Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	208
Topic:	**Summary of the Tier 3 Exposure Draft proposals and extent of simplifications against Tier 2 reporting requirements**	**Agenda Item:**	3.4
		Date:	20 August 2024
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		Decision-Making:	N/A
		Project Status:	Developing Exposure Draft

The objective of this paper

1 As requested by Board members at the March 2024 Board meeting, this paper is intended to provide the Board with a summary and an overview of the Tier 3 Exposure Draft proposals and the extent of simplifications against the relevant Tier 2 requirements (including relevant Tier 1 recognition and measurement requirements). In line with the simplification approach (Appendix A in Agenda Paper 3.1 at this meeting) the Board applied in arriving to its proposals in the draft Exposure Draft (Agenda Paper 3.2 at this meeting), staff have categorised the types of simplification as:

(a) **Omission of uncommon requirements/topics –** where Tier 3 requirements have referred to Tier 2 reporting requirements for specified topics or not included guidance on a transaction, other event or conditions within the Tier 3 Exposure Draft because it is uncommon to smaller NFP private sector entities;

(b) **Simplification of drafting and language** – where Tier 3 requirements are consistent with Tier 2 requirements but expressed in a simple way;

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

(d) **Simplification of recognition and/or measurement requirements** – where Tier 3 requirements contain simplification of recognition and/or measurement requirements or principles compared with Tier 2 reporting requirements;

(e) **Provision of accounting policy choice** – where Tier 3 requirements provide an accounting policy choice that is not contained in the Tier 1 or Tier 2 requirements;

(f) **Less disclosures –** where Tier 3 requirements have less disclosures compared with Tier 2 requirements; and

(g) **Additional disclosures supplementing simplified recognition and measurement –** where Tier 3 requirements contain significantly simplified recognition and measurement requirements compared with Tier 2 requirements supplemented by additional disclosures.

2 Staff plan to update the summary document following this meeting for Board's decisions at this meeting and to include this summary document (excluding the Reference to the Board's decision for Tier 3 ED column) as part of the educational material supporting the outreach on the Tier 3 Exposure Draft.

Summary of the Tier 3 Exposure Draft proposals and extent of simplifications against Tier 2 reporting requirements

The table below provides an overview of the Board's proposals for an exposure draft of the Tier 3 Standard compared to the corresponding Tier 2: Australian Accounting Standards – Simplified Disclosures requirements (AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*).

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
Section 1: Objective, Scope and Application (Topics 'omitted' from Tier 3)	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 (partially) AASB 119 Employee Benefits (partially) AAS 141 Agriculture Interpretation 12 Service Concession Arrangements	Entities with specific transactions or balances are required to apply Tier 2 requirements for the topics specified on the left.	Refer to the September 2023 Board meeting minutes	• Omission of uncommon requirement/topic
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). An entity with no items of other comprehensive income in any of the periods may	Consistent with Tier 2, but with simplified language	Paragraphs 5.10 – 5.11 in the DP and refer to minutes of the March 2024 Board meeting	• Simplification of drafting and language

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
	present only a statement of profit or loss or a statement of comprehensive income in which the 'bottom line' is labelled 'profit or loss'.			
Section 3: Statement of Financial Position **and** **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 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, 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 requirements are consistent with Tier 2 where relevant but with simplified language.	Refer to minutes of the November 2023 Board meeting	• 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, including the entity's profit or loss for a reporting period, other comprehensive income for the period, the effects of changes in accounting policies and corrections of errors recognised in the period and the amounts of investments by, and dividends and other distributions to, owners in their capacity as owners during the period. It 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 where relevant but with simplified language.	Refer to the minutes of the November 2023 Board meeting	• Simplification of drafting and language
Section 6: **Presentation of a 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 requirements are consistent with Tier 2 where relevant but with simplified language.	Paragraphs 5.25 to 5.33 and refer to the minutes of the March 2024 Board meeting	• 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	Consistent with Tier 2 where relevant but with simplified language.	Paragraph 5.10 and refer to the minutes of the March 2024 Board meeting	Simplification of drafting and language

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
	changes in equity (if presented) and the statement of cash flows.			
Section 8: **Consolidated and Separate Financial Statements** (Consolidation of subsidiaries)	An entity that is a parent must present consolidated financial statements, including all subsidiaries, except in limited circumstances.	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 and no other entities. 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). Specific disclosures are required for each notable relationship entity. The assessment of control and consolidation procedures are consistent with Tier 2.	Refer to the minutes of the November 2023 Board meeting	• Simplification of drafting and language; • Provision of accounting policy choice; • Less disclosures for consolidated financial statements; • Additional disclosures supplementing simplified recognition and measurement

