Summary of the Tier 3 Exposure Draft proposals and the extent of simplifications in comparison to Tier 2 requirements

Australian Government
Australian Accounting Standards Board

This document provides an overview of the Board's proposals for a Tier 3 Not-for-Profit (NFP) Accounting Standard, which are set out in Exposure Draft ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*.

The Board decided to propose a stand-alone accounting standard for a third reporting tier for use by smaller NFP private sector entities in conjunction with the proposals to remove the ability of certain NFP entities to prepare special purpose financial statements and thus extend the application of Australian Accounting Standards to the broader NFP sector.

This document compares the Tier 3 proposals to existing Tier 2 reporting requirements and summarises the types of simplifications proposed in the Tier 3 Exposure Draft.

This document has been compiled by staff of the AASB for the convenience of interested parties. The views expressed in this document should not be considered as an authoritative document issued by the Board.

Types of simplifications proposed in Tier 3 compared with Tier 2 reporting requirements:

(a) Omission of uncommon requirements/topics – where Tier 3 proposals do not include requirements or guidance on certain transactions, other events or conditions because they are expected to be uncommon to smaller NFP private sector entities that may apply the Tier 3 Standard (i.e. a Tier 3 entity).

The Board's rationale for this simplification is based on its objective of developing reporting requirements that are relevant to transactions, other events and conditions that are common to Tier 3 entities. Therefore, the Board proposes omitting certain requirements and guidance for types of transactions, other events and conditions that are uncommon to Tier 3 entities.

(b) Simplification of drafting and language – where Tier 3 requirements are consistent with Tier 2 reporting requirements, but they are expressed in a simpler way.

The Board's rationale for providing this simplification is based on its objective of developing a simplified Tier 3 Standard. The Board acknowledges that Tier 3 stakeholders may not be reporting experts. Therefore, a simpler Standard is intended to reduce the reporting burden in this sector. For this reason, the Board developed the Tier 3 reporting requirements consistent with Tier 2 reporting requirements using simpler language or shorter explanations.

(c) Simplification of presentation – where Tier 3 proposals have simplified presentation requirements compared with Tier 2 requirements.

Based on stakeholder feedback from previous outreach, the Board's rationale for this simplification is to not require Tier 3 entities to present certain information that would otherwise be required by Tier 2. This is consistent with the Board's objective to develop a simpler reporting framework for Tier 3 entities. The Board also considered that in some cases, not requiring Tier 3 entities to present certain information separately would reduce the cost to preparers without necessarily reducing the usefulness of the information provided to users (e.g. aggregating information about certain types of cash flows).

(d) Simplification of recognition or measurement requirements – where Tier 3 requirements contain simplified recognition or measurement (R&M) requirements compared with Tier 2.

The Board's rationale for this simplification is based on stakeholder feedback from previous outreach that existing R&M requirements in the Australian Accounting Standards (AAS) are too complex for Tier 3 entities. As such, the Board proposes to simplify the requirements where possible.

(**e) Provision of accounting policy choice** – where Tier 3 reporting requirements provide an accounting policy choice in addition to those contained in Tier 1 or Tier 2 reporting requirements.

The Board's rationale for this simplification is based on stakeholder feedback from previous outreach that existing Tier 1 and Tier 2 requirements may be too complex for Tier 3 entities. Therefore, where possible, the Board proposes to simplify the R&M requirements for Tier 3 entities. The Board also proposes, in many cases, to retain the accounting policy options available in Tier 1 and Tier 2 and also provide additional accounting policy options for Tier 3 entities. This allows preparers to select the accounting policy that is most appropriate for the entity (e.g. apply the simpler Tier 3 accounting policy option or apply the Tier 1 or Tier 2 accounting policy option if available, which might be helpful if the entity was already applying Tier 1 or Tier 2 requirements to a balance or transaction).

(f) Fewer disclosures – where Tier 3 requirements have fewer disclosures compared with Tier 2 requirements.

The Board's rationale for this simplification is to develop Tier 3 reporting requirements that are proportionate while reducing the cost to preparers and auditors. This is consistent with its principles in developing Tier 3 reporting requirements to maximise consistency with Tier 2 accounting principles where possible but with fewer disclosures.

(g) Additional disclosures supplementing simplified R&M requirements – where Tier 3 requirements contain simplified R&M requirements compared with Tier 2, in some cases, these simplifications are supplemented by additional disclosures.

The Board's rationale for this is that where the Board identified opportunities to simplify the R&M requirements for Tier 3 entities, it did. However, in some cases, the Board considered that to meet the needs of users, some additional disclosures would be helpful.

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
Section 1: Objective, Scope and Application (Topics 'omitted' from Tier 3)	Tier 2 entities apply the disclosure requirements in AASB 1060 and the R&M requirements in relevant topic-based Australian Accounting Standards (AAS), including the following: • AASB 2 *Share-based Payment* • AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* • AASB 6 *Exploration for and Evaluation of Mineral Resources* • AASB 17 *Insurance Contracts* • AASB 9 *Financial Instruments* • AASB 119 *Employee Benefits* • AASB 141 *Agriculture*	Tier 3 entities apply reporting requirements set out in a standalone Tier 3 AAS. However, if a Tier 3 entity has specific transactions or balances related to topics specified in the column to the left, they would be required to apply the Tier 2 requirements except for basic financial instruments which are specified in Section 10 below and transactions relating to employee benefits other than obligations arising under a defined benefit plan.	• Omission of uncommon requirements/ topics
Section 2: Financial Statement Presentation	A complete set of financial statements comprises: • statement of financial position • statement of profit or loss and other comprehensive income or a separate statement of profit or loss and a separate statement of comprehensive income • statement of changes in equity • statement of cash flows • notes to the financial statements • comparative information A statement of income and retained earnings may be presented instead of a statement of comprehensive income and a statement of changes in equity (conditions apply – see Section 5 below). An entity with no items of other comprehensive income in any of the periods may present only a statement of profit or loss or a statement of comprehensive income in which the bottom line is labelled 'profit or loss'.	Consistent with Tier 2, but with simplified language	• Simplification of drafting and language

