Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M213
Topic:	**Redeliberation on primary financial statements**	**Agenda Item:**	5.3
		Date:	17 June 2025
Contact(s):	Maggie Man mman@aasb.gov.au Jim Paul jpaul@aasb.gov.au	**Project Priority:**	High
		Decision-Making:	High
		Project Status:	Project redeliberations

Objective of this paper

1 The objective of this staff paper is for the Board to **decide** how to finalise the proposed Tier 3 requirements on primary financial statements exposed in Sections 2 – 7 of ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*.

Structure of this paper

2 This paper is structured as follows:

(a) Summary of staff recommendations (paragraph 3);

(b) Background and reasons for bringing this paper to the Board (paragraphs 4 –9); and

(c) Staff analysis of stakeholders' feedback, and staff recommendations, on the following issues (mainly Specific Matters for Comment (SMCs), which are grouped out of numerical order in places to streamline the discussion):[1]

(i) Section 2 – Financial Statement Presentation (paragraphs 11 – 16);

(ii) Section 3 – Statement of Financial Position, and Notes Thereto – relating to SMCs 10(a) and 12(a) (paragraphs 17 – 21);

(iii) Section 4 –Statement of Profit or Loss and Other Comprehensive Income, and Notes Thereto; and Analysis of Expenses – relating to SMCs 10(b), 12(b), 12(d) and 13 (paragraphs 22 – 43);

(iv) Section 5 – Statement of Changes in Equity and Statement of Income and Retained Earnings, and Notes Thereto – relating to SMCs 10(c), 11 and 12(c) (paragraphs 44 – 49);

(v) Section 6 – Statement of Cash Flows , and Notes Thereto – relating to SMCs 10(d), 12(e)(i) and 12(e)(ii) (paragraphs 50 – 56); and

1 Section names have been expanded in the headings in this paper, and in this paragraph (but not the summary of staff recommendations), to mention all issues in the SMCs analysed.

(vi) Section 7 – Notes to the Financial Statements – relating to SMCs 10(e) and 12(f) (paragraphs 57 – 61).

Summary of staff recommendations

3 Staff recommend the Board finalises the Tier 3 requirements as exposed in ED 335 for:

(a) Section 2: *Financial Statement Presentation*;

(b) Section 3: *Statement of Financial Position*, except to add the omitted sub-paragraphs (a) and (b) of para. 47A of AASB 1060, which contain detailed disclosure requirements about liabilities with covenants;

(c) Section 4: *Statement of Profit or Loss and Other Comprehensive Income*, except for broadly aligning the requirements for presentation of an analysis of expenses with those in AASB 18 *Presentation and Disclosure in Financial Statements* (i.e. permitting the analysis to use a mixed presentation based on the nature and function of expenses);

(d) Section 5: *Statement of Changes in Equity and Statement of Income and Retained Earnings*;

(e) Section 6: *Statement of Cash Flows*, except to:

(i) amend para. 6.4 to align substantially with AASB 1060 para. 67 – that is, to state that cash receipts from investments and cash receipts and payments from loans are cash flows from operating activities when those investments or loans are held for dealing or trading purposes; and

(ii) insert 'relevant' before 'revenues and expenses' in para. 6.9; and

(f) Section 7: *Notes to the Financial Statements*.

Background and reasons for bringing this paper to the Board

4 At the Board's March 2025 and May 2025 meetings (Meetings 211 and 212), the Board noted staff's preliminary and final collations of stakeholder feedback on ED 335. In addition, in Agenda Paper 4.2 for Meeting 212, staff set out its proposed approach to the Board's redeliberations of ED 335 for the Board's decisions, particularly a categorisation of the redeliberation effort in light of the stakeholder feedback received on the ED.

5 For this Board meeting (Meeting 213), this paper provides a staff analysis of stakeholder feedback received on the parts of ED 335 containing presentation and disclosure requirements for a Tier 3 NFP entity's primary financial statements (i.e. Sections 2 – 7), developed having regard to the collation of submissions in Agenda Paper 4.3 for Meeting 212. The approach to developing this paper reflects the Board's agreement with the proposed categorisation of its subject matter as 'Category B' in Agenda Paper 4.2 for Meeting 212 (i.e. it is unclear whether the Board's proposals in ED 335 will be finalised in the manner exposed) because some stakeholders disagreed, or agreed with exceptions, with some proposed requirements. However, most proposals in Sections 2 – 7 of ED 335 were strongly supported by stakeholders and not the subject of fresh perspectives raised by stakeholders. The length of this staff paper reflects the breadth of its subject matter (including the number of components of the SMCs asked) rather than in-depth reconsideration of most proposals by staff.

6 In Agenda Paper 4.2 for the Board's May 2025 meeting (Meeting 212), in Table 1 regarding SMC Q12 on Sections 3 – 7 (presentation and disclosure requirements) of ED 335, it was indicated that "a few stakeholders noted that the language expressed in Sections 3 – 7 could be expressed better and shortened". Some specific examples of this concern are included in the tables of stakeholder comments in this paper. The language in Sections 3 – 7 of ED 335 was

based mainly on the corresponding Tier 2 text in AASB 1060. Prompted by the stakeholder comments, staff identified some other instances of proposed presentation or disclosure requirements that potentially are unclear or mutually inconsistent.

7 An example of a staff-identified potential concern with the text adopted from AASB 1060 is that the stem of para. 4.2 might be ambiguous regarding whether it refers to presenting a total entitled 'total comprehensive income' (as opposed to presenting the items composing total comprehensive income). If all items composing the reporting entity's comprehensive income are presented in two statements, a line item for 'total comprehensive income' would not be presented in the statement of profit or loss – this might seem to contradict the stem of para. 4.2 (depending on how that stem is interpreted). To avoid creating confusion, consideration could be given to amending the stem of para. 4.2 to something like: "An entity shall present all items composing its total comprehensive income for a period either:" (additional text underlined).

8 In light of these concerns, staff will review the language in Sections 2 – 7 of ED 335 and draft some suggested modifications of the requirements sourced from AASB 1060, for inclusion in the collective revised drafting planned to be considered by the Board in November 2025 (see paragraph 9). Modifying the text adopted from AASB 1060 would be compatible with the Board's principles for developing Tier 3 disclosure requirements. As noted in paragraph BC9(b) of the Board's Basis for Conclusions (BC) for ED 335, the Board's principles for developing Tier 3 disclosure requirements include further simplification of the AASB 1060 disclosure requirements. Staff will share any suggested modifications with the project team for the Post-implementation Review (PIR) of AASB 1060, in case they are also potentially relevant to Tier 2 reporting requirements.[2]

9 Staff have not included any revised drafting except for providing examples of how the Board might address some stakeholders' comments seeking clarification of the requirements. Staff plan to present the revised drafting collectively in November 2025, as per the project timeline presented in Agenda Paper 5.0. This approach allows the Board to first make all decisions on matters of principle, ensuring a comprehensive view of the overall draft Standard.

Staff Analysis of Stakeholders' Feedback on the Specific Matters for Comment

10 Staff recommendations for modifying the text of ED 355 for the Tier 3 requirements in response to stakeholder comments analysed in the tables below are:

(a) set out in the staff analysis column of each affected table; and

(b) repeated in a staff recommendation paragraph below each affected table, for easy reference by Board members (i.e. the staff recommendations paragraphs in this paper do not add staff recommendations for modifications to those included in the tables).

Section 2 – Financial Statement Presentation (paragraphs 2.2 – 2.18)

11 Section 2 contains the Board's proposals for fair presentation of financial statements and what a complete set of financial statements is composed of. At a high level, the Board decided the Tier 3 accounting requirements for a complete set of financial statements are to be consistent with Tier 2 requirements, but with simplified language (refer to paragraph BC32 of ED 335).

