Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M189
Topic:	**Tier 3 – Summary of sweep and other issues**	**Agenda Item:**	3.2.2
		Date:	18 July 2022
Contact(s):	Maggie Man mman@aasb.gov.au Evelyn Ling eling@aasb.gov.au Fridrich Housa fhousa@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High High Drafting of discussion paper

The objective of this paper

1 The objective of this staff paper is to provide the Board with a **summary** of the sweep issues and other issues that staff are seeking the Board's decisions for the discussion paper (DP), on Tier 3 reporting requirements for not-for-profit (NFP) private sector entities.

2 Staff have provided the questions as comment boxes within Agenda Paper 3.2.1 and staff have prepared this agenda paper to help the Board navigate the questions within Agenda Paper 3.2.1.

Background and reasons for bringing this paper to the Board.

3 The tables below contain the summary of the remaining sweep and other issues. The tables include topics that the Board has not yet discussed, and staff are seeking decisions from the Board on these topics to finalise the draft DP in Agenda Paper 3.2.1. Staff plan to address these questions based on their priority where they require the Board's decisions in forming preliminary views on developing Tier 3 reporting requirements and steering the drafting of the DP in accordance with the AASB Due Process Framework.

4 Table 1 contains the remaining sweep that staff considers the Board needs to consider in finalising the DP, and Table 2 contains other questions relating to the title, layout and inclusion of Appendices in the DP.

Table 1: Sweep issues

Topic	Reference paragraph in Agenda Paper 3.2.1: Tier 3 Draft DP	Description of issues (extracted from AP 3.2.1 including the references)	Question to the Board (extracted from AP 3.2.1 including the references)
Transactions and other events omitted from Tier 3 reporting requirements	Section 4, paragraph 4.19, page 40	At its May 2022 and June 2022 meetings, the Board decided to specifically 'scope in' only simple financial instruments when considering financial instruments. The Board has not discussed whether a similar approach applies to other aspects of its Tier 3 reporting requirements. Figure 4.1 and the draft text in paragraph 4.19 of Agenda Paper 3.2.1 reflect the staff view that some transactions and other events and conditions may be within the scope of a Tier 3 Standard without needing to be specifically mentioned, e.g. intangible assets. An alternative position is that all transactions and other events and conditions must be explicitly identified or addressed to be considered within the scope of the Tier 3 Standard. Staff think that the effect of this alternative position is that all non-identified or addressed transactions will need to be accounted for under a topic-based Australian Accounting Standard.	**Question 6:** Do Board members agree with Figure 4.1 and the draft text in paragraph 4.19? If not, do Board members think that all transactions and other events and conditions must be explicitly identified or addressed by the Tier 3 Standard?
Specified omitted items scoped out of a Tier 3 Standard	Section 4, paragraph 4.22, page 41	Staff ask Board members to consider the items listed in paragraph 4.22 of Agenda Paper 3.2.1 as potential scope exclusions from its Tier 3 Standard. Some, but not all, of these items have been previously considered by the Board	**Question 7:** Do Board members agree with including the listed items in the draft Discussion Paper? If not, are there listed items that Board members think should be excluded from this list?
Accounting hierarchy	Section 4, paragraphs	While not part of the Board discussion and decision at the September 2021 Board meeting,[1] staff have included text that an entity may consider "the principles and requirements in Tier 1 or Tier 2 reporting requirements dealing with similar and related issues". This text clarifies that an entity should also	**Question 8** Do Board members agree with the inclusion to consider the principles and requirements in Tier 1 and Tier 2