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
Section 3: Statement of Financial Position Section 4: Statement of Profit or Loss and Other Comprehensive Income	Tier 2 sets out the information that is to be presented in the statement of financial position, the statement of profit or loss and other comprehensive income or the notes to the financial statements and how it should be presented, with the flexibility to present additional information where relevant. Entities can present assets and liabilities as current or non-current in the statement of financial position, or they can use a liquidity presentation if it provides more relevant and reliable information.	Tier 3 entities cannot use a liquidity presentation in the statement of financial position. All other Tier 3 reporting requirements are consistent with Tier 2 where relevant but with simplified language.	• Simplification of drafting and language • Simplification of presentation
Section 5: Statement of Changes in Equity and Statement of Income and Retained Earnings	Tier 2 sets out the information that is to be presented in the statement of changes in equity and how it should be presented. Tier 2 also allows an entity to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity if the only changes to its equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.	Consistent with Tier 2, but with simplified language	• Simplification of drafting and language
Section 6: Statement of Cash flows	In a statement of cash flows, cash flows are classified as either operating, investing or financing cash flows. Cash flows from operating activities may be presented using either the direct method or the indirect method (reconciliation from net profit).	Tier 3 entities do not need to present investing and financing cash flows separately. However, they may elect to do so. All other Tier 3 reporting requirements are consistent with Tier 2 where relevant but with simplified language.	• Simplification of drafting and language • Simplification of presentation
Section 7: Notes to the Financial Statements	Notes contain information in addition to that presented in the statement of financial position, the statement of profit or loss and other comprehensive income (if presented), the combined statement of income and retained earnings (if presented), the statement of changes in equity (if presented) and the statement of cash flows.	Consistent with Tier 2 where relevant but with simplified language.	• Simplification of drafting and language

<table>
<tr><th>Section/Topic</th><th>AASB Tier 2 (including Tier 1 R&M) requirements</th><th>AASB ED on Tier 3 requirements</th><th>Extent of simplification</th></tr>
<tr><td>Section 8: Notable relationships, Consolidated and Separate Financial Statements</td><td>Tier 2 requires an entity to determine the nature of its relationships with other entities based on the requirements of AAS (i.e. whether the entity is a parent, an investor that has an associate, or an investor that is a party to a joint venture or a joint operation).</td><td><u>R&M requirements</u>
• Tier 3 introduces the concept of ‘notable relationships’, which exist where an entity has at least significant influence over another entity (i.e. control, joint control or significant influence).
• The determination of whether significant influence exists is consistent with Tier 2.
• An entity that determines it has a notable relationship is not required to determine the nature of that relationship (e.g. subsidiary, associate, joint venture or joint operation) but may elect to do so.
The R&M and disclosure requirements are different depending on whether the entity determines the nature of its notable relationship and elects to prepare consolidated financial statements (if the entity identifies it has subsidiaries) or measures its investments in associates and joint ventures either at fair value or applying the equity method of accounting.</td><td>• Simplification of recognition or measurement requirements</td></tr>
<tr><td>Section 8: Notable relationships, Consolidated and Separate Financial Statements

(Consolidation of subsidiaries)</td><td>An entity that is a parent must present consolidated financial statements, including all subsidiaries, except in limited circumstances.
Tier 2 sets out the method for assessing control and the procedures required to prepare consolidated financial statements.</td><td><u>R&M requirements</u>
• An entity that is a parent can present either:
  • separate financial statements as its only financial statements (no subsidiaries are consolidated);[1] or
  • consolidated financial statements, including all subsidiaries.
• The assessment of control and consolidation procedures are consistent with Tier 2.

<u>Disclosure requirements</u>
Entities that elect to prepare consolidated financial statements have fewer disclosures compared with Tier 2. See the row directly below for the disclosures required by entities that elect to prepare separate financial statements.</td><td>• Simplification of drafting and language
• Provision of accounting policy choice
• Fewer disclosures for consolidated financial statements
• Additional disclosures supplementing simplified R&M requirements</td></tr>
</table>

[1] The Tier 3 Exposure Draft proposes an accounting policy choice where a parent can elect to present consolidated financial statements or only separate financial statements that comply with specific Tier 3 disclosure requirements. Tier 2 requires a parent entity to present consolidated financial statements without the accounting policy choice. However, a Tier 2 parent entity may elect to present separate financial statements in addition to their consolidated financial statements.

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<tr><td>Section 8: Notable relationships, Consolidated and Separate Financial Statements

(Separate financial statements)</td><td>Separate financial statements are financial statements prepared in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have investments in subsidiaries. An entity can measure its interest in subsidiaries, joint ventures and associates either:
at cost,
in accordance with AASB 9 Financial Instruments (at fair value through profit or loss (‘FVTPL’) unless it makes an irrevocable election to measure at fair value through other comprehensive income (‘FVTOCI’); or
using the equity method of accounting as described in AASB 128 Investments in Associates and Joint Ventures.</td><td><u>R&M requirements</u>
An entity with notable relationships that is a parent and only presents separate financial statements, accounts for all its notable relationships:
at cost; or
at FVTPL (unless the entity makes an irrevocable election to measure changes in FVTOCI by type of investment at initial recognition); or
by applying the equity method.
The accounting policy election applies to all investments in notable relationship entities.

