Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M213
Topic:	**Redeliberation on Category A topics**	**Agenda Item:**	5.5
		Date:	17 June 2025
Contact(s):	Maggie Man mman@aasb.gov.au Jim Paul jpaul@aasb.gov.au	**Project Priority:**	High
		Decision-Making:	High
		Project Status:	Project redeliberations

Objective of this paper

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

(a) Section 12: *Inventories*;

(b) Section 14: *Investment Property*;

(c) Section 15: *Property, Plant and Equipment*;

(d) Section 19: *Provisions and Contingencies*;

(e) Section 21: *Employee Benefits*;

(f) Section 21: *Expenses*;

(g) Section 22: *Borrowing Costs*;

(h) Section 25: *Income Tax*;

(i) Section 27: *Events Occurring after the Reporting Period*; and

(j) Appendix A: *Glossary of Terms*.

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 – 6);

(c) Staff analysis and recommendations on:

(i) **Part A**: SMCs 20, 22, 27, 33, 34, 36 and 39 (paragraphs 7 – 56); and

(ii) **Part B**: SMCs 30 and 31 (paragraphs 57 – 58).

Summary of staff recommendations

3 Staff recommend the Board finalises the Tier 3 Standard based on ED 335 for:

(a) requirements for inventory as exposed in Section 12, except to:

(i) clarify in paragraph 12.8 that the accounting policy choice for donated inventory can be made for each individual donated item;

(ii) remove the reference to education/training course material under development from paragraph 12.2;

(iii) add a reference to net realisable value in paragraph 12.4; and

(iv) relocate paragraphs 12.6 and 12.7 on identifying and measuring a loss of service potential to Section 23.

(b) requirements for investment property and property, plant and equipment, except for initial measurement of donated non-financial assets, as exposed in Sections 14 and 15, except to:

(i) remove the reference to software, and combine land and buildings as a class of property, plant and equipment, in paragraph 15.11;

(ii) clarify in paragraph 15.1 that parts of Section 15 also apply to investment property for which an entity has chosen the cost model;

(iii) correct the cross-reference in paragraph 14.2 from paragraph 14.13 to paragraph 14.15; and

(iv) not require disclosures of commitments for repairs, maintenance, or enhancements for investment property in paragraph 14.14(c).

(c) requirements for provisions and contingencies as exposed in Section 19, except to clarify in paragraph 19.7 that provisions shall be measured at the entity's best estimate of the undiscounted amount to be paid:

(d) requirements for employee benefits as exposed in Section 24, except to:

(i) clarify in paragraph 24.7 that future pay rises are not taken into account when measuring employee benefits expected to be paid; and

(ii) remove the references to 'provisions' from Section 24.

(e) income tax requirements as exposed in Section 25, except to clarify that deferred tax assets or deferred tax liabilities are not recognised;

(f) events after the reporting period requirements as exposed in Section 27;

(g) glossary of terms as exposed in Appendix A, except to:

(i) include the equivalent Tier 2 terminology if the Tier 3 requirements do not deviate from the Tier 2 requirements, either in the body of the Standard or in the glossary of terms; and

(ii) conduct a review of the defined terms and add any missing terms; and

(h) requirements for expenses and borrowing costs as exposed in Sections 21 and 22.

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, presentation and disclosure requirements

for smaller not-for-profit (NFP) private sector entities, and commence redeliberations of the proposals in ED 335.[1]

5 At its May 2025 meeting, the Board considered the summarised feedback on ED 335 and staff categorisation of the extent of the Board's redeliberation efforts in Agenda Paper 4.2. This paper presents the staff analysis and recommendations for Category A proposals. These proposals are considered uncontentious, having received strong stakeholder support and/or no new concerns raised by stakeholders not previously considered by the Board. As such, the paper does not include in-depth reconsideration of most proposals.

6 The primary objective is to obtain the Board's overall approval to finalise the Tier 3 requirements exposed in ED 335 relating to proposals categorised as Category A, acknowledging that some drafting refinements may be necessary. Staff have not included any revised drafting for Category A proposals. Staff plan to present the revised drafting collectively in November 2025, as per the project timeline outlined in Agenda Paper 5.0. This approach allows the Board to first consider all decisions on matters of principle, ensuring a comprehensive view of the overall draft Standard.

Staff analysis and recommendations

7 Staff have divided the analysis and recommendations of Category A topics into two parts:

(a) Part A addresses feedback where a minority of stakeholders disagreed with the Board's proposals or where comments primarily sought clarification in drafting of the requirements rather than substantive changes to the Board's proposals (paragraphs 9 – 56); and

(b) Part B relates to proposals that received near-unanimous stakeholder support, requiring substantially no changes to the Board's proposals (paragraphs 57 – 58).

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

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

(b) repeated in a staff recommendation paragraph below each affected table, for easy reference by Board members.

Addressing Part A topics – staff analysis of stakeholder's feedback and recommendations

<u>**SMC 20 – Section 12: *Inventories***</u>

9 SMC 20 sought stakeholder views of the Board's proposed Tier 3 recognition, measurement and disclosure requirements for Section 12: *Inventories*. At a high level, the Board proposed the Tier 3 accounting requirements for inventories to be consistent with Tier 2 requirements except for simplifying the language and that Tier 3 requirements:

(a) will not address how to account for the reversal of any previously recognised write-downs of inventories to net realisable value or for any loss of service potential;

(b) will permit, but not require, the allocation of production overheads to inventories' cost of conversion – with the election required to be applied consistently to all inventories produced by the entity; and

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

(c) does not require consideration of the cost of inventories purchased on deferred settlement terms.

10 When developing the ED proposals, the Board decided, supported by stakeholder feedback on the Discussion Paper, to develop requirements for inventories largely consistent with Tier 2 requirements.[2] This decision was based on the absence of significant preparation costs or concern from preparers regarding accounting for inventory. Additionally, the Board opted for the further simplification in paragraph 9(b) because the Board did not expect many Tier 3 entities that hold inventories to produce their own finished goods (based on Research Report 19, which identified Tier 3 entities typically purchasing finished goods). It was also determined that the election whether to capitalise production overheads into inventories should be applied consistently to all inventories produced by the entity, to maximise intra-entity consistency in this regard. To achieve further simplification, the Board also decided not to include guidance on the reversal of previously recognised impairment losses (referred to in paragraph 99(a)) and the cost of inventories purchased on deferred settlement terms (referred to in paragraph 99(c)).[3]

11 The Board also proposed an accounting policy choice to initially measure non-financial assets acquired for significantly less than fair value at cost or fair value (current replacement cost for inventories). The Board included SMC 23, which sought stakeholder information on the cost to smaller NFP entities of obtaining the fair value of donated non-financial assets and the types of non-financial assets for which it is more costly to obtain a fair value. At the May 2025 Board meeting, the Board discussed the aspects of ED 335 that might require more redeliberation effort. The Board considered that its redeliberation of the requirements for donated non-financial assets should also be a Category B topic (more redeliberation effort) as its decisions regarding other Category B topics might inform how it finalises these requirements. As such, this paper will not address the proposal for the initial measurement of non-financial assets. Staff plan to bring the analysis of this aspect after the Board has considered the other accounting requirements for all non-financial assets (i.e. inventories, investment property, property, plant and equipment – to be discussed at this meeting, and intangible assets – expected to be discussed at the August 2025 meeting).

12 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 20 respondents, respectively, provided a response to SMC 20. Table 1 provides an overview of the responses received on SMC 20.

Table 1 SMC 20 responses

	Agreed	**Agreed with exception**	**Disagreed**	**Unsure**
Out of 9 comment letters that commented on SMC 20	4 (44%)	5 (66%)	-	-
Out of 20 participants who attended a virtual/in-person outreach session that commented on SMC 20	18 (90%)	-	1 (5%)	1 (5%)

Staff analysis and recommendation

13 As per Table 1, almost all stakeholders agreed, or agreed with exceptions, with the Board's proposals for the requirements in Section 12. However, notwithstanding the support for the

2 Refer Agenda Paper 4.3 at the 7-8 March 2024 Board meeting.

3 Refer to the minutes of the 7-8 March 2024 Board meeting.

proposals, some written submitters expressed concerns with some aspects as presented in Table 2 below, with staff analysis and recommendation.

