Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M195
Topic:	**Summary of feedback on the Tier 3 Discussion Paper and next steps**	**Agenda Item:**	3.1
		Date:	18 April 2023
Contact(s):	Maggie Man mman@aasb.gov.au Fridrich Housa fhousa@aasb.gov.au	**Project Priority:**	High
		Decision-Making:	High
		Project Status:	Consider stakeholder feedback and decide next steps of the project

Objective of this paper

1 The objective of this staff paper is for the Board to:

(a) **consider** the feedback received on the Discussion Paper: *Development of simplified accounting requirements (Tier 3 Not-for-Profit Private Sector Entities)* (DP);

(b) **consider** the staff preliminary analysis of the feedback and suggested action for next steps; and

(c) **decide** on the next steps for the project.

Background and reasons for bringing this paper to the Board

2 The Discussion Paper *Development of simplified accounting requirements (Tier 3 Not-for-Profit Private Sector Entities)* (DP) was published in September 2022 with a 6-month consultation period until 31 March 2023. The DP includes the Board's proposals to:

(a) develop a third reporting tier of simplified accounting requirements for smaller not-for-profit (NFP) entities; and

(b) remove the ability to prepare special purpose financial statements by NFP entities.

3 During the consultation period, staff conducted various outreach activities as presented in Agenda Paper 3.1.1 Section A. This paper summarises the feedback received, provides staff preliminary analysis and suggested action on how staff plan to address each of the topics proposed in the DP and, based on the feedback, assist the Board in its deliberations and to decide whether to progress to the next phase of the standard setting process, that is an Exposure Draft (ED). A detailed summary of the feedback received on the DP including staff preliminary analysis and suggested action for next steps are provided in Agenda Paper 3.1.1.

Structure of this paper

4 This paper is structured as follows:

(a) Staff recommendations (paragraphs 5 – 6)

(b) Overview of staff preliminary analysis and staff suggested action for next steps (paragraphs 7 – 10 and Table *1*)

(c) Staff recommendations (paragraphs 11 – 14)

Staff recommendations

5 Based on the staff preliminary analysis and staff suggested action for next steps in Table *1*, staff recommend the Board proceeds, in accordance with the AASB *Standard-setting Due Process Framework*, with the drafting of proposals in Exposure Draft form for:

(a) the development of a Tier 3 Accounting Standard with simplified accounting requirements for smaller not-for-profit private sector entities; and

(b) the removal of special purpose financial statements for certain not-for-profit entities.

Staff will bring drafts of each topic/issue for the Board's consideration at future meetings, following the approach on how staff intend to draft the ED for each topic/issue based on the categorisation in Table 1.

6 If the Board agrees with the staff recommendation, the Board will be asked to consider the approach to drafting the ED for the Tier 3 Standard in Agenda Paper 3.2.

Overview of staff preliminary analysis and staff recommended action for next steps

7 Staff have analysed all the feedback received on the DP and consider there is an overwhelming support from stakeholders on most of the proposed Tier 3 requirements, as shown in the quantitative summary of responses to the DP in Agenda Paper 3.1.1 Section B.

8 In considering the staff preliminary analysis, staff also considered the findings from Draft Research Report 19 *Common Financial Statement Items: Charities with $0.5 – $3 million in revenue* (RR19) in Agenda Paper 3.5. RR19 identifies common and uncommon financial statement line items of charities with revenue from $0.5 - $3 million inclusive. Financial statements line items are considered uncommon when less than five percent of the sampled charities presented the transaction in their financial statements. While the RR19 findings are limited to observations of charities' financial statements, staff observed the legal structures[1] of the sampled charities would not be dissimilar to other not-for-profit private sector entities. As such, staff think the findings of charities' common financial statement line items could provide a reasonable indication of common transactions of other not-for-profit private sector entities.

9 Staff consider that the drafting of the ED, subject to the Board's decisions, will necessarily be an iterative process, as staff progress with the drafting of each topic/section and bring for Board consideration over time. However, staff think it would be useful for the Board to consider the next steps that staff intend to take in drafting the ED for each topic/issue based on the staff preliminary analysis and suggested action as detailed in Table *1*. There are three main categories to distinguish the suggested action for the next steps:

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1 Based on RR19, the legal structures of the sampled charities include private and public companies, co-operatives, trusts, other incorporated entities and other unincorporated entities.

(a) **Category A** (ED drafting based on DP proposals with minor issues to be resolved): Given most stakeholders agree with the Board preliminary proposals, staff recommend drafting based on the proposed Tier 3 accounting requirements with minor issues to be resolved with discussion with the Board;

(b) **Category B** (ED drafting based largely on DP proposals with some potential changes): While many stakeholders agree with the Board's proposals, however:

(i) the Board has not yet decided on some aspect of the proposed Tier 3 accounting requirements; or

(ii) some stakeholders disagree with a/some particular aspect/s of the proposed Tier 3 accounting requirements.

In this case, staff will bring analysis and possible options for simplification of issues not resolved for further discussion with the Board, and possible drafting of the topic/s incorporating any potential changes to the Board's preliminary views for the Board's consideration at a future meeting; and

(c) **Category C** (further analysis and direction required): There were mixed views on some aspects of the proposed Tier 3 accounting requirements and staff will need to seek direction from the Board. As such, staff will need to perform further analysis and determine the possible options on the topics/issues for the Board to consider and decide on the approach at a future meeting, before commencing the drafting. This category also includes topics/issues where most stakeholders have expressed support for the proposals but the findings from RR19 has not identified that the topic/transaction to be a common financial statement item of charities' financial statements. Therefore, staff will need to bring further analysis for the Board to decide whether the topic should be included in a future Tier 3 Standard.

10 Table 1 below presents an overview of stakeholder feedback for each topic discussed in the DP and a summary of staff preliminary analysis and suggested action for next steps based on the categorisation in paragraph 9 above. A detailed summary of the feedback received on the DP including staff preliminary analysis and suggested action for next steps are provided in the Section C of the Agenda Paper 3.1.1 for this meeting.

