



Project:	Not-for-Profit Private Sector Financial Reporting Framework	Meeting:	M214
Topic:	Redeliberation – Intangible assets, impairment of assets and donated non-financial assets	Agenda Item:	4.1
		Date:	29 July 2025
Contact(s):	Maggie Man mman@asb.gov.au Evelyn Ling eling@asb.gov.au Jim Paul jpaul@asb.gov.au	Project Priority:	High
		Decision-Making:	High
		Project Status:	Project redeliberations

Objective of this paper to the Board

- 1 The objective of this staff paper is for the Board to **decide** how to finalise the proposed requirements exposed in ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*, regarding:
 - (a) Section 16: *Intangible Assets*;
 - (b) Section 23: *Impairment of Assets*; and
 - (c) Initial measurement of non-financial assets acquired at significantly less than fair value (i.e. donated non-financial assets).

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) SMC 24 for Section 16 (paragraphs 7 – 16);
 - (ii) SMC 32 for Section 23 (paragraphs 17 – 22); and
 - (iii) Initial measurement of donated non-financial assets and SMCs 2(e) and 23 (paragraphs 23 – 37).

Summary of staff recommendations

- 3 Staff recommend the Board finalise a Tier 3 Standard based on ED 335:
 - (a) for intangible assets as exposed in Section 16, except for removing the disclosure in paragraph 16.28(b) of whether an independent valuer was involved when intangible assets are stated at revalued amounts;

- (b) for impairment of assets as exposed in Section 23, except for:
 - (i) adding 'an individual' before "non-financial asset other than inventory" in paragraph 23.6 to clarify that recoverable amount is measured at an individual asset level;
 - (ii) including inventories as a class of non-financial assets for which disclosure of information about impairment losses would be required in paragraph 23.11;
 - (iii) clarifying that the scope of Section 23 only applies to non-financial assets by removing the requirement to disclose impairment information for investments in associates and joint ventures in paragraphs 23.11(c) and (d); and
 - (iv) omitting paragraph 23.12 and thus requiring impairment losses to be disclosed separately from depreciation and amortisation expenses; and
- (c) that continues to allow an accounting policy choice for the initial measurement of donated non-financial assets as exposed in Sections 12, 14, 15 and 16.

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 the 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 three Category B topics identified in that Agenda Paper. The Category B topics are proposals on which mixed feedback was received or stakeholders expressed substantial concerns about one or more particular aspects.
- 6 The primary objective of this paper is for the Board to, in respect of the topics covered, decide whether to make any substantive change to the proposals exposed in ED 335. Staff have not included any revised drafting. Staff plan to present the revised drafting collectively in November 2025, as per the project timeline outlined in Agenda Paper 4.0. This approach allows the Board to first make all decisions on matters of principle, ensuring a comprehensive view of the overall draft Standard.

Staff Analysis of Stakeholder's Feedback and Recommendations

- 7 Staff recommendations for whether and, if so, how to modify 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.

SMC 24 – Section 16: *Intangible Assets*

- 8 SMC 24 sought stakeholder views on Tier 3 recognition, measurement and disclosure requirements for Section 16. At a high level, Section 16 proposals are consistent with Tier 2 requirements except that:
 - (a) all expenditure incurred internally on intangible assets is to be expensed immediately;

1 Per [minutes](#) of the 1 May 2025 AASB meeting

- (b) all intangible assets are accounted for as if they have a finite useful life. The useful life is based on the contractual or other legal rights, the period over which the entity expects to use the assets or, if the intangible asset has an indefinite useful life, based on management's best estimate but not exceeding ten years;
 - (c) the useful life, residual value and amortisation method are reviewed only if a trigger event or indicator has occurred since the last annual reporting date;
 - (d) donated intangible assets can be measured at their cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or their fair value as at the date of donation; and
 - (e) fewer disclosures, except that donated intangible assets require specific disclosures if an entity elects cost for initial measurement.
- 9 As explained in paragraphs BC93 – BC95 of ED 335, the Board decided its simplification proposals for Section 16 noted in paragraph 8 because they would be proportionate to Tier 3 entities. The Board considered that it is often difficult to distinguish between cost arising in a research phase or a development phase to apply the recognition criteria in AASB 138 *Intangible Assets*. The Board considered aligning the subsequent measurement of intangible assets with Tier 2 requirements but decided against it, as stakeholder feedback on the Discussion Paper indicated that such alignment may not offer sufficient simplification for Tier 3 entities, particularly given the potential for increased use of intangible assets by these entities in the future
- 10 As reported in Agenda Paper [4.3](#) considered at the May 2025 Board meeting, of the 18 comment letters that responded directly to ED 335 and the total number of participants who attended a virtual/in-person outreach session, 10 and 18 respondents, respectively, provided a response to SMC 24. The following table provides an overview of the responses received on SMC 24.

Table 1 SMC 24 responses

	Agree	Agree with exception	Disagree	Unsure
Out of 10 comment letters that commented on SMC 24	2 (20%)	8 (80%)	-	-
Out of 18 participants who attended a virtual/in-person outreach session and commented on SMC 24	18 (100%)	-	-	-

Staff analysis of stakeholders' comments on Section 16

- 11 As noted in Agenda Paper 4.3 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 initial measurement of donated non-financial assets should also be a Category B topic (more redeliberation effort) because its decisions regarding other Category B topics might inform how it finalises these requirements. As such, initial measurement of donated non-financial assets, which is relevant to Sections 12: *Inventories*, 14: *Investment Property*, 15: *Property, Plant and Equipment*,² 16: *Intangible Assets* and 17: *Entity Combinations*, is considered later in this paper and include analysing stakeholders' feedback on SMC 23, which sought information about:

2 The Board discussed Sections 12, 14 and 15 at its July 2025 Board meeting. Refer to Agenda Paper 2.2 for the draft meeting minutes and presented in Agenda Paper 4.0.

