Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M211
Topic:	**Preliminary summary of feedback on ED 335**	**Agenda Item:**	6.2
		Date:	13 February 2025
Contact(s):	Maggie Man mman@aasb.gov.au Jia Wei jwei@aasb.gov.au	**Project Priority:**	High
		Decision-Making:	Low
		Project Status:	ED – open for comment

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 disclosures 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 The purpose of this paper is for the Board to consider the preliminary summary of feedback on ED 335 from outreach activities up to 13 February 2025. Staff will provide a verbal update on further feedback received prior to the Board meeting. An updated summary incorporating further feedback received up to the comment period close, and staff analysis and recommendations, will be brought to a future Board meeting (expected May 2025) for the Board's consideration.

4 No decision is requested for this paper.

1 See website for ED 334 and ED 335.

Structure of this paper

5 This paper is structured as follows:

(a) overview of outreach conducted up to 13 February 2025 (paragraphs 6 – 7); and

(b) preliminary summary of responses on the following Specific Matters for Comment (SMCs) and General Matters for Comment (GMCs) in ED 335 (paragraphs 9 – 14):

(i) SMC 1 – SMC 7 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 conducted up to 13 February 2025

6 Staff engaged in the following activities to promote awareness of, and prompt feedback on, the EDs:

(a) creation of a plain language 'At a Glance' version of the proposals;

(b) contact with NFP State and Territory regulators, in addition to direct communication with technical leads;

(c) requests made to the NFP State and Territory regulators' communications function to promote the consultation directly with NFP entities;

(d) information sent to peak NFP and accountancy bodies, plus large, mid-tier and small accounting firms with Australia-wide coverage, with a request for them to share the information with their stakeholders; and

(e) regular posts on LinkedIn promoting the proposals and upcoming events. These posts have received good engagement scores.

7 Table 1 below is a summary of activities conducted up to 13 February 2025, including the number of attendees/respondents from each outreach activity on ED 335.

Table 1 Summary of outreach activity conducted up to 13 February 2025

Outreach activity	Number of attendees
Online survey[2]	8[3]
4 x AASB outreach session	58
4 x Externally organised sessions/meetings (encompassing one-on-one meetings with individual preparers and audit firm staff).	N/A

2 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 6 in Agenda Paper 6.1, ED 335 contains a question pertaining to the Board's proposals in ED 334 to extend the population of entities required to prepare GPFS. The respondents' feedback to SMC 4 are reflected on page 4 in Agenda Paper 6.1 at this meeting

3 37 responses were received to the survey in total. However, 25 of the responses were unusable because the respondents did not answer any questions. Those responses were removed from the analysis. Three respondents only responded to SMC 4 of ED 334 and has been excluded from the analysis in this paper as per footnote 1.

8 As of the date of this agenda paper, no formal submissions have been received, and one planned virtual outreach sessions will be conducted on 25 February 2025. Therefore, the preliminary summary of feedback set out in this paper reflects only the feedback received from the activities listed in paragraph 7 above.

Preliminary summary of feedback

9 The matters for comment included in ED 335 was 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 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 the glossary of terms.

10 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.

11 Staff have 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 thus far: 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.

12 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 1-7, which address the overall structure, development principles and significant simplifications of the proposed Tier 3 requirements, were not discussed during outreach sessions or in other stakeholder engagements. Additionally, staff excluded the SMCs marked with an asterisk in Table 3 from both its virtual and in-person outreach events.

13 Staff’s preliminary summary of the feedback received relating to SMCs 1-7 is set out in Table 2 below:[4]

Table 2 Quantitative summary of responses to SMCs 1 – 7 (sourced from online survey only, as stated in paragraph 12)

SMC and topic of the SMC	Yes (agree)	No (disagree)	N/A[5]	Total	Comment where provided
Q1) Principles for developing AASB 10XX General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities	7	0	1	8	
Q2) Major simplifications of recognition and measurement (R&M) requirements	7	1		8	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)
Q3) Structure of the Standard	7	0	1	8	
Q4) Proposed effective date	8	0	0	8	From those who agreed: • agree with timetable but a standard for micro charities must be developed (preparer)
Q5) Unintended consequences arising from the proposals	2	6	0	8	From those who responded yes: • 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. (preparer) • micro charities will wind up because of this bureaucratic burden (preparer)

4 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, the summary of feedback in Table 2 does not include SMC 8.