1 Refer to Minutes of the 183rd meeting (September 2021) of the AASB

Topic	Reference paragraph in Agenda Paper 3.2.1: Tier 3 Draft DP	Description of issues (extracted from AP 3.2.1 including the references)	Question to the Board (extracted from AP 3.2.1 including the references)
	4.23(b), page 41	consider the principles and requirements in the existing Australian Accounting Standards dealing with similar and related issues when forming an appropriate accounting policy. Staff think this provides consistency with the hierarchy approach as depicted in AASB 108.	reporting requirements with similar and related issues when forming an appropriate accounting policy for those transactions and other events falling outside the scope of the Tier 3 reporting requirements?
Maintenance of Tier 3 reporting requirements	Section 4, paragraphs 4.26 – 4.29, page 42	At its June 2021 meeting, the Board decided to consider its maintenance (and update) proposals for its Tier 3 pronouncement after forming its preliminary views on Tier 3 reporting requirements.[2] At that meeting, staff proposed that the Board adopt a maintenance cycle consistent with the AASB Due Process Framework and post-implementation review requirements. Staff have refined that staff proposal, as reflected in the drafting in paragraphs 4.26 – 4.29). Staff continue to think that it would be useful for the Board to form a preliminary view of its approach to the maintenance of Tier 3 reporting requirements. Further, staff think this approach provides stakeholders with insight into how often Tier 3 reporting requirements will likely change.	**Question 9:** Do Board members agree with the staff recommended maintenance and update proposals reflected in the draft text in this section? If not, what maintenance proposals do Board members support, or would Board members prefer to exclude consideration of maintenance proposals from the draft DP?
Separate Financial Statements	Section 5, paragraphs 5.55 – 5.61, page 56	The accounting in separate financial statements was considered at the June 2021 meeting.[3] The Board did not discuss the accounting in separate financial statements at the meeting. In that paper, staff initially recommended that these interests be measured at cost in separate financial statements. The Board discussed the accounting for an interest in a subsidiary in separate financial statements at the June 2022 meeting.[4] The Board did not specifically form a view at its June 2022 meeting. However, staff think that the Board discussion suggests that the accounting specified by AASB 127 would apply.	**Question 10** Do Board members agree with the proposed preliminary view and drafting? If not, how would Board members like for staff to approach this topic in the DP?

2 Refer to minutes of the 181th meeting of the AASB

3 Refer to M181 Agenda Paper 3.3 (June 2021)

4 Refer to M188 Agenda Paper 12.2.1 (June 2022).

Topic	Reference paragraph in Agenda Paper 3.2.1: Tier 3 Draft DP	Description of issues (extracted from AP 3.2.1 including the references)	Question to the Board (extracted from AP 3.2.1 including the references)
		Consequently, staff have drafted a proposed preliminary position that would be consistent with this, amended to reflect consistency with the Board's decision to require fair value gains and losses on a basic financial asset to be presented only in other comprehensive income (rather than FVTPL with the option to make an irrevocable FVTOCI election). Alternatively, the accounting in separate financial statements could look like: 1. Specifying a single measurement basis 2. Requiring a parent apply the accounting specified by AASB 137 via cross-reference from a Tier 3 Standard to AASB 127 (Staff have not suggested this as an approach as AASB 127 cross-references further to AASB 9)	
Financial instruments – proposed approach to the accounting of financial instruments	Section 5, paragraph 5.74, page 60	Staff think that Figure 5.2 reflects the Board's 'cut', 'lift', or 'revise' approach discussed at its June 2022 meeting.	**Question 11**: Do Board members agree with Figure 5.2 reflects the Board's proposed approach to financial instruments?
Financial instruments – list of basic financial instruments	Section 5, paragraph 5.77, page 61	At its June 2022 meeting, Board members added ordinary shares held in private companies to the list of basic financial instruments. In addition, staff propose extending this listing to include government bonds and acknowledge that units might be held in forms other than MIS schemes and unit trusts. Staff note that its review of its sample set of financial statements did not indicate such holdings. Panel members also did not specifically highlight such financial asset holdings (other than a reference to commercial bills and bonds). However, staff think the listing appeared unbalanced without these inclusions.	**Question 12**: Do Board members agree with the staff recommendation to extend the listing to include government bonds and acknowledge that units might be held in forms other than MIS schemes and unit trusts (as shown in the drafted text)?
Financial instruments –	Section 5, paragraph	The Board discussed the accounting for embedded derivatives at its June 2022 meeting.[5] At the same meeting, the Board considered the accounting for loan	**Question 13a**: Do Board members agree with the staff recommendation to describe that the Board has

