepare simple internal financial reports such as budget vs. actuals or reports generated by accounting software. However, those organisations would be able to transition from SPFS to GPFS if they receive adequate guidance, such as government-funded training to help small organisations understand the new reporting requirements; and templates and practical tools should be developed.
Q6) Any audit or assurance challenges	8 (3 surveys + 5 written submissions from SD#7, CPA/CAANZ #11, GT#13, BDO#15, DH#16	12 (8 surveys + 4 written submissions from PP#1, MA#4, ACNC#8, IPA#18)	1 (1 survey)	From those who responded yes: • A preparer stated that they have done self-assessments and found them useful for my NFP as they save on auditing costs. The income of this particular NFP would be $30,000 per year being dues to run the NFP. The cost of an audit would negate the income for administration expenses and fulfill its constitutional purpose. Most NFPs pay no wages: something to think about; • Different rules for different entities depending on size – makes it harder when an entity changes from one Tier to another to adjust for different rules in place between the Tiers (stakeholder that indicated they were a preparer/auditor/advisor); • A user stated that additional audit costs would arise for NFP entities in complying with the additional reporting obligations; • One professional services firm (SD#7), two professional body (CPA/CAANZ#11), and one stakeholder (DH#16) expressed concerns that a material error existing in the comparative financial statements would make it challenging for directors and auditors to state those financial statements are true and fair. CPA/CAANZ#11 also referred to the need for auditors to apply ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*. These stakeholders also provided the following concerns:

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
				◦ SD#7 noted that some ACNC group provisions allow group reporting not based on control and may need to be considered as part of legislative implications of the removal of SPFS; and ◦ CPA/CAANZ#11 reiterated that without clear authoritative application may lead to the risk of a larger NFP entity without public accountability applying the Tier 3 Standard when that may not be appropriate for their users, which may place auditors in a difficult position to advocate for users' interest without authoritative support. They also noted that more guidance is needed on applying materiality in the NFP sector, as existing guidance often focuses on investor decision-making and should be interpreted differently in this context. Providing additional guidance on materiality in the context of the Tier 3 standard for assurance practitioners would help address these sector-specific differences. Additionally, the introduction of new terminologies, such as "common understanding," may pose assurance challenges, necessitating further guidance to ensure consistent interpretation and application of the requirements. To facilitate a smooth transition, they advocated for clear timeframes, a long lead time, and comprehensive educational materials; and • Two professional services firm (GT#13, BDO#15) considered the introduction of a new basis of accounting will require assurance providers have an adequate understanding and investment of resources into the provisions of training to those individuals supporting NFP entities. GT#13 noted preparers will need to adapt to changes in recognition and measurement requirements, and a general lack of external guidance would create significant challenges when providing assurance over Tier 3 GPFS, particularly in periods immediately following adoption. BDO#15 noted the different NFP structures will mean auditors will need to be across different frameworks to ensure they are auditing according to the appropriate framework. They also stated that auditors may find two sets of rules confusing, particularly if their auditees fall into all three tiers. Firms may also need to amend their audit methodologies, tools and checklists to cater for Tier 3 requirements. From those who responded no: • Two professional services firm (PP#1, MA#4) and another professional body (IPA#18) did not identify any specific audit or assurance challenges. One regulator (ACNC#8) only noted the importance of assurance to the sector without specifically identifying any assurance concerns with the proposals.

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
Q7) Usefulness of financial statements	20 (9 surveys + 11 written submissions from PP#1, TNA#2, NAVA#3, MA#4, ORIC#6, SD#7, ACNC#8, KPMG#10, CPA/CAANZ #11, DH#16, IPA#18)	6 (3 surveys + 3 written submissions from WULN#5, ET#12, BDO#15)	0	From those who responded yes: • One preparer stated that there are many small NFPs and they think it would have an impact on them; • An advisor stated that it will depend on client by client. The concern is that there will be transition costs and efforts. If too much information comes through from a disclosure point, it will put people off. The measurement changes are positive; • Two stakeholders (TNA#2, NAVA#3) considered that the new framework could increase transparency while allowing small arts organisations to remain financially sustainable by adopting a proportionate, practical approach. Another stakeholder (DH#16) also agreed that the proposals will result in useful financial statements, subject to their concerns being resolved and reiterated that the proposals should also apply to for-profit and public sector entities; • Four professional services firms (PP#1, MA#4, SD#7, KPMG#10) considered the proposals broadly resulting in financial statements that are useful to users with MA#4 emphasising that Tier 3 proposals continue to be prepared on an accrual basis and PP#1 noting that while there are additional accounting policy choices available compared to Tier 2, they see the choices are generally in areas not often entered into by entities of the size envisaged by the AASB; and • Two regulators (ORIC#6, ACNC#8) and three professional bodies (CPA/CAANZ#11, IPA#18) considered the proposals would improve the consistency of financial information, promote transparency and accountability, and ultimately produce financial statements useful to users for smaller NFP entities that will be of benefit to all users, including regulators. ACNC#8 considered that the improved transparency and accountability from the Tier 3 proposals outweigh the cost of transitioning to the new Standard. From those who responded no: • One preparer stated that the financial statements would be utterly meaningless and unnecessarily complicated; • One professional services firm (BDO#15) considered their major concerns regarding lack of consolidation/equity accounting and non-restatement of prior period errors would not result in financial statements that are useful to users. However, for entities without subsidiaries, associates or joint ventures, and where there are no prior period errors, then the proposals would result overall in financial statements useful for the intended size of NFP entities that may apply the Tier 3 Standard; and

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[9]	Comment where provided
				• Two other stakeholders (WULN#5, ET#12) stated that they believe the proposals are onerous and unnecessary, and will give rise to costs far exceeding the related benefits. Their comments were directed most particularly to the proposals in ED 334. WULN#5 added that financial report users are primarily concerned with its general financial viability and that complex accounting standards add minimal value to users' understanding.
Q8) Other comments	12 (12 written submissions from PP#1, ADC#9, JC#14, AICD ED334#11 and detailed comments provided in Table 3 by 8 other written submissions)	12 (12 surveys)	-	11 written submissions (PP#1, MA#4, SD#7, ACNC#8, ADC#9, KPMG#10, CPA/CAANZ#11, JC#14, BDO#15, DH#16, IPA#18, AICD ED334#11) provided further comments for some or all sections shown in Table 3 below and/or the comments noted below: • One professional services firm (PP#1) also advocated for the whole NFP reporting framework to be reviewed in light of the upcoming issue of the international non-profit accounting guidance (INPAG), to assess whether any amendments to Tier 1 and Tier 2 NFP entity requirements are needed; • While a stakeholder (ADC#9) did not oppose the Tier 3 requirements, they recommended: ○ simplifying the Tier 3 GPFS and providing administrative support to small to medium NFPs to enable them to transition to GPFS without an increase in administration; and ○ removing the requirement to have an external auditor to produce the new Tier 3 GPFS, to reduce the financial burden of this change; • Another stakeholder (JC#14) considered it impossible to make a conclusive submission on the Exposure Drafts without understanding the reporting sizes that various regulators will adopt. Therefore, their overall comment is for the AASB to reconsult on the EDs once regulators make relevant changes to specify which entities could apply Tier 3 GPFS so stakeholders can respond more effectively to the impact of the proposed changes. Similar comments were expressed by two professional bodies (LCA ED334#7 and QLS#17) encouraging the AASB to work with Commonwealth and State/Territory Governments to articulate the intended application of the Tier 3 Standard to enable the sector to respond more effectively to the likely impact of the proposals; and • Another stakeholder (AICD ED334#11) considered the AASB has not conducted a full assessment of the transition costs from SPFS to GPFS and ongoing compliance costs but stated it would have been helpful to provide an estimate on the *current* proposals, especially if they will reduce the reporting burden on smaller NFPs.

12 The summary of feedback received relating to SMCs 9 – 40 and GMCs 41 – 44 is set out in Table 3 below. As noted in Agenda Paper 6.2 at the March 2025 Board meeting, staff have presented feedback from some stakeholders who attended a virtual or in-person roundtable session at the March 2025 Board meeting, that may not necessarily represent their final views in their written submissions.

Table 3 Summary of responses to SMC 9 – 40 (sourced from virtual and in-person outreach responses and externally organised session/meetings only. As stated in paragraph 9, staff did not cover all the SMCs in ED 335 at these outreach sessions – these questions are indicated by an asterisk. Also, no polling was conducted at the in-person outreach sessions or externally organised meetings. Therefore, the percentages of the respondents' responses reflected in the first column titled 'SMC' relates only to the polling responses at the virtual outreach sessions.)

SMC	Comments where provided

Q9) Section 1: Objective, Scope and Application
 	
<u>From virtual/in-person outreach and external meetings</u>
 	
Agree: 26 (79%)
 	
Disagree: 1 (3%)
 	
Unsure: 6 (18%)
 	
Total: 33
 	
<u>From written responses</u>
 	
Agree: 3 (PP#1, SD#7, KPMG#10)
 	
Agree with exception: 4 (MA#4, GT#13, BDO#15, IPA#18)
 	
Disagree: 2 (CPA/CAANZ#11, DH#16)
	From outreach sessions, staff heard that:
	
	• most stakeholders generally agreed with the proposals. However, a few stakeholders were unsure about requiring entities to apply AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* as there may be judgement in determining when an asset is considered 'held for sale', since there is a view that all assets in essence are held for sale; and
	
	• only a few stakeholders disagreed and preferred the Standard to be entirely self-contained, that is, not to require opt-up to Tier 2 for any topics. They considered entities should be permitted to apply the hierarchy approach proposed in Section 9 to develop their own accounting policies for transactions, other events or conditions for any topics not included in the Tier 3 Standard rather than sending entities to apply Tier 2 requirements, which can be complex. For example, consistent with the concerns of unsure stakeholders, they expressed concerns that requiring the application of AASB 5 can be challenging, as the assets classified as held for sale would need to meet specific criteria and implying that management follows through with the plan to sell, with the added complexity of determining fair value. They noted the desire for simplified reporting requirements to be made available to for-profit entities. One representative of a professional body shared the same sentiment where they have heard stakeholder feedback that the Standard should be self-contained.
	
	From written submissions:
	
	• Three professional services firms (PP#1, SD#7, KPMG#10) agreed with the proposals with no further comments. Three other professional services firms (MA#4, GT#13, BDO#15) and one professional body (IPA#18) generally agreed, except:
	
	  ○ MA#4 considered guidance on non-current assets classified as held for sale should be included in the Tier 3 Standard even though they considered discontinued operations may be less common;
	
	  ○ GT#13 and BDO#15 disagreed with requiring compliance with AASB 141 *Agriculture* and recommended entities apply similar requirements as those proposed in Section 12 for inventories (i.e. apply the cost model, rather than the fair value model), as they noted a growing subset of smaller NFP entities operating community gardens or similar. BDO#15 suggested either developing some simplified requirements to address these transactions or excluding AASB 141 from the list of standards so entities can apply the hierarchy approach for selecting accounting policies contained in para 9.5(a); and
	
	  ○ IPA#18 considered the proposed scope paragraph 1.3 long and difficult to navigate, suggested it be shortened and provided some editorial suggestions; and
	
	• However, three stakeholders (two other professional bodies (CPA/CAANZ#11) and DH#16) disagreed with requiring entities to apply Tier 2 requirements for certain transactions, other events or conditions, although CPA/CAANZ#11 agreed that the accounting requirements referred to in para 1.3 would be uncommon or complex for smaller NFPs. Those three stakeholders recommended to make the Standard a standalone document so that entities should be permitted to apply the hierarchy approach proposed in

SMC	Comments where provided
	Section 9 to develop their own accounting policies for transactions, other events or conditions for any topics not included in the Tier 3 Standard rather than sending entities to apply Tier 2 requirements. In particular, they consider requiring Tier 3 NFPs to refer to AASB 9 for complex financial instruments is likely to be problematic (even in rare circumstances), and they believe the list of basic instruments is incomplete. Therefore, they recommended including in the Tier 3 Standard simplified requirements based on AASB 9 for all complex financial instruments. They also recommended that, if the Board proceeds with the approach proposed in para. 1.3, it should clarify in para 1.3 that transactions not covered by the Tier 3 Standard are uncommon for Tier 3 NFPs and para. 1.3 should only be applied when relevant. One stakeholder (DH#16) also noted that the IFRS for SMEs Standard and the upcoming INPAG Standard achieved setting out all their requirements in a standalone Standard. DH#16 made the following comments for each topic scoped out under para. 1.3: ○ AASB 2 *Share-based Payment* – in the highly unusual situation of a Tier 3 NFP entity issuing equity, the entity should be able to develop an appropriate accounting policy based on the proposed provisions of the Tier 3 Standard, which could be determined with reference to AASB 2; ○ AASB 4 *Insurance Contracts* (revised AASB 17 *Insurance Contracts*) and AASB 1023 *General Insurance Contracts* – entities issuing insurance would have public accountability and fall outside Tier 3 entity criteria; ○ AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* – the Tier 3 Standard should include the relevant provisions of AASB 5, except that there should be no need to reclassify assets and liabilities as held for sale and no requirements for discontinued operations. The Tier 3 requirements should include an impairment assessment if an entity is planning to sell an asset; ○ AASB 6 *Exploration for and Evaluation of Mineral Resources* is likely to be relevant to for-profit entities only. They commented the requirements of AASB 6 are inconsistent with the proposed requirements for intangible assets. So they consider an entity should be able to develop an appropriate accounting policy based on the proposed requirement for intangible assets or apply Tier 1/Tier 2 Standards; ○ AASB 9 *Financial Instruments* and other application Australian Accounting Standards in relation to complex financial instruments – they considered the standard already has fair value requirements which could be applicable to complex financial instruments without the need to require entities to apply Tier 2 requirements. In addition, the requirements of AASB 9 are more complex and would be more restrictive regarding the circumstances in which changes in fair value could be recognised through other comprehensive income; ○ Regarding AASB 119 *Employee Benefits*, defined benefit plans are very uncommon for Tier 3 entities. DH#16 does not consider there is a need to recognise and apply the complex provisions for defined benefit plans and instead, referring to the last actuarial or balance sheet to recognise a liability for any deficit would be useful and relevant; and ○ AASB 141 *Agriculture* – they considered applying a cost model is appropriate as, in their view, smaller entities will only likely have short-term crops or farming and applying mark-to-market accounting and accounting separately for bearer plants are complex.