Section 8:
Consolidated and Separate Financial Statements
 	
(Separate financial statements)
	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 at either:
	• at cost,
	• in accordance with IFRS 9 (at fair value through profit or loss (FVTPL) unless it makes an irrevocable election to measure at FVTOCI); or
	• using the equity method of accounting.
		An entity with notable relationships that:
		• does not present consolidated financial statements and only presents separate financial statements and does not consolidate its interest in subsidiaries; instead, it accounts for all its notable relationships:
		  ○ at cost; or
		  ○ at fair value through profit or loss (unless the entity makes an irrevocable election to measure changes in fair value through other comprehensive income 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 and provides disclosures about its notable relationship entities.
		• is an investor (i.e. not a parent and does not control subsidiaries) with investment in associates or joint ventures presents separate financial statements accounts for its investments using the same measurement requirements as per above. For joint operations, the parties to the operation
			Refer to the minutes of the November 2023 Board meeting	• Simplification of drafting and language
				• Provision of accounting policy choice
				• Additional disclosures supplementing simplified recognition and measurement

1 In Tier 3, the term "separate financial statements" does not have the same meaning as the term when it is used in Tier 2 because of the proposal in the Tier 3 ED which allows a parent entity an accounting policy choice to elect to present consolidated financial statements or only separate financial statements with Tier 3 specific disclosure requirements. Whereas Tier 2 requires a parent entity to present consolidated financial statements without the accounting policy choice. However, that parent entity may elect to present separate financial statements.

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
		accounts for the investment by recognising only its share of the joint operation's assets, liabilities, revenue and expenses; 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. Only investors that account for their investment in associates or joint ventures at cost are required to provide notable relationship disclosures. • elects to present separate financial statements in addition to consolidated financial statements, shall account for its investments in subsidiaries, joint ventures and associates using the same measurement requirements as per above. These separate financial statements are not required to provide any notable relationship entity disclosures.		
Section 9: Accounting policies, estimates and errors (Developing accounting policies for topics not addressed in Tier 3)	In the absence of an Australian Accounting Standard (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).[2] 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 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 for Financial Reporting* (Revised 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 Topics 'omitted' from Tier 3 below.	Refer to the September 2023 Board meeting minutes	• Simplification of drafting and language
Section 9: Accounting policies, estimates and errors	Not applicable	An entity can only apply the approach to developing and applying accounting policies for topics not addressed in Tier 3 as mentioned directly above. Otherwise, an entity can opt to apply Tier 1 or Tier 2 accounting requirements in their entirety.	Refer to the September 2023 Board meeting minutes	• Provision of accounting policy choice

2 There are currently two conceptual frameworks in operation in Australia and at this time NFP entities are only permitted to apply the Framework. However, in due course, under the proposals in the Exposure Draft extending applicability of *Conceptual Framework for Financial Reporting* to NFP entities, Tier 1, Tier 2 and Tier 3 NFP entities will apply the *Conceptual Framework for Financial Reporting* when preparing general purpose financial statements..