5 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[5]	Total	Comment where provided
Q6) Any audit or assurance challenges	1	6	1	8	From those who responded yes: • I 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 admin expenses and fulfilling its constitutional purpose. Most NFPs pay no wages: something to think about (preparer).
Q7) Usefulness of financial statements	7	1	0	8	From those who responded yes: • There are many small NFPs. I think it would have an impact on those (preparer). • It will depend on client by client. Concern is that there will be transition costs and efforts. If too much information comes through from disclosure point, it will put people off. Measurement changes are positive (advisor). From those who responded no: • utterly meaningless and unnecessarily complicated (preparer).

14 Staff's preliminary summary of the feedback received relating to SMCs 9 – 40 and GMCs 41 – 44 is set out in Table 3 below. Staff note that the comments and concerns heard during the virtual outreach and in-person roundtable sessions may not necessarily represent the stakeholder's final views reflected in a future comment letter:

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 12, 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, 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 Agree: 21 (81%) Disagree: 1 (4%)	**From those who agreed:** • An audit firm staff and one preparer agreed with the proposals with no further comments. • One representative of a professional body agreed with an exception to some financial instruments proposed as complex financial instruments (further discussed in SMC 17, page 10)

SMC	Comments where provided
Unsure: 4 (15%) Total: 26	**From those who disagreed:** • One advisor preferred the Standard to be entirely self-contained, i.e. not to require opt-up to Tier 2 for any topics. They considered entities should be permitted to the hierarchy approach proposed in Section 9 to develop their own accounting policies for transactions, events on 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, requiring the application of AASB 5 *Assets Held for Sale* can be challenging, as the assets classified as held for sale would need to meet specific criteria and implicitly implying that management follows through with the plan to sell and the added complexity of determining fair value. They noted the desire for a simplified reporting requirements to be made available to for-profit entities. One representative of professional body shared the same sentiment where they have heard stakeholder feedback that the Standard should be self-contained **From those who are unsure:** • One representative of a professional body was unsure in relation to requiring entities to applying AASB 5 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.
Q10) Section 2: Financial Statement Presentation Agree: 22 (100%) Disagree: 0 Unsure: 0 Total: 22	**From those who disagreed:** • One audit firm staff disagreed with requiring a statement of changes in equity (and by extension, a statement of income and retained earnings). Instead, they consider smaller NFP entities should only be required to prepare an income statement, balance sheet, statement of cash flows and accompanying notes. Any equity movements or reserves could be disclosed within the balance sheet, aligning with the approach taken by IFR4NPO. They noted that IFR4NPO requires fund accounting to complement its simplified financial statement presentation requirements. However, they recognise that IFR4NPO’s guidance is designed to address a broader range of NFP entities compared with the Board's proposals.
Q11) Section 2: Statement of Changes in Equity Agree: 18 (82%) Disagree: 1 (4%) Unsure: 3 (14%) Total: 22	**From those who agreed:** • One representative of a professional body agreed with permitting the presentation of a statement of income and retained earnings, limited to when the proposed criteria are met. **From those who disagreed:** • One representative of a professional body disagreed only on the basis that Sections 3 – 7 is very lengthy. If the objective is to develop simplified GPFS for Tier 3 entities, then the language needs to be concise. Also, they noted that the Tier 3 Standard provided a lot of accounting policy choices, which required judgements and in turn lead to cost. In their view, there should be only one requirement that entities would apply which would ensure consistency between entities. For that reason, they preferred that either a statement of retained earnings is required or prohibited, if they meet the criteria, rather than to allow an accounting policy choice. **From those who are unsure:** • One audit firm staff was uncertain about the current proposed requirements regarding when a statement of retained earnings is necessary. While they acknowledged that similar wording exists in AASB 1060, they suggested it would be clearer to explicitly state that any changes resulting in reserve movements should require the entity to prepare a statement of changes in equity.