12 Section 2 proposed that a complete set of financial statements is composed of:

---

2 Decisions about modifications of AASB 1060 text in developing the Tier 3 presentation and disclosure requirements do not depend on eventual Board decisions made about Tier 2 presentation and disclosure requirements in response to the Board's PIR of AASB 1060.

(a) a statement of financial position;

(b) a single statement of profit or loss and other comprehensive income or a separate statement of profit or loss and a separate statement of comprehensive income;

(c) a statement of changes in equity;

(d) a statement of cash flows; and

(e) notes to the financial statements.

Staff analysis and recommendation on Section 2

13 SMC 10 – SMC 13 asked for stakeholders' views on these components of a complete set of financial statements, and related disclosures; the stakeholder feedback is analysed separately in relation to each section in paragraphs 17 – 61 below. Questions for Board members on whether, and in which circumstances, the components of a complete set of financial statements listed in paragraph 12 should be required of a Tier 3 NFP entity are asked in Sections 3 – 7 below.

14 The other aspects of the proposed requirements in Section 2 of ED 335 are:

(a) fair presentation;

(b) compliance with the Tier 3 Standard;

(c) going concern, and disclosures of material uncertainties affecting the going concern assumption;

(d) frequency of reporting;

(e) consistency of presentation;

(f) comparative information;

(g) materiality and aggregation; and

(h) offsetting.

15 These other aspects, set out in paragraphs 2.2[3] – 2.18 of ED 335, are consistent with Tier 2 requirements because they set out principles common to all tiers of reporting. They were not the subject of an SMC. Six stakeholders expressed general support for the proposed presentation and disclosure requirements in ED 335 without commenting specifically on these other aspects of Section 2 in paragraphs 2.2 – 2.18. In view of that general support and the absence of stakeholder comments disagreeing with paragraphs 2.2 – 2.18, staff **recommend** that the Board finalises the Tier 3 requirements in those paragraphs as exposed in ED 335.

16 One professional services firm disagreed with the proposed requirement in para. 2.25(d) of ED 335 for 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. This issue is addressed in Staff Paper 5.4 for the July 2025 Board meeting addressing feedback on SMC 35 regarding Section 26: *Foreign Currency Translation* of ED 335.

3 Paragraph 2.1 simply describes the scope of Section 2.

Question 1 for Board members:
Do Board members agree with the staff recommendation in paragraph 15 to finalise the Tier 3 requirements in paragraphs 2.2 – 2.18 of Section 2 as exposed in ED 335? If not, what do Board members suggest?

Section 3 – Statement of Financial Position, and Notes Thereto

SMCs 10(a) and 12(a): Should a complete set of financial statements include a statement of financial position? If so, what information should be required to be presented (when material) in the statement of financial position and notes thereto?

17 The Board, supported by stakeholder feedback on the DP, considered that it is generally accepted that some form of statement about the entity's financial position, and notes thereto, must be presented because they provide crucial financial information about the entity's financial position to users of its general purpose financial statements (refer to paragraph BC32 of ED 335).

18 Section 3 contains the proposed Tier 3 requirements for reporting financial position in a complete set of financial statements, which the Board decided are to be consistent with Tier 2 requirements.

19 SMC 10(a) asked whether, as ED 335 proposed, a complete set of financial statements should be required to include a statement of financial position. All eleven stakeholders who commented on SMC 10(a) agreed with the Board's proposal.

20 In their submissions on ED 335, all eleven stakeholders who commented on SMC 12(a) expressed general support for requiring the proposed information about an entity's financial position (when material) set out in paragraphs 3.2 and 3.8. Two of those stakeholders made the specific comments analysed in Table 1. In commenting on SMC 12(a), two stakeholders provided comments relating also to SMC 11, namely that a statement of changes in equity should not be required and instead information about changes in equity should be disclosed in notes linked to disclosures about equity balances in the statement of financial position or notes thereto (see row (C) in Table 3 beneath paragraph 48). The issue of whether the Tier 3 Standard should include requirements for presentation of a statement of changes in equity is discussed as part of Section 5 in paragraphs 44 – 49.

Table 1 – Analysis of stakeholder comments on the statement of financial position and notes thereto

Comment	Staff analysis
(A) One professional services firm commented that para. 3.2(k) refers to financial liabilities excluding provisions (via the cross-reference to excluded para. 3.2(m)), 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).	Staff observe that para. 3.2(k) is consistent with para. 35(l) of AASB 1060. In addition, staff observe that various provisions within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* meet the definition of a financial liability in AASB 132 *Financial Instruments: Presentation* (para. 11(a)(i) of which defines a 'financial liability' as including "any liability that is … a contractual obligation to deliver cash or another financial asset to another entity"). For example, a warranty obligation would be accounted for as a provision (Section 20: *Revenue* of ED 335 does not identify warranty obligations as liabilities to customers) and typically would meet the definition of a financial liability. Therefore, staff **recommend** not to remove the reference to provisions from para. 3.2(k), as suggested by the stakeholder.

Comment	Staff analysis
(B) The stakeholder referred to in row (A) 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.	Staff observe that the line items listed in para. 3.2 of ED 335 must be presented in the statement of financial position when material, whereas, in contrast, the items listed in para. 3.8 are examples of line items that must be subclassified when individual classes and sub-classes are material. Therefore, staff consider that referring in para. 3.8 to “the line items in para. 3.2 and the following line items” to economise expression would not reflect the different objectives of those paragraphs. As mentioned in paragraph 8, staff will review the language in Sections 2 – 7 of ED 335 and draft some suggested modifications of the requirements sourced from AASB 1060, for inclusion in the collective revised drafting planned to be considered by the Board in November 2025. In that process, staff will consider further any opportunities for streamlining the disclosures in the process of drafting the Tier 3 Standard, including reviewing the relationship between the disclosures in the topic-based sections and the overall disclosures in Sections 3 – 7. Staff **recommend** not making any substantive changes to Section 3 in relation to this issue.
(C) The stakeholder referred to in row (A) also 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.	Paragraph 3.11 of ED 335 is a condensed version of para. 47A of AASB 1060, the main difference being that para. 3.11 of ED 335 excludes the sub-paragraphs of para. 47A of AASB 1060 (quoted below). They were excluded for brevity, in view of the infrequency with which Tier 3 NFP entities should be subject to such covenants. Para. 47A states: “… the entity shall disclose information … including: (a) information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities; and (b) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants – for example, the entity having acted during or after the reporting period to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity’s circumstances at the reporting date.” However, staff acknowledge that adding clarifying text and examples can sometimes simplify the application of a requirement, despite adding to the length of the Standard. In view of the feedback from the stakeholder that para. 3.11 is very principles-based, and their request for more specific requirements, staff **recommend** adding to ED 335 the omitted sub-paragraphs of para. 47A of AASB 1060.

Staff recommendation on Section 3

21 In view of the strong support from stakeholders for requiring presentation of a statement of financial position and the proposed information about an entity’s financial position (when material) set out in paragraphs 3.2 and 3.8, staff **recommend** that the Board finalises the Tier 3 requirements for the statement of financial position as exposed in ED 335, except for adding

the omitted sub-paragraphs (a) and (b) of para. 47A of AASB 1060, which contain detailed disclosure requirements about liabilities with covenants.

Question 2 for Board members:

Do Board members agree with the staff recommendation in paragraph 21 that the Board finalises the Tier 3 requirements for the statement of financial position as exposed in Section 3 of ED 335, except for adding the omitted sub-paragraphs (a) and (b) of para. 47A of AASB 1060, which contain detailed disclosure requirements about liabilities with covenants?

If not, what do Board members suggest?

Section 4– Statement of Profit or Loss and Other Comprehensive Income, and Notes Thereto

SMCs 10(b), 12(b) and 12(d): Should an entity have the option to report its comprehensive income for the period in a single statement or two separate statements? What information should be required to be presented (when material) in the statement of profit or loss and comprehensive income, and (if presented) in the statement of income and retained earnings?

