Australian Government
Australian Accounting Standards Board

Key facts: Proposals to require more not-for-profit entities to prepare GPFS, and for simpler Tier 3 GPFS requirements

About the AASB's Exposure Drafts affecting not-for-profit entities

This document provides a high-level overview of the AASB's proposals for not-for-profit (NFP) entities[1] set out in AASB Exposure Drafts ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* and ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*.

The ED proposals are relevant to:

- those involved with preparing, reviewing or approving financial statements for NFP entities; and
- donors, grant providers and other stakeholders interested in the financial performance of NFP entities.

ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*

As part of extending the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) to NFP private and public sector entities, ED 334 proposes superseding the reporting entity concept in SAC 1 *Definition of the Reporting Entity* and extending the scope of Australian Accounting Standards to more NFP entities. Consequently, an NFP entity that is required – by legislation or by a constituting or other document – to prepare AASB-compliant financial statements will be required to prepare general purpose financial statements (GPFS) if the AASB's proposals are finalised as exposed.

ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*

In ED 335, the AASB invites comment on the form and content of a proposed Accounting Standard that will introduce a further reporting Tier of GPFS (Tier 3 reporting requirements), specifically for NFP private sector entities. The further reporting Tier is proposed in acknowledgment that Tier 1 and Tier 2 reporting requirements may not present a proportionate cost/benefit response for smaller NFP private sector entities that will be affected by the proposals in ED 334. It follows then that the Tier 3 reporting requirements proposals are for 'simpler' accounting requirements, but which will still deliver financial statements that meet expectations of a GPFS described by the *Conceptual Framework* (and hence, be more useful to users of the financial statements).

Overview of the proposed third reporting Tier of GPFS

Difference between the reporting Tiers of GPFS

Summarised simply:

- Tier 1 GPFS – compliance with all Australian Accounting Standards (AAS)
- Tier 2 GPFS – compliance with all AAS-recognition & measurement, but fewer disclosures
- [proposed] Tier 3 GPFS – compliance with simpler recognition & measurement policies, presentation concessions and fewer disclosures.

Requirements for a third reporting Tier of GPFS to be contained within a stand-alone Standard

ED 335 proposes that an entity that prepares GPFS that comply with Tier 3 reporting requirements will generally need to have regard only to a single accounting standard, rather than consider the full suite of Australian Accounting Standards.

Accessibility and suitability of Tier 3 GPFS

ED 335 proposes that Tier 3 reporting requirements will be available, in the first instance, only to NFP private sector entities without public accountability[2] and which are not otherwise prevented from preparing such GPFS. The draft Accounting Standard refers to these entities as 'Tier 3 entities'.

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1 A not-for-profit entity is an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities it controls. The term is defined in the Glossary in ED 335, and in Appendix D of AASB 136 *Impairment of Assets*.

2 An entity has public accountability if:
   (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional market); or
   (b) it holds asset in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

   Public accountability is defined in the Glossary in ED 335, and in Appendix A of AASB 1053 *Application of Tiers of Australian Accounting Standards*.

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The AASB does not propose to otherwise limit which NFP private sector entities can apply the proposed Accounting Standard. However, because the AASB's reason for developing the further reporting Tier of GPFS is to present a suitable proportionate response for smaller NFP private sector entities, the proposed Standard consequentially does not specify reporting requirements that cater to more complex transactions, events and other conditions, or address topics that are expected to be less prevalent amongst smaller NFP private sector entities.

Proposals developed by reference to a set of principles

The ED 335 proposals were developed having regard to a set of principles (see paragraph BC8 in ED 335) so that there would be consistency in the AASB's decision making.

Tier 3 GPFS – ED 335 proposals for a complete set of financial statements

Consolidated financial statements

ED 335 proposes that the preparation of consolidated financial statements be an accounting policy choice.

In forming its view, the AASB considered the cost/benefit of consolidated financial information to preparers and users of the financial statements of smaller NFP private sector entities, whether disclosure could be an acceptable substitute, and its expectation that few entities preparing Tier 3 GPFS would be parent entities and so, that any undermine of comparability between entities would be limited. Further, the AASB observed – in response to a stakeholder concern that a parent entity's financial statements could not be regarded as GPFS if it did not present consolidated financial information – that exceptions to a parent entity preparing consolidated financial statements already exist in Australian Accounting Standards.