SMC	Comments where provided

Q10) Section 2: Financial Statement Presentation
 	
<u>From virtual/in-person outreach and external meetings</u>
Agree: 28 (97%)
Disagree: -
Unsure: 1 (3%)
Total: 29
 	
<u>From written responses</u>
Agree: 6 (SD#7, ACNC#8, KPMG#10, CPA/CAANZ#11, GT#13, DH#16)
Agree with exception: 4 (PP#1, MA#4, BDO#15, IPA#18)
Disagree: -
	From outreach sessions, staff heard that almost all stakeholders agreed with the proposals, except one stakeholder (staff of a professional services firm that attended an in-person outreach session) who disagreed with requiring a statement of changes in equity.
	From written submissions:
	• Three professional services firms (SD#7, KPMG#10, GT#13), two professional bodies (CPA/CAANZ#11) and one other stakeholder (DH#16) agreed with all proposals in Section 2 with no further comments. A regulator (ACNC#8) generally agreed, stating that it supported an exemption to align with the changes in AASB 18 *Presentation and Disclosure in Financial Statements*, particularly regarding the presentation of newly defined subtotals in the statement of profit or loss. In addition, that regulator:
	  o suggested that para. 4.5 should cross-refer to other relevant sections (e.g. Section 13); and
	  o made various other suggestions (detailed below in SMC 12) to improve the drafting of the presentation and disclosure requirements; and
	• Three other professional services firms (PP#1, MA#4, BDO#15) and one professional body (IPA#18) generally agreed with requiring a statement of financial position, a statement of cash flows and notes to the financial statements but disagreed with other aspects of the proposed financial statements, particularly:
	  o PP#1 considered referring to 'other comprehensive income (OCI)' may be confusing to many NFPs. They suggested requiring a separate statement of income and expenses, which would eliminate the need to choose whether a single statement of profit or loss and OCI or a separate statement of profit or loss and a separate statement of OCI should be prepared, to make it simpler for users and preparers. PP#1 also disagreed with the rationale provided in para. BC 33 to BC 36 for retaining OCI information and considered that users for smaller NFP entities would not find the inclusion of OCI useful for assessing an NFP entity's performance. MA#4 and IPA#18 suggested eliminating the choice to present a single statement or separate statements to present profit or loss and other comprehensive income, and instead requiring only the two-statement approach for further simplification, with IPA#18 suggesting to require the most commonly used and simplest presentation. However, an alternative method of presentation could also be permitted if the entity can demonstrate it would provide more useful information. IPA#18 also provided editorial suggestions for para 2.5 to improve readability;
	  o PP#1, MA#4, BDO#15 considered a statement of changes in equity less relevant for an NFP entity and proposed that it be removed from the Tier 3 requirements. Instead, two firms suggested that information about reserves can adequately be included within the statement of financial position and the notes to the financial statements (PP#1 and BDO#15). Another firm (MA#4) suggested the alternative presentation of a statement of income and retained earnings (as proposed in para 2.2 and discussed in SMC 11) be the default presentation unless additional reserves are recognised; and
	  o MA#4 disagreed with para 2.25(d) requiring financial statements to be presented in Australian dollars, noting that some organisations operate in other jurisdictions (e.g., charities operating in developing countries) where Australian dollars may not be the functional currency. As such, they considered making presentation in Australian dollars a rebuttable presumption. See also their comments on SMC 35 regarding Section 26: *Foreign Currency Translation*.

SMC	Comments where provided

Q11) Section 2: Statement of Changes in Equity
 	
<u>From virtual/in-person outreach and external meetings</u>
Agree: 23 (79%)
Disagree: 2 (7%)
Unsure: 4 (14%)
Total: 29
 	
<u>From written responses</u>
Agree: 6 (SD#7, KPMG#10, CPA/CAANZ#11, AICD: ED 334 #11, GT#13, DH#16)
Agree with exception: 2 (MA#4, IPA#18)
Disagree: 2 (PP#1, BDO#15)
	From outreach sessions, staff heard that:
	• almost all stakeholders agreed with the proposals, with one stakeholder noting the importance of providing information about adjustments and movements in equity. Additionally, a few stakeholders advocated for the continued presentation of a statement of changes in equity (or the alternative presentation of a statement of income and retained earnings). They prefer consistency between entities and in their experience, smaller entities do not have difficulties in preparing the statement of changes in equity;
	• only a few stakeholders disagreed, mainly because they considered Sections 3 – 7 to be very lengthy. They suggested simplifying GPFS for Tier 3 entities by using concise language and reducing accounting policy choices. They preferred the Tier 3 requirements to provide a single, consistent requirement for all entities, which either require or prohibit a statement of retained earnings based on set criteria; and
	• a stakeholder expressed uncertainty about when a statement of retained earnings is required under the proposed requirements. They suggested explicitly stating that any reserve movements should necessitate a statement of changes in equity would be clearer, despite the proposals being based on similar language in AASB 1060.
	From written submissions:
	• Three professional services firms (SD#7, KPMG#10, GT#13), three professional bodies (CPA/CAANZ#11, AICD: ED 334 #11) and one other stakeholder (DH#16) agreed with the proposals not to require a statement of changes in equity where it meets certain criteria. One professional services firm (MA#4) agreed with the exception that a single statement of income and retained earnings should be the default option unless an entity has additional reserves that need to be recognised. Another professional body (IPA#18) agreed with the exception that, as per their response to SMC 10, they suggested analysing the most commonly used and simplest presentation style and requiring it as the default presentation style for smaller NFP entities. An alternative presentation style could be permitted if the entity can demonstrate it would provide more useful information; and
	• However, two professional services firms (PP#1, BDO#15) disagreed with the proposed exception and considered having a choice to prepare a statement of changes in equity or a statement of income and retained earnings based on certain criteria is confusing for preparers and users of financial statements. They considered that equity information should be detailed in the notes supporting the financial position statement. BDO#15 added that if no statement of changes in equity is required, the choice to provide a statement of income and retained earnings should also be removed. However, BDO#15 noted that if the Board proceeds to require a statement of changes in equity:
	    ○ they would agree with the concept of having a single statement of income and retained earnings in place of the statements of comprehensive income and changes in equity in certain limited circumstances; and
	    ○ they suggested clarifying in para 2.20 and 5.4 that an entity may prepare a single statement of income and retained earnings only if the changes in equity are confined to profit or loss and other movements in retained earnings (e.g. it would not be permitted if a movement in asset revaluation occurs).
	BDO#15 also proposed that any wording changes to the Tier 3 wording (which mirrors that of AASB 1060) should be made to AASB 1060 as well.

SMC	Comments where provided

Q12) Sections 3 – 7: Presentation and Disclosure Requirements*
 	
<u>From written responses</u>
Agree: 5 (SD#7, KPMG#10, CPA/CAANZ#11, GT#13, IPA#18)
Agree with exception: 5 (PP#1, MA#4, ACNC#8, BDO#15, DH#16)
Disagree: -
	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions.
	• Three professional services firms (SD#7, KPMG#10, GT#13) and three professional bodies (CPA/CAANZ#11, IPA#18) agreed with the proposals in Sections 3 – 7, noting the requirements are consistent with Tier 2 requirements. IPA#18 also identified paras 4.10, 6.2 – 6.4, and Section 7 as useful because they are clear, concise, and easily understandable. Three professional services firms (PP#1, MA#4, BDO#15), one regulator (ACNC#8) and one other stakeholder (DH#16) generally agreed but made specific comments for:
	  ○ Statement of financial position:
	    ▪ PP#1 considered the disclosures required for the statement of financial position in paragraphs 3.2 and 3.8 are appropriate, but that it would consider including common equity line items as well to support the comments to SMC 11 that a statement of changes in equity should not be required; and
	    ▪ MA#4 commented that para. 3.2(k) refers to financial liabilities excluding provisions, and expressed concern that this suggests incorrectly that provisions are a subset of financial liabilities; therefore, they recommended removing the reference to provisions from para. 3.2(k). MA#4 also commented that the disclosure requirements in para. 3.8 (disclosure in the statement of financial position or notes of further subclassifications of line items presented) duplicate many requirements in para. 3.2 (line items for the statement of financial position). This is especially a concern when some line items such as property, plant and equipment don't even have suggested disaggregation in para. 3.8. They recommended that the Board considers whether para. 3.2 and 3.8 can be aggregated for simplicity, or whether additional disaggregation could be required and include it in relevant (topic-based) sections of the Standard. Furthermore, MA#4 commented that the requirement in para. 3.11 to provide disclosures about liabilities with covenants is very principles-based, and suggested that the Board should consider simplifying the disclosure requirement further for preparers by providing more specific requirements.
	  ○ Statement of profit or loss and other comprehensive income:
	    ▪ PP#1 considered OCI information should not be required in paragraphs 4.4 and 4.5 as per their comments provided on SMC 10 (PP#1); and
	    ▪ MA#4 considered the requirements should align more closely with the requirements in AASB 18 as this will be the applicable general requirements standard when the proposed Tier 3 standard comes into effect. They consider entities should have the option of presenting their analysis of expenses as a mixture of function and nature, rather than solely one method, to be consistent with AASB 18 and because NFP entities already present a mixed analysis of expenses in practice. Consistent with ED 335, ACNC#8 supported an exemption to align with the proposed changes under AASB 18, particularly regarding presenting newly defined subtotals in the statement of profit or loss.
	  ○ Statement of changes in equity:
	    ▪ PP#1 and BDO#15 considered this statement should not be required. As such, the information required in paragraphs 5.3 and 5.5 for disclosures of a movement reconciliation for retained earnings and each other component of equity should be included in Section 7 as part of the notes to the financial statements (PP#1). However, BDO#15 considered if this statement is retained, they suggested a specific materiality reference is included, similar to that made in paras 3.2 and 4.4

SMC	Comments where provided
	for the statement of financial position and statement of profit or loss and other comprehensive income, to clarify that line items that are zero or not applicable can be omitted. o Statement of cash flows: ▪ PP#1 considered a single option for presenting cash flows from operating activities should be required rather than allowing an option of either the direct or indirect method. Their preference is the direct method, which is commonly adopted in Australia (PP#1); ▪ MA#4 considered with the introduction of AASB 18 and related amendments in AASB 107 *Statement of Cash Flows,* it would be more appropriate that interest and other receipts from investments and loans and interest paid in para 6.4(g) be classified as investing/financing cash flows rather than operating with consequential amendments needed in para 6.14. They also consider only permitting operating cash flows to be calculated using the direct method as the most common method used in Australia and simplifies the requirements. However, if the indirect method was retained as an option, then greater clarity is needed of the relationship between para. 6.8 and 6.9 (e.g. consider deleting para. 6.9) as the approaches appear to be similar; ▪ ACNC#8 recommended replacing 'operating activities' with 'ordinary activities' as being more closely aligned with ACNC guidance and helps distinguish revenue-generating activities from other income. They also commented that para 6.13 allows interest payments and interest/dividend receipts to be classified as either operating or other activities, whereas para. 6.4 lists them as arising from operating activities only, and consider this may create uncertainty with the application of the requirements. They suggested combining para 6.2 (i.e. description of cash equivalents) with para. 6.18 and 6.19 (i.e. disclosure requirements for components of cash and cash equivalents, and examples of why cash and cash equivalents might be unavailable for use by the entity) because they are closely related; and ▪ DH#16 suggested changing the example in para 6.12 relating to borrowing and repayment of short-term loans because they considered it an unlikely scenario for smaller NFP entities. They also considered that the para 6.19 example of cash that is held but cannot be used by the entity does not make sense. They suggested changing the text to reflect a group context as per para. 8.35(d) of ED335 (similar to. Para. 48 of AASB 107) or, if the example is retained for an entity context, to reflect cash with restrictions (e.g. unspent government grants/subsidies). o Notes to the financial statements: ▪ PP#1 generally agreed with Section 7, subject to including the additional information about movements in retained earnings and each other component of equity in lieu of a statement of changes in equity; ▪ ACNC#8 considered adding some examples to illustrate para 7.7 (disclosure of accounting policy information) and 7.8 (information about judgements) and adding an encouragement of entity-specific disclosures for these aspects would be beneficial as they observed some charities using boilerplate disclosures; and ▪ DH#16 considered para 7.3 difficult to understand and preferred the language used in para 112 of AASB 101 (i.e. para 91 of AASB 1060) regarding the presentation of material information that is not presented elsewhere in the financial statements.

SMC	Comments where provided
Q13) Sections 3 – 7: Guidance on presenting analysis of expenses <u>From virtual/in-person outreach and external meetings</u> Agree: 21 (72%) Disagree: 2 (7%) Unsure: 6 (21%) Total: 29 <u>From written responses</u> Agree: 5 (SD#7, ACNC#8, KPMG#10, GT#13, IPA#18) Agree with exception: 4 (PP#1, MA#4, BDO#15, DH#16) Disagree: 1 (CPA/CAANZ#11)	**From outreach sessions, staff heard that:** • most stakeholders supported the guidance in paragraph 4.10 regarding presenting expenses based on an analysis of function or nature; and • only a few stakeholders were unsure, including the disagreeing stakeholder who noted that a mixed presentation of nature and function has been applied in practice and that AASB 18 *Presentation and Disclosure in Financial Statements* permits such presentation. They recommended a similar proposal to be adopted in Tier 3 with guidance in the form of a template or examples of how to present expenses by nature, function or both. **From written submissions:** • Six professional services firms (PP#1, MA#4, SD#7, KPMG#10, GT#13, BDO#15), one regulator (ACNC#8), one professional body (IPA#18) and one other stakeholder (DH#16) supported the guidance outlined in paragraph 4.10 regarding disclosures required in the analysis of expenses by nature or function. However, of those respondents, PP#1, MA#4, BDO#15 and DH#16 suggested to explicitly permit an entity to present the expense by a mixed basis of nature and function as permitted by AASB 18; • MA#4 also suggested including additional guidance on summarising and classifying expenses. MA#4 also noted that NFP entities often present expenses based on their trial balance, which may not be user-friendly. The firm suggested that more guidance in this area would improve the presentation of financial information; and • Although other professional bodies (CPA/CAANZ#11) disagreed with the approach in para. 4.10, they provided similar responses to those stakeholders that agreed that a hybrid approach combining elements of nature and function analyses is likely to meet the needs of a broad range of stakeholders in the NFP sector. They noted this alternative approach is adopted by the New Zealand Tier 3 simplified accruals-based standard for NFP entities.
Q14) Section 8: Notable Relationships and Consolidated and Separate Financial Statements <u>From virtual/in-person outreach and external meetings</u> Agree: 23 (85%) Disagree: 1 (4%) Unsure: 3 (11%) Total: 27	**From outreach sessions, staff heard that:** • Most stakeholders agreed with the proposals in Section 8, including: 1) the approach to identifying notable relationship entities; 2) the option for parent entities to present consolidated or separate financial statements; and 3) the accounting policy options for measuring investments in notable relationship entities. They supported the proposals, noting that determining control is not always clear for NFP entities compared to for-profit entities. Often, NFP groups may have different tax structures, so the option to present separate financial statements instead of consolidated financial statements is helpful. However, some of these stakeholders found the requirements unclear, particularly regarding the requirement that investments in notable relationship entities must be measured as a single class. Nevertheless, they considered smaller NFP entities typically don't hold investments in associates or joint ventures, or participate in joint operations; as such, they were not concerned with the proposals as drafted. While agreeing with the proposal, one stakeholder had concerns about whether a change in accounting policy between consolidation and non-consolidation with presentation of investments in notable relationship entities would qualify as an accounting policy change and thus need to satisfy the criteria in Section 9 for making such a change. They noted that NFP entity boards change often, and those criteria in Section 9 might tie down the entity to the accounting policy choice of a previous board; • Stakeholders who were unsure (including a few stakeholders that agreed with the proposals), while considering the issue to be a regulatory matter, noted that some legislation determines an NFP entity's reporting size based on consolidated revenue while some

