



Project:	Not-for-Profit Framework Project	Meeting:	204
Topic:	Tier 3 Exposure Draft Proposals – approach to transitional requirements	Agenda Item:	3.4
		Date:	21 May 2024
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		Decision-Making:	High
		Project Status:	Developing Exposure Draft

Objective of this paper

- 1 The objective of this paper is for the Board to consider the staff analysis and decide on the staff recommendations, for the purpose of drafting the Tier 3 Exposure Draft (ED):
 - (a) the approach to developing the transitional requirements for entities on the first-time adoption of the Tier 3 Standard and Tier 3 preparers transitioning to other Tiers;
 - (b) the length of the transitional period;
 - (c) whether to develop financial reporting thresholds in the Australian Accounting Standards (AAS); and
 - (d) whether to form a transition resources group to monitor implementation issues of the Tier 3 Standard.

Structure of this paper

- 2 This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraph 3);
 - (b) Background and reasons for bringing this paper to the Board (paragraphs 4 – 7);
 - (c) Summary of feedback on the Discussion Paper (DP) (paragraphs 8 – 9);
 - (d) Current transitional requirements and relief in AAS for first-time adopters and transitional provisions provided to entities preparing SPFS to GPFS through AASB 2020-2 (paragraphs 10 – 30);
 - (e) Summary of approaches taken by other selected jurisdictions (paragraphs 31 – 40);
 - (f) Summary of feedback from NFP PAP members on matters in this Staff Paper (paragraph 41);
 - (g) Findings from academic research and other literature (paragraphs 42 – 46);
 - (h) Matters to be addressed based on feedback on the DP proposals (paragraph 47);
 - (i) Staff analysis and recommendations regarding the following matters:

First-time adopters of the Tier 3 Standard – Special Purpose Financial Statements (SPFS) preparers or Tier 1/Tier 2 preparers transitioning to the Tier 3 Standard

- (i) **Issue 1:** What transitional approach should be provided for first-time adopters of the Tier 3 Standard (paragraphs 48 – 56);
- (ii) **Issue 2:** Whether to permit entities to continue to apply requirements in applicable Tier 1/Tier 2 AAS when first adopting the Tier 3 Standard (paragraphs 57 – 62);
- (iii) **Issue 3:** What should be the length of the transitional period/effective date (paragraphs 63 – 69);

Tier 3 preparers transitioning to other Tiers

- (iv) **Issue 4:** What are the requirements for entities moving from Tier 3 GPFS to Tier 1/Tier 2 GPFS (paragraphs 70 – 78);

Other matters for consideration

- (v) **Issue 5:** Whether to develop any financial reporting thresholds in the AAS (paragraphs 79 – 99); and
 - (vi) **Issue 6:** Whether a transitional resources group should be formed to monitor transitional/implementation issues (paragraphs 100 – 104).
- (j) **Appendix A:** Extract of May 2023 Agenda Paper 3.1.1, staff preliminary analysis of the feedback on the DP and suggested next steps.

Summary of staff recommendations

- 3 Staff recommend that the Tier 3 requirements, for the purpose of drafting the ED, should:
- (a) provide the transitional approach for the respective scenarios of NFP private sector entities’ financial statement preparers adopting the Tier 3 Standard in Table 1 below:

Table 1 Staff recommended transitional approach to adopting the Tier 3 Standard

Staff recommended transition provision/relief	First-time adopter (i.e. first time adopting Tier 3 Standard) (Discussed in Issues 1 and 2)		Transitioning between Tiers (Discussed in Issue 4)	
	SPFS adopting Tier 3 (regardless if using R&M or not)	GPFS Tier 1/Tier 2 adopting Tier 3	GPFS Tier 3 to Tier 2	GPFS Tier 3 to GPFS Tier 1
Transitional approach	To develop transitional requirements based on AASB 1 for first-time adoption of AAS with simplified language. Transitional requirements will be included in the Tier 3 Standard. Entities can either apply the transitional requirements or apply the Tier 3 standard directly by applying modified retrospective application to changes in accounting policies	Apply the Tier 3 Standard directly by applying modified retrospective application to changes in accounting policies	Apply AASB 1 or the AASB 108 option in AASB 1 and apply AASB 1060 disclosures for transition.	Apply AASB 1 or the AASB 108 option in AASB 1

Staff recommended transition provision/relief	First-time adopter (i.e. first time adopting Tier 3 Standard) (Discussed in Issues 1 and 2)		Transitioning between Tiers (Discussed in Issue 4)	
	SPFS adopting Tier 3 (regardless if using R&M or not)	GPFS Tier 1/Tier 2 adopting Tier 3	GPFS Tier 3 to Tier 2	GPFS Tier 3 to GPFS Tier 1
Permit entities to continue to apply requirements in applicable Tier 1/Tier 2 R&M requirements	Entities can choose either: (i) carry forward application of any Tier 1/Tier 2 R&M requirements only for balances and transactions that existed on the transition date; or (ii) adopt Tier 3 requirements directly by applying a modified retrospective application to changes in accounting policies		No relief	No relief
Optional relief from restating comparative information	Not required because comparative information is not restated		Provide relief in the entity's first year of transition	
Optional relief from providing comparative information for new disclosures	Provide relief in the entity's first year of transition			
Optional relief from distinguishing errors from changes in a/c policies	Provide relief in the entity's first year of transition			

- (b) include a specific matter for comment in the ED whether any other transitional relief should be given to early adopters to incentivise NFP entities to transition from special purpose financial statements (SPFS) to general purpose financial statements (GPFS) early;
- (c) to issue the Tier 3 Standard together with Conceptual Framework amendments that would remove the ability for NFP entities to produce SPFS at least three years before the date that the amendments would become effective;
- (d) include a specific matter for comment in the ED outlining the Board's proposed effective date;
- (e) early adoption be permitted if the Board agrees with developing financial reporting thresholds in the subparagraph directly below;
- (f) develop financial reporting thresholds in the AAS based on an entity's revenue with an upper limit of \$3 million;
- (g) develop non-mandatory illustrative examples that an NFP private sector entity may consider that are likely to apply the Tier 3 Standard, if the Board disagrees with developing financial reporting thresholds in the AAS in the subparagraph directly above, based on the following factors:
 - (i) source of funds;
 - (ii) number of stakeholders in the entity;

- (iii) scale of operations;
 - (iv) frequency of reference to Tier 1/Tier 2 requirements; and
 - (v) financial characteristics; and
- (h) for the Board to consider establishing a transitional resource group (TRG) to monitor implementation issues of the Tier 3 Standard after the Board has considered feedback on the Tier 3 ED.

Background and reasons for bringing this paper to the Board

- 4 This paper is part of Agenda Item 3 in this meeting for the Board to decide on the transitional provisions and possible additional relief beyond those already available in the AAS that should be made available for Tier 3 entities when they first adopt the Tier 3 Standard, noting that many of these entities would be transitioning from SPFS to GPFS under the Board's proposal to amend SAC 1 and the NFP Conceptual Framework, as well as other circumstances of NFP entities transitioning between the tiers of AAS.
- 5 As per the DP, the entities that would be affected by the Board's proposals regarding the removal of the ability to prepare SPFS and the introduction of the Tier 3 Standard are those entities that:
- (a) currently prepare SPFS that will transition to or voluntarily apply the Tier 3 Standard;
 - (b) currently prepare GPFS Tier 1/Tier 2 that may qualify to transition to the Tier 3 Standard; or
 - (c) will prepare Tier 3 GPFS in the future and may need to/want to transition to GPFS Tier 1/Tier 2.
- 6 This paper does not address:
- (a) entities that are preparing financial statements (being the Tier 3-compliant financial statements) for the first time as these entities will apply the Tier 3 requirements directly to present a complete set of financial statements. AASB 1 *First-time Adoption of Australian Accounting Standards* defines the date of transition to AAS as the beginning of the earliest period for which an entity presents full comparative information. As such, new entities' first annual financial statements would contain comparative information for at least one prior period conforming to the Tier 3 requirements; and
 - (b) NFP entities that are transitioning from SPFS to Tier 1 or Tier 2 reporting requirements and whether to provide an exemption, for certain NFP entities, from its application proposals regarding the *Conceptual Framework for Financial Reporting* becoming effective will be covered in Agenda Paper 7.1 at this meeting.
- 7 In preparing for this paper, staff have considered the transitional relief that was considered and made available to for-profit entities when making AASB 2020-2 given some similarities to considerations when the Board removed the ability to prepare SPFS for certain for-profit entities and introduced AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, and the feedback received on the DP relating to the need for transitional relief summarised in Agenda Paper 3.1.1 presented at the March 2023 Board meeting.

Summary of feedback on the DP

- 8 As noted in paragraph 2.18 of the DP, the Board had not yet considered transitional provisions and did not specifically seek feedback from stakeholders on what transitional provisions should be developed as part of the development of the Tier 3 requirements since the Board was seeking feedback on its Tier 3 preliminary views. Some of the matters that the DP noted will need to be considered were:
- (a) transitional provisions that might apply on the first-time preparation of GPFS that comply with the Tier 3 Standard; and

- (b) whether and if so, and how an entity might transition from the Tier 3 Standard to Tier 1: AAS or Tier 2: AAS – Simplified Disclosures.
- 9 However, as per [Agenda Paper 3.1.1](#) presented at the May 2023 Board meeting, in response to other questions on the DP, some stakeholders provided the following feedback about the need for transitional provisions and for the AASB to consider:
- (a) the timing of any new Tier 3 reporting requirements should align with any extension of the application of the AAS to a broader set of NFP entities. Stakeholders in particular noted the introduction of AASB 1060 with the removal of SPFS for for-profit entities where transition provisions worked effectively and would be appropriate for the NFP sector;
 - (b) including reporting thresholds applicable for two or three years after the effective date within the transitional provisions of the Tier 3 Standard with subsequent review;
 - (c) a longer transition period or phased transition period to support NFP entities in the adoption of the new Tier 3 Standard along with education;
 - (d) possible formation of a TRG to assist with an effective and smooth operationalisation of the Tier 3 Standard and to communicate with regulators about the need and the nature of necessary changes and associated education and transitional considerations; and
 - (e) that some NFP entities may have adopted the requirements of existing AAS, such as AASB 16 *Leases*.

Current transitional requirements and relief in AAS for first time adopters and transition provisions provided to entities preparing SPFS to GPFS through AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

- 10 AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 1 *First time adoption of Australian Accounting Standards* contain guidance and relief to assist entities with the transition from SPFS to Tier 1 or Tier 2 GPFS or transitioning between Tier 1 or Tier 2, and to assist entities preparing GPFS in accordance with AAS first time.

AASB 1053 Application of Tiers of Australian Accounting Standards

- 11 AASB 1053 sets out the application of Tiers of AAS to different categories of entities preparing GPFS and guidance for first-time adoption of AAS (e.g. SPFS preparer applying Tier 1 reporting requirements for the first time shall apply all the relevant requirements in AASB 1), reapplication of AAS other than transitioning between Tiers, and transitioning between Tiers.
- 12 AASB 2020-2 was issued in March 2020 as a consequence to extend the application of AASB *Conceptual Framework for Financial Reporting* (May 2019) to certain for-profit private sector entities in addition to those entities that are publicly accountable. AASB 2020-2 built upon the consequential amendments to pronouncements previously made to the amendments to the *Conceptual Framework* in AASB 2019-1 *Amendments to Australia Accounting Standards – References to the Conceptual Framework* (May 2019). In addition to the existing requirements in AASB 1053, the Board decided through AASB 2020-2 to provide the following application guidance:
- (a) If an entity has not applied or has selectively applied the recognition and measurement (R&M) requirements in its most recent SPFS, including a parent entity without presenting consolidated financial statements, then AASB 1053 permits the entity to either:
 - (i) apply all relevant requirements in AASB 1; or instead
 - (ii) apply the Tier 2 reporting requirements directly using the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (including disclosing

this fact) to transition from its most recent SPFS to Tier 2 GPFS (as noted in para 18A(a) of AASB 1053).

This includes entities that have claimed compliance with applicable R&M requirements in error.

- (b) However, if an entity has applied all applicable R&M requirements in AAS in its most recent SPFS, including, if an entity that is a parent entity presenting consolidated financial statements in accordance with AASB 10 (unless exempt), then the entity will continue to apply the R&M requirements and shall not apply AASB 1 (as noted in para 18A(c) and para 18B of AASB 1053).
- (c) Entities that prepared SPFS and did not present consolidated financial statements on the basis that neither the parent nor the group was a reporting entity shall apply either all the relevant requirements of AASB 1 or the Tier 2 reporting requirements directly using the requirements in AASB 108 (including disclosing this fact) (as noted in para 18A (b) of AASB 1053).

- 13 The Board also decided to provide an optional short-term exemption for for-profit entities that apply the AASB 1060 to periods beginning before 1 July 2022 with additional relief outlined in paragraphs 23 – 28.

AASB 1 First-time Adoption of Australian Accounting Standards

- 14 The objective of AASB 1 is to help entities transition to AAS by giving them a starting point (technically called the date of transition), without needing entities to apply the transitional requirements of each AAS (unless they are specifically required to do so) and to ensure the cost of transition do not exceed benefits (para 1 of AASB 1).
- 15 The entity's first AAS financial statements are the first annual financial statements in which the entity adopts AAS. An entity is required to prepare an opening AAS statement of financial position at the date of transition to AAS and use the same accounting policies in its opening AAS financial statements. Those accounting policies shall comply with each AAS effective at the end of its first AAS reporting period with some exceptions.
- 16 The transitional provisions in AAS (other than AASB 1) only apply to entities that already report under AAS. For this reason, a first-time adopter cannot apply those transition provisions unless specified by AASB 1, and AASB 1 contains several exceptions to this general rule which are listed in Appendices B-E. There are 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). There are also 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 *Business Combinations* to past business combinations).
- 17 Paragraph 21 of AASB 1 requires an entity's 'first AAS financial statements' to present three statements of financial position (including one at the beginning of the comparative period, which is also the 'date of transition' as defined by AASB 1 Appendix A, referred to in this paper as a 'third balance sheet'), 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. All of these statements must comply with AAS (i.e., comparative information must be restated in accordance with the transitional provisions of AASB 1).
- 18 An entity is required to explain how the transition from previous generally accepted accounting principles (GAAP) to AAS affected its reported financial position, financial performance and cash flows, including the reasons it stopped applying, or resumed or commenced application of AAS. Reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with AAS and a reconciliation to its total comprehensive income in accordance with AAS are also

required. Paragraph 26 of AASB 1 requires an entity that becomes aware of errors made under previous GAAP to distinguish between correction of errors and changes in accounting policies.

19 There are also NFP modifications provided to NFP entities in AASB 1 as follows:

- (a) Aus paragraph 3.2 of AASB 1 allows NFP public sector entities that experience extreme difficulties in complying with the requirements of certain AAS due to information deficiencies to provide a disclosure of an explanation of information deficiencies and its strategies to rectify those deficiencies; and
- (b) Aus D9D.1 – AusD9D.2 of AASB 1 provides an option for NFP lessees not to measure a class (or classes) of right-of-use asset at initial recognition at fair value for concessionary leases.

Disclosures for transitioning to Australian Accounting Standard – Simplified Disclosures

20 With the issue of AASB 1060, Appendix F was included in AASB 1 which specifies that the NFP modifications in paragraph Aus3.2 of AASB 1 (detailed in paragraph 19(a) directly above) are not applicable to Tier 2 preparers. Further, Tier 2 preparers are not required to apply the presentation and disclosure requirements in paragraphs 20 – 33 in AASB 1 on transitioning to AASB 1060 including such as presentation of three statements of financial position.