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
(Ability to 'opt up' and apply a Tier 1 or Tier 2 accounting policy)				
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.	Similar to Tier 2 requirements, except Tier 3 does not contain an impracticability exemption. Instead, voluntary changes in accounting policies are applied following a modified retrospective approach by adjusting the opening balances of the current reporting period for the cumulative effect of the change without amending comparative information. 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, to align with the modified retrospective application.	Refer to paragraphs 5.55 – 5.59 in the DP and the minutes of May 2023 Board meeting. The impracticability exemption will be reconsidered in Agenda Paper 3.3 for this meeting.	• Simplification of drafting and language • Simplified recognition and measurement • Less 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.	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. Tier 3 does not require entities to disclose the amount of correction for each financial statement line item affected for each prior period presented, to align with the modified retrospective application.	Refer to paragraph 5.60 in the DP and the minutes of the November 2023 Board meeting.	• Simplification of drafting and language • Simplified recognition and measurement • Less 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.	Refer to paragraph 5.61 in the DP and minutes of May 2023 Board meeting	• Simplification of drafting and language
Section 10: Financial Instruments (Basic financial instruments)	<u>Initial measurement</u> Generally, financial instruments are initially measured at fair value adjusted for, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs. <u>Classification</u>	Basic or commonly held financial instruments by Tier 3 entities are: (i) cash and cash equivalents; (ii) trade and other receivables; (iii) security bonds; (iv) term deposits;	Refer to Table 5.1 in the DP, the minutes of the November 2023 Board meeting and the minutes of the March 2024 Board meeting.	• Simplification of drafting and language • Simplification of recognition and measurement • Less disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
	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. <u>Financial assets – subsequent measurement</u> Financial assets meeting both a business model test and 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. <u>Financial liabilities – subsequent measurement</u> 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. <u>Interest income/expense</u> Interest income and expenses are calculated based on the effective interest method. <u>Impairment</u> Impairment is recognised and measured based on calculating a probability-weighted estimate of credit losses over the expected life of the financial instrument.	(v) government and listed corporate bonds; (vi) units held in managed investment schemes, unit trusts and similar investment vehicles; (vii) 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; (viii) trade and other payables; and (ix) loans (whether bearing interest at fixed or variable rates, interest-free or including terms that create leverage); <u>Initial measurement</u> 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. <u>Basic financial assets – subsequent measurement</u> Basic financial assets are measured at cost less accumulated impairment losses except for financial assets that are held to generate both income and capital return for the entity. These are measured at fair value through profit or loss (unless the entity makes an irrevocable election to measure changes in fair value through other comprehensive income by type of investment at initial recognition). <u>Basic financial liabilities – subsequent measurement</u> Basic financial liabilities are measured at cost. <u>Interest income/expense</u> Interest income and interest expense is calculated by reference to the instrument's contractual interest rate. <u>Impairment</u> Impairment is recognised when it is probable that the carrying amount will not be collectible. <u>Derecognition</u>		

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
	<u>Derecognition</u> 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.	For basic financial assets – when either the contractual rights to the cash flows from the financial asset expire or the entity otherwise loss 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 financial liabilities is treated as an extinguishment of the original financial liability and recognition of a new financial liability. <u>Embedded derivatives</u> No guidance is included to require embedded derivative to be separately recognised. <u>Hedge accounting</u> Hedge accounting is not permitted.		
Section 10: Financial Instruments (Complex or not commonly held financial instruments)	<u>Hedge accounting</u> Hedge accounting is permitted. Conditions apply. <u>Embedded derivative</u> Certain embedded derivatives must be separately recognised and measured.	An entity is required to apply AASB 9 *Financial Instruments* for the following more complex or not commonly held financial instruments: (i) unlisted purchased debt instruments such as unlisted corporate bonds and convertible notes; (ii) acquired equity instruments other than ordinary shares and non-convertible preference shares; (iii) financial guarantee contracts; (iv) derivatives such as interest rate swaps and forwards exchange contracts; and (v) commitments to provide a loan at a below-market interest rate.	Refer to Table 5.1 in the DP and the <u>minutes of the November 2023 Board meeting</u>	• Simplification of drafting and language • Omission of uncommon topic/requirement