<u>From written responses</u> Agree: 3 (MA#4, KPMG#10, IPA#18) Agree with exception: 5 (PP#1, SD#7, ACNC#8, CPA/CAANZ#11, DH#16) Disagree: 2 (GT#13, BDO#15)	legislation is based on amounts for a single entity. This can add complexity to the proposed requirements, especially for entities transitioning between tiers and may remove the benefit of allowing the accounting policy choice if entities still need to determine their reporting size based on either single entity or consolidated revenue. Another stakeholder expressed concerns about the loss of information about the economic group, and therefore the importance of useful disclosures in separate financial statements to compensate for the loss of information. One stakeholder also noted that NFP entities may still consider the identification of notable relationships entities complex given the complex structures (e.g. native titles and discretionary trusts) that NFP entities may operate; and • The few stakeholders that disagreed (mainly auditors/advisors at external meetings) considered most medium-sized parent entities would opt not to present consolidated financial statements, leading to a loss of financial information about the economic group, especially for indigenous corporations with associated trusts and corporations controlled by the entity. One stakeholder also noted that in their experience, the application challenge is assessing the type of relationship/investment of the entity, whether it is an associate, joint venture, or subsidiary, rather than applying consolidation procedures or equity accounting. Hence, they prefer that the presentation of consolidated financial statements continues to be required. **From written submissions:** • Two professional services firms (MA#4, KPMG#10) and one professional body (IPA#18) agreed with the proposals. Two other professional services firms (PP#1, SD#7), one regulator (ACNC#8), two other professional bodies (CPA/CAANZ#11) and one other stakeholder (DH#16) generally agreed with the proposals except: o PP#1 disagreed with including the notable relationship disclosures about whether the financial statements are audited or reviewed as required by 8.6(d). They noted Tier 2 requirements do not require the disclosures, which they considered unnecessary, and noted that it would be difficult to obtain the information when the entity is an associate or joint venture; o SD#7 noted paras. 8.13 – 8.23 appears to be extracts from the current Tier 2 requirements and suggested further simplifying the language in relation to control 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. They also considered it unclear why Appendix E of AASB 10 illustrative examples and principles relevant to NFP private sector entities are not included within the illustrative examples of the draft Tier 3 Standard. They reiterated the need to amend Appendix E of AASB 10 prior to the removal of SPFS, as they considered its requirements flawed; o ACNC#8 considered allowing a choice to prepare consolidated financial statements will reduce 'red tape'. They noted that in their 2023 Annual Information Statement data, 5% of charities preparing SPFS consolidated more than one entity in their financial statements with 79 of those charities reporting annual revenue exceeding $10 million and expected to transition to Tier 1 or 2 GPFS. They also suggested some editorials to use terms such as 'controlling entity' (instead of Investor) and 'controlled entity' (instead of Investee) and replace 'variable returns from involvement with the investee'' with 'variable benefits or impacts arising from its relationship with the controlled entity'; o CPA/CAANZ#11 disagreed with allowing the option to measure investments in notable relationships entities using the equity method because that choice is inconsistent with the decision not to consolidate and introduces known complexities around the fundamental principles of equity accounting; and

SMC	Comments where provided
	○ DH#16, as per their comment on SMC 2, disagreed that the option to present consolidated financial statements is an accounting policy choice because it will make the decision to change presentation from year to year challenging. They support allowing a year-by-year election similar to the current intermediate parent entity election for preparing consolidated financial statements under AASB 10 *Consolidated Financial Statements*. They also considered Section 8 difficult to understand with respect to whether an entity is required to distinguish between investments with, respectively, control, joint control or significant influence. If entities are required to distinguish the types of entities (which Section 13 appears to require), then this may contradict the intent of the proposal not to require the presentation of consolidated financial statements given the difficulties entities have in determining whether they control other entities. The confusion of the requirement is exacerbated by the use of the term ‘separate financial statements’ to describe entities preparing individual financial statements and separate financial statements that are in addition to consolidated financial statements that a parent entity prepared. They also noted that para 8.22 (determining power) appears very for-profit focused; and • However, two other professional services firms (GT#13, BDO#15) disagreed with not mandating consolidation as they consider the preparation of consolidated financial statements to provide users with a full understanding of the financial performance of an economic entity. In particular, these stakeholders provided the following comments: ○ GT#13 considered not requiring consolidation financial statements contradicts the direction taken by the Board in regard to Tier 2 requirements for ultimate Australian parent entities in the for-profit sector. Therefore, they recommend that alignment with Tier 2 requirements to continue to mandate the presentation of consolidated financial statements. Similar to DH#16, they also noted confusion in drafting where para 8.10 permits separate financial statements to be prepared [instead of consolidated financial statements] but para 8.36 states that “separate financial statements are [those presented] in addition to consolidated financial statements …”. They see these sentences as contradictory and recommend amendments to them. In addition, to improve readability, they recommended relocating such an explanation of the meaning of ‘separate’ and ‘consolidated’ financial statements to follow immediately after para. 8.10; and ○ BDO#15, as per their discussion paper response, disagreed with the proposal as they considered the mechanics of preparing consolidated financial statements are not complex for NFP entities and determining whether there are subsidiaries can be equally complex for both Tier 2 and Tier 3 NFP entities in relation to determining whether the ‘power’ criterion has been met. Without consolidated financial statements, a lack of transparency for funding providers will result, where some funders may provide excess funds to individual entities in a group since they lack the economic group information. The potential for information loss is higher for organisations that have multiple subsidiary entities operating below regulatory reporting thresholds. Despite disagreeing with the proposal, should the Board decide to proceed with it, they generally agree with section 8 except: ▪ they expressed reservations about the usefulness of notable relationship disclosures because they lack financial information about the notable relationship entities. As such, they recommend requiring disclosures of financial data including total income, total assets and total liabilities, unless impracticable; ▪ while the circumstance is rare, they noted significant application issues where a subsidiary is a Tier 2 entity and para. 8.27 requires the subsidiary to use the same accounting policies as the group which may be operating on a Tier 3 framework;

SMC	Comments where provided
	▪ clarification of para 8.5(b) may be required (i.e. an entity can make an irrevocable election at the initial recording of a particular investment to present changes in its fair value in other comprehensive income), regarding whether the election can be made at initial recording for individual notable relationship investments. They suggested clarification be added below para. 8.5(c) to expand on whether or not applying the same accounting policy for all notable relationships allows having some relationships at FVTPL and some at FVTOCI; ▪ clarification is required between the interaction of para 8.5 (measurement of investments in notable relationship entities in separate financial statements) and para 8.37 (measurement of investments in subsidiaries, associates and joint ventures in separate financial statements) as they relate to separate financial statements but appear to conflict in the number of measurement bases permitted for different investments composing all of an entity's investments in notable relationship entities. They recommend that in the basis for conclusions, the Board expands on the rationale for permitting different measurement bases for different classes of such investments under para. 8.37 only, i.e. that the difference may have been that notable relationships have not been separately identified as subsidiaries, associates and joint ventures, and therefore are treated the same under para. 8.5; and ▪ similar to GT#13, they consider the drafting in section 8 is overly complex and recommended adding a clarification paragraph to explain that entities with notable relationships can choose either: 1) not to assess whether they have subsidiaries, associates or joint ventures and prepare separate financial statements; or 2) to assess whether they have subsidiaries, associates or joint ventures, requiring preparation of consolidated financial statements (including keeping the consolidation requirements in a separate section) or an investor that is not a parent preparing financial statements which equity account investments in associates and joint ventures. Entities applying the second option could choose to also prepare separate financial statements and apply the measurement options in para. 8.37, and would not need to comply with the notable relationship requirements in para. 8.1 – 8.7.
Q15) Section 9: Accounting Policies, Estimates and Errors <u>From virtual/in-person outreach and external meetings</u> Agree: 14 (61%) Disagree: 4 (17%) Unsure: 5 (22%) Total: 23 <u>From written responses</u> Agree: 1 (ACNC#8)	**From outreach sessions, staff heard that:** • Many stakeholders agreed with the Board's proposals for mandatory modified retrospective application of changes in accounting policies and corrections of prior period errors. They noted that some errors might affect multiple line items; hence, it can be costly to change comparative period information. Other stakeholders considered that users prioritise the accuracy of current period amounts over comparative period information; • However, some stakeholders, including those who attended the in-person outreach sessions or those who attended external meetings, disagreed mainly about not requiring comparative information to be corrected for prior period errors. These stakeholders (mainly auditors/advisors) noted the importance of correcting a known material error in the comparative period, and that some prior period errors may be identified upon taking over an assurance engagement. They considered an emphasis of matter may be required if comparative information is not adjusted for a known error. They also emphasised that the current practice, as confirmed by preparers, is to correct comparative information for prior period errors, and preparers would like to continue this practice not only for transparency and accountability, but also for ethical and good governance reasons. Although stakeholders recognized the challenges and costs associated with correcting comparative period information for prior period errors, there was a general

<table>
<tr><th>SMC</th><th>Comments where provided</th></tr>
<tr><td>Agree with exception: 9 (PP#1, MA#4, SD#7, KPMG#10, CPA/CAANZ#11, GT#13, BDO#15, DH#16, IPA#18)

Disagree: -</td><td>inclination to correct that information. However, feedback (including from the stakeholders who were unsure) varied on whether the correction of comparative period information for prior period errors should be optional or mandatory; and
• Some stakeholders also expressed concern that requiring a modified retrospective approach might add to the costs of educating staff who are familiar with the fully retrospective approach in existing Tier 1/Tier 2 requirements.

From written submissions:
• One regulator (ACNC#8) and a professional body (AICD ED334#11) agreed with the proposals. ACNC#8 agreed with not requiring correction of prior period accounting errors as they consider the proposed disclosures will maintain public trust in the charity sector, reduce ‘red tape’, and can have a material impact on the decision of donors. AICD ED334#11 agreed with allowing entities to develop an accounting policy based on the proposed hierarchy approach rather than requiring entities to apply Tier 2 requirements as a first step which may not be appropriate for the scope of NFP’s transactions and other events. Six professional services firms (PP#1, MA#4, SD#7, KPMG#10, GT#13, BDO#15), three other professional bodies (CPA/CAANZ#11, IPA#18) and one other stakeholder (DH#16) generally agreed with the proposals, except for the following:
<u>Accounting policies for topics not dealt with in Tier 3 Standard</u>:
o MA#4 recommended that the Board considers whether the requirement as should default to Tier 1 & Tier 2 requirements for topics not dealt with in the Tier 3 Standard, consistent with para. 1.3, as they consider an entity would apply the hierarchy approach to occasional exceptions and generally would relate to more complex transactions. They consider auditors/advisors would likely default to existing Tier 1 and Tier 2 requirements and allowing entities to develop their own accounting policies would lead to inconsistency.
<u>Correction of prior period accounting errors</u>
o PP#1, MA#4, SD#7, KPMG#10, CPA/CAANZ#11, GT#13, BDO#15 and DH#16 disagreed with the proposal to require application of a modified retrospective approach to correct a material prior period error without restating comparative period information. While SD#7, KPMG#10, CPA/CAANZ#11, GT#11, BDO#15, DH#16 considered that retrospectively restating comparative period information should be mandatory when correcting material prior period errors, PP#1 and MA#4 preferred that entities should be provided an option to retrospectively restate comparative period information. In particular:
• SD#7 considered that there is little or no cost or simplification benefit compared to actually correcting the comparative information, given the error is required to be quantified and corrected as an opening adjustment, and disclosures of the nature of the error are required. SD#7 also considered the drafting of paras. 9.22 to 9.25 is unclear regarding whether only material errors can be corrected using the modified retrospective approach;
• PP#1 and MA#4 considered the benefit of comparability and better information to users, could outweigh the cost of changing the comparative period information depending on the nature of the error and whether the comparative adjustment is straightforward;
• KPMG#10 noted the risk of impairing the comparability of the financial results for the current and prior periods; and that Tier 1 and Tier 2 requirements already contain an ‘impracticable’ exemption from (full) retrospective restatement, which they suggested including in the Tier 3 Standard;</td></tr>
</table>

SMC	Comments where provided
	• CPA/CAANZ#11 and DH#16 considered the proposal could pose ethical challenges for auditors signing financial statements where they may have concerns that prior period information has been intentionally misstated. CPA/CAANZ#11 particularly referenced the application of ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report.* They considered that the proposed disclosures in para. 9.26 alone would be insufficient to meet user needs. DH#16 also stated they do not believe note disclosure or an auditor's emphasis of matter would overcome an unmet need to correct prior period comparative information; • GT#13 considers the proposal not to require the correction of comparative information for material prior period errors would contradict the objective of the proposed Standard, which para 1.1 of the Standard states as: "the objective is to …require the reporting of useful, consistent and transparent information"; and • Similarly, BDO#15 noted the emphasis that the Conceptual Framework gives to stewardship/accountability would mean that restating prior period information provides users with information regarding stewardship and management competence. Like CPA/CAANZ#11 and DH#16, they consider the proposed disclosures insufficient to compensate for not requiring a full retrospective approach to correcting prior period errors. <u>*Disclosures*</u> o IPA#18 considered the proposed disclosures of a change in accounting policy does not include additional disclosures for when the relief under para 9.12 is utilised (i.e. when it is impracticable to determine the cumulative effect of the new policy) and suggested additional disclosures be included such as the reason(s) why it is impractical for the entity to determine the cumulative effect and how (i.e. what assessments) the entity has undertaken for the determination. They also suggested some editorial changes for para 9.4.
Q16) Section 10: Financial instruments – list of basic financial instruments <u>From virtual/in-person outreach and external meetings</u> Agree: 21 (95%) Disagree: 1 (5%) Unsure: 0 Total: 22 <u>From written responses</u> Agree: 6 (PP#1, SD#7, KPMG#10, GT#13, BDO#15, IPA#18)	**From outreach sessions, staff heard that**: • Many stakeholders agreed with the proposals, but some raised concerns about the classification of certain financial instruments. Specifically, a few stakeholders noted that financial guarantees and commitments to provide below-market interest rate loans are common practices among NFP entities, including smaller ones. Despite this, both instruments were categorised as complex or uncommon financial instruments. One stakeholder suggested maintaining the list as examples rather than an exhaustive list, arguing that a definitive list might result in more financial instruments falling outside the scope of Tier 3 requirements and necessitating the application of AASB 9 *Financial Instruments*. However, another stakeholder considered the decision between providing examples or an exhaustive list depends on the desired level of judgment granted to entities; that is, using examples would allow for a broader exercise of judgment, whereas an exhaustive list would limit interpretation. Another stakeholder, while agreeing with the proposals, considered clearer wording should be used to describe acquired listed shares, which should be referred to as equity shares; and • Only one stakeholder disagreed and preferred that the AASB develops principles to define what constitutes basic and complex financial instruments rather than creating a list. A list could exclude other products with similar features from being classified as basic or common financial instruments, potentially forcing them into the scope of AASB 9. Instead, the list could be used as illustrative examples to support the principles.

SMC	Comments where provided
Agree with exception: 2 (MA#4, CPA/CAANZ#11) Disagree: 1 (DH#16)	**From written submissions:** • Five professional services firms (PP#1, SD#7, KPMG#10, GT#13, BDO#15) and one professional body (IPA#18) agreed with the proposal as drafted and preferred that the list of basic or commonly held financial instruments be examples only, with some stakeholders noting that financial instruments can change over time, which means an exhaustive list may become outdated; • Another professional services firm (MA#4) agreed with the listed items but preferred the list to be exhaustive as they consider it would be simpler for preparers unfamiliar with financial instruments, who would be likely to struggle to determine which instruments are within the scope of Tier 3 requirements. Also, making the list exhaustive would promote consistency of treatment; • Other professional bodies (CPA/CAANZ#11) generally agreed with the financial instruments listed as basic or commonly held but they considered the list should also include some items currently listed as complex financial instruments in ED 335, including commitments to provide a loan to another entity at a below-market interest rate and financial guarantees; and • However, one stakeholder (DH#16) disagreed because they consider it unclear when to apply the requirements for basic financial instruments and when to refer to Tier 2 requirements. They also considered hybrid financial instruments, particularly hybrids issued by banks (and others) that have debt-like returns but have associated franking credits, should also be included in the basic financial instruments list.
Q17) Section 10: Financial instruments – list of complex financial instruments <u>From virtual/in-person outreach and external meetings</u> Agree: 17 (77%) Disagree: 3 (14%) Unsure: 1 (5%) Total: 22 <u>From written responses</u> Agree: 6 (PP#1, MA#4, SD#7, KPMG#10, GT#13, BDO#15) Agree with exception: 1 (IPA#18) Disagree: 2 (CPA/CAANZ#11, DH#16)	**From outreach sessions, staff heard that:** • Many stakeholders agreed with the proposal and considered Tier 3 requirements should refer entities to apply Tier 2 requirements for complex financial instruments; and • A small number of stakeholders expressed disagreement, primarily concerning the classification of financial guarantee contracts and concessional loan commitments as complex or less commonly held financial instruments, as they are more prevalent among NFP entities, including smaller NFP entities. One stakeholder suggested making the complex financial instruments list exhaustive to reduce the need for judgment and allow more unlisted financial instruments to fall under Tier 3 requirements. Only a few stakeholders opposed retaining a complex financial instrument list altogether, proposing instead that all financial instruments should be subject to Tier 3 requirements rather than requiring entities to apply AASB 9 for certain instruments. **From written submissions:** • Six professional services firms (PP#1, MA#4, SD#7, KPMG#10, GT#13, BDO#15) agreed with the proposals, including not making the list exhaustive to assist preparers not overly familiar with complex financial instruments to easily identify what is not in the scope of the requirements. PP#1 and SD#7 also consider the impact of the proposal to be minimal since the financial instruments are expected to be complex or uncommon; • However, other professional bodies (CPA/CAANZ#11) and one other stakeholder (DH#16) disagreed with requiring Tier 3 NFP entities to refer to AASB 9 and other applicable Australian Accounting Standards for financial instruments that are complex or uncommon. They recommended removing references to applying AASB 9 and that smaller NFP entities should be able to develop their own accounting policies by first referring to Tier 3 requirements (i.e., requirements developed for basic financial instruments). They expect that entities would automatically reach the conclusion that complex financial instruments should be measured at fair value. DH#16 noted that requiring application of AASB 9 would entail application of the 'solely payments of principal and interest'