22 The Board, supported by stakeholder feedback on the DP, considered that it is generally accepted that some form of statement(s) about the entity's financial result for the period, including notes, must be presented because they provide crucial financial information about the entity's financial performance to users of its general purpose financial statements (refer to paragraph BC32 of ED 335).

23 Section 4 contains the proposed Tier 3 requirements for reporting comprehensive income for a period in a complete set of financial statements, which the Board decided are to be consistent with Tier 2 requirements. This consistency with Tier 2 includes aligning with the presentation of the profit or loss and other comprehensive income in a single statement or two separate statements. The Board considered that distinguishing other comprehensive income from an entity's profit or loss would provide more complete and transparent information about the entity's financial performance than omitting to do so, despite some users of Tier 3 general purpose financial statements being unfamiliar with the concept of other comprehensive income, and concluded that (especially with further education about the nature of other comprehensive income) requiring such a distinction would not impose significant costs on preparers of those financial statements (refer to paragraphs BC33 – BC36 of ED 335).

24 Paragraphs 25 – 31 discuss the stakeholder feedback on the three SMCs in the heading above, with some stakeholder feedback analysed in Table 2. SMC 13 regarding the presentation of an analysis of expenses is discussed in narrative form only, in paragraphs 32 – 41. The staff recommendation and question to Board members pertaining to all four SMCs related to Section 4 of ED 335 are set out in (and beneath) paragraph 43.

25 SMC 10(b) asked whether stakeholders agree with the ED 335 proposal that the Tier 3 reporting requirements should align with the Tier 2 requirements, including their option to present comprehensive income in a single statement or two separate statements.

26 Many stakeholders (including those who made submissions on ED 335 and those who commented at outreach sessions) agreed with the proposed option for the presentation of profit or loss and other comprehensive income. Of the eleven stakeholders who commented on SMC 10(b) in submissions, seven respondents agreed with the proposed option (either specifically or as part of expressing general support for the proposed presentation and disclosure requirements) and four either disagreed or agreed with exceptions. Those who disagreed, or agreed with exceptions, expressed the views analysed in Table 2.

27 In addition, SMC 12(b) asked whether stakeholders agree with the presentation requirements for items of comprehensive income in paragraphs 4.4 and 4.5 of Section 4 of ED 335. All eleven stakeholders who commented on SMC 12(b) in submissions agreed. However, two stakeholders suggested closer alignment with AASB 18. Their comments are also analysed in Table 2.

Table 2 – Analysis of stakeholder comments on options for reporting comprehensive income and information to be presented in the statement of profit or loss and other comprehensive income

<table>
<tr><th>Comment</th><th>Staff analysis</th></tr>
<tr><td colspan="2"><u>Options for reporting comprehensive income</u></td></tr>
<tr><td>(A) One professional services firm considered that referring to ‘other comprehensive income (OCI)’ may be confusing to many NFP entities. 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. That firm also disagreed with the rationale in para. BC33 to BC36 of the Board’s Basis for Conclusions on ED 335 for retaining the Tier 2 requirement to present OCI information, and considered that users of financial statements of smaller NFP entities would not find the presentation of OCI useful for assessing an NFP entity’s performance.</td><td>Staff observe that the firm’s disagreement with the proposed presentation requirement in ED 335 is more fundamental than disagreeing with the option to present other comprehensive income in a separate statement from profit or loss (which is the subject of SMC 10(b)). That is, the stakeholder disagrees with classifying income and expenses into items of profit or loss and items of other comprehensive income. Departing from that classification scheme for the components of comprehensive income would give rise to the following concerns:

▪ it is not evident that the characteristics of smaller NFP entities, and the users of their financial statements, warrant a departure from the presentation principles for Tier 2 entities in this respect. The Board considered at length the understandability of other comprehensive income for users of financial statements of smaller NFP entities in its <u>Tier 3 DP</u>, in which it made the following comments:

“… while many smaller not-for-profit private sector entities are unlikely to incur other comprehensive income, some smaller NFP private sector entities revalue items of property, plant and equipment, and certain financial assets. Therefore, preparers are familiar with reporting other comprehensive income information, and the practice may have developed on the basis that it is useful to users and helps align the reporting practice of smaller NFP private sector with those of larger not-for-profit entities.” (para. 5.14(b)); and

“… [some] governing legislation or other regulation … currently requires the provision of other comprehensive income information. As such, not requiring the presentation of the statement of profit and loss and other comprehensive income may be seen as a backward step in transparency. It may also confuse preparers if there is a misalignment between the Tier 3 financial statements and the information required for regulatory purposes.” (para. 5.16)

▪ although the term ‘OCI’ is not plain English, omitting to distinguish items of profit or loss from items of OCI might be confusing because of the different significance of the two categories for the assessment of an entity’s performance. Various smaller NFP entities might not generate OCI items, in which case the potential for confusion would not arise in practice;</td></tr>
</table>

Comment	Staff analysis
	▪ some stakeholders in outreach sessions on ED 335 expressed a view that terminology differences from Tier 2 reporting requirements should be minimised because they might be misconstrued as signalling differences in principle, and because of the training and education costs related to learning more than one term for the same item; and ▪ it would seem premature to depart from the presentation principles for Tier 2 entities before the Board completes its PIR of AASB 1060. For the reasons above, and because this issue was not raised by other stakeholders, staff **recommend** retaining the distinction between profit or loss and OCI in the Tier 3 Standard.
(B) Another professional services firm and a professional body suggested eliminating the choice between presenting a single statement, or separate statements, to present profit or loss and other comprehensive income. Instead, they suggested requiring only the two-statement approach for further simplification, with one of them also suggesting to require the most commonly used and simplest presentation. However, that stakeholder commented that an alternative method of presentation could also be permitted if the entity can demonstrate it would provide more useful information.	Staff acknowledge that requiring uniformity of presentation of the statement(s) reporting comprehensive income would simplify the choices that preparers of Tier 3 NFP entity financial statements would need to make. However, staff consider that this advantage would be outweighed by the following considerations: • it would reduce the flexibility of reporting formats for comprehensive income compared with Tier 2 entities under AASB 1060 (which provides the same option as that in paragraph 4.2 of ED 335), without a strong reason for doing so; • if a two-statement approach were required by the Tier 3 Standard, it would mandate the additional complexity of a two-statement approach even if a smaller NFP entity applying the Tier 3 Standard has no items of other comprehensive income – that is, it would mandate unnecessary complexity; and • the suggestion was not made by the majority of stakeholders. For the reasons above, staff **recommend** retaining the proposed option in ED 335 for a single-statement or two-statement approach to the presentation of the total comprehensive income of a smaller NFP entity applying the Tier 3 Standard.
<u>Information to be presented in the statement of profit or loss and other comprehensive income</u>	
(C) Another professional services firm commented that 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. A regulator 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.	As stated in the 'Main features' of AASB 18: "The key presentation and disclosure requirements established by AASB 18 are: (a) the presentation of newly defined subtotals in the statement of profit or loss. AASB 18 requires an entity to: (i) classify income and expenses into operating, investing and financing categories in the statement of profit or loss – plus income taxes and discontinued operations; and (ii) present two newly defined subtotals – operating profit and profit before financing and income taxes; …" The requirements of AASB 18 were not used as a basis for developing the proposed Tier 3 presentation and disclosure requirements. Under paragraph 20C(ba) of AASB 1057 *Application of Australian Accounting Standards* (as amended by AASB 18), Tier 2 entities applying

Comment	Staff analysis
	AASB 1060 are not required to apply AASB 18.[4] Although AASB 18 contains the most recent IFRS-based (Tier 1) presentation and disclosure requirements, it does not necessarily follow that the presentation and disclosure requirements for lower tiers of reporting should align with AASB 18. The IASB did not align its recently issued third edition of the IFRS for SMEs Standard with IFRS 18. Therefore, the staff **recommend** not to generally align the presentation and disclosure requirements of the Tier 3 Standard more closely with the requirements in AASB 18. Therefore, staff **recommend** taking AASB 18 into account only to identify the 'ceiling' for Tier 3 presentation and disclosure requirements where the requirements of AASB 18 are less onerous than the corresponding Tier 2 requirements in AASB 1060 (e.g. in relation to providing an analysis of expenses by nature, by function, or by a mix of the two: see discussion of stakeholder feedback on SMC 13 in paragraphs 32 – 41).

