Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M195
Topic:	**Attachments: Detailed summary of feedback on the Tier 3 Discussion Paper and next steps**	**Agenda Item:**	3.1.1
		Date:	18 April 2023
Contact(s):	Maggie Man mman@aasb.gov.au Jia Wei jwei@aasb.gov.au Fridrich Housa fhousa@aasb.gov.au	**Project Priority:**	High
		Decision-Making:	High
		Project Status:	Consider stakeholder feedback and decide next step of the project

The objective of this paper

1. The objective of this staff paper is to provide the Board with a detailed summary of feedback, preliminary staff analysis and recommended actions summarised in Agenda Paper 3.1 including:

   (a) **Section A**: Overview of the outreach activities;

   (b) **Section B**: Quantitative summary of responses to the Discussion Paper (DP); and

   (c) **Section C**: Detailed preliminary staff analysis of feedback on the DP and suggested action for next steps.

Section A: Overview of outreach activities

Overview of outreach activities

1 Consistent with the outreach plan considered by the Board at its August 2022 (M189) meeting, except for the in-person outreach sessions,[1] Table 1 provides the summary of activities conducted including the number of respondents from each outreach activity on the Discussion Paper – *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* (DP).

Table 1 Overview of outreach activities

Outreach activity	Number of attendees/ submissions received	Profile of attendees/written submissions (where identifiable)
Online survey	263[2]	• 155 Auditors (59%) • 88 Preparers (33%) • 10 Users (4%) • 8 Other – consisting of advisors, a director and a respondent with mixed roles (3%) • 2 Regulators' staff (1%)
9 x Virtual outreach session	170	Mixed stakeholders
6 x Virtual and in person meeting with CPA/CA ANZ NFP committees	60	Mixed stakeholders
One-to-one individual meetings	57	• Preparers • Regulators • Software Provider

Written submissions	14	• 6 x Professional services:
		  ○ Pitcher Partners (PP);
		  ○ Moore Australia (MA);
		  ○ Saward Dawson (SD);
		  ○ KPMG;
		  ○ BDO; and
		  ○ Deloitte Australia (Deloitte)
		• 2 x Regulator
		  ○ Office of the Registrar of Indigenous Corporation (ORIC); and
		  ○ Australian Charities and Not-for-profits Commission (ACNC)

1 The two in-person outreach sessions planned for Sydney and Melbourne in February 2023 did not take place due to low registration numbers.

2 289 responses were received to the survey in total; however, 26 of the responses were unusable because the respondent did not answer any questions and have been removed from the analysis.

Outreach activity	Number of attendees/ submissions received	Profile of attendees/written submissions (where identifiable)
		• 3 x Professional Bodies ○ Australian Institute of Company Directors (AICD); ○ Institute of Public Accountants (IPA) ○ CPA Australia and Chartered Accountants Australian and Zealand (joint submission) (CPA/CA ANZ) • 3 x Other ○ David Hardidge (DH) ○ Dr Tricia Ong, Edith Cowan University, Associate Professor Mukesh Garg, Monash University, Professor Hadrian Djajadikerta, Curtin University – Academics (AR) ○ Professor David Gilchrist, UWA Business School's Centre for Public Value (UWA)
Total	**564**	

2 Staff have provided a preliminary analysis of the feedback received on the questions proposed in the DP and suggested actions on the next steps in Table *1* above. As noted in Agenda Paper 8.3 presented at the March 2023 Board meeting, staff did not cover all topics included in the DP during the virtual outreach sessions due to time limitations. The questions on the topics that staff consulted at the virtual outreach sessions are marked by a red asterisk * in Section B. Respondents to the online survey and written submissions did not always comment on every question in the DP. Consequently, staff have combined the feedback received from all outreach activities and expressed the feedback by percentages of those that responded to the questions.

3 Consistent with the preliminary analysis of feedback presented in March 2023, staff have used the following terms to describe the proportion of the respondents that commented on a particular question or topic.

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

Section B: Quantitative summary of responses to DP

1 Table 2 below presents a quantitative summary of responses to the DP from the online survey, virtual outreach sessions and written submissions. The detailed responses, including the profile of the respondents, are presented in Section C.

Table 2 Quantitative summary of responses to the DP

Question/topic in DP	Yes (agree)	No (disagree)	Other (neither agree or disagree)	N/A[3]	Total
Q1) Not establishing reporting thresholds within the Australian Accounting Standards (AAS)	162	30	-	-	192
Q2) Addressing service performance reporting as a separate project	184	4	-	-	188
Q3) Applying the *Conceptual Framework for Financial Reporting* to smaller NFP private sector entities.[4]	4	3	2	-	9
Q4) Aligning the timing of any new Tier 3 reporting requirements with the timing of the extension of the AAS to a broader set of NFP private sector entities	178	1	16	-	195
Q5) Extending the AAS applicable to certain NFP entities*	178	38	1	-	217
Q6) Introducing of a simpler further reporting tier (Tier 3) as proportionate response for smaller size NFP entities with less complex transactions and events.[4]	13	1	-	-	14
Q7) Not developing a fourth reporting tier	178	15	-	-	193
Q8) Not changing the existing Tier 1 or Tier 2 AAS	175	11	-	-	186
Q9) Stand-alone standard	262	8	-	-	270
Q10) Opt-up policy on whether to allow Tier 3 entities to opt-up to Tier 1 or Tier 2 reporting requirements by class of transaction basis* Option 1 – Free choice Option 2 – only for topics permitted by the Board Option 3 – Not permitted	Option 1 147	Option 2 30	Option 3 83	-	260
Q11) Items proposed to be excluded from Tier 3 accounting requirements*	297	105	-	-	402
Q12) Hierarchy approach	179	12	-	-	191
Q13) Maintenance cycle	181	9	-	-	190

3 Some questions in the online survey allowed respondents to select “not applicable to my organisation/decision making (N/A)”. No comments were provided by these respondents who selected N/A. As such, staff infer that these respondents do not disagree with the proposals. Some questions proposed in the DP are combined because the questions were asked in the online survey/virtual outreach as one question.

4 This question was not included in the online survey or virtual outreach. Feedback for this question was obtained from written submissions or one-to-one meetings.

Question/topic in DP	Yes (agree)	No (disagree)	Other (neither agree or disagree)	N/A[3]	Total
Q14a & Q15–16) Primary financial statements including presentation requirements	173	36	-	-	209
Q14b) Requirement of the statement of changes in equity*	191	128	-	14	333
Q17) Consolidated financial statements*	257	39	-	71	367
Q18) Separate financial statements of the parent	150	24	-	30	204
Q19–20) Changes in accounting policies and correction of accounting errors and changes in accounting estimates	175	31	-	3	209
Q21) Tier 3 to develop simplified accounting for financial instruments that are common to smaller NFP entities and for more complex or uncommon financial instruments refer to AASB 9*	277	10	-	14	301
Q22–27) Accounting for basic financial instruments*	337	58	-	-	395
Q28) Fair value measurement	190	5	-	7	202
Q29) Cost appropriate estimate for fair value for unlisted share investments	161	15	-	18	194
Q30) Inventory	186	1	-	17	204
Q31) Accounting for biological assets and agricultural produce at the point of harvest if not scoped out from a Tier 3 Standard	8	2	-	-	10
Q32–33) Investment in associates and joint ventures	137	8	-	47	192
Q34) Property, plant and equipment and investment property	188	8	-	3	199
Q35) Initially measurement of non-financial assets acquired at significantly less than fair value*	264	71	-	24	359
Q36) Volunteer services	152	41	-	5	198
Q37) Borrowing costs	189	9	-	9	207
Q38) Impairment of non-financial assets*	304	21	-	26	351
Q39) Assets held for sale	176	8	-	15	199
Q40) Existence of intangible assets commonly held and recognised by smaller NFP entities*	147	221	-	-	368
Q41) Leases*	314	24	-	12	350
Q42) Income (including Revenue)*	315	16	-	17	348
Q43–44) Employee benefits (including termination benefits and defined benefit plans)	201	15	-	4	220

Question/topic in DP	Yes (agree)	No (disagree)	Other (neither agree or disagree)	N/A[3]	Total
Q45) Other topics to be included in Tier 3 reporting requirements	164	7	-	19	190
Q46–49) Disclosure approach, and illustrative disclosures examples	183	6	-	-	189

Section C: Detailed preliminary staff analysis of feedback on the DP and suggested action for next steps[5]

<table>
<tr><th colspan="2">Operationalisation of the proposed Tier 3 Standard</th></tr>
<tr><th colspan="2">Q1) Not establishing reporting thresholds within the Australian Accounting Standards
Total response = 192</th></tr>
<tr><td>Yes = 162 (84%) consisting of:
• 44 preparers (23%)
• 98 auditors (51%)
• 4 users (2%)
• 1 regulator (1%)
• 4 others (2%)
• 11 written responses (6%) (PP, MA, ORIC, AICD, SD, IPA, KPMG, UWA, DH, BDO, Deloitte)</td><td>Most stakeholders agree with not establishing reporting thresholds within the Australian Accounting Standards (AAS) but the written submissions emphasised the need to continue engagement with regulators (ACNC and other significant NFP regulators) to ensure consistent application of the requirements. They noted it would be challenging for the AASB to set a standard if it has no oversight on what type of entity it is setting the standard for without working closely with regulators to determine which entities would be appropriate to apply Tier 3 Standard (Deloitte). However, some noted there may be a risk if regulators implement reporting thresholds that are significantly different to the revenue range the Board had in mind when developing Tier 3 requirements, which would significantly undermine the usefulness of financial information to users (BDO).
These stakeholders:
• considered specifying reporting thresholds in the AAS could increase complexity and become incompatible with other regulatory requirements if they were to change (BDO);
• agree that specifying thresholds is not within the remit of an accounting standard setter (PP and UWA), nor is it possible for the AASB to settle on a delineation of tiers appropriate to all situations (UWA);
• endorse the Board's view that establishing appropriate financial reporting thresholds is the responsibility of relevant legislation or regulatory authority (ORIC); and
• if regulators agreed and determined that a specific Tier must apply to certain entities, then the criteria could be included in the scope paragraphs of the standard, however only after adequate consultation and due process has been followed (PP, MA);
However, many of these stakeholders suggested that guidance should be developed to help determine which NFP entities would be appropriate to apply the Tier 3 Standards in the future. A few stakeholders recommended application thresholds could be included in the basis for conclusions (PP and IPA).
A few stakeholders consider some quantitative thresholds could be provided to help entities determine and to simplify the application of the Tier 3 Standard. However, stakeholders had varying views on the quantitative thresholds that may apply, including:
• <u>Total assets and number of employees/volunteers in addition to total revenue/income:</u></td></tr>
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5 The percentages allocated to each stakeholder group may not add up to the total due to rounding.

	• the quantum of thresholds should be considered given some regulators (e.g. ORIC) require preparation of Tier 2 financial statements, even if the entity may have low risk but significant assets or turnover, resulting in disproportionate reporting by these entities (MA); and • revenue may not be appropriate due to fluctuations over time, and previous findings of AASB consultation on Tier 2 general purpose financial statements (GPFS) proposals found that most constituents rejected the revenue thresholds approach given they are difficult to determine and are arbitrary in their impact. ACNC thresholds may not be an appropriate threshold determinant, given that most NFPs are not ACNC-registered charities and findings by the Productivity Commission in 2010 estimated around 600 thousand NFPs in total where ACNC charities only constituted around 60 thousand entities (AICD). Other comments: • Tier 3 requirements would be suitable for entities with similar less complex transactions and events but higher revenue threshold than the medium-sized ACNC charity (SD, KPMG). • Quantitative thresholds are not best determinant as some large entities may have simple transactions and vice versa. • Tier 3 should apply to NFP public sector entities and for-profit private sector entities. If AASB continues to reject *IFRS for SMEs* or its modifications in Australia, then Tier 3 would be an appropriate framework for Australian private sector SMEs (DH). • The use of the term "Tier" to describe reporting thresholds may be confused with some NFP legislation (e.g. *NSW Association Incorporations Act 2009*) that expresses reporting thresholds using Tiers differently. Recommend that regulators adopt 'small', 'medium' and large' to describe reporting thresholds, and AASB to distinguish general purpose financial statements GPFS framework using Tier 1, Tier 2 and Tier 3 (BDO).
No = 30 (16%) consisting of: • 12 preparers (6%) • 14 auditors (7%) • 1 other (1%) • 3 written responses (2%) (AR, ACNC, CPA/CA ANZ)	Some stakeholders disagree as the judgement required to determine the type of financial statements to prepare will result in reduced comparability if NFP entities can freely determine the type of GPFS to prepare, albeit improvement to current special purpose financial statements. Some of these stakeholders recommended: • thresholds should be developed in consultation with the sector (ACNC) and these standardised reporting thresholds and their corresponding reporting requirements should be implemented consistently across other regulatory authorities, including federal, state/territory, local and grant acquittal process (AR); and • thresholds could be determined within transitional provisions of the Tier 3 Standard with subsequent review (CPA/CA ANZ). A few stakeholders that prefer thresholds in Tier 3 standard provided other comments including: • the Tier 3 Standard should only apply to smaller entities using the ACNC thresholds. Other quantitative thresholds such as total number of employees and total assets would be inappropriate because NFP utilise volunteers, unaccounted volunteers add complexities and valuing donated assets is difficult (AR);

	• most Australian regulators use revenue as the basis to determine size and stakeholders are familiar with such a basis. Subject to research and further discussions with regulators, an upper limit range of $5m–$10m could be appropriate since the 2018 independent review of ACNC legislation recommend revenue thresholds for medium charities be revised between $1m–$5m. No lower limit range is required since it may remove the ability for entities below a threshold from applying the Tier 3 Standard. An average revenue threshold over 2–3 years may be appropriate to allow for the change in the revenue recognition requirements (CPA/CA ANZ); • NFP entities with revenue up to $5 million would still be considered a small NFP entity; and • the Tier 3 Standard should be applicable for all NFP entities.

Staff analysis: Staff agree with the importance of continuing to engage with relevant regulatory bodies and key legislative authorities on necessary changes to legislation or regulations to effect the Board's proposals and to ensure orderly transition to future AAS requirements. As agreed by most of the respondents, staff continue to think establishing thresholds could increase complexity of the requirements and that it should be for the respective legislators or regulatory authorities to specify the type of financial statements an entity should prepare because:

- it is not possible for the AASB to settle on a delineation of tiers appropriate to all situations;
- there are varying views amongst DP respondents on what quantitative measures would be appropriate to apply; and
- mixed feedback from regulators themselves, where some consider threshold should be developed by the AASB and others consider determining thresholds is within the remit of the regulator. Staff also note that, from the initial discussion with regulator staff, at least one regulator requires all entities within their remit to prepare Tier 1 GPFS regardless of the size (see Agenda Paper 8.1.1 at March 2023 Meeting).

However, staff noted the concerns from some stakeholders that not specifying thresholds can increase the complexity of applying AAS requirements. There are also varying views on the mechanisms for providing such guidance to NFP entities, for example, within the application scope of the standard, in transitional provisions or in the basis for conclusions. Given the importance of the issue, further analysis will be needed to determine whether it is appropriate and feasible to develop some 'soft' boundaries (such as linking the ACNC size thresholds) or transitional thresholds that could assist entities in identifying the suitability of preparing financial statements in compliance with the proposed Tier 3 reporting requirements.

Another significant matter to be considered are suggestions on the application scope of the Tier 3 requirements that are different to the size of the entities the Board had in mind when developing the DP. Staff noted that the Council on Federal Financial Relations (CFFR) through the Thresholds Working Group consulted on increasing harmonised financial reporting for ACNC-registered charities in 2021 and decided on thresholds for medium-sized charities that are lower than those recommend by the ACNC Review Panel quoting "*…the need to balance a reduction in regulatory red tape while maintaining transparency and to promote accountability in public trust and confidence in the sector.*"[6] As such, staff think the application scope of the size of entities the Board had in mind when developing the DP remains to be the most appropriate basis and it would be difficult to move the application scope higher (e.g. $5–$10m) without a basis for doing so.

6 In Treasury's consultation on increasing financial reporting thresholds for ACNC-registered charities, the proposed and final threshold for medium charities was revenue between $500,000 to $3m which is lower than the ACNC Review Panel recommended thresholds of $1m to $5m.

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<tr><td colspan="2">Prior to drafting the ED application scope paragraphs, staff will bring further analysis and possible options for the Board's consideration at future board meeting, which may include:
• developing guidance, for example in the basis for conclusions, on possible 'soft boundaries' to assist entities in determining the application of the Tier 3 Standard;
• developing transitional provisions with one or more quantitative characteristics to stratify the entities that can apply the Tier 3 Standard;
• conducting more research and discussions with NFP regulators to determine what thresholds would be appropriate; or
• not providing any guidance on threshold determination.</td></tr>
<tr><td colspan="2">Staff suggested action for next steps: Staff recommend performing further analysis about how to best address the stakeholders' concerns on applying the Tier 3 Standard in conjunction with the applicable legislation and regulation. Staff will also consider whether it is possible to define the scope of the standard or provide non-authoritative guidance on which entities should apply the Tier 3 Standard in the future. Staff will bring the possible drafting of such guidance for the Board to consider at a future meeting.</td></tr>
<tr><td colspan="2">Q2) Addressing service performance reporting as a separate project
Total response = 188</td></tr>
<tr><td>Yes = 184 (98%) consisting of:
• 56 preparers (30%)
• 109 auditors (58%)
• 4 users (2%)
• 4 others (2%)
• 11 written responses (6%) (PP, MA, ORIC, CPA/CA ANZ, SD, KPMG, UWA, DH, BDO, Deloitte, ACNC)</td><td>Almost all stakeholders agree that service performance reporting (SPR) should be addressed as a separate project. A few stakeholders that agree with the proposal provided further comments noting:
• service performance information would probably be supplementary which could be developed at a later time whereas two stakeholders consider that SPR should be a priority, given the benefits of the information to users (KPMG and Deloitte);
• service performance information is costly and complex to be applied by small and medium charities and should be provided outside of the financial statements in the annual reports or submitted to the ACNC. The ACNC should prescribe directors' report requirements similar to the Corporations Act requirements if SPR is beneficial to a particular sector (SD). They suggested that AASB work with ACNC to improve the reporting and to ensure service performance information is adequately covered;
• to consider, concurrently, what general disclosures might be required and whether simplified versions of SPR could also be developed and incorporated into the final Tier 3 Standard, if appropriate, and if not unduly impact the timing of finalising the Tier 3 Standard (MA). On the other hand, another stakeholder considers no mandatory narrative reporting should be proposed within a Tier 3 Standard until mandatory reporting for Tier 1/Tier 2 reporting requirements have been introduced (DH); and
• AASB should consider the IFR4NPO project as part of progressing SPR (CPA/CA ANZ, ACNC).
<u>Other comments provided by respondents:</u>
• Disclosure of administration cost, including the definition and how cost should be allocated, in financial statements would be useful and donors believe it is an important factor in determining the allocation of philanthropic funds by benefactors (MA). and
• For the SPR project, AASB should determine whether the reporting focuses on outcomes or activities (DH).</td></tr>
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No = 4 (2%) consisting of: • 1 preparer (1%) • 2 auditors (2%) • 1 regulator (1%)	Only a few stakeholders disagreed with the proposals in the DP and only one stakeholder commented and said that, although there are time pressures, the outcomes need to align. Staff infer this to mean that, while SPR is considered separately, there is still the need to consider any future service performance reporting requirements that are proportionate for Tier 3 entities.
Staff analysis: Staff consider SPR should be addressed as a separate project given that almost all stakeholders agree with the Board's proposals and support the reasons provided in the DP. Staff will consider the feedback as part of the SPR project. SPR is discussed in Agenda Paper 4.1 at this meeting.	
Staff suggested action for next steps: Staff recommend **proceeding with the Board's preliminary views** in the DP and not to develop any SPR requirements as part of a Tier 3 Standard.	
Q3) Applying the *Conceptual Framework for Financial Reporting* to smaller NFP private sector entities[7] **Total response = 9**	
Yes = 4 (44%) consisting of: • 4 written responses (44%) (SD, DH, BDO, Deloitte)	Some stakeholders agree with the proposed application of the *Conceptual Framework for Financial Reporting* (Revised Conceptual Framework) to smaller NFP entities once the modifications for NFP entities are included and on the release of a Tier 3 Standard. While users of NFP entities may not be concerned with obtaining a financial return on their investment in the entity, most if not all, such users are affected financially by NFP achieving its respective objectives. Accordingly, users of NFP financial statements are identified as those that are financially affected by an NFP achieving its objectives. It is essential to ensure the population of users of financial statements of NFP entities does not become as broad as to be non-operational (BDO). One stakeholder suggested the AASB should consider the IFR4NPO project's Conceptual Framework developed for smaller entities (DH).
No = 3 (33%) consisting of: • 3 written responses (33%) (PP, UWA, ACNC)	A few stakeholders did not agree with the 'objective' and 'primary' users as depicted in the *Framework for the Preparation and Presentation of Financial Statements* (existing NFP Conceptual Framework) including modifications for NFP entities and think: • the existing Conceptual Framework does not depict appropriately the general objective of financial reporting for NFP private sector entities as it expressed too much in commercial terms. Paragraph AusOB3.1 of the existing Conceptual Framework needs to be expanded to recognise that users are interested in the extent to which those charged with governance are acting in the interest of the mission of the entity via reporting on their stewardship of the entity's resources and accountability; • the description of users identified in paragraph AusOB2.1 should be improved because: ○ the broad category of investors, lenders and other creditors, donors and taxpayers should be re-ordered as donors and taxpayers take priority over investors and lenders in terms of the sector;

7 Note this question was not included in the online survey or virtual outreach.

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philanthropists should be individually identified as often seen as a separate category to donors;
members should be added given the significance and high priority of the group;
governments (not only parliaments) are major stakeholders in the NFP sector as they procure services and deploy policy via these entities. Governments also provide significant capital grant funds (UWA);
annual financial reports can be assessed by a variety of users including, amongst others, professional advisors, researchers and journalists and government officials (ACNC); and

if the Board decides to develop a fourth reporting Tier of reporting requirements with further simplifications such as cash reporting, then a further simplified Tier 4 reporting requirements would not align with the concepts in the existing Conceptual Framework that may not be appropriate for these smaller NFP entities and may also require training to support the implementation process.

A few stakeholders disagree to extend the application of the Revised Conceptual Framework to smaller NFP entities once the modifications for NFP entities are included (ACNC, PP). The reason is that the Tier 3 Standard should include its own summarised version of a Conceptual Framework consistent with IFRS for SMEs. The difference in recognition and measurement requirements (R&M) for Tier 3 would necessitate some concepts being applied differently (e.g. differences in consolidation requirements (ACNC) and cost vs. benefit considerations). In that respect, the AASB should consider IFR4NPO's project which is developing a Conceptual Framework for its INPAG guidance (PP).
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<td>Other = 2 (22%) consisting of:

2 written responses (22%)(MA, CPA/CA ANZ)

</td>
<td>Some stakeholders could not comment on this question at this project stage.
One stakeholder (CPA/CA ANZ) recommended the AASB to:

update Research Report 1: Application of the Reporting Entity Conceptual and Lodgement of Special Purpose Financial Statements to clearly understand the regulatory reform required and the nature of the regulated NFP population being targeted by the Tier 3 Standard, to identify the users that the Tier 3 Standard is targeting; and
to consider the IFR4NPO project for identifying primary users for all NFP financial statements (CPA/CA ANZ).

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<td colspan="2">Staff analysis: The Board expressed in the DP its preliminary views is for Tier 3 reporting requirements to operate within the aegis of a single Conceptual Framework applying to all NFP entities rather than develop a different conceptual framework specifically for a Tier 3 Standard. Staff also consider that the Tier 3 proposals broadly align with the existing Conceptual Framework, however, staff agrees with the limited feedback from stakeholders that there are topics with differences in the recognition and measurement requirements where further considerations of the alignment with the existing Conceptual Framework may be required, for example:

not requiring the recognition of right of use assets;
allowing a choice to initially measure either at cost or at fair value for non-financial assets acquired at significantly less than fair value; and
allowing a choice for a parent entity to present consolidated financial statements.

Staff preliminary view is not to develop a Tier 3 Conceptual Framework to be included in the Tier 3 Standard as per paragraph 4.9 of the DP because:

it would unnecessarily add length to the Tier 3 Standard;

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- the majority of the Tier 3 requirements align with the principles and concepts of the existing Conceptual Framework. The rationale for the departure from the existing Conceptual Framework of some Tier 3 accounting requirements are based on the objective of developing Tier 3, i.e. simplification of existing requirements, which is sufficiently reflected in the existing Conceptual Framework. Also, the Board could include the rationale for developing the Tier 3 Standard and the increased emphasis on the cost/benefit considerations, either in the basis for conclusions or introduction/preface of the Tier 3 Standard, rather than developing a Tier 3 Conceptual Framework;
- the Conceptual Framework is not a Standard and does not override any Standard or any requirement in a Standard. As such, there is unlikely to be many smaller NFP entities referring to the Conceptual Framework (on the contrary, the inclusion of a simplified conceptual framework within a Tier 3 Standard could make it mandatory); and
- as identified in Agenda Paper 3.2 at the June 2021 Board meeting, many other jurisdictions with NFP pronouncements including the UK Charities SORP, NZ Tier 3, Canada ASNFPO, Singapore CAS and United States' ASC NFP 958, have not included a Conceptual Framework within its pronouncements.

