Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M213
Topic:	**Redeliberation on objective, scope and application**	**Agenda Item:**	5.1
		Date:	17 June 2025
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		Decision-Making:	High
		Project Status:	Project redeliberations

Objective of this paper to the Board

1 The objective of this staff paper is for the Board to **decide** how to finalise the proposed requirements exposed in ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* regarding Section 1: *Objective, Scope and Application*.

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 – 7);

(c) summary of the proposals in Section 1 and stakeholder feedback (paragraphs 8 – 12);

(d) staff analysis and recommendations:

(i) Objective (paragraph 13);

(ii) Scope (paragraphs 14 – 22); and

(iii) Application (paragraphs 23 – 29).

Summary of staff recommendations

3 Staff recommend the Board finalises a Tier 3 Standard as exposed in ED 335, that:

(a) no changes are made to the objective set out in paragraph 1.1;

(b) the Standard should continue not to specify any reporting thresholds;

(c) paragraph 1.2 of the draft Standard should be amended to clarify that NFP private sector entities without public accountability which are not prohibited from applying Tier 3 reporting requirements under the applicable legislative or other reporting requirements shall, as a minimum, apply the Tier 3 Standard;

(d) the Standard should continue to require entities to apply Tier 2 requirements for topics that the Board has identified as being uncommon or complex; and

(e) paragraph 1.3 should be amended to clarify that the requirements of the topic-based Standards apply only to those specified transactions, events and other conditions for transactions within that Standard's scope.

Background and reasons for bringing this paper to the Board

4 The Board decided at its May 2025 meeting to proceed with developing a Tier 3 Accounting Standard with simplified recognition, measurement, and disclosure requirements for smaller not-for-profit (NFP) private sector entities, and commence redeliberations of the proposals in ED 335.[1]

5 At the May 2025 board meeting, the Board considered the summarised feedback on ED 335 and the staff categorisation of the extent of the Board's re-deliberation efforts in Agenda Paper 4.2. This paper presents the staff analysis and recommendations for one of the Category B topics identified in that Agenda Paper – Section 1: *Objective, Scope and Application*. The Category B topics are proposals where stakeholders provided mixed feedback or expressed substantive concerns on one or more particular aspects of the proposals.

6 The primary objective of this paper is for the Board to, in respect of the topic covered, decide whether to make any substantive changes to the proposals exposed in ED 335. Staff have not included any revised drafting in this paper. Staff plan to present the revised drafting collectively in November 2025, as per the project timeline outlined in Agenda Paper 5.0. This approach will allow the Board to first consider all decisions on matters of principle, ensuring a comprehensive view of the overall draft Standard.

7 This paper seeks the Board's decision on Section 1 which includes the scope of entities eligible to apply the Tier 3 Standard. While Agenda Paper 4.3 for this meeting seeks the Board's decision as to how it should finalise the proposal to extend the application of the Conceptual Framework to NFP private and public sector entities and supersede Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*.

Summary of the proposals in Section 1: *Objective, Scope and Application*

8 Section 1 of ED 335 proposed:

(a) the objective of the Standard to provide simplified financial reporting requirements for general purpose financial statements (GPFS) to require reporting of useful, consistent and transparent information by those entities in a manner that achieves an appropriate balance of cost and benefits;

(b) the scope for which entities should apply the Tier 3 requirements, being an entity that is a NPF private sector without public accountability and qualifying as Tier 3 entities under the applicable legislative or other reporting requirements; and

(c) a requirement for entities applying the Standard to apply the recognition, measurement, presentation and transition requirements to the following transactions and arrangements, and the disclosures specified by AASB 1060:

(i) share-based payment arrangements – AASB 2 *Share-based Payments*;

(ii) insurance contracts – AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts* or AASB 17 *Insurance Contracts*;

1 Refer to Agenda Paper 2.2 for the May 2025 Board meeting draft minutes.

(iii) assets held for sale – AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;

(iv) the exploration for, and evaluation of, mineral resources – AASB 6 *Exploration for and Evaluation of Mineral Resources*;

(v) complex financial instruments identified in Section 10: *Financial Instruments* – AASB 9 *Financial Instruments* and other applicable Australian Accounting Standards;

(vi) obligations arising under a defined benefit plan – AASB 119 *Employee Benefits*; and

(vii) biological assets and agricultural produce at the point of harvest – AASB 141 *Agriculture*.

9 The Board's rationale for proposing to require that certain transactions, other events or conditions should be accounted for in Tier 3-compliant general purpose financial statements using the applicable Tier 2 requirements was because these transactions, other events or conditions are either expected to be uncommon for Tier 3 entities or are complex transactions warranting the application of requirements specified by existing Australian Accounting Standards (as per paras. BC18 – BC24 of ED 335).

ED 335 stakeholder feedback received

10 The only Specific Matter for Comment (SMC) in ED 335 relating to Section 1 was SMC 9. SMC 9 sought stakeholder views on whether they agree with the proposed approach to requiring entities to apply Tier 2 requirements for the specific transactions, other events or conditions identified in paragraph 8 above.

