Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M211
Topic:	**Preliminary categorisation of the ED 335 proposals**	**Agenda Item:**	6.3
		Date:	13 February 2025
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		Decision-Making:	Low
		Project Status:	ED – open for comment

Objective of this paper

1 The objective of this staff paper is for the Board to **consider** the staff's preliminary categorisation of the topics in ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*. This categorisation is intended to facilitate the Board's redeliberations of the exposure draft: identifying topics/proposals for which more significant redeliberation effort may be required and the topics/proposals that staff think are unlikely to require much further Board consideration.

2 The Board is not requested to make any decisions at this meeting, particularly because at the time of writing, the comment period on ED 335 had not expired. Accordingly, the proposed categorisations set out in Table 1 are tentative, pending further feedback on ED 335. Staff will update its recommendations for categorisation following its analysis of the feedback received, and bring these for the Board's consideration at a future Board meeting (expected May 2025).

Background and reasons for bringing this paper to the Board

3 ED 335 was issued in October 2024 with a 4-month comment period closing 28 February 2025. ED335 contained the Board's proposals for a Tier 3 Standard with simplified reporting requirements suitable for use by smaller not-for-profit (NFP) private sector entities. As detailed in Agenda Paper 6.2, staff conducted four virtual and in-person outreach sessions and have received 8 survey responses as of 13 February 2025. No written submissions have been received as of the date of this agenda paper.

4 To develop ED 335, staff employed a categorisation approach to facilitate the Board's discussion and decision-making. Staff propose to adopt a similar categorisation approach to the Board's redeliberations of ED 335 whereby more time is given to the consideration of 'Category B' matters. The staff intention, at this time, is to address 'Category A' matters as a batch. This paper presents staff's preliminary categorisation of the ED's topics/ proposals based on an analysis of the preliminary summary of feedback (refer Agenda Paper 6.2).

Preliminary categorisation of the ED 335 proposals for the purposes of future Board redeliberations

5 Staff have categorised the proposals/topics as either Category A or Category B:

(a) Category A (minor issues): Topics/proposals are included in this category where the feedback received to date suggests that the proposals are uncontentious; and

(b) Category B (significant issues): Topics/proposals are included in this category where the feedback received to date informs of further points for consideration such that it is not clear whether the Board proposals will be finalised in the manner exposed. While many stakeholders may have agreed with the Board's proposed Tier 3 reporting requirement, mixed views or substantive concern were expressed on one or more particular aspects of the proposals.

6 The initial eight questions of ED 335 comprise a concise survey approved by the Board for inclusion in that ED at its September 2024 Board meeting. The concise survey focused on the approach to developing Tier 3 reporting requirements, significant simplifications, and the overall usefulness of financial statements if prepared in accordance with the Board's proposals. Consequently, the staff's categorisation of topics for the next steps focuses primarily on the Specific Matters for Comment (SMCs) for questions 9 to 38, which address the proposed Tier 3 reporting requirements for each section of the draft Tier 3 Standard.[1]

7 Table 1 below is an overview of the stakeholder feedback for each topic discussed in Agenda Paper 6.2 and staff's preliminary categorisation of the topic into the categories noted in paragraph 5 above. The following terms have been applied in Table 1 to describe the proportion of the respondents that commented on a particular question or topic. The percentage calculations are determined only for those that had responded to the question.

Term	**Extent of response among respondents**
Almost all	All except a very small minority (90% or over)
Most	A large majority, with more than a few exceptions (71%-89%)
Many	A small majority or large minority (31%-70%)
Some	A small minority, but more than a few (11%-30%)
Few	A very small minority (10% or less)

1 Staff have not provided analysis for SMC 39-40 or General Matter for Comment (GMC) 41-44. These sections pertain to the glossary of terms and amendments to AASB 1057 *Application of Australian Accounting Standards*, as well as GMCs. The omission is due to staff not seeking feedback on these topics during outreach sessions, and no other feedback has been received to date regarding these matters for comment.