5 Refer to M188 Agenda Paper 12.2.2

Topic	Reference paragraph in Agenda Paper 3.2.1: Tier 3 Draft DP	Description of issues (extracted from AP 3.2.1 including the references)	Question to the Board (extracted from AP 3.2.1 including the references)
embedded derivatives Financial instruments – embedded derivatives	5.84 – 5.87, page 63 Section 5, paragraph 5.84 – 5.87, page 63	commitments and net settled contracts that might meet the definition of a derivative.[6] This Section reflects the Board's decisions to seek feedback to understand the extent to which embedded derivatives are present in contracts entered into by smaller NFP private sector entities. In addition, staff have styled the text as the Board having formed a preliminary view not to recognise embedded derivatives.	formed a preliminary view not to recognise embedded derivatives? (If not, staff will revise the section to reflect that the Board has not yet made a decision whether to require embedded derivatives to be identified and recognised)
		At the June 2022 meeting, the Board commented that Tier 3 reporting requirements might not address some topics/financial instruments covered in AASB 9, rather than requiring an entity to account for all non-basic financial instruments under AASB 9. Staff have identified loan commitments that meet the definition of a derivative but are not immediately evident as a possible item that might fall into this category. Reflecting on the Board's comment and having regard to the Board's discussion on embedded derivatives, staff think that the Board's embedded derivative decisions should be extended to commitments and contracts that meet the definition of a derivative but which are not immediately identified as such. Otherwise, entities might similarly be required to look for these items (and, depending on the Board's decisions, apply the accounting in AASB 9). The staff view is reflected in the present drafting of the section.	**Question 13b**: Do Board members agree with the staff recommendation to extend the Board's decisions on embedded derivatives to derivative financial instruments that are not immediately obvious? If not, staff will revise the section to remove references to such instruments.
Cost as an appropriate estimate of fair value of financial assets	Section 5, paragraphs 5.127 – 5.128, page 70	While not explicitly considered by the Board at its meetings, staff think it is helpful for the Discussion Paper to highlight expectations for using cost as a proxy for fair value. Paragraph 5.129 discuss the Board's intention not to extend the instances for which the cost of a financial instrument provides an appropriate estimate of its	**Question 14:** Do Board members agree to include this section, including the intention set out in paragraph 5.129? If not, staff will delete this section from the discussion paper.

6 Refer to M188 Agenda Paper 12.2.1

Topic	Reference paragraph in Agenda Paper 3.2.1: Tier 3 Draft DP	Description of issues (extracted from AP 3.2.1 including the references)	Question to the Board (extracted from AP 3.2.1 including the references)
		fair value as doing so may misrepresent the item to users of the financial statements.	
Investments in associates and joint arrangements	Section 5, paragraphs 5.136 – 5.139, page 71	Staff brought discussion regarding the accounting for associates and joint ventures at the June 2021 meeting.[7] The Board did not discuss the accounting for associates and joint ventures at the meeting. In that paper, staff initially recommended that these interests be accounted for using the equity method except if consolidated financial statements were not prepared. At its August 2021 meeting, the Board agreed with the staff recommendation for the accounting for investments in associates and joint ventures to be primarily based on NZ *Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit)* (the NZ Tier 3 Standard).[8] The requirements of the NZ Tier 3 Standard for interests in associates and joint ventures are largely consistent with that specified by AASB 128. Staff have developed text in this section, including a recommended preliminary view, having regard to the NZ Standard requirements and the Board's previous decisions on consolidation. Staff think this proposed preliminary view is consistent with the NZ Tier 3 reporting requirements. Regarding the accounting by a parent that presents separate financial statements as its only financial statements (paragraph 5.138(c)) although the equity method is an alternative option,[9] staff have excluded this option as it is inconsistent with the Board's consolidation decision.	**Question: 15** Do Board members agree with the proposed preliminary view, including requiring an investor that is not a parent to prepare equity-accounted financial statements (paragraph 5.138(b))? Alternatively, would Board members prefer to allow a not-for-profit private sector entity that is not a parent a choice between applying the equity method of accounting to measure its interests in associates and joint ventures and preparing separate financial statements as its only financial statements, similar to the relief proposed for parent entities.?