11 As per Agenda Paper 4.3 at the May 2025 Board meeting, of the 18 comment letters that responded directly to ED 335 and the total participants who attended a virtual/in-person outreach session, 9 and 33 respondents, respectively, provided a response to SMC 9. The following table provides an overview of the responses received on SMC 9.

Table 1: SMC 9 responses

	Agreed	Agreed with exception	Disagreed	Unsure
Out of 9 comment letters that commented on SMC 9	3 (33%)	4 (44%)	2 (23%)	-
Out of 33 participants who attended a virtual/in-person outreach session that commented on SMC 9	26 (79%)	-	1 (3%)	6 (18%)

12 Whilst there were no specific SMC regarding the proposed objective and scope of the Standard, the Board received some feedback regarding these proposals as part of the stakeholder comments to other questions posed in ED 335. The feedback received is summarised in paragraphs 13 and 14 below.

Staff analysis and recommendation – Objective

13 Staff note that there was no specific SMC requesting feedback on the objective of the Standard. However, SMC 7 asked whether the proposals would result in financial statements that are useful to users.[2] Given that:

2 SMC 7 was discussed as part of Agenda Paper 4.1 from the May 2025 Board meeting.

(a) most stakeholders responding to the SMC agreed that the proposals would enhance the usefulness of financial statements, increase transparency, and reflect a proportionate approach; and

(b) no other comments about the appropriateness of the Standard's objective were received;

staff think that no changes are necessary to the objective of the Standard. Accordingly, staff recommend making no changes to the objective set out in paragraph 1.1 exposed in ED 335.

Question 1 for Board members

Do Board members agree with the staff recommendation in paragraph 13 for the Board to finalise a Tier 3 Standard making no changes to the objective set out in paragraph 1.1 exposed in ED 335?

If not, what do Board members suggest?

Staff analysis and recommendations – Scope

14 Staff note that there was no specific SMC requesting feedback on the scope of the Standard. However, stakeholders provided the following comments to other SMCs or to a General Matters for Comment (GMC):

(a) the definition of 'smaller NFP private sector entities' is unclear due to the arbitrary use of the term small by different regulators with different thresholds (Comment from SMC 1);

(b) the AASB should specify an interim annual threshold of $5 million until the necessary legislative reforms are completed, to provide clarity to NFP entities transitioning from special purpose financial statements to general purpose financial statements. The AASB should work with regulators to determine appropriate Tier 3 thresholds or, alternatively, include a reference point for the size range of Tier 3 entities that the Standard was developed for within the scope paragraph without the need for readers to source that information from the Basis for Conclusions (Comment from SMC 1);

(c) the AASB should propose clear reporting thresholds for the Tier 3 Standard, which would provide clarity and consistency for the NFP sector especially the potential impact on smaller charities with greater reliance on volunteers (Comment from GMC 43);

(d) the absence of clear authoritative application boundaries may lead to the risk of a larger NFP entity without public accountability applying the Tier 3 Standard when that may not be appropriate for the entity's users. This may place auditors in a difficult position to advocate for users' interest without authoritative support (Comment from SMC 5); and

(e) the current drafting of para 1.2 could have the unintended consequence of restricting entities from applying the Tier 3 Standard if the relevant legislation requiring compliance with accounting standards is not amended by the effective date of the Standard.[3] The requirement should be reworded as "Not-for-profit private sector entities without public accountability except where precluded from applying Tier 3 under the applicable legislative or other reporting requirements shall…"(Comment from SMC 5).[4]

15 The feedback reveals two main stakeholder concerns, that is: (1) that 'larger' entities may inappropriately prepare Tier 3 GPFS; and (2) that smaller entities may be unintendedly prevented from preparing Tier 3 GPFS.

16 In relation to the stakeholder concern that some larger entities may inappropriately prepare Tier 3 GPFS (the comments set out in paragraphs 14(a) – 14(d) above), staff note that when

3 Feedback from a professional services firm.

4 SMC 1, 5 and GMC 43 was discussed as part of Agenda Paper 4.1 from the May 2025 Board meeting.

developing ED 335 the Board considered similar feedback but decided to reaffirm its view expressed in AASB Discussion Paper that as a standard-setter its role is not to, nor does it have the ability or legislative power to, develop financial reporting thresholds in Australian Accounting Standards. The Board viewed the establishment of GPFS to be more appropriately in the remit of the relevant legislation or regulatory authority (refer paragraph BC7 of ED 335).