The above accounting policy options also apply to: [2]
an investor with investments in associates or joint ventures that elects to present separate financial statements; and
an investor that elects to present separate financial statements in addition to consolidated financial statements, in respect of its investments in subsidiaries, associates and joint ventures.
For joint operations, the parties to the joint operation account for the investment by recognising only their share of the joint operation’s assets, liabilities, revenue and expenses.

<u>Disclosure requirements</u>
Entities that elect to present only separate financial statements are required to provide disclosures about their notable relationship entities.
Only investors that account for their investment in associates or joint ventures at cost are required to provide notable relationship entity disclosures for these investments.
Entities that elect to present separate financial statements in addition to consolidated financial statements are not required to provide any notable relationship entity disclosures.</td><td>Simplification of drafting and language
Provision of accounting policy choice
Additional disclosures supplementing simplified R&M requirements</td></tr>
</table>

[2] The accounting policy election applies to all investments in a single class, but an entity may elect to apply different accounting policies for different classes.

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
Section 9: Accounting Policies, Estimates and Errors (Developing accounting policies for topics not addressed in Tier 3)	In the absence of an AAS that specifically applies to a transaction, event or other condition, management uses its judgement to develop and apply accounting policies considering: • the requirements in AAS that deal with similar and related issues; and • the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework for the Preparation and Presentation of Financial Statements* (Framework).[3] Management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework, other accounting literature and accepted industry practices to the extent that these do not conflict with AAS and the Framework.	If Tier 3 does not specifically address a transaction, other event and condition, management applies a 'hierarchy approach' and uses its judgement to develop and apply accounting policies considering: • the principles and other reporting requirements in Tier 3 dealing with similar and related issues; and • the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework, to the extent they do not conflict with Tier 3 reporting requirements. Management may also consider the requirements and guidance in Tier 2. Note: There are limited circumstances where an entity must apply Tier 2 requirements. See Section 1 above.	• Simplification of drafting and language
Section 9: Accounting Policies, Estimates and Errors (Ability to 'opt up' and apply a Tier 1 or Tier 2 accounting policy)	Not applicable	A Tier 3 entity can only selectively apply Tier 2 R&M requirements where: • the topic is not directly addressed in Tier 3 reporting requirements, and the entity applies the hierarchy approach to develop its accounting policy; or • the transaction or balance is an omitted topic, and the Tier 3 entity, therefore, must apply Tier 2 reporting requirements for that transaction or balance. Otherwise, an entity can opt to apply Tier 1 or Tier 2 accounting requirements in their entirety.	Not applicable

[3] There are currently two conceptual frameworks in operation in Australia, and at this time, NFP entities are only permitted to apply the Framework. However, AASB Exposure Draft ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* proposes extending the applicability of the *Conceptual Framework for Financial Reporting* (Conceptual Framework) to all NFP entities so that Tier 1, Tier 2 and Tier 3 NFP entities would apply the Conceptual Framework when preparing general purpose financial statements.

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
Section 9: Accounting policies, estimates and errors (Voluntary changes in accounting policies)	An entity can only change its accounting policy if the change is required by an AAS or results in financial statements that provide more relevant and reliable information about the effects of transactions, other events or conditions. Unless it is impracticable to determine either the period-specific effects or the cumulative effect of a voluntary change in accounting policy, the change in accounting policy is applied retrospectively by adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always applied.	**R&M requirements** Similar to Tier 2 except, voluntary changes in accounting policies are accounted for following a modified retrospective approach, which adjusts the opening balances of the current reporting period for the cumulative effect of the change and comparative information is not amended. **Disclosure requirements** To align with the modified retrospective approach, Tier 3 does not require entities to disclose the amount of the adjustment for each financial statement line item affected for each prior period presented.	• Simplification of drafting and language • Simplification of R&M requirements • Fewer disclosures
Section 9: Accounting Policies, Estimates and Errors (Correction of prior period accounting errors)	Material prior period errors are corrected retrospectively by restating comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented by restating the opening balances for the earliest period presented.	**R&M requirements** Material prior period errors are corrected in the period in which they are identified by applying a modified retrospective approach consistent with the approach applied to voluntary changes in accounting policies. **Disclosure requirements** Tier 3 does not require entities to disclose the amount of correction for each financial statement line item affected for each prior period(s) presented to align with the modified retrospective application.	• Simplification of drafting and language • Simplification of R&M requirements • Fewer disclosures
Section 9: Accounting Policies, Estimates and Errors (Accounting estimates)	Changes in accounting estimates are recognised prospectively in the profit or loss in the period of the change (if the change affects that period only), or the period of the change and future periods (if the change affects both).	Consistent with Tier 2 but with simplified language.	• Simplification of drafting and language