However, staff will further consider whether there is merit in including a simplified conceptual framework within a Tier 3 Standard considering cost/benefit considerations based on, e.g. the *IFRS for SMEs* ED 'Concepts and Pervasive Principles' and with reference to IFR4NPO's Conceptual Framework. This approach would also allow the Tier 3 Standard to be more self-contained. Staff will conduct further analysis and determine possible options for the Board's consideration that may include:

- whether a simplified conceptual framework should be developed for the Tier 3 Standard considering cost/benefit considerations based on IFRS for SMEs ED 'Concepts and Pervasive Principles' and with reference to IFR4NPO's Conceptual Framework; or
- not including a simplified conceptual framework as part of the Tier 3 Standard.

Staff will also consider feedback in progressing the amendments to the Revised Conceptual Framework including the NFP modifications to be applied to the broader NFP sector at future Board meeting as part of the NFP Conceptual Framework project.

Staff suggested action for next steps: Staff recommend performing **further analysis** and considering possible options for proceeding with this issue for Board's consideration at future meeting, including whether the preliminary views in the DP would necessitate further allowances beyond the existing Conceptual Framework.

Q4) Aligning the timing of any new Tier 3 reporting requirements with the timing of the extension of the AAS to a broader set of NFP private sector entities

Total response = 195

Yes = 178 (93%) consisting of: • 49 preparers (25%) • 108 auditors (55%) • 4 users (2%) • 4 others (2%) • 1 regulator (1%) • 12 written responses (6%) (PP, MA, CPA/CA ANZ, AICD, SD, IPA, KPMG, UWA, DH, BDO, Deloitte, ACNC)	Almost all stakeholders agree with the timing of the proposals, including aligning the timing with any extension of the application of AAS to a broader set of NFP private sector entities. The alignment of timing is consistent with changes for the for-profit sector when introducing AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* where transition worked effectively and would be appropriate for the NFP sector, and emphasises the need to continue discussions with regulators (MA). A few stakeholders note for the AASB to learn from the for-profit reforms (CPA/CA ANZ, DH) and the need for transition relief and a phased transition period to support NFP entities in the adoption of the new Tier 3 Standard, along with education (AICD, ACNC). One stakeholder suggests a Transition Resources Group (TRG) to assist with an effective and smooth operationalisation of the Tier 3 Standard and to communicate with regulators about the need and the nature of necessary changes and associated educational and transitional considerations (CPA/CA ANZ). The group would also assist with considering strategies to address

<table>
<tr><td></td><td>implementation challenges during the transition and address insights from the post-implementation review (PIR) on the broader NFP standards.</td></tr>
<tr><td>No = 1 auditor (1%)</td><td>Only one stakeholder disagreed but this stakeholder did not provide any comments or reasons.</td></tr>
<tr><td>Other (neither agree or disagree) = 16 (8%) consisting of:
• 10 preparers (2%)
• 5 auditors (3%)
• 1 other (1%)</td><td>A few stakeholders selected other (i.e. neither agree or disagree) and:
• stated that changes should be made as soon as possible;
• emphasised the importance of liaising with regulators and government funding bodies to review the financial reporting requirements to ensure consistency across all jurisdictions;
• considered the changes should only be introduced if they produce meaningful financial statements noting special purpose financial statements (SPFS) current achieve this. If SPFS is removed, at least 2–3 years of lead time would be suitable; and
• would require a longer lead time for an educational process and getting ERP systems and processes set up, with limited resources in NFP sectors.</td></tr>
<tr><td colspan="2">Staff analysis: Staff consider almost all stakeholders support the alignment of timing of the proposals, noting that sufficient lead time should be provided to ensure a smooth transition for NFP entities and consider the proposal is consistent with the changes to the for-profit sector. Based on the AASB Due Process Framework, the AASB will issue a Standard at least 2 years before its effective date with early application permitted. As such, staff consider stakeholders' feedback would be addressed appropriately by applying the AASB Due Process Framework. As noted in Agenda Paper 8.1.1 at the March 2023 Board meeting, staff will continue to discuss the interactions of the Board's proposals with relevant NFP regulators.
Regarding the feedback about transitional relief, staff have not yet considered the transitional provisions required as this depends on the Board's decisions on the direction of the project at this meeting, and Board's future decisions on Tier 3 requirements after considering the feedback from stakeholders. Staff acknowledge the suggestion to form a TRG group, including developing a communication and education plan, and will address these considerations later in the project.
However, staff do not believe these considerations should change the Board's preliminary view to ensure the timing of any extension of the application of AAS align with the introduction of a Tier 3 Standard.</td></tr>
<tr><td colspan="2">Staff suggested action for next steps: Staff recommend that the Board proceed with its preliminary view that the timing of the Tier 3 reporting requirements align with the timing of any extension of the AAS to a broader set of not-for-profit private sector entities.</td></tr>
<tr><td colspan="2">Q5) Extending the Australian Accounting Standards applicable to certain NFP entities*
Total response = 217</td></tr>
<tr><td>Yes = 178 (82%) consisting of:
• 45 preparers (21%)
• 98 auditors (45%)
• 3 users (1%)</td><td>Most stakeholders agree with extending the application of AAS to the broader set of NFP entities noting the importance of consistency and comparability in reporting by NFP entities. Those that commented consider:
• the reporting entity concept is not well understood and a general unwillingness for entities to accept that users are interested in the entity. There is also empirical evidence indicating preparers and auditors of many NFP entities are largely supportive of preparing GPFS over SPFS (AR);</td></tr>
</table>

• 4 others (2%) • 1 regulator (0%) • 16 virtual sessions (7%) • 11 written responses (5%) (MA, AICD, AR, SD, IPA, KPMG, UWA, BDO, Deloitte, ACNC, DH)	• the importance of making the Tier 3 Standard available with adequate lead time (SD), and before extending the application of AAS to the broader NFP entities, given the existing Tier 1/Tier 2 requirements would be onerous for a small organisation if the Tier 3 Standard was not available; • the proposal brings consistency between the for-profit and NFP sector in determining who must comply with accounting standards, aligns the 'reporting entity' with its use internationally (KPMG, BDO), simplifies decision making, and reduces confusion and divergence in practice (MA, Deloitte). Any difficulties in implementing the proposals, such as undue burden on the entity can form part of the PIR of the Tier 3 Standard with consideration for further simplification where appropriate (IPA); • that whilst the proposals align with the approach for-the profit sector, the cost-benefit analysis should be performed to measure the impact of removing SPFS given the difference between the reporting requirements for for-profit and NFP sector (AICD) and the importance of providing guidance and support to NFP entities who will transition to Tier 3 Standard (ACNC); and • learnings from the for-profit sector would be beneficial, for example, confusion exist for removal of SPFS from non-statutory reporting requirements such as trust deeds and agreements (DH).
No = 38 (18%) consisting of: • 13 preparers (6%) • 16 auditors (7%) • 1 user (0%) • 1 other (0%) • 6 virtual sessions (3%) • 1 written response (0%) (PP)	Some stakeholders disagree and consider that SPFS should still be available for NFP entities because: • GPFS come with real cost impact and does not, in the main, provide any significant advantage; • many smaller NFP entities may still find Tier 3 reporting requirements hard to apply; • some entities only report to members or for specific purposes such as for banks; • SAC 1 has been beneficial; and • the proposals are merely beneficial for large accounting firms and the AASB should get more practical experiences in addressing the concerns of the sector. While one stakeholder considers SPFS should be removed as this is consistent with the for-profit sector, they considered SPFS should not be removed for entities that are only required by their constituting document to comply with the AAS, as users of these entities should determine the appropriate form of financial statements to prepare, and noted the confusion amongst the for-profit sector with no oversight and unregulated entities (PP).
Other = 1 (0%) • 1 written response (0%) (CPA/CA ANZ)	One stakeholder cannot form a view without understanding all the types of NFP entities that will transition to GPFS under the proposed Tier 3 Standard, given the AASB identified that clarity of the scope of associated regulatory reform is an essential element of its reforms to for-profit sector reporting. This will ensure that the transition cost does not outweigh the benefits, and all relevant regulators understand and appropriately implement the changes. As such, this stakeholder considers more detailed analysis is required on the population of NFP entities that will be impacted by the Tier 3 Standard, for example, it is still unclear whether aged care legislation in various states/territories requires preparation or the type of financial statements (CPA/CA ANZ).

Staff analysis: Staff noted that most stakeholders agree with extending the application of AAS to the broader range of NFP entities based on the stakeholder feedback above. While some stakeholders disagree, their comments related to the increased cost associated with preparing GPFS and the complexity in applying the requirements for smaller NFP entities. However, it is reasonable to expect that initial cost of the adoption would be outweighed by the cost savings and benefits of more comparable and transparent financial statements, and is broadly supported by many NFP regulators.[8] Staff also noted that only one stakeholder did not support the extension of AAS to entities that are required only by their constitution to prepare financial statements in accordance with AAS. Staff initial reaction is that, if these entities were excluded, it may cause confusion and inconsistency in the financial reporting where references are made to comply with the AAS and perpetuate the SPFS issue (similar to the considerations the Board made when removing SPFS for for-profit entities). Academic research also indicates that the application of the reporting entity concept is inconsistent and questions the effectiveness of SAC 1 and the quality of NFP financial statements.[9] Therefore, should the self-assessment of the reporting concept remain for financial statements that are required by the constitution/governing document to be prepared in accordance with AAS, there will continue to be a lack of quality and consistency of those financial statements. Staff will consider whether the approach adopted for the for-profit sector to exempt the requirement to prepare GPFS where their constituting document (or another document) requiring them to comply with AAS was created or amended before an effective date of a Tier 3 Standard.[10] To address the concerns above, as well as the need to consider cost/benefit of the proposals, staff will consider further analysis of the NFP private sector entities that may be affected by the extension of the AAS application, as required under Due Process policy requirements, together consideration of amendments to the Conceptual Framework for Financial Reporting in Q3).	
Staff suggested action for next steps: Staff will **further analyse** the impact of the proposals including cost/benefit analysis of the scoping of NFP private sector entities that may be affected by the extension of the AAS application.	
Q6) Introducing of a simpler further reporting tier (Tier 3) as proportionate response for smaller size NFP entities with less complex transactions and events[11] **Total response = 14**	
Total agree = 13 written responses (93%) (PP, MA, CPA/CA ANZ, AICD, AR, SD, IPA, KPMG, UWA, DH, BDO, Deloitte, ACNC)	Almost all stakeholders support introducing a further reporting tier with simpler accounting requirements due to the following reasons: • it facilitates consistent financial reporting and is the most effective and pragmatic way of keeping the increase in reporting burden to a minimum, and necessary if SPFS is removed to achieve a proportionate response for smaller sized entities (PP, BDO); • the approach is consistent with the approach taken in the for-profit sector with the introduction of AASB 1060 (MA);

8 Refer to Agenda Paper 8.1.1 on the preliminary feedback from regulators presented at the March 2023 Board meeting.

9 Saj, P. and Cheong, C., 2020. The application of the reporting entity concept by Australian charities. *Australian Accounting Review*, 30(4), pp.283-299.

10 Refer to paragraph BC90 of AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*) could address the issue

11 Note this question was not included in the online survey or virtual outreach and response were only obtained via written response and one-on-one meeting.

	• indigenous corporations that are required to prepare a financial report must apply all AAS capable of applying to the corporation's financial transactions and events, whether the corporation is, or would be regarded as, a reporting entity for the purposes of the standards. Reducing the complexity and cost of preparing financial reports that comply with AAS will reduce the burden of financial reporting and promote quality, consistency and comparability of financial statements (ORIC); • research indicates that medium-sized charities experience most cost from mandatory reporting, hence the new simplified Tier will help medium-sized charities cope with challenges and cost of implementing changes, and improve the quality of their reporting (AR); and • increase usefulness of financial statements to users (IPA). Other comments A few stakeholders that support the proposal also noted: • many NFP entities, including the accounting firms supporting them, may not have resources/knowledge to implement the new accounting requirements; • comparability may be an important element but not a priority for smaller NFP entities as there is an enormous range and variety of entities within the sector. Therefore, the removal of accounting policy choices would further simplify the requirements; • AASB should explore how the simplified requirements could apply to entities in the for profit sector as there is support for the principle of reduced recognition and measurement for both for-profit and NFP sector and would reduce the reporting burden for a significant amount of for-profit entities (DH). Given the transition neutrality approach to standard-setting, there is a place for Tier 3 for the for-profit sector (CPA/CA ANZ). The AASB should consider IFR4NPO's INPAG project (based on *IFRS for SMEs*) and re-evaluate the position on adopting *IFRS for SMEs* (or modification of that) in Australia (DH); • it is difficult to assess the impact of the proposed changes without an ED and Regulation Impact Statement cost/ benefit analysis (AICD); • the need for the AASB to work closely with ACNC/regulators to ensure that a new tier is fit for purpose (Deloitte); and • not establishing reporting thresholds makes it difficult to determine whether Tier 3 is proportionate. ACNC legislation does not empower ACNC to determine which charities must apply a particular tier of AAS hence encourage AASB to consult with the sector on the scope of the application (ACNC).
Neither agree or disagree Total = 1 professional services (7%)	One stakeholder considered the project's objective is unclear and questions whether introducing a further reporting tier is the best approach in addressing the concerns (e.g. accounting standards too complex to apply for smaller entities). This stakeholder highlights the importance of understanding user needs who are mainly interested in how effectively money is used, hence it needs to be clear what benefits are in this regard, including establishing what are the issues being addressed and cost/benefit of the proposed solution. Other impediments to introducing a new Tier are the need for new skills, re-education, and transition costs. There might be other means such as simplifying existing principles (e.g. revenue recognition) rather than creating a new set of requirements.

Staff analysis: Staff noted that most stakeholders support the introduction of a third reporting tier as a proportionate response for the smaller entities when required to prepare GPFS in accordance with AAS. Staff did not seek stakeholder views via the online survey regarding this question. However, given there is broad support on the proposals for simplified accounting requirements for the key topics based on the survey results, staff infer that there is general support for introducing a further reporting tier.

In relation to the other comments provided by the comment letters, staff:

- agree that restricting accounting policy choices can simplify the requirements, as noted in Agenda Paper 4.2 at the August 2021 Board meeting. However, staff noted that the Board mostly decided to include accounting policy choices to simplify the existing recognition and measurement accounting requirements (e.g. choice to not prepare consolidated financial statements) supplemented by additional disclosures which many stakeholders widely support. As such, staff consider that providing accounting policy choices remains a form of simplification for smaller NFP entities;
- agree that transitional provisions, education and communication plan are important elements of ensuring the success of the project and will be considered in due course;
- noted in the DP that the need for a proportionate and simpler reporting tier for the NFP private sector is because the NFP population that will be required to prepare GPFS if SPFS was removed is expected to be larger than for-profit entities. The relevant legislation governing NFP entities often sets a lower threshold for such reporting obligations than those governing for-profit entities. As such, there are justifiable differences between the NFP private sector to the for-profit sector warranting the Board's proportionate response to develop further simplified reporting tier compared to the for-profit sector. Specifically for for-profit sector, when developing the Tier 2 GPFS framework, the Board also noted transition costs, and the ongoing costs of training and maintenance of three tiers of GPFS reporting for users, preparers, auditors and regulators for only 1.3% of actively trading entities outweighed benefits of the users of for-profit entities GPFS. As such, any potential benefits of creating additional tiers of GPFS reporting for such a small proportion of the total population of trading entities would not adequately meet the objective of creating a consistent and comparable financial reporting framework (refer to paragraphs BC99–BC107 of AASB 2020-2). The public sector framework is being considered as a separate project;
- cost/benefit analysis will be considered as required by the Due Process Framework (paragraph 4.1(d)) to be performed for all new and amending Standards, either in the form of a Regulatory Impact Statement or similar document, or in the basis for conclusions, analysing the potential effects of the proposals on affected parties and explaining the rationale for why decisions were made;
- discussions with ACNC and other regulators have and will continue throughout this project regarding the orderly adoption of the new requirements by the sector; and
- noted in Q5**)** , any additional cost should generally be incurred in the year of transition.

Staff recommended action for next steps: Based on the reasons above, staff **recommend the Board to proceed** with the development of the proposals for a further reporting tier, being Tier 3, for certain smaller NFP private sector entities.

Q7) Not developing a fourth reporting Tier

Total response = 193

<table>
<tr><td>Yes = 178 (92%) consisting of:
• 50 preparers (26%)
• 109 auditors (56%)
• 4 users (2%)
• 3 others (2%)
• 1 regulator (1%)
• 11 written responses (6%) (PP, MA, CPA/CA ANZ, AICD, AR, SD, IPA, KPMG, BDO, Deloitte, ACNC)</td><td>Almost all stakeholders agree not to develop a fourth reporting tier (that may be based on cash basis of accounting) because another additional tier may increase complexity of the existing financial reporting framework. A few of these stakeholders noted:
• cash basis of accounting would not meet the requirements of GPFS and the population of entities that would apply a fourth tier of reporting is expected to be small (PP, Deloitte, KPMG);
• it would not be appropriate for accounting standards to determine requirements that would need to be much further simplified from Tier 3, and may not meet the expectations of users or reflect the entity’s circumstances appropriately (MA);
• the AASB could develop a guidance, similar to NZ Tier 4, that sits outside the scope of GPFS as some Australian legislative requirements place obligation on NFP entities to prepare financial statements or some financial information (CPA/CA ANZ);
• research found a significant difference between small- and medium-sized NFP private sector entities but no significant differences when organisation size increased beyond medium group. Therefore, introducing another tier would add to unnecessary complexity, additional resources and time for NFPs to understand and implement; (AR); and
• charities below $500k are only required to provide information in the Annual Information Statement, hence no need for a fourth reporting tier (ACNC).</td></tr>
<tr><td>No = 15 (8%) consisting of:
• 7 preparers (4%)
• 4 auditors (2%)
• 2 others (1%)
• 2 written responses (1%) (UWA, DH)</td><td>A few stakeholders disagree because:
• some very small NFP entities use cash accounting when preparing their financial statements, as such a fourth differential tier may be useful to them. A cash-based reporting tier will help raise the quality of reporting, support audit process and improve users' understanding over time (UWA); and
• a simple set of accrual standards proposed for Tier 3 would be suitable to form the basis for Tier 4, while AASB should consider Tier 3 based on IFRS for SMEs (DH).</td></tr>
<tr><td colspan="2">Staff analysis: Staff noted that a few stakeholders disagree and consider a fourth reporting tier may be useful for some very small NFP entities. However, staff continue to think the benefits may not outweigh the cost and effort required to develop a possible fourth reporting tier for very small NFP entities that are usually not required to prepare financial statements in accordance with Australian Accounting Standards. In addition, in the absence of a public accountability specifically defined for NFP entities and a 3-tier requirements most common across Australian jurisdictions, it does not appear there is a need for two additional tiers within AAS, one based on IFRS for SMEs and the other with a further simplified accrual basis as the smallest NFP usually do not have to prepare GPFS in accordance with AAS. In addition, when developing the Tier 3 requirements, staff had consideration of other selected jurisdictions, including IFRS for SMEs and other, further simplified frameworks.</td></tr>
<tr><td colspan="2">Staff suggested action for next steps: Staff recommend proceed with the Board’s preliminary view not to develop a fourth reporting tier as part of this project given that almost all stakeholders agree with the approach for the above reasons.</td></tr>
<tr><td colspan="2">Q8) Not changing the existing Tier 1 or Tier 2 AAS
Total response = 186</td></tr>
</table>

Yes = 175 (94%) consisting of: • 53 preparers (28%) • 105 auditors (56%) • 4 users (2%) • 5 others (3%) • 1 regulator (1%) • 7 written responses (4%) (PP, MA, CPA/CA ANZ, UWA, DH, BDO, Deloitte)	Almost all stakeholders agree not to make any changes to existing Tier 1 or Tier 2 AAS because: • As long as the Tier 3 is made available, then no changes are required for Tier 1 and Tier 2 AAS. However, clarification of the meaning of control under AASB 10 *Consolidated Financial Statements* and a review of AASB 1058 *Income of Not-for-Profit Entities* would be helpful; • no fundamental reassessment of the approach to larger NFP applying Tier 1/Tier 2 requirements is necessary as the current requirements are sufficient and well understood by larger NFP entities and post-implementation reviews (PIR) are underway (including MA, PP, CPA/CA ANZ); • Tier 3 should be the focus at this point and allows stakeholders to concentrate the requirements of Tier 3 without over complicating or risking reform process. However, the AASB should return to the issue of Tier 1/Tier 2 reform in due course (UWA); and • amendments to Tier 1/Tier 2 are not warranted and would affect comparability with for-profit private sector entities operating in the same industry (Deloitte). <u>Other comments</u> • The AASB should consider the international developments in IFR4NPO and explore the appropriateness of its adoption in full or in part in Australia for all NFP entities (PP). • The consideration of administration cost disclosures would also be relevant to larger NFP entities applying Tier 1/Tier 2 requirements (MA).
No = 11 (6%) consisting of: • 4 preparers (2%) • 6 auditors (3%) • 1 written response (1%) (SD) •	A few stakeholders disagree and one stakeholder noted: • removal of SPFS will have significant impact on NFP private sector entities larger than what is the likely size of application of Tier 3 (i.e. entities with revenue more than $3m); • revenue recognition requirements for Tier 1/Tier 2 should follow the Tier 3 revenue recognition model or more guidance and examples should be developed. Feedback from Tier 3 should be considered for Tier 1/Tier 2 particularly in relation to simplifying revenue recognition, leases and consolidation requirements; • disclosure of related parties should be reconsidered for transactions like donations where no benefit is received by the related party, and commercially sensitive nature of transactions with related parties is an issue; • restrictions of fair value through other comprehensive income treatment only available to equity investments but most portfolios contain managed funds and other items that do not meet the requirement. An allowance for active market or tradable investments would be a more appropriate definition of a class of asset where fair value through other comprehensive income should be available; and • the recent SaaS IFRS IC decision where comparatively large investments are made with future benefit expected over an extended period is required to be expensed as incurred.

<table>
<tr><td colspan="2">Staff analysis: Staff noted that almost all stakeholders agree not to make changes to existing Tier 1 and Tier 2 AAS in relation to the current Tier 3 proposals. Staff noted the PIR of some NFP domestic pronouncements including income and control of not-for-profit entities are underway that will consider the stakeholders' concerns about the current revenue recognition requirements and the meaning of control under the current Tier 1 and Tier 2 reporting requirements.

Other concerns including related party disclosures and SaaS IFRS Interpretation Committee decision that were raised by one stakeholder (SD) have not yet been considered for Tier 3 requirements. As such, staff cannot comment on the prevalence of the issues for the matters raised but staff think that the issues identified may not necessarily be only relevant to the NFP private sector entities. As noted in the DP and stakeholder feedback, Tier 1 reporting requirements are well understood by Australian stakeholders and facilitate comparability with for-profit private sector entities. Therefore any amendments to Tier 1/Tier 2 requirements would impact comparability and cost associated with any amendments to existing requirements. As noted by many stakeholders, the project's priority should focus on the Tier 3 requirements.

The concern regarding the restriction of fair value through other comprehensive income treatment will be considered further in Q22-27).