28 The staff recommendations for the issues in Table 2 are summarised in paragraph 43.

Information to be Presented in the Statement of Income and Retained Earnings

29 As noted in paragraph 45 regarding Section 5 on Statement of Changes in Equity, the Board decided to propose that, under certain conditions, a statement of income and retained earnings may be presented instead of a statement of comprehensive income and statement of changes in equity. This subsection of the paper addresses the information that should be presented in a statement of income and retained earnings, if presented. Whether such a statement should be presented is addressed in Section 5 of this paper, in paragraphs 44 – 49.

30 SMC 12(d) asked whether stakeholders agree with the proposed information to be presented in the statement of income and retained earnings as set out in paragraph 5.5 in addition to the other information required in Section 4: *Statement of Profit or Loss and Other Comprehensive Income*. Staff note that SMC 12(b) requested comments on paragraphs 4.4 and 4.5; therefore, "the other information required in Section 4" excludes the information referred to in paragraphs 4.4 and 4.5 (and already considered above).

31 In their submissions on ED 335, nine stakeholders expressed general support for the proposals in Sections 3 to 7 without qualifying that support in relation to the statement of income and retained earnings. Only one comment (supportive) was received specifically on SMC 12(d) or paragraph 5.5 of ED 335.

Analysis of Expenses

SMC 13: Classification of expenses by nature or function

32 An analysis of expenses provides important insights into the costs of the entity's goods and services provided during the period, for accountability purposes and as input to estimating likely costs of future goods and services.

4 The Board decided to issue an Invitation to Comment seeking stakeholder feedback on the consideration of the potential effects of AASB 18 on AASB 1060 at its May 2025 meeting (refer to Agenda Paper 2.2 for the May 2025 Board meeting draft minutes).

33 Paragraph 4.10 of ED 335 included the following proposed requirement to disclose an analysis of expenses:

> An entity shall present in the statement(s) of profit or loss and other comprehensive income or in the notes an analysis of expenses using a classification based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant.

34 That proposed Tier 3 requirement is consistent with the Tier 2 requirement in para. 58 of AASB 1060, with minor modification of some examples to reflect more closely the circumstances of smaller NFP entities.

35 SMC 13 asked stakeholders whether they agree that the proposed requirement in paragraph 4.10 of ED 335 will be helpful to preparers in disaggregating expenses to provide useful information consistently to users of the financial statements. SMC 13 asked those who disagree whether they would prefer the AASB to develop a more principles-based approach to help preparers classify and present expenses to provide useful information to users.

Permitting a mixed presentation

36 Almost all stakeholders supported requiring the presentation of an analysis of expenses based on their nature or function. However, many of them argued that, in contrast with paragraph 4.10 of ED 335 and paragraph 58 of AASB 1060, a mixed presentation based on the nature and function of expenses should be permitted. They noted a mixed presentation has been applied in practice by numerous entities and that AASB 18 permits such a presentation scheme, and advocated aligning with AASB 18 in this respect. Two professional bodies also noted in their submission on ED 335 that the New Zealand Tier 3 Standard for NFP entities does not require all expenses to be categorised either by nature or by function. AASB 18 includes:

> "In the operating category of the statement of profit or loss, an entity shall classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of these characteristics (see paragraphs B80–B85):
>
> (a) the nature of expenses; or
>
> (b) the function of the expenses within the entity." (para. 78)
>
> "Any individual line item shall comprise operating expenses aggregated on the basis of only one of these characteristics, but the same characteristic does not have to be used as the aggregation basis for all line items (see paragraph B81)." (para. 79)
>
> "In some cases, an entity considering the factors set out in paragraph B80 could determine that classifying and presenting some expenses by nature and other expenses by function provides the most useful structured summary. …" (para. B81)
>
> "If an entity classifies and presents some expenses by nature and other expenses by function in the statement of profit or loss, it shall label the resulting line items in a way that clearly identifies what expenses are included in each line item. For example, if an entity includes some employee benefits in a function line item and other employee benefits in a nature line item, the label for the nature line item would clearly identify that it does not include all employee benefits (for example, 'employee benefits other than those included in cost of sales')." (para. B82)

37 Staff note that some smaller NFP entities might consider an analysis of expenses by function would generally provide more relevant information because it can provide insights into the purposes for which expenses were incurred in furtherance of the entity's mission. However, as

is acknowledged by paragraph B80(d) of AASB 18, allocating some expenses to functions can be arbitrary to such an extent that the line items presented would not represent those functions' costs faithfully. Therefore, requiring all expenses to be disaggregated according to either their nature or function might effectively force entities to classify all expenses by nature. Providing the flexibility to use a mixed presentation based on the nature and function of expenses might enable the presentation of more useful information and reduce the costs of providing information about expenses.

38 As noted in paragraph 36, the stakeholders who disagreed with presenting an analysis of expenses based on either the nature of expenses or the function of expenses supported the approach in AASB 18 of permitting a mixed presentation of expenses based on their nature and function. Therefore, none of those disagreeing stakeholders requested the Board to develop a more principles-based approach to help preparers classify and present expenses.

39 Staff observe that the Board's general approach to drafting the presentation and disclosure requirements proposed in ED 335 was to use the text of AASB 1060, *subject to further simplification* (refer to paragraph BC9(b) of ED 335). Permitting a mixed approach (i.e. using nature and function) to the analysis of expenses would be an instance of further simplification. Therefore, permitting a mixed presentation based on the nature and function of expenses would not depart from the Tier 3 drafting principles applied to date by the Board.

40 For the reasons in paragraphs 36 – 39, staff **recommend** broadly aligning the requirements for presentation of an analysis of expenses with those in AASB 18. If the Board agrees with that recommendation, staff will provide draft text on this issue for inclusion in the revised drafting of the Tier 3 Standard planned for the Board's consideration in November 2025.

41 Some stakeholders requested guidance on how to present expenses by nature, function or both. Staff will consider developing explanatory guidance and education materials to support the preparation of an analysis of expenses.

Staff recommendation on Section 4

42 Staff note the strong support from stakeholders for the proposed Tier 3 presentation and disclosure requirements for items of comprehensive income aligned with Tier 2 requirements, including paragraphs 4.4 and 4.5 of ED 335, and that no significant flaws in those proposed requirements were identified by stakeholders. In addition, staff note that no concerns were expressed about the proposed disclosures for a statement of income and retained earnings, if prepared. Staff's recommendation for the analysis of expenses (SMC 13) is set out in paragraph 40.

43 Therefore, staff **recommend** that the Board finalises the Tier 3 requirements for the statement(s) of profit or loss and other comprehensive income as exposed in Section 4 of ED 335, except for broadly aligning the requirements for presentation of an analysis of expenses with those in AASB 18 (i.e. permitting the analysis to use a mixed presentation based on the nature and function of expenses).

Question 3 for Board members:

Do Board members agree with the staff recommendation in paragraph 43 that the Board finalises the Tier 3 requirements for the statement(s) of profit or loss and other comprehensive income as exposed in Section 4 of ED 335, except for permitting the analysis of expenses to use a mixed presentation based on the nature and function of expenses?

If not, what do Board members suggest?