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
Section 10: Financial Instruments (Basic financial instruments)	**Scope of requirements** All financial instruments **Initial measurement** Generally, financial instruments are initially measured at fair value adjusted for, in the case of a financial asset or financial liability not at FVTPL, transaction costs. **Classification** Financial assets and financial liabilities are classified into specified categories. Some financial instruments that meet the definition of a financial liability are classified as equity. The component parts of a compound financial instrument are separately recognised and measured. **Financial assets – subsequent measurement** Financial assets meeting both a business model test and a solely payments of principal and interest ('SPPI') test are subsequently measured at amortised cost using the effective interest method. A financial asset that meets both a business model test (including selling financial assets) and SPPI test or is a qualifying equity instrument may be measured at FVTOCI. Other financial assets, including derivatives, are measured at FVTPL. **Financial liabilities – subsequent measurement** Financial liabilities that are held for trading (including derivatives), or are designated into the category, are measured at FVTPL. In general, other financial liabilities are measured at amortised cost using the effective interest method. Specific requirements apply to financial instruments such as financial guarantee contracts. Financial guarantee contracts are measured at the higher of the expected credit loss allowance and the instrument's fair value less any income subsequently recognised.	**Scope of requirements** Tier 3 applies to the following basic financial instruments or financial instruments commonly held by Tier 3 entities: • cash and cash equivalents; • trade and other receivables; • security bonds; • term deposits; • government and listed corporate bonds; • units held in managed investment schemes, unit trusts and similar investment vehicles; • non-convertible ordinary and preference shares held in listed and non-listed entities, including shares redeemable for a known amount of cash or the amount of cash equivalent to their share of the net assets of the entity; • trade and other payables; and • loans (whether bearing interest at fixed or variable rates, interest-free or including terms that create leverage); **Initial measurement** • Most basic or commonly held financial instruments are initially measured at fair value, excluding transaction costs. • Concessional loans are initially measured at the transaction price rather than fair value. • Debtors are measured initially at fair value, with the transaction price deemed to represent fair value at the transaction date (guidance included in Section 20 Revenue). • Transaction costs are expensed immediately.	• Omission of uncommon requirements /topic • Simplification of drafting and language • Simplification of R&M requirements • Fewer disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
	Interest income/expense Interest income and expenses are calculated based on the effective interest method. **Impairment** Impairment is recognised and measured based on calculating a probability-weighted estimate of credit losses over the expected life of the financial instrument. **Derecognition** A financial asset is derecognised when either the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred. Criteria apply to determining when a financial asset is transferred in a manner that qualifies for derecognition, including whether the entity has any continuing involvement in the transferred financial asset. A financial liability is derecognised when the obligation is discharged, cancelled or expires. Some modifications or exchanges of financial liabilities are not treated as a derecognition of the original financial liability. **Hedge accounting** Hedge accounting is permitted. Conditions apply. **Embedded derivative** Certain embedded derivatives must be separately recognised and measured.	**Subsequent measurement** • Basic financial assets are measured at cost less accumulated impairment losses except for financial assets that are held to generate both income and capital returns for the entity. These are measured at FVTPL (unless the entity makes an irrevocable election on initial recognition of the first asset in a class to measure changes in fair value of that class in other comprehensive income). • Basic financial liabilities are measured at cost. **Interest income/expense** Interest income and interest expense is calculated by reference to the instrument's contractual interest rate. **Impairment** Impairment is recognised when there is objective evidence that the carrying amount will not be collectible. **Derecognition** For basic financial assets – when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset. For basic financial liabilities – when the obligation is discharged. A modification of the terms of a financial liability or an exchange of a financial liability for another type of financial liability is treated as an extinguishment of the original financial liability and recognition of a new financial liability. **Embedded derivatives** Tier 3 entities are not required to separately recognise embedded derivatives. **Hedge accounting** Hedge accounting is not permitted.	

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
Section 10: Financial Instruments (Complex or not commonly held financial instruments)	Same as above	An entity is required to apply the R&M requirements of AASB 9 and other applicable AAS for more complex financial instruments or financial instruments that are not commonly held by Tier 3 entities. For example: • unlisted purchased debt instruments such as unlisted corporate bonds and convertible notes; • acquired equity instruments other than ordinary shares and non-convertible preference shares; • financial guarantee contracts; • derivatives such as interest rate swaps and forwards exchange contracts; and • commitments to provide a loan at a below-market interest rate.	• Omission of uncommon requirement/ topic • Simplification of drafting and language
Section 11: Fair Value Measurement	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. AASB 13 *Fair Value Measurement* establishes a fair value hierarchy (AASB 1060 does not), categorising the inputs to valuation techniques used to measure fair value into three levels. This approach allows an entity to measure fair value at an amount that is appropriate in the circumstances by maximising the use of relevant observable inputs and minimising the use of unobservable inputs. A fair value measurement of a non-financial asset takes into account a non-financial asset's highest and best use.	Tier 3 does not include a fair value hierarchy. All other Tier 3 requirements are consistent with Tier 2 but with simplified language. Tier 3 has fewer disclosures than Tier 2 for property, plant and equipment, investment property, inventories, intangible assets and financial instruments if an entity elects to measure them at fair value or apply the revaluation model for subsequent measurement.	• Simplification of drafting and language • Simplification of R&M requirements • Fewer disclosures
Section 12: Inventories	Inventory held for sale is measured at the lower of cost and net realisable value and inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential.	**<u>R&M requirements</u>** Tier 3 requirements are consistent with Tier 2 but with simplified language, except that Tier 3: • does not address how to account for the reversal of any previously recognised write-downs of inventories to net-realisable value or for any loss of service potential; • permits but does not require the allocation of production overheads to inventories' cost of conversion with the election required to be applied to all inventories produced by the entity;	• Simplification of drafting and language • Simplification of R&M requirements