Table 1 High-level summary of feedback and staff preliminary analysis and suggested action for next steps

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
Q1) Not establishing reporting thresholds within the Australian Accounting Standards (AAS)	• Most stakeholders agree that it is not within the remit of the AASB to establish reporting thresholds and challenging for AASB to set thresholds that would meet the requirements of all regulators. • However, some stakeholders suggest that it would be appropriate to establish some guidance in the form of application thresholds within the basis for conclusions. Varying quantitative thresholds were provided by stakeholders. • Some stakeholders consider the AASB should establish reporting thresholds and recommend the thresholds be developed in consultation with the sector. The thresholds could be determined within transitional provisions of the Tier 3 Standard with subsequent review.	Staff do not think the Board should develop reporting thresholds in the AAS because: • it could increase complexity of the requirements; • it would be challenging to develop reporting thresholds given stakeholders' varying views on what quantitative measures would be appropriate; and • a regulator endorsing the Board's view that establishing appropriate financial reporting thresholds is properly the responsibility of relevant legislation and regulatory authority. However, staff noted the concerns from some stakeholders and will perform further analysis on how to best address those concerns on the application of requirements in conjunction with legislation and regulation, and 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.	Category C
Q2) Addressing service performance reporting as a separate project	• Almost all stakeholders agree that service performance reporting (SPR) should be addressed as a separate project. • A few stakeholders disagree but did not provide reasons why. However, one stakeholder commented that, if service performance reporting is considered separately, any future requirements of service performance reporting should be proportionate for Tier 3 entities.	Staff think the Board should address SPR as a separate project. Staff will consider feedback from the DP as part of developing the SPR project.	Category A

Q3) Applying the *Conceptual Framework for Financial Reporting* to smaller NPF private sector entities	• Some stakeholders agree with the proposed application of changes to the *Conceptual Framework for Financial Reporting*.
	• Some stakeholders disagree with the 'objective' and 'primary' users as depicted in the *Framework for the Preparation and Presentation of Financial Statements* including modifications for NFP entities and consider that:
	  ○ the framework is cast too much in commercial terms;
	  ○ identified primary users may not be appropriate; and
	  ○ the Tier 3 Standard should include its own summarised version of a Conceptual Framework, and differences in recognition and measurement necessitates some different considerations in the Conceptual Framework
		• Staff consider that the Tier 3 proposals broadly align with the Conceptual Framework. However, staff agree with the limited feedback from stakeholders that there are topics with differences in the recognition and measurement requirements where further considerations of the alignment with the Conceptual Framework may be required.
		• While staff's preliminary view is not to develop a Tier 3 Conceptual Framework to be included in a Tier 3 Standard, staff will however:
		  ○ perform further analysis and consider possible options on how to proceed with this issue, including consideration whether the preliminary views in the DP would necessitate further allowances beyond the existing Conceptual Framework; and
		  ○ consider feedback in progressing the amendments to the Conceptual Framework to be applied to the broader NFP sector as part of the NFP Conceptual Framework project.
			Category C

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
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	• Almost all stakeholders agree with the timing of the proposal including aligning with the timing of any extension of the application of AAS to the broader set of NFP private sector entities. Stakeholders consider: ○ the timing is consistent with changes in the for-profit sector but note the important lessons learned from the for-profit reforms; ○ forming a Transitional Resources Group to assist with operationalisation of Tier 3 Standards could be helpful; and ○ the need for transition relief and a phased transition period to support NFP private sector entities in transitioning to the Tier 3 Standard. • No feedback was received from non-supportive stakeholders.	• Staff recommend the Board align the timing of any new Tier 3 reporting requirements with the timing of any extension of the AAS to a broader set of NPF private sector entities because almost all stakeholders agree with the proposal. • The AASB Due Process Framework specifies that the AASB would generally provide 2 years of lead time with the possibility of early adoption. As such this would allow entities that wish to adopt early to do so, while allowing sufficient time for entities to transition to the new requirements. • Staff will bring further analysis on transition provisions and the formation of a Transitional Resources Group to a future Board meeting.	Category A
Q5) Extending the AAS applicable to certain NFP entities	• Most stakeholders agree with extending the AAS to the broader range of NFP entities because: 1) the reporting entity concept is not well understood; and 2) it simplifies the decision making and reduces confusion and divergence in practice. • Some stakeholders disagree because: ○ General purpose financial statements (GPFS) come with a cost and many smaller NFP entities would still find Tier 3 reporting requirements hard to apply; and ○ Special purpose financial statements (SPFS) should not be removed for entities that are not regulated and that are only required by constituting documents to comply with the AAS as users of these entities should determine the appropriate form of financial statements. • One stakeholder considers more analysis is required on the population of NFP entities that will be affected by the Tier 3 Standard.	• Staff consider it is reasonable to expect that the initial cost of adoption would be outweighed by the cost savings and benefits of more comparable and transparent financial statements, as broadly supported by many NFP regulators. • Staff consider it may create confusion and inconsistencies in the financial reporting if entities are allowed to continue to prepare SPFS where their constitution or other document requires financial statements prepared in accordance with AAS. • However, staff will perform further analysis on the impact of the proposals including cost/benefit analysis of the scoping of NFP private sector entities that may be affected by the extension of AAS application together with consideration of amendments to the *Conceptual Framework for Financial Reporting* in Q3.	Category C
Q6) Introducing a simpler further reporting tier (Tier 3) as proportionate response for smaller sized NFP entities with less complex transactions and events	• Almost all stakeholders supported introducing a further reporting tier with simpler accounting requirements because it facilitates consistent financial reporting, a proportionate response for smaller-sized NFP private sector entities and increased usefulness of financial statements to users. • One stakeholder disagreed and considered the objective of the project is unclear and questioned whether introducing a further reporting tier is the best approach to addressing the concerns, emphasising the need to determine how prevalent the issue/concern of a particular accounting topic/transaction is before over-simplifying the requirements without assessment of the impact.	• Staff think the Board should proceed with the development of the proposals for a further reporting tier, being Tier 3, for certain smaller NFP private sector entities because: ○ the need for a proportionate simplified reporting tier for NFP private sector entities is because the population of entities that will be required to prepare GPFS if SPFS was removed is expected to be larger than for-profit entities since relevant NFP legislation often sets a lower threshold for reporting obligations than the legislation governing for-profit entities; and ○ cost/benefit analysis will be considered as required by the Due Process Framework.	Category A