Components of a complete set of financial statements

The ED proposes for Tier 3 GPFS to comprise:

- a statement of financial position, employing a current/non-current classification format;
- a statement of comprehensive income, presented as either:
  - a single statement of profit or loss and other comprehensive income; or
  - a statement of profit or loss, and a separate statement of comprehensive income that begins with the profit for the period;
- a statement of changes in equity;
- a statement of cash flows, showing separately the cash flows from operating activities; and
- notes to the financial statements.

Comparative information will be required. Line items and totals that might ordinarily be presented on the face of the financial statements (or in the accompanying notes), if material, are described.

The draft Standard entertains the possibility of further aggregation of line items or use of different descriptors.

Presentation alternatives are available in the following situations:

- when total comprehensive income equals the profit or loss for the period

  Total comprehensive income for the period is the sum of the profit or loss and any other comprehensive income (OCI) of the period. It would normally be the 'bottom line' of a statement of comprehensive income (in both the single and two-statement approach).

  However, some entities may not adopt policies that give rise to OCI, or may otherwise not have identified any items of OCI in the reporting periods presented such that the total comprehensive income equals profit or loss for the period. In such instances, ED 335 proposes that:

  - the statement of profit or loss and other comprehensive income – the 'bottom line' can be described as profit or loss; and
  - if a two-statement approach is adopted, a separate statement of comprehensive income (that begins with the profit for the period) does not need to be presented.

  That is, in effect, the entity may present an income statement/profit or loss statement in satisfaction of the requirement to present a statement of comprehensive income.

- when changes in equity are limited

  Where the only changes to equity during the period relate either to profit or loss for the period, or are opening balance adjustments for changes in accounting policy or to correct errors, ED 335 proposes that the Tier 3 GPFS may instead comprise:

  - a statement of financial position
  - a statement of income and retained earnings
  - a statement of cash flows; and

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- notes to the financial statements.

That is, the entity must not have identified any OCI, or contributions by or distributions to owners.

What is a statement of income and retained earnings?

Put simply, the statement of income and retained earnings is a combined statement of profit or loss and other comprehensive income and statement of changes in equity. The statement of income and retained earnings presents a reconciliation of the retained earnings of the entity from the beginning to the end of the period, showing all the detail that would normally be shown in a statement of profit or loss.

Presentation currency

ED 335 proposes that the financial statements must be presented in AUD. So:

- foreign currency transactions are to be translated into AUD at the exchange rate on the transaction date; and
- any foreign currency monetary assets and liabilities held at reporting date are to be retranslated into AUD at the exchange rate on the reporting date.

Restatement of prior period financial statements

ED 335 proposes that comparative financial statements will not be restated as:

- the retrospective application of a change in accounting policy is to be reflected by adjustments to the opening balances of the current period
- the correction of prior period errors is to be reflected by adjustments to opening balances of the current period; and
- changes in accounting estimates are to be recognised prospectively.

Proposed Tier 3 accounting for investments in subsidiaries, associates and joint arrangements

Accounting for notable relationship entities

Subsidiaries, associates and joint arrangements are identified using the notions of control, significant influence and joint control, consistent with Tier 1 and Tier 2 reporting requirements. ED 335 introduces the term ‘notable relationship entities’ to describe a Tier 3 entity’s relationships with all of its subsidiaries, associates and joint arrangements. The term ‘notable relationship entities’ is defined by reference to the entity having “at least significant influence” over another entity.

ED 335 proposes that a parent entity may consolidate its subsidiaries, or account for its interest in subsidiaries and other notable relationships entities using one of the following measurement bases:

- at cost;
- at fair value through profit or loss (or, as an irrevocable election, fair value through other comprehensive income); or
- using the equity method of accounting.

The accounting policy election above applies to all investments in notable relationship entities. However, an entity may make a different accounting policy election for different classes of investments if an entity:

- has one or more investments in subsidiaries, associates or joint ventures and elects to present separate financial statements in addition to consolidated financial statements; or
- is an investor with interests in associates and interests in joint ventures that elects to present separate financial statements.

When consolidated financial statements are presented, interests in associates and joint ventures must be measured using the equity method, and the entity’s share of any joint operations recognised.

An entity will need to disclose information about its notable relationship entities, including information about its transactions and balances with these related parties. The extent of the disclosure depends on the accounting – and resultant type of financial statements presented – adopted.

Accounting for combinations between the Tier 3 entity and another entity

An NFP private sector entity might acquire another entity (or part thereof) or otherwise combine/merge with that other entity. ED 335 proposes that the transaction be accounted for using a book value method when consolidated financial statements are prepared, or where only a single entity remains after the combination.