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
	Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. However, if inventories were acquired for significantly less than fair value principally to enable the entity to further its objectives (e.g. donated inventories), cost is measured as current replacement cost (which can be subject to a practical expedient election based on an assessment of materiality). When inventories held for sale are sold, or inventories held for distribution are distributed, the carrying amount is recognised as an expense. The net realisable value of inventory held for sale is reassessed in each subsequent reporting period. If an item of inventory is written down to net realisable value and the circumstances that caused that right down no longer exist, the amount of the write-down can be reversed. The reversal is recognised in profit or loss unless the asset is carried at a revalued amount in accordance with another Standard in which case the reversal is treated as a revaluation increase.	• includes guidance on how to measure the cost of inventories of a service provider; • does not require consideration of the cost of inventories purchased on deferred settlement terms; and • donated inventory can be measured either at its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or a reliable measure of its current replacement cost. **Disclosure requirements** Tier 3 contains fewer disclosure requirements than Tier 2, except for disclosures related to donated inventory, where if an entity elects to measure the inventory at cost, it is required to disclose: • a description of the donated asset and the class of assets that it relates to; • any amounts owing to the donor at the reporting date; and • restrictions on the use of the donated asset imposed by the donor.	• Provision of accounting policy choice • Fewer disclosures • Additional disclosures supplementing simplified R&M requirements
Section 13: Investment in Associates and Joint Arrangements	Generally, an investor would account for an investment in an associate or a joint venture using the equity method. However, except in limited circumstances, an investor that prepares separate financial statements can elect to account for its investments in associates and joint ventures either: • at cost; • in accordance with AASB 9; or • using the equity method as described in AASB 128. An investor is required to apply AASB 11 *Joint Arrangements* to account for joint operations.	**R&M requirements** Tier 3 requirements are consistent with Tier 2 but with simplified language, except that Tier 3: • always allows entities to elect whether to account for their investments in associates or joint ventures at either cost, fair value or using the equity method (i.e. this election is available regardless of the type of financial statements the entity prepares);	• Omission of uncommon requirement/ topic • Simplification of drafting and language • Simplification of measurement requirements

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
		• requires an entity that elects to measure their investments in associates or joint ventures at fair value to recognise changes in fair value through the profit or loss, except where an investment is held to generate both income and a capital return and the entity makes an irrevocable election to measure changes in fair value through other comprehensive income. This election is applied on a class-by-class basis, is irrevocable and is made at initial recognition; • does not require an investor to align the accounting policies of the investor and investee when applying the equity method if doing so is impracticable; • contains guidance on joint operations; and • omits requirements for how an investor should discontinue using the equity method (i.e. preparers refer to the Tier 3 hierarchy approach). **Disclosure requirements** • Tier 3 contains fewer disclosure requirements than Tier 2.	• Provision of accounting policy choice • Fewer disclosures
Section 14: Investment Property	Investment property is initially measured at cost. Subsequently, an entity can elect to measure the investment property at either: • cost less any accumulated depreciation and accumulated impairment; or • fair value. Investment property acquired at significantly less than fair value principally to enable the entity to further its objectives is initially measured at fair value in accordance with AASB 13.	**R&M requirements** Tier 3 requirements are consistent with Tier 2 but with simplified language, except that: • Tier 3 does not include any borrowing costs in the cost of qualifying investment property (see Section 22 below). Instead, borrowing costs that are directly attributable cost of a qualifying asset are expensed as incurred; • donated investment property can be measured either at its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or its fair value as at the date of donation; and • no guidance is included for the reversal of impairment losses.	• Omission of uncommon topic/ requirement • Simplification of drafting and language • Simplification of recognition • Fewer disclosures • Additional disclosures supplementing simplified R&M requirements

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
		Disclosure requirements Tier 3 contains fewer disclosures than Tier 2, except for disclosures related to donated investment property, where if an entity elects to measure it at cost, it is required to disclose: • a description of the donated asset and the class of assets that it relates to; • any amounts owing to the donor at the reporting date; and • restrictions on the use of the donated asset imposed by the donor.	
Section 15: Property, Plant and Equipment	Property, plant and equipment is initially measured at cost and subsequently measured at cost or using the revaluation model, less any accumulated depreciation and accumulated impairment (discussed later in this table). 'Cost' includes the directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Property, plant and equipment acquired at significantly less than fair value are initially measured at fair value in accordance with AASB 13. The difference between the consideration paid and the fair value is recognised as income.	**R&M requirements** Tier 3 requirements are consistent with Tier 2 but with simplified language, except that: • Tier 3 does not include borrowing costs in the cost of qualifying property, plant and equipment (see Section 22 below). Instead, borrowing costs that are directly attributable cost of a qualifying asset are expensed as incurred; • donated property, plant and equipment can be measured either at its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or its fair value as at the date of donation; and • no guidance is included for the reversal of impairment losses. **Disclosure requirements** Tier 3 contains fewer disclosures than Tier 2, except for donated property, plant and equipment, where if an entity elects to measure it at cost, it is required to disclose: • a description of the donated asset and the class of assets that it relates to; • any amounts owing to the donor at the reporting date; and	• Simplification of drafting and language • Simplification of R&M requirements • Provision of accounting policy choice • Additional disclosures supplementing simplified R&M requirements • Omission of uncommon topic/ requirement • Fewer disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
		• restrictions on the use of the donated asset imposed by the donor.	
Section 16: Intangible Assets	Expenditure for an intangible asset is recognised as an expense unless the item meets the definition of an intangible asset (i.e. it is identifiable, controlled by the entity and future economic benefits are expected) and the recognition criteria (i.e. it is probable that future economic benefits will flow to the entity and cost can be reliably measured). Internally generated brands, mastheads, publishing titles, customer lists and similar items are not recognised as intangible assets. However, recognition of other internally generated intangible assets depends on whether they arise in a research phase or a development phase. Research expenditure is recognised as an expense. Development expenditure that meets certain criteria is recognised as an intangible asset. Intangible assets that meet the recognition and measurement criteria are initially measured at cost. The cost of an intangible asset acquired for significantly less than fair value principally to enable the entity to further its objectives is initially measured at its fair value. Subsequently, an entity can choose whether to measure intangible assets at cost or the revaluation model. Intangible assets with a finite useful life are amortised and are subject to impairment testing. Indefinite life intangible assets are tested annually for impairment only.	**R&M requirements** Tier 3: • requires entities to expense internally generated intangible assets immediately; • accounts for all intangible assets as if they have a finite useful life. The useful life is either based on the contractual or other legal rights, the period over which the entity expects to use the asset, or if the intangible asset has an indefinite useful life, based on management's best estimate but not exceeding ten years; • only requires a review of the useful life, residual value and amortisation method if a trigger event or indicator has occurred since the last annual reporting date; and • donated intangible assets can be measured either at their cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or their fair value as at the date of donation. Tier 3 does not include further guidance on dealing with configuration or customisation costs in a cloud computing arrangement and development costs of a website that facilitates donations to an entity. All other Tier 3 requirements are consistent with Tier 2 but with simplified language. **Disclosure requirements** Tier 3 contains fewer disclosures than Tier 2, except for donated intangibles, where if an entity elects to measure it at cost, it is required to disclose: • a description of the donated asset and the class of assets that it relates to; • any amounts owing to the donor at the reporting date; and	• Omission of uncommon topic/ requirement • Simplification of drafting and language • Simplification of R&M requirements • Provision of accounting policy choice • Fewer disclosures • Additional disclosures supplementing simplified R&M requirements