Section 5 – Statement of Changes in Equity and Statement of Income and Retained Earnings, and Notes Thereto

SMCs 10(c), 11 and 12(c): Should a complete set of financial statements include a statement of changes in equity, which exemption should apply to its presentation, and which information should be disclosed?

44 The Board, supported by stakeholder feedback on the DP, considered that it is generally accepted that some form of statement about the entity's changes in equity for the period, including notes, would help users of Tier 3 NFP entities' general purpose financial statements to assess the integrity of the financial statements and would provide important information about the effects of adjustments to equity resulting from changes in accounting policies and corrections of prior period errors (refer to paragraph BC37 of ED 335).

45 Section 5 contains the proposed Tier 3 requirements for reporting changes in equity for a period in a complete set of financial statements, which the Board decided are to be consistent with Tier 2 requirements. This consistency with Tier 2 includes aligning with the presentation of changes in equity for the period in either a statement of changes in equity or, under certain conditions, in a statement of income and retained earnings. The Board considered that when the only changes to an entity's equity for the period arise from profit or loss, changes in accounting policies and corrections of prior period errors, requiring presentation of a statement of comprehensive income and statement of changes in equity would not add value to users compared with a statement of income and retained earnings (refer to paragraph BC38 of ED 335).

46 SMC 10(c) and SMC 11 in ED 335 asked respondents whether they agreed with the need for a complete set of financial statements to include a statement of changes in equity, and with the option to present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity when the conditions in paragraph 45 are met.

47 Most stakeholders (including those who made submissions on ED 335 and those who commented at outreach sessions) agreed with the proposals in SMC 10(c) and SMC 11. Of the ten stakeholders who commented on SMC 10(c) and SMC 11 in submissions, seven respondents agreed with the proposed option (either specifically or as part of expressing general support for the proposed presentation and disclosure requirements) and three stakeholders either disagreed or agreed with exceptions. Those who disagreed, or agreed with exceptions, expressed the views analysed in Table 3.

48 SMC 12(c) asked stakeholders whether they agree with the proposed information to be presented in the statement of changes in equity as set out in paragraph 5.3. Six stakeholders expressed general support for the proposed presentation and disclosure requirements in ED 335 without commenting specifically on SMC 12(c). A professional services firm made the drafting suggestion for the statement of changes in equity analysed in row (E) of Table 3.

Table 3 – Analysis of stakeholder comments on requirement for a statement of changes in equity and information to be presented in the statement of changes in equity

Comment	Staff analysis
Requirement for a statement of changes in equity	
(A) A few stakeholders at outreach sessions suggested simplifying general purpose financial statements for Tier 3 entities by using concise language and	Staff note that the Board's proposal in ED 335 has similarities to the suggestions by these stakeholders. That is, the exemption from having to present a statement of changes in equity is available to entities meeting specified criteria, namely, that they

Comment	Staff analysis
reducing accounting policy choices. They preferred the Tier 3 requirements to provide a single, consistent requirement for all entities, which either requires or prohibits a statement of retained earnings based on set criteria.	have no changes to equity other than three specified items. Therefore, staff consider that the stakeholders did not propose an approach substantively different from that proposed in ED 335 (except to remove an option), and **recommend** not amending the draft Tier 3 Standard in response to these comments.
(B) Similarly to the stakeholders referred to in row (A), one professional services firm agreed, except 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. A professional body 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. They suggested that an alternative presentation style could be permitted if the entity can demonstrate it would provide more useful information.	Staff acknowledge that requiring uniformity of presentation of the statement(s) reporting changes in equity would simplify the choices that preparers of Tier 3 NFP entity financial statements would need to make. However, staff consider that this advantage would be outweighed by the following considerations: • it would reduce the flexibility of reporting formats for changes in equity compared with Tier 2 entities under AASB 1060 (which provides the same option as that in paragraph 5.4 of ED 335), without a strong reason for doing so; • the flexibility of reporting formats for changes in equity proposed in ED 335 has the advantage of catering for different circumstances of different smaller NFP entities, enabling the financial statements to be condensed for entities with simpler changes in equity while entities with a broader range of changes in equity can achieve transparency in providing relevant information about changes in equity other than retained earnings; and • the suggestion was not made by the majority of stakeholders. For the reasons above, staff **recommend** retaining the proposed option in ED 335 for a smaller NFP entity applying the Tier 3 Standard and meeting the criteria in para. 2.20 to present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.
(C) Two professional services firms disagreed with the proposed exception from needing to present a statement of changes in equity. They 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 instead be provided in the notes supporting the statement of financial position. One of them 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.	Staff observe that these stakeholders who disagreed with requiring presentation of a statement of changes in equity support the disclosure of movements in equity; the disagreement centres on where to present that information in a complete set of financial statements (including notes). Therefore, omitting a statement of changes in equity should not significantly simplify smaller NFP entities' financial statements. Staff also observe that if few different classes of movements in equity occur during the reporting periods presented in the financial statements, the statement of changes in equity should be quite simple. In addition, requiring a statement of changes in equity (subject to the exemption in para. 2.20 of ED 335) would have the advantages of familiarity to those preparing, auditing or using financial statements of entities in multiple tiers; and would align with the Tier 3 principle mentioned in paragraph BC8(c) of the

Comment	Staff analysis
However, that stakeholder 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.	Board's Basis for Conclusions on ED 335, namely, that consistency with the accounting principles in Tier 2 reporting requirements is desirable (although it might not always be warranted). For the reasons above, staff **recommend** not to replace the proposed optional formats for presenting changes in equity with the presentation of changes in equity in the notes supporting the statement of financial position.
(D) One of the stakeholders who considered that a statement of changes in equity should not be required (see row (C) above) stated that if the Board proceeds to require that statement, they suggest 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 an asset revaluation reserve occurs). They also proposed that the clarification should also be made to the corresponding text of AASB 1060 (on which the ED 335 text was based). Similarly, at an outreach session, a stakeholder expressed uncertainty about when a statement of income and retained earnings is required under the proposed requirements. They suggested explicitly clarifying that any reserve movements should necessitate a statement of changes in equity, despite the proposals being based on similar language in AASB 1060.	Paragraph 2.20 of ED 335[5] states that: "If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, corrections of prior period errors and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity …" Staff observe that a literal reading of para. 2.20 is that transfers between reserves (e.g. retained earnings and capital reserves) would disqualify an entity from presenting a single statement of income and retained earnings because a change in balances of equity items has occurred. This is despite no change in total equity having occurred. This reading of para. 2.20 is supported by the statement in para. 5.3 of ED 335 that: "The statement of changes in equity shall include the following information: … (c) *for each component of equity*, a reconciliation between the carrying amount at the beginning and the end of the period, …" (emphasis added). However, no explicit guidance on this point is included in ED 335. Staff also consider it would be helpful to readers of the Tier 3 Standard if that Standard stated that an entity would not be permitted to prepare a single statement of income and retained earnings if a movement in an asset revaluation reserve occurs. For these reasons, staff agree with the stakeholder's comment that the text of para. 2.20 and 5.4 of ED 335 is insufficiently clear for smaller NFP entities (who are generally less expert in applying IFRS-based Standards than Tier 1 and Tier 2 entities) that an entity has the option to present 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. Therefore, the staff **recommend** clarifying this issue in the Tier 3 Standard, mentioning movements between reserves and changes in asset revaluation surplus as examples of disqualifying movements in equity. As mentioned in paragraph 8, staff will review the language in Sections 2 – 7 of ED 335 and draft some suggested modifications of the requirements sourced from AASB 1060, for inclusion in

5 Para. 2.20 of ED 335 is the same as para. 26 of AASB 1060, except that it omits reference to payments of dividends, which are expected to be highly uncommon for Tier 3 NFP entities.