SMC	Comments where provided
	and 'business model' tests and be more restrictive than the proposed Tier 3 requirements regarding when fair value movements may be recognised through other comprehensive income. DH#16 also suggested an alternative approach to accounting for financial guarantees, that is, to apply the proposed provision requirements which they stated was the previous accounting requirement before the introduction of IFRS/IAS 39. Additionally, they do not see applying AASB 9 for commitments to provide a loan at a below-market interest rate as ideal when those loans are required to be measured at cost under the Tier 3 requirements, and the below-market rates component is not expensed; and • Although IPA#18 agreed with the list of complex or less commonly held financial instruments, they also preferred not to refer entities to apply AASB 9 and other applicable Australian Accounting Standards and proposed that the Standard prescribes a measurement basis (such as fair value) for these financial instruments.
Q18) Section 10: Financial instruments – recognition, measurement and disclosure requirements <u>From virtual/in-person outreach and external meetings</u> Agree: 16 (84%) Disagree: 1 (5%) Unsure: 2 (11%) Total: 19 <u>From written responses</u> Agree: 3 (PP#1, CPA/CAANZ#11, IPA#18) Agree with exception: 6 (MA#4, SD#7, KPMG#10, GT#13, BDO#15, DH#16) Disagree: -	**From outreach sessions, staff heard that:** • Most stakeholders agreed with the proposed recognition and measurement requirements for financial instruments, with only one stakeholder disagreeing specifically with requiring transaction costs to be expensed immediately as they considered some bank fees to be quite large and therefore considered the proposal should allow transaction costs to be amortized over the loan. Regarding premiums and discounts, they noted that when purchasing bonds, their market price may differ from their face value (also known as par value). This difference results in either a premium or discount of their market price, and it is unclear how these premiums or discounts are treated based on the current proposals. **From written submissions:** • One professional services firm (PP#1) and three professional bodies (CPA/CAANZ#11, IPA#18) agreed with all the proposals while five other professional services firms (MA#4, SD#7, KPMG#10, GT#13, BDO#15) and one other stakeholder (DH#16) generally agreed, except they expressed the following concerns in relation to: <u>*Initial measurement of concessional loans*</u> ○ GT#13 considered there is a lack of clarity in explaining the treatment that cost is considered fair value for specific classes of instruments (e.g nominal/face value of a debt instrument) and no specific guidance on the method for treating concession loans (e.g. amortised cost method) as costs. They recommended clear statements to be included within the draft Standard to explain both scenarios. <u>*Irrevocable election to measure changes in fair value through other comprehensive income for financial assets acquired or originated by an entity to generate both income and a capital return*</u> ○ MA#4 prefers the irrevocable election be made on an individual financial instrument basis (in contrast with the ED proposals, which are on a class of asset basis). They considered assets of the same class may be held for different purposes. As such, it would be inappropriate that the decision should be made by a class of asset level, especially since under AASB 9 the decision is made at an individual asset level; and ○ However, SD#7 considered the election should not be irremovable but an accounting policy choice. Since Tier 3 already contains many accounting policy choices with the ability to change policies, and because NFP entities change the purpose of

SMC	Comments where provided
	their investment portfolio or their key management personnel regularly, changes in accounting policies should be permitted, possibly supported by disclosures about the reasons for the change in policy. *Fair value measurement requirements* ○ MA#4 expressed concerns about the requirements in para 10.12 in relation to the fair value of an unlisted equity instrument being unavailable, as they considered the requirements of AASB 13 indicate that fair value is always able to be determined even if it is a level 3 fair value. They suggested rewording the requirements to reference undue cost or effort (or words with similar effect) rather than when fair value is unavailable; ○ GT#13 and DH#16 raised concerns about mandating fair value measurement for financial assets acquired or originated by the entity to generate both income and a capital return (e.g. some corporate and government bonds). DH#16 considered these will include bonds frequently issued or purchased on the market at prices differing from their par value, with yields comprising both interest and potential capital gains or losses. Such bonds can be acquired above or below par value. GT#13 considered determining fair value could result in non-proportionate cost being incurred. As such, both GT#13 and DH#16 suggested adding an exception where another alternative measurement basis, such as cost or equity method, may be more appropriate for classes of assets, such as where there is no active market; and ○ BDO#15 considered para. 10.7(a) could be interpreted as only allowing financial assets that have been originated or acquired to generate 'both income and a capital return' to be measured at fair value. To clarify the Board's intent, it is recommended that the Board either revise paragraph 10.7(a) or provide additional application guidance. This clarification should address whether the proposal aims to require fair value measurement for all financial assets that generate both income and capital returns, regardless of the Tier 3 entity's original purpose for acquiring or originating these assets. *Prohibiting hedge accounting* ○ KPMG#10 expressed, similarly to their comments previously provided on the Discussion Paper, that smaller entities apply the Tier 3 reporting requirements should be permitted an accounting policy choice to apply hedge accounting. This is consistent with the proposals in para 10.3 to require entities to apply AASB 9 and other applicable Australian Accounting Standards to more complex or less commonly held financial instruments. *Transaction costs* ○ GT#13 and DH#16 disagreed with requiring transaction costs to be expensed immediately (including that it is unclear how these costs are treated) to be immediately expensed. GT#13 considered this a significant departure from Australian Accounting Standards. They envisaged a scenario in which an entity purchases 'points' resulting in a transaction cost that is immediately expensed with the potential to simultaneously give rise to a concessional loan as contractual interest payments may not be interpreted as including such prepaid interest. Both GT#13 and DH#16 recommended transaction costs to be recognised as an asset/liability with amortisation on a straight-line basis over the life of the financial instrument (GT#13 referred, more specifically, to the shorter of the contractual and expected life of the financial instrument).

SMC	Comments where provided
	Impairment requirements ○ DH#16 commented that the requirements of para. 10.18(e) and 10.19 seem a bit vague for a general provision and not specific for individual borrowers. In contrast, IPA#18 stated that they found the guidance for objective evidence of an impairment in para. 10.18 useful. *Disclosure requirements* ○ DH#16 observed that disclosures in para 10.25 and para 10.30 should be able to be reconciled back to the balance sheet and the profit or loss statement. Hence, disclosures of financial assets/liabilities measured using different measurement methods should be by class. They were also unclear about the disclosures required by para. 10.27 for financial assets and financial liabilities measured at fair value, which requires separately disclosing the fair value amounts that are, and are not, based on a quoted price in an active market. They were not clear whether the reference to quoted price is equivalent to level 1 inputs only or a combination of level 1 and level 2 inputs, as level 2 is based on quoted prices. *Other comments* ○ DH#16 considered it more appropriate to reference 'equity instrument' rather than 'share investment' in para 10.10(a) as NFP entities often do not have shares.
Q19) Section 11: Fair Value Measurement* From written responses Agree: 5 (PP#1, SD#7, KPMG#10, BDO#15, IPA#18) Agree with exception: 3 (MA#4, CPA/CAANZ#11, DH#16) Disagree: -	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • Five professional services firms (PP#1, MA#4, SD#7, KPMG#10, BDO#15), three professional bodies (CPA/CAANZ#11, IPA#18) and one other stakeholder (DH#16) agreed with the proposal to align the definition of fair value with Tier 2 reporting requirements as this is a fundamental concept, and diverging from a known fair value concept would make financial statements harder to understand and create confusion amongst users. Some stakeholders provided further comments as follows: ○ MM#4 also suggested considering whether additional guidance can be provided on determining fair value for heritage assets (including artwork), although they noted this issue does not relate only to smaller NFP entities; ○ CPA/CAANZ#11 recommended further guidance and simplification to: ▪ remove para 11.4 referencing a prohibition from adjusting the market price for transaction costs. When considering market prices, they do not believe transaction costs will be likely to significantly impact the market price for fair value measurement purposes for Tier 3 entities; ▪ remove para 11.5 relating to transport costs unless further guidance is included on the circumstances in which transport costs may be relevant; ▪ provide further guidance on the application of the 'cost approach' in para. 11.9(b) and 11.10 and the concept of economic obsolescence for non-financial assets held by Tier 3 entities, based on the Australian implementation guidance for NFP public sector entities in para. F8-F15 and F16-F19, respectively, of Appendix F to AASB 13; and ▪ clarifying the rationale for including a one-year period for the 'highest and best use' exception in para 11.7; and ○ DH#16 disagreed with the provisions in relation to current use under para. 11.7 – that is, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that it is highly probable a

SMC	Comments where provided
	different use by market participants would maximise the value of the asset. This requirement would require an entity to consider market participants, which is contrary to recent changes to AASB 13 for the public sector that current use should be the default.
Q20) Section 12: Inventories From outreach activities: <u>From virtual/in-person outreach and external meetings</u> Agree: 18 (90%) Disagree: 1 (5%) Unsure: 1 (5%) Total: 20 <u>From written responses</u> Agree: 4 (PP#1, SD#7, KPMG#10, BDO#15) Agree with exception: 5 (MA#4, ACNC#8, CPA/CAANZ#11, DH#16, IPA#18) Disagree:	**From outreach sessions, staff heard that:** • Most stakeholders agreed with the proposals noting that measuring inventories acquired for significantly less than fair value initially at current replacement cost is already a requirement in the existing Tier 2 reporting framework; and • Only one stakeholder disagreed but did not provide the reasons why. However, a few stakeholders at the in-person outreach sessions were generally supportive of the requirements but expressed concern about the use of terminology. That is, the term 'net realisable value' was not explicitly used even though the requirements/ concept appears to be similar. They (including a preparer) preferred using common language subject to a case-by-case basis (e.g. 'entity combinations' is more appropriate but considered 'recognition' rather than 'recording' would be familiar to preparers). However, another stakeholder (preparer) preferred language that was simple to understand, that is, not necessarily consistent with existing terms, since smaller NFP entities have less knowledge and resources and may not necessarily be expected to be familiar with the existing terminologies applied in Tier 1 or Tier 2 requirements. **From written submissions:** • Four professional services firms (PP#1, SD#7, KPMG#10, BDO#15) agreed with the proposal. Another professional services firm (MA#4), three professional bodies (CPA/CAANZ#11, IPA#18), one regulator (ACNC#8) and one other stakeholder (DH#16) generally agreed with the proposals except: ○ MA#4 considered further clarification is needed on whether the accounting policy choice for donated inventory in para 12.8 is available for each separate donation. They also noted that para 12.2 included 'educational/training course material under development' as a type of inventory, but they consider this category to be treated better in the intangible section of the proposed standard; ○ CPA/CAANZ#11 preferred that a subsection is included within Section 12 (inventories) for impairment requirements and that the term 'net realisable value' is reinstated (as per pre-IFRS terminology) in the requirements. In addition, they suggested changes as follows: ▪ NFP entities should be allowed to choose the broader fair value measurement basis rather than current replacement cost (CRC) when initially measuring donated inventory as they heard from public sector stakeholders that it may be challenging to apply CRC in some circumstances. If the Tier 3 Standard retains only the CRC measurement, then they would recommend expanding para 11.10 to include additional guidance and illustrative examples on estimating and applying CRC; ▪ The Tier 3 Standard should include examples of what is meant by 'service potential', 'physical obsolescence' and 'economic obsolescence'; and ▪ The Tier 3 Standard should consider similar exemptions from recording inventories received in a crisis situation set out in INPAG ED 3 (AG12.11, AG 13.8, AG13.9) and other permitted exceptions to recognising inventories in INPAG ED 2. This

SMC	Comments where provided
	includes an option for recognition of revenue and assets for low-value items for resale only when sold, and an option for recognition of revenue and expenses for items for own use or distribution only when used or distributed; o DH#16 considered para 12.6 on the requirements for impairment of inventories confusing because that paragraph recognises a loss of service potential if the current replacement cost is lower than cost. However, para 12.4 and 12.5 prohibit an impairment write-down unless it arises from an event in para. 23.3, which does not include the loss of service potential being an indicator of impairment. Additionally, para 23.5 requires impairment for inventories held for distribution to be assessed irrespective of the impairment indicators in para 23.3; o IPA#18 preferred the Standard to require donated inventory, or at least only material donated inventory, to be measured at the current replacement cost unless impracticable as they consider the current replacement cost would provide more useful information about the entity's donated inventory, especially if the entity receives a large volume and/or high value donated inventory. This is similar to the view of ACNC#8; and o ACNC#8 broadly agrees with the proposals except for the proposed option to measure donated non-financial assets (including inventories) at cost (in its comments on related SMC 2(e)). They considered that any material non-financial assets should be evaluated for fair value or an estimate thereof, unless this is impracticable (in which cases disclosure should be required of the reasons why). Under Australian taxation law, donors need to be aware of the market value of non-cash gifts. In addition, they suggested including an example regarding the cost of inventories of a service provider.
Q21) Section 13: Investments in Associates and Joint Arrangements <u>From virtual/in-person outreach and external meetings</u> Agree: 20 (80%) Disagree: 0 Unsure: 5 (20%) Total: 25 <u>From written responses</u> Agree: 5 (PP#1, MA#4, SD#7, KPMG#10, IPA#18) Agree with exception: 4 (CPA/CAANZ#11, GT#13, BDO#15, DH#16)	**From outreach sessions, staff heard that:** • Most stakeholders agreed with the proposals, including changing the equity method (i.e. adjustment for the difference between the consideration paid by the acquirer and share of net assets acquired goes through equity, without recognition of goodwill). However, they consider removing goodwill in the equity method will depend on who applies the Standard. They considered that the proposed treatment of implicit goodwill where equity accounting is applied is unlikely to be of significant concern, as many smaller entities are unlikely to apply equity accounting presently or in the future. A few stakeholders also observed that it is less common for NFP entities to hold investments in associates and joint ventures; and • Only one stakeholder from an externally organised meeting disagreed with the measurement options, citing potential difficulties in comparing financial statements across entities. They also noted that some entities' board members may not have the level of accounting knowledge or access to external auditors on their boards to make the appropriate measurement choice. They considered the additional training costs associated with new requirements may deter some auditors from the sector, and the level of complexity that the proposals may generate may make assurance services unprofitable. **From written submissions:** • Four professional services firms (PP#1, MA#4, SD#7, KPMG#10) and one professional body (IPA#18) agreed with the proposals, which are consistent with the requirements in relation to consolidation. PP#1 also noted that investments in associates and joint arrangements are not expected to be frequent. They noted that the proposals referenced an 'active market' without a definition. Hence, they suggested including a definition if the term is to be retained; and

SMC	Comments where provided
Disagree: -	• While other professional bodies (CPA/CAANZ#11), two professional services firms (GT#13, BDO#15) and one other stakeholder (DH#16) generally agreed with the proposals, they noted the following: <u>*The applicability of Section 13 for entities that elected to not present consolidated financial statements*</u> ○ CPA/CAANZ#11, consistent with their response to SMC 8, disagreed with allowing the equity method as a measurement basis for entities that do not consolidate their subsidiaries; ○ BDO#15 disagreed with the proposals in para. 13.13 to allow an accounting policy choice for an investor to measure those investments in unconsolidated financial statements at cost, fair value or using the equity method. They recommended alignment with Tier 2 requirements for measuring those investments, that is, requiring application of the equity method. Similar to their comments made for consolidation proposals, they noted a risk of significant application issues if an investee is a Tier 2 entity and is required to apply uniform accounting policies as the investor that is applying the Tier 3 framework; and ○ DH#16, as per their comment on SMC 14, found the applicability of the section confusing for entities that have elected to identify notable relationship entities instead of classifying each notable relationship entity into subsidiaries, associates or joint ventures. <u>*The equity method*</u> ○ GT#13 considered the requirements in para. 13.16(e) to eliminate unrealised profits or losses from upstream and downstream transactions to the extent of the investor's ownership interest in the investee (as per AASB 128) is often complex and may require visibility to financial information of the investee which is not practicable to obtain. They noted for ED 333 *Equity Method of Accounting*, the IASB proposed not to retain the elimination of the upstream/downstream transactions method on the basis that control of the underlying assets has been lost. As such, they consider the modifications should also be included in the draft Tier 3 Standard as well. Additionally, they noted that transaction costs are included in the consideration paid when considering the initial recording of an equity investment in an associate or a joint venture, which is consistent with Tier 2 requirements. They noted that the July 2009 IFRIC Agenda Decision "Potential effect of IFRS 3 *Business combinations* (as revised in 2008) and IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) on equity method accounting (IAS 28 *Investments in Associates*)" allows direct costs to be addressed in a manner consistent with IFRS 3 (revised in 2008) (i.e. in the revised IFRS 3, acquisition-related costs are expensed in the periods which they are incurred and services received or IFRS 3 (issued in 2004) require the acquisition-related costs to be included in the costs of a business combination. To simplify the requirements, they suggest the Board requires transaction costs to be excluded from the definition of cost; and ○ Similar to GT#13, DH#16 noted transaction costs are included in cost when applying the equity method, which appears inconsistent with section 9 (i.e. transaction costs are expensed). <u>*Disclosures*</u> ○ DH#16 disagreed with the disclosures around discontinued operations, consistent with disagreeing with requiring entities to apply AASB 5 (per comments on SMC 9).