Table 2 SMC 20: Stakeholder comments from those that agreed with exceptions and staff analysis

Comments from those that agreed with exceptions	Staff analysis and recommendation
A stakeholder considered that further clarification is needed on whether the accounting policy choice for donated inventory in para 12.8 is available for each separate donation. Para 12.2 included 'education/training course material under development' as a type of inventory, but this category would be treated better in the intangible assets section of the proposed Standard.	Paragraph 12.8 of ED 335 states, "…if an item of inventory was donated to the entity, that entity may elect to initially measure the cost of that item either at…". Staff consider that the drafting is already reasonably clear, and the accounting policy choice is available for each separate donation. However, to address the feedback, **staff recommend** clarifying that the accounting policy is 'for each individual item donated to the entity' instead of 'an item'. Regarding para. 12.2, which refers to 'education/training course material under development,' the Board developed its proposals in the ED based on the New Zealand Tier 3 Standard (para A112).[4] However, to address the stakeholder view, **staff recommend** removing the reference to education/training course material under development from that paragraph.
A stakeholder preferred that a subsection be included within Section 12: Inventories for impairment requirements and that the term 'net realisable value' be reinstated (pre-IFRS terminology). This feedback was also received from a few stakeholders at the virtual/in-person session.	Staff note that the Board developed its proposals in ED for para. 12.4 based on the IFRS for SMEs ED, where the term 'net realisable value' was not used within the IFRS for SMEs but explicitly drafted as 'estimated selling prices less cost to complete and sell'.[5] As noted in the *Staff Analysis for ED 295* – Comparison of R&M requirements in IFRS for SMEs Standard and full IFRS (page 129), "the definition of net realisable value in AASB 102 is consistent with 'selling price less costs to complete and sell'." However, given the feedback for the desire to use some already established terminologies does not necessarily change the intention of the proposals and more relates to editorial/clarity in nature, **staff recommend** including the reference to net realisable value in para. 12.4 and in the glossary to address the stakeholder concern. The glossary of terms would provide a bridge to current IFRS-based terminology in the Tier 2 requirements. Staff also acknowledge the stakeholder's suggestion to incorporate impairment requirements within the inventory section for improved navigation. However, during the drafting of Section 20, the Board already considered this option and decided to maintain all impairment requirements within Section 27 rather than duplicating them in the inventories section. As such, staff believe this approach is more concise, as it avoids redundancy by preventing the repetition of impairment requirements across two sections. Also, given only one stakeholder provided feedback for the change, **staff recommend** not to add a subsection on impairment requirements within Section 12.
A stakeholder considered that NFP entities should be allowed to choose the broader fair value measurement rather than current replacement cost (CRC) when initially measuring donated inventory, as they've heard public sector entities often had challenges applying the CRC basis in some circumstances. If Tier 3 only requires CRC measurement, consider expanding para. 11.10 to include	Staff consider requiring NFP entities to initially measure the cost of donated inventories at fair value would be more onerous than current Tier 2 requirements, since para. Aus 10.1 in AASB 102 *Inventories* requires NFP entities to initially measure the cost of donated inventories at CRC and not at fair value. Staff also consider requiring inventories to be measured at fair value, whilst it may include CRC, would be inherently difficult for many types of inventories, stemming from the absence of a sale price with which to estimate the fair value of the items when they are distributed. Therefore, **staff recommend** no changes be made to the requirements for entities to initially measure donated

4 Refer Agenda Paper 4.8 presented at the March 2024 Board meeting.
5 Refer Agenda Paper 4.8 presented at the March 2024 Board meeting.

Comments from those that agreed with exceptions	Staff analysis and recommendation
additional guidance and illustrative examples on estimating and applying CRC.	inventories at CRC (under para. 12.8(b) of ED 335) if not elected to be measured at their cost to the entity (under para. 12.8(a) of ED 335).
A stakeholder argued similar exemptions from recording inventories received in a crisis situation set out in INPAG ED 3 and other permitted exceptions to recognising inventories in INPAG ED 2 should be considered in the Tier 3 Standard. This includes recognition of low-value items for resale, which provides an option to recognise revenue from assets only when sold, and an option for recognition of revenue and expenses for items for own use or distribution only when used or distributed.	When developing the ED proposals, the Board previously considered INPAG's approach to initial inventory measurement but rejected the approach because there will still be a requirement for entities to measure the fair value of donated inventory when the assets are used or distributed.[6] Regarding INPAG's exception allowing disclosure of donated assets received in crisis situations instead of recognising them at fair value, staff consider the Board's proposal achieves a similar outcome. The INPAG ED proposal permits entities to measure donated inventories received during emergencies at either cost or fair value. If an entity elects to measure such inventories at cost, it must disclose details about the donated assets, amounts owed at the reporting date, and any donor-imposed restrictions on their use Additionally, the Board also considered it unnecessary to include a simplification for low-value assets donated for resale, as often these assets would be immaterial, and this is not a Tier 3-specific aspect.[7] Staff also consider the Tier 3 proposals simpler to apply compared to INPAG's approach. Unlike INPAG, Tier 3 allows donated assets to be measured at cost regardless of whether they are received in a crisis situation, offering broader relief. Therefore, **staff recommend** not to include any of INPAG's permitted exemptions for inventory recognition.
A stakeholder considered para 12.6 on the requirements for impairment of inventories confusing because that paragraph recognises a loss of service potential if CRC is lower than cost. However, para. 12.4 and 12.5 prohibit an impairment write-down unless it arises from an event in para. 23.3, which does not include the loss of service potential being an indicator of impairment. Additionally, para 23.5 requires impairment for inventories held for distribution to be assessed irrespective of the impairment indicators in para. 23.3.	When developing the ED proposals, the Board included para. 12.6 in response to stakeholder feedback requesting guidance on identifying and measuring a loss of service potential of inventories held for distribution.[8] The text combines Tier 2 NFP-specific guidance (Aus 9.2 of AASB 102) with INPAG examples of obsolescence that might give rise to a loss of service potential of inventories held for distribution, but omitting functional (i.e. technological) obsolescence. The omission of functional obsolescence from the example is because staff cannot envision any circumstance in which functional obsolescence would qualify as an indicator of potential impairment. Staff will present further analysis on Section 23: *Impairment of Assets* in a future meeting. Para. 12.5 specifies that entities assess the loss of service potential for inventories held for distribution only when impairment indicators are present. A loss of service potential would only be relevant for assessing inventories held for distribution. Hence, staff think it would not be appropriate to include it as another impairment indicator when assessing impairment for all non-financial assets. A loss of service potential for inventories held for distribution, as described in para 23.5, refers to inventories held that are no longer useful for distribution. These are items that are damaged or outdated, which staff consider aligns with the impairment indicator in para 23.3(a), that is, non-financial assets are impaired when "they have been damaged physically or are perishable items that have spoilt or become obsolete". Agenda Paper 4.8 also noted staff's suggestion to relocate paragraphs 12.6 and 12.7 (together with other detailed text on how to identify and measure a loss of service potential of inventories held for distribution) to Section 23 and recommended that those paragraphs be

6 Refer Agenda Paper 4.2 presented at its March 2024 Board meeting
7 Refer Agenda Paper 4.8 presented at the March 2024 Board meeting.
8 Refer Agenda Paper 4.8 presented at the March 2024 Board meeting.