- (a) the cost to smaller NFP entities of obtaining the fair value of donated non-financial assets; and
 - (b) the types of non-financial assets for which it is more costly to obtain a fair value (see paragraphs 23 – 37).
- 12 Staff consider that all stakeholders agreed with, or agreed with exceptions, on the Board’s proposals for the requirements in Section 16, noting that some preparers generally do not recognise intangible assets to simplify their accounting practices. One stakeholder also noted that most research-based NFP entities are in the research phase and therefore (consistent with Tier 2 requirements) do not currently capitalise a cost. Hence, the proposed requirement to expense immediately all expenditure incurred internally on intangible assets is likely to have minimal impact on those entities. Those stakeholders who agreed with exception suggested further simplifications and other comments noted in Table 2 and paragraphs 13 – 16 with staff analysis and recommendations:

Table 2 SMC 24: Stakeholder comments from those who agreed with exceptions and staff analysis and recommendations

Stakeholder comments from those who agreed with exceptions	Staff analysis
<p><u>Expensing research and development intangible assets that are not internally generated</u></p> <p>One professional services firm suggested further simplification by requiring that separately acquired in-process research and development be expensed immediately, consistent with para. 16.7 for internally generated intangible assets, because requiring those assets to be subject to impairment requirements would be challenging and result in significant judgement.</p>	<p>Staff note that the Board proposed that expenditure incurred internally on intangible assets must be expensed immediately, and that this approach was similarly adopted in other jurisdictions’ pronouncements, including the IFRS for SMEs Accounting Standard. This decision was based on the Board’s consideration of the Basis for Conclusions of IFRS for SMEs, which noted that many preparers of SMEs do not have the resources to assess whether a project is commercially viable on an ongoing basis and, furthermore, capitalisation of only a portion of the development cost does not provide useful information. Bank lending officers told the IASB that information about capitalised development costs is of little benefit to them, and that they disregard those costs in making lending decisions. Stakeholder feedback collected from initial outreach suggested that software, licenses, trademarks and cryptocurrency assets are the most commonly held intangible assets by smaller NFP entities.</p> <p>Staff consider that similar arguments could also be applicable to research and development (R&D) intangible assets that are not internally generated, to avoid creating a potential mismatch between internally and externally acquired R&D. Staff also agree that assessing impairment for costs of externally acquired R&D can be challenging, as R&D projects, even when acquired, often involve uncertainty regarding their commercial success. Additionally, while the Board’s proposed impairment requirements for non-financial assets contain only two limited indicators, impairment testing requires estimating the recoverable amount (i.e. higher of fair value less cost to sell and value in use) of internally generated intangible assets, which may be difficult. This is especially so because there is unlikely to exist an active market for some R&D assets.</p> <p>However, staff note that the Board considered its proposed Tier 3 impairment requirements (i.e. assess impairment only at each reporting date and only if the non-financial asset is damaged physically or its service potential might have been adversely affected by a change that has occurred in the entity’s strategy or changes in external demand for the entity’s goods or services) would provide proportionate simplification for smaller NFP entities. This approach limits when an entity would need to assess for impairment. Staff also consider it would likely be easier to assess the recoverable amount of externally acquired R&D assets because their</p>

Stakeholder comments from those who agreed with exceptions	Staff analysis
	<p>purchase price serves as a starting point for valuation. Staff consider recognising externally acquired R&D assets would recognise the entity's investment in those assets as reflected in their purchase price (a market-based valuation) and maintain consistency with Tier 2 requirements for recognising externally acquired R&D assets.</p> <p>On balance, staff recommend no changes to the requirements, noting that only one stakeholder requested simplification in this regard and considering that the Board has already significantly simplified the circumstances in which impairment needs to be considered.</p>
<p><u>Disclosure of unrecognised intangible assets</u></p> <p>One professional services firm recommended that the disclosure requirements of Section 16 be extended such that intangible assets that, in management's opinion, represent material value to the reporting entity be disclosed, notwithstanding they are not recognised within the statement of financial position, including the historical amounts invested and the purpose of the intellectual property. They considered these disclosures would be useful for users while retaining proportionality with the cost of preparation and maintenance of the financial statements.</p>	<p>As noted in para. 8(a), the Board decided to propose that all expenditure incurred internally on intangible assets is to be expensed immediately. To accompany this simplification of Tier 2 recognition requirements, ED 335 also proposed requiring an entity to disclose the aggregate amount of R&D expenditure recognised as an expense during the period (see para. 16.27 of ED 335). The Board also proposed that if donated intangible assets are initially measured at cost (which could be nil or a nominal amount), the entity must disclose information, including the entity's dependence on donations of intangible assets, and the nature and terms of the donation arrangement. As such, staff consider the Board's proposal already required disclosures of information useful for assessing the value of resource flows by the entity in relation to unrecognised intangible assets (albeit that the information is not the value of such assets remaining at the end of the reporting period).</p> <p>Staff also consider that requiring other disclosures about unrecognised intangible assets would be disproportionate to smaller NFP entities, given Tier 2 entities are not required to disclose information about unrecognised intangible assets. In addition, staff think requiring disclosures of unrecognised intangible assets based on whether management considers their value is material to the reporting entity could lead to an excessive need for judgement and inconsistencies between entities. For these reasons, and because only one stakeholder considers that additional disclosures of unrecognised intangible assets should be required, staff recommend no changes to the requirements.</p>
<p><u>Estimated useful life of indefinite-life intangible assets</u></p> <p>One regulator noted that the proposed limit of not exceeding 10 years for the useful life of indefinite-life intangible assets, such as trademarks, may not always be appropriate because it is still subject to management's best estimates under paragraph 16.18. However, two other stakeholders explicitly agreed with the proposal for a ten-year maximum useful life of indefinite-lived intangible assets.</p>	<p>Staff note that, in developing its proposals to the Exposure Draft, the Board decided to simplify the assessment of useful life of all indefinite-lived intangible assets to be assessed as finite based on management's best estimate, but not exceeding ten years.³ This decision reflected a cost-benefit rationale, taking into account that the IASB had made similar simplifications in the IFRS for SMEs Accounting Standard, with one minor difference. Specifically, ED 335 proposes management to make a best estimate of the useful life of indefinite-life intangible assets, up to a maximum of ten years. In contrast, the IFRS for SMEs Standard permits management to estimate the useful life only when it cannot be established reliably, and also not exceeding ten years. This difference from the IFRS for SMEs Standard was made to avoid indicating in ED 335 that an unreliable estimate of an asset's useful life would be acceptable, provided it does not exceed ten years. Staff consider the difference is not substantive. Staff further note that requiring management to make the best estimate would not be unreasonable, as this principle is applied elsewhere in ED 335's</p>