SMC	Comments where provided
	Suggestions for further clarification/guidance ○ CPA/CAANZ#11 suggested replacing 'significant risk and rewards' in para 13.2 with 'control' and including specific references in para. 13.25-13.28 to which disclosures are required for associates and joint arrangements when consolidated financial statements are prepared. They also consider including specific requirements for subsequent measurement of associates and joint arrangements; ○ BDO#15 recommended that the guidance relating to the cost model (i.e. para 13.14-13.15) and fair value model (para 13.17-13.18) be moved to section 8 instead to avoid confusion if the Board decides to align requirements with Tier 2 requirements for measuring investments in associates and joint ventures. Consequently, the disclosure requirements (i.e. para 13.25(a), 13.26 and 13.28) should also be moved to Section 8. Paragraph 8.8(c) would need amending to refer only to situations where the notable relationship entity is an associate or joint venture and the reporting entity's investment in it is accounted for using the equity method – noting these financial statements are of an investor that is not a parent. They also would like clarification of whether equity accounting for an associate where the investor has no financial interest will result in the investor accounting for its interest at cost (nil) with no equity-accounted adjustments; and ○ DH#16 noted that no guidance is provided for a joint operation through a separate vehicle and whether the Tier 3 proposal intentionally does not permit allowing for such a situation, as occurs under AASB 11 (for example para. B21, which relates to the need for parties of a joint arrangement though separate vehicle to assess whether the legal form of the separate vehicle, the terms of the contractual arrangements and other facts and circumstances give them rights to the assets and obligations for the liabilities, or the rights to the net assets, of the arrangement).
Q22) Section 14: Investment Property and Section 15: Property, Plant and Equipment From virtual/in-person outreach and external meetings Agree: 15 (79%) Disagree: 3 (16%) Unsure: 1 (5%) Total: 19 From written responses Agree: 3 (PP#1, SD#7, KPMG#10)	**From outreach sessions, staff heard that:** • Most stakeholders agreed with the proposals, including the requirement to review the depreciation method where there is an indication of a significant change in the expected pattern of consumption of future economic benefits since preparers review the depreciation method every year so there would be no impact to their entity; and • However, a few stakeholders disagreed with including investment properties in the draft Standard and considered that they can be dealt with under property, plant and equipment. They consider investment properties not to be a common asset for smaller NFP entities. Hence, the requirements would be simpler if Section 14 was removed entirely. **From written submissions:** • Three professional services firms (PP#1, SD#7, KPMG#10) agreed with the proposals in Sections 14 and 15. Two other professional services firms (MA#4, BDO#15), three professional bodies (CPA/CAANZ#11, IPA#18), a regulator (ACNC#8) and one other stakeholder (DH#16) generally agreed, with MA#4 noting there may be limited circumstances in which entities may wish to capitalise borrowing costs but they considered the Tier 3 proposal to expense all borrowing costs is an appropriate level of simplification. However, these stakeholders provided further comments as follows: *Property, plant and equipment* ○ MA#4 considered the proposal in para. 15.11(f) to treat software as part of the computer class of property, plant and equipment is inappropriate and it should be classified within intangible assets, which would be more consistent with existing

SMC	Comments where provided
Agree with exception: 6 (MA#4, ACNC#8, CPA/CAANZ#11, BDO#15, DH#16, IPA#18) Disagree: -	reporting requirements. While another professional services firm (SD#7) generally agreed with the proposals, they noted that para. 15.11 classifies assets differently from the current Tier 2 requirements (in para. 37 of AASB 116 *Property, Plant and Equipment*), particularly buildings, which have been identified as a separate class rather than land and buildings. SD#7 expressed concern that if land was recorded at fair value and building at cost, it could result in overstating the value of assets that cannot be physically separated; o DH#16 disagreed with limiting the review of depreciation rates and useful lives to the limited circumstances listed of change in strategy and external demand as they consider there can be many other reasons why the depreciable life of an individual piece of plant and equipment will change. They also consider disclosures relating to assets through capital grants and restrictions on assets held at fair value are important to users and should be required; and o Regarding para. 15.29(e), CPA/CAANZ#11 considered it would be helpful to include guidance on what disclosed information would be suitable to assess an NFP entity's dependence on donations of property, plant, and equipment. *<u>Investment property</u>* o CPA/CAANZ#11 noted para. 14.11 and 14.12 of ED 335 appear to be mutually exclusive, but a change of use or transfer of property could lead to a reclassification (i.e., ceasing to be recorded as an investment property). They noted para. 14.4 does not address leased investment property. They argued that Section 14 should include requirements for initial and subsequent measurement of leased investment property. They were also aware some members suggested removing investment property from the Tier 3 Standard, given it is likely to be uncommon for smaller NFP entities to hold or manage income-generating assets or hold them for capital gain. DH#16 also expressed similar comments to exclude investment property from the Standard, and added that they consider applying the cost model or the revaluation through reserves model would be appropriate for smaller NFP entities' accounting for investment property; and o BDO#15 noted that it is unclear whether Section 15 applies to investment property for which entities have chosen a cost basis (as per para. 14.8). They requested clarification in the scope of section 15, as the current drafting appears to apply only to investment property for which fair value cannot be measured reliably on a continuing basis. They also noted potential cross-referencing errors as they were unsure what the disclosures in para 14.2 are intended to cover since it requires disclosures from para 15.27 – 15.28 for investment properties meeting circumstances in para. 14.13, which deals with gains or losses on disposals or retirements of investment properties. *<u>Accounting policy choice to measure donated non-financial assets</u>* o ACNC#8 and IPA#18 disagreed with allowing an accounting policy choice to initially measure donated investment property at cost or fair value. They consider fair value (or an estimate) must be applied unless impracticable or fair value cannot be reliably measured, then the cost method is applied with a disclosure of why the entity cannot apply the fair value method. Similarly, they considered donated property, plant, and equipment that are individually material should apply fair value measurement unless impracticable with similar disclosure notes to explain why applying fair value is impracticable. ACNC#8 noted that 40% of charities are deductible gift recipients, and donors already report market values to the ATO.

SMC	Comments where provided
Q23) Section 14 and Section 15 – cost of obtaining fair value of donated non-financial assets* (*Feedback on SMC 23 is not classified here, because it supports the analysed feedback on SMC 22*)	Staff did not ask this question at outreach session. As such, the feedback was obtained only from written submissions. • Two professional services firms (PP#1, BDO#15) acknowledged that determining the fair value of donated non-financial assets varies in difficulty depending on the nature of the assets. PP#1 considered some assets may be relatively easy to value (e.g., applying the Red Book valuation for a donated vehicle), while others (e.g., artwork or a building with caveats on usage) might require the expertise of a qualified valuer. Both firms recognised that the cost of obtaining fair value information could potentially reduce the available funds for NFP entities, particularly smaller organisations; • Another professional services firm (GT#13) considers the determination of fair value to remain costly with regard to the relative resources of the entity, even for property that is commonly traded. Other non-financial assets may be relatively costly to obtain the fair value of, and in some instances, there is no basis for a valuer to provide such valuation. These assets that lack transactions and may result in excessive costs include World War II-era aircraft, historic ships, untraded artworks, intellectual property in research-phase, and mining tenements; • Another professional services firm (MA#4), whist acknowledging not having information on hand, noted that cost should not be a deciding factor in whether initial measurement of donated non-financial assets at fair value should be optional. They noted that, in their experience, most SPFS preparers would only measure at fair value large significant donations such as properties and vehicles where the cost of obtaining fair value information is not prohibitive; and • Two professional bodies (CPA/CAANZ#11), based on their outreach activities, heard that smaller NFP entities are not significantly concerned with the cost of obtaining the fair value of donated investment property and property, plant and equipment, particularly given that market values are often useful for governance reasons. Low volume, high value, commercial or investment market items are generally more easily valued against market benchmarks compared to NFP entities holding exotic investments. Similarly, one other stakeholder (DH#16) stated that, in their experience, they have not come across significant difficulties in obtaining the fair value or making a reasonable estimate thereof for donated non-financial assets.
Q24) Section 16: Intangible Assets <u>From virtual/in-person outreach and external meetings</u> Agree: 18 (100%) Disagree: 0 Unsure: 0	**From outreach sessions, staff heard that:** • All stakeholders generally agreed with the proposals, although a stakeholder raised concerns about the specified ten-year maximum useful life for all indefinite-life intangible assets. Some preparers indicated they generally do not recognise intangible assets to simplify their accounting practices but they supported maintaining the accounting requirements for intangible assets, provided the requirements remain straightforward and easy to implement. They also suggested an alternative approach to further simplify the requirement by removing fair value measurement requirements for intangible assets and keeping only the cost method for both initial and subsequent measurement basis given the inherent complexities in fair valuing intangible assets. **From written submissions:** • One professional services firm (KPMG#10) and two professional bodies (CPA/CAANZ#11) agreed with all the proposals. Five professional services firms (PP#1, MA#4, SD#7, GT#13, BDO#15), a regulator (ACNC#8), a stakeholder (DH#16) and another professional body (IPA#18) generally agreed with the proposals. MA#4 considered most research-based NFP entities are in the research phase and therefore (consistent with Tier 2 requirements) do not currently capitalise a cost; hence the proposal is likely to have minimal impact on those entities. However, some stakeholders provided further comments/simplification suggestions:

SMC	Comments where provided
Total: 18 <u>From written responses</u> Agree: 2 (KPMG#10, CPA/CAANZ#11) Agree with exception: 8 (PP#1, MA#4, SD#7, ACNC#8, GT#13, BDO#15, DH#16, IPA#18) Disagree: -	<u>*Initial measurement of donated intangible assets*</u> ○ IPA#18 preferred donated intangible assets, or at least those that are material, to be initially measured at fair value as they consider fair value provides more useful information about the entity's donated intangible assets, especially for high value donated intangible assets. <u>*Removing the revaluation model*</u> ○ PP#1, MA#4, SD#7 suggested that further simplification could be made by removing the revaluation option for intangible assets (contained in paragraphs 16.15 and 16.16) as they considered it rare to be applied by any private sector NFP entity given the nature of the assets they hold and result in less debate and engagement required with auditors regarding the appropriateness of carrying and determining intangible assets at fair value. BDO#15 and DH#16 expressed similar concerns with retaining the revaluation model as they consider very few intangible assets would meet the 'active market' criterion (e.g., DH#16 noted exceptions for some cryptocurrencies) and the cost of applying the revaluation model is likely to be disproportionate to the benefits. BDO#15 noted that if the option to apply a revaluation model were removed, the disclosures in para. 16.25(b), 16.25(e) and 16.28 would no longer be relevant. <u>*Expensing research and development intangible assets that are not internally generated*</u> ○ GT#13 suggested for further simplification to require that separately acquired in-process research and development is expensed immediately, consistent with paragraph 16.7 for internally generated intangible assets, as requiring these assets to be subject to impairment requirements is challenging and results in significant judgements; and <u>*Disclosure of unrecognised intangible assets*</u> ○ GT#13 recommended that the disclosure requirements of Section 16 be extended such that intangible assets that, in management's opinion, represent material value to the reporting entity be disclosed notwithstanding they are not recognised within the statement of financial position, including the historical amounts invested and the purpose of the intellectual property. They considered these disclosures to be useful for users while retaining proportionality with the cost of preparation and maintenance of the financial statements. <u>*Estimated useful life of indefinite-life intangible assets*</u> ○ ACNC#8 noted the proposed limit of not exceeding 10 years for the useful life of indefinite-life intangible assets, such as trademarks, may not always be appropriately compared to necessary because it is still subject to management's best estimates; In contrast, BDO#15 and IPA#18 explicitly agreed with the proposal for a ten-year maximum useful life of indefinite-lived intangible assets.
Q25) Section 17: Entity Combinations <u>From virtual/in-person outreach and external meetings</u>	**From outreach sessions, staff heard that:** • While many stakeholders generally agreed with the proposals, they, including those stakeholders that were unsure or disagreed with the proposals, expressed concerns specifically with the deemed combination date proposal. They consider that establishing the combination as having occurred at the start of the current period could potentially lead to numerous assurance challenges and manipulation of accounts. This is because it would involve consolidating activities when control was not yet established, and access to financial records before obtaining actual control might be limited. A few stakeholders suggested an alternative approach could be

SMC	Comments where provided
Agree: 11 (58%) Disagree: 2 (10%) Unsure: 6 (32%) Total: 19 <u>From written responses</u> Agree: - Agree with exception: 10 (PP#1, MA#4, SD#7, ACNC#8, KPMG#10, CPA/CAANZ#11, GT#13, BDO#15, DH#16, IPA#18) Disagree: -	to apply the last set of accounts only if the actual combination occurred within one to three months from the actual combination date or using an estimated acquisition date of control, noting that this date would be subject to audit scrutiny; and • One stakeholder expressed uncertainty about regarding the absence of recognised goodwill, noting that, depending on the price paid, a significant amount might need to be recorded in equity. However, a few stakeholders were unconcerned about that proposal since the implicit goodwill will not affect the profit or loss statement. A stakeholder also suggested mandating the disclosure of equity adjustments (made in place of goodwill or discount on acquisition) as a separate reserve, rather than incorporating them into existing reserves like retained earnings. However, a preparer opposed the idea of mandating a specific label for this reserve account, advocating voluntary classification to facilitate easier compliance. **From written submissions:** • Six professional services firms (PP#1, MA#4, SD#7, KPMG#10, GT#13, BDO#15)**,** one regulator (ACNC#8), three professional bodies (CPA/CAANZ#11 and IPA#18) and one other stakeholder (DH#16) generally agreed with the proposals except for: *<u>Deemed combination date</u>* o PP#1, MA#4, SD#7, KPMG#10, DH#16 and IPA#18 disagreed with the deemed combination date being the beginning of the reporting period during which the combination occurred, as it would mean combining entities when there was no control of the other entity/business. They considered the proposal would present practical issues, such as not having information to support transactions included within the NFP before the effective date of the combination. They also considered those charged with governance may not be willing to authorise the financial statements containing information for an entity/business they did not govern during the pre-combination period. One of the firm's experiences is that financial distress is often a driver of a combination, and they think that including possible operating losses of another entity prior to the actual combination would be misleading to any users. Some of these stakeholders also noted that including pre-combination assets would not meet the definition of resources controlled by the entity under the Conceptual Framework, and that para. 17.5 contradicts para. 8.28, which requires income and expenses to be recorded only for the period of control. Some firms proposed various alternative approaches as follows: ▪ PP#1 preferred the proposal be amended to require the combination to be accounted for from the effective date of gaining control; ▪ MA#4 suggested developing a practical expedient to permit entities to adjust the combination date by no more than 16 days (either before or after the combination date) 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 allow entities to apply the information to a month's end rather than applying a combination occurring mid-month, and if no material events have occurred it is unlikely to result in material differences from recognising the combination at the actual acquisition date. DH#16 made a similar suggestion, i.e. that where the transfer date is unspecified, use the start of the reporting month if there are no material transactions; and ▪ SD#7 suggested either selecting a date or using a date where it is clear that control existed.