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; • other disclosures required by AASB 1060; and • presumes that a non-financial asset's current use is its highest and best use unless it is highly probable an alternative use would maximise the value of the asset. All other Tier 3 requirements are consistent with Tier 2 but with simplified language.	Refer to 5.115 – 5.119 in the DP and <u>minutes of the March 2024 Board meeting</u>	• Simplification of drafting and language • Simplified recognition and measurement • Simplified disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
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. 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, 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 the reversal is treated as a revaluation increase. Inventories that are donated are measured at current replacement cost.	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; • 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. All other Tier 3 requirements are consistent with Tier 2 but with simplified language and disclosure reductions.	Refer to paragraphs 5.125 – 5.127 in the DP and minutes of the March 2024 Board meeting	• Simplification of drafting and language • Simplified recognition and measurement • Provision of accounting policy choice • Less disclosures • Additional disclosures supplementing simplified recognition and measurement
Section 13: Investment in Associates and Joint Arrangements	Unless the investor presents separate financial statements as its only set of financial statements, then interests in associates and joint ventures are measured using the equity method of accounting. An investor that presents separate financial statements as its only set of financial statements can elect to measure its investments in associates and joint ventures either: • at cost; • in accordance with AASB 9; or	Regardless of an investor preparing separate financial statements or not, Tier 3: • requires an entity that elects to measure their investment in associates and joint ventures at fair value to recognise changes in fair value through profit or loss by default, unless the entity makes an irrevocable election to measure changes in fair value through other comprehensive income by type of investment at initial recognition (rather than requiring an entity to assess whether the financial assets meets the business model test and SPPI test); • 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; and	Refer to the minutes of the November 2023 Board meeting	• Simplification of drafting and language • Simplified measurement • Provision of accounting policy choice • Less disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
	• using the equity method as described in AASB 128 *Investments in Associates and Joint Ventures*. An investor is required to apply AASB 11 *Joint Arrangements* to account for joint operations.	• Contains guidance on joint operations; • Omit requirements for how an investor should discontinue using the equity method (i.e. preparers refer to the Tier 3 hierarchy approach) All other Tier 3 requirements are consistent with Tier 2 but with simplified language and disclosure reductions.		
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.	Tier 3 requirements: • do not include any borrowing costs for directly attributable costs of acquiring or constructing investment property. Instead, borrowing costs that are a 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. All other Tier 3 requirements are consistent with Tier 2 but with simplified language and disclosure reductions.	Refer to paragraphs 5.115-5.119 in the DP and minutes of May 2023 Board meeting	• Simplification of drafting and language • Simplification of recognition • Additional disclosures supplementing simplified recognition and measurement • Less disclosures
Section 15: **Property, Plant and Equipment**	Property, plant and equipment is measured at cost or on the revaluation basis, 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. Income is recognised at the amount the asset was initially measured (i.e. at fair value of the asset).	Tier 3 requirements: • do not include any borrowing costs for directly attributable costs of acquiring or constructing property, plant and equipment. 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. All other Tier 3 requirements are consistent with Tier 2 but with simplified language and disclosure reductions.	Refer to paragraphs 5.115-5.119 in the DP and minutes of the March 2024 Board meeting	• Simplification of drafting and language • Simplification of recognition and measurement • Provision of accounting policy choice • Additional disclosures supplementing simplified recognition and measurement of • Less disclosures
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).	Tier 3: • does not require entities to recognise internally generated intangible assets; • 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	Refer to the minutes of the 7-8 June 2024 Board meeting	• Simplification of drafting and language • Simplification of recognition and measurement