SMC	Comments where provided
Q12) Sections 3 – 7: Presentation and Disclosure Requirements*	No feedback has been received to date.
Q13) Sections 3 – 7: Guidance on presenting analysis of expenses Agree: 18 (82%) Disagree: 1 (4%) Unsure: 3 (14%) Total: 22	**From those who disagreed:** • One advisor noted that there may be a need to reconsider presenting analysis of expenses by nature or function in light of issues in AASB 18 *Presentation and Disclosure in Financial Statements* since the IASB came to the conclusion that entities cannot fully present either by nature or function under IFRS 18 (of the same title). **From those who are unsure:** • One representative of a professional body suggested that the IFR4NPO at the consultation paper stage outlined four alternative approaches to presenting expenses, which included a hybrid approach to presenting expenses by nature and function. This approach may work well for the sector. A template/standard format might work better, or the Board could provide examples of how to present expenses by nature, or function, or both. • One audit firm staff was unsure what implications there were of AASB 18 for Tier 3 but considers that presentation of expenses by nature, or function or both as permitted in AASB 18 would be appropriate.
Q14) Section 8: Notable Relationships and Consolidated and Separate Financial Statements Agree: 19 (90%) Disagree: 0 Unsure: 2 (10%) Total: 21	**From those who agreed:** • One auditor considers determining control is not always clear in the NFP space compared to the for-profit sector. As such, they agreed with the proposals in Section 8 including the approach to identifying notable relationship entities. They also considered that, in some cases, it may give more accurate information to users where ownership may not be clear. • Another auditor considers there can be different tax structures within a NFP group, so having the option to present separate financial statements is helpful. • One advisor agreed with the option to present consolidated financial statements or separate financial statements, but the requirements are not presented clearly. They were unsure whether entities needed to distinguish different types of investments [i.e. subsidiaries, joint ventures, associates] if entities elect not to present consolidated financial statements. In addition, for the option to present consolidated financial statements or only separate financial statements, it is unclear whether changing the elected approach would need to satisfy the criteria in Section 9 for an accounting policy change. They noted that NFP Boards change often, and those criteria in Section 9 may mean the entity could be tied down by the previous accounting policy choice of previous Boards. • Another advisor agreed with the proposals including providing the accounting policy option to measure notable relationship entities at cost, applying the equity method or at fair value, even if the same measurement basis applies to all notable relationship entities. • One audit firm staff agreed with the measurement option but there was a lack of clarity regarding the requirement to measure notable relationship entities as a single class. Nevertheless, this was not seen as a significant issue, as based on their experience, smaller NFP entities typically do not hold investments in associates, joint ventures, or joint operations. Therefore, they do not consider it a major concern even if the Tier 3 Standard does not provide specific guidance in this matter.