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
Q7) Not developing a fourth reporting tier	• Almost all stakeholders agree not to develop a fourth reporting tier (that may be based on cash basis of accounting) because: ○ another additional tier may increase complexity of the financial reporting framework; and ○ cash basis of accounting would not meet the requirements of GPFS and the population of entities that would apply a fourth tier of reporting is minimal. • A few stakeholders disagree because: ○ some very small NFP entities use cash accounting when preparing financial statements and a cash reporting tier will help raise the quality of reporting; and ○ a simple set of accrual accounting requirements proposed for Tier 3 would be suitable to form the basis for Tier 4 while AASB should consider Tier 3 based on IFRS for SMEs.	Staff think the Board should not develop a fourth reporting tier, given that almost all stakeholders agree with the proposal. Staff think that developing a fourth reporting tier may not outweigh the costs and effort, with little benefit for very small NFP entities that are unlikely to be required to prepare financial statements in accordance with AAS. When developing the proposed Tier 3 requirements, the Board already considered other selected jurisdiction's pronouncement, including *IFRS for SMEs* and other, further simplified frameworks and there does not appear to be a need for two additional reporting tiers on accrual basis.	Category A
Q8) Not changing the existing Tier 1 or Tier 2 AAS	• Almost all stakeholders agree not to make any changes to existing Tier 1 or Tier 2 AAS because: ○ if Tier 3 is made available, then no changes are required; and ○ the current requirements for large NFP entities applying Tier 1/Tier 2 are well understood and the post-implementation reviews (PIR) are underway, hence no fundamental reassessment of the approach is necessary. • A few stakeholders disagree noting the removal of SPFS will have a significant impact on the NFP private sector entities larger than what is likely the size of the NFP private sector entities that will apply the proposed Tier 3 Standard. • A stakeholder also thinks the AASB should consider the international developments (IFR4NPO) and explore the appropriateness of its adoption in full or in part in Australia for all NFP entities.	• Staff think the Board should not make any changes to the existing Tier 1 or Tier 2 AAS in relation to the current Tier 3 proposals and in recognition of post-implementation reviews of some NFP domestic pronouncements (including income of not-for-profit entities, and control and structured entities) that are underway and will consider the stakeholder concerns. • Staff will continue to monitor the developments of the IFR4NPO project and its relevance when considering the drafting of the Exposure Draft, subject to the Board's decisions at this and future meetings.	Category A
Q9) Stand-alone standard	• Almost all stakeholders agree that the proposed Tier 3 Standard should be set out as a stand-alone standard, which is consistent with the approach for AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. • A few stakeholders note a stand-alone standard should: ○ contain its own abbreviated conceptual framework; ○ not refer to other AAS; and ○ be as comprehensive as possible. • A few stakeholders disagree and consider that smaller entities may find transitioning to another tier difficult due to fluctuations in revenue and simplification may lead to poor decision-making due to inaccurate information available.	• Staff think the Board should specify Tier 3 reporting requirements in a single stand-alone standard and the standard is expected, in the main, not to require an entity to refer to requirements set out in other AAS, and express accounting requirements in a manner that is easy to understand by preparers and users. • Staff consider: ○ there are already regulatory mechanisms to allow an entity to remain a specific entity size if fluctuations in the entity's revenue are due to an unusual event; ○ the Tier 3 simplified requirements have been developed to meet the needs of users for smaller NFP entities and disclosure of the	Category A

<table>
<tr><th>Topics</th><th>Overview of feedback received</th><th>Overview of staff preliminary analysis</th><th>Next steps</th></tr>
<tr><td></td><td></td><td>information may be sufficient to warrant departure from Tier 2 recognition and measurement requirements; and
○ while stakeholders noted the desire for the requirements to be as comprehensive as possible, the standard should cover only common transactions of entities that would be adopting the requirements in the future.
• As per Q3, staff will bring the analysis of whether Tier 3 should contain a simplified conceptual framework in the Standard.</td><td></td></tr>
<tr><td>Q10) Opting-up policy on whether to allow Tier 3 entities to opt up to Tier 1 or Tier 2 reporting requirements by class of transaction basis.</td><td>• Many stakeholders thought an entity should be provided flexibility to choose an accounting policy that the entity considers would provide appropriate information to users.
• Some stakeholders consider some flexibility should be given to allow entities to adopt some Tier 1/Tier 2 reporting requirements but not as a free choice, as it would reduce comparability.
• Many stakeholders consider allowing opt-up will reduce consistency and comparability, and increase complexity for NFP entities applying the Tier 3 Standard.</td><td>There are mixed views on whether entities should be permitted to opt up to higher tier requirements on a class-by-class transaction basis.
While the support for only allowing opt-up for topics/transactions permitted by the Board had the least support from stakeholders, staff consider that there is merit to explore this option as this option strikes the middle ground to ensure simplicity of the stand-alone standard and will contribute to comparability. Staff have not yet considered what topics should be permitted by the Board to opt up to higher reporting requirements. Staff will need to conduct further analysis and develop possible options for the Board to consider at a future meeting.</td><td>Category C</td></tr>
<tr><td>Q11) Items proposed to be excluded from Tier 3 accounting requirements</td><td>• Most stakeholders agree with the proposed items to be excluded because the proposed items would not be common to smaller NFP private sector entities and guidance could be developed for the proposed items when they become more common.
• Some stakeholders disagree with some of the proposed items to be excluded including:
○ business combinations where most stakeholders note increasing trend for NFP entities, including smaller entities, to merge and acquire other entities;
○ biological assets and agricultural assets where a few stakeholders disagree because NFP entities may have community gardens, and smaller entities may cultivate plants or rear animals for communal purposes;
○ complex financial instruments where a few stakeholders disagree given the objective of a stand-alone standard it should minimise reference to other AAS, and there are inconsistencies between Tier 3 and AASB 9 when Tier 3 prohibits hedge accounting while AASB 9 allows hedge accounting for items at amortised cost (i.e. simple financial instruments); and
○ accounting by an operator in a service concession arrangement where a few stakeholders disagree because it would force preparers to apply full AAS under Interpretation 12 including financial assets, intangible assets and revenue accounted for based on Tier 2 requirements.</td><td>The findings from RR 19 did not identify that the proposed items to be excluded from the Tier 3 accounting requirements are common transactions for charities.
However, staff think there is merit in re-considering not to scope out business combinations, based on feedback that it would not be uncommon for smaller NFP entities to merge or to acquire other entities and to future-proof the Tier 3 Standards;
Staff will need to conduct further analysis of possible options to assess whether there is merit in:
• allowing all financial instruments (i.e. both basic and complex financial instruments, as proposed in the DP) to apply the proposed simplified accounting requirements developed for basic financial instruments (refer to Q21); and
• considering whether biological and agricultural assets, and accounting by an operator in a service concession arrangement, should be scoped out explicitly from the Tier 3 Standard or be silent in the Tier 3 Standard which, in turn, allows a Tier 3 entity to apply a related Tier 3 requirement instead.</td><td>Category B</td></tr>
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Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
Q12) Hierarchy approach	• Almost all stakeholders agree with the proposed hierarchy approach because accounting advisors of NFP entities will default back to the requirements in Tier 1/Tier 2 as their baseline knowledge. It will also simplify the auditing/reviewing of information as it will be based on a supportable framework and auditors are unlikely to accept an approach not in line with existing Australian requirements. • A few stakeholders disagree because of their preference for the Tier 3 Standard to be stand-alone, and therefore an entity should not be required to refer to Tier 2 requirements. Any potential out-of-scope transactions can be considered by the entity by considering the principles in Tier 3 dealing with similar issues and also the Conceptual Framework. Such an approach will require the Tier 3 Standard be as comprehensive as possible noting the need to eliminate any opt-up to Tier 2.	Staff think the hierarchy approach should first apply the Tier 2 requirements before referring to principles and requirements in Tier 2 and then the Conceptual Framework. When the Board developed the hierarchy approach, the Board decided that referring to Tier 2 requirements first would provide more direction and require less judgement for preparers. The cost of referring to higher Tier requirements is expected to be limited as entities would not ordinarily need to consider the accounting policy hierarchy. Nevertheless, staff think there is merit to consider the Tier 3 hierarchy approach further in light of the feedback received, specifically whether to refer to Tier 2 requirements in the first instance. Staff also note that the hierarchy approach is dependent on the Board's consideration/decision of opt-up by class of transaction basis in Q11 and whether the Tier 3 Standard should be a completely standalone standard in Q10. Staff will conduct further analysis of possible options to resolve the issue for the Board's consideration at a future meeting.	Category B
Q13) Maintenance cycle	• Almost all stakeholders agree with the maintenance cycle of Tier 3 requirements because consistency is important for smaller entities and the approach is successfully used in *IFRS for SMEs*. • A few stakeholders disagree, noting a shorter cycle may be beneficial to address any significant items that need to be amended, and the maintenance cycle should act as a guideline only and amendments should be considered when urgent or necessary.	Staff think the Board should limit revisiting its Tier3 reporting requirement to no more than once every AASB agenda cycle consultation cycle (5 years) and only when if there is a substantive case for doing so, in accordance with the *AASB Due Process Framework for Setting Standard*. A post-implementation review that is conducted 2 years after the first effective date should allow the Board to address any issues from the initial application. However, acknowledging that some entities may early adopt the future Tier 3 Standard, staff will have regard to the Due Process Framework to consider whether to establish a Transitional Resources Group or Implementation Group following the development of the Tier 3 Standard to assist with identifying and resolving implementation issues prior to the effective date of the Tier 3 Standard.	Category A