17 Also, in forming its proposals in ED 335, the Board considered that a decision to develop quantitative thresholds limiting who could prepare T3-compliant GPFS could have the following challenges:

(a) difficulties in establishing an appropriate reporting threshold that would meet the needs of all stakeholders and regulators;

(b) a need to conduct consultation with regulators and other sector stakeholders on the appropriate thresholds to apply, which would take a significant amount of Board and staff time and effort and could substantially delay the finalisation of the project; and

(c) specifying thresholds would be a change from the Board's past practices, where currently only the minimum reporting Tier that an entity must comply with if the entity is preparing financial statements in accordance with GPFS is specified, which may have transaction neutrality implications if the thresholds are only specified for NFP private sector entities.[5]

18 Staff are of the view that the stakeholder feedback in paragraphs 14(a) – 14(d) above does not provide any new evidence of the extent and nature of the concern that 'larger' entities may inappropriately prepare Tier 3 GPFS, or considerations that mitigate the challenges identified, that should cause the Board to revise its view not to specify financial reporting thresholds, whether interim or otherwise, within the Australian Accounting Standards. Further, staff think that:

(a) whether entities are preparing the most useful form of GPFS for its users is a matter for the entity or its regulators to determine, similar to an entity's current decision-making as to whether it should elect to prepare Tier 1 GPFS instead of Tier 2 GPFS in the absence of a requirement to do so. Also, staff think that NFP private sector entities could be expected to carefully make this assessment if it has the potential to impact their funding and their continued operations;

(b) the number of entities that are either 'large' or have complex transactions and that determine to prepare Tier 3 GPFS is likely to be small. Therefore, staff think that the issue and overall costs of analysis and resolution of any contended GPFS reporting Tier position for entities, their auditors and other relevant parties for the NFP private sector population impacted by the proposals in ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*, and any sacrifice of transparency and comparability, could be expected to be limited; and

(c) the absence of reporting thresholds is unlikely to impair an auditor's ability to audit or provide assurance over requirements, except if the auditor were required to opine on the appropriateness of the reporting Tier complied with given the entity's circumstances (rather than, or in addition to, opining on whether the financial statements comply with the requirements of the asserted reporting Tier). Staff also think opining on the appropriateness of the reporting Tier complied with is not so different from other issues on which auditors and their clients might currently disagree on: for example, regarding an entity's reporting entity status.

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5 Refer to Agenda Paper 3.4 at the 6-7 June 2024 meeting.

19 In addition, staff note that many other stakeholders, including regulators, supported the Board's preliminary view not to develop reporting thresholds in the Australian Accounting Standards to the Discussion Paper which specifically contained a question in this regard. Similarly, staff think that the majority of overall stakeholder support for the ED provides the Board with negative assurance that its proposals not to specify any quantitative thresholds are generally supported.

20 In relation to the stakeholder concern that smaller entities may be unintendedly prevented from preparing Tier 3 GPFS because of the way paragraph 1.2 is worded (the comment in paragraph 14(e) above), staff observe that:

(a) the Board had previously decided at its 6-7 June 2024 meeting (refer to minutes) to allow entities to early adopt a Tier 3 Standard. In making this decision, the Board acknowledged that restrictions on the population of NFP private sector entities that may prepare Tier 3 GPFS may not be established by the time of the issue of a final Standard; and

(b) the ED 335 proposed amendment to paragraph 21 of AASB 1057 *Application of Australian Accounting Standards* is drafted as follows:

21 AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* applies to not-for-profit private sector entities that:

(a) do not have public accountability; and

(b) are not prohibited from applying Tier 3 reporting requirements by the relevant legislation, constituting document or other document.

As such, staff think it is clear that the Board did not intend to disallow entities from preparing Tier 3 GPFS simply because the relevant legislation had not yet been updated to acknowledge the proposed further reporting Tier.

21 Paragraph 1.2 as drafted in ED 335 states:

> "Not-for-profit private sector entities without public accountability and qualifying as Tier 3 entities under the applicable legislative or other reporting requirements shall, as a minimum, apply Tier 3: Australian Accounting Standards – Simplified Accounting under AASB 1053 Application of Tiers of Australian Accounting Standards. …".

On reflection, staff think that the expression 'and qualifying as Tier 3 entities under the applicable legislation' could potentially be read to imply that the relevant legislation needs to expressly identify the entities that can prepare Tier 3-compliant GPFS, before an entity is permitted to do so. Staff further note that the drafting appears circular when considered together with the definition of a Tier 3 entity.[6]

22 Having regard to the analysis in paragraphs 14 – 21 above, on balance, staff think that:

(a) a Tier 3 Standard should continue not to specify any reporting thresholds; and

(b) to improve the clarity of the scoping of the Standard and avoid potential diversity in application, paragraph 1.2 of the draft Standard should be amended to clarify that NFP private sector entities without public accountability which are not prohibited from applying Tier 3 reporting requirements under the applicable legislative or other reporting requirements shall, as a minimum, apply the Tier 3 Standard.

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6 The Appendix to the draft Standard defines a Tier 3 entity as "A not-for-profit private sector entity that:
(a) does not have public accountability; and
(b) is not prohibited from applying Tier 3 reporting requirements by legislation, constituting document or another document."

Accordingly, staff recommend making this change to paragraph 1.2 of ED 335 in finalising a Standard based on ED 335.