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The proposed book value method requires that:

- the combination is treated as having occurred at the beginning of the current reporting period
- assets, liabilities and equity of the acquired entity are recognised by the acquirer at their carrying amounts in the acquired entity's records (i.e. at pre-combination book values), except where:
  - accounting policies differ – if so, the balances must be adjusted to reflect uniformity in accounting policies
  - an acquired material asset (other than a donated asset) or liability is measured by the acquired entity at nil – if so, the asset/liability must be measured at its fair value at the beginning of the current reporting period; and
- the difference between the consideration paid and the carrying amount of the net assets recognised in the combination is recognised in equity (that is, no goodwill or discount on bargain purchase in profit or loss is recognised).

Snapshot of other ED 335 recognition and measurement requirements

In many instances, ED 335 proposes recognition and measurement requirements that are the same as – or very similar to – the topic-based Australian Accounting Standards. However, much of the commentary and specificity required to cater to a broad range of transactions, events and other conditions is not necessary, as it is expected to be beyond the breadth of transactions, events and other conditions of the entity population for which the proposed Accounting Standard is intended for use. Resultantly, the proposed requirements and related guidance are shorter and are expected to be simpler to understand and apply.

Recognition and measurement differences between Tier 1/Tier 2 reporting requirements and the proposed Tier 3 reporting requirements include:

Key recognition differences

- the timing of revenue recognition is not dependent on whether there is a documented explicit stipulation or an enforceable obligation to use monies in a certain way under a contract, but is aligned to the 'common understanding' of the parties to the agreement
- all leases are 'off balance sheet'
- derecognition of securitised debtors may occur earlier
- deferred tax assets and deferred tax liabilities are not recognised
- all R&D is expensed
- all borrowings costs are expensed
- the accounting does not give rise to goodwill
- hedge accounting is not available

Key measurement differences

- impairment may be recognised later, as impairment is only assessed when an impairment indicator is present. The identified indicators are scenarios where the entity can usually be expected to have, or will, suffer loss
- the estimate of a provision is not discounted
- interest expense/income is based on a simpler interest formula using contractual interest rate
- the FVTOCI election is made in respect of a class of financial assets rather than by individual asset

The following table summarises, at a high-level, measurement requirements addressed in detail in ED 335 (other than with respect to notable relationship entities):

Item	Measurement basis	Further comment
Cash and cash equivalents	Cost, less impairment	• initially measured at fair value • impairment is measured as the difference between the carrying amount and the present value of the estimated cash flows
Trade & other receivables	Cost, less impairment	• initially measured at fair value (expected consideration) • impairment is assessed only when there is objective evidence that some or all of the amount owed will not be collectable • impairment is measured as the difference between the carrying amount and the present value of the estimated cash flows
Concessional loans made	Cost, less impairment	• initially measured at transaction price • impairment is assessed only when there is objective evidence that some or all of the amount owed will not be collectable • impairment is measured as the difference between the carrying amount and the present value of the estimated cash flows

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Basic/common financial assets held to generate both income and a capital return (e.g. ordinary shares, listed corporate bonds)	Fair value through profit or loss (FVTPL) or Fair value through OCI (FVTOCI)	• FVTOCI is an irrevocable decision, made by class of financial assets • changes in fair value presented in OCI are not 'recycled' on disposal (applies to both debt and equity instruments) • dividend income is recognised when the dividend is declared • when the fair value of an unlisted equity instrument can no longer be reliably measured, fair value measurement is 'paused' and the asset carried at its deemed cost less impairment, until such time as fair value is again reliably measurable • transaction costs are immediately expensed
Other 'basic' financial assets (e.g. term deposits, security bonds)	Cost, less impairment	• initially measured at fair value • impairment is assessed only when there is objective evidence that some or all of the amount owed will not be collectable • impairment is measured as the difference between the carrying amount and the present value of the estimated cash flows • transaction costs are immediately expensed
Inventory held for distribution	Cost, less loss of service potential	• the cost of donated inventory is either the consideration paid, or the item's current replacement cost. The increase in net assets is recognised as donation income • an entity can choose to not allocate share of production overhead costs as part of the cost of inventory • inventory measurement using the last-in-first-out (LIFO) method is not permitted • cost less loss of service potential is measured only when an impairment indicator is present
Other inventory	Cost, except where the estimated selling price less costs to complete and sell must be measured, and this amount is lower	• the cost of donated inventory is either the consideration paid, or the item's current replacement cost. The increase in net assets is recognised as donation income • an entity can choose to not allocate share of production overhead costs as part of the cost of inventory • inventory measurement using the last-in-first-out (LIFO) method is not permitted • the estimated selling price of inventory, less any costs to complete and sell it, is measured only when an impairment indicator is present
Property, plant and equipment (PPE)	Cost model (cost less depreciation less impairment) or Revaluation model (fair value at revaluation date less subsequent depreciation less subsequent impairment)	• donated PPE is initially measured at cost or fair value. The increase in net assets is recognised as donation income • increases in revalued amount are recognised in OCI unless it is reversing a decrease recognised in profit or loss • an entity can choose to not allocate a share of the use of other assets (depreciation) as part of the cost of its self-constructed assets • depreciate the depreciable amount of the PPE on a systematic basis over its useful life • review useful life, residual value and depreciation method only if the asset is damaged or its capacity to provide services has been adversely affected by a changed strategy or a reduction in external demand, or if there is an indication of a significant change in the asset's consumption pattern • impairment is assessed only when an impairment event has occurred. The recoverable amount of the asset is the higher of its fair value less costs to sell and value in use
Investment property	Cost model (cost less depreciation less impairment) or	• donated investment property is initially measured at cost or fair value. The increase in net assets is recognised as donation income • changes in fair value are recognised in profit or loss