Q14a & Q15–16) Primary financial statements including presentation requirements	• Most stakeholders agree on the proposed Tier 3 primary financial statements including the presentation requirements for the statement of profit or loss and other comprehensive income to be consistent with AASB 1060, supported by supplementary material to ensure consistency in the presentation of financial statements across all reporting entities.
	• Some stakeholders disagree with some aspects of the proposal and noted:
	  ○ the statement of cash flows to continue to require separately presenting investing and financing activities because it provides useful information;
	  ○ not restricting the presentation of cash-flow from operating activities to the direct method only to provide flexibility to preparers; and
	  ○ presentation requirements to be developed based on a more prescriptive approach to provide more explicit requirements to reduce subjectivity and judgement.
		Staff think that the Tier 3 general purpose financial statements should comprise a statement of profit or loss and other comprehensive income, statement of financial position of financial position and explanatory notes.
		Staff think there is merit to consider further the feedback on:
		• not requiring separating financing from investing activities since feedback indicated there is little cost saving and separating these activities provides useful information to users;
		• restricting the direct method of presenting cash flows from operating activities even though RR 19 indicated over 80% of sample charities currently apply the direct method; and
		• need for further application guidance on the “supplementary material” presentation approach.
			Category B

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
Q14b) Requirement of the statement of changes in equity	• Many stakeholders consider the statement of changes in equity is useful when NFP entities have reserves and is a useful tool in identifying errors when journaling retained earnings. • Some stakeholders considered the statement of changes in equity is not useful because the only movement in equity for the year for smaller NFP entities is their profit or loss, hence the statement does not add any additional value to users. • Stakeholders that did not consider the statement useful had mixed views on whether the information could be disclosed in the notes instead.	Staff consider there is merit to require a statement of changes in equity but noted the concerns that the statement does not add value to users if the only change in equity is the profit or loss for the period. As such, staff will consider further analysis and possible options on the approach which may include: • to align the requirements of the statement of changes in equity as per Tier 2 requirements to permit an entity to present a statement of income and retained earnings in place of a statement of comprehensive income and statement of changes in equity if the only changes in its equity during the periods for which financial statements are presented arise from profit or loss, correction of prior period errors, and changes in accounting policy; or • to require the information from the statement of changes in equity as part of the disclosure notes and only conditionally based on the circumstances identified above.	Category C
Q17) Consolidated financial statements	• Many stakeholders agree with allowing an accounting policy choice to present consolidated financial statements or separate financial statements with information about parent entity's significant relationships because: ○ consolidation is recognised as challenging within the NFP sector; and ○ the information provided in consolidated financial statements where entities have mixed purpose may not be useful to users. • Some stakeholders disagree noting the accounting policy choice can reduce comparability including: ○ users think consolidated financial statements are important to provide transparency to users; ○ auditors think the choice could lead to abuse, for example, an NFP parent restructuring to transfer assets and liabilities into a subsidiary to achieve reporting outcomes otherwise unachievable under other general purpose financial reporting frameworks.	Staff noted mixed views whether to allow an accounting choice to present consolidated financial statements. On one hand, given that many stakeholders supported the simplification on consolidation, staff think the Tier 3 requirements should therefore allow an accounting policy choice to presenting consolidated financial statements. However, it may not be common for medium-sized NFP private sector entities to be a parent entity (based on RR19 findings that only around 1% of sampled charities submitted consolidated financial statements), hence there is a merit to consider whether such a simplification is justifiable in light of the stakeholders who disagreed with the preliminary view. As such, staff will need to conduct further analysis and bring possible options at a future meeting on: • whether to allow an accounting policy choice for presenting consolidated financial statements or to consider consolidation as an omitted topic; • subject to Board decision to allow an accounting policy choice to present consolidated financial statements, the requirements for disclosing information on the parent entity's significant relationships if a Tier 3 entity presents only separate financial statement; and • subject to Board decision not to allow an accounting policy choice for consolidation, whether any further simplification could be developed instead.	Category C
Q18) Separate financial	• Most stakeholders agree with the proposals to remain consistent with Tier 2 requirements except for fair value to be measured through other comprehensive income (FVOCI) to align with preliminary views for the	When the Board discussed its proposals, staff had not identified at the time that accounting requirements for this topic are an area of significant interest beyond terminology and language.	Category C