21 Some of the disclosures required upon transitioning to AASB 1060 include:

- (a) An explanation of how the entity's transition from its previous financial reporting framework to the Tier 2 requirements affected its reported financial position, financial performance and cash flows;
- (b) If an entity applied AAS or IFRS in a previous period, then the reason it stopped or resumed applying AAS or IFRS and whether it had applied AASB 1 or retrospectively applied the Tier 2 requirements in accordance with AASB 108;
- (c) A description of the nature of each change in accounting policy;
- (d) Reconciliations of its equity and the profit or loss determined in accordance with its previous financial reporting framework to its equity and profit or loss determined in accordance with Tier 2 requirements.
- (e) Distinguish the correction of errors from changes in accounting policies to the extent practicable. However, for early adopters, an exemption from this disclosure is available (discussed further in paragraph 23 below); and
- (f) If an entity did not present financial statements for previous periods, to disclose that fact.

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

22 Where an entity chooses not to apply AASB 1, then it retrospectively restates its financial statements in accordance with AASB 108, which is as if it has always applied the R&M requirements of AAS as they changed over the years including the transitional provisions within individual standards. AASB 108 requires a retrospective application of a change in accounting policy to the extent it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity would apply a limited retrospective application (paragraphs 23-25 of AASB 108).

Relief considered by the Board when issuing AASB 1060 and removing SPFS for for-profit entities

23 When AASB 1060 was issued, the transitional relief that the Board provided additionally to what was already available in AASB 1 and AASB 1053 was that entities may elect to apply a short-term exemption if they elect to apply AASB 1060 early (i.e. to periods beginning before 1 July 2022), from:

- (a) restating comparative information or providing comparative information not previously in the notes; and
- (b) distinguishing the correction of errors and changes in accounting policy.

24 As noted in paragraph BC123 of AASB 2020-2, stakeholders' feedback relating to Phase 2 of ITC 39 *Consultation Paper – Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* noted the most common areas of suggestion for transitional relief were:

- (a) relief from consolidation and equity accounting, particularly in relation to retrospective application of AASB 3 *Business Combination*; and
- (b) relief from the requirement to restate the comparative period on transition from SPFS to Tier 2 GPFS.

But stakeholders did not articulate the specific aspects for the above-mentioned transitional issues that would be particularly costly or onerous.

25 As per paragraph BC127 of AASB 2020-2, the Board considered various options for further transitional relief in addition to what is available under AASB 1 to address concerns that consolidation and applying the equity method are the most challenging aspects of transition.¹ The Board ultimately concluded that the application of AASB 1 provides relief from the need to retrospectively account for past business combinations (a specific challenge noted for consolidation and equity accounting) provides significant and sufficient relief to address stakeholder concerns in paragraph 24(a).

26 In relation to the relief from not restating the comparative period on transition from SPFS to Tier 2 GPFS, the Board decided on a pragmatic approach, having considered stakeholder feedback on ED 297 *Removal of Special Financial Statements for Certain For-Profit Private Sector Entities*, to:

- (a) require an entity to present its statement of financial position, statement of profit or loss and other comprehensive income as presented (if presented) in its last SPFS as comparative information, but clearly labelled, where applicable, that such comparative information is not AAS compliant. This would be supplemented with disclosure in the notes to the financial statements describing the main adjustments that would have been required to make the comparative information compliant with AAS. The Board also decided an entity need not quantify those adjustments; and
- (b) disclose a reconciliation of its equity presented in its most recent previous SPFS to its equity determined in accordance with Tier 2 requirements at the date of transition to AASB 1060.

27 The relief from not requiring the restatement of comparative period on transition was provided to entities that choose to transition from SPFS to Tier 2 GPFS prior to the effective date as a means to incentivise a timely transition to GPFS, helping to solve the SPFS problem sooner (paragraph B136 of AASB 2020-2).

28 The Board noted the relief provided to entities from distinguishing errors from changes in accounting policies on the transition from SPFS to Tier 2 GPFS was particularly relevant for entities that claim

1 BC127 of AASB 1060 outlined the three possible options to provide transitional relief in addition to what is available under AASB1, but did not proceed with these options:

- (a) 'Push-down accounting' for entities that are subsidiaries of an IFRS Standards and/or AAS compliant parent; and
- (b) Relief from recognising 'deemed goodwill' to provide a parent entity in AASB 1 Appendix C in relation to previously consolidated subsidiaries with an option to write off 'deemed goodwill' immediately in retained earnings, rather than recognise it and then be required to undertake day 1 and annual impairment testing.

compliance with applicable R&M requirements in error. As stated in BC139 of 2020-2, the Board noted that not distinguishing prior period errors from accounting policy changes may not meet the Conceptual Framework's qualitative characteristic of faithful representation. However, the Board decided to make a trade-off with faithful representation to meet the Board's objective in these limited circumstances.

Effective date

- 29 When considering the effective date in AASB 2020-2, the Board had regard to stakeholder feedback on ED 297 for the Board to defer the effective date by 1-2 years as well as feedback from ED 295. As noted in paragraph BC149 – BC150, the stakeholders noted:
- (a) the need to provide time for education, software and process changes;
 - (b) challenges caused by first-time consolidation;
 - (c) *The AASB Due Process Framework for Setting Standards* (September 2019) suggests an implementation period of 2 years in typical cases;
 - (d) not all for-profit entities within the scope had applied ASIC RG 85 *Reporting requirements for non-reporting entities* to guide their reporting framework; and
 - (e) to delay the revised Tier 2 framework until the direction of the IASB's *Subsidiaries that are SMEs* project is finalised and to give time for NZASB to decide the direction for its own Tier 2 framework.
- 30 The Board also had regard to a range of options and ultimately decided to provide an implementation period of 2 years (i.e. effective date being 1 July 2021 instead of 1 July 2020 as originally proposed in ED297) noting the following advantages in paragraph BC151:²
- (a) more time for stakeholders to prepare for the significant change to the financial reporting framework including educational and collation of historical information;
 - (b) transitional relief may incentivise voluntary early adoption;
 - (c) consistency with AASB's Due Process Framework;
 - (d) retaining transitional relief for those that early adopt provides an incentive to transition to a timely manner; and
 - (e) allowing time for software providers to address concerns about their ability to create templates in a timely manner.

Summary of approaches taken by other selected jurisdictions

- 31 The IFRS for SMEs ED issued in September 2022 proposed more alignment with IFRS 1 *First-time Adoption of International Financial Reporting Standards* and proposed further transitional requirements catered to those changes. Unlike AASB 1053, the transitional requirements in Section 35 of the IFRS for SMEs ED apply to:

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- 2 Other options considered and rejected by the Board when determining the effective date of AASB 2020-2 noted in paragraph BC151 were:
- (a) No change to transitional relief and effective date;
 - (b) 2-year implementation period but no transitional relief;
 - (c) 2-year implementation period with transitional relief only applicable to entities' first-time consolidation; and
 - (d) Staggered implementation for different entity types.

- (a) a first-time adopter regardless of whether its previous accounting framework was full IFRS Accounting Standards, or another set of GAAP or did not present financial statements for previous periods; and
- (b) an entity that has previously applied IFRS for SMEs but did not make an explicit and unreserved statement of compliance with the IFRS for SMEs in its most recent previous annual financial statements. Otherwise, the entity can apply the IFRS for SMEs retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

32 The IFRS for SMEs ED Section 35 provides guidance on first-time adoption and procedures for preparing financial statements at the date of transition. These are consistent (except for some simplifications)³ with IFRS 1 (AASB 1) and include, but are not limited to, the requirements listed in paragraphs (a) to (f) below:

- (a) applies to an entity's first financial statements including requiring an entity to disclose, in a complete set of financial statements, comparative information in respect of previous comparative periods for all monetary amounts presented in the statements, as well as specified comparative information in respect of more than one comparable prior period. Consequently, the entity's date of transition to the IFRS for SMEs Accounting Standard is the beginning of the earliest period for which the entity presents full comparative information in its first financial statements that conforms to the IFRS for SMEs Accounting Standards. On its date of transition, the entity is required to:
 - (i) recognise all assets and liabilities whose recognition is required by the IFRS for SMEs Accounting Standard;
 - (ii) not recognise items as assets or liabilities not permitted by the IFRS for SMEs Accounting Standards;
 - (iii) reclassify items that the entity recognised previously under a different financial reporting framework as assets, liability or component of equity under the IFRS for SMEs Accounting Standard; and
 - (iv) measure all recognised asset and liabilities.
- (b) requires any result adjustments arising from transactions, other events or conditions from the adoption of the accounting policies of the IFRS for SMEs Standard before the date of transition to be recognised directly in retained earnings;
- (c) does not require an entity to retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:
 - (i) derecognition of financial instruments – an entity may either derecognise financial instruments on adoption of the IFRS for SMEs Accounting Standard or continue to recognise them until disposed of or settled;

3 The IASB decided to include simplification in the IFRS for SMEs Accounting Standard to:

- allow entities to apply Section 29 *Income Tax* prospectively from the beginning of the period in which the entity first applies the amendments;
- allow entities to apply prospective application from the beginning of the period in which the entity first applies the amendments the option to use the revaluation model for PPE, noting it may be difficult to apply the revaluation model retrospectively to PPE without the use of hindsight in selecting inputs that would be appropriate in prior periods; and
- including a general 'impracticable' exemption from retrospective requirements applied to each amendment in isolation in cases there are circumstances that it has not considered in which retrospective application would be impracticable.

- (ii) hedge accounting including the requirement to discontinue the hedge accounting for hedge relationships that do not meet the conditions specified in the IFRS for SMEs Accounting Standard;
 - (iii) Accounting estimates and discounted operations;
 - (iv) Measuring non-controlling interest and existing government loans shall be applied prospectively. For entities that did not recognise or measure government grants on the basis that is consistent with the IFRS for SMEs Standard, the carrying amount of those government grants are carried forward at the date of transition and no benefit is recognised for below-market rate of interest as government grants; and
 - (v) No restatement of contracts that were completed before the date of transition.
- (d) allows an entity to apply exemptions in preparing the entity's first financial statements including:
- (i) elect not to apply IFRS for SMEs Accounting Standard section on business combination unless a first-time adopter restates any business combination to comply with the IFRS for SMEs requirements; and
 - (ii) fair value as deemed costs for an item of property, plant and equipment, investment property or an intangible asset at the date of transition. Similarly, revaluation as deemed cost at, or before, the date of transition at the revaluation date.
- (e) A general exemption is provided for impracticability for any of the adjustments required in paragraphs 32(a).
- (f) requires an entity to disclose how the transition from its previous financial reporting framework to this Standard affects its reporting financial position, financial performance and cash flows. In addition, an entity is required to include a description of the nature of each change in accounting policy, reconciliation of its equity and profit or loss determined in accordance with its previous financial reporting framework to its equity and profit or loss determined in accordance with the IFRS for SMEs Accounting Standard. Unlike the transitional relief noted in paragraph 28 provided in AASB 2020-2, entities are required to distinguish correction of errors from changes in accounting policies to the extent practicable.

33 *The United Kingdom Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102) and the Financial Reporting Standard Applicable to the Micro-entities Regime (FRS 105), Singapore's Charity Accounting Standards (CAS) and the International Non-profit Accounting Guidance (INPAG) are based on the IFRS for SMEs Accounting Standard except for the following but not limited to:*

FRS 102 and FRS 105

- (a) Does not require the opening statement of financial position to be presented (see para 35.7 of FRS 102);
- (b) Unlike the IFRS for SMEs Accounting Standards which requires expensing of development and borrowing cost, an entity may elect to measure the carrying amount for deferred development costs as deemed costs at transition date, and borrowing costs as part of the cost of a qualifying asset and elect to treat the date of transition as the date which capitalisation commences; and

- (c) A small entity⁴ that first adopts FRS 102 for accounting period that commences before 1 January 2017 is not required to restate comparative information to comply with fair value measurement requirements for financial instruments and financing transactions involving related parties.
- (d) Staff did not identify any requirements specifically for entities that previously applied FRS 105 that adopt FRS 102 for the first time. However, for entities applying FRS 105 or FRS 102 for the first time, an entity may continue to use the transitional exemptions that are applied at the date of transition to FRS 105 or FRS 102 when preparing subsequent financial statements, until such time when the assets and liabilities associated with those transactions, events or arrangements are derecognised.

The Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (Charities SORP) requires charities to apply the transitional provisions provided in FRS 102.

CAS

- (a) First time adoption requirements only apply to first time adopters of CAS rather than for charities that previously applied CAS unlike for IFRS for SMEs and FRS 102/105 which allows entities to apply the first-time adoption and procedures for preparing financial statements at readoption; and
- (b) the CAS has removed transitional exemptions contained in the IFRS for SMEs ED that are not relevant in CAS such as share-based payments is not covered in CAS. CAS also has minor simplification in disclosure requirements compared to IFRS for SME requirements where CAS does not require a reconciliation of the profit or loss determined in accordance with its previous financial reporting to its profit or loss determined in accordance with applying CAS for the same period.

The Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard

34 *The Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard* (HK SME FRF & SME-FRS) applies the following transitional requirements for entities transitioning from a different GAAP to the SME-FRF and SME-FRS:

- (a) All items previously recognised (e.g. deferred tax liability) or previously measured under a different basis (e.g. unamortised goodwill) under a different GAAP which do not meet the recognition criteria under or are inconsistent with the SME-FRF and SME-FRS are to be recognised or re-measured and dealt with as a change in accounting policy. While items not previously under a different GAAP are recognised in accordance with the relevant sections of SME-FRF and SME-FRS as a change of accounting policy; and
- (b) Disclosures required following the year of transition such as: (a) the previous accounting framework adopted; (b) reconciliation of net assets previously reported with net assets as at the same date under SME-FRF and SME-FRS; (c) items recognised or derecognised following transition; and (d) items re-measured as a result of adopting SME-FRF and SME-FRS. The reconciliation should be presented for the opening balances of the current period and any comparative period presented that has been restated. And disclosing the fact if any opening balances have not been restated due to undue cost or effort.

4 A small entity is a company meeting the definition of a small company set out in the *Companies Act 2014*, a limited liability partnership (LLP) qualifying as small and not included from the small LLP regime as set out in LLP Regulations. This is different to micro entities that are qualified to apply FRS 105.

A change in accounting policy requires adjustments for the current and each prior period, including adjustments to comparative information. However, an undue cost or effort exemption is permitted if restatement for a particular prior period has not been made.

The Canadian Accounting Standards for Not-For Profit Organizations

- 35 Section 1501 *First Time Adoption by Not-for-Profit Organizations* of the Canadian Accounting Standards for Not-For Profit Organizations (ASNPO) provides guidance on preparing the first set of financial statements. The overall approach under Section 1501 applicable for ASNPO requires entities to apply a full retrospective basis including all comparative amounts presented in the first set of financial statements to be restated. However, section 1501:
- (a) provides some specific “exemptions” from the retrospective application requirement including: a) business combinations, b) fair value, c) employee future benefits, d) cumulative translation differences, e) financial instruments, and f) asset retirement obligations;
 - (b) provides certain “exceptions” or specific prohibitions from retrospective application of some aspects of other standards relating to: a) de-recognition of financial assets and liabilities; b) hedge accounting; c) estimates and non-controlling interests.
 - (c) requires the presentation of an “opening balance sheet” at the date of transition and requiring the use of the same accounting policies in its opening statements of financial position and throughout all periods presented in its first financial statements using ASNPO; and
 - (d) requires entities to change their accounting in order to conform with ASNPO standards with adjustments for the differences recorded directly in net assets at the date of transition. Disclosures of each change to net assets and the reason for the changes as well as a reconciliation of the excess of revenue over expenses based on previously applied GAAP and ASNPO are required.