Table 1 High-level summary of feedback received on SMC 9 – SMC 38 for ED 335 as of 13 February 2025 and staff's preliminary analysis and categorisation of the topic

Topics	Overview of feedback received	Preliminary staff analysis of the redeliberation effort	Category
Q9) Section 1: Objective, Scope and Application	Most stakeholders agreed with the Board's proposals for the list of scoped-out topics. However, a few stakeholders consider the standard should be completely self-contained without requiring entities to apply Tier 2 requirements even for topics that have been 'scoped out' of the Tier 3 Standard. They consider an entity should apply the hierarchy approach in developing its own accounting policy for all transactions, other events or conditions not explicitly addressed in the Tier 3 Standard.	Staff noted that, as stated in para. BC17 of ED 335, the Board previously considered that a stand-alone standard containing Tier 3 reporting requirements cannot address the whole breadth of transactions, other events and conditions addressed by Tier 1 or Tier 2 Australian Accounting Standards (AAS). Doing so would clutter the Tier 3 Standard with requirements irrelevant to many Tier 3 entities. As explained in para. BC18, the types of transactions, other events and conditions scoped out, for which entities would apply the Tier 2 requirements, would either be uncommon for Tier 3 entities or complex transactions warranting the application of requirements specified by existing AAS. Nevertheless, staff acknowledge the few stakeholders' desire for a complete self-contained standard. Given the nature of the feedback and the Board's overarching consideration of 'cost/benefit' in developing the Tier 3 Standard, and to maintain simplicity, staff think these proposals may require further investigation as part of the Board redeliberations process.	Category B
Q10) Section 2: Financial Statement Presentation	Almost all stakeholders agreed with the Board's proposals for the components of financial statements to align with Tier 2 requirements, except one stakeholder considered a statement of changes in equity (including where the statement of income and retained earnings could be presented) should not be required. They consider if an entity has reserves, those reserves can be disclosed in the balance sheet or notes thereto.	Given the feedback to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q11) Section 2: Statement of Changes in Equity	Almost all stakeholders agreed with the Board's proposal that the statement of changes in equity is required only under certain conditions, except for one stakeholder who disagreed with requiring the alternative approach (consistent with disagreeing with the requirement for a statement of changes in equity altogether).	Given the feedback to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q12) Sections 3 – 7 Presentation and Disclosure Requirements	Almost all stakeholders agreed with the Board's proposals for presentation and disclosure requirements in Sections 3 – 7. However, a few stakeholders noted that the language expressed in Sections 3 – 7 could be expressed better and shortened.	Despite receiving generally supportive feedback on the ED's proposals, having regard to the feedback, the Board may want to consider whether the drafting of these (and potentially other) sections should diverge from the text of AASB 1060, in advance of the forthcoming post-implementation review of AASB 1060.	Category B
Q13) Sections 3 – 7 Guidance on presenting analysis of expenses	Staff surmise that stakeholders generally found the existing guidance on presenting expenses by nature or function to be useful, as no negative feedback was received on this topic. However, a few stakeholders raised a point for consideration: given that AASB 18 *Presentation and Disclosures in Financial Statements* permits entities to present operating expenses by nature, by function, or using a mixed approach (whichever provides the most useful structured summary of expenses), consideration should be given to	Staff think any comprehensive changes to presentation requirements should not be implemented for Tier 3 at least until the Board has evaluated the impacts and adoption of AASB 18 for Tier 2 entities. However, staff think the Board should give further consideration as to whether its Tier 3 proposals should be extended to allow the analysis of expenses to be presented using a mixed approach.	Category B

Topics	Overview of feedback received	Preliminary staff analysis of the redeliberation effort	Category
	whether a Tier 3 Standard should also permit a mixed approach for the analysis of expenses.		
Q14) Section 8: Notable Relationships and Consolidated and Separate Financial Statements	The majority of stakeholders (consisting mainly of preparers) agreed with the Board's proposals, noting that control may not always be clear in the NFP space compared with for-profit entities. One preparer also suggested that the proposals could lead to information that's easier for both preparers and users to understand. However, some auditors disagreed, raising concerns that: • Not consolidating might obscure the financial information about the economic group; and • Certain sectors, such as indigenous corporations with associated trusts and controlled entities, may face increased risks due to loss of information. While the majority of stakeholders agreed with the proposals, they provided comments relating to clarity in drafting in respect of: • The requirement to measure all investments in notable relationships entities as a single class; and • Whether cross-referencing to Appendix E: NFP Implementation Guidance in AASB 10 *Consolidated Financial Statements* may be helpful.	In addition to consideration of the feedback received, staff have identified further drafting opportunities to improve the clarity of the proposed requirements. As these proposals are a key difference from other reporting Tiers, staff have tentatively classified the redeliberation effort as Category B.	Category B
Q15) Section 9 Accounting Policies, Estimates and Errors	Many stakeholders (mainly preparers) agreed with the Board's proposals. However, some stakeholders (mainly auditors and advisors) expressed the following concerns, similar to feedback previously received on the DP, about the proposal in para. 9.24 of the ED to neither require nor permit corrections of prior period errors to be made to comparative information presented for prior periods: • Expressing an unqualified audit opinion without entities correcting comparative information would be challenging for auditors; • Some preparers may already be correcting comparative period information and should be able to continue doing so, as they see it as part of good governance; and • It might add to costs of educating staff about the inconsistencies with existing Tier 1/Tier 2 requirements. Some preparers also indicated a preference to correct prior period errors retrospectively, and were not concerned about the costs of 're-opening' the prior period. Several stakeholders were concerned	Staff note that in developing the proposed requirement to require prior period errors to be accounted for on a modified retrospective basis, the Board had already considered many of these reasons given in disagreement with the proposal. However, given the mixed feedback received to date, staff think the Board's redeliberation of its Section 9 proposals may need to be more substantive, including consideration of a potential alternative.	Category B