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
statements of the parent	accounting of basic financial instruments (refer to Q22–27). Stakeholders consider the cost method would likely be the preferred option. • A few stakeholders disagree and consider: ○ allowing a parent entity to measure their investment in subsidiaries at fair value or using the equity method is not simpler to apply (and arguably consolidation would be more appropriate) and may introduce other complexities; or ○ for an entity to consider which measurement basis is appropriate, an entity must evaluate whether the investment is a subsidiary which is inconsistent with the Board's proposals for parent entity presenting separate financial statements to only determine a parent entity's significant relationships rather than their subsidiary.	In light of the stakeholder feedback, staff will need to conduct further analysis, including the most common method used by smaller NFP entities under current requirements and possible options to address the issues identified by the feedback, such as whether the Tier 3 Standard should include the requirement for a parent entity preparing separate financial statements to measure its investment in subsidiaries at cost less impairment, with the exception of an investment entity, venture capitalist or similar entity to limit the accounting policy choices available and address the stakeholders' concerns regarding the complexity such choice may represent.	
Q19–20) Changes in accounting policies, correction of accounting errors and changes in accounting estimates	• Most stakeholders generally support the proposal on accounting for changes in accounting policies and estimates and correction of accounting errors, and welcome the simplifications. They noted that not adjusting prior period comparatives would be clearer and would be more easily understood by users. • A few stakeholders disagree mainly in relation to the accounting for correction of prior period errors because: ○ correcting comparatives ensures users have necessary comparable information and the benefits outweigh cost; and ○ this may have implications on signing off the audit.	Staff think the Board should develop a requirement for a modified retrospective approach to changes in policies and a prospective approach for changes in accounting estimates, given the majority of stakeholders supported the Board's preliminary views. Staff will conduct further analysis and determine possible options on the accounting for correction of prior period errors to address the feedback that the modified retrospective approach may be misleading, users would benefit from the adjustments of comparative information and that the benefits of the adjustments outweigh the cost. Possible options may include: • require restatement of comparative information for prior year errors (i.e. retaining existing requirements) with simplification of the language; or • proceeding with Board's preliminary view to allow a modified retrospective approach for correction of prior period errors and developing appropriate disclosure requirements.	Category B
Q21) Tier 3 to develop simplified accounting for financial instruments that are common to smaller NFP entities and more complex or uncommon, financial instruments to refer to AASB 9	• Almost all stakeholders agree, noting the current requirements are too complex for smaller entities and the proposals would standardise the reporting. • A few stakeholders disagree because: ○ directing entities to refer to Tier 1/Tier 2 requirements for complex financial instruments contradicts Tier 3 requirements to be considered as a separate stand-alone standard; and ○ an alternative approach for Tier 3 accounting should apply where an instrument does not contain complex features (such as conversion features or other derivatives). • Only a few stakeholders disagree with the proposed list of complex financial instruments and consider: 1) concessional loans are common, 2) preference	Staff noted the Board rejected developing Tier 3 reporting requirements for financial instruments being wholly self-contained within a Tier 3 Standard because an NFP entity that commonly holds 'more complex' financial instruments will not usually be the type of entity that should be preparing financial statements that comply with Tier 3 reporting requirements. The Board also recognised that many smaller NFP entities would have difficulties identifying what assets/liabilities would fall within financial instruments and therefore proposed to develop the Tier 3 requirements by identification of instruments to provide clarity to Tier 3 preparers. However, in light of feedback, staff think there is merit to further consider alternative approaches and possible options on whether to:	Category C

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
	shares can be received as a donation, 3) listed bonds are straightforward and 4) a few NFP entities have interest rate swaps in place with banks.	• include accounting for complex financial instruments within a Tier 3 Standard (as the Board did not make the decision in this regard) and whether to simplify accounting for them similarly to IFRS for SMEs; • apply a different method to distinguish a basic financial instrument from complex one where the basic instrument does not contain complex features (such as conversion features or other derivatives), and articulate in the Tier 3 requirements what features would distinguish a complex instrument from a basic one; • proceed with the Board's preliminary views; and • include guidance for specific types of financial instruments such as concessional loans, preference shares, listed bonds and hybrid securities.	
Q22–27) Accounting for basic financial instruments	• Most stakeholders agree with the Tier 3 accounting requirements developed for basic financial instruments. • Some stakeholders disagree mainly with the subsequent measurement of financial instruments held for capital return and income, and prefer fair value through profit or loss (FVTPL) because: ○ it is a simpler option as most preparers and users lack the understanding of what other comprehensive income is; and ○ FVTPL is understood to be commonly applied by NFP entities. AASB should consider further targeted research on what is common practice in the NFP sector for subsequent measurement of these financial instruments. • A few stakeholders disagree with other aspects of the proposed accounting of basic financial instruments including: ○ expensing transaction costs and fees on initial recognition because it may negatively impact the net results for the year of acquisition and should rather be amortised over the life of the instrument; and ○ not permit hedge accounting because there are some smaller entities operating overseas that utilise forward contracts in relation to future cash flows and may be disadvantaged if not able to apply hedge accounting. • A few stakeholders consider the accounting requirements should be applied for all financial instruments and not just for those that are considered basic.	Staff think the Board should develop Tier 3 reporting requirements for basic financial instruments based largely on the Board's preliminary views in the DP, given there was broad support from stakeholders. Staff will need to conduct further analysis and determine possible options for: • the accounting requirement for the subsequent measurement of basic financial instruments, specifically whether to recognise changes in FVTPL or FVTOCI; • the request for the availability of hedge accounting policy choice to be considered in conjunction with the Board's consideration of its approach to the opt-up on a class of transaction basis, noting that findings from RR19 indicate this is not a common accounting policy choice adopted by smaller NFP entities; and • requiring immediately expensing transactions costs for financial instruments that may negatively impact the entity's net results, noting this would not be expected material unless a smaller entity acquires significant amount of financial instruments giving rise to significant costs, and findings from RR19 did not indicate holdings of many financial instruments by smaller NFP entities.	Category B
Q28) Fair value measurement	• Almost all stakeholders support keeping the definition and measurement of fair value in accordance with AASB 13 *Fair Value Measurement.* • A few stakeholders disagree and consider historical cost should be applied to avoid additional cost and movements in the balance sheet and allowing an accounting policy choice for entities to measure investments can lead to most entities choosing the cost method due to insufficient information.	Staff think the Board should not depart from the principles of AASB 13 when developing reporting requirements for Tier 3 NFP private sector entities because staff do not think there is compelling reason not to do so based on feedback from non-supportive stakeholders and consider: • fair value provides more faithful and useful information to users; and	Category A