SMC	Comments where provided
	• One representative of a professional body agreed with the proposal, and considered the proposed disclosures required in separate financial statements are adequate when consolidated financial statements are not presented.. Also they agreed with requiring all notable relationship entities to be measured as one class without allowing entities to distinguish different classes therein. • One preparer considered the proposal would be easier for preparers and users to understand and easier to audit. They also consider separate financial statements with disclosures of notable relationship entities would be easier to understand. **From those who disagreed:** • One auditor considers many medium-sized parent entities will opt not to present consolidated financial statements which leading to a loss of financial information about the economic group. • Another auditor considers there may be more risks to not presenting consolidated financial statement for indigenous corporations with associated trusts and corporations controlled by the entity. • One preparer preferred to see consolidated financial statements and equity accounting. (This preparer did not expand on the rationale.) **From those who are unsure:** • One auditor did not express whether they agree or otherwise but noted that without consolidated financial statements, there will be a loss of information about the economic group. Hence, they emphasised the need to ensure disclosures required in separate financial statement should be useful to users for entities not preparing consolidated financial statements. • Another auditor commented that the proposal would depend on where the threshold lands. This is because the level of simplifications of not requiring consolidation in the proposals versus applying AASB 10 *Consolidated Financial Statements* , it may be difficult for entities that are on the cusp between reporting size, that may need to transition between tiers. • One audit firm staff noted that there were mixed views amongst advisors within their firm in relation to the accounting option to presenting consolidated financial statements. Additionally, they were uncertain whether the exclusion of Appendix E: NFP Implementation Guidance in AASB 10 in the current proposals would lead to outcomes consistent with Tier 1/Tier 2 requirements. Therefore, they suggested that including a cross-reference to this guidance might be beneficial. They also believed that further guidance might be necessary to help entities identify notable relationship entities effectively. • One regulator noted that consolidation has consistently posed challenges for NFP entities to implement, particularly due to the complex business structures often associated with native titles and discretionary trusts. This complexity can make it difficult for entities to identify whether notable relationships entities exist. Additionally, there are challenges in cases where certain legislation requires thresholds to be determined using consolidated revenue rather than single entity revenue. However, they recognised that addressing such issues falls within the purview of regulators and legislative authorities.
Q15) Section 9: Accounting Policies, Estimates and Errors Agree: 13 (76%) Disagree: 2 (12%)	**From those who agreed:** • One preparer noted that some accounting errors may impact multiple line items, hence it can be costly to change comparative period information. o Another preparer considers users prioritise the accuracy of current period amounts over comparative period information.

SMC	Comments where provided
Unsure: 2 (12%) Total: 17	**From those who disagreed:** • One auditor considered making adjustments solely to opening balances would render two periods incomparable, thus financial information would be useless and meaningless. This approach poses challenges for auditors and their audit opinion with material errors not corrected. New accounting requirements may also add to cost of educating staff. • Another auditor considered that if there were no comparative adjustments, then an emphasis of matter or similar may need to be included in the audit report to draw attention to the disclosure note that comparative period information contains a material uncorrected error. • Another auditor considered most preparers (and confirmed by a preparer) currently correct comparative information, and therefore this practice should continue to be required. • Another auditor considered prior period errors may stem from taking over an engagement where the prior auditor may not have got it right. Hence, the current audit would simply adjust comparatives if there is a material error. • An advisor considered it is basic ethics to correct known errors. They agree it is up to auditors whether to provide an emphasis of matter in the audit report. However, they agreed with the proposals not to require comparatives to be corrected for changes in accounting policies since many transitional provisions for adopting new accounting standards allow comparatives not to be corrected. • One audit firm staff noted that, given entities already require cumulative catch-up adjustments in the opening balance and disclosures about the accounting error, they consider the entity might as well correct the comparative period information. • While another audit firm staff agreed with not requiring comparative period information to be restated for changes in accounting policies, they suggested to provide an option for entities to correct comparative period information for prior period accounting errors. • Another preparer considered that whilst changing comparative period information is costly, correcting errors is essential for governance, and they consider it important to provide corrected information to users. • One representative of a professional body considered disclosure notes may be inadequate as users do not necessarily read them, so they prefer that an entity amends comparatives. • One representative of a professional body considered that comparative period information should be amended for both voluntary changes in accounting policies and corrections of prior period accounting errors. However, another representative considered adjusting comparative period information should be required only for corrections of prior period errors. • One regulator suggested to allow optional correction of comparative period information for prior period accounting errors would be beneficial, particularly when user needs are unclear. From an accountability perspective, disclosing the existence of prior period accounting errors is more valuable than detailing the comparative period effects. **From those who are unsure:** • One auditor did not express support or otherwise for the proposals, but they suggested whether the non-correction of comparative period information should be optional.