7 Refer to of M181 Agenda Paper 3.3

8 Refer M182 Agenda Paper 4.1

9 AASB 128 and the NZ Tier 3 Standard allows a parent entity that presents consolidated financial statements to apply the equity method of accounting for interests in associates and joint ventures

Topic	Reference paragraph in Agenda Paper 3.2.1: Tier 3 Draft DP	Description of issues (extracted from AP 3.2.1 including the references)	Question to the Board (extracted from AP 3.2.1 including the references)
Separate financial statements of the investors	Section 5, paragraphs 5.140 – 5.141, page 72	Staff brought discussion regarding the accounting in separate financial statements at the June 2021 meeting.[10] The Board did not discuss the accounting for associates and joint ventures at the meeting. In that paper, staff initially recommended that these interests be measured at cost in separate financial statements. At its August 2021 meeting, the Board agreed with the staff recommendation for the accounting for investments in associates and joint ventures to be primarily based on NZ *Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit)*.[11] This would direct the interest be measured at either cost, at fair value in accordance with IPSAS 41, or using the equity method. At its September 2021 meeting, staff signalled to the Board that staff were continuing to analyse the Board's direction. Staff indicated they would bring drafting to a future meeting. In June 2022, staff brought discussion on the accounting for associates and joint ventures in separate financial statements.[12] In that paper, staff recommended that these interests be measured at cost in separate financial statements. At its June 2022 meeting, the Board did not form a view on the accounting for associates and joint ventures in separate financial statements. However, staff think the Board's discussions suggest that the accounting would follow AASB 127. On further analysis of the NZ Tier 3 requirements and AASB 127, staff think referencing the equity method as an option would be inconsistent with the Board's decision regarding consolidating subsidiaries, and therefore have excluded this as a suitable accounting option.	**Question 16:** Do Board members agree with the proposed preliminary view and drafting? Alternatively, would Board members prefer not to form a preliminary view, but to seek feedback on whether to allow an accounting policy choice in this regard (or mandate either measurement at cost or measurement at FVTOCI)?

10 Refer to M181 Agenda Paper 3.3
11 Refer to M182 Agenda Paper 4.1
12 Refer to M188 Agenda Paper 12.2.1

Topic	Reference paragraph in Agenda Paper 3.2.1: Tier 3 Draft DP	Description of issues (extracted from AP 3.2.1 including the references)	Question to the Board (extracted from AP 3.2.1 including the references)
		In addition, on further analysis, staff think that for consistency with the Board's decision on financial instruments, fair value gains and losses on the investment should be presented in other comprehensive income (rather than FVTPL with the option to make an irrevocable FVTOCI election).	
Initial and subsequent measurement of non-financial assets acquired at significantly less than fair value	Section 5, Heading for Non-financial assets acquired for significantly less than fair value, page 74	NFP panel members provided feedback at the May 2022 NFP Panel meeting that the Board's proposals for the initial recognition and subsequent measurement requirements of non-financial assets acquired for significantly less than fair value could result in an accounting arbitrage[13]. This accounting arbitrage could occur where an entity elects to initially measure donated non-financial assets at cost with no impact to the profit or loss for the period and elect to subsequently measure the donated non-financial asset under the revaluation model with the revaluation difference recognised in other comprehensive income and accumulated equity under the revaluation reserve. This could result in: (a) the accounting policy choices accorded to initial measurement and subsequent measurement may result in the arbitrage when the difference is recognised: (i) in profit or loss at fair value on initial measurement; or (ii) as other comprehensive income at fair value on subsequent measurement. Additionally, the potential to record the initial measurement of donated assets at cost and subsequently elect to fair value the donated assets allow the entity to not recognise the income of the donated assets and ultimately not impact the size of the entity for reporting purposes; (b) different accounting outcomes depend on whether the asset's carrying amount is measured at the revaluation difference between the asset's fair value or cost at initial measurement, and its fair value at subsequent measurement. The latter approach would appear to undervalue the asset on the balance sheet substantially; and	**Question 17** Do Board members support the staff's view (i.e. Option A)? If not, which approach do Board members support?