Question 2 for Board members
Do Board members agree with the staff recommendation in paragraph 22 that, in finalising a Tier 3 Standard based on ED 335: (a) the Standard should continue not to specify any reporting thresholds; and (b) paragraph 1.2 of the draft Standard should be amended to clarify that NFP private sector entities without public accountability which are not prohibited from applying Tier 3 reporting requirements under the applicable legislative or other reporting requirements shall, as a minimum, apply the Tier 3 Standard? If not, what do Board members suggest?

Staff analysis and recommendations – Application

23 In summary, the draft Standard proposes:

(a) for addressed transactions, events and other conditions, either:

(i) the accounting specified in the draft Standard (e.g. employee salaries and leave entitlements); or

(ii) for certain complex or less common transactions, events and other conditions – the accounting specified by the relevant topic-based Australian Accounting Standard (e.g. employer contributions to defined benefit plans); and

(b) for unaddressed transactions, events or other conditions – the development of accounting policies using the Tier 3 'hierarchy' specified in para 9.5 of ED 335 (e.g. termination benefits). This 'hierarchy' requires regard in the first instance to the principles and other reporting requirements in the Tier 3 Standard dealing with similar and related issues.[7]

24 As per Table 1 above, almost all stakeholders responding to SMC 9 in ED 335 agreed, or agreed with exceptions, with the Board's proposal to require an entity preparing Tier 3 GPFS to apply Tier 2 requirements for topics that the Board has identified as being uncommon or complex. However, notwithstanding that support for the proposals, some virtual/in-person outreach respondents and written submitters, and stakeholders that disagreed, identified aspects of concern about the proposal. Table 2 below provides their specific concerns (reproduced from Agenda Paper 4.3 at the May 2025 Board meeting):

Table 2 SMC 9: Stakeholder comments from those who agreed with exceptions or disagreed and staff analysis

Further comments from those who agreed with exceptions or disagreed	**Staff observations**
Some stakeholders considered that the Board's proposed approach for non-current assets held for sale (to apply AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*) should change:	In relation to the first dot point, the Board had previously considered similar feedback on its Discussion Paper proposals, where some stakeholders disagreed with the proposed 'exclusion' of non-current assets held for sale from simpler Tier 3 accounting requirements. However, the Board decided at its 13 – 14 September 2023 Board meeting (refer to minutes) to require entities to apply

7 Agenda Paper 5.2 at this meeting contains the staff analyses of the stakeholder feedback received about the Board's proposals regarding Section 9: *Accounting Policies, Estimates and Errors*, which includes the Tier 3 hierarchy, and seeks a Board decision as to how to finalise its requirements on these matters.

Further comments from those who agreed with exceptions or disagreed	Staff observations
• A professional service firm and a few stakeholders that attended the virtual/in-person outreach considered that guidance on non-current assets classified as held for sale should be included in the Tier 3 Standard, even though one of those stakeholders considered discontinued operations may be less common. A few of those stakeholders considered that there will be judgement in determining when an asset is considered 'held for sale' and that this determination can be challenging, as the assets classified as held for sale would need to meet specific criteria. There is the further added complexity of needing to determine fair value. • A stakeholder considered that the Tier 3 requirements should include an impairment assessment if an entity is planning to sell an asset.	Tier 2 requirements to these specific transactions, events and conditions. As noted in BC24 of ED335, the Board considered that non-current assets that an entity intends to sell rather than hold for continuing use are expected to be an uncommon occurrence. The Board's decision in ED 335 was informed by the following considerations: • AASB Research Report 19 *Common Financial Statements Items: Charities with $0.5-$3 million in revenue* (April 2023) (RR19) did not identify any sampled charities that held non-current assets classified as held for sale, and only approximately 7% of charities that had sold non-current assets; • not including accounting requirements for assets held for sale would reduce the length of the Tier 3 Standard and keep with the objective of development requirements dealing with common transactions for smaller NFP entities; and • most stakeholders supported the Board's preliminary Discussion Paper view to require non-current assets held for sale to be accounted for in accordance with AASB 5. In relation to the second dot point, when developing its proposals for the Exposure Draft, the Board considered whether an asset held for sale should be included as an indicator of impairment. Arguably, a planned disposal of an item is similar to an asset that is damaged and no longer planned to be used at full capacity.[8] This is the approach adopted in the *IFRS for SMEs* as a simplification to IFRS 5 requirements.[9] However, the Board rejected such approach and decided to propose in ED 335, consistent with its preliminary views in its Discussion Paper, to require entities to apply AASB 5 for any non-current assets held for sale because the Board continued to consider it uncommon for smaller NFP entities to hold non-current assets for sale (refer to 7-8 March 2024 meeting minutes).[10]
Some stakeholders considered that the Board's proposed approach for biological assets and agricultural produce at the point of harvest (to apply AASB 141 *Agriculture*) should change: • Two professional services firms disagreed with requiring entities to apply AASB 141 and recommended that entities should apply similar requirements as those proposed in Section 12 for inventories. They noted a growing subset of smaller NFP entities operating community gardens or similar. One firm suggested either developing	The Board previously received similar feedback through its Discussion Paper that some NFP entities may operate community gardens and that requiring the application of AASB 141 could be overly complex for smaller entities. As a result, when developing ED 335 the Board considered whether a Tier 3 Standard should require entities to use the Tier 3 hierarchy to develop their own accounting policies for biological assets and agricultural produce. However, the Board decided against doing so because it continued to consider, supported by stakeholder comments and targeted feedback from the NFP Project Advisory Panel, that it is uncommon for smaller NFP entities to have biological assets (see para. BC 21 of ED 335). Additionally, AASB Research Report 19 did not identify these items