Topics	Overview of feedback received	Preliminary staff analysis of the redeliberation effort	Category
	that not correcting the error retrospectively could result in misleading information about trends. A stakeholder also observed that corrected comparative information provides useful information internally. A stakeholder suggested that the Board consider allowing entities an accounting policy choice as to whether to retrospectively adjust the comparative financial statements to correct prior period errors. One stakeholder considered comparative period information should also be corrected for voluntary changes in accounting policies.		
Q16) Section 10 Financial Instruments – list of basic financial instruments	Almost all stakeholders agreed with the Board's proposed list of financial assets and financial liabilities arising from financial instruments identified as commonly held by Tier 3 entities, or basic financial instruments, in Section 10. However, a few stakeholders argued that some financial instruments classified as complex or uncommon should also be included in the list, as noted in the row directly below. Some stakeholders also considered the list should be exhaustive, rather than examples, to reduce any need for judgement by entities. However, a stakeholder considered making the list of basic financial instruments exhaustive might unnecessarily require entities to apply AASB 9 if an entity holds any financial instruments that are highly similar but excluded from the list of basic or commonly financial instruments.	Given the feedback to date, staff think that it is unlikely that any significant redeliberation of the existing financial instruments identified as basic financial instruments will be required. However, staff think the Board will need to consider whether the Tier 3 Standard is intended to apply only to the identified basic financial instruments, or also to similar financial instruments (see also the feedback to Q17). As such, staff have tentatively categorised this topic as Category B.	Category B
Q17) Section 10 Financial Instruments – list of complex financial instruments	Many stakeholders agreed with the Board's proposals for the composition of the list of financial assets and financial liabilities arising from financial instruments identified as complex or less commonly held by Tier 3 entities in Section 10. However, a few stakeholders noted that financial guarantees, commitments to provide a loan at a below-market interest rate and other acquired equity instruments may be common for certain NFP entities, including smaller entities. Additionally, a few stakeholders considered requiring smaller NFP entities to apply AASB 9 for complex financial instruments would make the requirement unduly complex for those entities. They considered it would be simpler to require entities to measure all financial instruments not classified as basic or commonly held to be measured at fair value instead, given that is already a proposed Tier 3 requirements for some financial instruments. However, a few stakeholders argued that including in the Tier 3 Standard such a	Given the feedback to date, staff think the Board's complex financial instrument proposals may require more investigation as part of the Board redeliberation process, including (1) to explore whether the basic financial instrument list should be extended and (2) review whether stakeholder concerns about directing entities to AASB 9 should be – or can – be ameliorated.	Category B

Topics	Overview of feedback received	Preliminary staff analysis of the redeliberation effort	Category
	requirement for complex/uncommon financial instruments would be inadequate without also adding detailed guidance on how to apply that requirement (e.g. how to measure the fair value of an unlisted convertible note), which would lengthen the Tier 3 Standard.		
Q18) Section 10 Financial Instruments – recognition, measurement and disclosure requirements	Almost all stakeholders agreed with the Board's proposed requirements in Section 10 for the recognition, measurement and disclosure of financial instruments.	Despite receiving supportive feedback to date on the ED proposals, staff have identified certain aspects of the proposals for which staff, on reflection, think the drafting could be extended to avoid possible interpretation issues. In addition, staff note a review of the proposed requirements may be warranted depending on the Board's decisions on the treatment of complex financial instruments.	Category B
Q19) Section 11 Fair Value Measurement	Staff have not sought feedback at outreach events on the Board's proposals for Section 11: *Fair Value Measurement*. Those who responded to the survey agreed with the Board's proposals.	Given the feedback (albeit limited) to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q20) Section 12 Inventories	Almost all stakeholders agreed with the Board's proposed requirements in Section 12 for the recognition, measurement and disclosure of inventories. However, a few stakeholders noted that the Standard does not directly reference the term 'net realisable value' even though the Tier 3 requirement outlines similar requirements to determining net realisable value. They would prefer that the Tier 3 Standard maintains language consistent with already established terms. One stakeholder also queried whether inventory should contain its own impairment section rather than via cross-referencing to make it simpler to read.	Given the feedback to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q21) Section 13 Investments in Associates and Joint Arrangements	Most stakeholders agreed with the Board's proposals in Section 13. However, a few auditors commented that the breadth of measurement policy choices might make comparability of financial statements difficult. Small NFP entities may not necessarily have the financial literacy to analyse the differences, and the complexity of the measurement options might add to training costs for some auditors, thereby making assurance services unprofitable and deterring auditors from the sector.	Given the feedback to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A