13 Refer to NFP PAP panel meeting minutes in Agenda Paper 12.4 at the June 2022 Board meeting.

Topic	Reference paragraph in Agenda Paper 3.2.1: Tier 3 Draft DP	Description of issues (extracted from AP 3.2.1 including the references)	Question to the Board (extracted from AP 3.2.1 including the references)
		(c) where an entity is required to measure revaluation differences between the asset's fair value at initial and subsequent measurement, it may be impracticable to obtain the fair value of the donated assets retrospectively in determining the revaluation difference if an entity elects to measure the asset at cost initially. Staff consider it necessary to clarify circumstances when an entity can elect to measure donated assets initially at cost and subsequently to revalue the asset. **Option A)** Not permitting entities that initially measure donated assets at cost, to elect the revaluation/fair value model for subsequent measurement [staff preferred option]. Whilst this option may appear to limit the accounting policy option for subsequent measurement for entities that elect the cost model for initial measurement. However, staff think that smaller entities will unlikely apply the revaluation model for subsequent measurement therefore the impact of not permitting revaluation should be minimal, and eliminates the potential accounting arbitrage noted above. **Option B)** Requiring an entity to obtain the fair value of the donated asset on initial measurement if the entity elects to measure the asset at cost initially. This will enable the entity to determine the revaluation difference if an entity elects to revalue the donated asset. If the entity subsequently revalues the donated asset, the revaluation difference should be determined based on the difference between the asset's fair value on initial measurement and its fair value on subsequent measurement. This option will still result in the accounting arbitrage as noted above and may not be considered to simplify the accounting requirements, given entities are required to obtain the fair value of the asset on initial measurement. The carrying amount of the asset would substantially be undervalued. **Option C)** Not requiring an entity to obtain the fair value of the donated asset on initial measurement if an entity elects to measure an asset at cost initially. If the entity subsequently revalue the donated asset, the revaluation difference should	

Topic	Reference paragraph in Agenda Paper 3.2.1: Tier 3 Draft DP	Description of issues (extracted from AP 3.2.1 including the references)	Question to the Board (extracted from AP 3.2.1 including the references)
		be determined based on the cost of the asset on initial measurement and its fair value on subsequent measurement. This option will still result in the potential accounting arbitrage noted above. However, it enables management to continue to apply an accounting policy choice that leverages information management uses, and the carrying amount of the donated asset would not be substantially undervalued compared to Option B. Staff view is Option A to not permit an entity to apply the revaluation/fair value model for subsequent measurement if an entity initially elects to measure donated asset at cost.	
Intangible assets	Section 5, paragraphs 5.167 – 5.170 page 78	At the August 2021 AASB meeting, staff agreed to bring suggested drafting for intangible assets that is primarily based on NZ *Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit) Accounting Standard* to a future meeting.[14] Staff made this proposal because intangible assets were not highlighted to be an area of significant interest to stakeholders. Beyond terminology and language, no specific areas for simplification had been identified. NZ reporting requirements for intangible assets is: (1) for an intangible asset to be recognised when the asset is acquired and it has a cost or value that can be measured reliably; and (2) as an exception to this requirement, significant intangible assets that are donated and which are difficult to value are not recognised. Since then, staff have reconsidered the issue regarding the Board's decisions relating to property, plant and equipment (allowing the AASB 116 accounting policy options), donated assets (initially measured at cost or fair value), embedded derivatives and the initial measurement of financial instruments. In drafting, staff have identified alternatives to the NZ requirements which are reflected in the drafting of this section.	**Question 18** Do Board members agree with the proposed drafting of this section? If not, do Board members support forming a preliminary view to develop a requirement that mirrors the NZ reporting requirement for intangible assets?