Staff have been actively considering the IFR4NPO project throughout the NFP FRF project when considering the development of Tier 3 requirements. Staff also consider the international guidance is developed for a broader set of NFP entities and may be too complex or disproportionate for smaller entities to apply in full. However, staff recommend considering the relevant sections when drafting the Exposure Draft (the approach to drafting is discussed in Agenda Paper 3.2 at this meeting).</td></tr>
<tr><td colspan="2">Staff suggested action for next steps: Based on the reasons above, staff recommend to proceed with the Board’s preliminary view and not to make any changes to the existing Tier 1 or Tier 2 AAS as part of this project. Staff will continue to monitor the developments of the IFR4NPO project and its relevance when considering the drafting of the Exposure Draft, subject to the Board’s decisions at this and future meetings.</td></tr>
<tr><td colspan="2">Q9) Stand-alone standard
Total response = 270</td></tr>
<tr><td>Yes = 262 (97%) consisting of:
• 85 preparers (31%)
• 147 auditors (54%)
• 9 users (3%)
• 2 regulators (1%)
• 7 others (3%)
• 1 blank (0%)
• 11 written responses (4%) (PP, MA, ORIC, CPA/CA ANZ, SD, IPA, UWA, DH, BDO, Deloitte, ACNC)</td><td>Almost all stakeholders agree that the proposed Tier 3 Standard should be set out as a stand-alone standard, which is consistent with the approach for AASB 1060. Some stakeholders were very supportive of including template financial statements and using simple language to achieve appropriate simplification for smaller NFP entities. Some stakeholders also note:
• the incorporation of template financial statements into software accounting packages or software support would be helpful for smaller NFP entities to comply with the Tier 3 Standard; and
• the need to raise awareness and provide education for preparers and ensure auditors have the adequate skills to provide required assurance (ACNC).
A few stakeholders consider a stand-alone standard should:
• contain its own abbreviated conceptual framework consistent with IFRS for SMEs (PP);
• not refer to other AAS. As such, any Tier 1/Tier 2 requirements that Tier 3 entities have to comply with should be included in the Tier 3 Standard with simplified wording, in order to avoid the stakeholders referring to the Tier 1/Tier 2 (MA and DH); and
• be as comprehensive as possible in order to maximise its usefulness in this sector. As such, encourage the AASB to conduct research and liaise with stakeholders to address all common transactions of NFP entities that fall within its intended scope (CPA/CA ANZ).</td></tr>
</table>

<table>
<tr><td></td><td><u>Other comments</u>
Some preparers support the standard being made available for larger NFP entities with simple structures, or even for all NFP entities.</td></tr>
<tr><td>No = 8 (3%) consisting of:
• 1 preparer (0%)
• 7 auditors (3%)</td><td>The few stakeholders disagree and consider the:
• difficulties smaller entities may have when transitioning to other tiers, especially due to fluctuation in revenue;
• simplification of accounting requirements leads to poor decision due to inadequate information being available to those charged with governance; and
• AASB's work increases cost to the community and delivers no benefits to the NFP sector.</td></tr>
<tr><td colspan="2">Staff analysis: Staff noted almost all stakeholders agree with the Tier 3 requirements to be developed as a stand-alone standard and staff are engaging with software providers regarding the interaction of the project with their services. Staff will consider education and communication plan at a later stage of the project.
Staff noted only a few stakeholders disagree. However, staff note in response to feedback from written submissions that:
• there are already some regulators/legislation mechanisms to allow an entity to prepare specific financial statements (e.g. ORIC allows certain entities to submit financial reports based on reports to government funders) or remain a specific entity size, if an entity would move to another tier/size due to an unusual event.[12] Staff also think fluctuations in revenue may not occur often based on RR19 findings that show there is minimal variation in revenue among the sampled charities across the two years.
• as highlighted in staff analysis to Q3) , staff will further consider whether there is merit to including a simplified conceptual framework within the Tier 3 Standard; and
• as highlighted in Q5) , any additional cost should generally be in the year of transition.
Regarding the requests for the stand-alone standard not to make references to higher tier requirements and to contain its own abbreviated framework – while staff acknowledge the views to make the Tier 3 stand-alone standard as comprehensive as possible, the objective of the project is to develop simplified accounting requirements for common transactions of entities that would be adopting the Tier 3 Standard in the future. As such, staff consider the Tier 3 Standard should not cover all topics. Staff analysis on topics omitted from the Tier 3 Standard are discussed in Q11), including complex financial instruments to apply AASB 9 which is also considered in Q21). In addition, there are other instances where the DP considered whether to make references to other AAS:
• whether to allow opt-up to Tier 1/Tier 2 requirements by class of transaction basis (refer to Q10); and
• the hierarchy approach (refer to Q12).</td></tr>
<tr><td colspan="2">Staff suggested action for next steps: Subject to the Board’s decisions at this and future meetings, staff recommend to proceed with drafting the Tier 3 reporting requirements as a single stand-alone accounting standard. The stand-alone pronouncement is expected to, in the main, not require an entity to refer to requirements set out in other AAS and will express accounting requirements in a manner that is easy to understand by preparers and users who do not consider themselves accounting experts.</td></tr>
</table>

12 The ACNC Commissioner has the authority to allow a charity to remain a particular size to cover situations where there is a temporary increase in the charity's total revenue. For more information, see the ACNC website.

Staff will need to conduct further analysis and, subject to the Board's decision on Q11), determine whether topics that may not be as common to smaller NFP entity should also be included in a stand-alone Tier 3 Standard.	
Q10) Opt-up policy on whether to allow Tier 3 entities to opt up to Tier 1 or Tier 2 reporting requirements for: • **all transactions; or** • **for transactions specifically permitted by the Board only; or** • **not permit any opt-up*** **Total response = 260**	
Opt up for all transactions (i.e. free choice) = 147 (57%) consisting of: • 26 preparers (10%) • 67 auditors (26%) • 3 users (1%) • 4 others (2%) • 1 blank (0%) • 44 virtual sessions (17%) • 2 written responses (1%) (KPMG, UWA)	Many stakeholders thought an entity should be provided flexibility to choose an accounting policy of a higher tier that the entity considers would provide appropriate information to users. Some stakeholders also noted: • given the number of regulatory bodies and regulations in Australia for NFP entities, providing flexibility will allow NFP entities to meet the various regulators' needs; • entities may cross arbitrary revenue thresholds. Allowing entities to only apply Tier 1 or Tier 2 in its entirety would increase additional cost and reduce consistency between accounting periods. (Staff infer that this comment means that, if entities are expected to cross thresholds in future/often or if subject to a specific regulatory requirements in a particular area, they should be allowed to apply higher tier accounting policy); • mitigating factors such as the need to disclose information about the change in accounting policies including why the decision was made to opt-up; • some restrictions would be needed to prevent entities from opting up arbitrarily; • ability to opt up to all financial instruments, for example, rather than different types of financial instruments or elements of the financial instruments standards regardless of whether they are covered in the Tier 3 requirements. Stakeholders have indicated that consistency and comparability among this cohort of NFP entities is less relevant (KPMG); and • those charged with governance should be able to opt up to higher reporting requirements to encourage high financial reporting and support to those charged with governance in pursuing a higher level of reporting and removing obstacles that prevent such action (UWA).
Opt up only when permitted by the Board = 30 (12%) consisting of: • 6 auditors (2%) • 23 virtual sessions (9%) • 1 written response (0%) (PP)	Some stakeholders considered some flexibility should be given to allow entities to adopt some Tier 1/Tier 2 reporting requirements, but a free choice would reduce comparability (PP). However, these stakeholders also noted that some rationale is needed to determine the topics that would be allowed to opt up to the higher requirements. Some stakeholders suggested the Board could permit opt-up to AASB 16 *Leases* for entities that have adopted the requirements as part of future transition considerations.

<table>
<tr>
<td>Not permit any opt up = 83 (32%) consisting of:
• 13 preparers (5%)
• 43 auditors (17%)
• 2 users (1%)
• 17 virtual sessions (7%)
• 8 written responses (3%) (MA, CPA/CA ANZ, SD, IPA, DH, BDO, Deloitte, ACNC)</td>
<td>Many stakeholders considered that allowing opt-up will reduce consistency and comparability, increasing complexity for NFP entities applying the Tier 3 Standard. Some stakeholders noted:
• there is a lack the understanding when electing which accounting policy to apply and the preparers often rely on the auditors. Hence, limited choices would be easier and enhance comparability in financial reporting;
• offering choices on policy-by-policy basis will revert back to SPFS and create disparity and confusion to users of the financial statements (IPA);
• the aim of Tier 3 is to simplify for smaller less complex NFP entities and the opt-up in entirety would be sufficient if a smaller NFP entity is more complex than Tier 3 can cater for (SD, Deloitte);
• Tier 3 Standard will need to be comprehensive and self-contained, e.g. the guidance for consolidation and the accounting policy choices to present consolidated financial statements should be fully contained in Tier 3 (CPA/CA ANZ). Also, suppose agriculture activities were not allowed in Tier 3, and a Tier 3 entity is required to apply AASB 141 Agriculture. In that case, there may be a discrepancy with the Tier 3 requirements for revaluation of inventory, property, plant and equipment to require fair value though other comprehensive income. Whereas revaluation of biological assets are measured at fair value through profit or loss (DH); and
• if a Tier 3 entity does not wish to apply a Tier 3 requirement, then this suggests they should apply a higher tier. Alternatively, if there is a consistent theme of Tier 1/Tier 2 reporting requirements that Tier 3 entities wish to adopt, this may suggest the Tier 3 standard is not fit for purpose (MA).
<u>Other comments</u>
Consideration should be given to opting-down to allow NFP entities currently preparing financial statements based on higher tier of reporting to opt-down and elect to report under Tier 3 Standard (CPA/CA ANZ).</td>
</tr>
<tr>
<td colspan="2">Staff analysis: There are mixed views on whether entities should be permitted to opt-up to higher tier requirements on a class-by-class transaction basis. Staff consider that the arguments for those agreeing with opt-up as free choice would be counter arguments for those who disagree with permitting any opt-up. For example, to allow free choice would ensure that the future Tier 3 Standard could be adopted by smaller NFPs that have specific accounting needs (e.g. hedge accounting) and would like to apply an accounting policy in a higher tier to reflect the transaction. However, allowing free choice to opting up would compromise comparability and may add to the complexity of the Tier 3 Standard. Staff also noted that allowing free choice to opt up would cater for entities that may cross thresholds in future/often. As per Q9), based on RR19 findings, fluctuations in revenue should not occur often.
Staff note that the majority of selected other jurisdictions as part of developing the Tier 3 requirements only permit entities to opt-up by a class of transactions basis for omitted topics and/or where specifically permitted, except for New Zealand.[13]</td>
</tr>
</table>

13 See Agenda Paper 3.2 presented at the June 2021 Board meeting.

<table>
<tr><td colspan="2">Staff also understand that a regulator could specify an accounting policy to be applied regardless of the size of the entity,[14] but staff do not consider, based on limited research, that it would be common occurrence for regulators to specify a mandatory accounting policy. The support for only allowing opt-up for topics/transactions permitted by the Board had the least support from stakeholders. However, staff consider that there is merit in exploring this option as this strikes the middle ground to ensure simplicity of the single stand-alone standard and comparability is maintained to a large extent. This would also allow further outreach and research on which accounting policy choices not accessible to Tier 3 entities would be most problematic and could indicate what topics should be permitted by the Board to opt up to higher reporting requirements.</td></tr>
<tr><td colspan="2">Staff suggested action for next steps: Staff will need to perform further analysis to identify the possible topics where the Board may consider it appropriate to opt-up to higher tier requirements by class of transaction basis to support the Board’s further consideration of the opt-up approach.. Staff will bring this analysis for the Board to consider at a future meeting.</td></tr>
<tr><td colspan="2">Q11) Items proposed to be excluded from the Tier 3 accounting requirements*</td></tr>
<tr><td>297 (76%) did not disagree with the items proposed to be excluded from the Tier 3 requirements including 1 written submission (UWA)</td><td>Most stakeholders agree with the proposed items to be excluded from the Tier 3 accounting requirements and consider the items proposed would not be common to smaller NFP entities (including UWA). One stakeholder suggests to develop guidance for the proposed items when they become more common.</td></tr>
<tr><td>105 (24%) disagree with the items proposed in particular the following items:
• Biological and agricultural assets = 7 (of which 1 from written response (BDO))
• Insurance contracts = 8
• Expenditure incurred in relation to exploration for and evaluation of mineral resources = 4
• Business combinations = 30 (of which 8 from written responses (PP, MA, CPA/CA ANZ, SD KPMG, DH, ACNC, BDO))
• obligations under defined benefit superannuation plan = 13</td><td>Some stakeholders disagree with the proposed items. For those that disagree:
• most of the stakeholders requested guidance for business combinations because of the increasing trend for NFP entities, including smaller entities, to merge or acquire other entities (including PP, MA, CPA/CA ANZ, SD KPMG, DH, ACNC, BDO). In particular, the approach to AASB 3 Business Combination may not be fit for purpose for smaller NFP entities and it would be more appropriate to allow entities to recognise the assets at book value of the previous NFP rather than requiring the acquirer to do a purchase price allocation at fair value. In addition, the extent of the disclosures should also be simplified and there is diversity in practice with respect to whether a 'bargain purchase gain' is credited to profit or loss or equity (MA, KPMG);
• a few stakeholders consider biological assets and agricultural assets should not be scoped out from Tier 3 Standard as NFP entities may have community gardens. Smaller entities could be cultivating plants or rearing animals for communal purposes. Some assistance to NFP entities in addressing organic growth would be helpful (CPA/CA ANZ) or alternatively Tier 3 requirements could be silent and entities can apply a related Tier 3 requirement (e.g. inventory measured at costs) (BDO);
• a few stakeholders consider not to require opt up to AASB 9 for complex financial instruments given the objective of a stand-alone standard especially due to the complexity for smaller NFP entities applying AASB 9. If AASB permit opting up to AASB 9, there may be inconsistencies between Tier 3 and AASB 9 where Tier 3 does not allow hedge accounting but AASB 9 allows hedge accounting for items at amortised cost (i.e. simple financial instruments) (DH);
• a stakeholder noted the accounting by an operator in service concession arrangement should be scoped in otherwise it will force preparers to apply full AAS under Interpretation 12, including for any financial assets, intangible assets and revenue which</td></tr>
</table>

14 The Taxation Administration (Private Ancillary Fund) Guidelines 2019 specifies that an private ancillary fund must measure its assets (except for land) at market value annually.

• share-based payment arrangements = 7 • service concession arrangement = 9 (of which 1 from written response (BDO)) • complex financial instruments = 15 (of which 1 from written response (DH))	would need to be accounted under AASB 9, AASB 138 and AASB 15 respectively. An alternative approach is for the operator in service concession arrangements not be scoped out of Tier 3. Instead, the Tier 3 Standard could be silent on these arrangements and entities can account for financial instruments, intangible assets and revenue as appropriate (BDO). No other comments were provided for the other items identified by the stakeholders not to be omitted from the Tier 3 accounting requirements.

Staff analysis: Having regard to RR 19, the findings did not identify any of the proposed list of items in the sample charities financial statements, hence it would indicate that the proposed list of items to be omitted would be considered uncommon. However, staff thinks there is merit in consider some of the topics due to the stakeholder feedback including:

- business combinations – many of the respondents that disagree consider it would not be uncommon for NFP entities, including smaller entities, to merge or to acquire other entities. Therefore, staff will consider whether guidance should be developed within the Tier 3 Standard regarding business combinations and conduct analysis including possible simplification options for the Board to consider at a future Board meeting;
- biological and agricultural assets – while the topic does not appear to be common for smaller NFP entities, however based on feedback staff think there may be merit to consider whether biological assets should be:
  - scoped out explicitly from the Tier 3 Standard; or
  - be silent in the Tier 3 Standard, which allows a Tier 3 entity to apply a related Tier 3 requirement instead.

  Further discussion on the accounting for biological assets, if not explicitly scoped out from a Tier 3 Standard, is provided in Q31);
- Complex financial instruments – the Board has previously considered the approach to financial instruments and considered for Tier 3 to provide simplified accounting requirements for basic or common financial instruments only. This approach aligns with the objective of developing simplified accounting requirements for common transactions only. In addition, the Board considered where an entity engaging in transactions or other events giving rise to holdings of complex financial instruments should be able to apply the more complex accounting specified by the existing AASB 9 *Financial Instruments*. Where Tier 3 does not explicitly highlight or address a particular financial instrument or transaction, an entity can apply a related Tier 3 requirement instead. However, staff will need to conduct further analysis and determine possible options to assess whether there is merit in developing accounting requirements for all financial instruments rather than only for common/basic financial instruments (refer to Q21) to address complexity highlighted by the hedge accounting example. Staff will bring analysis of possible options at a future Board meeting; and
- Service concession arrangements – only a few stakeholders suggested this topic should not be scoped out and staff preliminary view is that the topic is not a common transaction for smaller NFP private sector entities. However, staff will consider possible options which may include: 1) developing simplified requirements on the accounting for service concession arrangements; 2) simplifying the requirements by language only; 3) being silent on the requirements rather than scoping out explicitly from the Tier 3 Standard; or 4) continue to scope out the topic from the Tier 3 Standard.

For the other topics proposed (insurance contracts, expenditure incurred in relation to exploration for and evaluation of mineral resources, obligations under defined benefit superannuation plan and share based payments arrangements, as there were no comments received from those respondents that disagreed, staff propose the Board to proceed with drafting the Tier 3 requirements to explicitly omit these items from the Tier 3 Standard.

Staff suggested action for next steps: Staff will need to perform **further analysis** for topics including business combination, biological and agricultural assets, complex financial instruments and service concession arrangements for the Board to consider at a future meeting. Staff recommend to **proceed with the Board's preliminary view** excluding insurance contracts, expenditure incurred in exploration for and evaluation of mineral resources, obligations under defined benefit superannuation plan and share-based payments arrangements from a Tier 3 Standard.	
Q12) Hierarchy approach to first apply Tier 2 requirements, then develop accounting policy by reference to: **i) principles and requirements in Tier 2; and** **ii) definitions, recognition and measurement concepts in Conceptual Framework.** **Total response = 191**	
Yes = 179 (94%) consisting of: • 54 preparers (28%) • 112 auditors (59%) • 3 users (2%) • 4 others (2%) • 1 regulator (1%) • 5 written responses (3%) (MA, SD, IPA, UWA, Deloitte)	Almost all stakeholders agree with the proposed hierarchy approach as the entities will default back to the requirements in Tier 1/Tier 2 that they are familiar with if the Tier 3 Standard does not cover a transaction. It will also simplify the auditing/reviewing of information as it will be based on a supportable framework, and auditors are unlikely to accept an approach not in line with existing Australian requirements (MA). While agreeing with the proposed hierarchy approach, two stakeholders from the online survey noted: • that it may lead to inconsistencies; and • [an entity] should always refer to the Conceptual Framework.
No = 12 (6%) consisting of: • 3 preparers (2%) • 2 auditors (1%) • 1 user (1%) • 1 other (1%) • 5 written responses (3%) (PP, CPA/CA ANZ, DH, BDO, ACNC)	A few stakeholders disagree and commented that: • in the absence of Tier 2 requirements, an entity should then refer to Tier 1 requirements; • small entities would not have resources to make accounting judgements or venturing into the AAS beyond the Tier 3 standard; • the Tier 3 Standard should be a stand-alone standard therefore an entity should not be required to refer to Tier 2 requirements, and for any transactions not explicitly covered the entity should consider the Tier 3 principles dealing with similar issues and the conceptual framework (PP, DH); • an entity should consider similar/related requirements in Tier 3 first before considering Tier 2 requirements in line with the objective to develop simpler requirements. NFP modifications should be included in the Conceptual Framework first in order to effectively implement the option suggested in paragraph 4.21(b) (i.e. applying principles and concepts in Tier 3) (CPA/CA ANZ, BDO); and • entities should be allowed to select the method that suits them best rather than to follow hierarchy with appropriate guidance (ACNC).

Staff analysis: Staff noted almost all stakeholders support the proposed hierarchy approach. Whilst one stakeholder considered the hierarchy approach may lead to inconsistencies, staff noted that the entities are required to refer directly to Tier 2 requirements first which is likely to provide more consistency than requiring an entity to develop its own accounting policy based on the Tier 3 requirements for similar transactions.

In addition, the Tier 2 requirements were developed having regard to the Conceptual Framework and the hierarchy approach refers to the Conceptual Framework. The reference to Tier 2 requirements would include Tier 1 recognition and measurement requirements and simplified Tier 2 disclosures.

However, similarly to the responses to Q10) and Q11), the stakeholders who preferred the Tier 3 Standard to be completely self-contained also preferred to firstly consider the requirements for a similar/related transaction addressed by the Tier 3 Standard. Staff noted that when developing the hierarchy approach, the Board considered requiring entities to refer to Tier 2 requirements first would provide more direction and reduce preparers' judgement to develop an accounting policy, thereby limiting the cost. Staff also think entities would not ordinarily need to consider the hierarchy approach if the Tier 3 Standard is developed to include accounting requirements dealing with common transactions of smaller NFP entities, and hierarchy approach is only applied when the Tier 3 Standard does not cover a specific transaction/topic. Staff do not think allowing flexibility for an entity to select an approach from the hierarchy as suggested by a stakeholder is appropriate as this may further reduce comparability and increase preparers' judgement/cost.

Nevertheless, staff think there is merit to consider the Tier 3 hierarchy approach further in light of the feedback received, specifically whether to refer to Tier 2 requirements in the first instance together with consideration of the Board's decision on opt up and standalone standard. Staff will conduct further analysis and possible options to resolve the issue for Board's consideration at a future meeting.

Staff suggested action for next steps: Staff recommend to **proceed with the Board's preliminary view** and begin drafting the Tier 3 hierarchy approach based on the proposal in the DP. Staff will perform **further analysis** and possible options on whether the hierarchy approach should refer to Tier 3 requirements in the first instance, together with the Board's consideration of its opt-up and stand-alone standard proposal.

Q13) Maintenance cycle

Total response = 190

Yes = 181 (95%) consisting of: • 53 preparers (28%) • 109 auditors (57%) • 4 users (2%) • 4 others (2%) • 1 regulator (1%) • 10 written responses (5%) (PP, MA, CPA/CA ANZ, SD, IPA, UWA, DH, BDO, Deloitte, ACNC)	Almost all stakeholders agree with the Board's preliminary views on the maintenance cycle to limit revising its Tier 3 reporting requirements to no more than once every AASB agenda consultation cycle. They noted that consistency and stability is important for smaller entities. This will ensure financial statements are understandable to users as changes every year are challenging. The approach is also successfully used with IASB's *IFRS for SMEs*. Some of these stakeholders: • noted the importance of the post-implementation reviews (after two years of the application of the standard) to address any implementation issues (including MA, SD, ACNC); • suggested a shorter revision cycle may be worthwhile given the number of affected NFP entities and their capabilities. Alternatively, a shorter review period (e.g. every 3 years) on an on-going basis may be considered if there was a substantive case for doing so; (PP) • proposed transitional thresholds for two or three years after the effective date (CPA/CA ANZ); and • noted the need to clarify what this cycle means, including when the cycle starts/ends (DH).

<table>
<tr><td>No = 9 (5%) consisting of:
• 4 preparers (2%)
• 4 auditors (2%)
• 1 other (1%)</td><td>A few stakeholders that disagree noted:
• a shorter cycle may be beneficial to address any significant things needed to be amended; and
• the maintenance cycle should act as a guideline only and amendments should be considered when it is urgent or as necessary.</td></tr>
<tr><td colspan="2">Staff analysis: Staff consider almost all stakeholders support the proposed approach to the maintenance of the Tier 3 requirements. Staff noted the suggestions for a shorter cycle to allow the Board to consider any significant issues that may arise on adopting the proposed Standard, which would be addressed by a post-implementation review (PIR) normally conducted 2 years after the first effective date.[15]
To support entities that would early adopt the future Tier 3 Standard, staff note that paragraph 7.14.3 of the Due Process Framework specifies that the AASB may establish a Transition Resources Group (TRG) of interested parties and subject matter experts to assist with identifying and resolving implementation issues prior to the effective date of a new pronouncement. Paragraph 7.14.4 also states that the AASB may also establish an Implementation Group of interested parties and subject matter experts to assist with identifying implementation issues identified after a Standard has been implemented. As such, staff will have regard to the Due Process Framework to consider the need to establish a TRG or Implementation Group following the development of the Tier 3 Standard.</td></tr>
<tr><td colspan="2">Staff suggested action for next steps: Staff recommend to proceed with the Board's preliminary view and begin drafting the maintenance cycle, for example in basis for conclusions for the Tier 3 requirements not be revisited more than every AASB agenda consultation cycle (5 years) and only when there is a substantive case for doing so, in accordance with the AASB Due Process Framework for Setting Standards (e.g. issues identified from a PIR).</td></tr>
<tr><td colspan="2">Tier 3 requirements for topics to be included in a Tier 3 Standard</td></tr>
<tr><td colspan="2">Q14a & Q15–16) Primary financial statements including presentation requirements
Total response = 209</td></tr>
</table>

15 As part of the AASB Due Process Framework for Setting Standards, the AASB performs a post-implementation review of each new domestic Standard or Interpretation or major amendments to such a pronouncement is to assess the extent to which a new standard is achieving the expected benefits and any unintended consequences

Yes = 173 (83%) consisting of: • 54 preparers (26%) • 101 auditors (48%) • 5 users (2%) • 4 others (2%) • 1 regulator (0%) • 8 written responses (4%) (MA, CPA/CA ANZ, AICD, SD, IPA, BDO, Deloitte, ACNC)	Most stakeholders agree on the proposed Tier 3 primary financial statements and most staff of NFP regulators that provided feedback during the outreach consider the statement of cash flows is an important primary statement. Not requiring separately presenting cashflows between financing and investing activities simplifies the requirements and cost of separating cashflows for these activities may outweigh the benefits for smaller NFP entities. Also, many smaller NFP already use the direct method for cash flows from operating activities. Most of these stakeholders also supported for the presentation requirements for the statement of profit or loss and other comprehensive income to be consistent with AASB 1060 supported by supplementary material to ensure consistency in the presentation of financial statements across all reporting entities. However, a few stakeholders had additional suggestions, including: • the name of the financial statements, including the language, should be more reflective of NFP circumstances – for example, the statement of profit or loss could be referred to as a statement of financial performance or a statement of income and expenses (if only a statement of profit or loss is required); • Tier 3 requirements should require further disaggregation of information on the face of the cash flows statement to improve understanding of the operating cash flows of the users of smaller NFP entities as the high level categorisation (e.g. receipts from customers, payments to suppliers) is not sufficient (MA); • presenting other comprehensive income (OCI) as a separate section of the income statement or below the operating surplus/deficit line (CPA/CA ANZ); • develop educational material on the value of cash flows reporting and how it should be read in conjunction with other primary financial statements and explanatory notes (CPA/CA ANZ); and • give an option for presenting financing and investment activities separately as different entities may have different preferences based on their operation model. A few supportive stakeholders noted that not requiring the separation of cash flows between financing and investing activities separately provides only incremental simplification as entities are already presenting these activities separately.