Comments from those that agreed with exceptions	Staff analysis and recommendation
	relocated to keep the requirements relating to impairment in one section. Given only one stakeholder considers the drafting confusing, **staff recommend** no changes to the requirements, **except** for relocating paragraphs on identifying and measuring a loss of service potential to Section 23.
A few stakeholders separately suggested the following illustrative examples to be included in the final Standard: • Two professional bodies considered that if the CRC measurement basis is retained, then consider an illustrative example on estimating and applying CRC. • The same two professional bodies suggested the Tier 3 Standard should include Illustrative examples of what is meant by 'service potential' and 'physical' and 'economic' obsolescence. • A regulator suggested including an example regarding the cost of inventories of a service provider.	Staff note that only a few stakeholders requested additional guidance or examples**,** that the Tier 2 requirements in AASB 102 do not include guidance or examples on how to calculate CRC (despite CRC being a requirement of that Standard in particular circumstances) and that the guidance on CRC in the body of AASB 13 is high-level and brief. For these seasons, and because adding guidance or examples would unduly lengthen the Tier 3 Standard, staff **recommend not** adding guidance or examples to the text of the draft Tier 3 Standard. Staff will consider developing education materials instead. Staff observe that the guidance and examples for measurement of fair value using the cost approach by public sector NFP entities included in Appendix F of AASB 13 (added by AASB 2022-10) are likely to be of only limited assistance, because inventories of smaller NFP entities are unlikely to give rise to most of the issues addressed and illustrated in AASB 2022-10.

14 Staff have reviewed the third edition of the IFRS for SMEs Accounting Standard issued in February 2025 and noted that the final Standard removed paragraph 13.14 (equivalent to paragraph 12.12 of ED 335), which provided guidance on the cost of inventories of a service provider. According to paragraph 13.1 of the IFRS for SMEs Accounting Standard, Section 13 *Inventories* is based on IAS 2 *Inventories* (or AASB 102 *Inventories).* IAS 2 removed the specific guidance on the cost of inventories for service providers with the introduction of IFRS 15 *Revenue from Contracts with Customers.* This change aligns service providers with IFRS 15's revenue recognition principles, treating work-in-progress as costs incurred to fulfil a contract, rather than inventory. However, staff think the guidance should not be removed as Tier 3 requirements contain a different recognition and measurement revenue model compared to Tier 2 requirements. Additionally, except for feedback suggesting the inclusion of further illustrative examples of the cost of inventories for service providers, no other stakeholders indicated that the guidance was not useful for smaller NFP private sector entities.

15 As per the staff analysis and recommendation in paragraphs 13 and 14, staff **recommend** that the Board finalises the Tier 3 requirements for inventory as exposed in Section 12 of ED 335, except to:

(a) clarify in paragraph 12.8 that the accounting policy choice for donated inventory can be made for each individual donated item;

(b) remove the reference to education/training course material under development from paragraph 12.2;

(c) add a reference to net realisable value in paragraph 12.4; and

(d) relocate paragraphs 12.6 and 12.7 on identifying and measuring a loss of service potential to Section 23.

16 During the review of Section 12, staff also identified additional editorial clarifications. These changes together with other changes noted in Table 2 will be presented to the Board for consideration at a future meeting (expected November 2025).

Question 1 for Board members

Do Board members agree with the staff recommendation in paragraph 15 to finalise the Tier 3 requirements for inventory as exposed in Section 12 of ED 335, except to:

(a) clarify in paragraph 12.8 that the accounting policy choice for donated inventory can be made for each individual donated item;

(b) remove the reference to education/training course material under development from paragraph 12.2;

(c) add a reference to net realisable value in paragraph 12.4; and

(d) relocate paragraphs 12.6 and 12.7 on identifying and measuring a loss of service potential to Section 23?

If not, what do Board members suggest?

SMC 22 – Section 14: *Investment Property* and Section 15: *Property, Plant and Equipment*

17 SMC 22 sought stakeholder views of the Board's proposed Tier 3 recognition, measurement and disclosure requirements for Section 14: *Investment Property* and Section 15: *Property, Plant and Equipment*. At a high level, the Board proposed the Tier 3 accounting requirements for investment property and property, plant and equipment to be consistent with Tier 2 requirements, except for simplifying the language and that Tier 3 requirements:

(a) exclude borrowing costs from the cost of qualifying investment property or property, plant and equipment. The accounting for borrowing costs is discussed in paragraph 57;

(b) will not address how to account for the reversal of impairment losses;

(c) for self-constructed property, plant and equipment, will indicate the cost does not need to include an allocation of the depreciation of other assets used to construct the property, plant and equipment; and

(d) provide an accounting policy choice to initially measure investment property or property, plant and equipment that are significantly less than fair value at cost (which may be nil, a nominal amount or another significantly discounted amount) or its fair value. As per paragraph 11, this paper does not address the feedback on the Board's proposal for the initial measurement of non-financial assets that are significantly less than the asset's fair value.

18 The Board decided to develop the ED proposal, based on broad support from stakeholder feedback on the Discussion Paper, for investment property, or property, plant and equipment, largely consistent with Tier 2 requirements.[9] This decision was based on the absence of widespread application difficulties or concerns from preparers regarding the accounting of purchased property, plant and equipment, or investment property. To further simplify the requirements, the Board decided not to specify requirements for the reversal of impairment losses. Additionally, for self-constructed property, plant and equipment, the Board decided not to require the cost of a self-constructed asset to include the allocation of the depreciation of other assets used to construct those assets noted in paragraph 17(c) because the Board

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9 Refer to Agenda Paper 4.3 presented at the 7-8 March 2024 Board meeting.

considered the requirement unduly complex for smaller NFP private sector entities and unlikely to affect many of their assets.[10]

19 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 19 respondents, respectively, provided a response to SMC 22. Table 3 provides an overview of the responses received on SMC 22.

Table 3 SMC 22 responses

	Agreed	Agreed with exception	Disagreed	Unsure
Out of 9 comment letters that commented on SMC 22	3 (33%)	6 (67%)	-	-
Out of 19 participants who attended a virtual/in-person outreach session and commented on SMC 22	15 (79%)	-	3 (16%)	1 (5%)

Staff analysis and recommendation

20 As per Table 3, most stakeholders agreed, or agreed with exceptions, with the Board's proposals for the requirements in Section 14 and Section 15. Notwithstanding the support for the proposals, some written submitters expressed concerns with some aspects as presented in Table 4 with staff analysis and recommendation.

Table 4 SMC 22: Stakeholder comments from those that agreed with exception or disagreed and staff analysis

Comments from those that agreed with exceptions or disagreed	Staff analysis and recommendation
Comments relating to Section 15: ***Property, Plant and Equipment***	
A stakeholder considered the proposal in para. 15.11(f) to treat software as part of the computer class of property, plant, and equipment is inappropriate and should be classified within intangible assets, which would be more consistent with existing reporting requirements. Another stakeholder noted that para. 15.11 classifies assets differently from the current Tier 2 requirements (in para. 37 of AASB 116 *Property, Plant and Equipment*), particularly buildings, which have been identified as a separate class rather than land and buildings. They expressed concerns that if land was recorded at fair value and buildings at cost, it could result in overstating the asset's value that cannot be physically separated.	Staff note that the Board developed para. 15.11 based on para. A131 of the New Zealand Tier 3 Standard, which classifies computers, including software, as a class of property, plant, and equipment, with limited specific guidance for the accounting of intangible assets.[11] The Board considered this guidance would be highly beneficial for Tier 3 NFP entities, as it added minimal additional text. However, staff note that, unlike the New Zealand Tier 3 Standard, the Board decided to develop specific requirements for intangible assets. Accordingly, **staff recommend** the reference to software should be removed from para. 15.11(f). Staff also acknowledge the feedback and concerns from a stakeholder who highlighted that listing land and buildings separately may cause measurement issues. Therefore, **staff recommend** combining land and buildings as a class of property, plant, and equipment, in line with the Board decision, noted in para. BC 16(ii), to generally align with Tier 2 requirements.
A stakeholder disagreed with limiting the review of depreciation rates and useful lives to the limited circumstances listed of change in strategy and external demand as they consider	In developing para. 15.19 of the ED, the Board considered restricting the potential trigger events requiring reassessment of the residual value or useful life of an asset in the guidance would parallel the Board's analogous proposal that consideration of

10 Refer to Agenda Paper 4.12 presented at the 7-8 March 2024 Board meeting.
11 Refer to Agenda Paper 4.12 presented at the March 2024 Board meeting.