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	Fair value model (fair value)	• an entity can choose to not allocate a share of the use of other assets (depreciation) as part of the cost of its self-constructed assets • where the fair value of an asset can no longer be reliably measured on a continuing basis, the fair value model is 'paused' and the cost model used until such time as fair value is again reliably measurable • impairment is assessed only when an impairment event has occurred. The recoverable amount of the asset is the higher of its fair value less costs to sell and value in use • mixed-use property cannot be classified as investment property but are treated as PPE
Intangible assets	Cost model (cost less amortisation less impairment) or Revaluation model (fair value at revaluation date less subsequent amortisation less subsequent impairment)	• internally generated intangible assets, including any from R&D activities, are not capitalised – the expenditure is immediately expensed • donated intangible assets are initially measured at cost or fair value. The increase in net assets is recognised as donation income • increases in revalued amount are recognised in OCI unless it is reversing a decrease recognised in profit or loss • the cost model must be used where there is no active market for the intangible asset • amortisation is made on a systematic basis over the asset's useful life. The useful life of an asset with an indefinite life cannot exceed 10 years • the full amount of the asset will be amortised unless there is an active market for the asset or a third party has committed to buying the asset • review useful life, residual value and amortisation method only if the asset is damaged or its capacity to provide services has been adversely affected by a changed strategy or a reduction in external demand • impairment is assessed only when an impairment event has occurred. The recoverable amount of the asset is the higher of its fair value less costs to sell and value in use
Trade and other payables	Cost	• initially measured at fair value
Concessional loans received	Cost	• initially measured at transaction price
Other 'basic' financial liabilities	Cost	• initially measured at fair value • transaction costs are immediately expensed
Income tax expense/ Current tax liabilities	Amount per the tax assessment	• if the tax assessment is not available, income tax expense is measured by reference to the tax return, or estimate of the tax return
Deferred revenue obligations	Unreleased portion of the amount initially recognised for the related asset(s) received	• recognised when there is a common understanding that the entity has yet to perform in a particular manner in response to assets transferred to the entity • guidance is provided on when a 'common understanding' might exist, including that an obligation does not need to be enforceable • timing of release of the obligation as revenue reflects the amount and pattern of the using up of the assets received/ other assets with a similar value (that is, satisfaction of each commonly understood obligation): including when activities are performed, or over a defined period of time.
Provision for employee benefits	Undiscounted amount of employee benefits expected to be paid for services rendered	• only vesting accumulating leave entitlements are recognised as a provision • a 'most likely outcome' approach may be used to estimate a provision for long service leave