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<td>No = 36 (17%) consisting of:
• 6 preparers (3%)
• 24 auditors (11%)
• 3 others (1%)
• 3 written responses (1%) (PP, UWA, DH)</td>
<td>Some stakeholders disagree with some aspects of the proposals (including PP, UWA, DH) regarding:
• Statement of cash flows:
  • should not be required because it is challenging for smaller NFP entities to prepare, or the Board/management may not understand the information presented in the statement. Some of these stakeholders suggested the statement can be replaced by a note of opening and closing cash at bank;
  • not separating investing and financing activities may reduce information usefulness and the ability for users to evaluate the sources and applications of funds. Oversimplifying the statement reduces its value considerably without significantly decreasing the complexity form the preparers' perspective (UWA);
  • accounting software allows this distinction, therefore it should continue to be permitted and, instead, not to mandate an 'other total' (total of cash flows from investing and financing activities) (DH); and
  • not to restrict operating cash flows to the direct method only, as alternatives permitted in Tier 2 should also be allowed in Tier 3 (DH).
• Statement of profit or loss and other comprehensive income:
  • a two-statement approach to separately present a statement of profit or loss and a separate statement of comprehensive income and only if the entity has other comprehensive income (PP); and
  • other comprehensive income statement should not be required, only a statement of profit or loss (or statement of income and expenses similar to INPAG).[16] Extra disclosures for OCI cause confusion to readers of SMEs and NFP financial statements (DH).
• Presentation requirements for the statement of profit or loss and other comprehensive income and statement of financial position:
  • preference for more prescriptive approach such as a checklist or tailoring, as these approaches would provide explicit reporting requirements and reduce the subjectivity and judgement aspects of the reporting process, making it easier for these organisations to transition to new reporting requirements (ACNC).</td>
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<td colspan="2">Staff analysis: Staff noted that most stakeholders support the proposals and a few disagree with some aspects. Staff preliminary view in relation to the stakeholder's alternative suggestion are:
• for the statement of cash flows:
  • staff have heard from the staff of NFP regulators that provided the feedback during the outreach as well as most stakeholders who consider the statement of cash flows an important statement that should be included as part of Tier 3 primary financial statements. Based on AASB Research Report 19: Common Financial Statement</td>
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16 The INPAG Statement of Income and Expenses is focused on surplus and deficit and not comprehensive income as permitted in the IFRS for SMEs Accounting Standard and income and expenses that do not contribute to surplus and deficit are instead recognised in the Statement of Changes in Net Assets. Refer to INPAG Part 1 ED

Items: Charities with $0.5-$3 million in revenue (April 2023) (RR19), approximately 85% of sampled charities have already prepared a statement of cash flows. As such, staff expect that many NFP entities would already be preparing or required to prepare the statement as part of their regulatory requirements. As such, staff think that Tier 3 should require a statement of cash flows as part of the Tier 3 primary financial statements;

  - there may be merit in consider whether or not to require separating financing and investing activities in light of stakeholder feedback that the incremental cost savings for the preparers may not outweigh the benefits to users;
  - whilst the direct method of reporting for presenting cash flows from operating activities would appear to be common practice as indicated by findings in RR19. However, there may be merit in considering further the feedback on allowing both the direct or indirect method, consistent with the approach to Tier 2 requirements.
- for the statement of profit or loss and other comprehensive income (SOCI):
  - in response to allowing entities to separately present the statement of profit or loss and other comprehensive income, AASB 1060 already allows an entity to choose whether to present a single statement of profit or loss and other comprehensive income or two separate statements;
  - the Board arrived at its preliminary view to retain the requirement of statement of profit or loss and other comprehensive income because smaller NFP entities are expected to have OCI items (e.g. asset revaluations), hence changing the current requirement may cause confusion and increase reporting burden.
- for the presentation of the SOCI and statement of financial position:
  - the Board's preliminary view to align the presentation requirements for the SOCI and the statement of financial position to the current AASB 1060 presentation requirements already allows an entity to rename the titles of the primary statements.[17] To address these stakeholders' concerns, staff think it would be beneficial to consider applying other titles proposed in the feedback and also to consider INPAG guidance (e.g. statement of financial performance rather than statement of profit or loss and other comprehensive income) when developing application guidance or template financial statements; and
  - as discussed in the DP, the tailoring or checklist approach could impose more burden, given it will require mandatory information to be presented by forcing entities to present certain prescribed items and could lead to entities considering the role of financial statements a regulatory compliance exercise. It will also be difficult to develop prescribed line items given the broad range of NFP entities. Staff did not identify new information that the Board did not consider when arriving at its preliminary review. However, based on the stakeholder feedback, staff will show how further guidance and illustrative examples can support the application of the requirements.

Staff suggested action for next steps: Based on reasons above, staff recommend **proceed with the Board's preliminary view** and begin drafting the Tier 3 primary financial statements primarily based on the Board's preliminary proposal for the statement of profit or loss and other comprehensive income and statement of financial position. Staff will **further analyse** whether a Tier 3 statement of cash flows should require separately presenting cash flows from financing and investing activities, and to allow a direct and/or indirect method to present cash flows from operating activities for the Board to consider at a future meeting.

Q14b) Requirement of the statement of changes in equity*

Total response = 333

17 Paragraph 30 of AASB 1060 allows an entity to use titles for the financial statements other than those used in AASB 1060 as long as they are not misleading.

Yes = 191 (57%) consisting of: • 27 preparers (8%) • 76 auditors (23%) • 2 users (1%) • 3 others (1%) • 1 regulator (0%) • 76 virtual sessions (23%) • 6 written responses (2%) (MA, CPA/CA ANZ, SD, AICD, ACNC, IPA) Not applicable = 14 (4%) consisting of • 4 preparer (1%) • 1 user (0%) • 9 virtual sessions (3%)	Many stakeholders considered the statement of changes in equity is useful because: • some NFP entities have reserves other than retained surpluses (e.g. restricted reserves, revaluation reserves or private ancillary funds with gift funds for donations received) and the information on the movements in these reserves is useful to grantors/donors (for examples on the resources set aside for future projects) (including MA, CPA/CA ANZ, SD); • the statement is often generated by accounting software and would not require significant additional resources or effort and does not justify inconsistency with Tier 1/Tier 2; • it links the information provided by the statement of financial position and statement of profit or loss (MA); and • helps to identify errors when journaling retained earnings. However, some stakeholders noted the statement may not always be useful, especially if the only movement is the entity's profit or loss for the reporting period, and provided the following suggestions: • to align with AASB 1060, require the statement of changes in equity if certain conditions are met (AICD, ACNC, SD, IPA); and • to allow the choice to prepare a statement of changes in equity or as part of a disclosure note (CPA/CA ANZ).
No = 128 (38%) consisting of: • 30 preparers (9%) • 49 auditors (15%) • 2 users (1%) • 4 others (1%) • 38 virtual sessions (11%) • 5 written responses (2%) (PP, UWA, DH, Deloitte, BDO) Of those that responded no, whether the statement should be included as a note disclosure instead: Total response = 95 Yes = 49 (52%) consisting of: • 12 preparers (13%)	Many stakeholders that do not support retaining the statement noted: • the only movement in equity for the year for smaller NFP entities is their profit or loss hence the statement does not add any additional value to users (UWA); • that entities can, instead, report the movement within reserves in the notes to the financial statements (DH, BDO). If the primary statement would be required, it should be referred to as a statement of changes in net assets to better align with NFP terminology (PP); • information contained in the statement of changes in equity is not expected to be detailed. While financial assets that are held to generate both income and capital in return are subsequently measured at FVTOCI, the cost to preparing the statement may outweigh the benefits of the information (Deloitte); and • if the statement is not required at all, then a disclosure note containing the information required in a statement of changes in equity should be mandatory part of the financial statements. While a few stakeholders suggested it should only be required when there is material or other changes other than profit of loss for the period, other stakeholders do not consider a disclosure note is required.

• 30 auditors (32%) • 2 users (2%) • 3 others (3%) • 2 written responses (2%) (DH, BDO) No = 42 (44%) consisting of: • 19 preparers (20%) • 19 auditors (20%) • 1 other (1%) • 3 written responses (3%) (PP, UWA, Deloitte) Not applicable = 4 (4%) consisting of • 3 preparers (3%) • 1 user (1%)	

Staff analysis: Staff noted a small majority supported the requirement for a statement of changes in equity as part of Tier 3 financial statements. To address the concerns of the large minority of the stakeholders that consider the statement does not add value to users if the only change in equity is the profit or loss for the period, staff preliminary view is to align the approach with the Tier 2 requirements as per AASB 1060. That is, to require the statement of income and retained earnings in place of a statement of comprehensive income and statement of changes in equity if the only changes in its equity during the period arise from profit or loss, corrections of prior period errors and changes in accounting policy.

Based on RR19, of the random sample of 260 charities, approximately 81% of charities are currently preparing a statement of changes in equity. As such, staff think aligning the requirement for the statement of changes in equity as per AASB 1060 could address the needs of smaller NFP entities. It will also provide useful information if an entity incurs transactions that require preparation of the statement, thus effectively balancing the user information needs and cost for preparers.

Staff do not support the suggestions from stakeholders for allowing the choice for an entity to present the statement of changes in equity (either the statement or disclosure notes) as this would reduce comparability.

In addition to the option of aligning with AASB 1060 requirements, staff will also conduct further analysis on the option to require or allow the information presented in the statement of changes in equity to be included as part of the disclosure notes.

Staff suggested action for next steps: Staff will need to perform **further analysis** and possible options on the approach to the presentation of the statement of changes in equity as part of Tier 3 primary financial statements for the Board to consider at a future meeting.

Q17) Consolidated financial statements*

Total response = 367

Yes = 257 (70%) consisting of: • 40 preparers (11%) • 104 auditors (28%) • 1 regulator (0%) • 2 users (1%) • 6 others (2%) • 1 blank (0%) • 93 virtual sessions (25%) • 10 written responses (3%) (PP, MA, CPA/CA ANZ, SD, IPA, KPMG, UWA, DH, ACNC, Deloitte) Not applicable = 71 (19%) consisting of • 35 preparers (10%) • 14 auditors (4%) • 2 users (1%) • 20 virtual sessions (5%)	Many stakeholders agree and a few of these stakeholders noted: • the information provided in consolidated financial statements where entities have mixed or discreet purposes may not be useful especially where users may be interested in the information at the individual entity's level. An example of mixed charity group is where a church with a subsidiary being a school or a charity that 'controls' a trust where the trust cannot transfer funds back to the 'parent'. The cost of consolidation significantly outweighs the benefits for smaller organisations (SD); • consolidation is recognised as challenging within the NFP space such as when there is a common trustee, e.g. endowment or buildings funds; • for many smaller NFP entities, the application of AASB 10 *Consolidated Financial Statements* is confusing and separate financial statements for each entity would be much more useful and valuable; • while it may lead to lack of comparability and potential abuse (e.g. arbitrarily undertaking activities and executing transactions in unconsolidated subsidiaries), the number of entities impacted is expected to be minimal given the application to smaller NFPs (PP); • the accounting policy choice will cater for circumstances when it is more meaningful and useful for users to use consolidated financial statements; • they would not support partial consolidation or departure from the concept of control as applied in Tier 1/Tier 2 requirements as this would decrease comparability of financial statements and could be subject to abuse (IPA); • allowing the choice for smaller NFP entities currently preparing SPFS and not presenting consolidated financial statements is important given cost-benefit considerations (Deloitte); and • the approach is consistent with ACNC legislation, which assesses a charity's revenue and require charities to report financial information at the registered charity level, even if there are subsidiaries. It is also important to retain the option to prepare consolidated financial statements, especially if the charity is already preparing them (ACNC). One stakeholder noted that the AASB proposals to exempt the parent entity from presenting consolidated financial statements and provide information about its significant relationship are contradictory since an entity must evaluate whether it has investments in a subsidiary, associate or joint venture. They also consider that a parent entity will need to assess whether the investment is a subsidiary, associate or joint venture and their nature to determine whether it is required to measure the investment at fair value or cost (DH). Other comments • Sufficient disclosures should accompany separate financial statements to ensure information about controlled entities are not hidden and that users are provided information on the total exposure of the whole entity and what the entity's board is responsible for. The disclosures should not be too onerous for preparers (Deloitte). • Significant relationships will need to be clearly defined (KPMG). • The interactions of significant relationship disclosures with related party disclosures will need to be clarified.

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- The feedback from AASB 10 PIR will need to be considered and the NZASB guidance on identifying significant relationships for financial reporting purpose (XRB EG A9) may be of assistance (CPA/CA ANZ).
- Consider further simplification on consolidation requirements or guidance within Tier 3 standard for NFP entities that choose to prepare consolidated financial statements (MA, CPA/CA ANZ, UWA).
- Guidance and examples will be needed to support those charged with governance in making decisions around accounting policy to present consolidated financial statements or separate financial statements (UWA).
- Preparation basis needs to be clear and upfront to enable users to identify the type of financial statements prepared (DH).

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No = 39 (11%) consisting of:

- 4 preparers (1%)
- 21 auditors (6%)
- 4 users (1%)
- 1 other (0%)
- 8 virtual sessions (2%)
- 1 written response (0%) (BDO)

</td><td>

Some stakeholders that disagree noted that the accounting policy choice can reduce comparability of the financial statements, and there should be no choice in consolidation. Of those that disagree:

- Users think:
  - that consolidated financial statements are important in providing transparency about the resources available to the entity as well as the financial risk associated with the entity as a whole;
  - some organisations have separate entities which perform specific functions for their organisation (e.g. a separate entity may be formed to pay administration costs or run the social enterprise part arm of the business). If consolidation was not required, it is difficult for users to assess the true size and financial KPIs of the organisation; and
  - a material parameter could be provided to mandate consolidation (e.g. an entity should prepare consolidated financial statements if revenue, expenses or assets are greater than 10% of the aggregate of the business).
- Auditors think:
  - consolidation is important if an entity is a common trustee of endowment or building funds and the entity should prepare consolidated financial statements;
  - those charged with governance need to see what entities they control. As such, allowing an accounting policy choice would be seen to carry on special purpose reporting and detracts from the overall purpose of the reporting framework;
  - allowing parent entities a choice to prepare separate financial statements with some disclosures will undermine the usefulness and comparability between similar NFP groups, as well as create a lack of transparency for funding providers. That is, this may cause a funder potentially providing excess funding to individual entities in a group because they are unable to see the complete picture as to how much funding the group receives from all sources on a consolidated basis;
  - this choice could lead to abuse by, for example, an NFP parent restructuring to transfer assets and liabilities into a subsidiary to achieve reporting outcomes otherwise unachievable under a general purpose financial reporting framework;
  - additional disclosure about the parent entity's significant relationships assumes that the parent entity has already gone through a process of identifying subsidiaries. Identifying subsidiaries is not a problem that is unique to small NFP entities. If the entity is unable to identify subsidiaries, any additional disclosures would be ineffective; and

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	○ if the main problem is identifying subsidiaries (rather than the mechanics of consolidation), then an alternative approach should be establishing simpler principles to enable smaller NFP private sector entities to identify subsidiaries more easily. That way, consolidation would not be such a major burden for these entities, while at the same time encouraging consistent and comparable disclosures (BDO). • Some preparers and an auditor think all NFP should be required to prepare separate financial statements and the statement be made available for public scrutiny.

Staff analysis: While many stakeholders support the proposals for the accounting requirements for consolidation, some stakeholders do not support allowing an accounting policy choice to prepare consolidated financial statements even if supplemented by disclosures. In addition, staff noted that of the majority of users that completed the survey did not support the proposals and considered the presentation of consolidated financial statements is necessary to provide transparency to users of the resources controlled by the economic entity.

Staff also noted the feedback concerning possible inconsistencies of the AASB proposals for consolidating and evaluating whether an entity has significant relationship is a subsidiary may contradict the requirement for an entity to determine whether the entity has interest in subsidiaries, associates and joint ventures (JV). However, the Board provided the accounting policy options for measuring interests in subsidiaries (and associations and JVs discussed in Q32) to ensure the appropriate accounting requirement caters for the Board decision to allow Tier 3 entities to present consolidated or separate financial statements with significant relationship disclosures only.

Additionally, based on RR19, around 1% (or 3 of 260) of the sample charities submitted consolidated financial statements.[18] This can indicate that, while feedback generally supports the simplification proposed to be introduced for Tier 3 entities, it may not be common for Tier-3-sized NFP entities to be a parent entity based on the findings from the research. This is also supported by stakeholder feedback that the impact of allowing an accounting policy choice for consolidation would be minimal.

Given the findings from RR19 and the feedback, staff will further analyse whether an accounting choice to present consolidated financial statements is needed. On one hand, given that many stakeholders supported the simplification of consolidation, staff think the Tier 3 requirements should therefore allow an accounting policy choice of presenting consolidated financial statements. On the other hand, it may not be common for NFP private sector entities of the size the Board had in mind when developing the Tier 3 requirements to be a parent entity. Therefore it is questionable whether such a simplification is needed and justifiable in light of the comments from the stakeholders who disagreed with the preliminary view.

Staff will conduct further analysis and bring recommendations at a future meeting on:

a) whether to allow an accounting policy choice for presenting consolidated financial statements or to consider consolidation as an omitted topic;

b) subject to the Board decision to allow an accounting policy choice to present consolidated financial statements, the requirements for disclosing information on the parent entity's significant relationships if a Tier 3 entity presents only separate financial statements; and

c) subject to Board decisions not to allow an accounting policy choice to consolidation, whether any further simplification could be developed instead.

Staff suggested action for next steps : Staff will bring **further analysis** on the consolidation per a), b) and c) above for the Board to consider at a future meeting.

18 Based on RR19, charities are required to self-declare whether they submitted a consolidated financial statements in the ACNC Annual Information Statements. The research found that while 18 of the sample of 260 charities self-declared they submitted consolidated financial statements, only three charities had in fact submitted a consolidated financial statements.

Q18) Separate financial statements of the parent **Total response = 204**	
Yes = 150 (74%) consisting of: • 33 preparers (16%) • 101 auditors (50%) • 4 users (3%) • 1 regulator (0%) • 6 others (2%) • 5 written responses (2%) (PP, UWA, BDO, ACNC, Deloitte) Not applicable = 30 (15%) consisting of: • 22 preparers (11%) • 6 auditors (3%) • 1 user (0%) • 1 other (0%)	Most stakeholders agree with the proposals. One stakeholder that provided comments through online survey agree with the election of an appropriate method supported by disclosures. Another stakeholder noted that the election of the cost method would likely to be the preferred option by the preparers (PP).
No = 24 (12%) consisting of: • 5 preparers (2%) • 14 auditors (7%) • 5 written responses (2%) (IPA, MA, SD, CPA/CA ANZ, DH)	Some stakeholders that completed the online survey and the significant proportion of those that provided written submissions disagree and provided the following comments: • if an NFP entity have subsidiaries, it would appear to be a more complex entity and be required to comply with the current requirements, • too many choices are provided which may affect the consistency of application and simplicity for preparers. The Board should research the commonly applied approaches by smaller NFP entities and analyse the cost and benefits of each approach. The research would inform the decision of whether to mandate an approach or to permit choice (IPA); • the value of requiring parent entity to measure their investments in subsidiaries at fair value or using the equity method in place of consolidation is not clear. While supportive not requiring consolidation, however, the introduction of fair value or using the equity method of accounting to measure subsidiaries is not simpler to apply (and arguably consolidation would be more appropriate) and may introduced other complexities (MA, SD); • the equity method of accounting is not consistent with consolidation proposals and the information about the nature of the significant relationships, whether a control exist and why consolidation is not considered appropriate will be necessary. While not supportive of the option to measure the interest at FVTOCI, if the Board decides to proceed with the consolidation

	accounting policy choice, and evidence of significant relationships is required, then allowing an accounting policy choice to measure investment in subsidiaries that are held as financial investment vehicles at FVOCI may appear appropriate (CPA/CA ANZ); and • while accounting policy choice may be appropriate it contradicts the proposal to exempt entities from evaluating whether an entity for which it has significant relationship is a subsidiary, associate or joint venture. For an entity to be eligible to use cost, or use equity method, it must evaluate whether the investment is a subsidiary.

Staff analysis: Staff noted that most stakeholders agree with the proposals. When first discussed with the Board,[19] staff had not identified at the time that accounting requirements for this topic an area of significant interest beyond terminology and language. As such, the Board's preliminary views closely aligned with the Tier 1/Tier 2 requirement other than require fair value gains/losses through other comprehensive income to align with the Board's preliminary proposal for the subsequent measurement of financial assets held to generate both income and capital return.

In response to the feedback from stakeholders above, the equity method would appear inappropriate if a Tier 3 entity have elected not to prepare consolidated financial statements due to the complexities in determining control. Staff noted that the Board considered its preliminary view on the separate financial statements of a parent regardless of the parent choosing to consolidate or not and decided to develop additional disclosure requirements to provide additional information in the absence of consolidated financial statements. The Board also noted that the equity method would allow treating the investments in subsidiaries in the same manner as the investments in associates.

In response to the feedback on the number of accounting policies to choose from hindering comparability and simplicity of the requirements, staff noted the Board had made several decisions to continue to allow accounting policy choice. Staff noted the Board for example:

- continued to allow property, plant and equipment to be measured at cost or at fair value even though cost would likely be the simplest and likely measurement method elected;
- decided on several topics to allow accounting policy choices (e.g. consolidation, initial measurement of non-financial assets measured at significantly less than fair value) which the Board had considered within the principles of developing Tier 3 requirements.

Staff had also previously considered a possible Tier 3 simplifications for separate financial statements is to limit available accounting policy options. That is, to require investment in subsidiaries to be recognised at cost less impairment, unless investment entity or venture capitalist exceptions apply.[20] However, the Board decided that its decision to permit an entity the choice of whether or not to prepare consolidated financial statements would mean that such interest would generally be recognised at FVTOCI in the entity's separate financial statements. This may impose greater costs on the entity than the accounting permitted by AASB 127 *Separate Financial Statements.* As such, the Board decided to allow the accounting policy choice to measure interest in subsidiaries consistent with current Tier 2 requirements.[21]

On the other hand, limiting the accounting policies to a single option is not inconsistent with the Board's principles for developing Tier 3 reporting requirements. As confirmed by feedback, it is reasonably expected that cost would be the most common accounting policy adopted. It would address the need for a consistent approach and could further reduce preparer cost by limiting accounting judgement. Further, as noted in the discussion of Q17) above, the findings in RR19 indicated that it is not common for smaller NFP

19 See minutes of August 2022 Board meeting
20 See Agenda Paper 3.3 at the June 2022 Board meeting
21 Refer to Agenda Paper 3.2.2 at the August 2022 Board meeting

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<tr><td colspan="2">private sector entities to be a parent entity. This would suggest that limiting the Tier 3 requirements to a single accounting policy is not expected to impact entities applying other measurement methods significantly.