14 Refer to M182 Agenda Paper 4.1

Topic	Reference paragraph in Agenda Paper 3.2.1: Tier 3 Draft DP	Description of issues (extracted from AP 3.2.1 including the references)	Question to the Board (extracted from AP 3.2.1 including the references)
		Staff note that the NZ reporting requirements for intangible assets is inconsistent with the Board's previous decisions on property, plant and equipment and investment property and regarding the recognition of donated assets.	
Employee on-cost	Section 5, paragraphs 5.203 – 5.206 Page 88	The Board did not discuss the accounting for on-costs when it discussed the proposed accounting for employee benefits. However, staff received feedback that there may be some smaller NFP entities that are unclear of the accounting treatment for such costs. Staff note that there is no proposed difference between Tier 1 and Tier 3 reporting requirements. This is because there has been no move to amend the definition of 'employee benefits' for Tier 3 reporting purposes. Staff have mixed views on this topic. Some staff are of the view that no guidance is required. These staff note that such guidance could contradict the Board's policy of not interpreting IFRS, as there is no proposed difference between Tier 1 and Tier 3 reporting requirements. This is because there has been no move to amend the definition of 'employee benefits' for Tier 3 reporting purposes. However, other staff think that it may be useful to provide clarity to preparers as to the accounting for on-costs. This will help eliminate confusion and any diversity in practice and consequently could be expected to reduce preparer costs and facilitate comparability.	**Question 19** Do Board members wish to form a preliminary view to provide clarity on the accounting for on-costs as part of a Tier 3 accounting standard?

Table 2: Other issues – Title, layout and the inclusion of Appendices in the DP

Topic	Reference paragraph in DP	Description of issue	Question to the Board
Title of draft DP	Front cover	Staff have received feedback that some stakeholders are concerned that describing the additional financial reporting Tier as "Tier 3" may confuse smaller preparers due to its interaction with 'Tiers' as used by other legislation or regulators to identify an entity's reporting obligations. For example, an entity might not understand that 'Tier' as used by the AASB is not the same as the ACNC tiers for identifying an entity's regulatory reporting obligations but default to 'matching' ACNC 'medium' charities with Tier 2 GPFS and ACNC' smaller' charities with Tier 3 GPFS. Staff note that the 'Tier' descriptor is already used in AASB 1053. Therefore, staff think that the AASB should not avoid use of the descriptor. Staff think that its outreach activity can help educate preparers in this regard. Beyond that, staff think it is the responsibility of the relevant regulator to make it clear whether 'Tier' as used to establish reporting obligations also dictates the form of GPFS prepared by the entity. However, in recognition of the stakeholder concern and to not inadvertently void 'medium sized' entities from considering the Discussion Paper, staff recommend that the title of the Discussion Paper avoid a reference to 'Tier 3', as reflected in the current August 2022 drafting	**Question 1:** Do Board members agree with the staff recommendations to: 1. continue describing the reporting tier as 'Tier 3'; and 2. name the Discussion Paper as *Development of Simplified Accounting Requirements for Not-For-Profit Private Sector Entities*?
Layout of DP	Table of contents, page 4	Staff are aware that Sections 1 to 3 of the DP provide the background and reasons for developing Tier 3 reporting requirements that some stakeholders may not be interested in compared to the proposed Tier 3 requirements contained in Sections 4 to 6. As such, staff have now divided Sections 1-3 into Part A and Sections 4-6 into Part B as currently presented and make clear in the Forward highlight the content in those parts to better direct them to read the sections in which they are most interested. To support the DP, staff will develop a 10-15 page snapshot document that would summarise the objective for developing and the Board's preliminary views of the Tier 3 reporting requirements in a more straightforward document. However, staff are seeking Board members' views on whether ordering sections in the DP should:	**Question 2** Do Board members support the staff view , i.e. Option A? If not, what approach do Board members support?