3 See Agenda Paper [3.3](#) at the 6 – 7 June 2024 Board meeting.

Stakeholder comments from those who agreed with exceptions	Staff analysis
	<p>proposals – for example, para. 19.7 requires provisions to be measured at the entity’s best estimate of the amount to be paid, and para. 20.5 requires debtors to be measured initially at the amount of consideration to which the entity expects to be entitled.</p> <p>For these reasons, and on consideration that the stakeholder feedback does not provide any new compelling evidence that should cause the Board to change its views, staff recommend no changes to the requirements.</p>
<p><u>Removing the revaluation model</u></p> <p>Five stakeholders, consisting of four professional services firms and one other stakeholder, suggested further simplification could be made by removing the revaluation option for intangible assets (contained in paras. 16.15 and 16.16) as they considered it would rarely be applied by any NFP private sector entity given the nature of the intangible assets they hold. Some of these stakeholders consider that very few intangible assets would meet the ‘active market’ criterion (except for cryptocurrencies) and the cost of applying the revaluation model is likely to be disproportionate to the benefits.</p>	<p>Staff note that, in developing its proposals in ED 335, the Board had noted that many jurisdictional requirements, including the IFRS for SMEs Accounting Standard, prohibit the revaluation model from being used for the subsequent measurement of intangible assets.⁴ However, at the time, staff did not consider this simplification further because the Board had decided to permit an entity to apply either the cost model or the revaluation model as its accounting policy for the subsequent measurement of classes of non-financial assets, even those acquired at significantly less than fair value, regardless of the initial measurement policy. As such, staff do not think prohibiting the revaluation model for non-financial assets acquired through a normal purchase would align with allowing a revaluation model for donated non-financial assets (note: the Board will consider an analysis of the proposals for the initial measurement of donated non-financial assets, to which SMC 23 relates, in para. 23 – 37 of this paper).</p> <p>Staff acknowledge the stakeholder feedback that there may be very few intangible assets that would meet the ‘active market’ criterion, and the cost of applying the revaluation model is likely disproportionate to the benefits. However, staff also note that entities are accorded an accounting policy choice for subsequent measurement models, i.e. at cost or revaluation. Staff also note that in many instances, the Board had retained the accounting policy choice even though smaller entities are likely to apply the simpler measurement method (e.g., para. 8.37 and 13.13 relating to subsequent measurement of investments in subsidiaries, associates or joint ventures at cost, fair value or using the equity method in financial statements that are not consolidated financial statements).⁵ Nevertheless, because some stakeholders disagreed with retaining the revaluation model for intangible assets, staff thought it would be useful to analyse below the alternative approach of not including the revaluation model for the Board’s consideration (see paragraphs 13 – 16).</p>

Suggested further simplification – removing the revaluation model

13 As per feedback from stakeholders identified in Table 2 above, staff identified two options for subsequent measurement of intangible assets:

- (a) **Option 1:** to continue to permit application of a revaluation model for the subsequent measurement of intangible assets, that is, to retain paragraphs 16.15 – 16.16. This option aligns with all other proposals for subsequent measurement of non-financial assets as well as with Tier 2 requirements. In addition, staff consider that continuing to allow the

4 See Agenda Paper [3.3](#) at the 6 – 7 June 2024 Board meeting.

5 The Board will decide how to finalise the Tier 3 requirements regarding investments in subsidiaries, associates, or joint ventures in Agenda Papers 4.2 and 4.4.

revaluation model is broadly consistent with the Board's decisions at its July 2025 meeting to finalise the Tier 3 requirements proposed in ED 355 for Sections 12, 14 and 15 covering inventories, investment property and property, plant and equipment. These earlier decisions included generally minor clarifications and preserving the accounting policy option for entities to apply either the cost or revaluation model in subsequent measurement of such non-financial assets.

Option 1 also facilitates easier transition for preparers and auditors to move between Tier 3 and other tiers of reporting, and allows entities that may be revaluing intangible assets to continue their existing practice. However, as per stakeholder feedback, it would be unlikely for most intangible assets to meet the active market criterion for revaluation.

- (b) **Option 2:** to remove the accounting policy choice to apply the revaluation model for subsequent measurement of intangible assets. The arguments against Option 1 are the arguments supporting Option 2. In addition, removing the revaluation option in paragraphs 16.15 – 16.16 would shorten the Tier 3 requirements and reduce an accounting policy option, which would address some stakeholder feedback that the Tier 3 requirements contain too many accounting policy options. Removing the revaluation model may also require the Board to consider whether a fatal flaw review is warranted to re-expose the Board's approach.

Staff recommendations

- 14 On balance, **staff recommend** the Board proceed with Option 1, that is, to retain the revaluation model for the subsequent measurement of intangible assets for the reasons outlined in paragraph 13(a).

Disclosure of whether an independent valuer was involved when intangible assets are stated at revalued amounts

- 15 Staff also reviewed the third edition of the IFRS for SMEs Accounting Standard (issued in February 2025) and determined that it contains no substantive changes from the Exposure Draft on which Section 16 was based that would warrant further consideration by the Board in finalising the Tier 3 Standard. However, during the review of Section 16, staff noted that the disclosure in paragraph 16.28(b)—regarding whether an independent valuer was involved when intangible assets are stated at revalued amounts—is not required for Tier 1 entities, as it is not specified in AASB 138. Staff note that the Board developed this Tier 3 disclosure based on paragraph 140 of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, which contains the disclosures for when an intangible asset is stated at revalued amounts,⁶ because the IFRS for SMEs Standard prohibits the revaluation of intangible assets.⁷ Staff note the specific AASB 1060 disclosure for revalued intangible assets was developed from the disclosure requirements for revalued property, plant and equipment, which contain an equivalent disclosure on whether an independent valuer was

6 Paragraph 140 of AASB 1060 contains the following disclosures:
“If items of intangible assets are stated at revalued amounts, an entity shall disclose the following:
(a) the effective date of the revaluation;
(b) whether an independent valuer was involved;
(c) the methods and significant assumptions applied in estimating the items' fair values; and
(d) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.”

7 See Agenda Paper 3.9 in Board only supplementary folder for the 5 – 6 September 2024 Board meeting

involved as per paragraph 136(b) of AASB 1060.⁸ Staff consider requiring Tier 3 entities to disclose whether an independent valuer was involved for revalued intangible assets would be disproportionate since it is not required for Tier 1 entities and there are no measurement differences from Tier 1 reporting requirements that might have warranted an additional disclosure by Tier 3 entities. Therefore, **staff recommend** that paragraph 16.28(b) be removed from the final Tier 3 Standard.

- 16 If the Board agrees with the staff recommendations in paragraph 12 (including Table 2) and paragraphs 14 and 15, the Tier 3 requirements for intangible assets will be finalised as exposed in Section 16 of ED 335, except for removing the disclosure in paragraph 16.28(b) of whether an independent valuer was involved when intangible assets are stated at revalued amounts. Staff have also identified potential clarifying editorial changes within Section 16 and the relevant paragraphs of the Basis for Conclusions, and will include these in the updated draft text as part of a comprehensive draft of the Tier 3 Standard, for consideration at a future Board meeting (targeted for November 2025).

Question 1 for Board members

Do Board members agree with the staff recommendation in paragraph 16 to finalise the Tier 3 requirements for intangible assets as exposed in Section 16 of ED 335, except for removing the disclosure in paragraph 16.28(b) of whether an independent valuer was involved when intangible assets are stated at revalued amounts?

If not, what do Board members suggest?