Staff will need to conduct further analysis, including the most common method used by smaller NFP entities under current requirements and possible options to address the feedback. The analysis would include whether the Tier 3 Standard should require a parent entity preparing separate financial statement to measure its investment in subsidiaries at cost less impairment, except for an investment entity or venture capitalist or similar entity,[22] to limit the accounting policy choices available and address the stakeholders’ concerns regarding the complexity such choice may represent.</td></tr>
<tr><td colspan="2">Staff suggested action for next steps: Staff will bring further analysis of the possible options for requirements of measuring investments in subsidiaries in separate financial statements for the Board to consider at a future Board meeting</td></tr>
<tr><td colspan="2">Q19–20) Changes in accounting policies and accounting estimates and correction of accounting errors
• Total response = 209[23]</td></tr>
<tr><td>Yes = 175 (84%) consisting of:
• 48 preparers (23%)
• 111 auditors (53%)
• 3 users (1%)
• 1 regulator (0%)
• 7 others (3%)
Not applicable = 3 (1%) consisting of
• 3 preparers (1%)

Written responses:
• For changes in accounting policies:
  ○ Yes =11 (5%) (AICD, IPA, UWA, Deloitte, ACNC, MA, CPA/CA ANZ, SD, DH, BDO, Deloitte)
• For accounting estimates:</td>
<td>Most stakeholders generally support the proposals on accounting for changes in accounting policies and estimates and correction of accounting errors, and welcomed the simplifications. They noted that not adjusting prior period comparatives would be clearer and more easily understood by users.
A few stakeholders provided further comments and suggestions:
• for correction of errors adequate disclosures need to be provided relating to prior period adjustments and how error occurred to increase transparency and improve users' understanding of the issue (ACNC); and
• information on the impact to solvency or other material negative impacts of the changes should be reported to a regulator, otherwise there will be an incentive to 'hide bad news'.</td></tr>
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22 Paragraph 11 of AAB 127 specifies if an entity or parent elects to measure its investments in associates or joint ventures a fair value through profit or loss, then it shall also account for its investment in a subsidiary the same way in its separate financial statements.

23 Some written responses agree with the majority of the proposal except for the correction of prior period errors.

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<td>◦ Yes = 9 (4%) (PP, MA, CPA/CA ANZ, SD, IPA, UWA, DH, BDO, Deloitte)
• For correction of prior period errors:
◦ Yes = 4 (2%) (IPA, UWA, Deloitte, ACNC)</td>
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<td>No = 31 (13%) consisting of:
• 9 preparers (4%)
• 14 auditors (7%)
• 2 users (1%)

Written response for correction of prior period errors:
◦ No = 6 (3%) (PP, MA, CPA/CA ANZ, SD, DH, BDO)</td>
<td>Some stakeholders (mostly auditors) disagreed mainly in relation to the accounting for correction of prior period errors and noted that the adjustment of prior period comparatives should be required and noted:
• adjusting the opening balance approach could produce misleading comparatives and obscure the current year operations in some situations (e.g., material prior year correction). Correcting comparatives ensures the users have necessary comparable information and the benefits outweigh associated cost, especially if error is significant (PP, MA, CPA/CA ANZ, BDO, DH);
• there may be opportunities for management to manipulate financial reporting; and
• potential implications on the audit sign-off on a known error not adjusted retrospectively. There were concerns whether the financial statements would provide true and fair view if the comparative information is known to be materially incorrect (SD).
A few stakeholders that were not supportive of the proposals for both changes in accounting policies and correction of errors consider:
• the Tier 3 requirements should align with AASB 108 to ensure comparability with other entities; and
• adjusting opening balance may cause more questions than answers (user).</td>
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<td colspan="2">Staff analysis: Most stakeholders generally support the preliminary views in the DP and only a few stakeholders disagreed mainly in relation to the accounting for correction of prior period errors as they consider that not correcting comparative information may be misleading users or may impede the ability for auditors to sign off the financial statements as true and fair.
Given only a small minority consider prior period adjustments should align with existing requirements, staff consider there is sufficient support for simplifications within Tier 3 Standard warranting departure from Tier 2 requirements. Staff consider adequate disclosures about prior year adjustments would provide sufficient explanation to users as per stakeholder feedback.
However, staff will conduct further analysis and determine possible options for the Board to consider at a future meeting on the accounting for the corrections of prior period errors to address the feedback that: 1) the modified retrospective approach may be misleading; 2) users would benefit from the adjustments of comparative information; and 3) the benefits of the adjustments outweigh the cost. The possible options may include:
• consistently with existing requirements to require a restatement of comparative information for prior year errors with simplification of the language; or
• to proceed with Board's preliminary view to allow a modified retrospective approach for corrections of prior period errors and develop appropriate disclosure requirements.</td>
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Staff consider there is sufficient support to proceed with drafting the Tier 3 accounting requirements for voluntary changes in accounting policies applying a modified retrospective approach and prospective approach for changes in accounting estimates.	
Staff suggested action for next steps: Staff recommend to **proceed with the Board's preliminary views** and begin drafting the Tier 3 requirements to apply: • a modified retrospective approach for changes in accounting policies; and • a prospective approach for changes in accounting estimates. Staff will bring **further analysis** of the options for the requirements for correction of prior period errors for the Board to consider at a future meeting.	
Q21) Tier 3 Standard to develop simplified accounting for financial instruments that are common for smaller NFP entities and financial instruments that are more complex or uncommon to refer to AASB 9* **Total response = 301**	
Yes = 277 (92%) consisting of: • 53 preparers (18%) • 101 auditors (34%) • 5 users (2%) • 6 others (2%) • 106 virtual sessions (35%) • 6 written responses (2%) (PP, SD, IPA, UWA, Deloitte, ACNC) Not applicable = 14 (5%) consisting of: • 2 preparers (1%) • 1 auditor (0%) • 11 virtual sessions (4%)	Almost all stakeholders agree that the current requirements are too complex for smaller entities and that the proposals would standardise the reporting. A few stakeholders also noted: • it is rare to see financial instruments other than term deposits; • unearned income should be specifically disclosed (e.g. grant or service program funding received in advance); and • guidance on disclosures would be useful for the basic and more complex financial instruments. Other comments noted: • the boundary between 'basic' and 'complex' financial instruments will need to be clear to make it simple for smaller NFP entities to apply. All fair values should be recorded through OCI even for complex financial instruments where AASB 9 may require FVTPL to eliminate the need to consider the nature and purpose of the financial instruments (PP); and • guidance will need to be provided on the factors to consider in determining whether or not an NFP controls a bank account held in trust (MA).
No = 10 (2%) consisting of: • 1 preparer (0%) • 1 auditor (0%) • 4 virtual sessions (1%) • 4 written responses (1%) (MA, CPA/CA ANZ, DH, BDO)	A few stakeholders disagree because: • directing entities to refer to Tier 1/Tier 2 requirements for complex financial instruments contradicts objective of the Tier 3 requirements to be a stand-alone standard and may lead to potential issue where AASB 9 and AASB 132 would be updated more frequently compared to Tier 3 requirements' proposed maintenance cycle (MA, DH); • AASB 9, AASB 132 and 139 can be challenging to apply and the AASB should aim to remove, as much as possible, the need to refer to Tier 1/Tier 2 for smaller NFP entities. *IFRS for SMEs* ED proposes removing option to opt up to IAS 39/IFRS 9. AASB

38 (13%) respondents did not agree with the list and highlighted the following items they disagree with: • purchased debt instruments such as listed corporate bonds and convertible notes = 19 (6%) • acquired equity instruments such as preference shares = 21 (7%) • financial guarantee contracts = 20 (7%) • interest rate swaps and forward exchange contacts = 14 (5%) • commitments to provide a loan at a below market interest rate = 26 (9%)	should consider a similar approach to developing self-contained accounting requirements for financial instruments within Tier 3 Standard (CPA/CA ANZ); and • the appropriateness of using 'blunt instrument' such as the list of basic instruments to application of simplified accounting requirements is questionable. For example, certain units held in managed investment schemes, unit trust and similar other investment vehicles could contain embedded derivate and AASB 9 may be more appropriate. And some acquired equity instruments such as preference shares may not contain any derivates features and simplified Tier 3 accounting for financial asset may be appropriate. An alternative approach for Tier 3 accounting could apply to distinguish whether an instrument contain complex features (such as conversion features or a derivatives). The Tier 3 standard could articulate the features that would distinguish a complex instruments from basic instrument to avoid a risk of entities acquiring (or, less likely, issuing) instruments with 'basic names' to be able to apply basic accounting, even if the features indicate the instrument is of a complex nature (BDO). Only a few stakeholders that provided comments disagree with the proposed list of complex financial instruments including: • unconditional bank guarantees (which may be a residential bond) may be a common instrument and would prefer guidance in Tier 3 rather than it being considered as complex financial instruments; • concessional loans are common in NFP sector and further research is encouraged to ensure that the list of basic financial instruments is as comprehensive as possible (CPA/CA ANZ); • a charity may receive preference shares (and potentially other equity instruments) as a donation or bequest and a guidance within Tier 3 Standard would be useful; • listed corporate bonds are very straightforward instruments and should be 'basic', hybrid securities usually have equity risk and should be accounted for similarly to ordinary shares (DH); and • a few NFP entities use interest rate swaps to manage interest rate risk. Measuring these at fair value is not appropriate for NFP entities as it is difficult to describe what this is and why the accounting is necessary to Boards and the members at AGMs. On the other hand, one stakeholder noted that if an NFP entity has complex financial instruments, it should not prepare financial statements using Tier 3 requirements.

Staff analysis: Although almost all stakeholders agree with the proposals to distinguish between basic and more complex financial instruments, staff think further consideration will be required to address some of the concerns noted in the feedback. In particular:

- if the Board decides to proceed with its preliminary view, the reasons, including the principles of the boundaries for basic and complex financial instruments, would be included in the basis for conclusions (staff note the feedback to the IASB on their proposed changes to the *IFRS for SMEs* may further inform the Board on this topic);
- regarding stakeholder concerns about referring to Tier 1/Tier 2 requirements for complex financial instruments is inconsistent with developing a stand-alone standard, staff noted that the Board rejected developing Tier 3 reporting requirements for financial instruments being wholly self-contained within a Tier 3 Standard. The Board considered an NFP entity that commonly holds 'more complex' financial instruments will not usually be the entity that should be preparing financial statements that comply with Tier 3 reporting requirements. The Board also considered that such an entity engaging in transactions or other events giving rise to holdings of complex

financial instruments should be able to apply AASB 9. [Agenda Paper 5.2.2] at the May 2022 Board meeting noted other supporting arguments to referring the application of AASB 9 or other Australian Accounting Standards for complex financial instruments, including:

- facilitating consistency in accounting for more complex financial instruments; and
- costs are possibly largely once-off on initial application, unless the entity regularly enters transactions that are not' basic' financial instruments.

As observed from RR19, the common types of financial instruments held by medium-sized charities were cash and cash equivalents, trade and other receivables (including accrued revenue), loan receivables (debt/bond) and term deposits. The less common financial instruments were equity investments, managed funds, financial assets held either at cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVTOCI). As such, staff would not expect many smaller NFP entities hold complex financial instruments that would require to refer to Tier 1/Tier 2 requirements. However, staff note that the reasons for the IASB including the section 12 in the *IFRS for SMEs* and the feedback received on the currently proposed changes may further inform the Board in this regard.

- During its deliberations when developing its proposals, the Board also recognised that many smaller NFP entities would have difficulties identifying what assets/liabilities would fall within financial instruments and therefore proposed to develop the Tier 3 requirements by identification of instruments to provide clarity to Tier 3 preparers. Therefor staffs' preliminary view is that this would be an appropriate approach to develop the accounting requirements for basic financial instruments. However, there is also merit to explore other possible alternative approaches not yet previously considered by the Board based on the feedback provided or to supplement the list of the basic instruments with the underlying principles similarly to the conditions outlined in the *IFRS for SMEs*.

Staff will bring further analysis and possible options for the Board to consider at a future meeting whether the Tier 3 accounting requirements for financial instruments should:

- also include accounting for complex financial instruments within a Tier 3 Standard (as the Board did not make the decision in this regard) and whether to simplify accounting for them similarly to IFRS for SMEs;
- apply a different method to distinguish basic financial instruments for example where the basic instrument does not contain complex features (such as conversion features or other derivatives), and articulate in the Tier 3 requirements what features would distinguish a complex instrument from a basic one;
- proceed with the Board's preliminary view to only develop simplified accounting requirements for basic/common financial instruments in Tier 3 and require complex financial instruments to apply AASB 9 including how such requirements should be operationalised;
- include guidance for specific types of financial instruments such as bank accounts held in trust, bank guarantees, concessional loans, preference shares, listed corporate bonds and hybrid securities. Staff will consider findings from RR19 in this regard; and
- Develop application guidance and/or illustrative examples to address stakeholder concerns that guidance on disclosures would be useful for the basic and more complex financial instruments

Staff suggested action for next steps: Staff will bring **further analysis** and possible options for the accounting for basic and complex financial instruments and other issues identified in the analysis above for the Board to consider at future meeting.

Q22–27) Accounting for basic financial instruments*

Total response = 395

Respondents that did not highlight any issues with the proposals: 337 (85%) including 9 written submissions (PP, MA,	Most stakeholders support the proposed accounting for basic financial instruments specifically noting the following in relation to:

CPA/CA ANZ, SD, IPA, UWA, DH, BDO, ACNC)	• not separately recognising embedded derivate financial instruments that are not readily identifiable and measurable:
	  ◦ these instruments are unlikely held by most NFP entities. The level of complexity associated with financial instruments with embedded derivative requires reports prepared in accordance with current standards for those financial instruments and that there is little logic in reducing these requirements for Tier 3. If the entity is able to enter into these contracts, then it should be able to report them appropriately (UWA);
	  ◦ not aware of any clauses in contracts for smaller NFP entities that would give rise to embedded derivates, noting they may be not simple to identify (DH); and
	  ◦ smaller NFPs are not expected to have borrowings or enter into complex lease arrangements (BDO).
	• not permitted hedge accounting (including MA, PP, CPA/CA ANZ, IPA, DH, Deloitte, ACNC):
	  ◦ hedging activities are rare for smaller NFP entities and if such activities are present, it would be considered more appropriate to apply Tier 1/Tier 2 requirements (MA, ACNC); and
	  ◦ derivates would be scoped out of Tier 3 as complex financial instruments and AASB 9 accounting for derivatives (without hedge accounting) would apply, i.e. FVTPL (Deloitte).
	• initial measurement of financial instruments (MA, CPA/CA ANZ, SD, IPA, UWA, BDO, Deloitte, ACNC):
	  ◦ the proposals reflect the current practice and are accepted on the basis for materiality by auditors (MA); and
	  ◦ in circumstances where financial assets are donated rather than acquired and the transaction price may not equal fair value, additional disclosures should be developed to ensure relevant information is made available to the users (CPA/CA ANZ).
	• subsequent measurement of financial assets/liabilities (PP, CPA/CA ANZ, IPA, UWA, DH, BDO):
	  ◦ many smaller NFPs do not want fair value gains and losses impacting their 'normal' income/expense operating result. To further simplify, all changes in fair value should go through OCI irrespective of the requirements in AASB 9 (i.e. even if it requires fair value through profit or loss)) to eliminate the need for smaller NFPs to consider the nature and purpose of the financial instruments (PP);
	  ◦ government bonds under AASB 9 are measured at amortised costs, or sometimes at FVTOCI (with recycling) if held for sale (i.e. capital return) and similarly, Tier 3 should allow government bonds to be recognised at amortised cost or fair value (DH);
	  ◦ some NFP entities’ funding agreements include covenants with profit tests and subsequent measurement of financial instruments at FVTOCI can affect compliance with the covenants;
	  ◦ management prefers to separate fair value gains and losses from the entity's standard operations (unless the entity's operations are investment focused) to avoid volatility in the profit or loss.
	• impairment of financial assets (PP, MA, CPA/CA ANZ, SD, IPA, KPMG, UWA, DH, BDO, Deloitte):

	• guidance on practical evidence of debtor's inability to pay would be required to enhance assurability of the proposals such as assessment of what is probable regarding collectability of the amount owed (MA); and • some NFP entities currently recognise the impairment loss on financial instruments using the incurred loss model for management reporting purposes as the model is more relatable to their business models with less judgement involved (KPMG, Deloitte). • derecognition requirements (PP, MA, CPA/CA ANZ, SD, IPA, UWA, DH, BDO, Deloitte): • derecognition requirements proposed for financial liabilities clearly eliminate the complexity of Tier 1/Tier 2 requirements (MA, BDO); and • smaller NFP entities are unlikely to have complex modifications of financial assets/liabilities (Deloitte). Other comments • A few stakeholders prefer a choice of FVTOCI or FVTPL because there are some NFP entities (and users of financial statements) that do not understand what OCI is. Some entities prefer accounting for the fair value gains/losses through OCI (e.g. if they hold investments as a source of other income) to avoid volatility in the profit or loss whilst others would prefer gains and losses in profit or loss if investing (and philanthropic distribution of the returns) is their main activity. • If Tier 3 allows opt up for complex financial instruments or by class of transaction basis, then the requirements may potentially conflict with not permitting hedge accounting requirements in Tier 3. For example, opting up by class of transaction basis would allow Tier 3 entities to apply hedge accounting under AASB 9, in addition requiring complex financial instruments such as interest rate swaps to apply AASB 9 would make hedge accounting available (CPA/CA ANZ, DH). • Definition of terms will be needed, for example whether initial premium or discount on acquisition is the difference between the fair value and face value for interest-free loans, or the difference between market value (purchase price) and par value for corporate bonds. Interest-free (i.e. concessionary loans) should be initially recognised at fair value, with the difference being recognised as a gain (loan payable) or a loss (loan receivable) in profit or loss (DH). • Tier 3 requirements need to clarify whether subsequent measurement at fair value through OCI permits (or not) recycling to profit or loss (DH). • Guidance may be required on what constitutes a financial asset held to generate both income and capital return as some instruments may initially be held to earn income only with view to a capital return in the distant future or not at all (subject to the investment strategy). A strict reading of the phrase 'both income and capital return' might mean only those financial assets held for both purposes would qualify for measurement at FVTOCI (BDO). Similarly, application guidance for terms and conditions in Tier 3 requirements such as 'otherwise loses control of the asset' is needed to avoid the risk of default interpretation using Tier 1/Tier 2 requirements. • Further simplification of terminology should be considered in developing the requirements and guidance (CPA/CA ANZ).

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- Financial instruments should be derecognised when the obligations specified in the contract either expire or are cancelled (forgiven) as this is sometimes the case in the NFP sector when lenders forgive loans effectively converted into donations (BDO).
- Guidance on the timing of interest income and expense recognition would be useful.

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58 (15%) respondents did not agree and highlighted the following items that they disagree with:

- Initial measurement of all financial instruments = 12
- Subsequent measurement of financial assets = 35 (including MA, SD, Deloitte)
- Subsequent measurement of financial liabilities = 13 (including MA, SD, Deloitte)
- Derecognition of financial assets = 9
- Derecognition of financial liabilities = 6
- Interest income/expenses = 12
- Impairment = 10

Other simplification of financial instruments = 9 (including SD, KPMG, DH)

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Some stakeholders that disagree with the proposed accounting for basic financial instruments mostly commented on the subsequent measurement of financial assets held for capital return and income. These stakeholders prefer instead to recognise changes as FVTPL instead of FVTOCI because:

- it would be a simpler option as most preparers and users lack the understanding of what other comprehensive income is;
- recording the change as FVOCI would require to isolate the accrued interest from net change in the fair value and result in unnecessary complexity (MA);
- OCI is not well understood and more difficult to track to ensure investment returns are differentiated to the unrealised fair value changes. Many NFPs with investment holdings almost always contain managed funds and their investment which, given the restrictions within AASB 9 of using FVOCI for equity instruments only, have recorded their investment at FVTPL. Presentation distinction between operating and non-operating results would avoid the need to use OCI (SD); and
- further targeted research may be needed as FVTPL measurement is common practice for NFP entities for units held in management investment schemes (Deloitte).

Only a few stakeholders disagree with other aspects of the proposed accounting for basic financial instruments including:

- expensing transaction costs and fee on initial recognition:
  - transaction costs could create significant capital gains tax issues as that is not how they are required to be reported to the ATO. The timing of expense would not match the timing of the realisation of the asset which seems contrary to international accounting standards;
  - it is uncertain if smaller NFP entities will welcome this proposal as it will negatively impact the net result of the year of acquisition of the financial instrument. Therefore it will be important to allow smaller NFP entities to opt-up to higher Tiers on a class of transaction basis (KPMG); and
  - disagree transaction fees on financial liabilities should be immediately expensed as these can be relatively large. These costs should be amortised over the life of the instrument (DH).
- not permitting hedge accounting:
  - although not common, some smaller NFPs operating overseas utilise forward contracts concerning future cash outflows and should be allowed to use the hedge accounting policy choice under AASB 9. Continuing to allow smaller NFPs this accounting policy choice is consistent with the objective of simplifying financial statement preparation as smaller NFP entities can choose not to apply hedge accounting (SD); and

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	○ whilst uncommon occurrence, the accounting community has accepted inconsistency regarding hedge accounting more generally, and a lack of consistency amongst smaller NFP entities would not be a persuasive rationale for disallowing the application of hedge accounting among this cohort (KPMG).

Staff analysis: Most stakeholders supported the proposals for Tier 3 accounting requirements developed for basic financial instruments. Staff preliminary view is that most of the non-supportive feedback related to the subsequent measurement of non-financial assets measured at FVTOCI.

RR19 identified that charities are equally likely to measure financial instruments at FVTPL or FVTOCI even though findings did not identify financial instruments as a common transaction. Interest income is identified as the most common type of income amongst charities, which corresponds with the findings that charities often have cash and cash equivalents and term deposits.

Based on the feedback and research findings, staff preliminary view is that accounting for basic financial instruments that are held to generate both income and a capital return should be developed based on the Board's preliminary views proposed in the DP (i.e. FVTOCI) because:

- majority of stakeholders agree with the Board's preliminary views;
- FVTPL adds to volatility of determining size thresholds based on income for NFP entities;
- presenting operating and non-operating profit separately would not resolve all the issues with the OCI, and the need to define the presentation distinction would not be dissimilar to the recognition through OCI;
- a choice of FVTOCI and FVTPL would not contribute to simpler and more comparable reporting of basic financial instruments.

However, staff will conduct further analysis and determine possible options for the accounting requirements for subsequent measurement of financial assets held for both income and capital return for the Board to consider at a future Board meeting, specifically whether to recognise changes in FVTPL or FVTOCI.

For the other aspects of accounting for basic financial instruments, staff think there is broad support from stakeholders to proceed with the Board's preliminary view and to begin drafting the Tier 3 requirements. During that process, staff will further consider the suggestions provided by the stakeholders, including clarification and simplification of terms and terminology and the need for application guidance.

In response to other stakeholder feedback, staff preliminary views are:

- staff do not expect significant capital tax issues would arise from expensing transaction costs,[24] unless a smaller entity acquires significant quantities of financial instruments giving rise to significant transaction costs. Findings from RR19 did not indicate a capital gain tax a common material issue for smaller NFP entities.
- The Board's preliminary views in the DP address the requests for the guidance on:
  - the derecognition of a financial liability when the obligation either expired or was cancelled, and
  - the timing of the recognition of the interest income and expense and for the recycling from OCI to profit or loss.

  However, staff will consider the need for particular application guidance or illustrative examples.

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[24] Capital gains tax (CGT) is the tax paid on profits from selling assets including shares and units. CGT is calculated based on the capital proceeds when selling the asset or another CGT event happens less the cost base. Cost base includes the cost paid to purchase the CGT asset, plus other costs incurred to hold and dispose of it. See ATO website for further information.

• The request on the availability of hedge accounting policy choice should be considered in conjunction with the Board's consideration of its approach to opt-up on a class of transaction basis. Staff noted that findings from RR19 indicate this is not a common accounting policy choice adopted by smaller NFP entities.	
Staff suggested action for next steps: Staff recommend to **proceed with the Board's preliminary views** and begin drafting the Tier 3 requirements for accounting for basic financial instruments accompanied by further consideration of the feedback from stakeholders noted above. Staff will bring **further analysis** and possible options for the accounting requirement for the subsequent measurement of basic financial instruments, specifically whether to recognise changes of the fair value through profit or loss or OCI for the Board to consider at a future meeting.	
28) Fair value measurement **Total response = 202**	
Yes = 190 (94%) consisting of: • 52 preparers (26%) • 117 auditors (58%) • 1 regulator (0%) • 4 users (2%) • 6 others (3%) • 10 written responses (5%) (PP, MA, CPA/CA ANZ, SD, IPA, UWA, DH, BDO, Deloitte, ACNC) Not applicable = 7 (3%) consisting of • 6 preparers (3%) • 1 user (0%)	Almost all stakeholders support keeping the definition and measurement of fair value in accordance with AASB 13 *Fair Value Measurement*. Some of these stakeholders noted: • the requirements need to be expressed in a manner that is easier for preparers to follow; • many NFP entities would often default to cost as a proxy for fair value as it is often the most appropriate measure; • application guidance will be needed to achieve the attributes required for the fair value measurement being the price achieved for an orderly transaction between market participants at the measurement date; • *IFRS for SMEs* Exposure Draft includes proposals on fair value requirements based on IFRS 13 that could be considered (CPA/CA ANZ); and • smaller NFP entities do not typically enter complex financing and similar arrangements, or else recognise material balances that require sophisticated fair value measurement techniques. Therefore, applying AASB 13 without simplifying the language will be challenging for many, if not all, smaller NFP entities (BDO).
No = 5 (2%) consisting of: • 2 preparers (1%) • 3 auditors (1%)	A few stakeholders disagree. One stakeholder commented that historical cost measurement as an approximation of the fair value should be available to smaller entities to avoid additional costs and movements in the balance sheet, which users may not understand. Another stakeholder noted that if there is a free choice, many NFP entities would record investments at cost due to insufficient information.
Staff analysis: Staff noted only a few stakeholders disagree. Staff do not consider there are compelling reasons not to proceed with the Board's preliminary view for Tier 3 fair value measurement requirements because: • there is already an accounting policy choice provided for entities to elect the measurement basis for entities that consider the cost measurement basis more appropriate to meet their needs (e.g. subsequent measurement of property, plant and equipment), while ensuring entities have appropriate guidance when electing the fair value measurement basis; and	

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- the Board considered allowing accounting policy choices as a simplification option (e.g. initial measurement of non-financial assets acquired at significantly less than fair value) for smaller NFP entities within the principles of developing Tier 3 requirements.