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
		• allowing accounting policy choice is developed within the principles of the Tier 3 requirements, and allow comparability between other Tier 3 entities.	
Q29) Cost as an appropriate estimate of fair value	• Most stakeholders support the proposal but considered the need to ensure appropriate parameters around when cost may be an appropriate estimate and only be used in very limited circumstances. A few stakeholders also considered whether a rebuttable presumption that 'cost is the best estimate of fair value' could be included as a means of further simplifying the application of the requirements. • A few stakeholders disagree and consider whether some thresholds could be developed when unlisted share investments would be required to be measured at fair value.	Staff think the Board should develop Tier 3 requirements that cost may be an appropriate estimate for fair value when cost represents the best estimate of fair value within a wide range of possible fair value measurements. Staff do not recommend thresholds should be developed, any thresholds would increase complexity if a threshold was introduced that may not be appropriate to meet all NFP entities' needs. Staff noted concerns from some stakeholders to ensure appropriate parameters when cost would be appropriate. Paragraph B5.2.4 of AASB 9 *Financial Instruments* provides a non-exhaustive list of indicators where cost might not be representative of fair value which staff considered should be included in the Tier 3 requirements. While staff have not fully analysed the suggestion for the rebuttable presumption of 'cost being the best estimate of fair value', staff's initial reaction is that no further simplification should be developed given acquiring unlisted share investments would likely be uncommon (as confirmed by feedback from a stakeholder and the RR19 findings) and it may lead to abuse by entities that do not want to invest cost to obtain the fair value for unlisted share investments.	Category A
Q30) Inventory	• Almost all stakeholders support retaining the current Tier 2 requirements for the accounting for inventory. One stakeholder suggested whether guidance for inventory held for use in the provision of service should also be included, as there is divergence in the treatment with some NFP entities expensing all purchases when acquired while others recognise the amount on hand at the end of the reporting period. • Only one stakeholder disagreed but did not provide reasons why.	Staff consider the Board should develop Tier 3 reporting requirements that are consistent with the requirements in AASB 102 *Inventories.* Staff will consider possible further guidance in relation to the feedback relating to the initial measurement of non-financial assets acquired at significantly less than fair value, including inventory as discussed in Q35.	Category A
Q31) Accounting for biological assets and agricultural produce at the point of harvest if not scoped out from a Tier 3 Standard	• Many stakeholders are not aware or did not indicate in the feedback that there were smaller NFPs that hold biological assets. Stakeholders agree that biological assets should be measured at cost, consistent with the requirements for measurement of inventory under AASB 102, if biological assets were not scoped out from Tier 3 Standard but 'silent' in the requirements. • Only one stakeholder was aware that some biological assets with limited life cycles may be donated to and then held by smaller NFP entities. • Two stakeholders considered biological assets should continue to be explicitly scoped out from a Tier 3 Standard.	Subject to the Board's decision regarding Q11, staff will conduct further analysis and determine possible options on whether biological assets should be: • explicitly scoped out from a Tier 3 Standard; or • silent on the requirements within a Tier 3 Standard so that an entity may apply a related requirement being Tier 3 accounting for inventory; or • included within a Tier 3 Standard with simplified accounting requirements based on the accounting for inventory in AASB 102.	Category C
Q32–33) Investment in	• Most stakeholders agree with the proposal but noted fair value may be recognised through profit or loss rather than through other comprehensive	While most stakeholders agreed with the preliminary views in the DP and the Board considered several considerations noted by stakeholders when arriving to	Category C

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps

associates and joint ventures	income for subsequent measurement of financial assets held for capital return and cash flow changes (see Q22-21).
	• Only a few stakeholders disagree and consider:
	  ○ an investor should not be prevented from applying the equity method of accounting to measure its investments in associates and joint ventures (JV) if an investor that has subsidiaries prepares equity-accounted financial statements;
	  ○ further research should be conducted on whether NFP entities hold associates and JV as investments, and if not, then accounting policy choice should be limited to only cost; and
	  ○ the proposal to exempt entities from evaluating whether an entity has significant relationships is a subsidiary, associate or JV is contradictory as the entity will need to have undertaken an evaluation of whether it is a parent entity. The accounting for investments and JV should be consistent with accounting for investment in a subsidiary as per Q17.
		its preliminary views, staff think there is merit in conducting further analysis and developing recommendations on whether:
		• to consider investment in associates and JVs as a topic to be scoped out from Tier 3 Standard based on the RR19 findings that it may not be common for smaller NFP entities to have investments in associates and JVs, and may be dependent on the Board's decision on consolidation discussed in Q17;
		• subject to the Board's decision to allow an accounting policy choice to present consolidated financial statements, a similar accounting policy choice to apply for the accounting of investment in associates and joint ventures irrespective of the accounting policy choice on consolidation of subsidiaries; and
		• to revisit the preliminary views in the DP and to either limit or extend the accounting policy choice on the measurement of associates and joint ventures.	

Q34) Property, plant and equipment (PPE) and investment property	• Almost all stakeholders agreed and do not consider there to be any issues with the current accounting for PPE and agreed with applying the consistent requirements for Tier 3. A few stakeholders considered whether investment property could be accounted for similarly to PPE for further simplification. • A few stakeholders disagree and consider determining whether an asset is an investment property is difficult and suggest an ad hoc approach to revaluation to be sufficient.	Staff think the Board should develop Tier 3 requirements for PPE and investment property to be consistent with Tier 2 requirements except for simplifications in language and terminology. Staff do not agree with non-supportive stakeholders' feedback noting: • revaluation required on an ad-hoc basis may increase judgement and could lead to entities not revaluing their assets even if there are circumstance that may impact the value of the assets; and • the Board decided to continue to require the classification of investment property and PPE because these properties are held for different purposes warranting different accounting requirements. It also allows users to understand how a NFP entity is using its assets in generating its income and make assessment of the management's stewardship of the NFP entity's assets.	Category A

Q35) Initial measurement of non-financial assets acquired at significantly less than fair value	• Most stakeholders agree as the accounting policy choice provides flexibility and a proportionate response for smaller NFP entities but some noted preference for not allowing an accounting policy choice if the non-financial asset acquired for significantly less than fair value was acquired through a business combination.
	• Some stakeholders disagreed with:
	  ○ not allowing the subsequent revaluation of non-financial assets initially measured at cost because an organisation's needs and circumstances may change; and
	  ○ accounting policy choice for these non-financial assets to be measured at cost and consider fair value should continue to be applied because
		Staff will conduct further analysis and consider possible options in light of the feedback the Board did not have when arriving at its preliminary views that obtaining fair value for certain class of non-financial assets is not onerous; and the information is required for the regulatory purposes in number of instances.
		Staff will further consider and analyse the feedback giving regard to the options on the subsequent measurement requirements of non-financial assets acquired at significantly less than fair value initially measured at cost presented to the Board in [Agenda Paper 3.2.2] at the August 2022 Board meeting.
			Category C