New Zealand Tier 3 Standard

- 36 Transition provisions contained in Appendix C of the New Zealand Tier 3 Standard apply to first-time adopters, entities that may have adopted the Tier 2 or Tier 4 PBE Accounting Requirements in the previous year or other entities following another GAAP or did not present financial statements for previous periods. The general provisions require entities to apply the Standard at the beginning of the earliest comparative period prepared and all assets and liabilities are required to be recorded at the earliest of the comparative period, specifically:
- (a) payables and receivables recorded at the amounts owing or owned;
 - (b) significant items of PPE recorded at their readily obtainable current amounts (such as rateable or government valuation), unless the current amounts are not readily available, then disclosures in the notes of that fact are required instead; and
 - (c) other assets and liabilities are recorded at the entity’s best estimates of the value with the adjustments of those values recorded in accumulated funds.
- 37 Special provisions are provided that override the general provisions above depending on the entity type, specifically for:
- (a) new entities – no comparatives are required, and the entity discloses its date of commencement in the notes to the performance report;
 - (b) Entities that previously applied Tier 4 PBE Accounting Requirements or other entities that previously applied another GAAP – an entity can elect not to provide comparative information but is required to attach its previous financial statements and a list of its previous accounting policies. Otherwise, the entity applies the general provisions in paragraph 36;

- (c) Entities that previously applied Tier 2 PBE Accounting Requirements – an entity can elect to provide comparative information based on the applicable information reported in its financial statements prepared in accordance with Tier 2 PBE Accounting Requirements or the entity applies the general provisions in paragraph 36; and

38 There are specific requirements for entities that applied the previous Tier 3 PBE Accounting Requirements, including changes in categories of revenue and expenses, which are to be reflected in the comparative amounts unless impracticable. Amounts such as unused donations and grants recognised under the previous Tier 3 PBE Accounting Requirements are not required to be reassessed and can continue to be recognised based on the previous recognition basis. There are also specific requirements for the revaluation of assets, and entities that have accounted for PPE under a Tier 2 PBE measurement basis may continue to apply those requirements to the class of assets. Otherwise, entities can cease the application of those Tier 2 PBE measurement requirements and apply the revaluation requirements in the Tier 3 PBE Accounting Standard as a change in accounting policy from the beginning of the current reporting period with disclosure of this fact.

US 958 NFP Entities

39 There is no specific guidance on first-time adoption under U.S. GAAP. Instead, entities are required to review all historic transactions since their inception to determine whether the accounting for such transactions would have been different had U.S. GAAP been applied. For example, it is necessary to consider all historic business combinations and whether there should be any amounts (goodwill, fair value adjustments to long-lived assets) that should be included in the opening balance sheet. The extent to which it is necessary to review historic transactions will depend upon the entity's corporate history, depreciation and amortisation periods and materiality. First time adopters therefore generally use full retrospective application unless the transitional provisions in specific guidance require otherwise. For example, when transitioning to the new revenue standard under U.S. GAAP, an entity can elect to use either the "full retrospective method" under ASC 606-10-65-1(d)1 or the "modified retrospective method" under ASC 606-10-65-1(d)2. The modified retrospective method requires entities to apply the new revenue standard only to the current year financial statements (i.e. the financial statements for the year in which the new revenue standard is first implemented).

International Public Sector Accounting Standards

40 Staff also considered the International Public Sector Accounting Standards (IPSASs) requirements on first-time adoption of accrual basis. IPSAS 33 sets out the guidance for a first-time adopter who prepares and presents financial statements following the adoption of accrual basis IPSASs. An entity transitioning to the accrual basis of IPSASs from another accounting basis such as a cash basis of accounting and adopting the exemptions provided in IPSAS 33 is referred to as the transitional IPSAS Financial Statements. As a high level, IPSAS 33 has similar requirements to AASB 1 except:

- (a) paragraph 36 of IPSAS 33 allows a three-year transitional relief period for the recognition and/or measurement of assets and/or liabilities following the date of adoption of IPSAS including inventories, investment property, property, plant and equipment, defined benefit plans and other long-term employee benefits, intangible assets and financial instruments. Where the first-time adopter has recognised these items under its previous basis of accounting, it is not required to change its accounting policies with respect to its measurement of these assets/liabilities within the three-year transitional period. Nor would it be required to recognise and/or measure any related revenue for not recognising and/or measuring financial assets;
- (b) paragraph 42 allows a first-time adopter not to change its accounting policy with respect to the recognition and measurement of non-exchange revenue within the three year transitional period. However, an entity may change its accounting policy in respect of revenue from non-exchange transactions on a class by class basis;

- (c) a first time adopter is not required to disclose related party relationships, related party transactions and information about key management personnel within the three year transition period. It is also not required to recognise its interest in controlled entities, associates or joint ventures during this transition period. Subject to the three year transition period, an entity would be required to present consolidation financial statements;
- (d) paragraph 77 of IPSAS 33 allows first-time adopters not to present comparative information in their first transitional IPSAS financial statements. It may also present comparative information in accordance with its previous basis of accounting and label as being information not prepared in accordance with IPSASs, and disclose the nature of the main adjustments that would be required to comply with IPSASs;
- (e) impairment of both cash-generating assets (CGUs) and non (CGUs) are applied prospectively. A first-time adopter would assess for impairment of CGUs and non CGUs after the three-year transition period for any assets that were not recognised and/or measured during that transition period. On the date that the transition exemption expires and/or when the relevant assets are recognised, the first-time adopter would assess whether there is any indication that the CGUs and non-CGUs are impaired. Any impairment loss shall be recognised in opening accumulated surplus or deficit on the date of adoption of IPSASs or the reporting period which the transition period expires; and
- (f) disclosures are required for first-time adopters of the extent of the transitional exemptions have been applied and the progress in recognising, measuring, presenting or disclosing the assets/liabilities with the requirements of IPSAS. Similar to AASB 1, an entity is required to disclose reconciliations of its net asset/equity and surplus/deficit reported in accordance with its previous basis of accounting to its equity and opening balance of surplus/deficit at the date of adoption of IPSASs. However, a first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present such reconciliations.

Summary of feedback from NFP PAP members on matters in this Staff Paper

- 41 Staff gathered feedback from the Not-for-Profit Project Advisory Panel (NFP PAP) meeting in May 2024. One member also provided feedback outside of the meeting. Staff have presented the panel members feedback in this paragraph relating to Issues 1 – 3 and paragraph 84 relating to Issues 4 – 6. Of the panel members who commented:
- (a) they supported developing transitional provisions within the Tier 3 Standard with the optional relief provided to for-profit entities through AASB 2020-2 with ongoing access to those reliefs is adequate;
 - (b) they did not oppose the accounting policy to allow an entity to continue applying Tier 1/Tier 2 R&M requirements for existing balances, and considered it would be easier for entities to transition fully to Tier 3 requirements on the transition date rather than carry forward their existing Tier 1/Tier 2 R&M requirements as it may increase complexity. One example provided was lease modifications or extension of lease term where an entity with an existing lease would need to account for such modifications if continuing to apply Tier 1/Tier 2 R&M requirements for the leases that existed on transition and noted that it might be easier to derecognise those assets on the transition date;
 - (c) they noted that the transitional period affects entities transitioning to the Tier 3 Standard as well as NFP entities that may need to apply Tier 1/Tier 2 requirements. In that regard, a longer period should be provided to ensure these entities have sufficient time to make necessary changes. The members who commented agreed that the transitional period should not be less than two years. They considered five years too long and may lead to entities not prioritising the need to prepare for any necessary changes. They contemplated that three years would be appropriate for entities needing to transition to GPFs. One member also noted that the key to

ensuring entities is ready for the transition is having clarity and awareness of the need for change. Since regulators are still accepting special purpose financial statements and the sector is predominately operated by volunteers, with resource constraints, that member considered changes to legislation may need to happen first to give clarity to the NFP sector;

- (d) they supported allowing entities to early adopt the Tier 3 Standard; and
- (e) they supported the optional relief provided to for-profit entities through AASB 2020-2 to also be provided to a Tier 3 NFP entities if they were required to transition to Tier 2 requirements. They also supported these entities applying AASB 1 on the transition to Tier 1 or Tier 2 requirements.

Findings from academic research and other literature

- 42 AASB research reports show that a significant number of charities prepare SPFS, but many of those entities do not comply with the R&M requirements in AAS. AASB Research Report 11 *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities* investigated to what extent Australian Charities and Not-for-profits Commission (ACNC) registered charities lodged SPFS that complied with R&M and disclosure requirements in AAS.⁵ A sample of 407 charities was drawn from 5674 large and medium charities that lodged SPFS to the ACNC in 2016. The findings show that 26% of the SPFS lodged by the sampled charities stated they applied all R&M requirements compared to 30% that stated they did not apply all R&M requirements. While 44% of these SFPS entities did not clearly state what requirements were complied with. It is important to note that the findings were based on the sample prior to the legislative changes to ACNC size thresholds (i.e. medium charities having revenue of \$250k to under \$1 million and large charities having revenue of \$1million and over); whereas the findings from the recent AASB Research Report 19 *Charities with \$0.5-\$3 million in revenue*⁶ was based on the revised ACNC thresholds. That research shows that 203 of the 260 sampled medium charities prepared and lodged SPFS, indicating a vast majority of charities prepare SPFS. Of those charities that prepared SPFS, 82 (40%) charities stated they comply with all R&M and 201 (60%) charities either stated that they did not comply with all R&M or did not provide a statement of R&M compliance. These findings suggest that there are likely more entities in this sector not complying with R&M than for-profit entities since it is estimated that 76% of specified for-profit entities lodging SPFS with ASIC comply with R&M requirements in AAS (refer BC126 (b) of AASB 2020-2). As such, the removal of SPFS would likely impact a larger population of NFP entities. Staff also consider these findings to indicate that NFP entities may require more time or simplifications to transition to GPFS, at least for NFP entities that may be required to transition to the Tier 1/Tier 2 requirements, since these entities have not complied with all R&M requirements.
- 43 Irvine and Ryan (2013)⁷ investigated the charity regulatory system, including accounting standard setting, across five jurisdictions in varying states of adoption of International Financial Reporting Standards and identified the challenges of this process. The findings highlighted that the co-operative interrelationships of charity regulators and accounting standard setters engaging in active consultation will better manage the transition to IFRS. Staff consider these findings to indicate the importance of continued dialogue with regulators and legislatures about the interactions of the AASB proposals including the interaction of the future Tier 3 Standard and removal of SPFS for NFP entities.
- 44 Unlike the for-profit sector, staff consider there is likely a higher number of NFP entities that would be impacted by the Board's proposal of removal of SPFS. As stated in paragraph E6 of the DP, subject

5 Y. Yang (2019), *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities*. AASB Research Report (August 2019).

6 J. Wei, M. Man and E. Lee (2023), *Common Financial Statement Items: Charities with \$0.5–\$3 million in revenue*. AASB Research Report (April 2023).

7 Irvine, H. and Ryan, C., 2013. Accounting regulation for charities: international responses to IFRS adoption. *Pacific Accounting Review*, 25(2), pp.124-144.

to any future changes in reporting requirements by regulators, entities impacted by the Board’s proposals, if developed consistent with the Board’s preliminary views, include:

- (a) ‘medium’ and some ‘large’ charities that currently lodge SPFS with the ACNC to satisfy their regulatory reporting obligations.
- (b) incorporated associations (IA), co-operatives and NFP companies limited by guarantee that are required to prepare financial statements that comply with AAS for lodgement with the relevant federal, state or territory authority and which currently prepare SPFS. Staff have previously sought data from NFP state and territory regulators but have not been successful in obtaining the number of NFP entities regulated in each state/territory and whether NFP entities have submitted financial statements. In the absence of current data, staff have sourced the following data in Table 2 shows the type of financial statements prepared by IA that meets the highest size tier for Victoria (VIC), New South Wales (NSW) and Queensland (QLD). Staff have obtained the data from [Research Report 1 Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements](#) (RR1).⁸ According to RR1, data was only available for VIC, NSW and QLD. Each state has its own financial reporting threshold to determine the size of an IA. Staff have only provided analysis based on the data relating to IA that are of the highest size tier for each state.

In order to obtain the number of each type of financial statement prepared by IA, staff first calculated the number of IA that have lodged financial statements in 2010 by using the percentages of IA in the random sample multiplied by the total number of NFP entities that have made lodgements. After that, staff used the total number of IA that made lodgements multiplied by the percentage of sampled IA that have lodged each type of financial statement to obtain the number of each type of financial statement lodged by IA for each state. Based on Table 2, staff estimate that at least for VIC, NSW and QLD, there will likely be a significant number of entities that prepare SPFS and could be impacted by the removal of SPFS and may need to apply Tier 1/Tier 2 or Tier 3 reporting requirements in the future.

Table 2 Type of financial statements lodged by IAs that meets the highest size tier for VIC, NSW and QLD

	VIC		NSW		QLD	
Percentage of IA that meets the highest size tier for each state	13%		14%		17%	
Total population of NFP entities	39,673		34,910		20,357	
IA that meets the highest size tier for each state	5,157		4,887		3,461	
Type of financial statement						
SPFS	60%	3,094	67%	3,275	7%	242
GPFS	17%	877	10%	489	73%	2,526
No clear statement	23%	1,186	24%	1,173	20%	692

- 45 Regarding ACNC registered charities, based on the self-declared information submitted by charities, of the 50,219 ACNC 2021 AIS accessed by staff on 6 December 2023, staff deduced the following:

8 P. Carey, B. Potter and G. Tanewski (2014), Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements. AASB Research Report (June 2014).

Table 3 - Type of financial statements prepared by charities based on ACNC 2021 AIS data

	Medium charities (\$500K - \$3M)	Large charities (\$3M and over)
SPFS	3,330	3,751
GPFS – Tier 1/Tier 2	3,477	5,152
	6,807	8,903

- 46 Therefore, staff estimates that based on the type of financial statements prepared by charities from ACNC AIS data highlighted in Table 3 above, ~7,000 medium charities may be affected by the transitional provisions, if the ACNC permits, for medium charities that may adopt the Tier 3 Standard. And ~4,000 large charities would presume to be affected by the transitional provisions for moving from SPFS to GPFS once the ability to prepare SPFS is no longer available.

Matters to be addressed based on feedback on the DP proposals

- 47 Based on the feedback on the DP highlighted in paragraphs 8 – 9 above, staff noted six issues that need to be considered listed below. Issues 1 to 3 relate to SPFS preparers or Tier 1/Tier 2 preparers transitioning to the Tier 3 Standard for the first time. Issue 4 relates to a Tier 3 preparer moving Tiers to either Tier 1 or Tier 2 GPFS. Issues 5 and 6 are other matters relating to the further guidance and support for preparers applying the future Tier 3 Standard:

SPFS preparers or Tier 1/Tier 2 preparers transitioning to the Tier 3 Standard

- (a) **Issue 1:** What transitional approach should be provided for first-time adopters of the Tier 3 Standard;
- (b) **Issue 2:** Whether to permit entities to continue to apply requirements in applicable Tier 1/Tier 2 AAS when first adopting the Tier 3 Standard;
- (c) **Issue 3:** what should be the length of the transitional period;

Tier 3 preparer transitioning to other Tiers

- (d) **Issue 4:** what are the requirements for entities moving from Tier 3 to Tier 1/Tier 2;

Other matters for consideration

- (e) **Issue 5:** whether to develop any financial reporting size thresholds in the AAS; and
- (f) **Issue 6:** whether a TRG should be formed to monitor transitional/implementation issues.