Comment	Staff analysis
	the collective revised drafting planned to be considered by the Board in November 2025. The above-mentioned recommended clarifications in response to the matters above would be drafted as part of that process. Staff do not propose making any substantive changes to Sections 2 or 5 in relation to this issue.
Information to be presented in the statement of changes in equity	
(E) One of the stakeholders who considered that a statement of changes in equity should not be required (see row (C)) stated that if the Board proceeds to require that statement, they suggest including a specific materiality reference, similar to that made in paras 3.2 and 4.4 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.	Subject to the aspect in the paragraph immediately below, when drafting the preliminary draft of the Tier 3 Standard, the staff intends to consider whether to align the stem of each of paragraphs 5.3 and 5.5 with the stem of each of paragraphs 3.2 and 4.4, by adding the following qualifier (or similar text): "when those amounts are material to an understanding of the entity's changes in equity" (substituting "retained earnings" for "equity" in para. 5.5). When drafting the preliminary draft of the Tier 3 Standard, the staff will consider whether to make an all-encompassing reference to materiality in relation to presentation and disclosure requirements, to streamline the text.

Staff recommendation on Section 5

49 For the reasons in the staff analysis in paragraphs 47 – 48, staff **recommend** that the Board finalises the Tier 3 requirements for primary financial statements to include a statement of changes in equity as exposed in Section 5 of ED 335.

Question 4 for Board members:

Do Board members agree with the staff recommendation in paragraph 49 to finalise the Tier 3 requirements for primary financial statements to include a statement of changes in equity as exposed in Section 5 of ED 335?

If not, which approach do you prefer for the presentation of changes in an entity's equity, and why?

Section 6 – Statement of Cash Flows, and Notes Thereto

SMCs 10(d), 12(e)(ii) and 12(e)(iii): Should a complete set of financial statements include a statement of cash flows; and information to be presented in the statement of cash flows – classification by activity, and method of presentation of cash flows from operating activities

50 The Board, supported by stakeholder feedback on the DP, considered that it is generally accepted that some form of statement about the entity's cash flows for the period, including notes, would provide important information to users of Tier 3 NFP entities' general purpose financial statements about those entities' cash flows, including to help them assess those entities' liquidity and solvency.

51 Section 6 contains the proposed Tier 3 requirements for reporting cash flows for a period in a complete set of financial statements, which the Board decided are to be consistent with Tier 2 requirements except for permitting an entity not to distinguish its cash flows from investing activities and cash flows from financing activities. This consistency with Tier 2 includes aligning with the option to present cash flows from operating activities using either the direct method or indirect method (refer to paragraph BC44 of ED 335). The Board considered that requiring

Tier 3 NFP entities to distinguish cash flows from investing activities and cash flows from financing activities would provide only limited value to users compared with the related costs because those two categories of cash flows are likely to be limited in nature, users are likely to be more interested in whether the entity deployed its cash consistently with its NFP objectives, and distinguishing those categories of cash flows would involve judgement.

52 SMC 10(d) and SMC 12(e)(i) in ED 335 asked respondents whether they agreed with the need for a complete set of financial statements to include a statement of cash flows and with the option not to distinguish cash flows from investing activities and cash flows from financing activities.

53 All eleven stakeholders who commented on SMC 10(d) agreed with the Board's proposal in ED 335 that a complete set of financial statements should include a statement of cash flows.

54 All eleven stakeholders who commented on SMC 12(e)(i) in submissions agreed with the proposals in SMC 12(e)(i), including that an entity may elect to present cash flows from investing activities and financing activities either separately or together. However, three of them suggested drafting amendments to the proposed text of Section 6. Their suggestions are analysed in Table 4 .

55 Most of the eleven stakeholders who commented on SMC 12(e)(ii) in submissions agreed with the proposals in SMC 12(e)(ii) that an entity may elect to present cash flows from operating activities using either the direct or indirect method. However, two stakeholders disagreed with the proposed option, and one of them also suggested a drafting amendment to Section 6. Their comments are also analysed in Table 4 .

Table 4 – Analysis of stakeholder comments on the statement of cash flows

Comment	Staff analysis
<u>Option to present cash flows from investing activities and financing activities either separately or together</u>	
(A) A regulator recommended replacing 'operating activities' with 'ordinary activities' for closer alignment with ACNC guidance and because it would help distinguish revenue-generating activities from other income.	Staff observe that references to 'operating activities' in para. 6.4 of ED 335 align with AASB 1060 para. 67. Even if the Board decided to 'peek ahead' to possible future amendments to AASB 1060 stemming from the issue of AASB 18 (through the PIR of AASB 1060), there would be no implication for change because AASB 18 does not refer to cash flows from 'ordinary activities'. Staff also note that: • replacing 'operating activities' with 'ordinary activities' could imply, inappropriately, that cash flows from investing activities and financing activities would be extraordinary; and • some stakeholders have commented that the Tier 3 Standard should use terminology consistent with that in Tier 2 reporting requirements when the same meaning is intended, to avoid the risk of misunderstandings and costs of learning new terminology for essentially the same economic phenomena. Neither AASB 1060 nor AASB 107 *Statement of Cash Flows* refers to cash flows from 'ordinary activities'. For these reasons, staff **recommend** not to replace 'operating activities' with 'ordinary activities' in relation to reporting information about cash flows.
(B) The stakeholder referred to in row (A) commented that para. 6.13 allows interest	Staff note that: • para. 6.13 of ED 335 refers to "… cash flows from interest paid and interest and dividends received … [classified] … as relating to

Comment	Staff analysis
payments and interest/dividend receipts to be classified as arising from either operating or other activities, whereas para. 6.4 lists them as arising from operating activities only, and considered this may create uncertainty with the application of the requirements. Similarly, a professional services firm considered that, with the introduction of AASB 18 and related amendments in AASB 107 *Statement of Cash Flows,* it would be more appropriate to classify interest and other receipts from investments and loans and interest paid (in para. 6.4(g) of ED 335) as investing/financing cash flows rather than operating cash flows, with consequential amendments needed in para. 6.14.	operating or other activities", which is compatible with AASB 1060 para. 82 (i.e. differs only to reflect the Board's decision not to require cash flows from investing and financing activities to be disclosed separately, and to omit reference to dividends paid); however, • para. 6.4(g) of ED 335 refers to "interest and other receipts from investments and loans; and interest paid" as examples of cash flows from operating activities; this differs from the corresponding text of AASB 1060 para. 67(f), which is: "cash receipts and payments from investments, loans and other contracts held for dealing or trading purposes, which are similar to inventory acquired specifically for resale". Staff think that, in the process of tailoring the AASB 1060 text to transactions commonly undertaken by smaller NFP entities, some meaning was lost inadvertently. That is, ED 335 omitted to refer to the instruments being held for dealing or trading purposes, thus treating cash flows from all such instruments as cash flows from operating activities. The Board did not discuss changing the basis for classifying these cash flows between 'operating' and 'other' activities. For the reasons above, staff **recommend** amending the text in para. 6.4 of ED 335 to align substantially with AASB 1060 para. 67, with those amendments to para. 6.4 of ED 335 marked up below: "… Examples of cash flows from operating activities are: … (g) ~~interest and other receipts~~ cash receipts from investments, and cash receipts and payments from loans, when those investments or loans are held for dealing or trading purposes; ~~and interest paid;~~" The draft revised text would differ from AASB 1060 para. 67(f) only in respect of limiting the investment-related cash flows to receipts (because smaller NFP entities would not pay financial returns to investors) and omitting to refer to "other contracts held for dealing or trading purposes" (because staff consider that dealing or trading in other contracts would be uncommon for smaller NFP entities). Regarding the comments by the professional services firm noted in the adjacent column, staff observe that making the changes to para. 6.4 marked up above (or similar changes) would narrow operating activity cash flows from investments and loans to when the investments or loans are held for dealing or trading purposes. This would seem to address that stakeholder's concerns about para. 6.4(g) of ED 335. However, staff **recommend** not making a consequential amendment to para. 6.14 as suggested by that stakeholder. This is because para. 6.14 of ED 335 is the same as para. 83 of AASB 1060, apart from para. 6.14 making no distinction between financing cash flows and investing cash flows (which, as noted above, are treated as 'other' unless the entity elects to present them separately from each other). Staff do not **recommend** anticipating whether (and how) the effects of AASB 18 on AASB 107 might be replicated in the presentation and disclosure requirements of AASB 1060. Any consequential effects from those developments should not be considered for Tier 3 reporting requirements until the first PIR of the Tier 3 Standard.
(C) The stakeholder referred to in row (A) suggested combining para. 6.2 (i.e. description of cash	Staff observe that most of the text of para. 6.18 and 6.19 of ED 335 relates to cash and cash equivalent balances unavailable for use by the entity. Because these cash equivalent balances are much narrower than the cash equivalents described in para. 6.2 of ED 335, staff consider that combining