Topic	Reference paragraph in DP	Description of issue	Question to the Board
		Options A: to retain the current layout of the DP as currently drafted; or **Option B**: Split the DP into two separate documents: Part 1 containing sections 1 – 3 and Part B containing sections 4 – 6 so stakeholders would only read the Part they are interested in. The risk in this approach is that there will be many separate documents to the DP, which may introduce more confusion; or **Option C**: Reallocate Part B before Part A. This approach directs the sections that may likely interest stakeholders upfront. While this ordering recognises that many stakeholders may only be interested in these sections, however, it may not be a logical flow to propose the Tier 3 reporting requirements without understanding why the Board decided to develop a further differential reporting tier; or **Option D**: Reallocate Appendix A to the start of the DP, followed by Part B and Part A. As suggested by a Board member, some stakeholders may appreciate the information in a summarised format upfront. However, staff consider that the snapshot documents would be sufficient in providing the Board's preliminary views in a summarised format rather than reallocating Appendix A. Staff view is Option A.	
Section 5 – the ordering of key topics	Table of contents, page 4	Key topics in Section 5 are generally based on the ordering of the accounting topics as currently laid out in the *IFRS For SMEs* Standards. The exception is borrowing costs and impairment of non-financial assets. Staff consider the accounting for borrowing costs and impairment of non-financial assets logically follow from the topic after Property Plant and Equipment and Investment property given the link between these topics.	**Question 3** Do Board members agree with ordering the key topics currently presented in Section 5? If not, what order would Board members prefer for the key topics in Section 5?

Topic	Reference paragraph in DP	Description of issue	Question to the Board
Title of the possible future differential reporting tier	Page 6	Staff presented several options for identifying the Tier 3 reporting requirements at the February 2022 AASB meeting.[15] The Board did not decide on the name of Tier 3 Standard at that meeting. The options were: **Option A**: Tier 3 Australian Accounting Standards – Simplified Accounting. This description is consistent with describing Tier 2 – reporting requirements as 'Simplified Disclosures'. **Option B:** Tier 3 Australian Accounting Standards – Simplified Accounting (Not-for-Profit Private Sector Entities). This identifies the entities the Standard is intended for and will help distinguish from any future development of possible Tier 3 reporting requirements for public sector entities. However, such labelling is inconsistent with existing Australian Accounting Standards that do not include their limited application in their titles, such as AASB 8 *Operating Segments* and 1004 *Contributions*. **Option C:** Tier 3 Australian Accounting Standards – Less Complex Entities. This corresponds to the description given by the International Auditing and Assurance Standards Board in respect of its proposed auditing standard. **Option D**: Tier 3 Australian Accounting Standards – Small and Medium-Sized Entities. This acknowledges the size of the entities for which the reporting Tier is being developed and provides a 'link' to IFRS as the basis for Australian accounting standard-setting. However, the reference to "small" entities may be confusing for some stakeholders. As such, an alternative is for this descriptor to omit the term 'small' to convey that Tier 1 and Tier 2 general purpose financial statements may be more appropriate for larger NFP private sector entities. **Option E:** Tier 3 Australian Accounting Standards – Simplified Accounting for Smaller Not-for-Profit Entities. This maintains consistency with the Tier 2 descriptor as well as identifies the intended user group.	**Question 4:** Do Board members agree with the staff recommendation to describe Tier 3 reporting requirements in the Discussion Paper as Tier 3: Australian Accounting Standards – Simplified Accounting?