Issue 1: What transitional approach should be provided for first-time adopters of the Tier 3 Standard

Options for simplification

- 48 With reference to the 'Approach to simplification' flowchart in Appendix A of Agenda Paper 3.1 at this meeting, the staff analysis considers current practice in Australia and international jurisdictions, feedback received on the DP, the NFP PAP and the academic and other literature findings. Staff consider there are three options for simplification to be considered including staff analysis of each of the following options presented in Table 1:

- (a) **Option 1: Follow the transitional approach provided to for-profit entities based on AASB 2020-2.** That is, first time adopters that are:
 - (i) SPFS preparers transitioning to the Tier 3 Standard to apply AASB 1 or directly apply the Tier 3 Standard to retrospectively restate its financial statements in accordance with AASB 108. However, SPFS preparers that adopt the Tier 3 Standard early would be provided optional short-term transitional reliefs based on the approach provided to for-

profit entities in Appendix E of AASB 1053. That is, the relief from restating comparative information or providing comparative information for new disclosures and relief from distinguishing errors from changes in accounting policies would only be provided to SPFS preparers adopting the Tier 3 Standard before the effective date (discussed in Issue 3); and

- (ii) Tier 1/Tier 2 preparers that are permitted to apply the Tier 3 Standard would not apply AASB 1. These entities would directly apply the Tier 3 Standard using the requirements in AASB 108 (which would require retrospective application to changes in accounting policies unless impracticable). No transitional relief is provided.

Disclosures would be developed based on the disclosures for first time adopters transitioning to AASB 1060 as highlighted in paragraphs 21 and 26 above for SPFS preparers that elect to apply the optional short-term transitional relief.

- (b) **Option 2: Provide a general provision that entities would apply the Tier 3 Standard from the beginning of the earliest comparative period (i.e. restate all comparative information). However, the following special provisions would apply:**

- (i) SPFS entities transitioning to the Tier 3 Standard would either apply the Tier 3 Standard at the beginning of the earliest comparative period prepared and all assets and liabilities are required to be recorded at the earliest of the comparative period, or apply the Tier 3 Standard prospectively. Comparative information is not required but the entity would attach its previous financial statements and a list of its previous accounting policies; and
- (ii) Tier 1/Tier 2 GPFs preparers that elect to or are permitted to apply the Tier 3 Standard would either apply the Tier 3 Standard at the beginning of the earliest comparative period or provide comparative data based on the applicable information reported in the entity's financial statements for the previous period prepared in accordance with Tier 1/Tier 2 requirements.

Option 2 differs from Option 1 in that SPFS preparers would not provide comparative information presented on different base in the entity's first Tier 3 compliant financial statements.

Disclosures would be developed based on the New Zealand Tier 3 Standards which encourage disclosures of significant restatements but are not required (per C6 of the New Zealand Tier 3 Standard).

- (c) **Option 3: Develop transitional provisions to be included in the Tier 3 Standard based on AASB 1 and remove any exemptions/exceptions from retrospective application for topics that are not dealt with in the Tier 3 Standard (e.g. stripping costs in the production phase of a surface mine would not be included in the Tier 3 transitional provisions). Therefore, first-time adopters of the Tier 3 Standard that are:**

- (i) SPFS preparers would apply the transitional provisions that are contained within the Tier 3 Standard or directly apply the Tier 3 Standard to apply modified retrospective application for changes in accounting policies; and
- (ii) Tier 1/Tier 2 preparers would apply the Tier 3 Standard directly by applying a modified retrospective application for changes in accounting policies.

This means that the short-term relief from restating comparative information will not be required since entities would only be required to make adjustments to the opening balance for the current period without adjusting comparative information presented for prior periods. The optional relief from providing comparative information for new disclosures and relief from distinguishing errors from changes in accounting policies would be provided for all first-time adopters of the Tier 3 Standard (i.e. SPFS, Tier 1/Tier 2 preparers), to be consistent with the

approach of applying a modified retrospective approach to changes in accounting policies (i.e. ongoing relief rather than as a short-term relief for early adopters in Option 1).

Disclosures would be developed based on the disclosures for first time transitioning to AASB 1060 as highlighted in paragraphs 21 and 25 for all first-time adoption that elects to apply the optional transitional relief.

- 49 The Tier 3 disclosure requirements will be further considered once the Board decides on the transitional approach in Issue 1 and staff will bring the next iteration of the draft of the Tier 3 ED to a future board meeting. If the Board prefers either Option 1 or Option 3 above, staff will also consider further simplifications for disclosures. Simplifications may include those provided to cash accounting preparers transitioning to IPSASB standards for the first time in paragraph 40(f). That is, not requiring reconciliations of the entity's net asset/equity and surplus/deficit reported in accordance with its previous basis of accounting to its equity and opening balance of surplus/deficit at the date of adoption of the Tier 3 Standard. Staff also note that there are existing disclosures required for SPFS NFP preparers within AASB 1054 *Australian Additional Disclosures* to require disclosures of, for example, the basis on which the decision to prepare SPFS or disclosure of whether or not the financial statements overall comply with all R&M requirements in AAS (per paragraphs 9A to 9D in AASB 1054). Subject to the Board's decision in Agenda Paper 7.1 whether to allow certain NFP entities to continue to apply SPFS, staff will consider the impact of the Board's decision on the AASB 1054 disclosure requirements for SPFS NFP entities at a future Board meeting.
- 50 Staff are aware the selected other jurisdictions may apply other approaches but did not consider them further, including such as:
- (a) requiring full retrospective approach (adopted in US) because this approach would inherently be more onerous than the existing Tier 1/Tier 2 requirements; and
 - (b) allowing an undue cost or effort from applying a full retrospective approach (IFRS for SMEs/ Singapore CAS/HK SME-FRS & SME-FRF) because, as per paragraph 5.144 of the DP, the Board previously decided not to adopt the notion of undue cost or effort. Additionally, Option 3 to applying a modified retrospective application above provides a similar effect as a substitute without considering the notion of undue cost or effort/impracticability from applying a full retrospective application.

Table 4 Options for simplification for developing the transitional relief for first time adopters of the Tier 3 Standard

<p>Option 1 – Follow the transitional approach provided to for-profit entities based on AASB 2020-2. That is, SPFS preparers apply AASB 1 or Tier 3 directly by applying AASB 108 with optional short-term relief from restating or providing comparative information and distinguishing errors from accounting policies. Tier 1/Tier 2 preparers apply Tier 3 directly by applying AASB 108 with no short term transitional relief.</p>	<p>Option 2 – Allow SPFS entities to elect to restate comparatives or apply the Tier 3 Standard prospectively and attach its previous financial statements and a list of its previous accounting policies. Tier 1/Tier 2 preparers may elect to restate comparatives or provide comparative data based on the applicable information reported in the entity’s financial statements for the previous period prepared in accordance with Tier 1/Tier 2 requirements.</p>	<p>Option 3: Develop Tier 3 transitional requirements within the Tier 3 Standard based on AASB 1. Entities that elect to apply the Tier 3 requirements directly apply the modified retrospective approach to changes in accounting policies. All first-time adopters of the Tier 3 Standard can apply the optional relief from providing comparative information for new disclosures and relief from distinguishing errors from changes in accounting policies when first adopting the Tier 3 Standard.</p>
<p>Based on Tier 2 requirements</p>	<p>New Zealand Tier 3</p>	<p>Similar to IFRS for SMEs/FRS 102/Charity SORP/INPAG/HK/Singapore providing an undue cost/effort relief from restating comparative information</p>
<p>Arguments for this approach</p>		
<ol style="list-style-type: none"> 1) Stakeholders consider the transitional provisions provided to for-profit entities when introducing AASB 1060 and the removal of SPFS effective and appropriate for NFP entities. 2) Maintains consistency with Tier 1 and Tier 2 requirements and enhances the relevance, reliability and comparability of information provided for entities that can restate information since the Tier 3 requirements provide simplifications and/or relief compared to existing Tier 2 requirements. 3) The short-term exemption for the relief from restating comparative information and distinguishing correction of errors and changes in accounting policies would incentivise entities to transition early to GPFS. 4) Entities would refer to AASB 1 and AASB 1053 rather than including the transitional requirements within the Tier 3 Standard, further shortening the Standard. But this 	<ol style="list-style-type: none"> 1) Simpler to apply than Option 1 given the NZ Tier 3 Standard allows for entities that previously adopted a different GAAP or SPFS to elect not to restate comparative information (and instead attach previous financial statements) even after the effective date. Staff consider there may be entities that would transition/adopt the Tier 3 Standard until after the effective date, especially in the NFP sector, and may be disadvantaged if the transitional relief from restating comparative information is only provided as a short-term exemption as suggested in Option 1. However, staff consider activities such as education campaigns/road shows and continued discussions with regulators to mitigate the risk. 2) As noted in BC132 of AASB 2020-2, stakeholder feedback from some software providers that having comparative information presented on different bases could be difficult from both a 	<ol style="list-style-type: none"> 1) Option 3 is similar to Option 2 but the exemption from providing comparative information would be available to entities (due to application of the Tier 3 modified retrospective approach to changes in accounting policies) even after the effective date to cater for those entities that only consider transitioning to the new requirements/changes accounting tiers later or post effective date. Entities will only need to make adjustments to opening balances of assets, liabilities, and equity items for any changes in accounting policies, from transitioning to the Tier 3 requirements. 2) Similar to Option 1, Option 3 considers the stakeholder feedback that transitional provisions provided to for-profit entities when introducing AASB 1060 is appropriate for NFP entities.

<p>Option 1 – Follow the transitional approach provided to for-profit entities based on AASB 2020-2. That is, SPFS preparers apply AASB 1 or Tier 3 directly by applying AASB 108 with optional short-term relief from restating or providing comparative information and distinguishing errors from accounting policies. Tier 1/Tier 2 preparers apply Tier 3 directly by applying AASB 108 with no short term transitional relief.</p>	<p>Option 2 – Allow SPFS entities to elect to restate comparatives or apply the Tier 3 Standard prospectively and attach its previous financial statements and a list of its previous accounting policies. Tier 1/Tier 2 preparers may elect to restate comparatives or provide comparative data based on the applicable information reported in the entity’s financial statements for the previous period prepared in accordance with Tier 1/Tier 2 requirements.</p>	<p>Option 3: Develop Tier 3 transitional requirements within the Tier 3 Standard based on AASB 1. Entities that elect to apply the Tier 3 requirements directly apply the modified retrospective approach to changes in accounting policies. All first-time adopters of the Tier 3 Standard can apply the optional relief from providing comparative information for new disclosures and relief from distinguishing errors from changes in accounting policies when first adopting the Tier 3 Standard.</p>
<p>approach would not align with making a stand-alone standard.</p>	<p>software development and financial statement user perspective. As such, Option 2 may help address this concern since at least for SPFS preparers would only be required to attach their previous SPFS if they elect not to restate comparative information.</p>	<p>5) Similar to the transitional provisions in IFRS for SMEs (which contains similar requirements to IFRS 1) and other jurisdictions where their pronouncements are based on the IFRS for SMEs Accounting Standard</p> <p>3) Maintains consistency to a certain extent with Tier 1/Tier 2 requirements;</p> <p>4) This option addresses stakeholder concern to allow for a longer transition period by providing a long term relief from restating comparative information.</p>
<p>Arguments against this approach</p>		
<p>1) As noted in the summary of other jurisdiction requirements, there is generally an exception from providing comparative information for entities that is not provided as a short-term exemption. Staff also think the purpose of providing transitional provisions allow entities to transition easier to a reporting tier hence, imposing a time limit on transition relief may restrict a smooth transition for those impacted entities. However, staff think the Board could consider allowing a longer transitional period to ensure ample time is provided to those entities impacted by the Board’s proposal. More discussion on the transition period and effective date will be considered in Issue 3 of this paper.</p>	<p>1) Inconsistency with existing Tier 1 and Tier 2 transitional requirements;</p> <p>2) As per paragraph 37, if the transitional provisions are based on the specific provisions in the NZ Tier 3 Standards, then SPFS preparers may elect not to restate comparatives but instead attach previously prepared financial statements. However, this requirement may appear to extend beyond the standard-setting requirements and may add to the length of the financial statements for the year of transition.</p>	<p>1) Some inconsistency with Tier 1/Tier 2 requirements (i.e. optional relief are provided to all first time adopters).</p> <p>2) Option 3 may add to the length of the Tier 3 Standard if transitional provisions were included within the Standard.</p>

<p>Option 1 – Follow the transitional approach provided to for-profit entities based on AASB 2020-2. That is, SPFS preparers apply AASB 1 or Tier 3 directly by applying AASB 108 with optional short-term relief from restating or providing comparative information and distinguishing errors from accounting policies. Tier 1/Tier 2 preparers apply Tier 3 directly by applying AASB 108 with no short term transitional relief.</p>	<p>Option 2 – Allow SPFS entities to elect to restate comparatives or apply the Tier 3 Standard prospectively and attach its previous financial statements and a list of its previous accounting policies. Tier 1/Tier 2 preparers may elect to restate comparatives or provide comparative data based on the applicable information reported in the entity’s financial statements for the previous period prepared in accordance with Tier 1/Tier 2 requirements.</p>	<p>Option 3: Develop Tier 3 transitional requirements within the Tier 3 Standard based on AASB 1. Entities that elect to apply the Tier 3 requirements directly apply the modified retrospective approach to changes in accounting policies. All first-time adopters of the Tier 3 Standard can apply the optional relief from providing comparative information for new disclosures and relief from distinguishing errors from changes in accounting policies when first adopting the Tier 3 Standard.</p>
<p>2) This option may not align with the Board’s decision for the Tier 3 requirements for changes in accounting policies to apply a modified retrospective approach if Tier 3 entities are required to adopt a full retrospective approach for changes in accounting policies if an entity elects to apply AASB 108 for Tier 2 requirements rather than AASB 1.</p> <p>3) May be difficult to understand for less experienced preparers since AASB 1 contains exceptions and exemptions (unless applying for the short-term exemption) and the standard is 31 pages in total (IFRS for SMEs Transitional provisions are 7 pages excluding Appendix);</p> <p>4) As acknowledged in Agenda Paper 6.3 at the April 2019 Board meeting when the Board was considering the relief from providing comparative information for for-profit entities, comparative information is beneficial to users – not requiring it could have a potential for significant information loss. However, as noted in BC 134 of AASB 2020-2, the Board decided not to provide specific requirements on the basis that the disclosure requirements of AASB 1060 and those contained within the relief required by the Board would provide sufficient information about the previous accounting policies in explaining the effect of the transition from SPFS to GPFS.</p>		

- 51 In addition to the analysis in the Table above, staff also analysed each of the proposed options against the Tier 3 principles presented in the 'Approach to simplification' flowchart in Appendix A of Agenda Paper 3.1 at this meeting. Staff consider each of the proposed options to be broadly aligned with the Tier 3 principles, but note the following:

Table 5 Tier 3 principles against options

Principles	Staff assessment
Accounting requirements do not impose disproportionate costs to preparers when compared to the benefits of the information	Options 1 and 3 are similar to Tier 2 requirements except for simplifying the language hence these options may be more complex to understand compared to Option 2.
Consistency with the accounting principles specified by Tier 2 Australian Accounting Standards – Simplified Disclosures is desirable but might not always be warranted since Tier 3 requirements are being developed as a proportionate response	Option 1 and Option 3 provide the greatest consistency with Tier 2 requirements. For Option 2, SPFS preparers may apply the Tier 3 Standard from the beginning of the current period without applying a cumulative catch-up with adjustments to opening balances.