SMC	Comments where provided
Q16) Section 10: Financial instruments – list of basic financial instruments Agree: 14 (93%) Disagree: 1 (7%) Unsure: 0 Total: 15	**From those who agreed:** • One preparer agreed with the proposal except for financial guarantees and commitments to provide a loan at a below-market interest rate are common practice for certain NFP entities, including some smaller NFP entities, that may enter into commitments to provide a loan to another smaller NFP entity at below the market rate. However, both financial instruments have been included as more complex or uncommon financial instruments. • Another preparer agreed with the proposal, including the current drafting, which treats the list of basic financial instruments as examples. They believe that making the list exhaustive would lead to more financial instruments falling outside the scope of the Tier 3 requirements, thereby requiring the application of AASB 9 *Financial Instruments*. **From those who disagreed:** • One audit firm staff preferred the AASB to develop principles to define what constitutes basic and complex financial instruments, rather than creating a rigid list. A rigid 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.
Q17) Section 10: Financial instruments – list of complex financial instruments Agree: 11 (73%) Disagree: 3 (20%) Unsure: 1 (7%) Total: 15	**From those who agreed:** • One audit firm staff agreed with the proposals because the Tier 3 Standard should not address all financial instruments. Therefore, they support the continued application of AASB 9 for complex financial instruments. **From those who disagreed:** • An advisor preferred not to have a complex financial instruments list and for all financial instruments, entities should be allowed to apply the Tier 3 requirements developed for basic financial instruments. There is already a measurement basis to allow fair value measurement (either through profit or loss or in equity) without the need to distinguish business models. As such, they do not agree with sending entities to AASB 9 when they can simply adopt the fair value mechanism within basic financial instruments requirements. They also considered financial guarantee contracts or concessional loan commitments can be dealt with under reporting requirements for provisions instead of AASB 9 since fair valuing these items is complex and they would rather they were captured under probability-based accounting applicable to provisions. • One representative of a professional body disagreed only in the context of financial guarantee contracts, concessional loan commitments and other acquired equity instruments (e.g. philanthropic trust gifting shares to charity) as they have heard from stakeholders that these financial instruments may not be uncommon for NFP entities so it would be complex to direct entities to apply AASB 9. • Another representative of a professional body agreed with the list of basic financial instruments but considered requiring entities to apply AASB 9 for complex financial instruments is not ideal. The Standard should be self-contained as much as possible. They suggested an alternative approach is to make the basic financial instruments list an exhaustive list rather than examples. They also suggested to remove the complex financial instruments list and instead require all other financial instruments not in the basic financial instruments list to be measured at fair value through profit or loss.

SMC	Comments where provided
Q18) Section 10: Financial instruments – recognition, measurement and disclosure requirements Agree: 12 (86%) Disagree: 1 (7%) Unsure: 1 (7%) Total: 14	**From those who disagreed:** • An advisor disagreed with requiring transaction costs to be expensed immediately as some bank fees are quite large, and therefore considered the proposal should allow transactions costs to be able to be amortised 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 in the view, it is unclear how these premiums or discounts are treated based on the current proposals.
Q19) Section 11: Fair Value Measurement*	No feedback has been received to date.
Q20) Section 20: Inventories Agree: 12 (86%) Disagree: 1 (7%) Unsure: 1 (7%) Total: 14	**From those who agreed:** • An audit firm staff agreed, 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. **From those who are unsure:** • One representative of a professional body was unsure only in relation to the use of terminology. That is, the term 'net realisable value' is familiar, hence they consider it may be beneficial to include it within the proposals since 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). • Another representative of a professional body noted that the proposals restrict recoverable amount to current replacement cost. However, in some circumstances, market value might be more appropriate. • On the use of common language and terminology, a preparer noted that NFP entities have limited resources, so they consider it better if the language was simple to understand (i.e. not necessarily need to be consistent with existing terms).
Q21) Section 13: Investments in Associates and Joint Arrangements Agree: 14 (82%) Disagree: 0 Unsure: 3 (7%) Total: 17	**From those who agreed:** • A representative of a professional body generally agreed with the requirements, including changing the equity method (i.e. adjustment for 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 a significant concern. In their opinion, many smaller entities are unlikely to apply equity accounting presently or in the future. (Two other stakeholders (audit firms) observed that it is less common for NFP entities to have investments in associates and joint ventures. **From those who disagreed:**