8 Refer to Agenda Paper 4.3 at the March 2024 meeting.

9 The *IFRS for Small and Medium-sized Entities* states that the Standard is not aligned with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Instead, it includes intention to sell as an indicator of impairment and require disclosure if an entity has a binding sale agreement for a major disposal of assets, or group of assets or liabilities (per para. BC4.2 of the *IFRS for SMEs*).

10 Staff will bring further analysis of comments received relating to the Tier 3 requirements for impairment of non-current assets proposed in Section 23 for the Board's consideration at a future meeting (expected August 2025).

Further comments from those who agreed with exceptions or disagreed	Staff observations
simplified requirements to address these transactions or excluding AASB 141 from the list so entities can apply the hierarchy approach for developing their accounting policies (i.e. first apply Tier 3 requirements dealing with similar or related transactions).	to be common assets held. The Board considered that agricultural activity is a highly specialised and complex topic; warranting entities to apply the more advanced requirements of Tier 2 Australian Accounting Standards to biological assets (refer to the 13-14 September meeting minutes).
Some stakeholders disagreed with the Board's proposal to specify that Tier 2 requirements apply to certain transactions, events and other conditions: Three stakeholders (two professional services bodies and one other stakeholder) and a few participants that attended a virtual/in-person outreach disagreed with the Board's approach, even though two of those stakeholders agreed that the transactions, other events or conditions specified in para 1.3 that would apply the Tier 2 requirements would be uncommon or complex for smaller NFP entities. Nevertheless, these stakeholders recommended that the standard be a standalone document so that entities should be permitted to apply the hierarchy approach in Section 9 to develop their own accounting policies rather than requiring entities to apply Tier 2 requirements for those specified transactions, other events or conditions. These stakeholders also considered that the Board's proposed approach for complex financial instruments (to apply AASB 9 *Financial Instruments* and other applicable Australian Accounting Standards) should change[11] as they considered requiring entities to apply AASB 9 are likely to be problematic (even in rare circumstances), and they believe the list of basic instruments is incomplete. Therefore, they recommended including the Tier 3 Standard simplified requirements based on AASB 9 for all complex financial instruments	The Board previously considered similar feedback received through its Discussion Paper, noting that while the specified Australian Accounting Standards requiring Tier 2 application are generally uncommon for smaller NFP entities, some stakeholders—including a few who commented on ED 335—expressed a preference for the Tier 3 Standard to be as comprehensive and standalone as possible. These stakeholders prioritised minimising the need for entities to refer to higher-tier requirements. In view of the feedback received through the Discussion Paper, the Board discussed an alternative approach (refer Agenda Paper 3.1 at the September 2023 Board meeting): rather than requiring Tier 2 application for specified transactions, to require entities to develop their accounting policies instead using the Tier 3 'hierarchy'. However, the Board decided to retain the approach in paragraph 1.3 of ED 335, reasoning that these topics are sufficiently complex to warrant application of Tier 1 or Tier 2 requirements. In developing its proposals in ED 335, the Board considered stakeholder concerns regarding requiring NFP entities to apply AASB 9 for certain financial instruments because of the complexity of that Standard. Despite this feedback, the Board decided—consistent with its preliminary views in the Discussion Paper—to propose in ED 335 that entities must apply AASB 9 for complex financial instruments. This decision is based on the Board's view, supported by stakeholder comments and targeted feedback from the NFP Project Advisory Panel, that it is uncommon for smaller NFP entities to hold complex financial instruments (see para. BC 21 of ED 335). The Board considered that the highly specialised and complex nature of 'complex' financial instruments warrants entities to apply the more advanced requirements of Tier 2 Australian Accounting Standards (refer to the 13-14 September meeting minutes). The Board's view that complex financial instruments are less commonly held by smaller NFP entities was informed by its findings from AASB Research Report 19, which revealed smaller NFP private sector entities generally do not hold financial instruments other than those identified as 'basic' financial instruments in ED 335.