Staff analysis and recommendation

- 52 Staff recommend Option 3 based on the arguments presented in Table 4 above. That is, to develop transitional requirements within the Tier 3 Standard based on AASB 1. On first-time adoption of the Tier 3 Standard, entities that are:
- (a) SPFS preparers would either apply the transitional requirements or apply the Tier 3 Standard directly by applying the modified retrospective approach to changes in accounting policies;
 - (b) Tier 1/Tier 2 preparers would apply the Tier 3 Standard directly by applying the modified retrospective approach to changes in accounting policies; and
 - (c) all first-time adopters can apply the optional relief from providing comparative information for new disclosures and relief from distinguishing errors from changes in accounting policies when first adopting the Tier 3 Standard.
- 53 Staff consider Option 3 would be the simplest and most pragmatic approach for entities to transition to the Tier 3 Standard since the relief from providing comparative information and distinguishing errors from changes in accounting policies would be provided to all first time adopters on first time adoption of the Tier 3 Standard as an ongoing relief rather than a short term relief.
- 54 In accordance with the [AASB Due Process Framework for Setting Standards](#) (AASB Due Process Framework), paragraph 7.9.3 states that in determining transitional relief, the AASB considers user needs for comparability, and may include the option of full retrospective application, with a modified transition approach that provides practical relief to determining the required adjustments as at the beginning of the earliest comparative period presented or, in some circumstances, as at the beginning of the current period. Where providing a solution is urgent, or the effect of the change is limited and can be explained adequately by way of note, the transitional relief may include relief from amending the statement of financial performance and/or statement of financial position comparatives. Typically, the transitional relief does not permit the use of hindsight in determining modifications to full retrospective application.
- 55 Staff consider that Option 3 is in line with the AASB Due Process Framework, which allows the Board to provide practical relief to determine the required adjustments at the beginning of the current period.

- 56 Staff also do not think transitional relief would be needed for early adopters if the Board agrees with staff recommendation to provide the transitional relief in paragraph 52 on first time adoption rather than a short-term relief. NFP PAP members also supported this view noted in paragraph 41 above. However, staff think it would be useful for the Board to ask a specific matter for comment in the ED whether any other transitional relief should be given to early adopters to incentivise NFP entities to transition from SPFS to GPFS early.

Question 1: Do Board members agree with the staff recommendation in paragraph 52, to develop transitional requirements within the Tier 3 Standard based on AASB 1. On first-time adoption of the Tier 3 Standard, entities that are:

- (a) **SPFS preparers would either apply the transitional requirements based on AASB 1 or apply the Tier 3 Standard directly by applying the modified retrospective approach to changes in accounting policies;**
- (b) **Tier 1/Tier 2 preparers would apply the Tier 3 Standard directly by applying the modified retrospective approach to changes in accounting policies;**
- (c) **all first-time adopters can apply the optional relief from providing comparative information for new disclosures and relief from distinguishing errors from changes in accounting policies when first adopting the Tier 3 Standard; and**
- (d) **to include a specific matter for comment in the ED whether any other transitional relief should be given to early adopters to incentivise NFP entities to transition from SPFS to GPFS early.**

If not, what does the Board suggest?

Issue 2: Whether to permit entities to continue to apply requirements in applicable Tier 1/Tier 2 R&M requirements when first adopting the Tier 3 Standard

- 57 As per stakeholder feedback noted in paragraph 9(e) some NFP entities may have already transitioned to some AAS such as AASB 16, AASB 9, including capitalising borrowing costs.⁹ As such, the Board may need to consider whether to allow entities to continue to apply the applicable Tier 1/Tier 2 AAS for their existing arrangements/transactions.

Options for simplification

- 58 Staff consider there are two options to address the issue, being:
- (a) **Option 1:** To permit entities to continue to apply the requirements in applicable Tier 1/Tier 2 R&M requirements for balances that existed on the transition date or allow entities to apply Tier 3 requirements directly by applying a modified retrospective approach with disclosures. This approach is similar to the New Zealand Tier 3 Standard for the application of revaluation of assets outlined in paragraph 38 which allows entities the option to continue to apply the requirements of the applicable Tier 2 PBE Standards to the revalued class of assets or entities can cease the application of those Tier 2 PBE measurement requirements and apply the revaluation requirements in the Tier 3 PBE Accounting Standard as a change in accounting policy from the beginning of the current reporting period with disclosure of this fact. Entities would only be permitted to continue to apply Tier 1/Tier 2 R&M requirements if the entity has

9 Refer to [Agenda Paper 3.1](#) at the September 2023 Board meeting when discussing the topics that may be appropriate to apply a higher tier requirements being AASB 16, AASB 9 and borrowing costs as some NFP smaller entities have transitioned to these accounting standards.

applied all R&M and presentation requirements to a particular transaction, balance or other event; or

- (b) **Option 2:** not permit entities to continue to apply the requirements in applicable Tier 1/Tier 2 R&M requirements and require entities to apply the Tier 3 requirements directly by applying a modified retrospective approach similar to the approach applied in HK SME-FRF & SME-FRS outlined in paragraph 34(a). This would mean possibly requiring the derecognition of assets/liabilities that were previously recognised under the Tier 1/Tier 2 R&M requirements. For example, to require all items previously recognised (e.g. deferred tax liability or right of use (ROU) assets) or previously measured under a different basis (e.g. unamortised goodwill) recognised under Tier 1/Tier 2 R&M requirements that do not meet the recognition criteria or are inconsistent with the Tier 3 requirements would need to be de-recognised or re-measured and dealt with as a change in accounting policy. Transactions that were previously designated as a hedge would need to discontinue the relationship in its entirety. The adjustments of assets and liabilities from derecognition or remeasurement of assets/liabilities as a result of applying the Tier 3 requirements would be accounted for in equity at the date of transition to the Tier 3 Standard.

- 59 Staff are aware there is another alternative approach to only allow entities to continue to apply the requirements in applicable Tier 1/Tier 2 R&M requirements rather than permitting the entity to apply the Tier 3 requirements directly. However, staff did not consider this option further because allowing entities to apply the Tier 3 requirements directly would increase consistency amongst Tier 3 entities, especially if the entity has selectively applied some Tier 1/Tier 2 R&M requirements but prefers to adopt all the Tier 3 requirements on first-time transition.

Staff analysis and recommendation

- 60 Option 1 would be simplest to apply as it allows the entity the option to continue to apply its existing Tier 1/Tier 2 R&M requirements to a class of assets without needing to make adjustments that Option 2 would require. Staff consider allowing entities to continue to apply Tier 1/Tier 2 R&M requirements means some asset/liabilities would remain on the balance sheet, for example:
- (a) entities that may have applied AASB 16 would recognise ROU assets, however, the ROU asset will eventually be written off in accordance with the term of the lease.
 - (b) financial assets or financial liabilities would eventually be disposed of or settled. As stated in paragraph 32(c)(i), staff noted that the IFRS for SMEs Accounting Standard provides exceptions for entities either to elect to derecognise a financial asset or financial liability that would not be recognised under the IFRS for SMEs Accounting Standards or continue to recognise them until disposed or settled (similar to paragraph B2 in AASB 1 which permits first-time adopters to apply the derecognition requirements in AASB 9 prospectively for transactions occurring on or after the date of transition to AAS).
 - (c) borrowing cost that were previously capitalised would be included in the cost of a qualifying asset that would be subject to subsequent measurement requirements (e.g. for investment property would be measured at cost or fair value with impairment considerations etc.);
 - (d) for any transactions, balances and other events that the Board has decided to refer entities to continue to apply Tier 2 requirements (e.g. defined benefit plans),¹⁰ then the entity would continue to apply the Tier 2 requirements.

¹⁰ The Board decided at its September 2023 Board meeting to require entities to apply the Tier 2 requirements for biological assets, service concession arrangements, complex financial instruments, insurance contracts, the exploration for and evaluation of mineral resources, defined benefit plans, share-based payment arrangements, and assets held for sale. Refer to the [minutes](#) of the September 2023 Board meeting.

Nevertheless, Option 1 could result in an inconsistency between some Tier 3 entities until the point the carrying amount of the assets and/or liabilities, based on Tier 1/Tier 2 R&M requirements, are written off, and the possibility that some difference may be long-term/permanent. For example, subject to the Board's decision in Agenda paper 3.2 at this meeting, if the Board agrees with staff recommendation to require the book value method for accounting of business combinations, then no goodwill will be recognised in the Tier 3 Standard. As such, any previously accounted goodwill will remain in the entity's balance sheet and will be required to assess for impairment in accordance with the Tier 2 requirements.

- 61 Option 2 will require preparers to make adjustments to derecognise assets and liabilities previously recognised under the applicable Tier 1/Tier 2 R&M requirements and may be complex and costly, especially for smaller entities. This approach may also not align with some of the exceptions available in AASB 1 for example, entities are not required to derecognise financial assets or financial liabilities under the previous financial reporting framework (see paragraph B3 of AASB 1). This also means any borrowing cost previously capitalised will need to be derecognised with adjustments to retained earnings. However, Option 2 will provide greater consistency between Tier 3 entities and some NFP panel members indicated that their clients will likely prefer to adopt the Tier 3 Standard entirely on the transition date rather than continuing with any existing Tier 1/Tier 2 R&M requirements as it may increase complexity as noted in paragraph 41.
- 62 Staff recommend Option 1, that is, to permit entities to continue to apply the applicable Tier 1/Tier 2 R&M requirements for the balances and transactions that existed on transition or allow entities to apply Tier 3 requirements directly by applying a modified retrospective approach. Option 1 approach is simplest to apply compared to Option 2 and for cost/benefit reasons. Staff think this approach is consistent with the exceptions already existing in other jurisdiction requirements. Based on the feedback from the DP, staff also think smaller NFP private sector entities may only have selectively applied R&M of limited AAS (i.e. AASB 9, AASB 16 or AASB 15 and AASB 1058), hence there is likely a lower risk of inconsistencies between entities applying existing Tier 1/Tier 2 R&M requirements for certain transactions/balances and those that apply Tier 3 requirements directly. Staff note that similar to Issue 1, Option 1 is in line with the AASB Due Process Framework to allow the Board to provide practical relief to determining the required adjustments as at the beginning of the current period.

Question 2: Do Board members agree with the staff recommendation in paragraph 62, to permit entities the option to:

- (a) continue to apply the requirements in applicable Tier 1/Tier 2 R&M requirements for balances that existed on the transition date; or**
- (b) allow entities to apply Tier 3 requirements directly by applying a modified retrospective application to changes in accounting policies?**

If not, what does the Board suggest?

Issue 3: What should be the length of the transitional period

- 63 As per paragraph 9(c), stakeholders feedback on the DP suggested the Board to consider a longer transition period or phased transition period¹¹ to support NFP entities in the adoption of the new Tier 3 Standard along with education.
- 64 When the Board was considering the effective date of the removal of SPFS for for-profit entities, the Board noted that there can be challenges within the population of entities that may transition from SPFS to GPFS-Tier 2 could differ significantly within the population, depending on the entities' compliance with the R&M requirements of AAS. As noted in BC151 of AASB 2020-2, the Board considered several options to determine the most appropriate effective date such as aligning effective date with changes in proprietary company thresholds imposed by the Government or providing a staggered implementation. However, the Board ultimately decided on an effective date later than the date imposed by Government for changes in proprietary company thresholds (i.e. applicable from 1 July 2019) supported by the Board's provision of a short term transitional relief to incentivise entities to early adopt the Tier 2 requirements.
- 65 In considering an appropriate effective date for NFP private sector entities, staff note the following:
- (a) There may be significantly larger number of entities that will be impacted by the Board's proposals to remove the ability of preparing SPFS within the NFP sector compared to the for-profit sector.
 - (b) The Tier 3 Standard contains significantly reduced R&M and disclosure requirements compared to Tier 1/Tier 2 requirements. Therefore, the transition from SPFS to the Tier 3 requirements, including, subject to the Board's approval in Question 1 above, the relief of not requiring entities to restate comparative information may alleviate the need for a long transition period;
 - (c) As noted in [Agenda Paper 6.1](#) at the April 2019 Board meeting, when considering the effective date for for-profit entities, the Board had regard to the first principal version of AASB 1 in July 2004, prior to the effective date of full adoption of the Australian-equivalent to IFRS Standards of annual periods beginning on or after 1 July 2005. Staff noted that the Financial Reporting Council provided the AASB with the directive to adopt IFRS Standards in 2005. Given that all entities would have applied AASB 1 on Australia's transition of IFRS Standards, the length of time provided at that time is arguably indicative of how much time might need to be provided for a transition from SPFS to GPFS;
 - (d) With reference to the Board's preliminary view in the DP on not setting thresholds within the AAS (discussed further in Issue 5 from paragraph 79 below), staff envisage that it would likely take some time for any legislative changes or guidance needed to be developed by respective NFP regulators. In that regard, staff noted while the Commonwealth, state and territory Treasurers reached agreement on a set of nationally consistent fundraising principles to streamline and harmonise statement territory requirements on charitable fundraiser conduct

11 The reference to a 'phased transition period' was provided in a written submission from a professional body (see submission [here](#)) but does not clarify what a phased transition period means. Staff think it may be similar to one of the options that the Board previously considered for for-profit entities when determining the effective date. As outlined in paragraph BC 151 of AASB 2020-2, option 5 outlined a staggered implementation where the Board considered for Corporations Act entities to apply the requirements in year one and the effective date deferred by a further year for all other entities in scope. However, the Board noted the disadvantage of this approach that the resolution of the problems with SPFS reporting would take an additional year for entities not regulated by the Corporations Act.

by July 2023,¹² only Tasmania, Queensland and South Australia has taken concrete steps to implement the Principles to date.¹³ In addition, ACNC has made significant inroads in its red tape reduction initiatives. However, alignment of financial reporting thresholds at least for IAs are yet fully aligned with ACNC reporting thresholds, noting recent changes to the ACNC threshold effective from the 2022 AIS. As such, staff consider it may take similar period of time for legislative changes to fully subsume the Tier 3 Standard and therefore, a longer transitional period could be warranted in this regard; and

- (e) The [AASB Due Process Framework for Setting Standards](#) outlines in paragraph 7.9.2 that when determining the effective date of Standards, the AASB seeks to ensure that stakeholders have adequate time to prepare for their implementation. Typically, the AASB will issue a Standard with at least 2 years before its effective date (e.g. a year before the beginning of the comparative reporting period) and generally permits entities to apply those requirements early should they wish to do so.

Staff recommendation

- 66 With regards to the points noted in paragraph 65 above, if the Board agrees with staff recommendation on Option 3 to develop transitional approach based on AASB 1 and AASB 1053 within the Tier 3 Standard, and entities would be applying a modified retrospective approach for changes in accounting policies when applying the Tier 3 Standard for the first time, staff recommend the Board should issue the Tier 3 Standard together with Conceptual Framework amendments that would remove the ability to produce SPFS at least three years before the date that the amendment would become effective. For example, if the Board issues a final Standard on or before 31 December 2025, the effective date of the Standard should be no sooner than annual reporting periods beginning on or after 1 January 2029. Staff have applied judgement in making this recommendation, with particular consideration being:
- (a) Stakeholder feedback requested for a 2-3 year transitional period. Considering there would appear to be more NFP entities that would be affected by the removal of SPFS, staff consider a slightly longer transitional period than what was provided to for-profit entities may be appropriate;
 - (b) While the Tier 3 Standard contains simpler accounting requirements, staff also expects that there will be NFP preparers of SPFS moving to GPFS Tier 1/Tier 2 which is a significant shift for some NFP entities that are not complying with R&M. Therefore, staff consider there may be a need to provide a longer transitional period compared to that provided to for-profit entities for SPFS preparers who may need to transition to Tier 1/Tier 2 requirements for the first time. As noted in paragraph 41, further feedback from NFP PAP members indicated support for a three-year transitional period to give sufficient time to entities that will need to transition from SPFS to GPFS Tier 1/Tier 2;
 - (c) Staff consider the recommended date is in accordance with the AASB Due Process Framework which allows the Board to issue a Standard with at least 2 years before its effective date, which means a longer transitional period is permitted;
 - (d) The Board could assess closer to the effective date to consider whether there is a need to provide a further extension to the effective date. Hence, staff do not think a staggered implementation approach (e.g. requiring such as ACNC regulated NFP entities to apply the requirements in 2 years and effective date deferred by a further year for all other entities in

12 Refer to joint media release “*Agreement reached on reforms of charitable fundraising laws*” from the Victoria Minister for Consumer Affairs on 16 February 2023.