SMC	Comments where provided
	• An auditor considered the breadth of measurement choices makes comparability of financial statements difficult. Some entities' board members may not have the level of accounting knowledge or not necessarily have external auditors on their boards to make the accounting policy choice. They considered the additional training costs associated with new requirements and may deter some auditors from the sector, and the level of complexity that the proposals may generate may make assurance unprofitable
Q22) Section 14: Investment Property and Section 15: Property, Plant and Equipment Agree: 10 (77%) Disagree: 3 (13%) Unsure: 0 Total: 13	**From those who agreed:** • A preparer agreed with the proposals, including the additional requirement to require the review of depreciation method where there is an indication of a significant change in expected pattern of consumption of future economic benefits. They review the depreciation method every year so there would be no impact to their entity with regards to the proposals. **From those who disagreed:** • An advisor 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 would not a common asset for smaller NFP entities, hence, the requirements would be simpler if Section 14 was removed entirely.
Q23) Section 14 and Section 15 – cost of obtaining fair value of donated non-financial assets*	No feedback has been received to date.
Q24) Section 16: Intangible Assets Agree: 12 (100%) Disagree: 0 Unsure: 0 Total: 13	**From those who agreed:** • One preparer, while agreeing with the proposals, questioned the rationale for specifying a maximum useful life of ten years for all indefinite-life intangible assets. • Another preparer noted that their NFP entity previously held acquired intangible assets. However, they ultimately decided to write these off to simplify their accounting practices. Nevertheless, they agreed with maintaining the accounting requirements for intangible assets, provided the requirements remain straightforward and easy to implement. • Another preparer agreed with the proposal, except the requirement could be simplified by removing fair value measurement requirements for intangible assets and keeping only the cost method for both initial and subsequent measurement basis. • A representative of a professional body agreed with proposals as drafted. • An audit firm staff agreed with the preparer that all guidance relating to fair valuing intangible assets should be removed from the Tier 3 Standard given the inherent complexities in fair valuing intangible asset and smaller NFP entities are unlikely to elect the fair value measurement option.
Q25) Section 17: Entity Combinations Agree: 8 (57%) Disagree: 1 (7%)	**From those who agreed:** • Two audit firm staff agreed with the proposals, including the deemed combination date on the basis that implicit goodwill will not affect the profit or loss statement. • One regulator agreed with proposals.

SMC	Comments where provided
Unsure: 5 (36%) Total: 14	**From those who disagreed:** • One auditor disagreed with the deemed combination date. Establishing the combination as having occurred at the start of the current period could potentially lead to numerous assurance challenges. This is because it would involve consolidating activities for a period when control was not yet established, and access to financial records prior to obtaining actual control might be limited. • One advisor disagreed with the deemed combination date. They suggested an alternative approach could be to apply the last set of accounts within one to three months from the actual combination date. However, they cautioned that extending this period up to a year would be excessive, especially if the combination date was near the end of the reporting period but the deemed combination date was set at the beginning of the current period. The advisor also expressed uncertainty regarding the absence of recognised goodwill, noting that depending on the price paid, a significant amount might need to be recorded in equity. • Another advisor considered deeming of combination date may lead to manipulation of accounts. They preferred that the actual date of control is required with a disclosure note about the acquisition. • One representative of a professional body disagreed with the deemed combination date. They argued that even an estimated date of control acquisition would be preferred, noting that this date would be subject to audit scrutiny. Additionally, the representative suggested including a clear definition of what constitutes an entity would be helpful. They also recommended 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 for voluntary classification to facilitate easier compliance.
Q26) Section 18: Leases Agree: 11 (85%) Disagree: 1 (8%) Unsure: 1 (7%) Total: 13	**From those who agreed:** • One preparer agreed with the proposals except for recognising lease expenses/income on a straight-line basis and prefer matching expenses/income with lease cash payments rather than smoothing them over the lease term. • Another preparer agreed with the proposals as drafted. Similarly, an audit firm staff agreed with proposals, including the requirement to recognise lease expenses/income on a straight line basis, given there is already a significant simplification provided for the accounting requirements for leases. Therefore, they do not see the need to further simplifying the requirements by allowing recognition of lease income and expenses on a cash basis. • One representative agreed with the proposals. They also did not object to requiring a note disclosure about a lease rent-free period if the proposals change to requiring a cash basis for recognising lease incentive/discounts rather than smoothing them over the lease term as proposed in the ED.
Q27) Section 19: Provisions and Contingencies Agree: 13 (100%) Disagree: 0 Unsure: 0	**From those who are unsure:** • An advisor noted that while they do not express a view on whether they agree or disagree, they believe the current proposals, as drafted, lack clarity that discounting is not required when measuring provisions, unlike employee benefit provisions, which explicitly state that discounting is not required.