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
		• restrictions on the use of the donated asset imposed by the donor.	
Section 17: Entity Combinations	An entity accounts for each business combination by applying the acquisition method in AASB 3 Business Combinations by: • identifying the acquirer using the guidance in AASB 10 *Consolidated Financial Statements*; • determining the acquisition date, i.e. the date when the acquirer obtains control of the acquiree; • recognising and measuring the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their acquisition date fair values (except non-controlling interest can be measured at the acquiree's proportionate share in the recognised amounts of the acquiree's identifiable net assets); and • recognising and measuring goodwill or gain from a bargain purchase determined as the difference between the consideration transferred and non-controlling interest in the acquiree over the fair value of the net identifiable assets. An acquirer subsequently measures or accounts for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination generally in accordance with other applicable AAS for those items. For example, goodwill is measured at the amount recognised at the acquisition date less any accumulated impairment losses in accordance with AASB 136 *Impairment of Assets*.	**R&M requirements** A Tier 3 entity generally measures the carrying amounts of assets, liabilities, and items of equity of the combined entity based on their pre-combination carrying amounts at the deemed combination date, which is the beginning of the reporting period during which the combination occurred. However, if a material asset or liability does not have an existing carrying amount recorded in accordance with AAS, it shall be measured at its fair value at the deemed combination date. The only exception to this is for donated non-financial assets that an entity elects to measure at cost in accordance with the Tier 3 Standard. Any difference between the considerations paid and the net assets recognised in a combination is recognised directly in equity. Tier 3 entities do not recognise goodwill. **Disclosure requirements** Tier 3 contains significantly fewer disclosures than Tier 2.	• Simplification of drafting and language • Simplification of R&M requirements • Fewer disclosures
Section 18: Leases	A lessee recognises a right-of-use asset and lease liability for leases other than for short-term leases and leases of low-value assets. For short-term leases and leases of low-value assets, the lease payments associated with the leasing arrangement are recognised as an expense on a straight-line basis over the lease term (or another systematic basis – conditions apply).	**R&M requirements** A lessee (lessor) recognises the lease payments (income) associated with the leasing arrangement (including concessionary leases) as an expense (income) on a straight-line basis over the term of the agreement unless another systematic basis is representative of the time pattern of the consumption by the entity of the asset's benefit. Tier 3 does not include requirements on accounting for sale and leaseback arrangements.	• Simplification of drafting and language • Simplification of R&M requirements

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
	A lessor classifies a lease as either a finance lease or an operating lease. The lessor in a finance lease derecognises the underlying asset and recognises in its place a lease receivable measured at its net investment in the lease. The lessor in an operating lease recognises lease payments as income on a straight-line basis (or another systematic basis – conditions apply). NFP entities may elect to measure right-of-use assets on a class-by-class basis at initial recognition at fair value for leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives (i.e. concessionary leases).	**Disclosure requirements** Specific disclosures may be required for a lease under which a lessee obtains donated use of underlying leased assets.	• Additional disclosures supplementing simplified R&M requirements
Section 19: Provisions and Contingencies	Provisions are recognised when: • an entity has a present obligation (legal or constructive) as a result of past events; • it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and • an estimate of the obligation can be reliably measured. Where the effect of the time value of money is material, the amount of provision shall be the present value of the expenditure expected to be required to settle the obligation. Contingent liabilities are not recognised, but information about the contingent liability is disclosed unless the possibility of settlement of the contingent liability is remote. Contingent assets are not recognised, but information about the contingent asset is disclosed if an inflow of economic benefits is probable. In extremely rare cases, disclosure of some or all of the information about provisions, contingent liabilities and contingent assets may prejudice seriously the position of the entity in a dispute. Where this is the case, the entity is not required to disclose the information; instead, it discloses general information and explains why the specific information has not been disclosed.	Tier 3 does not require provisions to consider the present value of the expenditure expected to be required to settle an obligation. All other Tier 3 requirements are consistent with Tier 2 but with simplified language and disclosure reductions.	• Simplification of drafting and language • Simplification of measurement requirements • Fewer disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
Section 20: Revenue	NFP entities are required to comply with AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* when accounting for revenue and income. A contract is within the scope of AASB 15 if it is enforceable, there is a promise to transfer goods/services to an external party (a performance obligation), and the performance obligation is sufficiently specific. Revenue is recognised when (or as) the entity satisfies the performance obligation when the promised goods or services are transferred. AASB 1058 is a residual standard covering all income streams not addressed by other AAS, such as transactions where the consideration to acquire an asset is significantly less than fair value, principally to enable an entity to further its objectives. Except to the extent that the entity has an enforceable obligation to use a transferred financial asset to acquire or construct a recognisable non-financial asset to be controlled by the entity, AASB 1058 requires that income is recognised immediately in the profit or loss. Income is equal to the excess of the initial carrying amount of an asset over the related amounts required to be recognised. An entity is required to adjust the promised amount of consideration for the effects of time value of money if the timing of payments agreed to by the parties to the contract provides the customer or the entity with significant benefit of financing to transfer of goods or services to the customers. If the consideration promised in a contract is variable (eg discounts, rebates, refunds, credits), an entity shall estimate the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer.	Revenue is deferred when the entity and the provider have a common understanding that the entity is to perform in a particular manner. Evidence of a common understanding includes written communication or other written/oral representations regarding the purpose for which an asset is to be expended, transferred or used up or the period over which the transferred asset is to be used. Where the recognition of revenue is required to be deferred, revenue is recognised as the deferred revenue obligation is satisfied (i.e. in a manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received such as as the services are performed or when eligible expenditure is incurred). For all other revenue transactions, revenue is recognised at the earlier of receiving the cash or other asset. Tier 3 requirements do not require entities to account for the implicit financing to the customer or references to variable consideration in the initial measurement requirements for accounts receivable.	• Omission of uncommon topic/ requirement • Simplification of drafting and language • Simplification of R&M requirements • Fewer disclosures
Section 20: Revenue (Volunteer services)	An entity can elect to recognise volunteer services, or a class therefore of, at fair value provided that the fair value of those services can be measured reliably.	Tier 3 requirements are consistent with Tier 2 requirements but with simplified language and disclosure reductions.	• Simplification of drafting and language • Fewer disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
Section 21: Expenses	An entity is required to present in the statement of profit or loss and other comprehensive income or in the notes, an analysis of expenses using a classification based on either the nature of the expenses or the function of the expenses within the entity, whichever provides information that is reliable and more relevant.	Tier 3 requirements are consistent with Tier 2 requirements but with simplified language.	• Simplification of drafting and language
Section 22: Borrowing Costs	Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. Other borrowing costs are expensed in the period incurred.	Borrowing costs are expensed in the period incurred.	• Simplification of drafting and language • Simplification of recognition requirements • Fewer disclosures