SMC 32 – Section 23: *Impairment of Assets*

- 17 SMC 32 sought stakeholder views of the Board’s proposal on its Tier 3 impairment requirements. At a high level, Section 23:
- (a) requires an entity to assess the possibility that an asset subsequently measured at cost or deemed cost is impaired only when:
 - (i) the asset is physically damaged; or
 - (ii) the asset’s service potential or capacity to generate sales revenue might have been adversely affected by a change in the entity’s strategy or changes in external demand for the entity’s goods or services;
 - (b) specifies that the recoverable amount of a non-financial asset (other than inventory) is the higher of the asset’s fair value less costs to sell and its value in use. However, Section 23 contains a rebuttable presumption that fair value less costs to sell is expected to be the most appropriate measure of a non-financial asset’s recoverable amount;
 - (c) does not address how to account for the reversal of any previously recognised impairment losses; and
 - (d) does not include guidance on recognising and measuring impairment of cash-generating units (CGUs).

8 Refer to the [Staff Analysis – Comparison of R&M requirements in IFRS for SMEs Standard and full IFRS and analysis of impact on disclosures \(For for-profit private sector entities with no public accountability\)](#) published in August 2019. Staff note that the Board’s upcoming Invitation to Comment for updating AASB 1060 for the update of the IFRS for SMEs Standard also proposes to remove the disclosure on whether an independent valuer was involved for revalued intangible assets.

- 18 The Board’s rationale for developing the simplifications noted in paragraph 17 is provided in BC113 – BC117. The Board decided to:
- (a) limit the impairment indicators for which impairment consideration is required – in recognition of the complexities in the existing requirements in AASB 136 *Impairment of Assets*;
 - (b) not develop a requirement to account for the reversal of impairment losses – since it is likely that the significant event causing an impairment loss would make the asset’s carrying amount permanently irrecoverable as Tier 3 entities generally consider impairment only when there is a significant event such as flood damage; and
 - (c) not include guidance on recognising and measuring impairment of CGUs – because Tier 3 entities are unlikely to refer to such guidance commonly, and prohibiting the recognition of goodwill in Tier 3 entity combinations would also remove a need to provide guidance on the impairment of CGUs.
- 19 The Board also decided at its July 2025 Board meeting to relocate paragraphs 12.6 and 12.7 from Section 12: *Inventories*, together with other detailed text on how to identify and measure a loss of service potential of inventories held for distribution, to Section 23.⁹ These paragraphs would follow paragraph 23.5, which specifies how to measure the recoverable amount of inventories held for distribution.
- 20 As reported in Agenda Paper 4.3 presented at the May 2025 Board meeting, of the 18 comment letters that responded directly to ED 335 and the total number of participants who attended a virtual/in-person outreach session, 9 and 17 respondents, respectively, provided a response to SMC 32. The following table provides an overview of the responses received on SMC 32.

Table 3 SMC 32 responses

	Agree	Agree with exception	Disagree	Unsure
Out of 9 comment letters that commented on SMC 15	4 (44%)	4 (44%)	-	1 (12%)
Out of 17 participants who attended a virtual/in-person outreach session and commented on SMC 32	15 (88%)	-	2 (12%)	-

Staff analysis of stakeholders’ comments on Section 23

- 21 Staff consider that almost all stakeholders agreed or generally agreed with the Board’s proposals. Those stakeholders who agreed with the Board’s proposals did not provide any additional comments. The comments from stakeholders that generally agreed with some minor exceptions and the few stakeholders that disagreed are presented in Table 4 (extracted from Agenda Paper 4.3 presented at the May 2025 Board meeting), complemented by the staff analysis and recommendation:

9 Refer to Agenda Paper [5.5](#) presented at the July 2025 Board meeting.

Table 4 SMC 32: Further stakeholder comments from those who agreed with exception or disagreed and staff analysis and recommendation

Further comments from those who agreed with exceptions or disagreed	Staff analysis
<p>Two professional bodies generally agreed with the proposals except for paragraph 23.12, which allows impairment losses recorded in profit or loss to be disclosed jointly with depreciation/amortisation expense. Because the nature of those expenses differs, they would prefer them to be separately disclosed.</p>	<p>Although para. 134(e)(vi) and (vii) of AASB 1060 require separate disclosures of impairment losses and depreciation for property, plant, and equipment or investment property measured at cost, the Board developed its proposal for commingled disclosures in paragraph 23.12 based on paragraph A223(c) of the New Zealand Tier 3 Standard¹⁰ to further simplify the Tier 3 disclosure requirements.¹¹ At the time, staff considered that allowing the disclosure of impairment losses commingled with depreciation/amortisation expenses would be proportionate for smaller NFP entities. This view reflected that depreciation/amortisation and impairment expenses are often closely related (e.g. the latter can arise from a mis-estimate of an asset's useful life) and because it would be consistent with paragraph A223 of the New Zealand Tier 3 Standard.</p> <p>Nevertheless, in light of feedback from two stakeholders, impairment losses are sufficiently distinct from depreciation/amortisation expense to warrant separate disclosure requirements. Staff also note that allowing impairment losses to be commingled with depreciation/amortisation expenses would be consistent with the disclosure requirements for property, plant and equipment/investment property measured using the cost model and intangible assets in paras. 15.26(e) and (f) or paras. 16.25(f) and (g) respectively. These paragraphs require impairment losses to be separately disclosed from depreciation/amortisation. As such, staff recommend that the Board reconsiders its decision about para. 23.12 to avoid potentially giving rise to confusion in practice. Staff also consider that requiring separate disclosure of impairment losses and depreciation/amortisation expense should not be onerous for entities applying the Tier 3 Standard, because the indicators of impairment are quite narrow (see paragraph 17(a)) and recognition of impairment losses should therefore be uncommon.</p> <p>For these reasons, and to achieve consistency with para. 134(e)(vi) and (vii) of AASB 1060, staff recommend omitting para. 23.12 and thus requiring impairment losses to be disclosed separately from depreciation and amortisation expenses.</p>
<p>One professional services firm was unsure adequate simplification has been provided as they consider the actual testing of impairment as being the most challenging for NFP entities rather than when the impairment testing is required. They were also unclear from the proposals whether impairment is tested on an individual</p>	<p>As noted in paragraph 18(c), the Board decided not to include guidance on CGU impairment in the Tier 3 Standard, as such guidance would add unnecessary complexity for smaller NFP private sector entities that are unlikely to apply it frequently. In addition, the Board decided to prohibit the recognition of goodwill under its proposed requirements for entity combinations, therefore the Board considered not developing guidance on the impairment of CGU aligns with its decision not to recognise goodwill</p>

10 Paragraph A223 of the New Zealand Tier 3 Standard states:
For each class of property, plant and equipment recorded in the statement of financial position, the entity shall disclose in the notes to the performance report:

...
 (c) *the depreciation and/or impairment expense recorded for the asset class for the financial year;*
 ...