SMC	Comments where provided
Total: 13	
Q28) Section 20: Revenue Agree: 11 (73%) Disagree: 1 (7%) Unsure: 3 (20%) Total: 15	**From those who agreed:** • One preparer generally agreed, noting that their organisation has established practices and government-funded contracts in place. In practice, their auditors confirm with the funder whether the revenue can be deferred. • Another preparer also agreed, explaining that their entity's contracts with funders are sufficiently clear to determine when to recognise revenue. • One regulator has heard that the sector strongly desires deferral of revenue, so they supported the proposal. However, they noted that users are generally more interested in how grant funding is spent rather than how it is obtained. • An audit firm staff agreed with the current proposals and considered the requirements are adequate and provide flexibility in assessing the presence of a common understanding. Additionally, they noted the existing proposal already includes comprehensive guidance on what constitutes evidence of a common understanding. **From those who disagreed:** • One auditor disagreed as they consider liabilities cannot be recognised when obligations are not enforceable. • Another auditor disagreed and queried whether the proposals pose tax consequences for a donor’s tax deductions. There will also be added cost of training staff. As such, they prefer the existing revenue recognition (i.e. AASB 15 and AASB 1058) for consistency with Tier 2 requirements for NFP entities. • An advisor considered not having enforceability as a consideration is problematic for entities being able to defer revenue. They would prefer more alignment with IPSASB’s accounting for provisions and obligations and allowing more deferrals for future spending on the entities’ own activities. They also consider that there is 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. **From those who are unsure:** • An auditor noted that some preparers already understand the existing Tier 2 requirements. Therefore, they questioned the need to return to the matching principle. • A representative of a professional body was unsure about the use of ‘common understanding’ as it may be challenging for auditors to provide assurance. They queried whether the IPSASB approach of basing deferral of revenue on the existence of binding agreements has been considered.
Q29) Section 20 – no guidance on variable consideration or significant financing components*	No feedback has been received to date.
Q30) Section 21: Expenses*	No feedback has been received to date.

SMC	Comments where provided
Q31) Section 22: Borrowing Costs*	No feedback has been received to date.
Q32) Section 23: Impairment of Assets Agree: 12 (92%) Disagree: 1 (8%) Unsure: 0 Total:13	**From those who agreed:** • A preparer agreed with the indicators but suggested whether an additional indicator could be legislation/regulatory changes. An example was provided where government proposals to restrict imports/exports or sales of specific goods/services could affect an entity. They argued that such scenarios might not be adequately captured by the existing impairment indicators. This is 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. **From those who are unsure:** • One representative of a professional body agreed with the indicators as presented in the proposals but was unsure why only the current replacement cost for recoverable amount is being proposed, although noting that some rationale is provided in para. BC68. They also consider more guidance may be needed on what physical obsolescence means. In addition, they preferred the requirements for impairment of inventory to be included within the inventory section. • An audit firm staff agreed with the indicators, however, they were uncertain about whether economic indicators should also be considered, particularly in relation to investment properties. Nevertheless, they observed that economic indicators might be less relevant for smaller NFP entities and could introduce additional complexity to the requirements.
Q33) Section 24: Employee Benefits Agree: 12 (86%) Disagree: 0 Unsure: 2 (14%) Total: 14	**From those who agreed:** • An advisor agreed with proposals but noted that it may not be clear that employee benefit provisions do not need to consider future pay rises. • 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.
Q34) Section 25: Income Tax*	No feedback has been received to date.
Q35) Section 26: Foreign Currency Translation*	No feedback has been received to date.
Q36) Section 27: Events Occurring after the Reporting Period*	No feedback has been received to date.
Q37) Section 28: Related Party Disclosures	**From those who agreed:**