The research findings in RR19 indicate that some charities elect to fair value non-financial assets and financial instruments and therefore including the guidance on fair value measurement within a Tier 3 Standard would be appropriate. The Board indicated in the DP that the forthcoming amendments of *IFRS for SMEs* to align with IFRS 13 may provide a suitable base for informing the Board of the basis and extent of fair value requirements and guidance. Staff note that *IFRS for SMEs* uses the notion of “undue cost and effort” in relation to some fair value measurement cases that the Board considered in relation to the fair value measurement of investment properties.
</td></tr>
<tr><td colspan="2">

Staff suggested action for next steps: Staff recommend to **proceed with the Board's preliminary view** and begin drafting the Tier 3 requirements for fair value measurement requirements consistent with AASB 13 but to express the requirements in a manner that is easier for preparers to follow considering the IASB proposals in the *IFRS for SMEs* ED. Staff will bring possible drafting of the topic as part of the Exposure Draft for Board consideration at a future meeting.
</td></tr>
<tr><td colspan="2">

Q29) Cost as an appropriate estimate of the fair value

Total response = 194
</td></tr>
<tr><td>

Yes = 161 (83%) consisting of:

- 40 preparers (21%)
- 101 auditors (52%)
- 4 users (2%)
- 1 regulator (1%)
- 5 others (3%)
- 10 written responses (5%) (PP, MA, CPA/CA ANZ, SD, IPA, UWA, DH, BDO, Deloitte, ACNC)

Not applicable = 18 (9%) consisting of

- 15 preparers (8%)
- 3 auditors (2%)
</td><td>

Most stakeholders supported the proposal. Some of these stakeholders noted:

- if cost were used as an approximation of the fair value measurement, appropriate disclosures should be made including consideration of impairment;
- Tier 3 should stipulate clear parameters around when cost may be an appropriate estimate (e.g. donated financial assets where value is easily obtainable) so this approach is used in very limited circumstances and not as an avenue to avoid fair value measurement (MA, KPMG, ACNC, DH); and
- the eligible investments are not expected to be common (SD).

Some stakeholders also provided suggestions including:

- the cost of obtaining fair value to be taken into account and whether a qualitative threshold could be developed where obtaining the fair value would be warranted, for example if there is a potential downward valuation; and
- a rebuttable presumption that 'cost is the best estimate' of fair value as an effective means of simplifying the application of the cost as fair value proxy requirement for initial recognition purposes. This presumption would be rebutted for scenarios where financial assets were donated or gifted (with cost as nil) or acquired by an NFP at concessional value (CPA/CA ANZ).
</td></tr>
<tr><td>

No = 15 (8%) consisting of:

- 2 preparers (1%)
- 11 auditors (6%)
- 1 user (1%)
</td><td>

A few stakeholders disagree and noted:

- the fair value provides a fairer representation of the investment value;
- the appropriateness of the valuation using cost would depend on if the assets were purchased from a related party or under special conditions;
</td></tr>
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• 1 other (1%)	• some quantitative or time-related thresholds could be developed to guide the revaluation of the assets, for example when the assets were held for more than 12 months, or if material or greater than (for example) $50,000 in value; and • if cost is an option then it should be cost less any impairment to avoid a tendency not to assess valuations of unlisted investments when they are held at cost and where investments should be impaired (e.g. as they sustained heavy losses and have cash flow issues). Private and Public Ancillary Fund Guidelines requirement to hold investments at fair value also needs to be considered.

Staff analysis: Most stakeholders supported Board's preliminary views in the DP. In response to the feedback from non-supportive stakeholders, staff note that the Board's preliminary proposals for unlisted share investment would apply only in limited circumstances, when cost may be an appropriate estimate of fair value (at initial or subsequent measurement) when there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range. Cost may also be an appropriate estimate of the fair value of equity instruments if there are no indicators present to suggest otherwise (e.g. a change in the economic environment in which the entity operates), and there is insufficient more recent information available to measure fair value.

Staff think that the valuation of shares should not depend on the source of obtaining the unlisted share investments and will consider the feedback when developing the fair value disclosures and the disclosures on the transactions with related parties.

In relation to the quantitative and qualitative thresholds, the staff note that the materiality concept will be applicable within Tier 3 requirements similarly to higher tiers. Also, the Board did not propose including the notion of undue cost or effort when considering the subsequent measurement of investment property (see Agenda paper 11.2 for February 2022 meeting). Also, staff consider any thresholds would increase complexity if a threshold was introduced that may not be appropriate to meet all NFP entities' needs (as demonstrated by the varying suggested thresholds). As such, staff do not recommend including any thresholds to determine when fair value is appropriate within the Tier 3 requirements.

While staff have not fully analysed the suggestion for the rebuttable presumption of 'cost being the best estimate of fair value', staff initial reaction is that no further simplification should be developed given acquiring unlisted share investments would likely be uncommon (as confirmed by feedback from a stakeholder and the RR19 findings) and it may lead to abuse by entities that do not want to invest cost of obtaining fair value for unlisted share investments.

Staff noted the concerns from some stakeholders to ensure appropriate parameters when cost would be appropriate. AASB 9, paragraph B5.2.4 provides non-exhaustive indicators where cost might not be representative of fair value. Staff suggest that this list should be incorporated within the Tier 3 Standard to support the Board's preliminary views expressed in the DP that this approach is applied in very limited circumstance. The list will also clarify when cost might not be representative of fair value including that cost is never the best estimate for investment in quoted equity instruments. Subject to the Board's decisions at this meeting, staff will also consider *IFRS for SMEs* requirements in this regard.

As highlighted earlier in Q21), while it is not common for charities to hold financial instruments other than cash, trade receivables/payables, and term deposits, approximately 2% of sampled medium-sized charities have financial assets held at amortised cost. As such, staff think it would benefit those entities if some guidance where cost would be appropriate for unlisted share investments was included in the Tier 3 requirements.

Staff suggested action for next steps: Staff recommend to **proceed with the Board's preliminary view** and begin drafting the Tier 3 requirements on circumstances when cost may be an appropriate estimate of fair value based on the requirements in AASB 9 and AASB 13. The requirements will be developed in a manner that is easier for preparers to follow by considering the IASB proposals in the *IFRS for SMEs* ED. Staff will bring possible drafting of the topic as part of the Exposure Draft for the Board to consider at a future meeting.

<table>
<tr><th colspan="2">Q30) Inventory
Total response = 204</th></tr>
<tr><td>Yes = 186 (91%) consisting of:
• 48 preparers (24%)
• 117 auditors (57%)
• 4 users (2%)
• 1 regulator (0%)
• 6 others (3%)
• 10 written responses (5%) (PP, MA, CPA/CA ANZ, SD, IPA, UWA, DH, BDO, Deloitte, ACNC)
Not applicable = 17 (8%) consisting of
• 12 preparers (6%)
• 4 auditors (2%)
• 1 user (0%)</td><td>Almost all stakeholders support developing Tier 3 requirements for inventory consistent with the current Tier 2 requirements. A few of these stakeholders noted:
• inventory for small NFP entities is not material balance and the option to expense purchases as incurred should be available;
• guidance for inventory held for use in the provision of services (and not held for sale) should also be included within the Tier 3 Standard as there is a divergence in the treatment with some NFP expensing all inventory purchases when acquired and others recognising the amount on hand at the end of the reporting period (MA);
• additional NFP specific guidance or supporting application material on valuing donated inventory would be beneficial as this is a regulator concern (CPA/CA ANZ); and
• clarification whether the current exemption allowing measurement of donated inventory at cost will be included (DH).</td></tr>
<tr><td>No = 1 (0%) consisting of:
• 1 auditor (0%)</td><td>No further comments received.</td></tr>
<tr><td colspan="2">Staff analysis: Staff noted that almost all stakeholders agree with the Board's proposal. In response to the feedback, staff noted:
• entities applying the Tier 3 requirements will still consider the materiality concept when preparing the financial statements;
• the Board noted in the DP that consistently to the requirements in AASB 102 Inventories, inventory held for distribution would be measured at cost, adjusted where applicable for any loss of service potential;
• the preliminary views in the DP proposed allowing an entity to measure donated inventory on initial recognition at cost optionally. Staff will consider possible further guidance (the feedback relating to the initial measurement of non-financial assets acquired at significantly less than fair value, including inventory, is discussed in Q35).
Staff consider there are no compelling reasons not to proceed with the Board's preliminary view of the Tier 3 accounting requirements for inventory to align with existing Tier 2 requirements with simplification to language and using NFP terminology with further considerations of the comments above during the drafting process.</td></tr>
<tr><td colspan="2">Staff recommendation: Staff recommend to proceed with the Board’s preliminary view and begin drafting the Tier 3 requirements for inventory as per the analysis above for the Board to consider at a future meeting.</td></tr>
</table>

Q31) Accounting for biological assets and agricultural produce at the point of harvest if not scoped out from a Tier 3 Standard[25] **Total response = 10**	
Yes= 8 (80%) (PP, MA, CA ANZ, UWA, Deloitte, DH, BDO, SD)	Many stakeholders are unaware or did not indicate in the feedback that there were smaller NFPs that hold biological assets and agricultural produce at the point of harvest. Those stakeholders who provided comments agree that these assets should be measured at cost consistent with the requirements for measurement of inventories under AASB 102 if they were not explicitly scoped out from Tier 3 Standard and without specific Tier 3 requirements. A few stakeholders considered that under the Board's proposals for Tier 3 to operate as a stand-alone standard, smaller NFP entities should not be required to refer to Tier 2 requirements for these assets noting: • measurement at cost is appropriate given it would not expect any entities likely to apply Tier 3 requirements to have long-term growth assets (DH); and • the Board could develop Tier 3 requirements for biological assets or allow biological assets to be accounted for using Tier 3 inventory requirements [but not explicitly scoped out]. While these may not be common, some smaller NFP entities may have biological assets such as community gardens, land conservation areas and similar. (BDO). Only one stakeholder was aware that smaller NFP entities may hold some biological assets (SD). They considered the proposal to account for biological assets under the inventory standard reasonable, particularly those with limited lifecycles. There are some circumstances that such assets are donated, hence the stakeholder supported the ability to record these assets at cost rather than fair value, similar to the proposal in Q30) (SD).
No =2 (20%) (ACNC, IPA)	Two stakeholders continue to think biological assets should be explicitly scoped out from a Tier 3 Standard.
Staff analysis: As discussed in Q11 for topics to be omitted from the Tier 3 Standard, only a very few stakeholders consider biological assets should be included within the Tier 3 Standard. Only one stakeholder provided comments supporting the inclusion of biological assets within Tier 3 because NFP entities may have assets like community gardens. Based on RR19 findings, biological assets were not a common transaction as the research did not identify any medium-sized charities to have disclosed any biological assets in their financial statements. On balance, staff preliminary view is that biological assets would not be a common transaction for smaller NFP private sector entities however the decision on Tier 3 accounting requirements for the biological assets hinges on the decision relating to Q11) regarding topics to be omitted in a Tier 3 Standard. Subject to the Board's decision regarding Q11), if the Board considers biological assets and agricultural produce at the point of harvest should not be explicitly scoped out from the Tier 3 Standard, staff consider that are three possible options for the accounting of these assets, i.e.: • develop Tier 3 requirements based on the accounting for inventory in AASB 102;	

25 Feedback was received by written submissions only.

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- no explicit Tier 3 requirements (i.e. Tier 3 is silent on the requirement for accounting of biological assets), and entities will need to apply an accounting requirement of a similar transaction such as Tier 3 inventory requirements; or
- continue to scope out biological assets from a Tier 3 Standard explicitly, and entities would apply the accounting policy hierarchy guidance and refer first to AASB 141 to account for biological assets.

The above possible options will depend on whether the Tier 3 Standard should be as comprehensive as possible (and therefore would include all possible accounting requirements). Staff will conduct further analysis of possible options for the Board to consider at a future meeting after the Board decides on the matters in Q11).
</td></tr>
<tr><td colspan="2">Staff suggested action for next steps: Staff will bring further analysis and possible options on the accounting for biological assets and agricultural produce at the point of harvest in the Tier 3 Standard for the Board to consider at a future meeting.</td></tr>
<tr><td colspan="2">Q32–33) Investment in associates and joint ventures
Total response = 192</td></tr>
<tr><td>

Yes = 137 (71%) consisting of:

- 25 preparers (13%)
- 98 auditors (51%)
- 4 users (2%)
- 4 others (2%)
- 1 regulator (1%)
- 5 written responses (3%) (PP, SD, IPA, UWA, ACNC)

Not applicable = 47 (24%) consisting of

- 34 preparers (18%)
- 12 auditors (6%)
- 1 other (1%)
</td><td>

Most stakeholders agree with the proposals in the DP. A few of these stakeholders commented:

- entities with investment in associates and joint ventures (JVs) may be considered complex, and therefore it should be considered whether the existing requirements in higher tiers are more appropriate to apply to maintain consistency with other entities;
- it would be highly unlikely for smaller NFP entities to have investments in associates and joint ventures;
- investors should be required to measure investments in associates and joint ventures at FVTPL, rather than FVTOCI (SD);
- definition of parent and subsidiary in the context of NFP sector needs clarification to ensure the application of the requirements is appropriate (UWA); and
- on the need for further engagement with sector practitioners on the most cost-efficient way of measuring NFP interest in associates and JVs, either cost or equity method and consideration whether a disclosure note [similar to disclosure of significant relationships] would be adequate for transparency purpose (ACNC).
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No = 8 (5%) consisting of:

- 5 auditors (3%)
- 3 written responses (2%) (MA, CPA/CA ANZ, DH)
</td><td>

Only a few stakeholders disagree and consider:

- interests in associates and joint ventures should be measured at cost rather than allowing for accounting policy choice;
- a parent entity preparing separate financial statements should measure interest in associates and joint ventures using the equity method;
- it is unclear why an investor would be preparing both equity-accounted and other separate financial statements. This stakeholder also disagrees with prohibiting an investor from using the equity method of accounting if the investor only presents separate financial statements when the DP proposes a parent entity with subsidiaries to equity account its investment in subsidiaries. If the investor also has equity-accounted subsidiaries in those separate financial statements,
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	it would seem reasonable that it should still be able to capture associates and joint ventures similarly. Otherwise, it would be appropriate to require for both an investor or parent entity with investment in subsidiaries that does not prepare consolidated or equity-accounted financial statements to measure its investment in associates and joint ventures at cost or at fair value (MA); • while a parent preparing consolidated financial statements should measure investment in associates and joint ventures using the equity method, if the entity is not a parent entity, such investments should be accounted either at cost or FVTOCI. Further research should be conducted to identify whether NFP entities invest commonly in associates and joint ventures and if these transactions are not common, then accounting policy choice should be limited to only cost as measurement basis. (CPA/CA ANZ); and • the proposal to exempt entities from evaluating whether an entity has significant relationship with a subsidiary, associate or JV is contradictory as the entity will need to have undertaken an evaluation of whether it is a parent. The accounting requirements for investment in associates and joint ventures should be consistent with accounting for investment in a subsidiary, i.e. allowing choice of cost, equity method or FVOCI (DH).

Staff analysis: Staff note that most stakeholders agree with the Board's preliminary views in the DP and the Board considered several points raised by stakeholders when arriving at its preliminary views. In particular, staff noted the feedback from non-supportive stakeholders and staff preliminary analysis, including:

- limiting measurement investments in associates and JVs at cost – as the Board did not hear any stakeholder concerns with present accounting requirements for an entity's interests in its associates and JV, the Board considered it may be an appropriate proportionate response for the Board to continue to require the equity method in most instances;
- a parent entity preparing separate financial statements should apply the equity method only rather than allowing for choice of cost or fair value – the Board observed that it may be inconsistent to develop a requirement for a smaller NFP private sector entity to measure its interests in its associates and JV using the equity method of accounting in instances where the entity's subsidiaries are not consolidated. Therefore, the Board decided not to allow the equity method of accounting for parent entities that do not prepare consolidated financial statements. Staff observed that allowing fair value would also be consistent with the Board's preliminary proposals for financial instruments for these interests to be measured at fair value, and no different from other financial instruments which are held to generate both an income and capital return for the entity. Staff will consider further whether the choice of consolidation and related assessment of controlling interest and significant relationships has implication on the ability of the entity distinguish between requirements to be applied when measuring subsidiaries, associates and JVs in the separate financial statements.
- the proposal to exempt entities from evaluating whether an entity for which it has significant relationship is a subsidiary from associates or joint venture are contradictory given the need to have undertaken an evaluation of whether it is a parent or not – the Board's consolidation requirements to allow a parent entity to present a separate financial statements with disclosures of significant relationships means an entity would still be required to assess its significant relationships however removes the need to distinguish between controlling and, for example, significant interest. Following the preliminary views on the consolidation, the accounting requirements in the DP on measurement of an entity's investment in associates and JVs cater for both entities that prepare consolidated financial statements or those that prepare only separate financial statement even though an entity may be a parent entity.
- while staff noted the feedback that it may not be clear whether it is common for an investor being small NFP entity would prepare separate financial statements when consolidated financial statements or equity accounted financial statements have already been prepared, it is quite possible for various reasons. For example, staff note

that the ACNC legislation assesses a charity's revenue and reporting financial information at the registered charity level, however, the entity can elect to prepare consolidated financial statements when reporting to the ACNC. As such, there may be circumstances an entity may prepare both consolidated/equity-accounted financial statements and separate financial statements.

Staff also noted the following suggestions from those supporting the Board's proposals:

- a need for clear guidance on the definition of a parent and subsidiary – the Board's preliminary view on control is to apply consistent requirements as per Tier 2 except for simplification in language and the broader feedback from the sector on the application of AASB 10 will be considered as part of the Board's post-implementation review of that standard; and
- considerations whether disclosures, similar to that proposed for parent entity's significant relationships, could be an alternative approach to account for associates and JVs – this approach could be appropriate for parent entity or investor that may have difficulties in assessing whether they have investments in subsidiaries, associates and JVs due to complexities for these smaller entities in apply AASB 10 in assessing control of these entities. Staff preliminary view is that significant relationships would be broader than subsidiaries.

Staff also noted that some stakeholders have indicated that accounting for investment is associates and joint ventures would not be relevant to their entity or decision making. This is consistent with the findings from RR19 which did not identify any medium-sized charities from the sample with investments in associates and joint ventures.

Given the findings from RR19 and the feedback on the DP preliminary views, staff plans to further analyse whether to include the accounting for investment in associates and joint ventures within the Tier 3 Standard. On one hand, as many stakeholders supported the simplification on consolidation, staff think the Tier 3 requirements should therefore include a consistently simplified accounting for investment in associates and joint ventures. On the other hand, as it may not be common for smaller NFP entities to have investments in associates and joint ventures, consideration should be given whether such simplification is justifiable. Staff also think that the decision on the accounting requirement for investment in associates and joint ventures hinges on the Board's decision on consolidation as discussed above.

Staff think there's merit in conducting further analysis and develop recommendations for the Board to consider at a future meeting on whether:

a) to consider investment in associates and JVs as a topic to be scoped out from Tier 3 Standard based on the RR19 findings that it may not be common for smaller NFP entities to have investments in associates and JVs, in conjunction with the Board's decision on consolidation discussed in Q17) or

b) subject to the Board's decision to allow an accounting policy choice to present consolidated financial statements; a similar accounting choice to apply for the accounting of investment in associates and JVs irrespective of the accounting policy choice on consolidation of subsidiaries; and

c) to revisit the preliminary views in the DP and to either limit or extend the accounting policy choice on the measurement of associates and JVs including:
    - apply equity method of accounting to measure investment in associates and joint venture for a parent or investor with investment in subsidiaries preparing consolidated or equity-accounted financial statements; and
    - for a parent or investor with investment in subsidiaries presenting only separate financial statement (i.e. parent entity does not consolidate its subsidiaries or an investor does not equity-account its investment in subsidiaries) to measure its investment in associates and joint ventures either:
        - at the cost method of accounting; or
        - allow an accounting policy choice at cost or at fair value through OCI or equity method or combination thereof; or
        - clarify or explicitly require disclosure of information of its investment in associates and joint ventures within the disclosure of information of significant relationships.

Staff will bring further analysis for the Board to consider before drafting of the topic as part of the ED.	
Staff suggested action for next steps: Staff will bring **further analysis** and possible options how to proceed for the Board to consider at a future Board meeting	
Q34) Property, plant and equipment (PPE) and investment property **Total response = 199**	
Yes = 188 (94%) consisting of: • 52 preparers (26%) • 117 auditors (59%) • 4 users (2%) • 5 others (1%) • 1 regulator (1%) • 9 written responses (5%) (PP, MA, CPA/CA ANZ, SD, IPA, UWA, BDO, Deloitte, ACNC) Not applicable = 3 (2%) consisting of • 3 preparers (2%)	Almost all stakeholders agreed as they do not consider there to be any issues with the current accounting for PPE and agreed with applying the requirements consistent with Tier 2. A few stakeholders also suggested considering: • whether the frequency of external valuations could be reduced from current requirements in AASB 116 of every 3-5 years to every 5 years and apply similar principles to the investment property unless there was evidence of a significant change in values (MA); • whether investment property could be accounted for in the same manner as PPE including recognition, measurement and disclosure requirements (CPA/CA ANZ); • removal of depreciation requirements for buildings held at revalued amount as these typically do not decline in value (as supported by valuations) and accordingly depreciation is subsequently reversed and may distort the profit and loss (SD); and • investment property usually are significant non-current assets and normally appreciate in value hence allowing revaluation is appropriate, whilst revaluation of PPE is infrequent (ACNC).

No = 8 (4%) consisting of:
• 4 preparers (2%)
• 3 auditors (2%)
• 1 written response (1%) (DH)
	A few of these stakeholders disagree and noted:
	• the distinction as to whether an asset is an investment property is difficult to determine and should be simplified for Tier 3 entities;
	• an ad-hoc revaluation to be sufficient if accompanied by disclosing the information when the last revaluation was made. The requirement to account separately for investment property with fair value changes through profit and loss are not necessary because:
	    • SMEs are not looking to account for investment property separately;
	    • confusion and complexity involved in determining whether surplus land is a separate unit of account and whether it meets the definition of investment property; and
	    • if an NFP entity prefers to recognise and measure investment property separately, the property could be considered as a separate class and revalued through OCI (DH).