11 Refer to Agenda Paper 4.7 provided in Board only supplementary folder presented at the March 2024 Board meeting.

Further comments from those who agreed with exceptions or disagreed	Staff analysis
<p>basis or at a CGU level. There is a proposed rebuttable presumption that fair value less cost of disposal is the most appropriate measure of a non-financial asset's recoverable amount, and this may indicate impairment being assessed at the individual asset level. However, they consider value in use would require testing at a CGU level as would the indicator in para. 23.3(b) [i.e. an entity changed its strategy or has been affected by a reduction in external demand for goods or services, adversely affecting the entity's capacity to provide goods or services or generate sales revenue]. They consider that if testing could be performed at an individual asset level, this may simplify the impairment requirements sufficiently.</p>	<p>given the recoverable amount of goodwill cannot be calculated on a stand-alone (individual asset) basis.</p> <p>As noted in para. BC115(c), when developing the proposals for impairment requirements, the Board considered other alternative approaches, including the possibility of developing an alternative method for calculating the recoverable amount or allow flexibility for Tier 3 entities to determine the recoverable amount using a methodology they consider most appropriate. However, the Board concluded that developing an alternative approach or requiring application of significant judgement may introduce unnecessary complexity for preparers and auditors, or introduce inconsistencies with the principles applied in other Tier 3 requirements.</p> <p>Staff disagree with the stakeholder comment that consideration of value in use would require testing only at a CGU level, because the current requirements in AASB 136 (para. 6) define value in use as the present value of the future cash flows to be derived from an asset or CGU. This would indicate that value in use can be calculated on an individual asset level and not necessarily at a CGU level. For example, this may be the case where a standalone investment property is leased to a third party. The Tier 3 guidance for value in use in para. 23.8 is generally consistent with AASB 138 except for omitting CGU from the definition. Staff also consider the indicator of impairment in para. 23.3(b) is merely the trigger for considering the possibility of impairment of non-financial assets. Therefore, it requires an entity to identify whether an asset's carrying amount is impaired, rather than requiring estimates of recoverable amount to be made at a CGU level.</p> <p>Given it is clear the Board's intention is for impairment testing to be performed at an individual asset level, and in light of stakeholder feedback that the requirements may not be clear, staff recommend adding 'an individual' before "non-financial asset other than inventory" in para 23.6 to clarify that recoverable amount is measured at an individual asset level. That is, para 23.6 would be amended as:</p> <p>"The recoverable amount of a <u>an individual</u> non-financial asset other than inventory is the higher of its fair value less cost to sell and its value in use."</p>
<p>One professional services firm noted clarification is needed for the proposed impairment indicators, which may not be applicable for certain assets, particularly intangible assets that have been separately acquired and are not available for use in their current form (e.g. research and development assets). They also consider para. 23.3(b) would not apply to such assets that may have a demonstrated lack of market but do not generate revenue at this time, nor would para. 23.3(a) apply because the asset has not become obsolete. Therefore, a significant loss of value of an intangible asset might not qualify for identification</p>	<p>Staff note that when developing the ED proposals for the accounting of intangible assets, the Board had considered whether the impairment indicators proposed in Section 23 would be applicable for intangible assets.¹² Ultimately, the Board considered that its decision on impairment indicators for non-financial assets would apply to intangible assets. While the indicator in para. 23.3(a) – which refers to physical damage or spoilage – may not be relevant to intangible assets, the second indicator remains applicable for assessing impairment. For example, indicators could include management or entity structural changes that change how an intangible asset is used. Such changes would prompt consideration of the second proposed indicator in para. 23.3(b) on whether the intangible asset's ability to provide goods or services or generate sales revenue might have been affected adversely as a result.</p> <p>Staff also note that the Board considered it would be uncommon for Tier 3 NFP entities to hold intangible assets with an indefinite useful life for use</p>

Further comments from those who agreed with exceptions or disagreed	Staff analysis
<p>and recognition of an impairment. As such, they recommend adding further context in an additional para. 23.3(c) such as: “the entity’s strategy, as it relates to the specific asset, has altered such that the recovery of value of the asset is not probable. The test of recovery of value of the asset is only triggered where a change in strategy as it relates to that asset occurs”. They also consider the language used to depict the impairment indicators to appear absolute, contrary to the language used in AASB 136. As such, the indicators may be interpreted as being statements of when impairment has <i>prima facie</i> occurred, rather than indicators of impairment.</p>	<p>(as per findings from Research Report 19 indicating only 5% of sampled charities report intangible assets).</p> <p>In regard to the stakeholder’s recommendation to add a paragraph such as “the entity’s strategy, as it relates to the specific asset, has altered such that the recovery of value of the asset is not probable. The test of recovery of value of the asset is only triggered where a change in strategy as it relates to that asset occurs”, staff consider this requirement (indicator) is already quite similar to the proposed indicator in para. 23.3(b). Paragraph 23.3(b) requires the entity to assess whether a change of strategy might have adversely affected the asset’s capacity to provide goods or services or generate sales revenue. The stakeholder’s suggested additional indicator differs slightly from the Board’s proposed requirement. While the Board allows entities to assess whether a strategic change may have impacted an asset’s ability to contribute to operations or generate revenue, the stakeholder’s suggested indicator is more definitive as it focuses on whether the strategic change directly affects the recoverability of the asset’s value.</p> <p>Staff acknowledge that the suggested stakeholder indicator is more definitive and may better align with impairment indicators under AASB 136 para. 12(a) and (b). However, the Board’s objective with impairment indicators was to provide more ‘tangible’ factors that require assessments of potential impairments, to simplify impairment testing and reduce the need to exercise judgement. In this regard, the stakeholder’s suggested additional text refers to the recovery of value of the asset not being probable.</p> <p>Staff consider that adding ‘probable’ assessments would unduly complicate the Board’s proposals for a simplified approach to impairment testing. Nevertheless, staff consider applying the indicators in para. 23.3(a) and (b) should generally lead to similar outcomes as those from adding the text suggested by the stakeholder. This is because the recoverability of the asset’s carrying amount is implicit when considering whether an asset’s ability to generate future economic benefits (i.e. capacity to provide goods or services or generate revenue) even if not stated in identical terms.</p> <p>Regarding the comment that the indicators may be interpreted as statements of when impairment has <i>prima facie</i> occurred rather than indicators of impairment, staff consider the proposed indicators in para. 23.3 of ED 335 are not dissimilar to the indicators currently contained in AASB 136 para. 12(b) and (e) and, in part, para. 12(f)¹³These indicators in AASB 136 are not framed as conclusive evidence of impairment but rather trigger further investigation into whether an asset’s carrying amount may</p>

13 Paragraphs 12(b), (e) and (f) of AASB 136 state:

- ...
- (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- ...
- (e) evidence is available of obsolescence or physical damage of an asset.
- (f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, ...