Section 23: Impairment of Assets	An entity is required to determine whether there is an indication that an asset is impaired. If there is an indication that an asset is impaired, the entity shall estimate the recoverable amount of the asset.
	Some assets are required to be tested for impairment annually regardless of whether there is an indication of impairment (e.g. goodwill and indefinite life intangible assets).
	An asset is impaired if its carrying amount exceeds the recoverable amount (i.e. the higher of its fair value less cost of disposal and its value in use), with the difference recognised as an impairment loss in the profit or loss unless the asset is carried at a revalued amount in accordance with another AAS in which case the reversal is treated as a revaluation decrease.
	If an impairment loss no longer exists, a reversal of an impairment loss is recognised immediately in profit or loss unless the asset is carried at a revalued amount in accordance with another AAS in which the reversal is treated as a revaluation increase.
		Tier 3:
		• only requires an entity to assess the possibility of assets subsequently measured at cost or deemed cost being impaired when:
		  ◦ they are physically damaged; or
		  ◦ the service potential of the asset might have been adversely affected by a change in the entity’s strategy or changes in external demands of the entity’s services.
		• the recoverable amount of a non-financial asset (other than inventory) is the higher of the asset’s fair value less costs to sell and its value in use. However, Tier 3 contains a rebuttable presumption that the fair value less costs to sell is expected to be the most appropriate measure of a non-financial assets recoverable amount.
		• does not address how to account for the reversal of any previously recognised impairment losses.
		All other Tier 3 requirements are consistent with Tier 2 where relevant but with simplified language and disclosure reductions.
			• Simplification of drafting and language
			• Simplification of R&M requirements
			• Fewer disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
Section 24: Employee Benefits	Employee benefits are categorised as short-term, post-employment, other long-term and termination benefits. They may also be share-based payments. Different accounting requirements apply to each category. However, in general: • an expense is recognised when the employee has rendered the services entitling them to compensation; • amounts not expected to be settled within 12 months are discounted, even if the obligation is classified as a current liability; • the probability that an outflow of economic resources is required must be considered when measuring an employee benefit liability; and • entities are required to categorise employee benefits into specific categories, such as short-term benefits and other long-term benefits. Specific disclosures about other long-term benefits are required.	Employee benefits are recognised as an expense when the employee has rendered the services entitling them to compensation, except where they form part of the cost of an asset. Outstanding employee benefit obligations are recognised as a provision (liability), measured at the undiscounted amount of the employee benefits expenses (e.g. not required to consider future pay increases when determining a provision for employee benefits). Tier 3 does not require entities to recognise provisions for non-vesting accumulating employee benefits unless the amounts are due and payable. Tier 3 does not categorise employee benefits as either short-term benefits or long-term benefits. Instead, they are presented together in a single category.	• Simplification of drafting and language • Simplification of presentation • Simplification of R&M requirements • Fewer disclosures
Section 25: Income Taxes	Current tax for the current and prior period, to the extent unpaid, is recognised as a liability. If the amount already paid in respect of the current and prior period exceeds the amount due for those periods, the excess is recognised as an asset. A deferred tax liability is recognised for all taxable temporary differences with some exceptions. A deferred tax asset is recognised for all deductible temporary differences to the extent it is probable that taxable profit will be available against which the deductible temporary differences can be utilised with some exceptions.	Income tax expenses are recognised in the current period based on, in descending order, the entity's tax assessment for the period, its tax return for the period or an estimate of the amounts to be included in the tax return. Income tax payable is recognised at the end of the period and measured as the sum of the estimated income tax payable for the period and any outstanding unpaid income tax. Deferred tax assets and liabilities aren't recognised.	• Simplification of drafting and language • Simplification of R&M requirements • Fewer disclosures
Section 26: Foreign Currency Translation	A foreign currency transaction is recognised initially in the functional currency by applying the foreign currency spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period: • foreign currency monetary items are required to be translated using the closing rate;	Any foreign currency transaction is required to be translated using the rate at the transaction date or the rate at the end of the reporting period for monetary assets and liabilities.	• Simplification of drafting and language • Simplification of R&M requirements • Fewer disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
	• non-monetary items measured at historical cost in a foreign currency are required to be translated using the exchange rate at the date of transaction; and • non-monetary items measured at fair value in a foreign currency are required to be translated using the exchange rates at the date when the fair value was measured. Exchange differences are generally recognised in the profit or loss in the period in which the difference arises.		
Section 27: Events Occurring After the Reporting Period	An entity is required to adjust the amounts recognised in its financial statements to reflect adjusting events occuring after the reporting period.	Tier 3 requirements are consistent with Tier 2 but with simplified language and disclosure reductions.	• Simplification of drafting and language • Fewer disclosures
Section 28: Related Party Disclosures	An entity is required to disclose: • relationships between the parent and its subsidiaries, irrespective of whether there have been transactions between them; • the name of its parent, if different, the ultimate controlling party; • key management personnel compensation; and • related party transactions, including the amount of the transaction and outstanding balances. An entity is not required to disclose information about related party transactions if they are a government entity.	Tier 3 does not: • require an entity to disclose key management personnel compensation; • require disclosure of donations from a related party unless there is evidence that the donations could influence the entity's activities or use of resources; and • contain the exemption for government entities. All other Tier 3 requirements are consistent with Tier 2 where relevant but with simplified language and disclosure reductions.	• Simplification of drafting and language • Fewer disclosures
Section 29: Transition to General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities	AASB 1 *First-time Adoption of Australian Accounting Standards* sets out the procedures that an entity must follow when it adopts AAS for the first time.	For first time adopters of Tier 3 requirements, an entity applies Section 29. Section 29 is consistent with Tier 2 where relevant but with simplified language, except that an entity:	• Simplification of drafting and language • Simplification of R&M requirements • Simplification of presentation