15 Refer to minutes of the 185th meeting of the AASB Feb 2022 Board meeting.

Topic	Reference paragraph in DP	Description of issue	Question to the Board
		Staff recommended identifying the Tier 3 reporting requirements as Tier 3 Australian Accounting Standards – Simplified Accounting (**Option A**), as reflected in the present DP drafting. At the February 2022 meeting, the Board did not vote on an agreed descriptor, but made the following comments: <u>1. That the length of the descriptor should be shorter, if possible.</u> **Staff response, August 2022:** The proposed title is consistent with the description given to Tier 1: Australian Accounting Standards and Tier 2: Australian Accounting Standards – Simplified Disclosures in AASB 1053. Staff think it is impossible to further shorten the Tier 3 descriptor without changing the naming convention applied to the other reporting tiers. For this reason, staff propose no change to the suggested descriptor in this regard	
Fourth differential reporting tier	Section 2, paragraphs 2.17 – 2.20, page 31	The text in this section reflects the proposed staff approach presented to the Board at its February 2022 meeting.[16] At that meeting, the Board did not explicitly decide not to develop a fourth differential reporting tier. Board members observed that whether a fourth tier could be other than cash-basis accounting depends on its proposed Tier 3 simplifications. <u>2. That the descriptor should, for preference, include a NFP identifier.</u> **Staff response, August 2022:** The Board commented about minimising the descriptor length. Staff propose that the Tier 3 descriptor continue to exclude a reference to the entities it would apply to. This would also retain consistency with the naming convention applied to other AASB pronouncements (e.g. *Conceptual Framework for Financial Reporting*). Staff note that the identification of the reporting tier as Tier 3: Australian Accounting Standards – Simplified Accounting is different to the title that might be given to the proposed stand-alone Tier 3 pronouncement. For example, to be consistent with AASB 1060, if Tier 3 reporting requirements were contained in an AASB 10XX accounting standard, it might be titled AASB 10XX	**Question 5:** Do Board members confirm not to propose developing a fourth differential reporting tier for not-for-profit private sector entities?

16 Refer to M185 Agenda Paper 11.1

Topic	Reference paragraph in DP	Description of issue	Question to the Board
		General Purpose Financial Statements – Simplified Accounting for Not-for-Profit Private Sector Entities. Alternatively, if it were issued as a separate pronouncement in the style of the *IFRS for SMEs* or NZ Tier 3 reporting requirements, it might be simply titled *Simplified Accounting for Not-for-Profit Private Sector Entities*, even if the reporting Tier 3 were described in AASB 1053 as 'Tier 3: Australian Accounting Standards – Simplified Accounting'. This Discussion Paper does not suggest a title for the proposed stand-alone Tier 3 pronouncement. This is because the Board is, as part of this DP, seeking feedback on its proposal to develop Tier 3 accounting requirements in this form. Consequently, staff have not sought a Board view in this regard. Now that the Board has completed the discussion of its proposed Tier 3 simplifications, staff are seeking Board confirmation that the Board does not intend to develop a fourth differential reporting tier for not-for-profit private sector entities.	
Appendix A – inclusion in draft DP	Appendix A, page 109	Appendix A provides a summary of the Board's preliminary views of the Tier 3 reporting requirements compared to Tier 2 reporting requirements and the New Zealand Tier 3 reporting requirements proposed in its ED as staff think it may enable stakeholders to understand the proposed Tier 3 simplifications without the detail accorded to in Section 5 for each topic. However, the result for inclusion in the DP is duplication of the information and adding length to the DP. Staff have only provided a comparison to New Zealand Tier 3 reporting requirements, having regard to initial project proposals to align the reporting requirements with the New Zealand accounting standard and the AASB's policy in the harmonisation of Trans-Tasman standard-setting. However, the Board may also wish to consider including a comparison against the reporting requirements for *IFRS for SMEs* Standards to evaluate the extent of simplification proposed for Tier 3 reporting requirements.	**Question 20** Do Board members want to include a comparison of the IFRS for SMEs Standards in Appendix A? Do Board members wish to retain Appendix A in the DP?

Topic	Reference paragraph in DP	Description of issue	Question to the Board
Appendix C – inclusion in draft DP	Appendix C, page 121	Appendix C summarises the alternative accounting policies considered and rejected, including the Board's rationale for doing so. Staff have not yet finalised this Appendix. Staff intend to complete the remaining topics for this Appendix subject to the Board's feedback on whether to retain Appendix C as part of the draft DP. Staff note that the alternative approaches would also be documented in each topic in Section 5. Appendix C duplicates the information and adds length to the draft DP.	**Question 21** Do Board members wish to retain Appendix C in a final version of the draft DP?