SMC	Comments where provided
	Requiring fair value of material assets and liabilities without a carrying amount recorded in accordance with Australian Accounting Standards o GT#13 disagreed with the proposed requirement in para. 17.6 to require fair value measurement of assets and liabilities without a carrying amount. They considered this requirement onerous for acquirees, as it necessitates distinguishing between donated assets from fully amortised assets or assets with a nil carrying amount arising from transition relief on the transition to Australian Accounting Standards via AASB 1. This would require detailed records to understand the originating sources of all assets with no carrying amount and assurance provider to obtain assurance that the asset was/was not donated, which may not be obtainable. They also suggested that the option to record donated assets at fair value implies that the Board considers this information not material to users compared to the cost of obtaining such information. DH#16 shared similar sentiments and believed that the proposals may not be operable given an entity will need to determine the fair value for all assets and liabilities to then determine whether those assets or liabilities may be material. They argued this rationale would also apply to assets recorded at nil deemed cost in a legacy period, hence suggesting para 17.6 be removed. They also commented that the scope of para. 17.7 refers to donations received without any consideration in return; this appears to exclude assets acquired for nominal consideration and thus require them to be measured at fair value; o BDO#15 considers para. BC97 in the basis for conclusions does not clearly explain why material assets or liability of an entity subject to the combination without an existing carrying amount recorded in accordance with Australian Accounting Standards will need to be measured at fair value. They noted the only situation they envisaged this requirement would be where a combining entity is applying cash accounting and there may be unrecorded assets/liabilities, e.g. donated assets received and unrecorded as no cash was paid, unrecorded material assets which it had expensed or unrecorded liabilities from not applying accrual accounting. They agree that with the fair value measurement requirement for those scenarios except for donated assets received and unrecorded as no cash was paid. They consider those assets should not be required to be measured at fair value given Tier 3 allows donated assets to be measured at cost or fair value, inferring that the fair value requirement could be avoided for unrecorded donated assets as well; o SD#7 proposed that the Standard should allow the recording of assets and liabilities at either their carrying value or fair value at the combination date; and o ACNC#8 supported the inclusion of the proposals in a Tier 3 Standard as they see charities continue to undergo mergers and combinations with approximately 13% of charities revoking registration in 2023/24 relating to mergers with other charities. However, as per their response to SMCs 22 and 23, they do not agree with permitting donated non-financial assets to be measured at cost. Hence, they disagreed with allowing cost to be used instead of fair value at the combination date. If the cost method were removed for donated non-financial assets, measurement at cost (rather than fair value) at the combination date would no longer be necessary. *Suggestions for further guidance/clarification* o CPA/CAANZ#11 considered further guidance should be provided to describe what 'an entity' means and what constitutes a 'major' entity combination for the purpose of disclosures required in para 17.12 as well as clarifying in the basis for conclusions (re: para. BC99) the purpose of entity combinations being distinct from the Tier 2 requirements for other combinations. They

SMC	Comments where provided
	also noted that para 17.6 presumes Australian Accounting Standards have previously been applied or that fair value measurement is available for assets and liabilities of the combining entities, but they considered there can be instances where neither criterion is met. As such, they consider further accounting requirements and guidance should be developed to address such scenarios. They also suggested a specific reserve to recognise the difference arising from entity combinations to distinguish it from other reserves, including subsequent measurement and accounting requirements for the reserve; and o DH#16 suggested para. 16.6 relating to intangible assets obtained in an entity combination should be moved, or at least cross-referenced, to section 17, as it involves an exception to the recording and measurement principles of para. 17.5 – 17.9, where most intangibles would generally have a nil carrying value and retain that value rather than being fair valued. <u>*Other uncertainties with, and comments on, the proposals*</u> o GT#13 noted the requirement that entities with different accounting policies to record or measure assets or liabilities shall be adjusted at the combination date to achieve uniformity of accounting policies could result in non-comparable financial statements of the reporting entity (i.e. consolidating entity or acquirer) where material assets experience a change in accounting policy from the perspective of the acquirer, which is inconsistent with the *Conceptual Framework For Financial Reporting*. They also pointed out that the current rules do not prevent entities from entering into combinations to alter accounting policies, which could undermine financial reporting consistency; and o DH#16 was uncertain about the proposal not to recognise any goodwill/gain on acquisition and instead recognise directly in equity any difference between the consideration paid and net assets recognised. In their experience, there does not appear to be difficulties in recognition of goodwill for business combination except for some diversity of treatment where the net credit may be recorded (i.e. equity, or profit or loss).
Q26) Section 18: Leases <u>From virtual/in-person outreach and external meetings</u> Agree: 15 (83%) Disagree: 1 (6%) Unsure: 2 (11%) Total: 18 <u>From written responses</u> Agree: 5 (PP#1, KPMG#10, CPA/CAANZ#11, BDO#15, IPA#18)	**From outreach sessions, staff heard that:** • Almost all stakeholders agreed with the proposal and only a few of these stakeholders, including those stakeholders that disagreed, suggested further simplification for lease accounting by matching the recognition of lease incentives/discounts with the timing of lease cash payments, rather than smoothing them over the lease term, with disclosures about lease rent-fee periods/discounts to supplement the suggested further simplification. However, a few other stakeholders disagreed with any further simplification such as recognising lease income and expenses on a cash basis, given there is already a significant simplification proposed for the accounting requirements for leases. **From written submissions:** • Three professional services firms (PP#1, KPMG#10, BDO#15) and three professional bodies (CPA/CAANZ#11 and IPA#18), subject to CPA/CAANZ#11 comments on leased investment property held by lessees not being addressed by Section 14: *Investment Property*, agreed with all the proposals and do not see a straight-lining approach as a difficult or costly exercise if lease incentives are provided. Three professional service firms (MA#4, SD#7, GT#13), a regulator (ACNC#8) and a stakeholder (DH#16) generally agreed with the proposals but noted possible modifications to a straight-lining approach by recognising rental expenses as follows:

SMC	Comments where provided
Agree with exception: 5 (MA#4, SD#7, ACNC#8, GT#13, DH#16) Disagree: -	*CPI/general increase in minimum lease payments* ○ SD#7 noted that where leases contain an annual increase similar to inflation expectations and straight-line calculations may not account for those amounts either because they are immaterial or preparers are not aware of the requirements. They recommended that the Board considers a cash paid basis where no significant lease incentives/rent-free periods exist; and ○ DH#16 noted concerns with requiring fixed increase in minimum lease payments but not including CPI increase, despite the increases operating for similar economic reasons. There may also be concerns as to how fixed increases are dealt with when there are market reviews (that may or may not have ratchet clauses to previous rent). *Recognition of lease expense/income on a straight-line basis and CPI/general* ○ MA#4 noted mixed views amongst their stakeholders, where some views considered the straight-line approach provides the right balance between simplifying the requirements with principles of accrual accounting, noting that the Board did not propose a cash basis for a wide range of other items, including general expenses; ○ However, some others, including ACNC#8, argued that using a cash basis would be simpler and better reflect actual lease payments and that disclosing lease commitments could provide sufficient transparency to meet the information needs of users. ACNC#8 suggested whether to allow modifications [i.e. choice to measure on a cash basis or a systematic allocation basis] to better align with actual lease payments where significant incentives/discounts are provided to the lessee; and ○ GT#13 noted the requirement to include initial direct costs for the acquisition of leases in the lease expenses recognised over the lease term contrasts with the treatment for financing obtained. This may not be proportionate because such costs typically are not material to the entity and requiring a straight-line method would increase the cost of assurance as a result of the ongoing requirement to demonstrate that the income statement is not materially misstated as a result of cumulative error. As such, they recommend either allowing or requiring initial direct costs of the lessee to be recognised as an expense as incurred. *Suggestions for clarification/guidance* ○ GT#13 considered there is a lack of guidance as to the method of separating the cost of insurance and maintenance as part of a lease from the underlying lease payments where commonly, these payments are pre-negotiated and included in a single 'fee.' They recommended the Board considers either to include: ▪ an exception where it is not practicable for a lease payment that is pre-determined and not subject to variability for changes in the cost of services, to permit inclusion of such services in the lease payments subject to straight-line treatment; and/or ▪ a specific method of measurement be described within the Standard to ensure consistency of approach for allocating/separating the costs; and ○ DH#16 considered the proposals unclear on the treatment of upfront lease incentives such as cash or non-cash (e.g., PPE fitouts). They also found para 18.3 confusing and believe it should be re-written to emphasise that initial direct cost of negotiating and arranging a lease can be netted off against any upfront lease incentives such as a rent-free period, with the residual (either costs or incentive) being amortised over the lease term.

SMC	Comments where provided
Q27) Section 19: Provisions and Contingencies <u>From virtual/in-person outreach and external meetings</u> Agree: 17 (100%) Disagree: 0 Unsure: 0 Total: 17 <u>From written responses</u> Agree: 5 (MA#4, SD#7, KPMG#10, CPA/CAANZ#11, IPA#18) Agree with exception: 4 (PP#1, GT#13, BDO#15, DH#16)	**From outreach sessions, staff heard that:** • All stakeholders agreed with the proposals. **From written submissions:** • Six professional services firms (PP#1, MA#4, SD#7, KPMG#10, GT#13, BDO#15), three professional bodies (CPA/CAANZ#11 and IPA#18) and one other stakeholder (DH#16) agreed with the proposals but: *<u>Further clarification/guidance</u>* ○ PP#1 and BDO#15 considered the requirement that provisions are not required to be discounted was not clearly communicated in Section 19 and requested the requirements be clarified; ○ BDO#15 additionally noted para. BC16(d) in the basis for conclusions stated that the measurement proposals retain Tier 2 requirements for provisions which is incorrect given no discounting is required for measuring provisions. As such, they recommend clarification on this matter in the final Standard. Furthermore, the disclosures in para 19.9(b) and (c) require information about the amounts of provisions and expected uncertainties but not the timing, which contrasts with para 19.12(c) and 19.17, which require disclosures about timing. As such, they recommend that 19.9 be amended to include a reference to timing; ○ GT#13 considered there is a lack of clarity outside of larger assurance providers regarding the meaning of the current requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* as paraphrased in para. 19.7 in relation to 'taking into account current information about conditions existing at the end of the reporting period'. The 'current information requirement' is currently interpreted by experienced appliers of Australian Accounting Standards as including all data that is available to the entity but may not yet have been assessed for information content to produce a reliable estimate, consistent with ASIC's view. This interpretation is not readily achievable from the text of AASB 137 (para. 36 and 37) or para. 19.7 of ED 335. They recommend that some Interpretative Guidance be included, or such information be explicitly described in para. 19.7 to give clarity to less experienced users of the proposed accounting standard; and ○ DH#16 disagreed with para. 19.5 on reliable estimates; and suggested that when the minimum amount of a provision can be estimated reliably, requiring recognition of that minimum amount would be preferable to non-recognition of the provision. They also considered para 19.10 should refer to a court case not yet determined or settled, rather than just referring to "not yet settled".

SMC	Comments where provided

Q28) Section 20: Revenue
 	
<u>From virtual/in-person outreach and external meetings</u>
Agree: 14 (74%)
Disagree: 1 (5%)
Unsure: 4 (21%)
Total: 19
 	
<u>From written responses</u>
Agree: 4 (PP#1, KPMG#10, BDO#15, IPA#18)
Agree with exception: 4 (MA#4, SD#7, CPA/CAANZ#11, GT#13)
Disagree: 1 (DH#16)
	From outreach sessions, staff heard that:
	• Most stakeholders agreed with the proposals, especially preparers as their existing practices and their entity's contracts are sufficiently clear to accommodate the Tier 3 revenue proposals. However, a few stakeholders expressed reservations, including those who were unsure about using the term 'common understanding', about which it may be challenging for auditors to provide assurance. A few stakeholders suggested considering adoption of the IPSASB approach based on the existence of a binding agreement for the Tier 3 requirements; and
	• A few stakeholders (mainly auditors providing feedback at an external meeting) did not support the proposals entirely as they do not agree with:
	  ○ recognising liabilities when obligations are not enforceable. They consider a distinction between a gift/donation and something that must be returned – i.e. there needs to be an obligation rather than just an understanding of that obligation; and
	  ○ the proposals generally, given they were not clear whether it may pose tax consequences for a donor's tax deductions. There will also be the added cost of training staff. As such, they prefer the existing revenue recognition model (i.e. AASB 15 and AASB 1058) for consistency with Tier 2 requirements for NFP entities.
	From written submissions
	• Three professional services firms (PP#1, KPMG#10, BDO#15) and one professional body (IPA#18) agreed with all the proposals in Section 20 with no further comments. Three other professional services firms (MA#4, SD#7, GT#13) and two professional bodies (CPA/CAANZ#11) generally agreed with the proposals, but expressed the concerns set out below the next paragraph; and
	• DH#16 disagreed with the use of 'common understanding' for deferral of revenue as they do not believe it is sufficient to determine whether there exists an obligation that should be recognised as a deferred revenue liability. They referred to the current developments of INPAG, which adopts 'IPSAS 46' (note: this seems to be intended to refer to IPSAS 47 *Revenue*) in identifying requirements and guidance for NFP grant accounting. They also noted that para 20.9, which relates to evidence of common understanding where each of the examples already appears already to refer to be enforceable as a legal or constructive obligation. Furthermore, they suggested providing examples of deferrals of revenue required when a legal or constructive obligation does not exist.
	<u>Concerns of stakeholders who generally agreed with the proposals</u>
	<u>*Further clarification on 'common understanding'*</u>
	  ○ MA#4 noted that although the term 'common understanding' may not necessarily have the same meaning as 'sufficiently specific' in AASB 15 *Revenue from Contracts with Customers*, adopting it could lead to similar issues because of the need to apply judgement in determining whether a common understanding arises. They consider a common understanding that only specifies using an asset for a specified period for the entity's programmes and activities generally may lead to similar debates about whether a common understanding is established for what the entity needs to do. That is, it might be unclear whether a common understanding exists in either or both of the following cases: (1) an asset was given for general spending to support the entity's overall mission; or (2) an asset was given to support a more specific project. Because of possible confusion, they do not agree with para 20.24(d) that supporting operating costs provides a good basis for common understanding since all