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
	AASB 1 contains mandatory exceptions (i.e. AASB 1 prohibits retrospective application of AAS in some cases where this would require judgement by management about past conditions after the outcome of a particular transaction is already known). AASB 1 also contains optional exemptions (i.e. AASB 1 grants optional exemptions from the general requirement of full retrospective application of AAS in force at the end of an entity's first AAS reporting period, e.g. a first-time adopter may elect not to apply AASB 3 to past business combinations). Under AASB 1060, an entity presents in its first AAS financial statements: • two statements of financial position; • two statements of profit or loss and other comprehensive income; • two statements of cash flows; • two statements of changes in equity; and • related notes. When AASB 1060 was first issued, optional relief was provided to entities that transitioned to AASB 1060. The optional relief meant an entity was not required to: • restate comparative information or provide comparative information that was not provided in its most recent previous financial statements if the entity adopted AASB 1060 early; or • distinguish between the correction of errors and changes in accounting policies in the period of transition.	• may apply Tier 3 requirements directly by applying a modified retrospective approach to resulting changes in accounting policies with the cumulative effects on prior periods recognised in the current period's opening retained earnings without restating the comparative period(s); • is not required to provide comparative information for new disclosures or distinguish corrections of errors and changes in accounting policies on transition to Tier 3 even if they do not early adopt Tier 3; • may elect to continue applying a Tier 1 or Tier 2 recognition, measurement or disclosure requirement to a balance that existed at the transition date; • may optionally present reconciliations of equity and profit or loss determined in accordance with the entity's previous financial reporting framework to its equity and profit or loss determined in accordance with Tier 3; and • may optionally disclose the nature of each change in accounting policy in the first Tier 3 financial statements if the entity's most recent previous financial statements were special purpose financial statements.	• Provision of accounting policy choice • Fewer disclosures
Maintenance cycle	A post-implementation review (PIR) is typically required for each new domestic Standard or Interpretation or major amendments to such pronouncements. A PIR normally begins after the new requirements have been applied for two years. (See paragraphs 7.15.1 – 7.15.3 of the *AASB Due Process Framework for Setting Standards*)	No more than once every AASB agenda consultation cycle (5 years).	• Fewer changes

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Extent of simplification
Approach to disclosure requirements	Tier 2 disclosure requirements were developed based on a bottom-up approach starting from the *IFRS for SMEs* Accounting Standard, where disclosures in the *IFRS for SMEs* Accounting Standard were retained for transactions with the same or similar R&M requirements as IFRS Accounting Standards. Disclosures in the *IFRS for SMEs* Accounting Standard were removed where the R&M requirements or options in the *IFRS for SMEs* Accounting Standard are not available in full IFRS Standards. Where the R&M requirements in full IFRS Standards were significantly different from those in *IFRS for SMEs* Accounting Standard or certain topics were not addressed in the *IFRS for SMEs* Accounting Standard, disclosure may have been added.	For transactions with the same or similar R&M requirements to Tier 2, disclosure requirements are based on the corresponding requirements in AASB 1060. For transactions with different R&M requirements to Tier 2, Tier 3 disclosure requirements are based on disclosure requirements from other jurisdictions with similar objectives (i.e. that have simple, proportionate, consistent, transparent and cost effective reporting requirements for NFP entities)[4] and comparable R&M requirements to Tier 3 or specific disclosure requirements were developed by the AASB where necessary.	• Fewer disclosures

[4] This is primarily the *IFRS for SMEs* Accounting Standard, the International Non-Profit Accounting Guidance (INPAG) and New Zealand's Tier 3 (NFP) Standard.