13 Refer to [update on the implementation of the National Fundraising Principles](#).

scope) would be needed as it may add to the complexity for NFP entities to determine which effective date may apply.

- 67 Staff also recommend that the Board ask a specific matter for comment in the ED outlining the Board’s expectation for how long it will provide between issuing a standard and the effective date of that standard. Staff note that EDs do not always propose effective dates, however staff consider that it may be an important consideration for entities that would be required to transition from SPFS to either GPFS – Tier 3 or GPFS-Tier 2/Tier 1.

Early adoption

- 68 Based on the Board’s preliminary view in the DP, the Board decided to not develop any thresholds in the AAS (discussed further in Issue 5 from paragraph 79). One consideration resulting from the Board’s preliminary view not to develop any reporting thresholds in the AAS is whether to allow entities to early adopt the Tier 3 Standard prior to any legislation or regulatory guidance being developed. If no changes were made to the legislation/guidance to specify the entities that may apply the Tier 3 Standard, staff think it may lead to the risk of large NFP entities being able to apply the Tier 3 Standard as part of early adoption where existing legislation or regulation refers broadly to requirement to prepare financial statements in accordance with AAS or GPFS.
- 69 As such, the Board may consider not to permit entities to early adopt the Tier 3 Standard unless permitted by legislation or regulatory guidance, to mitigate the risk that a large NFP entity applying the Tier 3 Standard may not meet their user needs. Preventing the early adoption of the Tier 3 Standard unless permitted by legislation or regulations may incentivise NFP legislatures to make legislative changes. However, subject to the Board agreeing with the staff recommendation to develop financial reporting thresholds in the AAS discussed in Issue 5 below, staff do not recommend that the Board prohibit entities to early adopt the Tier 3 Standard because:
- (a) it would prevent smaller entities from taking advantage of the simpler accounting sooner;
 - (b) AASB Due Process Framework paragraph 30 notes that the Board “generally permits entities to apply those requirements early should they wish to do so” and
 - (c) as noted in paragraph 41, many NFP PAP members supported allowing entities to early adopt the Tier 3 Standard.

Question 3 to Board members.

Do Board members agree with the staff recommendation:

- a) in paragraph 66, to issue the Tier 3 Standard together with Conceptual Framework amendments that would remove the ability for NFP entities to produce SPFS at least three years before the date that the amendment would become effective?**
- b) in paragraph 67, to include a specific matter for comment in the ED outlining the Board’s proposed effective date decided in question 3(a) (directly above)?**
- c) in paragraph 69, subject to the Board’s decision on developing financial reporting thresholds in the AAS discussed in Issue 5, that early adoption be permitted?**

If not, what does the Board suggest?

Issue 4: What are the requirements for entities moving from Tier 3 GPFS to Tier 1/Tier 2 GPFS

Tier 3 GPFS preparers moving to Tier 1/Tier 2 GPFS

- 70 Staff consider that there may be the possibility that entities that adopt the Tier 3 Standard in the future would need to or want to adopt Tier 2 GPFS or even Tier 1 GPFS. This may be the case if an NFP private sector entity no longer qualifies, to apply the Tier 3 Standard due to its size based on

legislation/regulation or by direction in a legal document such as its constitution. A Tier 3 entity may also consider their activities to be more complex and prefer to adopt the Tier 1/Tier 2 requirements that better reflect information for users of their financial statements (subject to applicable reporting framework allowing such election). As such, staff think there is a need to consider the requirements that would apply to entities moving from the Tier 3 Standard to Tier 1/Tier 2 reporting requirements in the future. This is the case, especially in light of the simplification of the R&M requirements provided in the Tier 3 Standard compared to exiting Tier 1/Tier 2 requirements.

- 71 AASB 1053 paragraph 18 requires an entity that prepared its most recent previous financial statements in the form of SPFS shall apply all the relevant requirements of AASB 1 when applying Tier 1 reporting requirements for the first time.
- 72 AASB 1053 paragraph 21 refers to when an entity transitions between Tiers, specifically from Tier 2 to Tier 1:
- (a) to apply AASB 1, if it is claiming compliance with IFRSs;
 - (b) not apply AASB 1, if it is a not-for-profit entity not claiming compliance with IFRS.

And paragraph 23 specifies that an entity transitioning from Tier 1 to Tier 2 shall not apply AASB 1.

- 73 AASB 1053 also incorporates guidance relating to the reapplication of AAS other than transitioning between Tiers. Specifically, paragraph 20 allows an entity that resumes the application of Tier 2 reporting requirements to use the same approach as an entity effectively would for first transition from SPFS to Tier 2 reporting requirements set out in paragraph 18A of AASB 1053 (or as explained in paragraph 12(a) of this paper). That is, an entity is required to apply AASB 1, or the AASB 1 option for retrospective application of AAS in accordance with AASB 108, on resuming the application of Tier 2 reporting requirements.

Staff analysis and recommendation

- 74 Based on the current AASB 1053 requirements as outlined in paragraph 72 above for transitioning between tiers, if such an approach would apply for preparers of Tier 3 GPSF transitioning to Tier 1 GPFS, the entity would not apply AASB 1 as a NFP entity not claiming compliance with IFRSs. This means the entity would need to apply the R&M requirements directly using AASB 108.
- 75 Staff note that in BC93 of AASB 1053, the Board considered whether transitioning between Tiers for which compliance with IFRSs is not pertinent, particularly NFP entities that are subject to Aus paragraphs, should be subject to AASB 1 on transition. The Board concluded that AASB 1 is not applicable in those circumstances because, at the time of transition between Tiers, Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements, which have common R&M requirements, have previously been complied with. Accordingly, it would not be appropriate to imply, through the application of AASB 1, that the basis of accounting has changed.
- 76 However, as per BC 19 of AASB 2014-2 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*, the Board considered that some entities would not have applied, or only selectively applied, applicable R&M requirements in preparing their most recent previous annual financial statements. Consistent with the rationale in paragraph BC89 of AASB 1053 (June 2010), the Board concluded that such entities should be treated differently from those that had applied all applicable R&M requirements in those financial statements. Accordingly, the Board decided that SPFS preparers would need to apply AASB 1, or, Tier 2 reporting requirements retrospectively in accordance with AASB 108, on first transition to Tier 2 reporting requirements.
- 77 Based on the Board’s rationale in the paragraph directly above, staff recommend entities that previously applied the Tier 3 Standard should either apply AASB 1 or retrospective application of AAS in accordance with AASB 108 when transitioning to either Tier 1 or Tier 2 requirements on the basis that Tier 3 does not contain the same Tier 1 R&M requirements. Requiring Tier 3 entities to apply the Tier 1/Tier 2 requirements directly and requiring retrospective application would result in

disproportionate cost. For example, entities would need to apply AASB 3 retrospectively to past business combinations to comply with AASB 3 and apply AASB 10 from that same date.

- 78 Staff also recommend an optional relief from providing and/or restating comparative information and distinguishing errors from changes in accounting policies should be provided to entities that prepared Tier 3 GPFS and may be required or electively apply the Tier 2 requirements, similar to when for-profit entities were required to transition from SPFS to GPFS Tier 2. However, unlike for-profit entities where those optional reliefs were short term provided for early adopters, staff recommend that these transitional relief should be provided to Tier 3 entities in the year these entities apply Tier 2 requirements since Tier 3 entities may potentially transition to Tier 2 requirements post the effective date. Staff think this approach would reduce significant costs for these entities given the R&M difference between Tier 3 and Tier 2 requirements. While users may be disadvantaged by not being provided comparative information, staff note that the benefits of that information may not outweigh the following advantages from not restating or presenting comparative information in the entity's first Tier 2 GPFS:
- (a) It could offset costs of other potentially more difficult GPFS requirements that entities would have to deal with on transition;
 - (b) This approach has been contemplated and adopted in other AASB Standards. For example, when first applying AASB 9, preparers are not required to restate prior periods to reduce the burden for preparers on their first application (see AASB 9 paragraph 7.2.15). Similarly, a modified retrospective approach is adopted in the application of AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*;
 - (c) Divergences from AAS requirements only occurs for one reporting period of the date of transition without ongoing implications for consistency with R&M requirements except for some difference from what the numbers might otherwise have been where opening balances are based on current values (i.e. deemed costs), as those valuations would take place at a date one year later than if comparative information were required; and
 - (d) The Tier 3 Standard is likely to result in significant R&M differences to Tier 1/Tier 2 reporting requirements. As such, staff think the same transitional relief for first-time adoption to AAS as recommended for SPFS preparers transitioning to apply the Tier 3 requirements for the first time would be warranted for NFP entities transitioning from Tier 3 to Tier 2.

Question 4 to Board members.

Do Board members agree with the staff recommendation:

- a) in paragraph 77, to require entities transitioning from Tier 3 GPFS to Tier 1 GPFS or Tier 2 GPFS (i.e. AASB 1060 disclosures), to apply AASB 1 or the option for retrospective application of AAS in accordance with AASB 108?
- b) in paragraph 78, provide transitional relief in the year of transition for Tier 3 entities transitioning to Tier 2 requirements, the optional relief from restating comparative information, relief from presenting comparative information for new disclosures and relief from distinguishing errors from changes in accounting policies?

If not, what does the Board suggest?

Issue 5: Whether to develop any financial reporting size thresholds in the Australian Accounting Standards

- 79 As per paragraphs E20 – E28 in Appendix E of the DP, the Board noted that establishing reporting thresholds may add to complexity and not reduce red tape completely given the multiple articles of legislation involving different regulatory bodies, given NFP entities may already need to navigate

other existing criteria to establish its reporting obligations (specified by other legislation). The Board also observed that identifying an appropriate objective criterion, whether quantitative or qualitative, for separating Australian entities into three 'tiers' in a meaningful manner is likely to be challenging considering the broad range of activities undertaken by the sector and the economic disparity in different parts of Australia.

80 Ultimately, the Board views the establishment of appropriate reporting thresholds and any dictate of a specific form of GPFS as being more appropriate within the remit of the relevant legislation or regulatory authority. This is consistent with the regulatory authority's being in charge of whether the lodged financial statements must be prepared in accordance with AAS and whether they are subject to review or audit. Consequently, the Board's preliminary view was to scope such effort out of this project.

81 To gather feedback on the Board's proposal, the DP included the following question:

Question 1

Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements.

Do you agree? Why or why not? If you disagree with the Board's view, how do you propose the board stratify entities amongst the available reporting tiers?

Summary of the feedback on DP and from further stakeholder outreach

82 In their feedback on the DP as summarised in Agenda Paper 3.1.1 at the May 2023 Board meeting 84% of respondents agreed with not establishing reporting thresholds within the AAS. Most stakeholders of this cohort support this approach but encourage continuous engagement with regulators to ensure consistent application of the requirements. They noted the following implications for setting reporting thresholds in AAS:

- (a) increase complexity and becoming incompatible with other regulatory requirements if they were to change; and
- (b) not the remit of an accounting standard setter nor is it possible for the AASB to settle on a delineation of tiers appropriate for all situations.

However, some stakeholders suggested that guidance should be developed to help determine which NFP entities would be appropriate to apply the Tier 3 Standard in the future and to consider whether such guidance could be included in the basis for conclusions. There were suggested varying quantitative thresholds provided by some stakeholders that may be useful to consider if the AASB developed guidance (these feedback are noted in Table 7 in Issue 6).

83 While for those entities that supported including financial reporting thresholds in the AAS, they consider it would increase the judgement required for entities to determine the type of financial statements to prepare and resulting in reduced comparability if NFP entities can freely determine the type of GPFS to prepare, albeit improvement to current SPFS. These stakeholders made various suggestions without clear consensus for stratifying entities that would apply the Tier 3 Standard including:

- (a) only smaller entities based on the ACNC thresholds because other quantitative thresholds such as total number of employees and total assets would be inappropriate. This is because unaccounted volunteers and valuing donated assets can add to complexities;
- (b) using revenue as the basis with an average threshold over 2-3 years may be appropriate to determine size as most regulators use revenue as a basis to determine size. An upper limit range of \$5 - \$10 million could be appropriate since the 2018 independent review of ACNC legislation recommended revenue thresholds for medium charities be revised between \$1 - \$5

million. No lower limit should be imposed since it may remove the ability for entities below a threshold from applying the Tier 3 Standard. These thresholds could be determined within transitional provisions of the Tier 3 Standard with subsequent review of its appropriateness;

- (c) some stakeholders consider revenue up to \$5 million would still be considered a small NFP entity while some stakeholders consider the Tier 3 Standard should be applicable to all NFP private sector entities; and
- (d) some thresholds could be determined within transitional provisions of the Tier 3 Standard with subsequent review of its appropriateness to allow time for legislative changes.

While there were varying suggestions for the potential reporting thresholds, these stakeholders emphasised the importance of conducting research and developing any thresholds in consultation with regulators and the sector.

84 Staff gathered feedback from the NFP PAP meeting in May 2024. One member also provided feedback outside of the meeting. Of the panel members who commented:

- (a) one member (staff of a regulator) disagreed with not developing financial reporting thresholds in the AAS and considered some thresholds should be provided to give clarity to which entities would apply the Tier 3 Standard. In their view, complexity arises in the absence of harmonisation of reporting between regulators since different regulators would have their thresholds for financial reporting purposes. They considered an upper limit based on entities' revenue, which could be provided as a ceiling to which entities can apply the Tier 3 Standard. They also noted that the remit of a regulator is to administer the legislation and cannot make any legislative changes. Panel members were unable to provide the revenue amount to which entities should not apply the Tier 3 Standard. However, one member considered that the Tier 3 Standard should be applied by entities with less complex transactions, even if it exceeded the revenue range that the Board had in mind when developing the Tier 3 Standard;
- (b) they supported the staff suggested factors (discussed in paragraphs 96 – 97) to be included in any non-mandatory guidance that an NFP private sector entity would need to consider that are likely to apply the Tier 3 Standard; and
- (c) they supported not to consider forming a TRG until after the Board has considered comments from its Tier 3 ED.

Academic and other research

- 85 Gilchrist and Simnett (2019)¹⁴ identified that size based on revenue is a major criterion, although the reporting requirements associated with each size category sometimes differ between jurisdictions or organisation types. Staff consider that while there is no general consensus on what the reporting thresholds would be, revenue would appear to be the major indicator for consideration if the Board decides to include reporting thresholds in the AAS.
- 86 Yang (2018)¹⁵ examined private NFP private sector entities registered with ACNC and predicated the charity's likelihood of preparing GPFS would be based on factors including charities' status as deductible gift recipients; the number of beneficiary groups; the number of paid staff; the donation income; and other indicators aligned to criteria set in SAC 1. Her findings suggest that these indicative factors explain little of charities' decisions regarding the reporting entity status. The findings also suggested the inconsistency in the application of the reporting entity concept and the

14 Gilchrist, D.J. and Simnett, R., 2019. Research horizons for public and private not-for-profit sector reporting: moving the bar in the right direction. *Accounting & Finance*, 59(1), pp.59-85.

15 Yang, Y., 2018. *The informational value of auditing in charitable organisations* (Doctoral dissertation, UNSW Sydney).

financial reporting choices. Staff also consider developing a consistent threshold based on indicative indicators would be difficult.