Further comments from those who agreed with exceptions or disagreed	Staff analysis
	<p>not be recoverable. Consistent with AASB 136, the proposed impairment indicators in para. 23.3 should be read as preliminary signals that may necessitate an impairment test rather than automatic confirmation that impairment has occurred.</p> <p>For these reasons, and on consideration that the stakeholder feedback does not provide any new compelling evidence that should cause the Board to change its views, staff recommend no changes in response to those comments.</p>
<p>One professional services firm and one stakeholder that attended a virtual/in-person outreach considered another indicator of impairment should be added, being changes in the technological, legislative and market environment. One of these stakeholders considered that if an entity did not voluntarily alter its strategy, but was compelled to do so by legislative or regulatory changes, then the proposed impairment indicators may not be adequate to cover such a scenario.</p> <p>The other stakeholder noted that the scope of Section 23 covers all assets other than financial assets and non-financial assets that are regularly revalued. However, the examples provided in para. 23.3 of the types of assets covered include only inventories and property, plant and equipment. As such, they recommend clarifying that section 23 would also apply to other non-financial assets, including investment properties and investments in associates and joint ventures measured at cost or using the equity method.</p>	<p>As noted in para. 18(b), the Board decided to limit the Tier 3 impairment indicators to those noted in para. 17(a)(i) because Tier 3 entities generally consider impairment only when there is a significant event such as flood damage. In relation to the impairment indicator in para. 17(a)(ii), staff note that assessing whether “the entity has changed its strategy or been affected by a reduction in external demand...” implicitly takes into account changes in the technological, legislative and market environment if they are sufficiently significant to cause a change in strategy (an internal event) and takes into account changes in the technological or market environment if they are sufficiently significant to reduce external demand for the entity’s goods or services. Staff acknowledge that the indicators of impairment noted in para. 17(a) might be less exhaustive than those suggested by the stakeholders. However, this is integral to proposing a simplified approach to identifying potential impairment losses and setting out more explicit criteria in plainer English.</p> <p>Staff also note that the proposed para. 23.1 considers impairment loss could occur when there is a technological change, or the asset is damaged which also implies the impairment assessment of whether a reduction in external demand would consider external market conditions. Staff also consider the reference to changes in the entity’s strategy includes circumstances in which the entity makes changes voluntarily or is compelled to do so. As such, staff recommend not to explicitly add changes in technological, legislative and market environment as impairment indicators suggested by stakeholders.</p> <p>As noted in Agenda Paper 5.1 at the July 2025 Board meeting, a stakeholder commented to SMC 9 that the Tier 3 proposals should include an impairment assessment if an entity is planning to sell an asset. Staff note that the Board decided at that meeting to continue to require Tier 3 entities to apply AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> for assets held for sale. As such, staff recommend not to add an impairment indicator for an entity that plans to sell an asset would be inconsistent with the Board’s decision to require assets held for sale to be accounted for by applying AASB 5’s requirements.</p> <p>Regarding the other stakeholder comment in the second adjacent paragraph for this row, staff note that, as per para. 23.2 of ED 335, Section 23 must be applied to all assets other than financial assets or non-financial assets regularly revalued to fair value. Staff also note that the examples in the stem of para. 23.3 are merely examples, and need not reference all non-financial assets. However, staff note that para 23.11(c) and (d) propose to require disclosure of impairment information for investments in associates and joint ventures measured on the cost basis – these are financial assets. On reflection of the indicators and measurement requirements specified in Section 23, staff think that the impairment requirements in Section 10: <i>Financial Instruments</i> should apply instead to these investments as the impairment indicators or measurement</p>

Further comments from those who agreed with exceptions or disagreed	Staff analysis
	<p>requirements in Section 23 are unlikely to be relevant to an entity's investments in associates and joint ventures. Consequently, and consistent with the staff recommendation in Agenda Paper 4.4, staff recommend clarifying that the scope of Section 23 only applies to non-financial assets by removing the requirement to disclose impairment information for investments in associates and joint ventures in paras. 23.11(c) and (d).</p> <p>[Staff note: Agenda Paper 4.4 notes two stakeholders also sought clarification for the subsequent measurement of associates and joint arrangements accounted for using the cost model and fair value model (refer to stakeholder comment #13). The staff recommendation is consistent between the papers. The Board's decision regarding address of that stakeholder comment may have implications for its decision-making in this paper].</p>
<p>One other stakeholder found the requirements confusing, as per their comment on SMC 20, where some paragraphs appear to restrict impairment assessment and others not (e.g. 23.5). They were unclear from para. 23.9 whether the Board intends for an impairment loss on an asset where fair value measurement is temporarily suspended (and therefore cost used) would be recognised in profit or loss instead of the asset revaluation reserve. Additionally, they consider impairment disclosures are also relevant for inventories and should be required.</p>	<p>As per staff's analysis presented at the July 2025 Board meeting, staff consider the requirement in para. 23.5 describes how inventories held for distribution measures a loss of service potential; hence, consistent with para. 12.5 of ED 335, para. 23.5 only becomes relevant if conditions under which impairment testing must be performed in para. 23.3 are met. Staff also note that while para. 23.5 provides examples (e.g. damaged or outdated items), these are illustrative of how to measure loss of service potential, not additional triggers beyond those of para. 23.3.</p> <p>In response to the stakeholder comment regarding potential ambiguity in para. 23.9—specifically, whether impairment losses for assets temporarily measured using the cost model (due to an unreliable fair value) are recognised in profit or loss or in the revaluation reserve (directly via other comprehensive income (OCI))—staff note that para. 23.9 states that an impairment loss is recognised immediately in profit or loss “unless the asset is carried at a revalued amount in accordance with the revaluation model in Section 15 or Section 16”. Although para. 23.9 cross-refers to explicit requirements in Sections 15 and 16 regarding whether to recognise impairment losses in profit or loss or via OCI, staff considered whether it might be unclear whether an asset temporarily measured under the cost model is (per para. 23.9) “carried at a revalued amount”. Staff consider it should be clear that the asset should be regarded as being carried at a revalued amount, because that conclusion is consistent with the statements in para. 14.10 and 16.13 that applying the cost model to particular assets when their fair value cannot be reliably measured (for investment property) or they are not currently traded in an active market (for intangible assets) is not a change in accounting policy.¹⁴ In addition, staff consider this conclusion should apply even if a particular asset within a class of assets measured under the revaluation model has yet to be revalued because estimating a reliable measure of its fair value has not yet been possible. This staff view is because ED 335 proposed (consistent with the Tier 2 requirements for NFP entities in para. Aus39.1 and Aus40.1 – Aus40.2 of AASB 116 <i>Property, Plant and Equipment</i> and para. Aus85.1 and Aus86.1 – Aus86.2 of AASB 138 <i>Intangible Assets</i>) that accounting for revaluation increases and decreases should be on a class-of-assets basis</p>

14 As a matter of drafting, staff consider that a similar statement should be included in Section 15 for consistency. This will be addressed in drafting full revised draft text of the Tier 3 Standard for consideration by the Board (targeted for November 2025).