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Other provisions	Best estimate of the amount to be paid	• future cash flows are not discounted in estimating a provision • a right to reimbursement is recognised as an asset when it is virtually certain to be received, and capped at the amount of the provision. A reimbursement asset cannot be offset against the related provision, but reimbursement income may be offset against expenses relating to the provision
Lease expense (lessee)	Based on an apportionment of the lease payments on a systematic basis over the lease term	• the same treatment applies to both concessionary leases and other leases • a lessee does not recognise the leased asset • a straight-line basis is used unless another basis is more representative of the time pattern of the entity's benefit from the asset
Lease income (lessor)	Based on an apportionment of the lease payments on a systematic basis over the lease term	• a lessor continues to recognise the leased asset • a lessor might incur lease expenses for its initial direct costs of arranging the lease: these are also recognised over the lease term • a straight-line basis is used unless another basis is more representative of the time pattern of the lessee's benefit from the asset
Donation income, grant funding, sales and other revenue	Based on the initial measurement of the related asset	• timing of revenue recognition to reflect amount and pattern of the using up of the assets received/ other assets with a similar value • volunteer services received may be recognised as revenue (or contribution by owner, as appropriate), measured at fair value subject to certain conditions. If so, a corresponding expense is recognised at the same time
Employee benefit expense	Cost of employee services received during the period	• the expense includes any increase/decrease in profit or loss resulting from remeasurement of the provisions for employee benefits
Borrowing costs	Based on a simpler interest calculation using contractual interest rates	• all borrowing costs must be expensed

Topics not addressed in the proposed Standard

In acknowledgement that NFP private sector entities may enter into transactions, events and other conditions that are not addressed in detail in the proposed Standard, ED 335 proposes that the recognition, measurement, presentation and transition requirements of the relevant topic-based Australian Accounting Standard, and any related disclosures specified by AASB 1060, apply to the following:

- more complex financial assets and financial liabilities (e.g. unlisted corporate bonds, financial guarantee contracts, derivative financial instruments);
- assets held for sale;
- biological assets and agricultural produce at point-of-harvest;
- activity related to the exploration for, and evaluation of, mineral resources;
- insurance contracts within the scope of AASB 17 *Insurance Contracts*;
- obligations under a defined benefit plan; and
- share-based payment arrangements.

In all other instances, the entity selects an appropriate accounting policy by reference to a specified hierarchy. The proposed hierarchy requires the entity to first consider the Tier 3 requirements applying to similar and related items. Also, while an entity may have regard to an accounting policy specified by topic-based Australian Accounting Standards, such accounting policy can only be applied in Tier 3 GPFS if it does not conflict with Tier 3 requirements.

Fair value as a measurement basis

ED 335 describes characteristics of 'fair value', including that:

- fair value is an exit price
- fair value is a market-based measurement, not an entity-specific measurement; and

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- the fair value of a non-financial asset is based on its highest and best use: the ED proposes that is its current use except when it is highly probable that the asset will, within 12 months, be redeployed or sold to someone who would use it differently.

Also, the ED proposes that, in certain instances, the cost of an unlisted equity investment may be an appropriate estimate of its fair value.

Proposed disclosures for Tier 3 GPFS

Disclosures that might not currently be made in SPFS

The AASB's proposals may require an NFP private sector entity to provide more information in Tier 3 GPFS than might currently be included in SPFS by some entities. Such disclosures proposed by ED 335 may include:

- nature and effect of a change in accounting estimate on assets, liabilities, income and expenses
- the cost formulae (e.g. first-in-first-out) used for inventory measurement
- how 'loss of service potential' is assessed
- outstanding deferred revenue obligations, and the amount of each dissimilar type of revenue recognised during the period (e.g. capital grants, grants with other conditions, donations, membership fees)
- inventory used during the period
- research & development expenditure of the period
- each type of profit or loss amount for each category of financial instruments measured on a different basis
- for each material donated assets initially measured at cost and not subsequently revalued to fair value, and in respect of assets available to the entity under concessionary lease terms, information to help users understand the entity's dependence on donations and the nature and terms of the arrangement
- pledged and restricted assets
- details about each individually significant loan payable or receivable, including information about outstanding breaches and default of loans payable not rectified by the reporting date
- lease arrangements
- commitments (e.g. to buy PPE, maintain investment property)
- contingent liabilities and contingent assets
- related party transactions and balances (donations may exempted from disclosure)
- the assets and liabilities 'added' to the entity during the period via an acquisition or other combination activity
- major entity combinations that took place after the end of the reporting period

In general, ED 335 proposes the specific detail to be disclosed, rather than describing a disclosure objective for each aspect addressed, and disclosures that might help meet that objective.

The ED does not make any proposals for reporting service performance information.

Proposed reliefs, transitional provisions and effective date

Ability to continue to prepare special purpose financial statements (SPFS)

Under the AASB's proposals in ED 334, an NFP entity can still prepare SPFS if the entity is either:

1. not required to prepare financial statements that comply with Australian Accounting Standards; or
2. meets the 'constituting document date exemption' condition: the entity is required by a constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, but that document was created and last amended before the final proposals become effective.