<table>
<tr><th>Comment</th><th>Staff analysis</th></tr>
<tr><td>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.</td><td>para. 6.2 with para. 6.18 and 6.19 might cause confusion and would be unlikely to simplify, overall, the text of those three paragraphs. In addition, only one stakeholder suggested this change. Therefore, staff recommend not combining those paragraphs as suggested by the stakeholder.</td></tr>
<tr><td>(D) Another stakeholder 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.</td><td>Paragraph 6.12 of ED 335 states: “Cash flows arising from operating, investing or financing activities may be reported on a net basis when they are cash receipts and cash payments for items in which the turnover is quick, the amounts are large and the maturities are short (eg the borrowing and repayment of short-term loans).” It is worded in a highly similar manner to para. 75 (stem), 75(b) and 77(c) of AASB 1060, except that para. 77(c) also mentions that short-term borrowings have, for example, a maturity period of three months or less.

The only examples (other than short-term borrowings) in para. 77 of AASB 1060 of cash receipts and cash payments for items in which the turnover is quick, the amounts are large and the maturities are short are:
principal amounts relating to credit card customers (para. 77(a)); and
the purchase and sale of investments (para. 77(b)).
These examples seem no more likely to arise for smaller NFP entities than short-term borrowings.

In light of these aspects, the main options identified by staff in response to the stakeholder’s comment are to:
retain the text of para. 6.12 without amendment; or
delete para. 6.12 based on the stakeholder’s claim that short-term loans are uncommon for smaller NFP entities.
A disadvantage of deleting para. 6.12 would be that, for those smaller NFP entities with short-term loans, the presentation of cash flows on a net basis would not be permitted; arguably, this would make the Tier 3 requirements more onerous than the corresponding Tier 2 reporting requirements.

On balance, taking into account that other stakeholders did not express the stakeholder’s concern, staff recommend retaining the text of para. 6.12 without amendment.</td></tr>
<tr><td>(E) The stakeholder referred to in row (D) 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 ED 335 (similarly to para. 48 of AASB 107) or, if the example is retained for an</td><td>Paragraphs 48 and 49 of AASB 107 Statement of Cash Flows state that:<blockquote>“An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.” (para. 48)

“There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or</blockquote></td></tr>
</table>

Comment	Staff analysis
entity context, to reflect cash with restrictions (e.g. unspent government grants/subsidies).	other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries." (para. 49) These paragraphs refer to cash and cash equivalents unavailable for use in a narrower context (i.e. intra-group restrictions) than the context in which cash and cash equivalents unavailable for use are referred to in para. 6.19 of ED 335, which states that: "An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are unavailable for use by the entity. Cash and cash equivalents held by an entity may be unavailable for use by the entity because of, among other reasons, foreign exchange controls or legal restrictions." The text of para. 6.19 of ED 335 is almost identical to para. 89 of AASB 1060, which in turn is verbatim to the text of para. 7.21 of the IFRS for SMEs Standard. The third edition of the IFRS for SMEs Standard, issued in February 2025, includes unchanged text of para. 7.21. Staff think para. 48 and 49 of AASB 107 are easier to understand, intuitively, than para. 6.19 of ED 335 and para. 89 of AASB 1060 (on which para. 6.19 of ED 335 was based). It seems possible that a single entity might have domestic and foreign operations subject to legal restrictions on the transfer of cash and cash equivalents between different operations of that entity. However, staff expect that this would be more unusual than legal restrictions on the transfer of cash and cash equivalents between different legal entities. Staff will refer this issue to the project team conducting the Board's PIR of AASB 1060. However, staff **recommend** not to depart from AASB 1060 on this issue; copying any related amendment to AASB 1060 would need to await consideration in the Board's PIR of the Tier 3 Standard. Regarding the stakeholder's suggestion that if para. 6.19 is retained for an entity context, it should be amended to reflect cash with restrictions (e.g. unspent government grants/subsidies), staff think restrictions over cash transferred to the entity differ in nature from cash that is unavailable for the entity's use. For example, cash received with a restriction that it must be used for a particular purpose or returned is available for the entity's use (unless there were additional factors, such as the stipulated use being precluded by the entity's constituting document). Therefore, staff **recommend** not to make this amendment suggested by the stakeholder. For the reasons discussed above, staff **recommend** not to amend para. 6.19 of ED 335 in response to the adjacent comments by a stakeholder.
<u>Option to present cash flows from operating activities using either the direct or indirect method</u>	
(F) Two professional services firms considered a single method for presenting cash flows from operating activities should be required rather than allowing an option of either the direct or indirect method (as set out in para. 6.7 of ED 335). Their	In its [Tier 3 DP] (para. 5.26(b) and 5.29), the Board proposed requiring only the direct method for presenting cash flows from operating activities. At its March 2024 meeting (Meeting 201), the Board [decided], having regard to [Agenda Paper 4.2] for that meeting and the feedback received on the Tier 3 DP, to permit an entity to present cash flows from operating activities using either the direct method or indirect method. As noted in para. 43(d) and 54 to 56 of Agenda Paper 4.2:

Comment	Staff analysis
preference is the direct method, which is most commonly adopted in Australia and simpler.	• in further outreach activities since the DP, the Board heard a majority of Project Advisory Panel members supported permitting an entity to present cash flows from operating activities using either the direct method or indirect method; • such an option aligns with current Tier 2 reporting requirements; • AASB Research Report 19 *Common Financial Statement Items: Charities with $0.5–$3 million in revenue* (April 2023) indicates both presentation methods are widely used by smaller NFP entities; • providing flexibility in presentation methods is consistent with the Tier 3 development principle to leverage information management uses to make decisions about the entity's operations; and • providing flexibility in presentation methods enables many smaller NFP entities to continue their current practice and minimise the costs of transitioning to the Tier 3 reporting requirements, while providing some simplification for NFP entities that are currently applying the direct method (i.e., not having to disclose a reconciliation of net cash flows from operating activities to the profit or loss). Because most stakeholders providing feedback on ED 335 supported the presentation option and because the two professional services firms did not identify new reasons for requiring a single method of presenting cash flows from operating activities, staff **recommend** not to amend the option proposed in ED 335 for presenting cash flows from operating activities using either the direct or indirect method.
(G) One of the stakeholders referred to in row (F) stated that, if the indirect method is retained as an option, greater clarity is needed of the relationship between para. 6.8 and 6.9 (e.g. consider deleting para. 6.9) because the approaches appear to be similar.	Paragraphs 6.8 and 6.9 of ED 335 state different ways of presenting cash flows from operating activities using the indirect method. Staff observe that those paragraphs are worded highly similarly to para. 71 and 72, respectively, of AASB 1060. Paragraph 6.9 states: "Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables." Paragraph 6.9 is also consistent with the last sentence of para. 20 of AASB 107 *Statement of Cash Flows*.[6] It differs from the presentation of cash flows under the indirect method described in para. 6.8 of ED 335 by commencing with revenues less expenses, rather than profit or loss. The corresponding illustrative example accompanying AASB 107 contains clarifying amendments made as a consequence of AASB 18, and commences with sales less cost of sales, showing various classes of expenses other than depreciation and amortisation, with a bottom line of 'operating profit before depreciation and amortisation'. Staff **recommend** retaining para. 6.9 to cater for entities currently using that version of presenting cash flows from operations using the indirect method, and to retain the flexibility of presentation methods available to entities using Tier 2 reporting requirements. In that regard, staff observe

6 The consequential amendments to para. 20 of AASB 107 resulting from the issue of AASB 18 seem unrelated to the issue at hand.