25 Having regard to the stakeholder feedback and prior Board considerations and decision-making summarised in Table 2 above, staff think that no new feedback or information has emerged that the Board has not already considered when forming its views in ED 335, and that should cause

11 Some stakeholders commented on SMC 17, which related to the Board's proposed list of complex financial instruments. While financial instruments are a topic to be discussed at a future meeting, staff consider these comments provided in response to SMC 17 relevant to be relevant to the consideration of to the Board's proposal to require complex financial instruments to apply AASB 9 and other applications.

the Board to revise its exposed proposal. The decision to require entities to apply Tier 2 requirements for those specified transactions, other events or conditions in para 1.3 of ED 335 was made in line with the Board's objective of developing a stand-alone accounting standard that addresses transactions, other events or conditions common to a Tier 3 entity and on consideration that more complex transactions warrant more complex accounting, regardless of the size of the entity. As such, the ED 335 proposals reflect the recognition that the Tier 3 requirements cannot address the whole breadth of transactions, other events or conditions addressed by Tier 1 and Tier 2 Australian Accounting Standards (per para BC 17 of ED 335).

26 Staff also note that the Board formed its view on the proposal in paragraph 1.3 of ED 335 to ensure a clear direction is provided to smaller NFP private sector entities for instances where the Board considered the application of Tier 2 requirements would be warranted for those transactions, other events or conditions (refer para BC18 of ED335). This approach recognised that these entities may not possess the necessary expertise to develop accounting policies for the specified topics and would therefore be inclined to default, in any case, to the existing requirements within the Tier 2 reporting requirements.[12]

27 Nevertheless, staff acknowledge the preference of some stakeholders for a more standalone standard to minimise the need to refer to guidance outside of the Tier 3 Standard, including those who are concerned that the application of AASB 9 to some financial instruments will be overly complex for smaller entities. As noted in the last row of Table 2 above, in developing ED 335, the Board discussed alternative approaches to addressing less common and complex transactions. The Board considered whether to (1) develop simplified Tier 3 requirements, (2) require Tier 2 accounting, or (3) require entities to apply the Tier 3 hierarchy to develop accounting policies for the para 1.3 identified transactions and events.[13]

28 However, staff note that the Board at that time formed its decision having regard to the overall benefits and costs of each alternative approach, including the extent of its consistency with the Board's principles for developing Tier 3 requirements and its project objectives. Except for financial instruments,[14] the Board has not yet explicitly considered the difference in the resulting accounting requirements between its elected approach and the other potential approaches. In view of the concern of some stakeholders about the Board's proposed approach, staff thought it would be useful to analyse at a high level how the ED 335 approach would contrast with requiring entities to apply the Tier 3 hierarchy to the identified transactions. This comparison is provided in Table 3 below. This analysis allows the Board a more comprehensive consideration of the impact of its exposed approach (however, staff note that the expectation is that most smaller NFP entities would not engage in these sort of transactions).

Table 3 analysis of different approach to account for transactions, other events or conditions

Transaction, event or other condition identified in para. 1.3 of ED 335	High-level summary of Tier 2 recognition and measurement requirements	Potential accounting policy developed under the Tier 3 hierarchy	Staff comment
Share-based payment arrangements	Equity-settled transactions are measured at the fair value of the equity instrument granted at the grant date, and	Share-based payments are measured at cost (i.e. amount expected to be paid) when incurred, similar to other	Applying the hierarchy may result in some share-based payments

12 A view that is also supported by a professional services firm in their response to SMC 15 on the Tier 3 hierarchy (refer Agenda Paper 5.2 at this meeting)

13 Refer Agenda Paper 3.1 of the 13-14 September 2023 AASB meeting

14 Refer Agenda Paper 5.2.2 of the 18 May 2022 AASB meeting.

Transaction, event or other condition identified in para. 1.3 of ED 335	High-level summary of Tier 2 recognition and measurement requirements	Potential accounting policy developed under the Tier 3 hierarchy	Staff comment
	recognised over the vesting period. Cash-settled transactions are measured at the fair value of the liability incurred. The liability is remeasured at each reporting date with changes in fair value recognised in profit or loss.	employee benefits. Any liability that arises for a cash-settled obligation is remeasured each period to reflect the amount expected to be paid.	being recognised at nil or a nominal amount.
Insurance contracts	Insurance contracts are initially measured at the sum of the fulfilment cash flows and the contractual service margin. The liability for insurance contracts is subsequently measured at the sum of the fulfilment cash flows (future services and past services) and the contractual service margin. Insurance revenue, insurance service expenses and insurance finance income or expenses are recognised for changes in the carrying amount of the liability for remaining coverage and the liability for incurred claims.	Issued insurance contracts are treated similarly to other provisions, and measured at the amount expected to be paid. Held reinsurance contracts are treated similarly to contingent assets/ reimbursements, and recognised only when the future cash flows are virtually certain.	Applying the hierarchy may result in less transparent information to users and a less faithfully representative measure of the entity's obligation or entitlements under the contract. (**Staff Note:** Some insurance contracts are excluded from the scope of AASB 17. Staff think that it is possible that the current drafting of paragraph 1.3 can be read to imply that the recognition and measurement requirements of AASB 17 apply to any contract that is an insurance contract, including those outside the scope of AASB 17. Examples of these contracts include manufacturer warranties, residual value guarantees, contractual rights or obligations contingent on the future use of, or the right to use, a non-financial item, insurance contracts in which the entity is the policyholder, and insurance contract that have as their primary purpose the provision of services for a fixed fee.)
Assets held for sale	Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Depreciation ceases.	Non-current assets held for sale are measured at cost less impairment or fair value/revalued amount, depending on the asset. Depreciation continues. Regarding impairment, the non-current asset will only be considered impaired if the asset's capacity to provide goods or services or generate sales revenue has been	Applying the hierarchy may result in a larger loss recognised in a later period (generally, the next period), as an asset held for sale may not be written down before that time. Further, the financial statements may not include any information about disposal groups or the AASB 1060 disclosure on the face of the financial statements of the total comprehensive income from