Note, ED 334 proposes that the SPFS of an NFP entity that is a 'constituting document date exemption' entity must include certain information specified by AASB 1054 *Australian Additional Disclosures*. In general, these pertain to disclosure of the entity's reason for preparing the SFPS and the accounting policies used – and, if known, how consistent these policies are with GPFS.

First-time transition from SPFS to Tier 3 GPFS

ED 334 and ED 335 propose:

- SPFS → Tier 3 GPFS: Comparative information is not restated. Rather, any necessary adjustments to reflect the retrospective application of accounting policies is made against the opening balances of the entity's first GPFS reporting period. Also, comparative information does not need to be presented in the entity's first Tier 3 GPFS, if the entity did not make comparable disclosures in the prior period's SPFS.
- SPFS → Tier 2 GPFS: Comparative information must be restated, except where the entity applies the final proposals ahead of the effective date of those proposals. Then, any necessary adjustments to reflect the effects of

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the retrospective application of accounting policies may instead be made against the opening balances of the entity's first GPFS reporting period. The correction of a prior period error need not be distinguished from these changes in accounting policy.

- SPFS → Tier 1 GPFS: Comparative information must be restated for the effects of the retrospective application of accounting policies.

AASB 1 *First-time Adoption of Australian Accounting Standards* and/or AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* explain the procedures and transitional provisions, and associated disclosures, that apply to an entity's first Tier 1 or Tier 2 GPFS.

Similar procedures and transitional provisions for an entity transitioning from SPFS to Tier 3 GPFS are set out in the proposed Tier 3 Standard. In general, these transitional provisions allow the entity to make 'Day 1' elections on the date of transition and provide for the use of a 'deemed cost' for the purposes of initial recognition provisions, rather than requiring the proposed Tier 3 accounting policies to apply retrospectively (i.e. as though they had always been applied).

Additionally, ED 335 proposes allowing an entity to:

- apply the Tier 3 revenue recognition policy only to contracts that begin after the entity's transition date
- continue to recognise existing financial assets and financial liabilities even if they are not recognisable as assets and liabilities under the proposed Tier 3 requirements.

First-time transition from Tier 1 or Tier 2 GPFS to Tier 3 GPFS

A NFP private sector entity preparing Tier 1 or Tier 2 GPFS will currently apply the recognition and measurement accounting policies specified by a relevant topic-based Australian Accounting Standard. The transitional provisions for an entity transitioning from Tier 1 or Tier 2 GPFS to Tier 3 GPFS are the same as those applying to an entity transitioning from SPFS to Tier 3 GPFS, except that ED 335 additionally proposes permitting an entity already preparing GPFS to continue applying in its Tier 3 GPFS those accounting policies to some or all of the assets and liabilities existing at the date of transition to Tier 3 GPFS. The entity must continue to provide the related Tier 1 or Tier 2 disclosures.

That is, ED 335 proposes allowing an entity to apply the Tier 3 reporting requirements on a prospective basis; to new transactions, events and other conditions.

ED 335 also proposes that comparative information does not need to be presented in an entity's first Tier 3 GPFS, if the entity did not make comparable disclosures in the prior period's GPFS.

Other transitional scenarios

ED 334 and ED 335 also make proposals for transitional scenarios other than those described above.

Effective date

The AASB intends to provide at least three years of lead time between issue and the effective date of any final pronouncements.

For more information to or provide feedback on the proposals

- ED 334 and ED 335 can be found on the AASB website (https://www.aasb.gov.au/current-projects/open-for-comment/). The Exposure Drafts include a Basis for Conclusion explaining the AASB's considerations, and reasons for, its proposals.
- Provide feedback by making a formal submission or completing a survey:
  - ED 334: https://www.surveymonkey.com/r/AASBCFED334
  - ED 335: https://www.surveymonkey.com/r/AASBTier3ED335.

  Additionally, consider attending an AASB outreach session – these will be held in Q4 2024 – Q1 2025.
- AASB staff is developing a webcast to provide an overview of the key proposals in ED 334 and ED335, which will be provided in due course.
- Refer to the AASB staff document *Summary of the Tier 3 Exposure Draft proposals and the extent of simplifications against Tier 2 reporting requirements*, available on the AASB website (https://aasb.gov.au/media/tier-3proposalsandcomparisontotier-2.pdf).
- Visit the relevant project summary pages on the AASB website for further related documents, or contact AASB staff at standard@aasb.gov.au to arrange a discussion.

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