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
	Internally generated brands, mastheads, publishing titles, customer lists and similar items are not recognised as intangible assets. However, other internally generated intangible assets are classified into 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 its fair value. Subsequently, an entity can choose whether to measure intangible assets at cost or use 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.	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 will 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 and disclosure reductions.		• Provision of accounting policy choice • Additional disclosures supplementing simplified recognition and measurement • Less disclosures
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*; • determine the acquisition date, i.e. the date when the acquirer obtains control of the acquiree; • recognise and measure the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree, as at the acquisition date at fair value (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 • recognise and measure goodwill or gain from a bargain purchase determined as the excess of the consideration transferred and non-controlling interest in the acquiree over the fair value of the net identifiable assets.	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. Any differences between the considerations paid and the net assets recognised in a combination is recognised directly in equity. Tier 3 entities do not recognise goodwill. A reporting entity may elect to restate comparative information for one or more prior periods as if the entity combination occurred in a prior period. However, if one entity continues to exist after the combination, that entity must present comparative information that is not restated on the face of the financial statements.	Refer to the minutes of the 7-8 June 2024 Board meeting	• Simplification of drafting and language • Simplification of recognition and measurement • Provision of accounting policy choice • Less disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
	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*.			
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). 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 a class of right-of-use assets at initial recognition at fair value to leases that are significantly below-market terms and conditions principally to enable the entity to further its objectives (i.e. concessionary leases) and were previously classified as operating leases applying AASB 117.	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. Specific disclosures are required for a lease under which a lessee obtains donated use of underlying leased assets. Tier 3 does not include requirements on the accounting for sale and leaseback arrangements.	Refer to paragraphs 5.168 – 5.178 in the DP and minutes of the March 2024 Board meeting	• Simplification of drafting and language • Simplification of recognition and measurement • Additional disclosures supplementing simplified recognition and measurement
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	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.	Refer to paragraphs 5.203, 5.215 – 5.219 of the DP and minutes of the March 2024 Board meeting	• Simplification of drafting and language • Simplification of measurement requirements • Less disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
	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 disclosures 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.			
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 covered 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.	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. Revenue is recognised in a manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all other revenue transactions, income is to be recognised at the earlier of receiving cash or other asset. Tier 3 requirements do not include guidance on how to account for a significant financing period provided to a customer when measuring the amounts of accounts receivable arising from a transfer of goods or services to a customer or beneficiary.	Refer to paragraphs 5.179 – 5.188 in the DP and minutes of the March 2024 Board meeting	• Simplification of drafting and language • Simplification of recognition and measurement • Less disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
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.	Consistent with Tier 2 requirements but with simplified language and disclosure reductions.	Refer to paragraph 5.153 in the DP and minutes of the March 2024 Board meeting	• Simplification of drafting and language • Less disclosures
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 expenses or the function of 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.	Refer to paragraph 5.207 in the DP and minutes of the March 2024 Board meeting	• 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.	Refer to paragraphs 5.154 – 5.156 in the DP and minutes of the March 2024 Board meeting	• Simplification of drafting and language • Simplification of recognition requirements • Less 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 disposals 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 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.
		Tier 3 will not address how to account for the reversal of any previously recognised impairment losses.
		All other Tier 3 requirements are consistent with relevant Tier 2 requirements but with simplified language and disclosure reductions.
			Refer to paragraphs 5.157 – 5.162 in the DP and minutes of the March 2024 Board meeting	• Simplification of drafting and language
				• Simplification of recognition and measurement
				• Less disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	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; and • the probability that an outflow of economic resources is required must be considered when measuring an employee benefit liability.	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 (i.e. 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. The liability is presented as current or non-current depending on whether the service conditions are met or expected to be met wholly before twelve months after the end of the annual reporting period.	Refer to paragraphs 5.189 – 5.199 in the DP and minutes of the November 2023 Board meeting.	• Simplification of drafting and language • Simplification of recognition and measurement • Less 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.	Refer to paragraph 5.209 in the DP and minutes of the March 2024 Board meeting	• Simplification of drafting and language • Simplification of recognition and measurement • Less 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 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; • 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	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.	Refer to paragraph 5.208 in the DP and minutes of the March 2024 Board meeting	• Simplification of drafting and language • Simplification of recognition and measurement • Less disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
	• 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 after the reporting period.	Consistent with Tier 2 requirements but with simplified language and disclosure reductions.	Refer to paragraphs 5.204 – 5.206 in the DP and minutes of the March 2024 Board meeting	• Simplification of drafting and language • Less 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 disclosures 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 relevant Tier 2 requirements but with simplified language and disclosure reductions.	Refer to the minutes of the November 2023 Board meeting and the minutes of the March 2024 Board meeting.	• Simplification of drafting and language • Less 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. 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).	For first time adopters of the 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: • presents two statements of financial position rather than three; • 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 even if they do not early adopt Tier 3;	Refer to minutes of the 6-7 June 2024 Board meeting	• Simplification of drafting and language • Simplification of recognition and measurement • Simplification of presentation • Provision of accounting policy choice • Less disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
	An entity is required to present in its first AAS financial statements: • three statements of financial position; • two statements of profit or loss and other comprehensive income; • two statements of cash flows; and • 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 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.	• may elect to continue applying a Tier 1 or Tier 2 recognition, measurement or disclosure requirement to a balance that existed at 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.		
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).	Paragraphs 4.24 – 4.27 in the DP and minutes of the March 2024 Board meeting	• Less changes
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 recognition and measurement requirements as IFRS Accounting Standards. Disclosures in the *IFRS for SMEs* Accounting Standard were removed where the recognition and measurement requirements or options in the *IFRS for SMEs* Accounting Standard are not available in full IFRS Standards. Where the recognition and measurement requirements in full IFRS Standards were significantly different from	For transactions with the same or similar recognition and measurement requirements to Tier 2, disclosure requirements are based on the corresponding requirements in AASB 1060. For transactions with different recognition and measurement requirements to Tier 2, Tier 3 disclosure requirements adopt appropriate disclosure requirements from other jurisdictions, primarily *IFRS for SMEs*, INPAG and NZ Tier 3 Standard with comparable recognition and measurement requirements, or specific disclosure requirements were developed in the absence of appropriate requirements.	Refer to the minutes of the June 2022 Board meeting	• Less disclosures

Section/Topic	AASB Tier 2 (including Tier 1 R&M) requirements	AASB ED on Tier 3 requirements	Reference to Board's decision for Tier 3 ED	Extent of simplification
	those in *IFRS for SMEs* Accounting Standard or certain topics are not addressed in the *IFRS for SMEs* Accounting Standard, disclosure may be added.			