Comment	Staff analysis
	that the possibility of omitting para. 6.9 of the ED was raised by only one stakeholder. However, staff also **recommend** inserting 'relevant' before 'revenues and expenses' in para. 6.9 to alert readers of the Tier 3 Standard that not all revenues and expenses disclosed in the statement of comprehensive income would be included in the presentation of cash flows from operating activities. This is particularly because the Tier 3 Standard will not include the illustrative example in AASB 107, which is important for an understanding of 'parallel' para. 20 of AASB 107, and because Tier 3 NFP preparers of financial statements are relatively inexpert in IFRS-based Standards. However, staff do not **recommend** adding further clarification than 'relevant', to avoid the risk of including an interpretation of Tier 1 requirements in the Tier 3 Standard. Staff will also consider clarifying in educational materials complementing the Tier 3 Standard that the revenues and expenses referred to in para. 6.9 exclude the non-cash items listed in para. 6.8(b) and cash flows from investing or financing activities.

Staff recommendation on Section 6

56 For the reasons in the staff analysis in paragraphs 53– 55, staff **recommend** finalising the Tier 3 requirements for primary financial statements to include a statement of cash flows as exposed in Section 6 of ED 335, except to:

(a) amend para. 6.4 to align substantially with AASB 1060 para. 67 in the manner marked up in row (B) in Table 4 (or similar) – that is, to state that cash receipts from investments and cash receipts and payments from loans are cash flows from operating activities when those investments or loans are held for dealing or trading purposes; and

(b) insert 'relevant' before 'revenues and expenses' in para. 6.9.

Question 5 for Board members:

Do Board members agree with the staff recommendation in paragraph 56 to finalise the Tier 3 requirements for primary financial statements to include a statement of cash flows as exposed in Section 6 of ED 335, except to:

(a) amend para. 6.4 to align substantially with AASB 1060 para. 67 – that is, to state that cash receipts from investments and cash receipts and payments from loans are cash flows from operating activities when those investments or loans are held for dealing or trading purposes; and

(b) insert 'relevant' before 'revenues and expenses' in para. 6.9?

If not, what do Board members suggest?

Section 7 – Notes to the Financial Statements

SMCs 10(e) and 12(f): Should a complete set of financial statements include notes? If so, what should an entity's notes be required to disclose?

57 The Board considered it is generally accepted that Tier 3 NFP entities' general purpose financial statements should include notes, comprising material accounting policy information, disaggregations of amounts reported in the primary financial statements and other

explanatory information to help users put in context the amounts reported in the primary financial statements and provide other relevant information.

58 Section 7 contains the proposed Tier 3 requirements for the notes in a complete set of financial statements, which the Board decided are to be consistent with Tier 2 requirements (refer to paragraph BC32 of ED 335).

59 All eleven stakeholders who commented on SMC 10(e) agreed with the Board's proposal in ED 335 that a complete set of financial statements should include notes.

60 SMC 12(f) asked whether respondents agree with the proposed information to be presented in the notes to the financial statements as set out in Section 7: *Notes to the Financial Statements*. Six stakeholders agreed with the proposed information to be presented in the notes to the financial statements as set out in Section 7, noting the requirements are consistent with Tier 2 requirements. One stakeholder also identified Section 7 as useful because it is clear, concise and easily understandable. Five stakeholders generally agreed but expressed the concerns analysed in Table 5 .

Table 5 – Analysis of stakeholder comments on the notes

Comment	Staff analysis
(A) One professional services firm 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.	This comment is addressed by the staff analysis in Table 3 of stakeholder feedback on SMCs 10(c) and 11 regarding whether to require presentation of a statement of changes in equity.
(B) A regulator suggested it would be beneficial to add some examples to illustrate para. 7.7 (disclosure of accounting policy information) and 7.8 (information about judgements), and an encouragement of entity-specific disclosures for these aspects, because they observed some charities are using boilerplate disclosures.	Staff note that para. 7.7 to 7.9 of ED 335 are almost identical to para. 95 to 97 of AASB 1060, which in turn reflect the text of para. 8.5 to 8.7 of the IFRS for SMEs Standard. AASB 101 includes the following examples of disclosures of accounting policy information, which are not provided in AASB 1060: "… For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and: (a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements; (b) the entity chose the accounting policy from one or more options permitted by Australian Accounting Standards—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value; [or] (c) the accounting policy was developed in accordance with AASB 108 in the absence of an Australian Accounting Standard that specifically applies; …" (para. 117B) Staff consider that the examples in sub-para. (a) to (c) of para. 117B of AASB 101 would be helpful to readers of the Tier 3 Standard to elaborate on para. 7.7 of ED 335. However, staff consider it would unduly lengthen the Tier 3 Standard to add those examples when they were omitted from the Tier 2 guidance in AASB 1060. Therefore, staff will consider including

Comment	Staff analysis
	these examples in educational material that complements the Tier 3 Standard. Regarding avoiding 'boilerplate' disclosures, para. 117C of AASB 101 provides the following guidance excluded from AASB 1060: "Accounting policy information that focuses on how an entity has applied the requirements of the Australian Accounting Standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the Standards." Staff consider it would unduly lengthen the Tier 3 Standard to add that guidance when it was omitted from the Tier 2 guidance in AASB 1060. Therefore, staff will consider including the guidance in para. 117C of AASB 101 in educational material that complements the Tier 3 Standard. Regarding disclosure of information about judgements in accordance with para. 7.8 of ED 335, staff will consider including examples in educational material that complements the Tier 3 Standard. Staff note that this would not be as simple as repeating the examples provided in para. 123 of AASB 101, because most of those examples seem to refer to circumstances that would be highly unusual for smaller NFP entities.
(C) Another stakeholder 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.	Staff observe that para. 7.3 of ED 335 differs from corresponding para. 91 of AASB 1060 and para. 112 of AASB 101 (which differs slightly from AASB 1060) by combining sub-paragraphs (b) and (c) of those source paragraphs into sub-paragraph 7.3(b) of ED 335; however, the meaning is unchanged. For Board members' information, sub-paragraphs (b) and (c) of para. 91 of AASB 1060 are: "(b) disclose the information required by this Standard that is not presented elsewhere in the financial statements; and (c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them." Because para. 7.3(b) of ED 335 is more succinct than para. 91(b) and (c) of AASB 1060 and para. 112(b) and (c) of AASB 101, and only one stakeholder expressed concern about para. 7.3, staff **recommend** retaining the text of para. 7.3 of ED 335.

Staff recommendation on Section 7

61 Because (as detailed in paragraphs 59 – 60) the draft requirements for notes in Section 7 of ED 335 were strongly supported by stakeholders and staff consider the stakeholder comments analysed in Table 5 do not warrant amendment of Section 7, staff **recommend** finalising the Tier 3 requirements for primary financial statements to include notes to the financial statements as exposed in Section 7 of ED 335.

Question 6 for Board members:

Do Board members agree with the staff recommendation in paragraph 61 to finalise the Tier 3 requirements for primary financial statements to include notes to the financial statements as exposed in Section 7 of ED 335?

If you disagree, which changes do you suggest?