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
	applying the cost method (i.e. donated assets may be reflected as nil on balance sheet) may omit important information to user. Some stakeholders did not consider obtaining fair value measurement of these assets onerous and may be required by regulatory purposes anyway.		
Q36) Volunteer services	• Most stakeholders support retaining the current requirements for the accounting policy choice to recognise volunteer services at fair value if reliably measurable. • Some stakeholders disagree with the proposal and consider volunteer service should not be recognised as a further simplification and for consistency purposes.	Staff consider the Board should develop Tier 3 requirements for the accounting of volunteer services to be consistent with Tier 2 requirements, except for simplification in language. Staff noted the Board rejected the option to not permit volunteer services recognition to recognise the fact that many NFP entities rely on the volunteer services and some of them may be able to measure volunteer services at fair value reliably therefore retaining the option available in a higher tier of AAS. However, staff note that the Board's decision on the availability of accounting policy of a higher tier on a class of transaction basis (see Q10) may affect the Board's response to the feedback on this matter.	Category A
Q37) Borrowing costs	• Almost all stakeholders agree and consider the proposals keep the accounting simple, and cost should be expensed as occurred. • Only a few stakeholders disagree as they are aware some smaller entities have borrowed specifically in relation to property development and should be allowed the choice to capitalise borrowing costs, if accounting policy choices are available in other areas (e.g. volunteer services).	Staff consider the Board should develop Tier 3 requirements to require all borrowing costs to be expensed because, based on findings from RR19, it may not appear that there would be qualifying assets that would meet the criteria to capitalise borrowing cost and given almost all stakeholders agreed with the Board's preliminary views. Staff note that the Board decisions whether to allow opt-up on a class of transaction basis may help to address the feedback from the stakeholders that would prefer capitalisation of qualifying borrowing costs.	Category A
Q38) Impairment of non-financial assets	• Most stakeholders agree noting impairment is often complex for smaller NFP entities and the proposal is practical and easy to understand. • Some stakeholders disagree noting that: ○ the impairment requirements should be consistent with AASB 136 *Impairment of Assets*; and ○ it was not clear why some indicators were excluded.	Staff consider the Board should develop the Tier 3 requirement for the impairment model based on the proposals in the DP and to expand on reasons why some indicators would not be included in the Tier 3 requirements because: • the objective of the project is to develop simplified accounting requirements for smaller entities which have found the existing impairment model complex to apply, hence the departure from Tier 1/Tier 2 requirements is inevitable; and • based on RR19 findings, staff noted that impairment losses were not identified as a common transaction which may indicate that NFP entities are likely only impairing non-financial assets upon a significant event, and confirming the Board's preliminary view to limit the indicators of when impairment testing is required as a form of simplification.	Category A
Q39) Assets held for sale	• Many stakeholders support not developing any specific requirements for assets held for sale noting it is not a common transaction. However, one stakeholder considers the Board could take a similar approach for prohibiting hedge accounting, to relieve entities from applying AASB 5 *Assets held for sale.*	In light of stakeholder feedback, staff will conduct further analysis and consider how an entity will apply the Tier 3 accounting requirements for assets held for sale as part of the analysis to allow opt-up on class of transaction basis or otherwise included specifically within Tier 3 with simplification to language.	Category C

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
	• Some stakeholders disagree and consider the existing requirements should be retained and should be provided within the Tier 3 Standard.	Staff noted stakeholder requests for further simplifying the requirements and not applying AASB 5 similarly to the approach taken not to permit hedge accounting in the Tier 3 Standard. However, staff do not think that not permitting hedge accounting would be similar to not requiring the application of AASB 5, given applying hedge accounting is an accounting policy choice which the Board preliminary decided not to permit within Tier 3.	
Q40) Existence of intangible assets commonly held and recognised by smaller NFP entities	• Many stakeholders noted some intangible assets, such as software, licenses, goodwill and trademarks as well as crypto assets are most commonly held by smaller NFP entities. As such, some simple guidance for intangible assets should be included in a Tier 3 Standard to future-proof the standard. • Many stakeholders considered there were no intangible assets held by smaller NFP entities and including specific accounting requirements appears to outweigh benefits of accounting for uncommon transactions.	While staff noted the mixed views, findings from RR 19 indicated that less than 5% of sampled charities were identified to have intangible assets. However, based on feedback from stakeholders that intangible assets may become more common in the future, staff consider there is merit to conduct further analysis and develop possible options on the accounting requirements for intangible assets as part of a Tier 3 Standard.	Category C
Q41) Leases*	• Almost all stakeholders agree and consider the current requirements were confusing to many smaller NFP entities, and simplification in the accounting for leases is well received. A few stakeholders noted the need to clarify the straight-line basis for minimum lease payments common to contractual circumstances such as rent-free periods and the need to consider transition requirements given the significant differences between Tier 1/Tier 2 and proposed Tier 3 requirements. • A few stakeholders disagree and consider AASB 16 *Leases* should be applied for all entities to ensure consistency and comparability with other entities. They also noted that not requiring right-of-use assets does not reflect the true value of running the organisation.	Staff recommend the Board should develop Tier 3 accounting requirements for leases, including requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systemic basis is more representative of the time pattern of the user's benefit. A similar requirement would apply for lessors. Concessionary lease arrangements would be accounted for in the same manner as other leases and not including specific requirements for sale and lease back transactions, or for manufacturer or dealer lessors given many stakeholders consider the cost of applying AASB 16 does not outweigh the benefit from the information to users. Staff will conduct further analysis on possible options on whether to develop specific guidance on applying the straight-line basis for minimum lease payments common to contractual circumstances such as rent-free periods and the transitional requirements for entities already applying AASB 16.	Category B

Q42) Income (including Revenue)*	• Almost all stakeholders agreed and consider the deferral of income would allow more helpful information for users to reflect that grants/donations are used for future periods.
	• A few stakeholders disagree and consider the proposed model may provide more flexibility as the Tier 3 income recognition model proposals of 'common understanding' does not appear to link to the definition of obligation in the Conceptual Framework and may lead to difficulties in assurance;
	• Some of these stakeholders proposed alternative approaches such as:
	  ○ all income should be recognised immediately;
	  ○ binding or non-binding nature of the commitments should be considered;
		Staff recommend the Board should develop Tier 3 accounting requirements for income recognition based on the proposals in the DP with consideration to further develop definitions of new terms, application guidance and relevant examples. Staff think the income recognition model is appropriate because:
		• the Board's proposal requires the common understanding to be evidenced which should provide sufficiently robust requirements to ensure consistency of application and ability to assure the reporting outcomes;
		• the recognition of income immediately does not reflect that the resources are required to be spent in the future period;
		• the notion of binding or non-binding would add to the complexity as the Board did not include the notion of enforceability when developing the income recognition model;
			Category A