SMC	Comments where provided
Agree: 11 (79%) Disagree: 1 (7%) Unsure: 2 (14%) Total: 14	• One advisor supported the Board not requiring information (i.e. about key management personnel (KMP) compensation disclosures) simply because some regulators may already require such disclosures. • An audit firm staff noted there were mixed views amongst advisors in their firm. However, the advisor agreed that smaller NFP entities typically have only one member of KMP, and requiring KMP compensation disclosures could potentially infringe on privacy. Furthermore, they noted that since the ACNC grants similar exemptions to large charities, allowing them to withhold KMP compensation information when there is only one KMP, it seems reasonable to extend the requirement not to include KMP compensation disclosures within the Tier 3 Standard. **From those who disagreed:** • A representative of a professional body considers KMP compensation disclosures are important to users of the financial statements. **From those who are unsure:** • One preparer considered KMP compensation disclosures will be of interest to readers/well-wishers of NFP entities, so they are unsure about not requiring the disclosures. • Another preparer noted that given KMP compensation disclosures are already mandated by legislation or regulatory requirements, it makes sense to duplicate this requirement in the proposals. • Another preparer considered determining what qualifies as a donation that could influence an entity's activities might invite judgment and pose challenges in evaluation. • A representative of a professional body was unsure about not requiring disclosure of KMP compensation, as the answer will depend on who is in scope of Tier 3 since large charities (i.e. revenue over $3M) will need to disclose KMP compensation as part of ACNC regulatory requirements anyway. • An audit firm staff was unclear whether a substantial donation to an entity that relies economically on such contributions would be classified as exerting influence over that entity's operations and potentially triggering disclosure requirements.
Q38) Section 29: Transition to Tier 3 General Purpose Financial Statements Agree: 9 (82%) Disagree: 0 Unsure: 2 (18%) Total: 11	**From those that agreed:** • An advisor agreed with the proposal, but it may not be clear that the transitional relief, as currently drafted, is not a limited relief. They consider the proposals could be clearer that the transitional relief is ongoing and available whenever an entity reapplies the Tier 3 requirements any entities. o A preparer agreed with the proposals especially that the transitional relief is ongoing and not limited to first time adoption only. **From those who disagreed:** • An audit firm staff agreed with most of the transition provisions in Section 29, except they disagreed with allowing a hybrid recognition and measurement regime to perpetuate (i.e. allowing the option to continue Tier 1/Tier 2 recognition and measurement policies to carry forward for any or all assets or liabilities). They consider that if an entity wants to continue applying Tier 1/Tier 2 requirements, it should remain entirely within that framework. Furthermore, they argued that a hybrid recognition and measurement regime would introduce unnecessary complexity and confusion for both preparers and users of financial statements.

SMC	Comments where provided
	Although they acknowledged that AASB 1 contains similar exemptions allowing prospective application of certain transactions, they consider these to be temporary measures. In contrast, the proposals in the Tier 3 Standard could result in assets or liabilities being perpetually recognised under a different framework than Tier 3, which they find problematic. They also consider Section 29 as currently drafted difficult to understand. **From those who are unsure:** • One regulator did not express whether they agree or otherwise. However, they prefer entities to maintain consistency in the reporting framework rather than frequently transitioning between tiers of GPFS. They consider that entities should forecast their appropriate financial statement they should prepare over a 4-5 year period. This approach addresses 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.
Q39) Appendix A: Glossary of Terms*	No feedback has been received to date.
Q40) Appendix C: Amendments to other Australian Accounting Standards*	No feedback has been received to date.
GMC Q41) Appropriate application of the AASB Not-for-Profit Standard-Setting Framework*	No feedback has been received to date.
GMC Q42) Regulatory issues*	No feedback has been received to date.
GMC Q43) Best interests of the Australian economy*	No feedback has been received to date.
GMC Q44) Cost/Benefit of the proposals (not already provided on SMCs)*	No feedback has been received to date.

Question to Board members:

Do Board members have any questions or comments on the preliminary summary of feedback or other matters presented in this paper?