Comments from those that agreed with exceptions or disagreed	Staff analysis and recommendation
there can be many other reasons why the useful life of an individual piece of plant and equipment will change. They also consider disclosures relating to assets donated through capital grants and restrictions on assets held at fair value are important to users and should be required.	impairment needs to be considered only upon the occurrence of specified trigger events. The Board considered this restriction because, as with the potential impairment of non-financial assets, might be more costly than the resulting benefits to users of financial statements if a Tier 3 NFP entity needs to consider all the potential factors mentioned in corresponding para. 17.19 of the IFRS for SMEs Standard (i.e. change in how an asset is used, significant unexpected wear and tear, technological advancement and changes in market prices).[12] Staff observe that the related proposed requirement to review (and potentially adjust) the depreciation method if the expected pattern of an asset's use changes significantly, in para. 15.22 of ED 335, although less onerous than the Tier 2 requirement for review at each financial year-end (in para. 61 of AASB 116), is more onerous than the requirements in para. 15.19 to review an asset's residual value or useful life if narrowly specified trigger events occur. Staff consider that possible alternative approaches for the Board's consideration to enhance internal consistency in the draft Tier 3 Standard are: 1) to align the trigger event for a depreciation method review in para. 15.22 of ED 335 with the narrower trigger events in para. 15.19 for reviewing an asset's residual value or useful life; and 2) to remove the requirement to review residual value, depreciation method, or useful life if the proposed indicators were present. However, a few stakeholders at the in-person outreach session indicated that entities appear to already be reviewing their depreciation methods annually and did not indicate a need to further simplify the requirements. As such, **staff recommend** not changing para. 15.19 or 15.22. Regarding the second adjacent comment paragraph, staff note that para. 15.27(a) requires disclosures about property, plant and equipment with restricted title or pledged as security, and para. 15.29 – 15.30 require disclosures about arrangements for donations of non-financial assets initially measured at cost and the entity's dependence on such donations. However, the disclosures in para. 15.29 – 15.30 are not required for donated assets subsequently revalued to fair value, because the main purpose of those donated asset disclosures (i.e. compensating for *de facto* non-recognition of donated assets with a cost of nil) would disappear upon revaluation of the assets. Staff consider the disagreeing comment by a stakeholder does not rebut the Board's reason for exempting revalued donated assets from the disclosures. For these reasons, **staff recommend** not amending the draft Tier 3 requirements for those comments in the second adjacent comment paragraph.
Comments relating to Section 14: Investment Property	
A few stakeholders consider investment property unlikely to be common for Tier 3 entities and suggested removing Section 14	When developing the ED proposals, the Board had already considered whether investment property could be accounted for in the same manner as property, plant and equipment based on

12 Refer to Agenda Paper 4.12 presented at the March 2024 Board meeting.

<table>
<tr><th>Comments from those that agreed with exceptions or disagreed</th><th>Staff analysis and recommendation</th></tr>
<tr><td>from the final Standard. The stakeholders that disagreed at the virtual/in-person outreach were the same respondents that provided similar feedback in their written submissions.</td><td>feedback on its Discussion Paper proposals.[13] Staff note that the Board decided to continue to require the separate classification of investment property and property, plant and equipment because they are held for different purposes, warranting different accounting requirements. Continuing to separate the accounting requirements would allow users to understand how NFP entities use their assets to generate income or pursue their mission and to assess management's stewardship of the NFP entity's assets. While stakeholders considered that smaller NFP entities rarely hold investment properties, staff research indicates that some entities within the revenue range for which Tier 3 requirements were developed do indeed hold such properties (as evidenced in Research Report 19 Common Financial Statement Items: Charities with $0.5 - $3 million in revenue, April 2023).

Therefore, staff recommend not to remove Section 14 from the final Standard.</td></tr>
<tr><td>A few stakeholders provided some comments on possible confusion or error in drafting as follows:
Paras. 14.11 and 14.12 in the current draft appear to be mutually exclusive, but a change of use or transfer of property could lead to reclassification.
The requirements don't currently address leased investment property in para 14.4, including initial and subsequent measurement of leased investment property.
It is unclear whether Section 15 applies to investment property for which entities have chosen a cost basis (as per para. 14.8); they suggested clarification of the scope of Section 15 as the current drafting appears to apply only to investment property for which fair value cannot be measured reliably on a continuing basis.
There are potential cross-referencing errors in para. 14.2 to disclose information in para. 15.27-15.28 for investment property that meets the circumstances in para. 14.13, which deals with gains or losses on the disposal of investment property.</td><td>In relation to the first dot point, staff note that the Board developed para 14.11 in the ED based on para. 16.9 of the IFRS for SMEs ED.[14] Para. 14.12 (and 14.13) was developed from the derecognition requirements in AASB 140 which specify that:

"An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal." (para. 66)

Staff consider para. 14.12 would be mutually exclusive from reclassification of the investment property in para. 14.11 because derecognition occurs when the asset is removed from the financial statements. While reclassification or transfer as referred to in para. 14.11 is when there is a change in use. Therefore, staff recommend no significant changes to para. 14.11 or 14.12. In drafting text of the Tier 3 Standard for consideration by the Board (planned in November 2025), staff will consider whether to insert 'retained' before the first mention of 'property' in the first sentence of para. 14.11 to emphasise that this paragraph does not refer to property that has been disposed of.
In relation to the second dot point, staff note that para. 18.1 of Section 18: Leases already contains requirements that the accounting for all leases other than measurement of property held by lessees or lessors and accounted for as investment property. Staff consider this provides sufficient clarity that leased investment properties are measured in accordance with Section 14. As such, staff recommend no changes are needed to address the stakeholder comment.</td></tr>
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13 Refer to Agenda Paper 3.1.1 presented at the May 2023 Board meeting.
14 Refer to Agenda Paper 3.7 presented at the September 2024 meeting.

Comments from those that agreed with exceptions or disagreed	Staff analysis and recommendation
	• Regarding the third dot point, staff note that para. 14.8 states, "An entity shall choose either the cost model in Section 15 *Property, Plant and Equipment* or the fair value model as its accounting policy and, subject to paragraph 14.10, apply that model to measure all its investment properties after their initial recording. Staff also note that Section 15, para. 15.1 states: "This section applies to accounting for: (a) property, plant and equipment; and (b) investment property the fair value of which cannot be measured reliably on a continuing basis (to which paragraph 14.10 also applies)." Therefore, it is clear that the Board intends for Section 15 to apply to investment property for which entities have chosen a cost basis. However, para. 15.1 does not acknowledge that an entity might apply the cost model as an accounting policy choice under para. 14.8, and not because it cannot measure the fair value of investment property reliably. Hence, to address the stakeholder comment, **staff recommend** clarifying in para. 15.1 that parts of Section 15 also apply to investment property for which an entity has chosen the cost model.[15] • Regarding the fourth dot point, staff agree that there is potential cross-referencing error, and therefore, **staff recommend** correcting para. 14.2 to cross-refer to para. 14.15, which requires an entity that initially measures at cost a donated investment property to disclose the information required in para. 15.29 – 15.30 for donated items of property, plant, and equipment initially measured at cost.