- 87 Saj and Cheong (2020)¹⁶ examined a sample of ACNC entities that were not subject to mandatory requirements to prepare GPFS, whether the presence of a SAC 1 'reporting entity' factor influenced the form of the lodged 2014 financial statements. It concluded that the reporting entity concept is inconsistently applied by Australian charitable organisations. Staff consider it difficult to develop a consistent set of qualitative thresholds, based on the factors applied in SAC 1, since the findings suggest that the application of these SAC 1 factors led to inconsistent reporting entity concept assessment.
- 88 Mcgregor-Lowndes (2023)¹⁷ identified the recommendations from six significant reports, the government responses at the time, and an assessment of the current implementation status of the recommendations over nearly a thirty-year period. Staff note that amongst other reports, a Senate Inquiry into [disclosure regimes for charities in not-for-profit organisations](#) in 2008 recommended that all Australian Governments agree on common terminology referring to organisations within the Sector. Governments should also develop a common meaning of terms referring to the size of these organisations including 'micro', 'small', 'medium' and 'large'. The standard terminology should be adopted by all government departments. While the report noted that the Government agreed with the recommendation in 2010, the report suggested that the recommendation has yet to be implemented and financial reporting thresholds are not harmonised to date. The study noted that while the reporting requirements of charities registered with ACNC are in the process of being harmonised,¹⁸ IAs regimes have not yet harmonised. As such, staff consider that it would likely take considerable time and effort to develop an agreed set of financial reporting thresholds amongst various other NFP regulators.
- 89 Wen, H, Gilchrist, D.J, Agrawal, P and Bayne, L, 2024. *Using Turnover Size to Determine Charities' Reporting Requirements: Should turnover size metrics drive reporting regimes?*, identified that the ACNC financial reporting thresholds may lack a theoretical or research-based rationale. Through interviewing eight preparers of charities' financial reports, their findings provided insights that the newly modified financial thresholds (i.e. ACNC thresholds) may not be appropriate though revenue is seen as an appropriate measure to determine reporting requirements. Staff think that contrary to some stakeholders' view, the ACNC thresholds should be the driver of determining which entities may apply the Tier 3 Standard in the future.
- 90 Recent reforms to the administration of NFP entities with an active Australian Business Number (ABN) that are self-assessing as income tax exempt not registered as a charity with the ACNC will now be required to lodge to the ATO an annual NFP self-review return in order to self-assess as eligible for income tax exemption. This annual reporting requirement came into effect on 1 July 2023 and the first NFP self-review return that non-charitable NFP entities will lodge covers the 2023-24 income year. The return contains various questions including the estimated annual gross revenue for the organisation based on three sizes: small: up to \$150K, medium: over \$150k-\$3M and large: over \$3M.¹⁹ Staff note that the size thresholds for small and medium size NFP are different to the ACNC

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

17 Mcgregor-Lowndes, M., 2023. [Are any more Recommendations worth implementing from nearly 30 years of Commonwealth Nonprofit Reform Reports?](#)

18 Refer to [ACNC website](#) on the progress the ACNC has made in reducing red tape for charities that engage in fundraising activities regulated by state and territory agencies and annual reporting obligations assessed on 26 April 2024.

19 Refer to the [ATO NFP self-review return](#).

size thresholds. However, the information would provide more insight into the size of NFP entities other than charities that the NFP FRF project and removal of SPFS may impact.

Options for simplification

- 91 Considering the approach to simplification applied by the Board in Appendix A of Agenda Paper 3.1 at this meeting, stakeholder feedback from the DP and further feedback from PAP members in paragraph 84 above and consider there are two possible options to address the DP feedback consisting of:
- (a) **Option 1** is the Board’s preliminary proposal in the DP not to develop reporting thresholds to specify which reporting Tier an NFP private sector entity must, at a minimum, comply with in preparing financial statements. The issue of whether to develop guidance on the entities that are likely to apply the Tier 3 Standard will be discussed from paragraph 94; and
 - (b) **Option 2** is to develop reporting thresholds to specify an upper limit based on revenue, to which NFP private sector entities may apply the Tier 3 Standard which can be included in the scope paragraphs. Staff think the upper limit should be \$3 million and have not suggested a higher limit of revenue between \$5 million - \$10 million since the Board had developed its Tier 3 reporting requirements for NFP entities within the range of \$0.5 to \$3 million. A possible sub-option is for the thresholds to be included in the transitional provisions and to review these thresholds at a later stage post-implementation to assess their appropriateness until the time the reporting thresholds achieve alignment in legislation or regulations.
- 92 Staff consider another alternative approach could be to develop the Tier 3 Standard as a non-mandatory standard. However, staff have not considered this approach further because:
- (a) for entities subject to legislation/regulation that specifies financial statements prepared in accordance with “accounting standards” as defined by the Corporations Act (e.g. companies limited by guarantee regulated by ASIC or ACNC registered charities), accounting standards means instruments in force under section 334 of the Corporations Act. As such, these entities would not be able to apply a voluntary standard and claim compliance that their financial statements are prepared in accordance with accounting standards as defined by the Corporations Act, as the voluntary standard could not override the mandatory standards where they were inconsistent; and
 - (b) setting a voluntary standard does not remove the issue that large NFP entities and other entities not subject to Corporations Act requirements may select the type of GPFS they prepare, if no applicability requirements are developed through legislation, regulation or the standard to clarify which entities are required or else permitted to apply the Tier 3 Standard.

Staff note that the arguments supporting Option 1 would be arguments against Option 2 and vice versa.

Table 6 Options for simplification for developing the reporting thresholds

Option 1: not to develop reporting thresholds in AAS	Option 2: develop reporting thresholds to specify an upper limit based on revenue for entities that can apply the Tier 3 Standard. A possible sub-option is for the reporting thresholds to be included in the transitional provisions.
Arguments for this approach	
1) Most stakeholders on the DP supported the Board’s preliminary view not to develop any reporting thresholds in the AAS;	1) This option would address stakeholders' concern that including financial reporting thresholds within the AAS would alleviate the

Option 1: not to develop reporting thresholds in AAS	Option 2: develop reporting thresholds to specify an upper limit based on revenue for entities that can apply the Tier 3 Standard. A possible sub-option is for the reporting thresholds to be included in the transitional provisions.
<p>2) Given the varying responses from stakeholders it would be difficult to derive an appropriate reporting threshold that would meet the stakeholders'/regulators'²⁰ needs;</p> <p>3) Mixed feedback among regulators themselves on whether reporting thresholds should be included in the AAS. A regulator agreed that setting reporting thresholds is outside the standard-setter remit, while another regulator considered that the AASB should develop the thresholds on which entities can apply the Tier 3 Standard.</p> <p>4) As noted in paragraph 88 and feedback from stakeholders for the need to conduct consultation with regulators and the sector, staff think it would take a significant amount of time and effort to develop a set of agreed financial reporting thresholds appropriate to meet all regulators/ stakeholders needs which would have the potential to delay the finalisation of Tier 3 ED significantly.</p> <p>5) As noted in Agenda Paper 3.1.1, staff noted that the Council on Federal Financial Relations through the Thresholds Working Group consulted on increasing harmonised financial reporting for ACNC-registered charities in 2021 and decided on thresholds for medium-sized charities that are lower than those recommended by the ACNC Review panel. As such, it would be difficult to propose in the AAS any application scope higher (e.g. \$5-\$10 million) than what the Board had in mind when developing the Tier 3 DP as suggested by some stakeholders. This further adds to the argument that it is not possible for the AASB to settle on a delineation of tiers appropriate to all situations. For example, a large association in the Australian Capital Territory is based on total revenue of \$1M or more and a medium association is based on total revenue between \$400K but below \$1M. In comparison, NSW distinguishes between Tier 1 and Tier 2 associations where Tier 1 associations have gross receipts greater than \$250K or current assets greater than \$500k and Tier 2 associations have gross receipts of \$250k or less and current assets of \$500K or less.²¹ These thresholds are distinctly different to the ACNC thresholds.</p> <p>6) Not specifying financial reporting thresholds is consistent with the Board's past practice, whereby the Board has in effect specified the minimum reporting Tier that an NFP private sector</p>	<p>judgement for preparers on the type of financial statements to prepare.</p> <p>2) As indicated in paragraph 88, the Government principally agreed in 2010 on the recommendation for harmonising financial reporting thresholds by a Senate Inquiry to develop a common meaning of terms referring to the size of these organisations in 2008. However, as highlighted in the report, the Government has not yet harmonised the thresholds. Hence, providing the financial reporting threshold would be a beneficial and practical solution while the legislation and regulation reacts to the change in accounting standards including any regulatory harmonisation efforts.</p> <p>3) While the Board has indicated the remit of a standard setter is not to set reporting thresholds in the AAS, AASB 1053 already contains a threshold (albeit qualitative) which requires entities with public accountability to apply Tier 1 reporting requirements.</p> <p>4) New Zealand Tier 3 Standard specifies financial reporting thresholds within the Standard.</p>

20 As highlighted in [Research Report 5 Financial Reporting Requirements Applicable to Charities](#) (2017), there are different thresholds specified by different NFP regulators. For example, ORIC determines the size of an entity based on consolidated gross operating income, consolidated gross assets and employees, while the ACNC determines the size of an entity based on the registered charity's revenue. Other states and territories have different size thresholds.

21 Refer to the [summary of financial reporting and audit/review requirements of companies limited by guarantee & incorporated associations](#) produced by CPA Australia issued in September 2020.

<p>Option 1: not to develop reporting thresholds in AAS</p>	<p>Option 2: develop reporting thresholds to specify an upper limit based on revenue for entities that can apply the Tier 3 Standard.</p> <p>A possible sub-option is for the reporting thresholds to be included in the transitional provisions.</p>
<p>entity must comply with if the entity is preparing financial statements that are held out to be GPFS.</p> <p>7) As noted in BC47 – BC51 of AASB 1053, size thresholds are arbitrary and can become outdated over time.</p> <p>8) Other jurisdiction pronouncements such as the IFRS for SMEs Standard do not specify reporting thresholds. And the Companies Act in the UK determines which PBE entities are eligible to apply FRS 105.</p>	

Staff analysis and recommendation

- 93 On balance, Staff recommend that the Board should develop financial reporting thresholds in AAS, that is Option 2 based on the reasons outlined in Table 6 above as this will reduce judgement and provide clarity to NFP entities, particularly it will prevent adoption of Tier 3 Standard by those entities for which the Standard would not be appropriate until such time that relevant legislation and regulation will reflect the change in accounting requirements. While some stakeholders considered more research and consultation should be conducted with regulators and stakeholders on what the reporting thresholds would be, staff think it would be appropriate for the Board to develop threshold based on an entity’s revenue with an upper limit of \$3 million because:
- (a) the Board developed its Tier 3 reporting requirements based on NFP entities with revenue between \$0.5 – \$3 million supported by research findings in RR 19;
 - (b) as noted in Table 6 the Council of Federal Financial Relations through the Thresholds Working Group consulted on increasing harmonised financial reporting for ACNC-registered charities in 2021 and decided on thresholds for medium-sized charities that is lower than those recommended by the ACNC Review Panel. They noted in their consultation that the proposed thresholds were based on “...*Commonwealth and State Government seeking to balance a reduction in regulatory red tape while maintaining transparency to promote accountability, public trust and confidence in the sector.*”²² As such, staff think it would be difficult to develop thresholds to allow NFP entities with revenue over \$3 million to apply the Tier 3 Standard without extensive research and consultation with stakeholders, risking significantly delaying the release of the Tier 3 ED; and
 - (c) if the Board agrees with staff recommendation to allow entities to early adopt the Tier 3 Standard in paragraph 69, without changes to legislation or regulatory guidance, may risk a large NFP entity inappropriately applying the applies the Tier 3 Standard. Providing financial reporting thresholds in the AAS would prevent a potentially large entity from adopting the Tier 3 Standard before changes made in legislation.
 - (d) staff will continue to engage with relevant regulators and policymakers to encourage discussions on the importance of harmonising the criteria and thresholds of a regulatory

22 Refer to the [Consultation Paper Increasing financial reporting thresholds for ACNC-registered charities](#) issued in February 2021.

framework to enable consistent, comparable and transparent financial reporting by NFP private sector entities.²³

Question 6 to Board members.

Do Board members agree with the staff recommendation in paragraph 93, to develop financial reporting requirements in the AAS based on an entity's revenue with an upper limit of \$3 million?

If not, what does the Board suggest?

- 94 If the Board **disagrees** with the staff recommendation in Question 6 above to develop reporting thresholds in the AAS, then another approach the Board should consider is whether to develop any guidance to act as 'soft boundaries' to support NFP entities when considering whether the Tier 3 Standard would be appropriate for them in case the legislative and other requirements would permit but not require them to adopt the Tier 3 Standard.
- 95 As noted in paragraphs 82 – 83, stakeholders suggested varying indicators for which NFP private sector entities should be able to apply the Tier 3 Standard in the future. A summary of these suggestions as presented in Agenda Paper 3.1.1 at May 2023 Board meeting was:

Table 7 Stakeholder feedback on DP regarding factors to consider as possible guidance for which entities may apply the Tier 3 Standard

Stakeholder suggested factor	Stakeholder arguments for a suggested factor	Stakeholder arguments against a suggested factor
Assets or employee numbers	<ul style="list-style-type: none"> A quantum of thresholds should be considered given some regulators (e.g. ORIC) require preparation of Tier 2 financial statements, even if the entity may have low risk but significant assets or turnover, resulting in disproportionate reporting by these entities. 	<ul style="list-style-type: none"> Quantitative thresholds are not best determinant as some large entities have simple transactions and vice versa Other quantitative thresholds such as total number of employees and total assets, would be inappropriate because NFP utilise volunteers, unaccounted volunteers, and complexities and valuing donated assets is difficult.
Revenue	<ul style="list-style-type: none"> Most Australian regulators use revenue as the basis to determine size and stakeholders are familiar with such a basis. 	<ul style="list-style-type: none"> Revenue may not be appropriate due to fluctuations over time, and previous findings of AASB consultation on Tier 2 GPFS proposals found that most constituents rejected the revenue thresholds approach given they are difficult to determine and are arbitrary in their impact. The Tier 3 Standard should be applicable for all NFP entities.

23 Refer to [AASB submission](#) of the Not-for-Profit Sector Development Blueprint Issues Paper

Stakeholder suggested factor	Stakeholder arguments for a suggested factor	Stakeholder arguments against a suggested factor
Other comment on the level of revenue that should apply		
<ul style="list-style-type: none"> • Subject to research and further discussions with regulators, an upper limit range of \$5m–\$10m could be appropriate since the 2018 independent review of ACNC legislation recommends revenue thresholds for medium charities be revised between \$1m–\$5m. No lower limit range is required since it may remove the ability for entities below a threshold from applying the Tier 3 Standard. An average revenue threshold over 2–3 years may be appropriate to allow for the change in the revenue recognition requirements. • The Tier 3 Standard should only apply to smaller entities using ACNC thresholds. • ACNC thresholds may not be an appropriate threshold determinant, given that most NFPs are not ACNC-registered charities and findings by the Productivity Commission in 2010 estimated around 600,000 NFPs in total where ACNC charities only constituted around 60,000 entities. • NFP entities with revenue up to \$5 million would still be considered a small NFP entity. • Tier 3 would be suitable for entities with similar less complex transactions and events but higher revenue thresholds than the medium-sized ACNC charity. 		