Transaction, event or other condition identified in para. 1.3 of ED 335	High-level summary of Tier 2 recognition and measurement requirements	Potential accounting policy developed under the Tier 3 hierarchy	Staff comment
		adversely affected by a change in the entity's strategy or there has been a reduction in external demand for goods and services. Where an impairment indicator is present, the asset's carrying amount is measured at the higher of its fair value less costs to sell and its value in use.	discontinued operations, beyond that specified by para 3.10 of ED 335. (**Staff Note:** Some assets held for sale are excluded from the scope of AASB 5, including current assets. Staff think that it is possible that the current drafting of paragraph 1.3 can be read to imply that the recognition and measurement requirements of AASB 5 apply to any asset held for sale, including those outside the scope of AASB 5. Examples of these contracts include financial assets, investment property measured at fair value, and non-current assets measured at FVLCTS in accordance with AASB 141.)
Exploration for, and evaluation of, mineral resources	Expenditures incurred in the exploration for and evaluation of mineral resources are expensed as incurred or, if conditions are met, may be partly or fully capitalised. Those capitalised costs (exploration and evaluation assets) are subsequently measured at cost or using the revaluation model.	Exploration costs are expensed as incurred, similar to research and development expenses.	Applying the hierarchy may result in fewer recognised assets, as all exploration and evaluation costs are expensed immediately. However, an entity may similarly elect not to capitalise these costs in applying AASB 6.
AASB 9 *Financial Instruments* in relation to complex financial instruments identified in Section 10	Financial instruments are initially measured at fair value, or fair value adjusted for transaction costs. Financial assets that are held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows and which meet a solely payments of principal and interest (SPPI) test are subsequently measured at amortised cost using the effective interest method. Financial assets that are held	Financial instruments are initially measured at fair value. Financial assets that are held to generate both income and a capital return are measured at FVTPL or at fair value through OCI. Other financial assets are subsequently measured at cost less accumulated impairment losses. Financial liabilities are subsequently measured at cost.	Applying the hierarchy may result in: • purchased unlisted convertible notes and corporate bonds being measured at cost, rather than amortised cost; and • derivatives, financial guarantee contracts and below-market rate commitments being measured at a different current value measurement to fair value. (**Staff note:** Staff intend to bring its analysis of stakeholder

Transaction, event or other condition identified in para. 1.3 of ED 335	High-level summary of Tier 2 recognition and measurement requirements	Potential accounting policy developed under the Tier 3 hierarchy	Staff comment
	within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and which meet a SPPI test must be measured at fair value through OCI. Other financial assets are measured at fair value through profit or loss. Financial liabilities held for trading or designated as at fair value through profit or loss (FVTPL) are subsequently measured at FVTPL. Most other financial liabilities are measured at amortised cost using the effective interest method. Specific requirements apply to financial guarantee contracts and commitments to provide a loan at a below-market interest rate – these financial liabilities must be subsequently measured at the higher of the expected credit loss allowance and their fair value less any income (determined in accordance with the principles of AASB 15) subsequently recognised.	Derivatives, financial guarantee contracts and below-market loan commitments might be treated similarly to provisions, and measured at the entity's best estimate of the amount to be paid. This might mean that in-the-money derivative positions are not recognised until the future cash flows are virtually certain.	concerns about the basic and complex financial instruments identified as such by the Board to a future Board meeting, as part of the Board's redeliberations of Section 10: *Financial Instruments*)
Defined benefit plan obligations	A defined benefit liability is measured at the present value of the defined benefit obligation. The defined benefit plan obligation is estimated using a detailed actuarial approach. Any plan assets are recognised and measured at fair value.	A liability is recognised for the undiscounted amount of the employee benefits expected to be paid, similar to long service leave. Plan assets and a shortfall in funding any outstanding defined benefit obligations are not recognised until the contract meets the recognition criteria for a provision.	Applying the hierarchy may result in less transparent information to users and a less faithful representation of the entity's obligations under the plan.
Biological assets and agricultural	Biological assets are measured at fair value less cost to sell at each reporting	Biological assets are measured at cost similar to other inventories, or at cost	Applying the hierarchy may result in a less faithful representation of the entity's financial position, as