21 Staff reviewed the third edition of the IFRS for SMEs Accounting Standard and determined that it contains no substantive changes from the Exposure Draft on which Sections 14 and 15 of ED 335 were based that would warrant further consideration by the Board in finalising the Standard. However, during the course of reviewing Sections 14 and 15, staff also identified further editorial changes of clarification in nature as well as possible inconsistencies in disclosure requirements. Specifically, paragraph 14.14(c) requires an entity to disclose for an investment property the amount of contractual commitments to purchase, construct or develop investment property, or for repairs, maintenance, or enhancements. However, paragraph 15.27(b) only requires an entity to disclose the amount of contractual commitments for the acquisition of property, plant, and equipment. The disclosure requirements for investment property and property, plant and equipment were developed based on paragraphs 132(d) and 135(b) of AASB 1060 respectively. Staff think that requiring disclosures of contractual commitments for repairs, maintenance, or enhancements for property, plant, and equipment would equally be useful to users, especially for heritage buildings. However, staff do not recommend requiring such disclosures since the Board decided the disclosure requirements in AASB 1060 should act as a point of reference for possible Tier 3 disclosure requirements to ensure internal integrity and consistency of Tier 3 reporting requirements (per paragraph BC9 of ED 335). Adding

15 Paragraph 14.1 of ED 335 states that, if investment property is measured after initial recording using the cost model, the requirements for that model in para. 15.5, 15.6, 15.12 and 15.16 – 15.22 are applied.

disclosures would also result in more disclosures for Tier 3 entities compared with Tier 2 entities. To address the inconsistency in disclosures and in keeping with the overall cost/benefit considerations, **staff recommend** not to require disclosures for commitments for repairs, maintenance, or enhancements for investment property in paragraph 14.14(c) in the Tier 3 Standard.

22 As per staff analysis and recommendations in paragraphs 20, staff also **recommend** that the Board finalises the Tier 3 requirements for investment property and property, plant and equipment, except for initial measurement of donated non-financial assets (which will be redeliberated at a future Board meeting), as exposed in Sections 14 and 15 of ED 335, except to:

(a) remove the reference to software, and combine land and buildings as a class of property, plant and equipment, in paragraph 15.11;

(b) clarify in paragraph 15.1 that parts of Section 15 also apply to investment property for which an entity has chosen the cost model;

(c) correct the cross-reference in paragraph 14.2 from paragraph 14.13 to paragraph 14.15; and

(d) not require disclosures of commitments for repairs, maintenance, or enhancements for investment property in paragraph 14.14(c).

Question 2 for Board members

Do Board members agree with the staff recommendation in paragraphs 21 and 22 to finalise the Tier 3 requirements for investment property and property, plant and equipment, except for initial measurement of donated non-financial assets, as exposed in Sections 14 and 15 of ED 335, except to:

(a) remove the reference to software, and combine land and buildings as a class of property, plant and equipment, in paragraph 15.11;

(b) clarify in paragraph 15.1 that parts of Section 15 also apply to investment property for which an entity has chosen the cost model;

(c) correct the cross-reference in paragraph 14.2 from paragraph 14.13 to paragraph 14.15; and

(d) not require disclosures of commitments for repairs, maintenance, or enhancements for investment property in paragraph 14.14(c).

If not, what do Board members suggest?

SMC 27 – Section 19: *Provisions and Contingencies*

23 SMC 27 sought stakeholder views on the Board's proposals on its Tier 3 recognition, measurement and disclosure requirements for Section 19: *Provisions and Contingencies*. At a high level, the Board decided the Tier 3 accounting requirements for provisions and contingencies are to be consistent with Tier 2 requirements with simplified language, except that under the Tier 3 requirements:

(a) provisions are not required to reflect the present value of expenditure expected to be required to settle an obligation;

(b) provisions are measured at the entity's best estimate of the amount to be paid, taking into account current information about conditions existing at the end of the reporting period, rather than its best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and

(c) where an entity acquires a contingent liability in a transaction that is treated as an entity combination, contingent liabilities are not recognised, but disclosures of the contingent liability are required instead.

24 The Board decided to develop the ED's proposed requirements for provisions and contingencies, based on broad support from stakeholder feedback on the Discussion Paper, to be largely consistent with Tier 2 requirements.[16] This decision was based on the absence of widespread application difficulties or concerns from preparers regarding the accounting for provisions, contingent liabilities and commitments. To further simplify, the Board decided not to require provisions to reflect the present value of expenditure expected to be required to settle an obligation and to require provisions to be measured at the entity's best estimate of the amount to be paid, consistent with its proposal developed for the accounting of employee benefits.[17] The Board decided not to require discounting of provisions because many obligations could be expected to be settled within a short-to-medium term timeframe, and the discount for the time value of money may largely negate expected expenditure (e.g. future pay rises) required to settle the present obligation such that the present value of the obligation and its undiscounted amount often are not significantly different.

25 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 17 respondents, respectively, provided a response to SMC 27. Table 5 provides an overview of the responses received on SMC 27.

Table 5 SMC 27 responses

	Agree	Agree with exception	Disagree	Unsure
Out of 9 comment letters that commented on SMC 27	5 (56%)	4 (44%)	-	-
Out of 17 participants who attended a virtual/in-person outreach session that commented on SMC 27	100%	-	-	-

Staff analysis and recommendation

26 As per Table 5, most stakeholders agreed, or agreed with exceptions, with the Board's proposals for the requirements in Section 19. Notwithstanding the support for the proposals, some written submitters expressed concerns with some aspects as presented in Table 6 with staff analysis and recommendation.

Table 6 SMC 27: Stakeholder comments from those that agreed with exception and staff analysis

Comments from those that agreed with exceptions	Staff analysis and recommendation
A few stakeholders provided some comments on possible confusion or error in drafting as follows: • The requirement for provisions to be measured at an undiscounted basis was not clearly communicated in the body of the draft Standard.	Staff agreed with the stakeholders' first two dot points that more clarity is needed. To address their feedback, **staff recommend**: • clarifying in para. 19.7 that "Provisions shall be measured at the entity's best estimate of the undiscounted amount to be paid,…"; and • including in para. BC16(d) that Tier 2 requirements are retained except provisions are measured at an undiscounted

16 Refer to Agenda Paper 4.10 presented at the 7-8 March 2024 Board meeting.
17 Refer to the 29 – 30 November 2023 Board meeting minutes.

Comments from those that agreed with exceptions	Staff analysis and recommendation
• Para. BC16(d) in the Basis for Conclusions stated that the measurement proposals retain Tier 2 requirements for provisions which is incorrect given that no discounting is required to measure provisions. • Para 19.10 should refer to a court case not yet determined or settled, rather than just referring to "not yet settled". • Disclosures in para. 19.9(b) and (c) require information about the amounts of provisions and expected uncertainties but omit details about timing, which contrasts with paras. 19.12(c) and 19.17 that include timing requirements.	amount and measured based on the entity's best estimate of the amount to be paid, taking into account current information about conditions existing at the end of the reporting period. Regarding the third and fourth dot point, staff note the Board developed Section 19 proposals based on IFRS for SMESs ED, INPAG ED, AASB 1060 and the New Zealand Tier 3 Standard.[18] Specifically, • para. 19.10 was based on the New Zealand Tier 3 Standard (para. A238) where staff considered providing examples would be helpful to smaller entities. As these are non-exhaustive, staff see no need to expand them further, as an unsettled court case inherently covers undetermined outcomes. • para. 19.9(b) was based on the IFRS for SMEs ED (para. 21.14(b)) and INPAG ED (para. G 21.15(b)), AASB 1060 para. 153(b) which requires disclosure of "a brief description of … the expected amount and timing of any resulting payments". Staff considered that developing disclosures about these aspects might be burdensome for Tier 3 NFPs and that the expression of those quoted requirements at a principle-based level might create uncertainty regarding the extent of detail required. Therefore, staff suggested requiring, for each class of provisions, simple bifurcation of their amounts into their current and non-current portions. Given only one stakeholder provided feedback on the issues above, staff concluded that the majority of other stakeholders considered the disclosures required in paras. 19.9 and 19.10 remain appropriate for smaller NFP entities and therefore **staff recommend** no changes are needed to address the stakeholder comments.
A stakeholder considered that there is a lack of clarity outside larger assurance providers regarding the meaning of the current requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as paraphrased in para. 19.7 in relation to 'taking into account current information about conditions existing at the end of the reporting period'. The 'current information' requirement is currently interpreted by experienced appliers of Australian Accounting Standards as including all data that is available to the entity but may not yet have been assessed for information content to produce a reliable estimate, consistent with ASIC's view. This interpretation is not readily achievable from the text of AASB 137 (para. 36 and 37) or para. 19.7 of ED 335. They suggested some Interpretative Guidance be	As noted in para. BC 121, the Board decided to propose in ED 335 not to require an entity to consider future pay increases when determining a provision for employee benefits measured at the undiscounted future outflow expected to be required to settle the present obligation. As such, the measurement requirements for provisions were developed to align with those for employee benefit provisions. That is, a provision is measured at the entity's best estimate of the amount to be paid in the future, taking into account current information about conditions existing at the end of the reporting period (as reflected in the example in para. 19.7 of ED 335), rather than its best estimate of the expenditure required for immediate settlement of the present obligation at the end of the reporting period. As such, **staff recommend** no changes to para. 19.7 in addition to the staff recommendation in the first row of this table, as this is not specific to Tier 3 requirements. Staff consider the stakeholder comments could be better addressed as part of the next PIR of AASB 137.