SMC	Comments where provided
	donations would generally support the operating cost of an NFP entity. They were also concerned with para 20.3(a)(i) referencing ‘an asset’ and queried whether there is any inconsistency with the definition of an asset (i.e. the existence of control) under the Conceptual Framework for any non-cash assets being consumed in providing a good or service back to the person that has provided it, as addressed in para. 69 of AASB 15. *<u>Enforceability not considered as criterion</u>* o While SD#7 agreed with the proposals, however, they noted that the removal of an enforceability requirement will lead to far more significant amounts of revenue being deferred. *<u>Suggestion for further guidance/examples</u>* o SD#7 also noted that para 20.9 does not require a provider of an asset to specify the use of funds to meet the revenue deferral requirements but that written communication to the asset provider or representation to customers is sufficient to result in a deferral. They consider further clarification is needed of whether communication solely from the entity to the granter about the purpose or the period to which the asset will be used after the asset is provided is sufficient to establish a common understanding. As such, they considered Example G should be extended to include an additional example about internal expectations and decisions about the use of funds communicated to the grantor after receipt. They also consider many NFP entities raise funds from websites where a common understanding and intent by the entity exists to use the funds in a particular way (e.g. disaster responses) but they may be permitted to spend those funds on other activities or ‘where most needed’. As such, they suggested an implementation example where funds get repurposed would be beneficial; o SD#7 also highlighted minor differences in the wording of disclosure requirements for volunteer services and recommended aligning the Tier 3 requirements with those of Tier 2. Specifically, they pointed out that Tier 3 paragraph 20.29 uses “shall disclose”, whereas AASB 1058 paragraph 27 under Tier 2 uses “encouraged to disclose”; o CPA/CAANZ#11 considered amendments are needed in para. 20.1(a)(i), which excludes sales of assets from the revenue section, but inventories are assets and would give rise to revenue on sale. Similarly, para. 14.3(b) excludes property held for ‘sale in the ordinary course of business’, but in the event an NFP entity holds such assets, any sale of such assets is excluded from being recognised as revenue based on para. 20.1(a)(i), whereas arguably it should be treated as revenue. They also consider including additional scenarios within para. 20.11 – 20.13, to consider the provision of goods/services to a third-party beneficiary other than the customer/provider, as this is likely to be a common occurrence with grants, donations and other funding arrangements and where benefits are derived by third parties at a future date that requires deferral of revenue; and o GT#13 noted that greater clarity is needed for the treatment of certain classes of assets, such as land, where the underlying asset is not used up and may have a perpetual life. For perpetual life assets, there may be a varying interpretation where para 20.12 may be interpreted as either: ▪ not applying to the utilisation of the land as the asset is not to support general operating costs of the entity over an unspecified period of time where a reader does not interpret capital outlay avoided as being ‘general operating costs’; or

SMC	Comments where provided
	▪ applying to the transaction as there is an intent to ‘support the general operating costs of the entity’ by the avoidance of lease outflows as it relates to a hypothetical asset performing the same tasks. They recommend that the Board clarifies either to include or exclude such rights to perpetual assets. In addition, they recommend that the disclosure requirements for contingent assets be explicitly referenced for pledges and that the statement that professional services ‘might have a readily observable market price’ be removed, as this statement may be interpreted as an opinion that undermines the free accounting policy choice of whether to recognise volunteer services. <u>Other concerns of stakeholder who disagreed with the proposals</u> o DH#16 considered a few areas of the proposals unclear, that is: ▪ whether the proposal for revenue only addresses the entity’s ordinary activities and not all grants based on the drafting in para 20.1; ▪ the proposals do not appear to cater for situations of the right to receive future cash payments (i.e., recognise as WIP as the work is performed); hence, they do not agree with para 20.3(b), which refers to recognising revenue when there is a right to receive the asset; ▪ the use of the term fair value for recognising receivables in para. 20.5, but the requirements then state that the amount recognised is the amount expected to be received, which is not a fair value (reflecting the market participant/exit price amount); ▪ capital grants, such as a requirement to use a granted building for specified activities, are not adequately dealt with. They noted that para 20.12 states that capital grants are not deferred which contradicts other requirements if there is a common understanding of how the asset is used. Revenue recognition for capital grants should be deferred even if deferral would not be permitted under AASB 1058; and ▪ the purpose of para 20.13 is confusing.
Q29) Section 20 – no guidance on variable consideration or significant implicit financing components* <u>From written responses</u> Agree: 8 (PP#1, MA#4, SD#7, KPMG#10, CPA/CAANZ#11, BDO#15, DH#16, IPA#18) Disagree: -	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. Five professional services firms (PP#1, MA#4, SD#7, KPMG#10, BDO#15), three professional bodies (CPA/CAANZ#11 and IPA#18) and one other stakeholder (DH#16) agreed with the proposal not to include guidance on variable consideration or significant financing components as it would add complexity to the Tier 3 requirements and accounting for them is not expected to be common practice for Tier 3 NFP entities.

SMC	Comments where provided
Q30) Section 21: Expenses* <u>From written responses</u> Agree: 8 (PP#1, MA#4, SD#7, KPMG#10, CPA/CAANZ#11, BDO#15, DH#16, IPA#18) Disagree: -	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • Five professional services firms (PP#1, MA#4, SD#7, KPMG#10, BDO#15), three professional bodies (CPA/CAANZ#11, IPA#18) and one other stakeholder (DH#16) agreed with the proposals in Section 21, noting that they would not support a cash basis for expense recognition given its inconsistency with the Conceptual Framework.
Q31) Section 22: Borrowing Costs* <u>From written responses</u> Agree: 8 (PP#1, MA#4, SD#7, KPMG#10, CPA/CAANZ#11, BDO#15, DH#16, IPA#18) Disagree: -	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • Five professional services firms (PP#1, MA#4, SD#7, KPMG#10, BDO#15), three professional bodies (CPA/CAANZ#11 and IPA#18) and one other stakeholder (DH#16) agreed with the proposals in Section 22, with PP#1 noting the requirements are consistent with IFRS for SMEs requirements and MA#4 stating they do not see many NFP entities with significant borrowings or constructing large assets that would qualify for capitalisation. While SD#7 was aware of some smaller NFP entities capitalising borrowing cost when undertaking a significant property redevelopment/renovation, they do not consider the proposals would impact users' understanding. In supporting the Board's proposal, MA#4 stated the only reason the Board may want to consider the capitalisation of borrowing costs is if the Board decided to require interest to be imputed for significant financing on grants received in advance and those grants are being used towards the construction of qualifying assets.
Q32) Section 23: Impairment of Assets <u>From virtual/in-person outreach and external meetings</u> Agree: 15 (88%) Disagree: 2 (12%) Unsure: 0 Total:17 <u>From written responses</u> Agree: 4 (PP#1, SD#7, KPMG#10, IPA#18)	**From outreach sessions, staff heard that:** • Almost all stakeholders agreed with the proposals and only one stakeholder considered an additional indicator could be legislation/regulatory changes. They provided an example where government proposals to restrict imports/exports or sales of specific goods/services could affect an entity. They considered the proposed impairment indicators may not adequately capture such scenarios because, while the asset's capacity to generate revenue or provide goods/services might be adversely affected due to these changes, the entity did not voluntarily alter its strategy but was compelled to do so by legislative or regulatory changes; and • Only a few stakeholders (including one from the in-person outreach session) disagreed with the proposals. **From written submissions:** • Three professional services firms (PP#1, KPMG#10, SD#7) and one professional body (IPA#18) agreed with the proposals in Section 23. Two other professional bodies (CPA/CAANZ#11) generally agreed with the proposals except for para. 23.12, which allows impairment losses recorded in profit or loss to be disclosed jointly with depreciation/amortisation expenses. Because the natures of those expenses differ, they would prefer them to be separately disclosed; • Another professional services firm (MA#4) was unsure adequate simplification has been provided as they consider the actual testing of impairment as being the most challenging for NFP entities rather than when the impairment testing is required. They were also

SMC	Comments where provided
Agree with exception: 4 (CPA/CAANZ#11, GT#13, BDO#15, DH#16) Disagree: - Unsure: 1 (MA#4)	unclear from the proposals whether impairment is tested on an individual basis or at a cash-generating unit (CGU) level. There is a proposed rebuttable presumption that fair value less cost of disposal is the most appropriate measure for a non-financial asset's recoverable amount, and this may indicate impairment being assessed at an individual asset level. However, they consider value in use would require testing at a CGU level as would the indicator in para. 23.3(b) [i.e. an entity changed its strategy or has been affected by a reduction in external demand for goods or services, adversely affecting the entity's capacity to provide good or services or generate sale revenue]. They consider that if testing could be performed at an individual asset level, this may simplify the impairment requirements sufficiently; • Two other professional services firms (GT#13, BDO#15) and one other stakeholder (DH#16) generally agreed except: ○ GT#13 noted clarification is needed for the proposed impairment indicators, which may not be applicable to certain assets, particularly intangible assets that have been separately acquired and are not available for use in their current form (e.g., research and development assets). They consider para. 23.3(b) would not apply to such assets that may have a demonstrated lack of market but do not generate revenue at this time, nor would para. 23.3(a) apply because the asset has not become obsolete. Therefore, significant losses of value of intangible assets might not qualify for identification and recognition of an impairment. As such, they recommend adding further context in an additional para. 23.3(c) such as: "the entity's strategy, as it relates to the specific asset, has altered such that the recovery of value of the asset is not probable. The test of recovery of value of the asset is only triggered where a change in strategy as it relates to that asset occurs". They also consider the language used to depict the impairment indicators to appear absolute, contrary to the language used in AASB 136. As such, the indicators may be interpreted as being statements of when impairment has prima facie occurred, rather than indicators of impairment; ○ BDO#15 considered an additional indicator of impairment should be added, being changes in the technological, legislative and market environment. They also noted that the scope of section 23 covers all assets other than financial assets and non-financial assets that are regularly revalued. However, the examples provided in para. 23.3 of the types of assets covered include only inventories and property, plant and equipment. As such, they recommend clarifying that section 23 would also apply to other non-financial assets, including investment properties and investments in associates and joint ventures measured at cost or using the equity method; and ○ DH#16 found the requirements confusing, as per their comment on SMC 20, where some paragraphs appear to restrict impairment assessments and others not (e.g. para. 23.5). They were unclear from para. 23.9 whether the Board intends for an impairment loss on an asset where fair value measurement is temporarily suspended (and therefore cost used) would be recognised in profit or loss instead of the asset revaluation reserve. Additionally, they consider impairment disclosures are also relevant for inventories and should be required.
Q33) Section 24: Employee Benefits	**From outreach sessions, staff heard that:** • Most stakeholders agreed with the proposals but some of them noted that it may not be clear that employee benefit provisions do not need to consider future pay raises; and

SMC	Comments where provided
From virtual/in-person outreach and external meetings Agree: 16 (89%) Disagree: 0 Unsure: 2 (11%) Total: 18 From written responses Agree: 4 (SD#7, KPMG#10, CPA/CAANZ#11, IPA#18) Agree with exception: 4 (PP#1, MA#4, BDO#15, DH#16) Disagree: -	• A preparer agreed with the proposal, but they suggested removing the term "provisions" when describing employee benefits, as this terminology is not currently in use. **From written submissions:** • Two professional services firms (SD#7, KPMG#10) and three professional bodies (CPA/CAANZ#11 and IPA#18) agreed with the proposals in Section 24. Three other professional services firms (PP#1, MA#4, BDO#15) and one other stakeholder (DH#16) generally agreed with the proposals but had the following comments: ○ PP#1, BDO#15 and DH#16 noted clarification is needed that employee benefit provisions do not take into account future pay rises as they consider the current drafting is not clear even though para. BC 121 provides the Board's rationale not to require an entity to consider future pay rises. DH#16 also considered inflation should not be considered since the amounts are undiscounted; and ○ MA#4 encouraged the Board to consider whether further simplification can be achieved in calculating long service leave, even if it is limited commentary on how the probability aspect of the estimate can be determined, as they noted NFP entities currently preparing SPFS simply take an arbitrary position when recognising long service leave entitlements (e.g recognising 100% of the long service leave entitlement for all employees employed for five years).
Q34) Section 25: Income Tax* From written responses Agree: 8 (PP#1, MA#4, SD#7, KPMG#10, CPA/CAANZ#11, BDO#15, DH#16, IPA#18) Disagree: -	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • Five professional services firms (PP#1, MA#4, SD#7, KPMG#10, BDO#15), three professional bodies (CPA/CAANZ#11 and IPA#18) and one other stakeholder (DH#16) agreed with the proposals in Section 25, noting that income tax would not significantly impact the majority of NFP entities as they generally do not pay tax. However, MA#4 suggested the Board should consider whether additional disclosures should be required of any unused tax losses available to offset future taxable income as they consider they can be a considerable future benefit to relevant NFP entities. While SD#7 thinks it would be helpful if the Standard clearly states that deferred tax assets and deferred tax liabilities are not recorded, to avoid any confusion since they are aware some smaller NFPs subject to income tax under the principle of mutuality revalue property assets, which may result in a material deferred tax liability.
Q35) Section 26: Foreign Currency Translation* From written responses Agree: 7 (PP#1, SD#7, KPMG#10, CPA/CAANZ#11, BDO#15, DH#16, IPA#18) Agree with exception: 2 (MA#4, GT#13)	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • Four professional services firms (PP#1, SD#7, KPMG#10, BDO#15), three professional bodies (CPA/CAANZ#11 and IPA#18) and one other stakeholder (DH#16) agreed with the proposals in Section 26 with no further comments; and • Two professional services firms (MA#4, GT#13) generally agreed with the proposals, except: ○ MA#4 disagreed with the financial statements being mandatorily presented in AUD as per their response to SMC10, but stated they agreed with the proposed requirements to translate the amounts back to the functional currency, which may or may not be AUD; ○ GT#13 noted similar concerns that the requirements do not contain guidance on functional currency even though many NFP entities operate in multiple jurisdictions. As such, they recommend a reference to functional currency be included and allow an entity, by policy choice, to utilise a functional currency to present its financial statement amounts; and

SMC	Comments where provided
Disagree: -	○ In addition, GT#13 noted there is no explicit proposed requirement in ED 335 to present the translation of foreign currency transactions within the income statement. However, they commented that this requirement is implied by para. 6.8(b).
Q36) Section 27: Events Occurring after the Reporting Period* <u>From written responses</u> Agree: 7 (PP#1, MA#4, SD#7, KPMG#10, CPA/CAANZ#11, BDO#15, IPA#18) Agree with exception: 2 (GT#13, DH#16) Disagree: -	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • Five professional services firms (PP#1, MA#4, SD#7, KPMG#10, BDO#15) and three professional bodies (CPA/CAANZ#11, IPA#18) agreed with the proposals in Section 22, noting the requirements are consistent with Tier 2 reporting requirements, well understood in practice and do not create any unnecessary burden to NFP entities applying the requirements; • One professional services firm (GT#13) generally agreed with the proposals but noted that the examples in para. 27.3(a) and 27.3(b) are generally common occurrences and may be interpreted as requiring disclosures of information in all instances regardless of whether those events occur as common practice or intermittently. They recommend the Board requires those disclosures “where such grants/purchases and disposals are qualitatively material to the users of the financial statements”; and • One stakeholder (DH#16) also generally agreed, except the reference to ‘settlement’ of a court case should be clarified as they believe a court decision, as well as the parties agreeing to settle proceedings, should be considered in the context of ‘settlement’.
Q37) Section 28: Related Party Disclosures <u>From virtual/in-person outreach and external meetings</u> Agree: 13 (72%) Disagree: 1 (6%) Unsure: 4 (22%) Total: 18 <u>From written responses</u> Agree: 3 (PP#1, SD#7, BDO#15) Agree with exception: 6 (MA#4, ACNC#8, KPMG#10, CPA/CAANZ#11, DH#16, IPA#18) Disagree: -	**From outreach sessions, staff heard that:** • Most stakeholders agreed with the proposals including one advisor supporting the Board not requiring disclosures of key management personnel (KMP) compensation simply because some regulators may already require such disclosures. One other stakeholder also noted that the requirements align with existing ACNC requirements which grants exemptions to large charities to withhold KMP compensation information when there is only one member of KMP; and • However, a few stakeholders were unsure or disagreed with respect to not requiring KMP compensation disclosures because the information is generally important to users of the financial statements. A preparer stakeholder noted that if KMP compensation disclosures are already mandated by legislation or regulatory requirements, it makes sense to duplicate this requirement in the proposals. A few stakeholders sought further guidance to assist preparers on what qualifies as a donation that could influence an entity’s activities. **From written submissions:** • Three professional services firms (PP#1, SD#7, BDO#15) agreed with the proposals. Particularly PP#1 considered smaller NFP entities would likely only have one member of KMP and disclosing their compensation could result in privacy issues. They noted that Treasury and the ACNC identified privacy as an issue and decided for ACNC reporting purposes, even though AASB 124 is mandatory for large charities preparing SPFS, they are exempt from disclosing KMP compensation with one remunerated member of KMP; and • However, two other professional services firms (MA#4, KPMG#10), three professional bodies (CPA/CAANZ#11 and IPA#18), one regulator (ACNC#8) and one other stakeholder (DH#16), while generally agreeing with the proposals, disagreed with or were unsure about some aspects of the proposals, as follows:

SMC	Comments where provided
	KMP compensation disclosures ○ MA#4 and KPMG#10 consider KMP compensation disclosures are important to users; in addition, KPMG#10 argued that the Tier 3 disclosure requirements for KMP compensation should align with the Tier 2 requirements. KPMG#10 added that regulators can exercise discretion to exempt them if deemed appropriate. MA#4 considered the proposed Tier 3 disclosures would create inconsistency with the ACNC disclosure requirements, which may create additional complexities and confusion for preparers as they no longer have a single truth for preparing the financial statements. Similarly, CPA/CAANZ#11 and IPA#18 considered it appropriate to require KMP compensation disclosures for similar reasons; and ○ A regulator (ACNC#8) did not disagree with the proposals but noted that, in the absence of Tier 3 thresholds, the ACNC may require legislative changes to ensure that large charities continue to disclose KMP compensation. *Donations from a related party* ○ MA#4 noted that determining whether a donation from a related party could influence an entity's activities (as per paragraph 28.10(b)) could require judgment. As such, they suggested simplifying the disclosure requirement and removing the need for judgement by removing the disclosure exemption for donations in para. 28.10(b), with application of the concept of materiality filtering out minor amounts; ○ DH#16 was unsure about the proposal to exempt disclosures for donations from a related party where they meet certain criteria, as they have not worked through it with practical examples. They were also unclear whether donations include grants; and ○ IPA#18 considered donations from a related party to be important for all entities and are required by some regulators. Therefore, they consider donations from a related party should be required in the Tier 3 Standard. *Other disclosures* ○ DH#16 considered the name of the relevant related party should also be disclosed. *Suggested clarifications/editorial changes* ○ SD#7 suggested amending para 28.10(b) to "…unless evidence indicates that the material donations could materially influence the entity's activities…"; ○ DH#16 noted that para 28.9 contained terms that are not defined or used elsewhere in the proposed Standard, that is, uncollectable receivables and bad or doubtful debts; and ○ IPA#18 suggested editorial changes to para 28.1 and 28.2 to improve readability.
Q38) Section 29: Transition to Tier 3 General Purpose Financial Statements Agree: 12 (80%) Disagree: 0	**From outreach sessions, staff heard that:** • Most stakeholders agreed with the proposals including that the transitional provisions ongoing relief and are available to entities whenever an entity reapplies the Tier 3 requirements or transitions from the Tier 1 or Tier 2 framework to the Tier 3 framework. However, a few stakeholders consider the current drafting could be clearer that the transitional provisions provide ongoing relief. Another stakeholder not specifically referring to the transitional provisions considered entities should maintain consistency in the reporting framework rather than frequently transitioning between tiers of GPFS. They consider that entities should forecast their

SMC	Comments where provided

Unsure: 3 (20%)
Total: 15
 	
From written responses
Agree: 2 (KPMG#10, CPA/CAANZ#11)
Agree with exception: 6 (PP#1, MA#4, SD#7, GT#13, BDO#15, IPA#18)
Disagree: -
	appropriate tier of financial statements they should prepare over a 4-5 year period. This approach would aim to address concerns about temporary fluctuations in revenue that might otherwise cause an entity to be reclassified into a different size threshold, thus impacting reporting requirements. By taking a longer-term view, entities can avoid the complications associated with frequently changing reporting standards due to short-term revenue variations; and
	• A few stakeholders were unsure mainly in relation to the optional transition relief allowing entities to carry forward Tier 1/Tier 2 requirements for any or all assets existing on the transition date.
	From written submissions:
	• Two professional bodies (CPA/CAANZ#11) and one professional services firm (KPMG#10) agreed with the proposals with no further comments. Five professional services firms (PP#1, MA#4, SD#7, GT#13, BDO#15) and another professional body (IPA#18) generally agreed with the proposals in Section 29, except:
	  ○ all five firms expressed concerns with the proposed transitional relief in para. 29.3(a) and 29.4 to allow entities to elect to continue to adopt the existing Tier 1 and Tier 2 requirements for any or all assets or liabilities existing on the transition date whilst applying the Tier 3 Standard. Particularly, PP#1, SD#7, GT#13 and BDO#15 disagreed and considered the transitional relief would increase complexity, reduce comparability and understandability of Tier 3 financial statements for users and that its costs would exceed any potential benefits. BDO#15 highlighted that the proposed option would permit inconsistent treatment of items within the same class of assets and liabilities. PP#1 considered the rationale for the Board's providing the transitional relief was not explained in the basis for conclusions. Furthermore, they anticipated minimal adoption of the transitional provisions given the complexity of Tier 1/Tier 2 requirements, the extended period for initial application and the simplification objectives of Tier 3 reporting. MA#4 also expressed concern with the transition relief as some items such as long-term leases may have terms of 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. GT#13 also noted that the requirements of para 29.4 may be unclear since para 29.7(b) modifies the option by requiring an entity to cease recording items as assets or liabilities if the Standard does not permit such recording. They suggested an amendment to para 29.7(b) such that it is read consistent in meaning with “cease recording items as assets or liabilities if this Standard does not permit a policy which would give rise to those assets or liabilities”;
	  ○ In addition, BDO#15 recommended that the only transitional exceptions from Tier 3 requirements should be those proposed in para. 29.10 and 29.11 of ED 335; and
	  ○ PP#1 and IPA#18 noted the section was difficult to understand and recommended simpler language to explain the requirements. IPA#18 also requested significant shortening of the transitional provisions and provided editorial suggestions for improving readability of the requirements.

Q39) Appendix A: Glossary of Terms* Agree: 2 (SD#7, KPMG#10)	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • Two professional services firms (PP#1, BDO#15) did not support including the glossary that merely duplicates the body of the Standard. BDO#15 considered the standard to be lengthy, and finding definitions would require some effort going backward and

SMC	Comments where provided
Agree with exception: 3 (MA#4, CPA/CAANZ#11, DH#16) Disagree: 2 (PP#1, BDO#15)	forward between the Glossary and the body of the Standard. As such, for consistency with other Australian Accounting Standards, which contain the definitions of the defined term used, they consider the same should apply to the Glossary in Appendix A; and • However, two professional services firms (SD#7, KPMG#10), two professional bodies (CPA/CAANZ#11) and one other stakeholder (DH#16) agreed with the inclusion of the glossary and another professional services firm (MA#4) agreed in principle with the cross-referencing to the body of the Standard for the definition. However, some of these stakeholders also provided the following comments: ○ MA#4 noted that some definitions are not clear within the body, such as accounting estimates (para 9.17) or exit price (para 11.2) and encouraged that clearer articulation is required in the body; ○ CPA/CAANZ#11 consider a plain English approach, where every defined term is clearly highlighted each time it appears could improve usability and educational outcomes; and ○ DH#16 noted some terms that have not been included in the glossary which were used in the Standard: active market, contingent rent, constructive obligation, lease term and variable lease payments.
Q40) Appendix C: Amendments to other Australian Accounting Standards* Agree: 4 (PP#1, MA#4, KPMG#10, IPA#18) Agree with exception: 2 (CPA/CAANZ#11, BDO#15) Disagree: -	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • Three professional services firms (PP#1, MA#4, KPMG#10) and one professional body (IPA#18) agreed with the amendment in Appendix C including the transition relief provided to entities from Tier 3 to Tier 2 reporting requirements and considered the relief is a simplification relevant to NFP entities that may need to transition between reporting tiers due to receiving a one-off bequest and/or capital grants; • One other professional services firm (BDO#15) generally agreed with the proposed amendments, but they recommend the Board to consider framing the second limb to the effect that Tier 3 entity is one where legislation, the constituting or other document permits application of the Tier 3 framework. This amendment would ensure larger NFP entities are prevented from adopting the Tier 3 framework until regulators/legislation introduce thresholds for Tier 3; and • While two professional bodies (CPA/CAANZ#11) agreed with the amendments, they also advocated an interim or transitional mechanism to amendments within AASB 1053 as part of their comments to ED 334.
GMC Q41) Appropriate application of the *AASB Not-for-Profit Entity Standard-Setting Framework** Agree: 2 (KPMG#10, IPA#18) Agree with exception: 3 (PP#1, CPA/CAANZ#11, DH#16) Disagree: -	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • Consistent with their comment provided in SMC 1, a professional services firm (PP#1) considered the AASB NFP Entity Standard-Setting Framework will need to be amended for Tier 3 as it currently only deals with Tier 1 and Tier 2 and the need to address the possible departure of Tier 3 from sector neutrality; • Three professional bodies (CPA/CAANZ#11, IPA#18) and a professional services firm (KPMG#10) considered the NFP Entity Standard-Setting Framework has been appropriately applied in developing the Tier 3 Standard. However, as per their comments to ED 334 (CPA/CAANZ ED334#10), CPA/CAANZ#11 do not agree that the NFP Entity Standard-Setting Framework has been appropriately applied in leaving the application of the standard to relevant regulators. They consider that clause 8 states that AASB establishes the type and nature of financial statements to be prepared by entities required in accordance with Australian Accounting Standards and gives the AASB the power to implement the Tier 3 Standard via an application clause. As such, they

SMC	Comments where provided
	reiterated the need for a monetary threshold to be included as an interim measure while awaiting further regulatory implementation reform; and • A stakeholder (DH#16) considered the AASB has not applied its transaction neutral policy for NFP entities as NFP public sector entities are excluded from applying the Tier 3 proposals, nor for for-profit entities without adequate reasons.
GMC Q42) Regulatory issues* Yes: 5 (PP#1, SD#7, CPA/CAANZ#11, DH#16, AICD ED334#11) No: 1 (IPA#18)	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • Two professional services firms (PP#1, SD#7) and two professional bodies (CPA/CAANZ#11) considered that without legislative changes regarding which entities can apply Tier 3 reporting requirements, those requirements could potentially lead to confusion. Specifically: o PP#1 based their response using a maximum threshold of $3 million revenue for entities that may apply the Tier 3 requirements, noting thresholds are set by regulators/legislation. PP#1 considered that without legislative changes, the Tier 3 reporting requirements could potentially lead to any sized NFP entity adopting them, in which case, the comments of PP#1 may likely be different if the requirements were applied by larger NFP entities. As such, they encourage the AASB to facilitate legislative changes through connections with the government without causing practical issues for NFP entities as they move between Tier 2 and Tier 3 requirements based on revenue numbers. CPA/CAANZ#11 also recommended the AASB actively engage with all levels of government in this regard. In addition, PP#1 suggested possible approaches such as including specific application to the regulator, drafting of legislation to allow an averaging approach [to determine revenue] over several years, or consideration of applying 2 of the last 4 years, similar to the application of Pillar 2 legislation issued by Treasury; o AICD ED334#11 considered the AASB should propose clear reporting thresholds for the Tier 3 Standard, which would provide clarity and consistency for the NFP sector especially the potential impact on smaller charities with greater reliance on volunteers. They support proportionate reporting thresholds, noting challenges to assessing the impact of the Standard with reference to the scope of the NFP population likely to be impacted who are already subject to a range of reporting thresholds. They also consider the AASB should consider the interaction of the Government proposals to merge the AASB, the AUASB and the Financial Reporting Council into one body, and seek to consider holistically its ED 334 and ED 335 proposals with other NFP red tape reduction initiatives including reforms from the Productivity Commission Final Report on philanthropic giving and NFP Development Sector Blueprint. They also encourage the AASB and ACNC to commit dedicated resources to meet the significant challenge of educating the substantial number of NFPs which would be required to transition from SPFS to GPFS; and o SD#7 was not aware of any current regulator/legislator project to consider amending legislation in relation to the application of Tier 3 thresholds; hence, they consider the AASB, ACNC and ASIC should actively consider the issue, including ensuring appropriate consultation occurs before legislation or regulation amendments occur. As per their comments on SMC 5, their suggested scope amendments would mitigate the risk of regulator/legislator inactivity by enabling a NFP entity without public accountability to adopt the Tier 3 reporting requirements unless precluded by legislation or regulation; • A stakeholder (DH#16) expected there will be many regulatory issues but has not worked through them yet; and • However, another professional body (IPA#18) was not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

SMC	Comments where provided
GMC Q43) Best interests of the Australian economy* Yes: 2 (PP#1, IPA#18) Yes, except: 2 (CPA/CAANZ#11, DH#16) No: -	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • A professional services firm (PP#1) and a professional body (IPA#18) considered the proposals to be in the best interests of the Australian economy as they promote improved consistency for NFP entities of a certain size reporting under legislative requirements. PP#1 considered the proposals will benefit preparers as well as users of the financial statements as they will be easier to read, simpler to prepare and comparable between entities, which is especially important for financial statements that are publicly available; • Two professional bodies (CPA/CAANZ#11) also considered the proposals to be in the best interests of the Australian economy but caveated that their responses are subject to their responses to SMC 1, 4 and 11 of ED334 (CPA/CAANZ ED334#10) being addressed. Broadly, those stakeholders consider a lack of certainty as to who can apply the Tier 3 Standard means it will be difficult to achieve the benefits that the new standard offers because of the uncertainty preparers and users will face, and inappropriate pressure placed on auditors to assist NFPs to determine the applicability of the new Tier 3 Standard; and • One stakeholder (DH#16) considered the proposals should be expanded to private sector for-profit entities and the public sector to maximise the benefits to the Australian economy.
GMC Q44) Cost/Benefit of the proposals (not already provided on SMCs)*	Staff did not ask this question at outreach sessions. As such, the feedback was obtained only from written submissions. • As well as the benefits noted in their response to GMC 43, a professional services firm (PP#1) noted the Tier 3 reporting requirements provide more accounting options than Tier 2 requirements, which may reduce comparability. However, they consider this not a significant issue since they consider entities are likely to elect the simplest option. However, they noted costs are difficult to quantify as they depend on the type of financial statements entities currently prepare and the accounting policies currently applied by SPFS preparers. They noted that initial cost is inevitable with any new standard, however, ongoing cost should be less given the simpler accounting policy options; • While another professional services firm (SD#7) noted some cost on transition would occur to accounting and audit costs but does not consider these will be significant to individual entities. They consider there will be significant savings for some entities with optional consolidation proposals as opposed to applying Tier 2 and therefore, suggested the concessions provided within Tier 3 should be actively considered for entities above the Tier 3 thresholds given the removal of SPFS; • However, a stakeholder (ET#12) disagreed with the proposals, considering them as onerous and unnecessary, and the cost of adopting the proposals far exceeds the benefits achieved in adopting them. They estimated that 74 trusts will be impacted by the proposals, and the additional cost to prepare and audit Tier 3 GPFSs will add additional cost in excess of $100,000 with little to no benefit to the end user; and • One stakeholder (DH#16) considered the proposals to provide a much simpler reporting framework for entities in scope, but similar entities in the for-profit private sector and the public sector are unable to gain those benefits.