Staff analysis: Staff noted that almost all stakeholders agreed with the preliminary views and only a very few stakeholders disagree and suggested further simplification or alternative approaches. Staff preliminary view on the feedback is as follows: • the distinction as to whether an asset is an investment property is difficult to determine and should be simplified for Tier 3 entities:	

<table>
<tr><td colspan="2">○ staff think simplifying the language and terminology of the Tier 2 requirements may help address the concern to assist NFP preparers in determining whether the asset is an investment property.
○ the Board decided to continue to require the classification of investment property and PPE[26] because these properties are held for different purposes, warranting different accounting requirements. It also allows users to understand how an NFP entity uses its assets to generate income and to assess the management's stewardship of the NFP entity's assets.
• In relation to the feedback regarding further simplifications for applying the revaluation models for PPE or investment property:
▪ PPE – the current requirements in AASB 116 already allow an entity to revalue its PPE with insignificant changes every three <u>or</u> five years.[27] As such, staff think that the current requirements already enable an entity to revalue PPE every 5 years if there are only insignificant changes in fair value. Staff do not think it is necessary to change the Board's preliminary views on the accounting of PPE to remain consistent with existing Tier 2 requirements beyond language and terminology. Revaluation required on an ad-hoc basis may increase judgement. It could lead to entities not revaluing their assets even if circumstances may impact their valuation.
▪ Investment property –
○ staff disagree with allowing similar principles to fair value investment property every 5 years because PPE is held for different purposes than investment property (e.g., assets are held for capital appreciation and investment purposes). Therefore, different accounting treatment is warranted.
○ an accounting policy choice already exist to measure investment property at cost or at fair value to allow NFP entities to elect a measurement basis that the entity's management considers the most appropriate; and
○ the Board already considered and rejected other possible simplification options, including the notion of undue cost or effort, when discussing subsequent measurement of investment property (see Agenda paper 11.2 for February 2022 meeting). Staff infer that consistency with Tier 2 requirements should be retained.</td></tr>
<tr><td colspan="2">Staff suggested action for next steps: Staff recommend proceed with the preliminary Board’s views and begin drafting the Tier 3 accounting for PPE and investment property consistent with Tier 2 requirements including simplifying the language and terminology and reflecting stakeholder feedback, for the Board to consider at a future Board meeting.</td></tr>
<tr><td colspan="2">Q35) Initial measurement of non-financial assets at significantly less than fair value at cost or at fair value*
Total response = 359</td></tr>
<tr><td>Yes = 264 (74%) consisting of:
• 57 preparers (13%)</td><td>Most stakeholders agree with the preliminary views as the accounting policy choice provides appropriate flexibility and proportionate response for smaller NFP entities. Some stakeholders that agree provided additional comments:</td></tr>
</table>

26 See February 2022 Board meeting minutes

27 Paragraph 34 of AASB 116 states:
The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

• 99 auditors (28%) • 5 users (1%) • 1 regulator (0%) • 5 others (1%) • 1 blank (0%) • 101 virtual sessions (28%) • 5 written responses (1%) (PP, IPA, BDO, Deloitte, MA) Not applicable = 24 (7%) consisting of • 13 preparers (4%) • 2 auditors (1%) • 2 users (1%) • 6 virtual sessions (2%)	• an accounting policy choice may reduce comparability of the financial reporting; • calculating fair value can be relatively costly for smaller NFPs, but appropriate disclosures will be necessary since initial recognition until the asset is disposed to provide the users with information on non-financial assets controlled by the entity which are not fully reflected in the statement of financial position; • the preference to not allow an accounting policy choice if non-financial assets acquired for significantly less than fair value were acquired through a business combination (PP); • revaluation difference should go through the profit or loss rather than other comprehensive income (revaluation reserve); and • that clarification of the 'unit of account' is required for this option. That is, whether the proposal can be applied on a transaction by transaction, class of asset, or a whole category of asset basis. The preference is to apply the accounting policy on a class of asset basis (e.g. to measure land at fair value on initial recognition as one class within PPE and to initially measure donated office equipment at cost as a separate class within PPE) (BDO). Some stakeholders agree with the accounting policy for initial measurement (including MA) but: • disagree with not allowing the subsequent revaluation of non-financial assets initially measured at cost because organisation needs and circumstances may change, provided appropriate and independent evidence is available to support the change in accounting policy and depicts a 'true view' (including MA).

No = 71 (20%) consisting of:
• 17 preparers (5%)
• 34 auditors (9%)
• 1 user (0%)
• 2 others (1%)
• 12 virtual sessions (3%)
• 5 written responses (1%) (CPA/CA ANZ, SD, UWA, DH, ACNC)
	Some stakeholders disagree with the accounting policy choice and consider:
	• the fair value model at initial measurement should be applied because:
	  ○ the difference between fair value and cost (including for inventories) may be material and accounting policy choice would reduce comparability of financial reporting;
	  ○ concerns that many NFP entities may 'window dress' their financial statements to provide more compelling case for grants and donations [therefore selecting cost method];
	  ○ allowing significant donated non-financial assets to be measured at cost with no value on balance sheet can be problematic and the value and resources available to the entity misrepresented (including UWA);
	  ○ ATO rules require private ancillary funds (PAFs) to apply fair value for all assets;
	  ○ financial statements may omit important information relating to philanthropic giving. An alternative approach is to require initial recognition at fair value for non-financial assets where fair value is readily available (such as market values) and at cost in other cases, complemented by disclosures. This stakeholder agree subsequent measurement should remain at cost for the non-financial assets initially measured at cost (CPA/CA ANZ);
	  ○ for non-financial assets other than inventory, such as property or item of plant and equipment, it is not onerous to obtain fair value measurement. Entities typically do this for insurance purposes. No concerns have been heard from the sector in relation to obtaining fair value of PPE as onerous (SD);

	○ there may be a burden to keep records as to which assets were measured at cost and which assets were measured at fair value. In addition, if an entity adopted the policy to measure at cost, its future management and those charged with governance would be bound by the previous decision and be prohibited to change accounting policy from revaluing their PPE (DH); and ○ any material donated non-financial assets should at least be evaluated for fair value or an estimate. ATO also requires donors to inform market value of non-cash donations to DGR recipients and related to this, Productivity Commission is conducting an inquiry into philanthropy.[28] If charities measure donated non-financial assets at cost, then the financial statements will not appropriately reflect philanthropic giving (ACNC). • the proposal is too complex because: ○ smaller entities are not equipped to determine the accounting policy choice, and a free choice would reduce comparability, therefore the proposals are putting too much work and risk on the auditors; and ○ it would be difficult and expensive to account for all donated items accurately, and in practice, most organisations prefer to apply the cost model.

Staff analysis: While there was more support for allowing smaller NFP entities an accounting policy choice to initially measure non-financial assets either at cost or at fair value, some stakeholders did not agree with the proposals. Some of those who agreed were concerned that the accounting policy choice compromises comparability. Staff note the accounting policy allows management to decide an appropriate accounting policy based on user needs and other factors, e.g. legislative requirements. Therefore, allowing the cost model or fair value model is consistent with its objective for developing Tier 3 requirements. Appropriate disclosures as to the nature and description of the donated assets would provide useful information to the expected users which is evidenced by the feedback that users, whilst very small subsections of respondents, did not disagree with the proposals.

Staff also noted the mixed feedback on the proposal not to allow entities to revalue these assets subsequently, noting organisation needs and circumstances may change and may warrant a change in accounting policies. On one hand, findings from RR19 did not identify it common for smaller NFP entities to revalue PPE. Accordingly, to keep with simplicity, staff don't think the Board should develop requirements to allow entities to subsequently revalued NFA initially measured at costs. However, mixed feedback indicates that an entity's circumstances may warrant an entity to revalue these assets if an entity considers it more faithful representation of these assets, and the voluntary change of accounting policy should be available.

Staff noted that almost 20% of respondents did not agree with the accounting policy choice and almost half of the written submissions did not agree with the choice of recognising donated non-financial assets at cost on initial recognition. These non-supportive stakeholders (including a regulator) consider that the significant information value would be lost with the cost valuation option applied. It may result in complex record-keeping and different circumstances warrant entities to fair value their assets. Staff will consider the feedback further, including whether it provides new information the Board did not have when arriving at its preliminary views, including:

- the feedback that obtaining fair value for certain class of non-financial assets is not onerous; and
- if the information is required for the regulatory purposes anyway.

28 Refer to the Productivity Commission on the Review of Philanthropy for more information.

<table>
<tr><td colspan="2">Staff noted that the Board considered distinguishing the valuation approach on initial recognition of non-financial assets based on their useful life and rejected it as it may add unnecessary complexity. Staff will further consider and analyse the feedback giving regard to the options on the subsequent measurement requirements of non-financial assets acquired at significantly less than fair value initially measured at cost presented to the Board in Agenda Paper 3.2.2 at the August 2022 Board meeting.</td></tr>
<tr><td colspan="2">Staff suggested action for next steps: Staff will bring further analysis and possible options how to proceed for the Board to consider at a future meeting.</td></tr>
<tr><td colspan="2">Q36) Volunteer services
Total response = 198</td></tr>
<tr><td>Yes = 152 (77%) consisting of:
• 46 preparers (23%)
• 89 auditors (45%)
• 3 users (2%)
• 5 others (3%)
• 1 regulator (1%)
• 8 written responses (4%) (PP, CPA/CA ANZ, IPA, UWA, DH, BDO, Deloitte, ACNC)
Not applicable = 5 (3%) consisting of
• 2 preparers (1%)
• 3 auditors (2%)</td><td>Most stakeholders supported retaining the current requirements of the accounting policy choice to recognise volunteer services at fair value if measured reliably as providing an option allows entities that have the resources to recognise and provide information about volunteer services.

<u>Other comments</u>
• AASB should also consider other non-IFRS based information such as fundraising, volunteer services or extend related party disclosures beyond what is currently required in IFRS considering its usefulness to the users of NFP financial statements. This will ensure Tier 3 is a stand-alone comprehensive standard and addresses needs of the users (CPA/CA ANZ).</td></tr>
<tr><td>No = 41 (21%) consisting of:
• 11 preparers (6%)
• 27 auditors (14%)
• 1 user (1%)
• 2 written responses (1%) (MA, SD)</td><td>Some stakeholders disagree with the proposal and consider volunteer services should not be recognised in the profit or loss for the following reasons:
• the complexity to measure the fair value of volunteer services reliably, especially for smaller NFP entities;
• substantiation would be difficult due to the subjectivity in measuring volunteer services;
• volunteer services should instead be disclosed in the notes to the financial statements; and
• opportunity for further simplification and improvement of consistency as smaller NFP entities usually do not recognise volunteer services in their financial statements, substantiation is often prohibitive and not sufficient for assurance purposes (MA, SD).</td></tr>
<tr><td colspan="2">Staff analysis: While most of the respondents support the Board’s preliminary views, some stakeholders prefer the removal of the option to recognise volunteer services in the profit or loss. The reason is the complexity of the valuation and related assurance complexities noting that smaller NFP entities do not recognise these services under Tier 1/Tier 2 requirements.</td></tr>
</table>

The Board considered at its April 2022 Board meeting to retain the current requirements for accounting for volunteer services. Staff presented an option (see Agenda Paper 4.3 at the April 2022 Board meeting) of not recognising volunteer services. The Board rejected the option not to permit volunteer services recognition to recognise the fact that many NFP entities rely on the volunteer services, some of them may be able to measure them reliably and retain the option available in a higher tier of AAS. Noting that majority of stakeholders supported the Board's preliminary views, staff continue to think that allowing an accounting policy choice to measure volunteer services is appropriate. However, staff note that the Board's decision on the availability of accounting policy of a higher tier on class of transaction basis (see Q10) may affect the Board's response to the feedback on this matter. Staff also noted the feedback to consider other non-IFRS disclosure requirements as part of the Tier 3 requirements. As discussed in Q2**)**), SPR is considered in a separate AASB project. Related party and other disclosures will be considered when developing the disclosure requirements, subject to the Board's decision to proceed to the project's next stage. Staff recommend that the Tier 3 accounting for volunteer services remain consistent with the Board's preliminary view in the DP. That is, to retain the option to permit, but not require, a smaller NFP entity to recognise volunteer services received if the fair value of those services can be measured reliably.	
Staff suggested action for next steps: Staff recommend to **proceed with the Board's preliminary view** and begin drafting the Tier 3 requirements for the accounting of volunteer services to be consistent with Tier 2 requirements except for simplification in language together with consideration of the Board's future decisions to opt up on class of transactions basis.	
Q37) Borrowing costs **Total response = 207**	
Yes = 189 (91%) consisting of: • 52 preparers (25%) • 117 auditors (57%) • 5 users (2%) • 1 regulator (0%) • 6 others (3%) • 8 written responses (4%) (PP, MA, CPA/CA ANZ, IPA, UWA, BDO, Deloitte, ACNC) Not applicable = 9 (4%) consisting of • 6 preparers (3%) • 3 auditors (1%)	Almost all stakeholders agree and consider the proposals keeps the accounting requirements for smaller NFP entities simple, and cost should be expensed as occurred. A few stakeholders considered: • any tax implications can be monitored separately by a tax accountant if needed; and • smaller NFP entities are not expect to incur substantial borrowing costs (CPA/CA ANZ).
No = 9 (4%) consisting of:	Only a few stakeholders disagree. Some of these stakeholders commented:

• 3 preparers (1%) • 4 auditors (2%) • 1 other (0%) • 1 written response (0%) (SD)	• requirements should be consistent for all entities and the accounting should depend on what the entity considers most appropriate accompanied by disclosures; • some smaller entities have borrowed in relation to property development and the choice to capitalise borrowing costs in accordance with existing Standard should be available if the Tier 3 would allow accounting policy choice in other areas (e.g. volunteer services) (SD); and • borrowing costs should be amortised over the term of the loan.
Staff analysis: While almost all stakeholders agree, staff noted that the few stakeholders preferred an accounting policy choice to enable capitalisation of the borrowing cost as there are smaller entities with borrowing costs that meet the criteria to be capitalised. Based on findings from RR19, there may not appear to be common qualifying assets that would meet the criteria to capitalise borrowing cost. Given that almost all stakeholders agreed with the Board's preliminary views, staff think there is no compelling reason not to proceed with the proposals in the DP. Staff note that the Board's decisions whether to allow opt-up on class of transaction basis may help to address the feedback from the stakeholders that would prefer capitalisation of qualifying borrowing costs. Staff also note that the entities will have ability to opt-up to a higher tier requirement in entirety, for example in cases when the borrowing cost would be material and Tier 3 requirements would not be considered suitable.	
Staff suggested action for next steps: Staff recommend to **proceed with the Board's preliminary view** and begin drafting the Tier 3 requirements to require all borrowing cost to be expensed together with consideration of the Board's future decision on the availability of opt up on a class of transactions basis.	
Q38) Impairment of non-financial assets* **Total response = 351**	
Yes = 304 (87%) consisting of: • 57 preparers (16%) • 123 auditors (35%) • 5 users (1%) • 1 regulator (0%) • 6 others (2%) • 1 unknown (0%) • 103 virtual sessions (29%) • 8 written responses (2%) (PP, MA, CPA/CA ANZ, SD, IPA, UWA, BDO, Deloitte) Not applicable = 26 (7%) consisting of • 12 preparers (3%)	Most stakeholders agree with the proposal noting impairment is often complex for small NFPs and the proposal is practical and easy to understand. A preparer also noted that many NFP entities (specifically in the arts sector) only have PPE generally written down only when damaged or no longer in use. A few stakeholders also suggested: • Tier 3 to include application guidance how to apply the proposed impairment requirements and principles of supporting evidence; and • further simplifying the actual impairment testing itself (such as calculating the recoverable amount) and using plain language as smaller NFPs may not understand the modelling required and the type of assets held by NFP entities, e.g. heritage buildings, may further complicate the assessment (MA). Other comments • Clarification is required on what deemed cost means.

• 2 users (1%) • 1 auditor (0%) • 11 virtual sessions (3%)	
No = 21 (6%) consisting of: • 6 preparers (2%) • 6 auditors (2%) • 6 virtual sessions (2%) • 1 other (0%) • 2 written responses (1%) (DH, ACNC)	Some stakeholders disagree noting that: • to ensure consistency and comparability, the impairment model should remain the same for all NFP entities and another stakeholder would only agree if smaller NFP entities would be able to opt-up to Tier 1/Tier 2 requirements; • smaller entities would still lack the expertise to apply the proposed impairment requirements; • impairment indicators were reduced but it is not clear why the other indicators are excluded. Impairment indicators should be consistent with AASB 136 *Impairment of Assets* or *IFRS for SMEs*. This would include assets held for sale (even if not separately disclosed as such) being an indicator (as per *IFRS for SMEs*) (DH); • no feedback was received from the sector on any significant issues with the existing impairment model (ACNC); and • physical damage should also include aging for perishables.

Staff analysis: Staff noted that most stakeholders agree with the proposed simplifications of impairment of non-financial assets. In response to the non-supportive stakeholders feedback that prefer consistency with Tier 1/Tier 2 requirements, staff consider the objective of the project is to develop simplified accounting requirements for smaller entities which have found the existing impairment model complex to apply, hence the departure from Tier 1/Tier 2 requirements is inevitable.

On the other hand, a few stakeholders consider the proposed impairment model still difficult to apply for smaller NFP entities. Staff note that the Board previously discussed and rejected other alternative measurement bases for determining the recoverable amount (Agenda Paper 4.2 at the April 2022 Board meeting). The Board rejected alternative approaches because of possible assurance issues and to ensure faithful representation providing more relevant information about an entity's financial position compared to depreciated historical cost. The Board's proposal to simplify the requirements further by including a rebuttable presumption that fair value less cost of disposal is expected to be the most appropriate measure of non-financial asset's recoverable amount was supported by almost all stakeholders. Staff will consider further simplifying the language and application guidance to accommodate the circumstances of smaller NFP entities.

Paragraph 12(e) of AASB 136 identifies obsolescence when discussing indicators for physical damage and paragraph B9 of AASB 13 considers obsolescence encompasses physical deterioration. Therefore, staff infers that aging for perishables could be an example of physical damage or evidence of obsolesce. With reference to Q30), the Board decided that the accounting for inventory should be consistent with AASB 102 which requires inventory to be measured at the lower of cost and net realisable value. This would apply to inventories that are damaged or become obsolete including if indicated by decline in selling price.

Staff noted the Board considered a broader range of impairment indicators and decided to limit the indicators of when impairment testing is required as a form of simplification. This is because stakeholders had noted that non-financial assets generally held by Tier 3 NFP entities are impaired only: 1) when a significant event occurs; and 2) it is clear that the asset's carrying amount is no longer recoverable. Based on RR19, staff noted that impairment losses were not identified as a common occurrence which may indicate that NFP entities are likely only impairing non-financial assets upon a significant event.

Staff think that the feedback provides sufficient basis for drafting the requirements, noting that staff will further consider and address the stakeholder feedback, including expanding on why some indicators would not be included in Tier 3 requirements.

<table>
<tr><td colspan="2">Staff suggested action for next steps: Staff recommend to proceed with the Board’s preliminary view and begin drafting the Tier 3 requirements in relation to the impairment of non-financial assets and to consider any further simplification of language and application guidance at a future meeting.</td></tr>
<tr><td colspan="2">Q39) Assets held for sale
Total response = 199</td></tr>
<tr><td>Yes = 176 (88%) consisting of:
• 50 preparers (25%)
• 107 auditors (54%)
• 4 users (2%)
• 1 regulator (1%)
• 6 others (3%)
• 8 written responses (4%) (PP, MA, CPA/CA ANZ, SD, IPA, DH, BDO, Deloitte)

Not applicable = 15 (8%) consisting of
• 8 preparers (4%)
• 7 auditors (4%)</td><td>Many stakeholders support not developing any specific requirements for assets held for sale. Some stakeholders noted:
• similar to inventory, assets held for sale are not a common transaction;
• the proposal is appropriate unless assets held for sale is material and part of a business of selling items such as subdividing land for sale;
• that assets held for sale may not be common transaction for smaller entities. However, if AASB received feedback that is an area needs to be addressed by Tier 3, then AASB should consider necessary simplification within Tier 3 (CPA/CA ANZ);
• if assets are held for sale, there should be an impairment indicator (DH); and
• similar to the Board's approach for prohibiting hedge accounting, there is an argument for relieving entities from applying AASB 5 Non-current Assets Held for Sale and Discontinued Operations when they hold non-current assets held for sale (BDO).</td></tr>
<tr><td>No = 8 (4%) consisting of:
• 1 preparer (1%)
• 6 auditors (3%)
• 1 written response (1%) (UWA)</td><td>A few stakeholders disagree and consider:
• the existing requirements should be retained to ensure consistent reporting by all entities including private sector entities and to ensure financial statements and notes reflect the accounting required by AASB 5 for assets held for sale; and
• where assets are held for sale, they should be recognised accordingly. Without this reporting requirement, the user will not appreciate the nature of asset held in the context of stewardship (UWA).</td></tr>
<tr><td colspan="2">Staff analysis: Staff noted the feedback from non-supportive stakeholders and considered the current proposal for accounting of assets held for sale responses to their concern given the Board's preliminary view of applying consistent requirements with AASB 5. However, staff will further consider how the Tier 3 requirements would apply for assets held for sale and/or whether it would be accounted through opt-up by class of transactions basis or as an omitted topic given it is not commonly held by smaller entities.
Staff noted that the current requirements under AASB 5 require an entity to measure non-current assets (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less cost to sell which implicitly require impairment testing to be conducted. Staff think that the indicators of impairment noted in Q38) would implicitly include the circumstances where stakeholder considered the held for sale classification as an impairment indicator.</td></tr>
</table>

Based on RR19, no medium-sized charities in the sample were identified to hold any property, plant and equipment or other non-current assets that were held for sale rather than for its continuing use. Staff noted stakeholder feedback to further simplifying the requirements is not to consider applying AASB 5, similarly to the approach taken not to permit hedge accounting in Tier 3 Standard. However, staff do not think not permitting hedge accounting would be similar to not requiring the application of AASB 5 given applying hedge accounting is an accounting policy choice that the Board decided not to permit within Tier 3.	
Staff suggested action for next steps: Staff will bring **further analysis** and possible option for the Board to consider at a future meeting.	
Q40) Existence of intangible assets* **Total response = 368**	
147 (40%) respondents selected the following types of intangible assets: • Copyright = 37 (including CPA/CA ANZ) • Cryptocurrencies = 9 (including MA, CPA/CA ANZ) • Goodwill = 62 • Patents = 34 • research and development = 42 • software = 114 (including IPA, SD) • trademarks = 59 (including CPA/CA ANZ) • Licenses = 6 (including PP, CPA/CA ANZ) • website development = 2 • non-refundable deposits = 1 (including BDO)	Many stakeholders noted some intangible assets may be held by smaller NFP entities such as: • software and related development costs (e.g. for courses and other accreditation for members and students) being most common, followed by goodwill and trademarks (IPA, SD); • bed licenses and poker machine licences (PP); • crypto assets and other crypto assets likely to become more prominent over time (MA, CPA/CA ANZ); • other intangible assets such as copyrights, licenses and trademarks can either be donated or acquired by smaller entities (CPA/CA ANZ); and • non-refundable deposits (BDO). Some of these stakeholders noted a simplified guidance for intangible assets should be included in the Tier 3 Standard to future-proof the requirements as many Tier 3 entities would be expected to use more intangibles in future. A few of those stakeholders that supported developing guidance within the Tier 3 Standard on accounting requirements for intangible assets also suggested: • it would be useful for the Tier 3 Standard to address common items that cannot be capitalised such as research, training, formation cost and software not controlled by the organisation (i.e. that on the cloud), sales and marketing costs (PP); • requirements should articulate the characteristics of intangible assets to address current practical challenge being encountered by the application of AASB 138, while also making it clear there is a demonstrable need to achieve a future economic benefit (CPA/CA ANZ); • simplification/clarification of treatment of implementation cost in relation to SaaS arrangements should be considered as customer relationship management (CRM) and donor management systems implementation costs are very common even in smaller organisations (SD); • smaller entities consider very commonly when they should capitalise cost (e.g. marketing, training and software-as-a-service costs) (SD); and

	• AASB Interpretation 132 *Intangible Assets – Web Site Costs* permits the capitalisation of development costs of a website for which the entity can demonstrate probable future economic benefits when, for instance, the website is capable of generating revenues, including direct revenues from enabling orders for goods and/or services to be placed. The Interpretation does not clarify whether, for instance, an NFP entity could capitalise development costs of a website that facilitates donors making donations to the not-for-profit entity that would be relevant for many smaller NFP entities and accordingly, Tier 3 guidance would be useful (BDO).
Number of respondents that did not select the intangible assets listed = 221 (60%) (including ACNC, UWA)	Many other respondents considered smaller NFP entities held no intangibles assets. They considered: • it is not a significant issue for most NFP organisations and the accounting requirements should not be amended for Tier 3 entities (UWA); • including specific accounting requirement appears to outweigh benefits of accounting for uncommon transactions (ACNC); and • even though intangible assets may be held, they are generally immaterial.
Staff analysis: Staff note mixed views on whether smaller NFP entities have commonly intangible assets. Based on RR19, less than 5% of the sampled charities were identified to have intangible assets. While the results from the research may indicate that intangible assets may not be a common transaction for smaller NFP entities, feedback from stakeholders indicates that NFP entities may hold more intangible assets in future. As such staff consider there is merit to further consider including the accounting for intangible assets as part of a Tier 3 Standard.	
Staff suggested action for next steps: Staff recommend that the accounting requirements for intangible assets should be included in a Tier 3 Standard. Staff will **further analyse** and bring recommended options for Tier 3 requirements in this regard to the Board to consider at a future meeting.	
Q41) Leases* **Total response = 350**	
Yes = 314 (90%) consisting of: • 58 preparers (17%) • 120 auditors (34%) • 5 users (1%) • 1 regulator (0%) • 7 others (2%) • 1 blank (0%) • 111 virtual sessions (32%)	Almost all stakeholders agree and consider the current requirements are confusing to many smaller NFP entities and simplification proposals for the lease accounting are well received. A few of these stakeholders provided following feedback: • (users) noted the financial statements would be much more user friendly and additional information and key leases can be provided as a narrative in the notes; • disclosures of an entity's lease commitments will provide necessary information to compensate the needs of the users of the financial statements. Sale and lease back transactions are not common for smaller NFP private sector entities (KPMG); • some NFP entities have only recently adopted AASB 16, therefore transition requirements would need to be considered given the significant differences to Tier 1/Tier 2 requirements (MA; Deloitte); • leases could be a type of transaction that the Board could consider opting up to Tier 1/Tier 2 requirements; • specific guidance on make-good provisions may be useful;