18 Refer to Agenda Paper 4.10 presented at the March 2024 Board meeting.

Comments from those that agreed with exceptions	Staff analysis and recommendation
included, or such information be explicitly described in para. 19.7 to give clarity to less experienced users of the proposed accounting standard.	
A stakeholder disagreed with para. 19.5 on reliable estimates; and suggested that when the minimum amount of a provision can be estimated reliably, requiring recognition of that minimum amount would be preferable to non-recognition of the provision.	Staff note that the Board developed para 19.5 as adapted from paras 25 and 26 of AASB 137 with simplified language.[19] Staff maintain that the current drafting is appropriate, as it aligns with Tier 2 requirements. Introducing a minimum amount criterion for provisions would introduce unnecessary complexity and require additional judgement. Given that only one stakeholder raised concerns about this, staff concluded that the majority of stakeholders support the current drafting as suitable for smaller NFP entities and therefore **staff recommend** no changes are needed to address the stakeholder comment.

27 Staff subsequently reviewed the third edition of the IFRS for SMEs Accounting Standard and the ED 335 proposals. Among other changes, the IFRS for SMEs Accounting Standard (Section 21 *Provisions and Contingencies*) has clarified in the scope paragraph that financial guarantee contracts issued at nil consideration when the specified debtor is another entity within the group are accounted for in Section 21. Other issued financial guarantee contracts remain in the scope of Part II of Section 11 *Financial Instruments* (for which ED 335 did not include corresponding proposed requirements). For those financial guarantee contracts treated as provisions, the IFRS for SMEs Accounting Standard introduces disclosure requirements similar to those proposed in paragraph 19.13, including:

(a) the nature and business purpose of the contracts;

(b) an indication of the uncertainties relating to the amount of timing of any outflow of resources; and

(c) the maximum amount the entity could be required to pay if the guarantees are called on.

28 As noted in paragraph BC11.24 of the IFRS for SMEs Accounting Standard, the IASB introduced this simplification in response to stakeholder feedback that most financial guarantee contracts issued by SMEs are intragroup and issued at nil consideration. Measuring the fair value of such contracts can be complex and subjective, and the cost of doing so was not considered to be justified by the related benefits to users of financial statements.

29 In para. 10.3 of ED 335, the Board proposed that financial guarantee contracts be treated as examples of more complex or uncommon financial instruments held by NFP private sector Tier 3 entities. Under this proposal, such entities would be required to apply AASB 9 *Financial Instruments* and other applicable Australian Accounting Standards. The Board will consider the scope and application proposals in Section 1: *Objective, Scope and Application* at this meeting (refer Agenda Paper 5.1), including the proposal to require Tier 2 requirements for specified transactions, other events and conditions, including those relating to complex financial instruments in Section 10.

30 As per the analysis and recommendations in paragraph 26, **staff recommend** that the Board finalises the Tier 3 requirements for provisions and contingencies as exposed in Section 19 of

19 Refer to Agenda Paper 4.10 presented at the March 2024 Board meeting.

ED 335, except to clarify in paragraph 19.7 that provisions shall be measured at the entity's best estimate of the undiscounted amount to be paid.

31 Staff have also identified further editorial improvements, including the addition of scope-out paragraphs to clarify that provisions covered by other sections of the Tier 3 Standard, such as employee benefit obligations or leases, are scoped out from Section 19. Staff will bring these and other changes outlined in Table 6 for the Board's consideration at a future meeting.

Question 3 for Board members
Do Board members agree with the staff recommendation in paragraph 30 to finalise the Tier 3 requirements for provisions and contingencies as exposed in Section 19 of ED 335, except to clarify in paragraph 19.7 that provisions shall be measured at the entity's best estimate of the undiscounted amount to be paid?

If not, what do Board members suggest?

<u>SMC 33 – Section 24: *Employee Benefits*</u>

32 SMC 33 sought stakeholder views of the Board's proposed Tier 3 recognition, measurement and disclosure requirements in Section 24: *Employee Benefits* of ED 335. At a high level, the Board decided the Tier 3 accounting requirements for employee benefits are:

(a) to recognise an expense when the employee has rendered the services entitling them to compensation, except where they form part of the cost of an asset;

(b) to require outstanding employee benefit obligations to be recognised as a provision (liability), measured at the undiscounted amount of the employee benefits expenses (i.e. not required to consider future pay increases when measuring a provision for employee benefits);

(c) not to recognise provisions for non-vesting accumulating employee benefits unless the amounts are due and payable;

(d) not to account for employee benefits differently according to whether they are short-term benefits or long-term benefits; and

(e) to require entities to apply AASB 2 *Share-based Payment* and AASB 119 *Employee Benefits* for employee benefits in the form of share-based payments and contributions to a defined benefit plan where offered.[20]

33 The proposals referred to in para. 34(b) – (e) represent simplifications of the Tier 2 requirements while retaining an accruals-based approach to accounting for employee benefits. The Board decided not to require discounting of employee benefits liabilities nor consider future pay rises when determining a provision for employee benefits for reasons in common with the measurement of provisions, as noted in paragraph 24. The Board also decided on further simplification, consistent with its views in the Discussion Paper and supported by stakeholders' feedback, for the simplifications noted in:

(a) paragraph 32(c) to align with current practices for smaller NFP private sector entities, where employees typically do not exceed their sick leave entitlements within any given period, therefore the expected cost of accumulating non-vesting paid absences is considered to be nil;

20 The Board will discuss the proposals to require entities to apply Tier 2 requirements for specified Australian Accounting Standards, including AASB 2 and AASB 119 with respect to defined benefit plans in deliberating Agenda Paper 6.1 at this meeting.

(b) paragraph 32(d) as the Board heard it may be complex for smaller NFP private sector entities to understand the interaction between AASB 119 short-term and other long-term employee benefits and current versus non-current classification; and

(c) paragraph 32(e) where these transactions are not expected to be common for the cohort of entities that would apply the Tier 3 Standard.

34 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, 8 and 18 respondents, respectively, provided a response to SMC 33. Table 7 provides an overview of the responses received on SMC 33.

Table 7 SMC 33 responses

	Agree	Agree with exception	Disagree	Unsure
Out of 8 comment letters that commented on SMC 33	4 (50%)	4 (50%)	-	-
Out of 18 participants who attended a virtual/in-person outreach session that commented on SMC 33	16 (89%)	-	-	2 (11%)

Staff analysis and recommendation

35 As per Table 7, almost all stakeholders agreed, or agreed with exceptions, with the Board's proposed requirements in Section 24. However, notwithstanding the support for the proposals, some written submitters expressed concerns with some aspects as presented in Table 8, including staff analysis and recommendation.