Transaction, event or other condition identified in para. 1.3 of ED 335	High-level summary of Tier 2 recognition and measurement requirements	Potential accounting policy developed under the Tier 3 hierarchy	Staff comment
produce at the point of harvest	date. Agricultural produce harvested from an entity's biological assets are measured at its fair value less costs to sell at the point of harvest.	or on the revaluation basis similar to other property, plant and equipment, as appropriate. Agricultural produce harvested from an entity's biological assets are measured at the point of harvest at cost, similar to other inventories.	its assets may be undervalued due to, in effect, non-recognition of biological growth. Further, donated biological assets may (similarly to other donated assets) be accounted for at cost which could be nil or nominal value. (**Staff note:** Biological assets that are bearer plants are excluded from the scope of AASB 141. Staff think that it is possible that the current drafting of paragraph 1.3 can be read to imply that the recognition and measurement requirements of AASB 141 apply to all biological assets, including bearer plants.)

29 Having regard to the analysis in Table 3, staff note that – other than with respect to the issue identified in paragraph 30 below – for some of the identified transactions, the recognition and measurement outcomes:

(a) might not greatly differ between the Board's exposed approach and a Tier 3 hierarchy approach (e.g. insurance contracts and provisions); and

(b) might arguably provide users of smaller NFP private sector entities with a suitable extent of useful information (e.g. biological assets measured at cost rather than fair value less costs to sell).

This may suggest that for smaller entities, the costs of applying the higher tier requirements may not outweigh the benefits of doing so.

30 However, staff also note that adopting an approach of developing an appropriate accounting policy having regard to the Tier 3 hierarchy might overall result in financial statements that are less complete and neutral; including some less desirable accounting outcomes (for example, not recognising equity-settled share-based payment arrangements or in-the-money option positions). Further, developing accounting policies requires judgement and expertise – this could be challenging for smaller, less experienced NFP entities, potentially resulting in more costs and reducing comparability between Tier 3 entities if consistent accounting policies are not developed. Consequently, and reflecting on the Board's rationale (refer paragraphs 25 and 26 above) for requiring Tier 2 accounting for these transactions and arrangements, and the benefits of such for stepping up into a higher reporting Tier in the future, staff think that the Board should finalise the approach exposed, subject to the improvement discussed in paragraphs 31 – 32 below.

31 Notwithstanding the staff view that the para 1.3 approach in ED 335 should be finalised and despite the lack of stakeholder comments received in this regard, when developing Table 3 staff observed that there could be potential confusion and divergence of practice arising from the interaction between para 1.3, the rest of the Tier 3 Standard, and the scope of the relevant topic-

based Australian Accounting Standards (refer the Staff Notes in Table 3). For example, it may not be clear whether (1) issuers of manufacturer warranties that are insurance contracts, or insurance policyholders should account for these contracts in accordance with the recognition and measurement requirements of AASB 17, or with Section 19: *Provision and Contingencies* of the Tier 3 Standard; or whether (2) investment properties held for sale should be measured at fair value less costs to sell.

32 Accordingly, staff think that para 1.3 should be amended to clarify that the requirements of the topic-based Standards apply only to those specified transactions, events and other conditions for transactions within that Standard's scope. For example, that only non-current assets held for sale are subject to the requirements of AASB 5, or that bearer plants are treated in accordance with Section 15 of the Tier 3 Standard. Staff think that this amendment would be consistent with the Board's intention in its decision to require entities to apply the Tier 2 requirements for specified transactions, events and other conditions. Staff also intends to remove references to AASB 1032 and AASB 4 as they are only relevant to public sector entities, and the standard will be superseded by AASB 17 when the Tier 3 Standard becomes effective (i.e., at least three years after the issue of that pronouncement).

Staff recommendations

33 Having regard to the analysis in paragraphs 23 – 32 above, on balance, staff recommend the Board finalise a Tier 3 Standard as exposed in ED 335, that:

(a) the Standard should continue to require entities to apply Tier 2 requirements for topics that the Board has identified as being uncommon or complex; and

(b) paragraph 1.3 should be amended to clarify that the requirements of the topic-based Standards apply only to those specified transactions, events and other conditions for transactions within that Standard's scope.

Staff will bring any proposed changes in this regard to a future meeting as part of the Board's consideration of a draft Standard (expected November 2025).

Question 3 for Board members

Do Board members agree with the staff recommendation in paragraph 33 that, the Board finalises a Tier 3 Standard exposed in ED 335, that:

(a) the Standard should continue to require entities to apply Tier 2 requirements for topics that the Board has identified as being uncommon or complex; and

(b) paragraph 1.3 of ED 334 should be amended to clarify that the requirements of the topic-based Standards apply only to those specified transactions, events and other conditions for transactions within that Standard's scope?

If not, what do Board members suggest?