Further comments from those who agreed with exceptions or disagreed	Staff analysis
	<p>rather than on an asset-by-asset basis (as per the Tier 2 requirements in para. 39 – 40 of AASB 116 and para. 85 – 86 of AASB 138).</p> <p>Paragraph 23.9 does not provide any exemption from recognition of impairment losses in profit or loss for investment property carried at a revalued amount in accordance with the fair value model in Section 14: <i>Investment Property</i>. This is consistent with the requirement in para. 14.8 that, under the fair value model, changes in fair value are recognised only in profit or loss. It should be clear that, in accordance with para. 23.9, any impairment loss recognised for investment property must be recognised in profit or loss.</p> <p>For these reasons, and because other stakeholders did not indicate they found para. 23.9 unclear, staff recommend not amending para. 23.9 (or any related paragraphs) to clarify that an item of property, plant and equipment or intangible asset temporarily measured under the cost model is “carried at a revalued amount”, and therefore impairment losses for such assets are accounted for as revaluation decreases.</p> <p>In regard to the stakeholder comment that impairment disclosures are also relevant for inventories, staff note that when the Board developed its proposals, it considered draft text based on the IFRS for SMEs ED para. 27.33, which proposed to remove the disclosure for impairment losses relating to inventories.¹⁵ However, staff subsequently reviewed the third edition of the IFRS for SMEs Accounting Standard, which reinstated the requirement for disclosure of impairment losses for inventories. In light of this change and considering the stakeholder feedback that disclosure of impairment losses for inventories is also relevant, staff recommend including inventories as a class of non-financial assets for which disclosure of information about impairment losses would be required by para. 23.11.</p>

Staff recommendations

- 22 Staff have reviewed the third edition of the IFRS for SMEs Accounting Standard, and other than the disclosure of impairment losses for inventories as a class of assets noted in Table 4 above, staff determined that it contains no substantive changes from the Exposure Draft on which Section 23 was based that would warrant further consideration by the Board in finalising the Tier 3 Standard. As such, per the staff analysis and recommendations in paragraph 21 (including Table 4), **staff recommend** that the Board finalises the Tier 3 requirements for impairment of assets as exposed in Section 23 of ED 335, except for:
- (a) adding ‘an individual’ before “non-financial asset other than inventory” in paragraph 23.6 to clarify that recoverable amount is measured at an individual asset level;
 - (b) including inventories as a class of non-financial assets for which disclosure of information about impairment losses would be required in paragraph 23.11;
 - (c) clarifying that the scope of Section 23 only applies to non-financial assets by removing the requirement to disclose impairment information for investments in associates and joint ventures in paragraphs 23.11(c) and (d); and

15 Refer to Agenda Paper 4.7 in the Board only supplementary folder presented at the March 2024 Board meeting.

- (d) omitting paragraph 23.12 and thus requiring impairment losses to be disclosed separately from depreciation and amortisation expenses.

Staff will bring the drafting for these and any other changes for the Board to consider at a future meeting.

Question 2 for Board members

Do Board members agree with the staff recommendations in paragraph 22 to finalise the Tier 3 requirements for impairment of assets as exposed in Section 23 of ED 335, except for:

- (a) adding 'an individual' before "non-financial asset other than inventory" in paragraph 23.6 to clarify that recoverable amount is measured at an individual asset level;
- (b) including inventories as a class of non-financial assets for which disclosure of information about impairment losses would be required in paragraph 23.11;
- (c) clarifying that the scope of Section 23 only applies to non-financial assets by removing the requirement to disclose impairment information for investments in associates and joint ventures in paragraphs 23.11(c) and (d); and
- (d) omitting paragraph 23.12 and thus requiring impairment losses to be disclosed separately from depreciation and amortisation expenses?

If not, what do Board members suggest?

Initial measurement of an asset acquired at significantly less than fair value and SMCs 2(e) and 23

- 23 The Board decided to propose in ED 335 an accounting policy choice to initially measure non-financial assets acquired at significantly less than fair value (herein referred to as donated non-financial assets) at cost or fair value (current replacement cost for inventories). This accounting policy choice to initially measure donated non-financial assets at cost or at fair value applies to Sections 12, 14, 15 and 16 relating to inventories, investment property, property, plant and equipment, and intangible assets, respectively. Where an entity elects to initially measure donated non-financial assets at cost, it is required to disclose information that helps users of financial statements to assess:
 - (a) the entity's dependence on donations of that class of assets; and
 - (b) the nature and terms of the donations arrangement including 1) a description of the donated asset and the class of assets to which it relates; 2) any amounts owing to the donor; and 3) restrictions on the use of the donated asset imposed by the donor.
- 24 The Board also decided that for entity combinations, paragraph 17.6 requires where a material asset or liability of an entity subject to the combination does not have an existing carrying amount recorded in accordance with Australian Accounting Standards, it shall initially be measured at its fair value as at the deemed combination date. However, paragraph 17.7 proposes that if a combining entity was donated a non-financial asset before the entity combination without paying any consideration in return and elected to initially measure that asset at its cost (nil), the donated asset is excluded from needing to be fair valued.
- 25 The Board decided to propose an accounting policy choice for initial measurement of non-financial assets because, as per paragraphs BC108 – BC111, the Board recognised that Tier 3 entities may have difficulties in obtaining a fair value for donated non-financial assets. The Board also considered that the principles of Tier 3 fair value measurement should be consistent with AASB 13 *Fair Value Measurement*. The Board considered its proposal is balanced with disclosures that would provide information to users about their assets and consistent with its decisions to simplify lease accounting (by not requiring Tier 3 entities to recognise right-of-use

assets). In response to feedback on its preliminary view in the Tier 3 Discussion Paper—which proposed prohibiting the subsequent revaluation of donated non-financial assets initially measured at cost—the Board acknowledged concerns that this would bind current management to past decisions. As a result, ED 335 permits an accounting policy choice to subsequently measure those assets at either cost or fair value, regardless of the initial measurement policy.