Table 8 SMC 33: Stakeholder comments from those that agreed with exceptions and staff analysis and recommendation

Comments from those that agreed with exceptions	Staff analysis and recommendation
Many stakeholders (including the stakeholders who responded "unsure" at the virtual/in-person outreach) noted that greater clarity is needed regarding the proposal that measurement of employee benefit provisions does not take into account future pay rises, as they consider the current drafting unclear. They recommend similar wording per para. 19.7 to be added to para. 24.7. One stakeholder observed that the requirements were unclear with respect to inflation; however, they consider that inflation should not be taken into account, as employee benefits are undiscounted. One stakeholder who attended a virtual/in-person outreach suggested removing the term 'provisions' from employee benefits as it is not currently used in applying Australian Accounting Standards.	Staff agree with the stakeholders' comments that more clarification is needed to remove ambiguity of the requirements. To address their feedback, **staff recommend**: • **clarifying** in para. 24.7 that future pay rises are not taken into account when measuring employee benefits expected to be paid; • **removing** the reference to 'provisions' in Section 24 to avoid confusion with Section 19 definition of provisions and for the reason noted by the stakeholder that it is not a terminology currently used to describe employee benefit liabilities.
A stakeholder considered further simplification can be achieved in calculating long service leave, even if it is limited commentary on how the probability aspect of the estimate can be determined, as they consider NFP entities currently preparing SPFS simply take an arbitrary position in recognition of long service leave entitlements (e.g. recognising	As per para. BC 112, feedback on the Discussion Paper indicated that stakeholders were not supportive of developing guidance on probability calculations as it could become outdated and may not factor in changes in the workforce. Ultimately, the Board considered setting a probability assessment that is not based on the entity's facts and circumstances can create unintended

Comments from those that agreed with exceptions	Staff analysis and recommendation
100% of the long service leave entitlement for all employees employed for five years).	consequences and may result in less relevant and faithful financial information over time. Staff consider the illustrative example IE3 serves as a compromise to provide some guidance to smaller NFP entities providing a required method of calculation or signify benchmark percentages for the probability of vesting of employee benefits. Given only one stakeholder raised concerns, staff conclude that the majority of stakeholders support the illustrative examples already provide sufficient guidance to smaller NFP entities. Accordingly, **staff recommend** no changes are needed to address the stakeholder comment.

36 Staff reviewed the third edition of the IFRS for SMEs Accounting Standard and determined that it contains no substantive changes from the Exposure Draft on which ED 335 was based that would warrant further consideration by the Board in finalising the Standard.

37 As per the analysis and recommendations in paragraph 35, staff **recommend** that the Board finalises the Tier 3 requirements for employee benefits as exposed in Section 24 of ED 335, except to:

(a) clarify in paragraph 24.7 that future pay rises are not taken into account when measuring employee benefits expected to be paid; and

(b) remove the references to 'provisions' from Section 24.

38 Staff also identified further editorial changes of clarification in nature and will bring them and other drafting changes identified in Table 8 for the Board to consider at a future meeting.

Question 4 for Board members

Do Board members agree with the staff recommendation in paragraph 37 to finalise the Tier 3 requirements for employee benefits as exposed in Section 24 of ED 335, except to:

(a) clarify in paragraph 24.7 that future pay rises are not taken into account when measuring employee benefits expected to be paid; and

(b) remove the references to 'provisions' from Section 24.

If not, what do Board members suggest?

SMC 34 – Section 25: *Income Tax*

39 SMC 34 sought stakeholder views of the Board's proposed Tier 3 requirements for income tax in Section 25. At a high level, income tax expenses are recognised in the current period based on, in descending order, 1) the entity's tax assessment for the period; 2) its tax return for the period; or 3) an estimate of the amounts to be included in the tax return. Income tax payable is recognised at the end of the period and measured as the sum of the estimated income tax payable for the period and any outstanding unpaid income tax. Deferred tax assets and liabilities are not recognised.

40 The Board decided to develop the ED proposal, based on broad support from stakeholder feedback on its Discussion Paper, not to require the recognition of deferred tax assets and

liabilities because the Board expects that entities applying the Tier 3 Standard would generally be tax exempt.[21]

41 As per Agenda Paper 4.3 at the May 2025 Board meeting, of the 18 comment letters that responded directly to ED 335, 8 stakeholders that responded agreed SMC 34

Staff analysis and recommendation

42 Notwithstanding all stakeholders supported the Board's proposals for Section 25, two stakeholders each suggested the following improvements:

(a) Including additional disclosure requirements for unused tax losses available to offset future taxable income because they would be beneficial to users of financial statements of affected NFP entities.

(b) It would be helpful to clearly state that deferred tax assets and deferred tax liabilities are not recognised, to avoid confusion.

43 In relation to paragraph 42(a), staff note that the Board decided its ED proposals for the accounting for income tax based on the New Zealand Tier 3 requirements, which exclude the recognition of deferred tax assets or deferred tax liabilities (per Agenda Paper 4.10 at the March 2024 Board meeting). As such, staff consider no additional disclosures about unused tax losses are necessary, as the majority of the other stakeholders agreed with the ED proposals and considered income tax would not significantly impact the majority of NFP entities since they generally do not pay tax.

44 In relation to paragraph 42(b), staff note that paragraph BC16(g) already clarifies that tax expense is calculated based on income tax payable, excluding any allowance for deferred tax assets or deferred tax liabilities. However, to eliminate any ambiguity, staff consider it would benefit preparers and advisors to clarify in Section 25 that deferred tax assets and liabilities are not recognised, as requested by the stakeholder. Staff have also identified further editorial changes of clarification in nature and will bring them for the Board to consider at a future meeting.

45 Therefore, **staff recommend** that the Board finalises Tier 3 requirements for income tax as exposed in Section 25, except to clarify that deferred tax assets or deferred tax liabilities are not recognised.

Question 5 for Board members

Do Board members agree with staff recommendation in paragraph 45 to finalise Tier 3 requirements for income tax as exposed in Section 25 of ED 335, except to clarify that deferred tax assets or deferred tax liabilities are not recognised?

If not, what do Board members suggest?

SMC 36 – Section 27: Events Occurring after the Reporting Period

46 SMC 36 sought stakeholder views of the Board's proposed Tier 3 requirements for events occurring after the reporting period, which align with Tier 2 reporting requirements, as the Board did not receive indications of widespread application difficulties or concerns from preparers regarding the accounting for events occurring after the reporting period.

21 Refer to Agenda Paper 4.10 presented at the 7-8 March 2024 Board meeting.

47 As per Agenda Paper 4.3 at the May 2025 Board meeting, of the 18 comment letters that responded directly to ED 335, 9 respondents provided a response to SMC 36. Table 10 provides an overview of the responses received on SMC 36.

Table 9 SMC 36 responses

	Agree	Agree with exception	Disagree	Unsure
Out of 9 comment letters that commented on SMC 36	7 (78%)	2 (22%)	-	-

Staff analysis and recommendation

48 Notwithstanding most stakeholders agreed with the Board's proposals in Section 27, two of them expressed the following concerns:

(a) The examples in paragraphs 27.3(a) and 27.3(b) are generally common occurrences and may be interpreted as requiring disclosure of information in all instances regardless of whether those events occur as common practice or on an intermittent basis. They recommend the Board specifies that those disclosures are required "where such grants/purchase and disposals are qualitatively material to the users of financial statements".

(b) The reference to 'settlement' of a court case in para. 27.2(a) should be clarified, as they believe a court decision, as well as the parties agreeing to settle proceedings, should be considered in the context of 'settlement'.

49 In relation to paragraph 48(a), staff note that paragraph 27.4 of ED 335 specifies that, "*Where material events occur after the reporting period and indicate conditions that arose after that date (see paragraph 27.3), the entity shall disclose the following information in the notes for each material category of such events:…*". As such, this clarifies that only material events under paragraphs 27.3(a) and 27.3(b) necessitate disclosures. Given only one stakeholder commented on this issue, staff concluded the majority of other stakeholders agreed with the current drafting without amendments and therefore staff do not consider any change is needed.