Staff analysis and recommendation

- 96 Based on the differing feedback from stakeholders noted in Table 7 above, staff think the guidance would need to contain a number of quantitative and qualitative factors. Staff noted that in reaching the conclusions in AASB 1053, the Board had considered the applicability of different Tiers to NFP entities in paragraphs BC42 to BC46 when considering whether the notion of public accountability as defined by the IASB could usefully be applied to the NFP sector. Some constituents at that time considered that for NFP entities, the level of public scrutiny depends on a number of entity-specific factors including:
- (a) source of funds: for example, if the sources of funds are public donations (particularly those that are tax deductible by the donor) or government grants, then a high degree of public scrutiny is expected. Voluntary labour could also be considered a form of donation, so significant voluntary labour would correlate to a higher degree of public scrutiny.
 - (b) Number of stakeholders in the entity: the wider the spectrum of stakeholders, the higher the expected level of public scrutiny.
 - (c) Scale of operations and geographical coverages: NFP entities that operate nationally or internationally are seen as more likely subject to higher public scrutiny at a general level compared to more local organisation.
- 97 Staff suggest that non-mandatory illustrative examples or guidance based on similar factors noted in paragraph 96 above would also be appropriate for entities to consider whether the Tier 3 Standard is suitable in providing information useful to their users. Staff also think other factors such as:
- (a) the frequency of references to Tier 1/Tier 2 requirements – if the NFP entity has to refer to the Tier 1/Tier 2 requirements frequently because the Tier 3 Standard does not provide guidance to deal with a transaction, event or balance, then it would be an indicator the Tier 3 Standard may not be appropriate for the entity; and
 - (b) financial characteristics – the size or indebtedness of an entity which includes for example, level of revenue or assets or number of employees of an entity. The larger the size or greater the indebtedness or resources allocated, the more likely that the Tier 3 Standard would not be appropriate.
- 98 Staff noted the disadvantages of providing guidance include:
- (a) It will inherently be up to the legislation and regulation that dictates which entities may be permitted. Therefore, the suggested guidance may add a layer of complexity that smaller NFP

entities to have to consider and may create confusion for example regarding the interaction of such guidance with legislative and regulatory requirements; and

- (b) as noted in IFRS for SMEs training module, the IFRS for SMEs Accounting Standard do not include quantified size criteria because defining small or medium-sized entities to use the IFRS for SMEs is not feasible to develop a quantified size test that would be applicable and long-term in numerous jurisdictions. A jurisdiction may choose to prescribe quantified size criteria to decide which entities should be required or permitted to use the IFRS for SMEs Standard. Similarly, a jurisdiction may decide that its economically significant entities should be required to use the full IFRS Standard rather than the IFRS for SMEs Standard. As per arguments against specifying financial reporting thresholds in the AAS noted in Table 6 above, staff consider that the suggested guidance would not meet all the regulators'/stakeholders' needs across Australian jurisdictions.

- 99 Staff think some non-mandatory illustrative examples or guidance would be helpful to guide entities whether applying the Tier 3 Standard would be appropriate for them based on the factors in paragraphs 96 – 97. If the Board disagrees with the staff recommendation to include non-mandatory illustrative examples or guidance in the Tier 3 Standard, then staff think the Board should include in the Basis for Conclusion the Board's rationale for not specifying any reporting thresholds in the AAS.

Question 7 to Board members.

Subject to the Board disagreeing with staff recommendation to develop financial reporting thresholds in the AAS in Question 6, do Board members agree with staff recommendation in paragraph 99 to develop non-mandatory illustrative example that an NFP private sector entity may consider that are likely to apply the Tier 3 Standard based on the following factors:

- (a) source of funds;
- (b) number of stakeholders in the entity;
- (c) scale of operations;
- (d) the frequency of reference to Tier 1/Tier 2 requirements; and
- (e) financial characteristics?

If not, does the Board agree to include the Board's rationale for not specifying any reporting thresholds in the AAS in the Basis for Conclusion?

Issue 6: Whether a Transitional Resources Group should be formed to monitor transitional/ implementation issues

- 100 As noted in paragraph 9(d), a stakeholder suggested the AASB form a TRG to assist with an effective and smooth operationalisation of the Tier 3 Standard and to communicate with regulators about the need and the nature of necessary changes and associated educational and transitional considerations.
- 101 Paragraph 7.14.3 of the Due Process Framework states that the AASB may establish a TRG of interested parties and subject matter experts to assist with identifying and resolving implementation issues prior to the effective date of a new pronouncement. Any proposed amendments to the pronouncement are subject of a separate consultation process.
- 102 Paragraph 7.14.4 of the Due Process Framework states that the AASB may establish an Implementation Group of interested parties and subject matter experts to assist with identifying implementation issues specific to Australia after a Standard has been implemented.
- 103 Staff consider the advantages of forming a TRG to monitor transitional or implementation issues would allow the Board:

- (a) to address any stakeholder questions raised on the implementation of the Tier 3 Standard and to inform the Board to determine, if any, actions that would need to be addressed on implementation questions or provide supporting materials such as webinars prior to the effective date; and
- (b) to continue the discussion with regulators on any legislative changes that may be needed to absorb the Tier 3 Standard effectively.

Staff recommendation

104 However, staff consider the Board need not decide whether to establish a TRG at this stage and to consider whether a TRG is necessary only after the Board has considered feedback from the Tier 3 ED based on the following reasons:

- (a) staff have and will continue conversations with relevant stakeholders on the Board's proposals since the development of the DP without needing to specifically decide to establish a TRG now; and
- (b) a TRG would require subject matter experts from the smaller NFP private sector and other relevant stakeholders which, considering NFP entities have limited resources, would not necessarily be the best avenue at this stage prior to stakeholders considering the Tier 3 ED.

Question 8 to Board members

Do Board members agree with staff recommendation in paragraph 104 for the Board to consider establishing a TRG to monitor implementation issues of the Tier 3 Standard after the Board has considered feedback on the Tier 3 ED?

If not, what does the Board suggest?

Appendix A – Extract of the summary of detailed feedback presented in Agenda Paper 3.1.1 at the May 2023 Board meeting

Q1) Not establishing reporting thresholds within the Australian Accounting Standards

Total response = 192

Yes = 162 (84%) consisting of:

- 44 preparers (23%)
- 98 auditors (51%)
- 4 users (2%)
- 1 regulator (1%)
- 4 others (2%)
- 11 written responses (6%) (PP, MA, ORIC, AICD, SD, IPA, KPMG, UWA, DH, BDO, Deloitte)

Most stakeholders agree with not establishing reporting thresholds within the Australian Accounting Standards (AAS) but the written submissions emphasised the need to continue engagement with regulators (ACNC and other significant NFP regulators) to ensure consistent application of the requirements. They noted it would be challenging for the AASB to set a standard if it has no oversight on what type of entity it is setting the standard for without working closely with regulators to determine which entities would be appropriate to apply Tier 3 Standard (Deloitte). However, some noted there may be a risk if regulators implement reporting thresholds that are significantly different to the revenue range the Board had in mind when developing Tier 3 requirements, which would significantly undermine the usefulness of financial information to users (BDO).

These stakeholders:

- considered specifying reporting thresholds in the AAS could increase complexity and become incompatible with other regulatory requirements if they were to change (BDO);
- agree that specifying thresholds is not within the remit of an accounting standard setter (PP and UWA), nor is it possible for the AASB to settle on a delineation of tiers appropriate to all situations (UWA);
- endorse the Board's view that establishing appropriate financial reporting thresholds is the responsibility of relevant legislation or regulatory authority (ORIC); and
- if regulators agreed and determined that a specific Tier must apply to certain entities, then the criteria could be included in the scope paragraphs of the standard, however only after adequate consultation and due process has been followed (PP, MA);

However, many of these stakeholders suggested that guidance should be developed to help determine which NFP entities would be appropriate to apply the Tier 3 Standards in the future. A few stakeholders recommended application thresholds could be included in the basis for conclusions (PP and IPA).

A few stakeholders consider some quantitative thresholds could be provided to help entities determine and to simplify the application of the Tier 3 Standard. However, stakeholders had varying views on the quantitative thresholds that may apply, including:

- Total assets and number of employees/volunteers in addition to total revenue/income:
 - the quantum of thresholds should be considered given some regulators (e.g. ORIC) require preparation of Tier 2 financial statements, even if the entity may have low risk but significant assets or turnover, resulting in disproportionate reporting by these entities (MA); and

	<ul style="list-style-type: none"> revenue may not be appropriate due to fluctuations over time, and previous findings of AASB consultation on Tier 2 general purpose financial statements (GPFS) proposals found that most constituents rejected the revenue thresholds approach given they are difficult to determine and are arbitrary in their impact. ACNC thresholds may not be an appropriate threshold determinant, given that most NFPs are not ACNC-registered charities and findings by the Productivity Commission in 2010 estimated around 600 thousand NFPs in total where ACNC charities only constituted around 60 thousand entities (AICD). <p><u>Other comments:</u></p> <ul style="list-style-type: none"> Tier 3 requirements would be suitable for entities with similar less complex transactions and events but higher revenue threshold than the medium-sized ACNC charity (SD, KPMG). Quantitative thresholds are not best determinant as some large entities may have simple transactions and vice versa. Tier 3 should apply to NFP public sector entities and for-profit private sector entities. If AASB continues to reject <i>IFRS for SMEs</i> or its modifications in Australia, then Tier 3 would be an appropriate framework for Australian private sector SMEs (DH). The use of the term “Tier” to describe reporting thresholds may be confused with some NFP legislation (e.g. <i>NSW Association Incorporations Act 2009</i>) that expresses reporting thresholds using Tiers differently. Recommend that regulators adopt 'small', 'medium' and large' to describe reporting thresholds, and AASB to distinguish general purpose financial statements GPFS framework using Tier 1, Tier 2 and Tier 3 (BDO).
<p>No = 30 (16%) consisting of:</p> <ul style="list-style-type: none"> 12 preparers (6%) 14 auditors (7%) 1 other (1%) 3 written responses (2%) (AR, ACNC, CPA/CA ANZ) 	<p>Some stakeholders disagree as the judgement required to determine the type of financial statements to prepare will result in reduced comparability if NFP entities can freely determine the type of GPFS to prepare, albeit improvement to current special purpose financial statements.</p> <p>Some of these stakeholders recommended:</p> <ul style="list-style-type: none"> thresholds should be developed in consultation with the sector (ACNC) and these standardised reporting thresholds and their corresponding reporting requirements should be implemented consistently across other regulatory authorities, including federal, state/territory, local and grant acquittal process (AR); and thresholds could be determined within transitional provisions of the Tier 3 Standard with subsequent review (CPA/CA ANZ). <p>A few stakeholders that prefer thresholds in Tier 3 standard provided other comments including:</p> <ul style="list-style-type: none"> the Tier 3 Standard should only apply to smaller entities using the ACNC thresholds. Other quantitative thresholds such as total number of employees and total assets would be inappropriate because NFP utilise volunteers, unaccounted volunteers add complexities and valuing donated assets is difficult (AR); most Australian regulators use revenue as the basis to determine size and stakeholders are familiar with such a basis. Subject to research and further discussions with regulators, an upper limit range of \$5m–\$10m could be appropriate since the 2018

independent review of ACNC legislation recommend revenue thresholds for medium charities be revised between \$1m–\$5m. No lower limit range is required since it may remove the ability for entities below a threshold from applying the Tier 3 Standard. An average revenue threshold over 2–3 years may be appropriate to allow for the change in the revenue recognition requirements (CPA/CA ANZ);

- NFP entities with revenue up to \$5 million would still be considered a small NFP entity; and
- the Tier 3 Standard should be applicable for all NFP entities.

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

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

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

Another significant matter to be considered are suggestions on the application scope of the Tier 3 requirements that are different to the size of the entities the Board had in mind when developing the DP. Staff noted that the Council on Federal Financial Relations (CFFR) through the Thresholds Working Group consulted on increasing harmonised financial reporting for ACNC-registered charities in 2021 and decided on thresholds for medium-sized charities that are lower than those recommend by the ACNC Review Panel quoting "*...the need to balance a reduction in regulatory red tape while maintaining transparency and to promote accountability in public trust and confidence in the sector.*"²⁴ As such, staff think the application scope of the size of entities the Board had in mind when developing the DP remains to be the most appropriate basis and it would be difficult to move the application scope higher (e.g. \$5–\$10m) without a basis for doing so.

Prior to drafting the ED application scope paragraphs, staff will bring further analysis and possible options for the Board's consideration at future board meeting, which may include:

²⁴ In Treasury's [consultation](#) on increasing financial reporting thresholds for ACNC-registered charities, the proposed and final threshold for medium charities was revenue between \$500,000 to \$3m which is lower than the ACNC Review Panel recommended thresholds of \$1m to \$5m.

- developing guidance, for example in the basis for conclusions, on possible 'soft boundaries' to assist entities in determining the application of the Tier 3 Standard;
- developing transitional provisions with one or more quantitative characteristics to stratify the entities that can apply the Tier 3 Standard;
- conducting more research and discussions with NFP regulators to determine what thresholds would be appropriate; or
- not providing any guidance on threshold determination.

Staff suggested action for next steps: Staff recommend performing further analysis about how to best address the stakeholders' concerns on applying the Tier 3 Standard in conjunction with the applicable legislation and regulation. Staff will also consider whether it is possible to define the scope of the standard or provide non-authoritative guidance on which entities should apply the Tier 3 Standard in the future. Staff will bring the possible drafting of such guidance for the Board to consider at a future meeting.

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

Total response = 195

Yes = 178 (93%) consisting of:

- 49 preparers (25%)
- 108 auditors (55%)
- 4 users (2%)
- 4 others (2%)
- 1 regulator (1%)
- 12 written responses (6%) (PP, MA, CPA/CA ANZ, AICD, SD, IPA, KPMG, UWA, DH, BDO, Deloitte, ACNC)

Almost all stakeholders agree with the timing of the proposals, including aligning the timing with any extension of the application of AAS to a broader set of NFP private sector entities. The alignment of timing is consistent with changes for the for-profit sector when introducing AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* where transition worked effectively and would be appropriate for the NFP sector, and emphasises the need to continue discussions with regulators (MA).

A few stakeholders note for the AASB to learn from the for-profit reforms (CPA/CA ANZ, DH) and the need for transition relief and a phased transition period to support NFP entities in the adoption of the new Tier 3 Standard, along with education (AICD, ACNC).

One stakeholder suggests a Transition Resources Group (TRG) to assist with an effective and smooth operationalisation of the Tier 3 Standard and to communicate with regulators about the need and the nature of necessary changes and associated educational and transitional considerations (CPA/CA ANZ). The group would also assist with considering strategies to address implementation challenges during the transition and address insights from the post-implementation review (PIR) on the broader NFP standards.

No = 1 auditor (1%)

Only one stakeholder disagreed but this stakeholder did not provide any comments or reasons.

Other (neither agree or disagree) = 16 (8%) consisting of:

- 10 preparers (2%)
- 5 auditors (3%)
- 1 other (1%)

A few stakeholders selected other (i.e. neither agree or disagree) and:

- stated that changes should be made as soon as possible;
- emphasised the importance of liaising with regulators and government funding bodies to review the financial reporting requirements to ensure consistency across all jurisdictions;
- considered the changes should only be introduced if they produce meaningful financial statements noting special purpose financial statements (SPFS) current achieve this. If SPFS is removed, at least 2–3 years of lead time would be suitable; and

- would require a longer lead time for an educational process and getting ERP systems and processes set up, with limited resources in NFP sectors.

Staff analysis: Staff consider almost all stakeholders support the alignment of timing of the proposals, noting that sufficient lead time should be provided to ensure a smooth transition for NFP entities and consider the proposal is consistent with the changes to the for-profit sector. Based on the AASB Due Process Framework, the AASB will issue a Standard at least 2 years before its effective date with early application permitted. As such, staff consider stakeholders' feedback would be addressed appropriately by applying the AASB Due Process Framework. As noted in Agenda Paper 8.1.1 at the March 2023 Board meeting, staff will continue to discuss the interactions of the Board's proposals with relevant NFP regulators.

Regarding the feedback about transitional relief, staff have not yet considered the transitional provisions required as this depends on the Board's decisions on the direction of the project at this meeting, and Board's future decisions on Tier 3 requirements after considering the feedback from stakeholders. Staff acknowledge the suggestion to form a TRG group, including developing a communication and education plan, and will address these considerations later in the project.

However, staff do not believe these considerations should change the Board's preliminary view to ensure the timing of any extension of the application of AAS align with the introduction of a Tier 3 Standard.

Staff suggested action for next steps: Staff **recommend that the Board proceed with its preliminary view** that the timing of the Tier 3 reporting requirements align with the timing of any extension of the AAS to a broader set of not-for-profit private sector entities.