Topics	Overview of feedback received	Preliminary staff analysis of the redeliberation effort	Category
Q22) Section 14 Investment Property and Section 15 Property, Plant and Equipment	Almost all stakeholders agreed with the Board's proposals for Section 14 and Section 15. However, one stakeholder considered investment property is not a commonly held asset of smaller NFP entities and instead should be removed from the Tier 3 Standard.	Given the feedback to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q23) Section 14 and Section 15 Cost to obtain the fair value of donated non-financial assets	Staff had not received any feedback regarding the cost to obtain the fair value of donated non-financial assets.	Given the feedback (albeit limited) to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q24) Section 16 Intangible Assets	The majority of stakeholders supported the Board's proposals in Section 16. However, some stakeholders opposed the option to measure intangible assets at fair value, citing the inherent complexity of such measurements. They suggested that the draft Tier 3 Standard could be simplified by excluding fair value as a measurement option for intangible assets. Additionally, one stakeholder, while agreeing with the proposals overall, questioned the reasoning behind setting a maximum useful life of ten years for all indefinite-lived intangible assets.	Given the feedback to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required	Category A
Q25) Section 17 Entity Combinations	Stakeholders had mixed views on the Board's proposals in Section 17. Some stakeholders supported the proposals including deeming the combination date as occurring at the beginning of the current period (i.e. the period in which the combination occurred) on the basis that the difference between consideration paid and net assets does not impact profit or loss. However, some stakeholders disagreed and considered deeming of the combination date might create assurance concerns, such as: the need to include operations, and potential difficulties accessing financial records, of acquirees for a period preceding the acquirer gaining control of the acquiree; A few stakeholders also suggested that consideration be given to developing a requirement to signal that the amount included directly in equity for the difference between the carrying amount of the consideration paid and the carrying amount of the net assets recognised in the combination should be presented in a separate reserve line item rather than absorbed with other reserves such as retained earnings.	Given the mixed feedback to date, staff think the Board will need to redeliberate whether its proposals should retain the simplification of requiring a deemed combination date rather than applying the actual combination date, noting the potential interactions with the control concept requirements in Section 8.	Category B

Topics	Overview of feedback received	Preliminary staff analysis of the redeliberation effort	Category
Q26) Section 18 Leases	Almost all stakeholders agreed with the Board's proposals in Section 18. A few stakeholders who disagreed argued that the pattern of recognition of lease expenses and lease income should be the same as the pattern of cash flows from the lease to further simplify the requirements, with the result that no lease assets or lease liabilities would be recognised. In particular: • One stakeholder disagreed with recognition of the costs for services, such as insurance and maintenance, as an expense over the lease term by increasing them for any initial direct costs of the lessee and reducing them for the benefit of any upfront lease incentive with the effect that those costs/incentives are spread over the term of the lease. They prefer recognising any upfront cost/incentives as the entity makes payments or receives the incentive immediately rather than recognising them over the lease term because that alternative would be simpler for smaller NFP entities; and • Another stakeholder similarly argued that if a multi-period lease has a rent escalation clause over its term, the expense/income recognised by the lessee/lessor should increase in each successive period spanned by the lease term, rather than being smoothed over the lease term.	While the feedback to date is generally supportive, staff think there may be further simplification that the Board could consider in Section 18 as suggested by the stakeholder feedback.	Category B
Q27) Section 19 Provisions and Contingencies	All stakeholders agreed with the Board's proposals in Section 19 except one stakeholder considered that the measurement of provisions at an undiscounted amount is not clear, in contrast with the ED's proposals for employee benefit provisions, which specify that no discounting is required.	Given the feedback to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required	Category A
Q28) Section 20 Revenue	The majority of stakeholders agreed with the Board's proposals in Section 20 with one stakeholder highlighting that the ED proposals were adequate. However, a few stakeholders (mainly auditors) expressed concerns with the requirements. Their preference is consistency with existing Tier 1/Tier 2 requirements, and they expressed the following concerns: • They questioned whether liabilities could exist without enforceability of the commonly understood undertaking (see para. 20.9 of the ED); • Whether there might be tax consequences for the donor (e.g. an ancillary fund) if the recipient (e.g. a charity) defers revenue recognition;	While the feedback to date is generally supportive of the proposals, in view of the concerns on clarity regarding enforceability of the common understanding proposal, staff think the Board's revenue proposals may require more investigation as part of the Board redeliberation process. This might include consideration as to whether certain aspects of the IPSASB's final revenue recognition model are substantively different from the options already considered by the Board or might complement the ED 335 proposals.	Category B