<table>
<tr>
<td>• 11 written responses (3%) (PP, MA, CPA/CA ANZ, SD, IPA, UWA, BDO, Deloitte, ACNC, DH, KPMG)
Not applicable = 12 (3%) consisting of
• 5 preparers (1%)
• 1 auditor (0%)
• 2 users (1%)
• 4 virtual sessions (1%)</td>
<td>• specific guidance should be provided on the application of straight-line basis expenses in the circumstances such as rent-free periods, or rent with annual or other subsequent increases based on inflation index or otherwise (CPA/CA ANZ, DH); and
• the proposals for concessionary lease arrangements should clarify that smaller NFP entities will recognise any lease payments as an expense without needing to recognise a fair value of a right-of-use (ROU) asset. Any disclosure should be based on the actual cost, not fair value or market value (DH).</td>
</tr>
<tr>
<td>No = 24 (7%) consisting of:
• 9 preparers (3%)
• 9 auditors (3%)
• 6 virtual sessions (2%)</td>
<td>Only a few stakeholders disagreed with the Board's proposal. These stakeholders who were auditors noted the need for consistency and comparability. Therefore, they think AASB 16 should continue to apply for all NFP entities or the entities should be able to apply AASB 16 if considered appropriate. Those that were preparers noted:
• not requiring the recognition of ROU assets does not reflect the true value of running the organisation. If ROU assets are not recognised, disclosures should accompany the financial statements for users to understand the long-term lease commitments that many NFP entities often have;
• the proposals may lead to NFP entities over-committing to lease items; and
• lease payments should be expensed as incurred rather than on a straight-line method.</td>
</tr>
<tr>
<td colspan="2">Staff analysis: Staff note that only a few stakeholders disagree, and staff do not consider the reasons are sufficiently compelling to not proceed with the Board's proposals. Staff considers an entity can provide disclosures with the useful information to users on the leased assets. While some auditors consider it is important for all NFP to apply AASB 16 to ensure comparability among NFP entities, as noted by many stakeholders, the cost of applying AASB 16 outweighs the benefit of the information to users for smaller NFP entities.
Based on RR19, most leases are generally accounted for as lease expenses (24% of sample charities). Staff also noted that just under 20% of the sampled charities have accounted for a right of use assets which confirms stakeholders' feedback that there are, as expected, already entities that have adopted AASB 16. Therefore, staff consider there is a need to consider possible options for entities that may want to apply AASB 16 which may include:
• transitional provisions such as grandfathering the lease arrangements already accounted for under AASB 16,
• requiring entities to unwind the lease accounting based on AASB 16 without changes to comparative figures;
• allowing accounting policy choice in respect of leases;
• permitting the accounting of leases as a topic that the Board would allow to opt-up to higher tier requirements.
Staff consider there is sufficient evidence from feedback and the findings from RR19 to support staff to begin drafting the lease accounting requirements based on the Board's proposals in the DP. Staff will conduct further analysis on whether to develop specific guidance on the application of straight-line expense recognition in contractual circumstances such as rent-free periods, or rent with annual or other subsequent increases, including variations linked to inflation/CPI.</td>
</tr>
</table>

Staff suggested action for next steps: Staff recommend **to proceed with the Board's preliminary views** and begin drafting the Tier 3 lease accounting to recognise lease payments on a straight-line basis unless another systematic basis is more appropriate. Staff will bring possible drafting of the topic as part of the Exposure Draft for Board consideration at a future meeting. Staff will conduct **further analysis** and bring possible options for the Board to consider at a future meeting on whether to develop specific guidance for circumstances noted above and for transition issues to address the concerns regarding entities that have already applied AASB 16.	
Q42) Income (including Revenue)* **Total response = 348**	
Yes = 315 (91%) consisting of: • 60 preparers (17%) • 123 auditors (35%) • 6 users (2%) • 1 regulator (0%) • 7 others (2%) • 1 blank (0%) • 108 virtual sessions (31%) • 9 written responses (3%) (PP, MA, SD, IPA, KPMG, UWA, BDO, Deloitte, ACNC) Not applicable = 17 (5%) consisting of • 3 preparers (1%) • 1 auditor (0%) • 1 user (0%) • 12 virtual sessions (3%)	Almost all stakeholders agree and consider the deferral of income would provide more helpful information for users to reflect that grants/donations will be used in future periods. A few stakeholders who agreed with the proposals noted: • entities may be required to move to a different tier of reporting requirements set out by the legislation or regulation and to use different income recognition model in Tier 1/Tier 2 and Tier 3 if their revenues are close to the reporting thresholds and thus smaller NFP entities will still need to understand the requirements of higher tiers; • the need to continue discussions with regulators to align their requirements with the proposals, for example with the ATO on DGR-eligible public funds; and • ACNC will work closely with AASB as there would be two sets of income recognition model between Tier 3 and other tiers for charities determining their size thresholds (ACNC). Some stakeholders also made the following suggestions: • terms such as 'common understanding' and 'some other form of' [of evidence by the transfer provider] need to be defined with appropriate application guidance provided using simple language (i.e. removing jargon such 'inflows of resources') (MA); • further guidance on expectation of use of resources to cover future fundraising events; • the proposals should apply to large NFPs as well. AASB 15 could continue to apply where contracts are sufficiently specific as the standard does highlight programs that are not performing and may run inefficiently (such as target not being achieved but a significant portion of funding is being spent). Where terms are not sufficiently specific and there is only a common understanding in writing, then the proposed new recognition model should apply; • matching of income and expenditure in a manner consistent with AASB 120 would simplify the approach (PP); • include examples on donations provided in response to a specific campaign to illustrate the application of the requirements (SD); and • include guidance on principal vs agent considerations for example when a charity receives a grant on behalf of another charity and then forwards to another charity to help entities to determine whether they are acting as principal or agent (ACNC).
No = 16 (5%) consisting of: • 7 preparers (2%)	Only a few stakeholders disagree and some of them made the following comments:

<table>
<tr>
<td>• 3 auditors (1%)
• 4 virtual sessions (1%)
• 2 written responses (1%) (CPA/CA ANZ, DH)</td>
<td>• auditors considered the proposed model appear to be 'going backwards' and may provide too much flexibility in reporting and lead to difficulties in assurance.
• preparers noted:
o all income should be recognised when received;
o deferred income should be used to smooth funds received to support workers who are being supported by donors but not the organisation;
o binding or non-binding nature of the commitment should be considered (e.g. if the resources are provided on the understanding that the provider intends for the resources to be used in a particular way but does not require the resources to be repaid if they are not used in that fashion, then the resources should be recognised upon receipt or gaining control of the receivable); and
o a consistent treatment rather than decision tree would make requirements more straightforward;
• the Tier 3 income recognition model proposals of 'common understanding' does not appear to link to the definition of obligation in the Conceptual Framework, and seem to allow preparers too much flexibility (DH).
• considered the proposed approach could introduce further complexities as new terms such as common understanding and other customary forms could lead to interpretative challenges and inconsistent application. Some fact patterns being envisaged may not be common amongst smaller NFPs. There is also a concern that many of Australia’s legislative reporting thresholds are underpinned by revenue, therefore it would be vital that revenue is recognised consistently year on year for the NFP sector. As such, they suggested the AASB explore either:
o IPSASB recently approved IPSAS 47 Revenue or IFR4NPO project proposals (CPA/CA ANZ, DH); or
o AASB 120 Accounting for Government Grants and Disclosure of Government Assistance recognises management intention or established plans demonstrating the future application of funds (CPA/CA ANZ).
Some of these stakeholders also proposed other considerations including the need to include specific guidance on the issue of identifying principal vs agent in Tier 3 (CPA/CA ANZ).</td>
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<tr>
<td colspan="2">Staff analysis: Almost all stakeholders supported the proposed income recognition model. Staff noted the importance of continuing discussion about the project's impacts with NFP regulators and legislators including ACNC (noting all DGR funds are now required to be registered as a charity) regarding possibly two income recognition models may exist the future that may impact size threshold determination.
While only a few stakeholders disagree, staff do not consider the reasons sufficiently compelling to not proceed with the Board's proposals because:
• while staff think the income recognition model may provide incrementally more flexibility because income is recognised based on the amount of pattern and consumption of the resources, the common understanding will need to be evidenced in writing which provides sufficiently robust requirements to ensure consistency of application and ability to assure the reporting outcomes. Staff agree that the newly introduced terms will need to be clearly defined and accompanied by appropriate application guidance;</td>
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</table>

- as noted in the DP, the Board considered and rejected the option of income recognition when received, even though this may be the simplest to apply. The reason is that it may not reflect appropriately that transferred resources expected to be spent or used in a future period should be accounted for differently from other donations.
- staff do not think that deferred income should be used to smooth funds received to support workers as the intention of the deferred income is to reflect the common understanding between the funder and the entity that the funds are expected to be deployed within specified periods, rather than to support the entity; and
- staff thinks the notion of binding or non-binding would add complexity to the proposed income recognition model, noting the Board did not agree to include the notion of enforceability to simplify the income recognition model;
- staff note that IPSAS 47 *Revenue* requires consideration of binding arrangements, which, as discussed above, may add to the complexity. Whilst the revenue proposals for IFR4NPO are not finalised, staff understand that IFR4NPO's income recognition model[29] will apply IFRS 15 to revenue from contracts with customers and IPSASB's approach to recognition of grants and donations. This would appear to be a two-step model that stakeholders considered was complex concerning the existing Australian requirements with applying AASB 15 and AASB 1058. The income recognition model for Tier 3 requirements was developed primarily on the basis of NZASB Tier 3 approach to the recognition of grants, donations, bequests and pledges. However, the INPAG proposals that are based on the notion of compliance obligation being "an NPO's promise in a binding grant arrangement to either use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a beneficiary" do not appear significantly inconsistent with the Board's preliminary views in the DP. Staff also think that the recognition and measurement requirements are not inconsistent (in the main) with the requirements in AASB 120. Overall, staff continue to think the proposed Tier 3 income recognition model is simpler than IPSAS 47 or IFR4NPO forthcoming proposals.
- Staff also do not support to include the AASB 15 requirements in Tier 3 as it does not reflect the stakeholder feedback obtained during the development of the DP and throughout the comment period that determining sufficient specific requirements in AASB 15 is too complex for smaller NFP entities.

Staff suggested action for next steps: Staff recommend to **proceed with the Board's preliminary views** and begin drafting the Tier 3 income recognition model based on the Board's proposals in the DP. Staff will consider further developing definitions of new terms, simplifying the language, incorporating guidance including on principal vs agent, and relevant illustrative examples. Staff will bring possible drafting of the topic for Board consideration at a future meeting.

Q43–44) Employee benefits (including termination benefits and defined benefit plans) **Total response = 220**	
Yes = 201 (91%) consisting of: • 63 preparers (29%) • 117 auditors (53%) • 4 users (2%) • 1 regulator (0%) • 7 others (3%)	Almost all stakeholders agree with the DP's preliminary views and support that guidance on determining the probability of long service leave should be included in Tier 3 requirements. These stakeholders noted: • not requiring discounting of future outflows will make the preparation of financial statements easier with a limited reduction to the quality of the information provided especially considering the G100 putting high-quality corporate bond rate behind a paywall (MA). However, a few of these stakeholders suggested the Board consider:

29 Refer to Technical Advisory Group Issue Paper on the draft of Section 23 Revenue at the February 2023 meeting

• 1 blank (0%) • 8 written responses (4%) (PP, MA, CPA/CA ANZ, IPA, UWA, BDO, Deloitte, ACNC) Not applicable = 4 (2%) consisting of • 3 preparers (1%) • 1 user (0%)	• the implications of portable long service leave (LSL) scheme, e.g. in Victoria, Queensland and within the health sector, especially NFP NDIS providers, need further consideration (including MA); • LSL should be classified as a non-current liability given it is highly unlikely employees of smaller NFP entities would take LSL; • accounting for on-cost is an on-going issue; • that the provision for employee benefits should not consider future pay rises given it will add to the complexity of the accounting requirements (PP). However, another stakeholder thought that employee benefits should be kept up to date with salary changes; and • clarifying whether future outflow expected is an inflation-adjusted value, whether an adjustment is required for such inflation, and whether probability should be considered, for example when calculating accumulated LSL. Recent legislative changes in the Fair Works Act 2009 have converted some eligible casual employment to permanent part-time or full time status, which could increase the likelihood of termination benefits be recognised in the future. As such, this will make the provision of clear guidance in this area of increasing importance (CPA/CA ANZ). While stakeholders did not provide any specific industry guidelines that they currently follow, there were varying suggestions for determining probability of the outflow of economic benefits to settle the employee obligations including: • LSL reflecting 100% probability can reduce the need for smaller entities to make complex decisions; and • current practice is to apply the probability of 50% hence application at 100% may increase the liability. Almost all of these stakeholders also supported not including accounting for termination benefits and defined benefit plans, as it is uncommon for smaller NFP entities (including PP, MA, CPA/CA ANZ, IPA, UWA, BDO, Deloitte ACNC, SD, DH). One stakeholder suggested that if termination benefits or defined benefit plans are common, it can be dealt with as part of the PIR of Tier 3 requirements (IPA).
No = 15 (7%) consisting of: • 3 preparers (1%) • 1 user (0%) • 9 auditors (4%) • 2 written responses (1%) (SD, DH)	Only a few stakeholders disagree with the Board's proposal. They had varying comments including: • all NFP entities should apply the same accounting requirements for employee benefits for consistency with other entities; • entitlement would be better dealt via a sinking fund provision; • non-vesting personal leave is not typically recorded as the entitlement increases year on year on a group basis. AASB should consider default of not recording such leave other than in certain circumstances where the above fact pattern does not occur. In addition, applying probabilities has little benefit given lower value balances impacted. A simple approach of recording all liabilities from year 1 or all liabilities after an employee is 50% on the way to vesting would be simple and appropriate. Probability volatility is higher in smaller organizations and is less reliable to use history as a prediction of the future (SD); and • not using future outflow expected to be required and not agree with examples as it contradicts some leave based on individual calculations and some on group calculations. Also, the calculation for personal leave (which seemed to include sick leave) is contrary to current practice where such leave is not accrued (DH).

Staff analysis: Staff note that only a few stakeholders disagree. While staff have not yet fully analysed all stakeholder feedback, staff preliminary view on feedback from non-supportive stakeholders is that:

- the objective of developing Tier 3 requirements is to provide simplified accounting requirements for smaller NFP entities and the fact that almost all stakeholders supported the proposals, departure from Tier 2 may be warranted for accounting for employee benefits;
- the proposals to require employee benefits provisions to reflect the probability of future outflows expected to be required to settle the present obligation would appear to be consistent with the feedback that the entitlement would be better dealt via a sinking fund provision. This is because assessing the probability of expected future payments is required to ensure that an entity has sufficient funds to meet these expected employee benefit payments.

While staff noted the feedback that estimating future pay rises may be difficult for smaller NPF entities. However, one of the reasons not to require discounting was that the discount for the time value of money might largely negate any future pay rises such as the present value of the obligation and many obligations are expected to settle within short to medium term. As per DP, the Board observed that not requiring the liability to be measured at the present value of the obligation eliminates the need for categorisation of employee benefits related provisions as either short or long-term employee benefits for measurement purposes.

The Board sought through the DP whether it is possible to develop requirements to support the assessment the likelihood that an outflow of economic benefits will be required to settle the obligation, for example in form of a practical expedient or a rebuttable presumption. However, staff think developing such a rebuttable presumption or practical expedient would not be feasible given that NFP entities did not indicate use of any specific industry guidelines. There were also varying suggestions on the level of probability that could be used which further suggest that it would be difficult to develop a rebuttable presumption that would meet majority of NFP entities' circumstances.

However, staff noted the support for developing some form of guidance would be useful to preparers. As such, staff think developing illustrative example could be included in the Tier 3 standard to provide guidance on how an entity can factor in probability assessment for LSL calculations.

Based on RR19, LSL provisions and annual leave provisions were identified as common liabilities amongst charities. As such, staff consider there is evidence to support developing Tier 3 requirements for the employee benefits.

Staff also noted some stakeholders suggested the Board to consider the issue relating to portable long service schemes and guidance on on-cost. Staff will conduct further analysis to identify possible options to address this issue for the Board to consider at a future Board meeting.

Staff suggested action for next steps: Staff will conduct **further analysis** and bring possible options on the accounting for employee benefits for the Board to consider at a future meeting.

Q45) Other topics to be included in Tier 3 reporting requirements (including foreign currency translation, income taxes, commitments, events after reporting period, expenses, offsetting, provisions, contingent assets and contingent liabilities):

Total response = 190

Yes = 164 (86%) consisting of:	Most stakeholders agree with the proposals for these topics. But a few stakeholders provided following comments:
• 46 preparers (24%) • 103 auditors (54%) • 3 users (2%) • 1 regulator (1%)	• questioned why include income tax requirements given NFP entities would be exempt from income tax; • further guidance may be needed around foreign currency transactions in the profit and loss; and

<table>
<tr><td>• 5 others (3%)
• 6 written responses (3%) (MA, SD, IPA, UWA, BDO, Deloitte)

Not applicable = 19 (10%) consisting of
• 12 preparers (6%)
• 6 auditors (3%)
• 1 user (1%)</td><td>• more guidance would be helpful on when disclosures are required on contingent assets/liabilities for ancillary funds where distribution requirements based on ATO PAF guidelines is contingent on the market value of the fund's net assets. Similarly, guidance around when disclosure would be required for pledges would be welcomed.</td></tr>
<tr><td>No = 7 (4%) consisting of:
• 4 auditors (2%)
• 3 written responses (2%) (PP, CPA/CA ANZ, DH)</td><td>A few stakeholders disagree (including PP). These stakeholders noted:
• the requirements for income taxes and foreign currency translations should be consistent with Tier 1 and Tier 2 reporting requirements;
• it was unclear why the topics should align with NZ Tier 3 (PP, CPA/CA ANZ). Rather the topics should align with IFRS for SMEs rather given the topics do not seem particularly specific to NFP entities (PP);
• provisions and contingent liabilities may be a complex area of accounting for smaller NFPs, but they provide important information for users (CPA/CA ANZ); and
• they disagree with expenses as NZ Tier 3 reporting requirements include provisions relating to disclosure of fundraising expenses. Fundraising is a controversial topic that the AASB said that it would address separately (DH).</td></tr>
<tr><td colspan="2">Staff analysis: Staff noted that only a few stakeholders disagree including the concerns on why these topics should align with NZ Tier 3 requirements.
Staff preliminary view is that, as noted in the DP, the Board formed its preliminary view to align the other topics with NZ Tier 3 requirements based on:
• the similarity of the current Tier 1/Tier 2 requirements for these topics (except for foreign currency translation and income taxes) to New Zealand Tier 3 requirements,
• the similar targeted size of the NFP sector entities; and
• the AASB's policy on harmonisation of Trans-Tasman standard-setting.
The simplification for foreign currency translation and income taxes were supported by almost all stakeholders to align to the requirements with the NZ Tier 3 Standard.
Agenda Paper 3.2 on the drafting approach of the Tier 3 ED propose to refer to the IFRS for SMEs after considering whether the recognition and measurement requirements proposed for Tier 3 differs to Tier 1/Tier 2 requirements with further simplification to be considered using NZ Tier 3. As such, subject to the Board's decision on Agenda paper 3.2, staff consider the proposed Tier 3 requirements on these topics would largely address stakeholders' concerns.
Staff think the stakeholder requesting more guidance on contingent assets is not necessarily simplification. The Board's proposal is not intended to propose any simplification beyond what is currently required in AASB 137 Provisions, Contingent Liabilities and Contingent assets, as the topic was not identified as an area of significant interest by</td></tr>
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stakeholders other than simplification in language.[30] However, staff will consider whether any illustrative examples can be provided instead to address the stakeholder concern given it is useful information to users. Staff have noted the stakeholder concern with NZ Tier 3 fundraising disclosures. Staff consider that the approach to drafting recommended by staff in the paper 3.2 for this meeting will prevent any accounting requirements not explicitly endorsed by the Board not be carried over to Tier 3.	
Staff recommended action for next steps: Staff recommend to **proceed with the Board's preliminary view** and begin drafting the Tier 3 requirements for the other topics listed with reference to the NZ Tier 3 Standard requirements for the Board's consideration at a future meeting.	
Q46–49) Disclosure approach including illustrative disclosure examples **Total response = 189**	
Yes = 183 (97%) consisting of: • 57 preparers (30%) • 112 auditors (57%) • 4 users (2%) • 1 regulator (1%) • 5 others (3%) • 9 written responses (5%) (PP, MA, IPA, UWA, DH, BDO, Deloitte, ACNC, SD)	Almost all stakeholders agree with the proposed disclosure approach. These stakeholders commented that: • the approach is appropriate as the starting point but cautioned that smaller NFPs would lack the expertise, hence template financial statements with disclosure examples would be useful; • there is an expectation that there will be significant disclosure reduction compared to Tier 2 requirements (PP); • regarding the illustrative disclosure example for the accounting of changes in accounting policies – it may be beneficial to clearly state that generic accounting policies that repeat the requirements of the accounting standards are not required and to limit disclosures to explaining choices that have been made in applying options in the standards, or policies or items that are not addressed in the Tier 3 requirements (MA); • regarding the illustrative disclosure example on PPE – if borrowing cost are material, there will be no reason that a simple accounting policy statement should not be included (if Tier 3 include a choice for Tier 2 requirements on borrowing costs) (SD); • suggest AASB also consider disclosure in the NZ Tier 3 when the accounting practices are similar (DH); • regarding the illustrative disclosure example on leases - the AASB need to determine what lease term means for non-cancellable leases and option periods. It is also unclear what future lease payment means when there are variable payments, minimum or expected payments and whether the disclosures should refer to variable lease payments recognised as revenue for the current period and disclosure of variable component (DH); • regarding the illustrative disclosure example on changes in accounting policy and correction of errors – disclosure is appropriate apart from adjusting prior period errors (DH) and the nature of the error (ACNC); and • single set of disclosures should apply to both lessee and lessor, including a description of the lease assets, lease terms and payments, and any restrictions or dependencies on the lease asset (ACNC).
No = 6 (3%) consisting of:	A few stakeholders disagree because:

30 Refer to Agenda Paper 4.1 for the August 2021 Board meeting

• 1 preparer (1%) • 4 auditors (2%) • 1 written response (1%) (CPA/CA ANZ)	• it may be complex if a Tier 3 preparer was required to understand the disclosure requirements in Tier 1/Tier 2 reporting requirements; • the importance of related party disclosures and the need to 'cap' the requirements to Tier 2 disclosure requirements; and • 2022 CA ANZ IFRS Survey indicated that disclosure requirements in AASB 1060 still do not strike the right cost/benefit balance, therefore recommend developing further simplified fit for purpose disclosure requirements for the Tier 3 Standard regardless if recognition and measurement requirements in Tier 3 are different from Tier 2.
Staff analysis: Staff noted that only a very few stakeholders disagree with the proposed approach to developing Tier 3 disclosure requirements. Whilst staff have not fully analysed the feedback, in response to the feedback from stakeholders who disagreed with the approach, staff preliminary view is that given the Tier 3 Standard will be developed as a stand-alone standard, it is not expected that a Tier 3 preparer would need to refer to Tier 1/Tier 2 reporting requirements unless the Tier 3 entity have a transaction/balance or event that is explicitly omitted from the Tier 3 Standard. While staff are conscious of the need to ensure that Tier 3 disclosure requirements would not exceed what is currently required by the existing Tier 2 requirements, some simplifications in the Tier 3 accounting requirements may require disclosure requirements instead of a Tier 2 measurement requirement (e.g. allowing accounting policy choice to present consolidated financial statements). As such, there may be instances that may warrant more Tier 3 disclosure requirements than the existing Tier 2 requirements. Staff note that the reference to the principles for the development of Tier 3 accounting requirements in the approach to the disclosures development proposed in the DP should address the concern of stakeholders that resulting Tier 3 disclosure requirements will not be simple enough. Staff will further consider the stakeholder feedback on the examples presented in the DP when developing the disclosure requirements for relevant topics.	
Staff suggested action for next steps: Staff recommend to **proceed with the Board's preliminary views** on the approach to developing Tier 3 disclosure requirements in the DP. At this Board meeting, the Board will be considering the drafting approach of the Tier 3 requirements in Agenda Paper 3.2. Subject to the Board's decisions, staff will bring drafting of the Tier 3 requirements (recognition, measurement and disclosures) for the topics to be included in the Tier 3 Standard at future board meetings.	