50 In relation to paragraph 48(b), staff note that Tier 1/Tier 2 requirements, the IFRS for SMEs Standard, INPAG ED, and the New Zealand Tier 3 Standard do not provide clarification of 'settlement.' Therefore, staff do not consider any further guidance is needed, as such guidance could contradict the Board's policy of not interpreting IFRS, as there is no proposed difference between Tier 1/Tier 2 and Tier 3 reporting requirements for this disclosure.

51 Additionally, while the drafting of Section 27 was primarily based on the New Zealand Tier 3 Standard, staff also compared the corresponding disclosure requirements with the IFRS For SMEs ED (equivalent to AASB 1060), which required similar disclosures. Staff have since reviewed the recently updated IFRS for SMEs Accounting Standard and noted no amendments were introduced for its requirements relating to events after the end of the reporting period.

52 Having regard to the analysis in paragraphs 49 – 51 above, **staff recommend** the Board finalises the Tier 3 requirements for events occurring after the reporting period as exposed in Section 27 of ED 335.

Question 6 for Board members

Do Board members agree with staff recommendation in paragraph 52 to finalise the Tier 3 requirements for events occurring after the reporting period as exposed in Section 27 of ED 335?

If not, what do Board members suggest?

SMC 39 – Appendix A: Glossary of terms

53 SMC 39 sought stakeholder views on the Board's proposal that the glossary of terms should include cross-references to terms defined in the body of the [draft] Standard. This decision had the aim of keeping the Standard as succinct as possible.

54 As per Agenda Paper 4.3 at the May 2025 Board meeting, of the 18 comment letters that responded directly to ED 335, 7 respondents provided a response to SMC 39. Table 10 provides an overview of those responses.

Table 10 SMC 39 responses

	Agree	Agree with exception	Disagree	Unsure
Out of 7 comment letters that commented on SMC 39	2 (29%)	3 (42%)	2 (29%)	-

Staff analysis and recommendation

55 Notwithstanding that many stakeholders generally agreed with the Board's proposals for the glossary of terms to cross-refer to terms defined in the Standard's body, some written submitters expressed concerns with some aspects as presented in Table 11 including staff analysis and recommendation.

Table 11 SMC 39: Stakeholder comments from those that agreed with exception, or disagreed, and staff analysis and recommendation

Comments from those that agreed with exceptions or disagreed	Staff analysis and recommendation
Two submitters disagreed that the glossary merely duplicates the body of the Standard. They generally do not support a glossary that does not contain fully defined terms. One of the stakeholders specifically noted that the draft Standard's length makes navigating between each definition and the glossary cumbersome. They considered the full definitions should be provided, consistent with other Australian Accounting Standards.	When developing its proposal in the ED, the Board considered whether to include fully defined terms in the glossary of terms. However, the Board decided to cross-reference the glossary to the definition contained in the draft Standard, if it was already defined in the body of the Standard, so that any definition appears once only, to remove clutter and reduce the length of the Standard.[22] Staff note that the Board's approach would reduce the risk of inconsistencies in any future updates if the definitions are contained in one place only. Staff pondered fully defining the terms in the glossary to provide easier navigation for preparers, and note this approach would be consistent with other Australian Accounting Standards. However, staff also consider that the AASB portal may resolve the issue of navigating between the glossary and the definitions in the Standard. Given that more stakeholders continue to agree with the cross-referencing approach in the glossary, **staff recommend** not adding full definitions within the glossary of terms to shorten the final Standard.
Some stakeholders who generally agreed with the cross-referencing approach provided the following comments: • Some definitions are not clear within the body, such as accounting estimates in para. 9.17 or exit price in para. 11.2; they encouraged clearer articulation in	Staff will review the glossary again to include missing terms and the definitions in the body of the Standard to address the stakeholder comments. Staff acknowledge the stakeholder's comment to adopt a plain English approach to developing the glossary, which staff interpret as a call to further simplify the language of the Tier 3 Standard. During the drafting process, staff drew on the IFRS for SMEs ED and draft INPAG, alongside the New Zealand Tier 3 Standard, to identify

22 Refer to Agenda Paper 3.2 presented at its September 2024 Board meeting.

Comments from those that agreed with exceptions or disagreed	Staff analysis and recommendation
the body of the Standard. Some terms are missing from the glossary, including ‘active market’, ‘contingent rent’, ‘constructive obligation’, ‘lease term’ and ‘variable lease payments’. • A plain English approach should be adopted and highlighting the defined terms each time it appears would improve usability and educational outcomes.	opportunities for simplification. For instance, the Tier 3 Standard uses terms like ‘record’ instead of ‘recognise’; or omits guidance, such as the hierarchy approach from the fair value measurement, which the Board considered less relevant to smaller NFP entities. However, some stakeholders argued for retaining established terms like ‘net realisable value’ (as noted in Table 2). Staff also noted the Board decided to retain the term ‘impairment’ in Section 23: *Impairment of Assets* (per Agenda Paper 4.7 at the March 2024 Board meeting), because the Board considered using a substitute term, even if "more intuitive" would cause problems since all the literature includes ‘impairment’ and experienced practitioners will be familiar with that term. Nevertheless, some preparers preferred more simplification of language as it would help preparers who are less experienced/familiar with accounting terms. To address these stakeholders’ concerns, **staff recommend** including the equivalent Tier 2 terminology if the Tier 3 requirements do not deviate from the Tier 2 requirements, either in the body of the Standard or in the glossary of terms. For example, as noted in Table 2, staff **recommend** adding net realisable value in brackets where the term is defined in that paragraph of the Standard and in the glossary of terms. Similarly, staff suggest including ‘record’ in the Standard/glossary of terms but including in brackets ‘recognise’ to signal that the term is consistent with Tier 2 terminology. This approach would balance clarity for inexperienced preparers with consistency for experienced practitioners. Staff will conduct a review of the defined terms, and add missing terms as per the stakeholders' suggestion. Staff also consider the AASB portal would enable easier navigation between the glossary and the requirements in the body of the Standard, which would enhance the usability of the Standard.

56 As per the analysis in paragraph 55, staff **recommend** that the Board finalises the Tier 3 Standard’s glossary of terms as exposed in Appendix A of ED 335, except to:

(a) include the equivalent Tier 2 terminology if the Tier 3 requirements do not deviate from the Tier 2 requirements, either in the body of the Standard or in the glossary of terms; and

(b) conduct a review of the defined terms and add any missing terms.

Question 7 for Board members

Do Board members agree with the staff recommendation in paragraph 56 to finalise the Tier 3 Standard’s glossary of terms as exposed in Appendix A of ED 335, except to:

(a) include the equivalent Tier 2 terminology if the Tier 3 requirements do not deviate from the Tier 2 requirements, either in the body of the Standard or in the glossary of terms; and
(b) conduct a review of the defined terms and add any missing terms.

If not, what do Board members suggest?

Addressing Part B feedback - staff analysis of stakeholder’s feedback and recommendations

57 The following SMCs sought stakeholders’ views on the following proposed Tier 3 requirements:

(a) SMC 30 – Section 21: *Expenses* – record expenses upon the recording of a decrease in assets, or increase in liabilities, and only in relation to amounts paid and payable by the entity with resources it controls; and

(b) SMC 31 – Section 22: *Borrowing Costs* – record all borrowing costs as an expense in profit or loss in the period in which they accrue.

58 As per the summary of feedback in Agenda Paper 4.3, of the 18 written submissions, 8 and 8 respondents, respectively, provided a response to SMC 30 and SMC 31. All stakeholders agreed with the Board's proposals outlined in paragraph 57, with no additional comments provided. As such, **staff recommend** the Board finalises the Tier 3 requirements for expenses and borrowing costs as exposed in Sections 21 and 22 of ED 335.

Question 8 for Board members

Do Board members agree with the staff recommendation in paragraph 58 to finalise the Tier 3 requirements for expenses and borrowing costs as exposed in Sections 21 and 22 of ED 335?

If not, what do Board members suggest?