Topics	Overview of feedback received	Preliminary staff analysis of the redeliberation effort	Category
	• Possible education/transition cost to learn the new requirements, which might affect staff retention; and • Some preparers have transitioned to, and are already familiar with, the existing Tier 2 requirements. A few stakeholders also suggested considering whether the IPSASB's revenue recognition model, using the binding agreement principle, would be better than the proposals.		
Q29) Section 20 – no guidance on variable consideration or significant financing components	Staff had not received any feedback regarding the Board's proposal not to include guidance on variable consideration or significant financing components.	Given the feedback (albeit limited) to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q30) Section 21 Expenses	Staff had not received any feedback regarding the Board's proposals in Section 21.	Given the feedback (albeit limited) to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q31) Section 22 Borrowing Costs	Staff had not received any feedback regarding the Board's proposals in Section 22.	Given the feedback (albeit limited) to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q32) Section 23 Impairment of Assets	Almost all stakeholders agreed with the Board's proposals in Section 23, with a stakeholder suggesting further guidance may be needed on physical obsolescence (i.e. physical obsolescence is referenced in illustrative examples for assessing loss of service potential only). However, one stakeholder suggested including legislation/policy changes as an additional indicator, given such policy changes may adversely affect market environments.	Given the feedback to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q33) Section 24 Employee Benefits	Almost all stakeholders agreed with the Board's proposals in Section 24 but a stakeholder indicated that not factoring future pay increases into provisions for employee benefits is not clear, even though the basis for conclusions states this.	Given the feedback to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q34) Section 25 Income Taxes	Staff had not received any feedback regarding the Board's proposals in Section 25	Given the feedback (albeit limited) to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q35) Section 26 Foreign Currency Translation	Staff had not received any feedback regarding the Board's proposals in Section 26	Given the feedback (albeit limited) to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A
Q36) Section 27 Events Occurring	Staff had not received any feedback regarding the Board's proposals in Section 27	Given the feedback (albeit limited) to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required.	Category A

Topics	Overview of feedback received	Preliminary staff analysis of the redeliberation effort	Category
after the Reporting Period			
Q37) Section 28 Related Party Disclosures	The majority of stakeholders agreed with the Board's proposals in Section 28, with some acknowledging that smaller NFP entities may only have one member of key management personnel, which may lead to privacy concerns if disclosure of their compensation is required; hence, not requiring key management personnel (KMP) compensation disclosures is an exemption already provided by the ACNC in those circumstances. However, a few stakeholders disagreed or were unsure about the requirements. In particular, a few stakeholders considered KMP compensation disclosures are likely to be of interest to users of financial statements, and if entities are currently providing the information as part of their legislative requirements, then they would consider it appropriate to simply include the requirement within the accounting standards. A few stakeholders also noted judgement might be required to determine whether a donation could influence an entity's activities or use of resources.	Given the feedback to date, staff think that it is unlikely that any significant redeliberation of the proposals will be required	Category A
Q38) Section 29 Transition to Tier 3 General Purpose Financial Statements	Most stakeholders agreed with the Board's proposals in Section 29, except a few stakeholders disagreed with allowing entities the option to continue to apply all related Tier 1 or Tier 2 requirements to some or all assets or liabilities existing on the transition date. These stakeholders considered such an approach would add complexity and cause confusion for preparers and users. A few stakeholders also commented that the Section is not clearly drafted and is difficult to understand.	As per para. BC 129, some stakeholders indicated that entities may have selectively applied some AAS, such as AASB 16 *Leases* and may prefer to continue their existing accounting policies to minimise any transition cost. Additionally, the unwinding of lease assets or liabilities could significantly impact the balance of equity. However, in view of the stakeholder feedback of the possible confusion for preparers and users, staff consider the Board may need to redeliberate whether to continue to allow Tier 1/Tier 2 requirements to apply for some or all assets and liabilities in its transitional provisions proposals. Staff have also identified further drafting opportunities to improve the clarity of the proposed requirements.	Category B

Question to Board members:

Do Board members have any questions or comments on the feedback received to date, or on the staff's preliminary analysis and categorisation of topics in Table 1?