- 26 As noted in paragraph 11, at its May 2025 Board meeting, the Board decided to redeliberate other aspects of the Tier 3 proposals because its decisions regarding other Category B topics might inform how it finalises these requirements (i.e. whether to proceed to allow an accounting policy choice to initially measure donated non-financial assets at cost or fair value).
- 27 At its July 2025 meeting, the Board decided to proceed with the proposals exposed in ED 335 for Tier 3 requirements for inventories, investment property, property, plant and equipment, substantially the same as exposed in the relevant Sections, except for amendments of a clarifying nature.¹⁶

Stakeholder feedback specifically in relation to providing an accounting policy choice to initially measure donated non-financial assets at cost or fair value

- 28 SMC 2(e) sought stakeholders’ feedback on whether they agree with an accounting policy choice to measure donated non-financial assets at cost (which could be nil or a nominal amount) or at their fair value.
- 29 All survey respondents (13 respondents) and 11 out of 13 written respondents agreed with the Board’s proposal to allow an accounting policy choice for initial measurement of donated non-financial assets.
- 30 Two stakeholders (a professional body and a regulator) disagreed with the accounting policy choice for the initial measurement of donated non-financial assets. They preferred these assets to be measured at fair value unless impracticable, citing relevance, reliability and consistency with donor requirements (e.g. 40% of charities that are deductible gift recipients (DGRs) require the donor to measure any donations of assets at market value¹⁷). Both stakeholders provided consistent comments in SMC 20 and SMC 22 relating to initial measurement of donated inventories, investment property and property, plant and equipment.
- 31 Regarding donated intangible assets, one stakeholder (a professional body) preferred retaining the Tier 2 requirement for initial measurement at fair value (as per AASB 138, para. Aus24.1). In contrast, another stakeholder (a regulator) supported providing an accounting policy choice, noting that donated intangible assets are less common and pose a lower risk to public trust and confidence compared to other material non-financial assets. This same stakeholder also questioned the requirement for material assets and liabilities that are subject to an entity combination with no existing carrying amount recorded in accordance with Australian Accounting Standards to be measured at fair value as at the deemed combination date (refer to stakeholder comment #4 in Agenda Paper 4.3). They consider that those assets should not be required to be measured at fair value, as this would be inconsistent with the Board’s decision to allow donated non-financial assets to be measured at cost (which could be nil, resulting in no carrying amount recorded in the statement of financial position).

16 Refer to Agenda Paper 2.2 for the draft meeting minutes and presented in Agenda Paper 4.0 for the Board’s decisions.

17 ATO website accessed on 4 March 2025.

- 32 SMC 23 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.
- 33 As noted in Agenda Paper 4.3 presented at the May 2025 Board meeting, staff did not ask SMC 23 at the outreach session; the feedback was obtained only from written submissions. Six comment letters responded to SMC 23, with almost all responding professional services firms considering the cost of determining fair value varies depending on the type of assets. For example, fair value is relatively straightforward to determine for assets like motor vehicles, whereas it is more complex and potentially costly for assets such as artwork, intellectual property, buildings with caveats or mining tenements. In any case, some firms recognise that the cost of obtaining fair value information could potentially reduce the available funds for NFP entities, especially for smaller entities. Another professional services firm considered that current special purpose financial statements preparers generally elect to measure donated non-financial assets at fair value for significantly large donations, such as properties and vehicles, where the benefits of providing fair value are expected to exceed the cost. In contrast, a few stakeholders (two professional bodies and another stakeholder) indicated that, based on their outreach or experience, smaller NFP entities were generally not concerned with the cost of obtaining or making reasonable estimates of the fair value of donated investment property and property, plant, and equipment, particularly due to governance reasons.

Staff analysis of stakeholders' comments, specifically in relation to whether to provide an accounting policy choice to initially measure donated non-financial assets at cost or fair value

- 34 In response to the stakeholders' comment noted in paragraph 30, staff acknowledge that fair value measurement would provide a more faithful representation of the amount of donated non-financial assets received. However, staff note that the Board decided to provide an accounting policy choice because of cost-benefit reasons, recognising that smaller NFP entities often lack the resources or expertise to obtain or estimate the fair value of non-financial assets, even for those assets that are easier to measure. As supported by stakeholder feedback noted in paragraph 33, obtaining fair values continues to be a costly process, potentially diminishing the available funds for other activities, particularly for smaller NFP entities. The feedback aligns with the Board's rationale outlined in BC 108 – BC 111, which acknowledges the challenges and costs smaller NFP entities face in determining fair value. Providing an accounting policy choice ensures that registered DGR charities can maintain their ATO reporting obligations, and for entities that consider fair value measurement more useful for their user needs, to continue to elect the fair value model for initial measurement of donated non-financial assets.
- 35 Regarding the stakeholders' suggestion to require donated non-financial assets to be measured at fair value unless impracticable, staff consider it would generally be difficult for entities to prove that fair value measurement is impracticable. This is because:
- (a) as per stakeholders' comments in paragraph 33, while the cost of determining fair value varies depending on the type of asset, fair value can generally be obtained, even for specialised or complex assets such as artwork or intellectual property. Therefore, it is generally practicable for entities to obtain or estimate the fair value of most donated non-financial assets, notwithstanding the associated costs. (However, an onerous cost might cause the exercise to be considered impracticable); and
 - (b) entities would need to demonstrate that fair value cannot be obtained or estimated even after making every reasonable effort, not merely that it is costly or inconvenient.

Also, staff note that preparers would need to exercise professional judgement to assess whether the criteria for impracticability are met, potentially resulting in increased costs to the entity.

Additionally, obtaining auditor's agreement on whether on the entity's impracticability conclusion could result in more cost.

- 36 In response to the stakeholder's concern noted in paragraph 31 about a potential inconsistency between requiring material assets or liabilities acquired in an entity combination (without a carrying amount under Australian Accounting Standards) to be measured at fair value, and allowing donated non-financial assets to be measured at cost, staff consider that the Board's decision regarding entity combinations was intended to capture entities that had previously applied a SPFS framework or cash accounting. In such cases, these assets may not have been previously recognised in the financial statements, which differs from situations in which assets are fully depreciated or where an entity has received a donated asset. Staff consider the Board's proposed approach ensures that entities transitioning from SPFS or cash accounting, if they had omitted significant assets other than donated assets, those assets would be appropriately recognised in the financial statements. Staff acknowledge that there may appear to be an inconsistency in the Board's approaches. However, the fair value measurement of material assets and liabilities in an entity combination is typically a one-off event, occurring infrequently. In contrast, donations of non-financial assets are expected to be more frequent transactions for Tier 3 entities. Given this distinction, staff consider that continuing to permit an accounting policy choice for the initial measurement of donated non-financial assets is consistent with the overarching Tier 3 principles—particularly the emphasis on cost-benefit considerations. Allowing flexibility in this area helps reduce the burden on entities while still supporting transparency and accountability in financial reporting. [Staff note: The staff recommendation in this paper is consistent with that in Agenda Paper 4.3, which presents the staff analysis of stakeholder feedback on other aspects of Section 17: *Entity Combinations*].
- 37 Based on the above analysis, staff **recommend** that the Board finalises the Tier 3 requirements to continue to allow an accounting policy choice for initial measurement of donated non-financial assets as exposed in Sections 12, 14, 15 and 16 of ED 335 relating to inventories, investment property, property, plant and equipment, and intangible assets, respectively.

Question 3 for Board members

Do Board members agree with the staff recommendation in paragraph 37 to continue to allow an accounting policy choice for the initial measurement of donated non-financial assets as exposed in Sections 12, 14, 15 and 16 of ED 335?

If not, what do Board members suggest?