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
	○ IPSASB recently approved IPSAS 47 *Revenue* proposals or IFR4NPO forthcoming guidance on revenue recognition; and ○ AASB 120 *Government Grants*.	• IPSAS 47 *Revenue* requires the consideration of binding arrangements and the revenue model developed by IFR4NPO applies IFRS 15 *Revenue from Contracts with Customers* and IPSASB's approach to recognition of grants, hence this would appear to be a two-step model that stakeholders considered complex in the existing Australian income recognition requirements; and • the feedback from stakeholders obtained during the development of the DP and throughout the comment period that determining sufficient specific requirements in AASB 15 is too complex for smaller NFP entities.	
Q43–44) Employee benefits (including termination benefits and defined benefit plans)	• Almost all stakeholders agreed and supported that guidance on determining the probability of long service leave (LSL) would be helpful and not include accounting for termination benefits and defined benefit plans given it is uncommon for smaller entities. • Some stakeholders also suggested the Board consider more guidance on portable LSL and on-costs as accounting for them is difficult. • While stakeholders did not provide specific industry guidelines that are currently followed by NFP entities when determining probability of LSL, they suggested different approaches including: ○ current practice is to apply the probability of 50%, hence application at 100% may increase the liabilities; and ○ LSL reflecting 100% probability can reduce the need for smaller entities to make complex decisions. • A few stakeholders disagreed with the proposals mainly in relation to not using 'future outflow expected to be required' (i.e. future pay rises) in determining employee benefits provisions.	Staff considered one of the reasons the Board decided not to require discounting was that the discount for the time value of money may largely negate any future pay rises such as the present value of the obligation and many obligations are expected to settle within short-to-medium term. The Board proposed to seek feedback on whether a probability assessment on determining LSL can be developed as a practical expedient or rebuttable presumption. However, staff think it would not be feasible to develop such a rebuttable presumption or practical expedient given there were no specific industry guidelines commonly applied by NFP entities. However, in light of stakeholder feedback, staff think there is merit in conducting further analysis and considering options on whether another form of guidance, such as an illustrative example, can be developed for calculating the probability assessment of employee benefit provisions. Staff will also need to conduct analysis on whether to develop further guidance on the accounting of on-costs and portable long service leave.	Category C
Q45) Other topics to be included in Tier 3 reporting requirements (including foreign currency translation, income taxes, commitments, events after reporting period, expenses, offsetting, provisions,	• Most stakeholders agree with the Board to align the requirement with the New Zealand Tier 3 requirements for other topics. • A few stakeholders disagree and consider these topics should align with the accounting requirements for *IFRS for SMEs* instead because these topics are not specific to NFP entities. • One stakeholder noted difficulties in the accounting for provisions and contingent liabilities for smaller NFPs.	Staff consider the Board should develop the accounting requirements for other topics based on the New Zealand Tier 3 requirements because the New Zealand Tier 3 requirements are similar with Tier 1/Tier 2 requirements for these topics, except for foreign current translation and income taxes, and the proposed simplification were largely welcomed by almost all stakeholders. Agenda Paper 3.2 on the drafting approach of the Tier 3 ED proposes to refer to the *IFRS for SMEs* ED after considering whether the recognition and measurement requirements proposed for Tier 3 differs to Tier 1/Tier 2 requirements with further simplification to be considered using NZ Tier 3. As such, subject to the Board's decision on Agenda paper 3.2, staff consider the proposed Tier 3 requirements on these topics would largely address stakeholders' concerns.	Category A

Topics	Overview of feedback received	Overview of staff preliminary analysis	Next steps
contingent assets and contingent liabilities)		Staff will need to consider whether further guidance (e.g. illustrative examples) should be developed for accounting requirements for provisions and contingent liabilities.	
Q46-49) Disclosure approach and illustrative disclosure examples	• Almost all stakeholders agree with the disclosure approach but some stakeholders disagree with some aspects of the examples illustrating the approach. • Only a few stakeholders disagree with the proposed approach because developing disclosures requirements from AASB 1060 as a base may still not strike the right cost/benefit balance and recommended further simplifications should be considered for Tier 3 disclosure requirements.	Staff recommend the Board develop the Tier 3 disclosures based on the approach proposed in the DP. Staff noted the Board developed the Tier 3 disclosure approach ensuring: • the disclosures would not be more than what is currently required by existing Tier 2 requirements; and • the simplifications to recognition and measurement requirements were made within the principles of developing Tier 3 requirements, which may require disclosure requirements in place of a Tier 2 measurement requirement (e.g. allowing accounting policy choice to presenting consolidated financial statements). As such, there may be instances that may warrant more Tier 3 disclosures requirements than the existing Tier 2 requirements. On the other hand, these principles should result in simple Tier 3 disclosures compared to Tier 2 where appropriate. Staff will consider stakeholder feedback further when developing disclosure requirements.	Category A

Staff recommendation

11 If the Board agrees with staff's preliminary analysis and views summarised in Table *1*, then the Board should consider whether to proceed with the next stage of the standard-setting process. Paragraph 6.5 of the AASB Due Process Framework for Setting Standards (Due Process Framework) states that, to ensure appropriate consultation, the due process steps that are mandatory for both IASB-related and domestic proposals for new Standards, amending Standards, Interpretations or other guidance are:

(a) identifying the accounting or external reporting issue to be addressed, the scope of the issue and the rationale for needing a standard-setting solution. A formal agenda consultation process is held at least once every five years;

(b) debating proposals in one or more public meetings;

(c) using an evidence-informed approach to standard-setting to ensure regulatory action is warranted, including completing before finalisation a Regulation Impact Statement or similar assessments in the Basis for Conclusions; and

(d) exposing for public comment a draft of proposals including an Exposure Draft.

12 The Board undertook the NFP Framework Project[2] because many stakeholders have identified concerns that the Australian reporting requirements are not commensurate with the abilities and resources available to smaller not-for-profit private sector entities or user interests (that is, they are not 'fit for purpose'). The Board expressed its preliminary view in the DP on the simple, proportionate, consistent and transparent financial reporting framework for application by not-for-profit private sector entities including the intent to extend the application of AAS to not-for-profit private sector entities that are currently not a 'reporting entity' as defined by SAC 1 *Definition of the Reporting Entity.*[3]

13 Based on the feedback received from the consultation on the DP and staff's preliminary analysis in Table *1*, staff's suggested action is that the Board proceed further with the development of a third differential reporting tier including extending the application of AAS to not-for-profit private sector entities. Consistent with the preliminary views in the DP supported by the stakeholders' feedback, the timing of the removal of special purpose financial statements should not precede the release of a Tier 3 Standard.

14 Therefore, staff recommend for the Board, as per the Due Process Framework, to proceed with the project and start developing draft of Exposure Draft on:

(a) a Tier 3 Accounting Standard with simplified accounting requirement for certain not-for-profit private sector entities; and

(b) the removal of special purpose financial statements for certain not-for-profit sector entities per staff's suggested action in Q5 in Table 1 .

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2 Refer to the NFP Framework Project Plan

3 This consultation is consistent with the requirement of the Due Process Framework paragraph 7.4.2 noting that where the AASB has not determined the most appropriate option to resolve an issue, or evidence is at a preliminary stage, a consultative document may be issued prior to an ED, such as a Discussion Paper. Paragraph 6.4 of the Due Process Framework notes that Discussion Paper usually outline a wide range of possible accounting policies on a particular topic. They are typically used to refine the number of options being considered as the solution to an issue. Same paragraph notes that an Exposure Draft (ED) typically is a draft of a proposed Standard (or other pronouncement) or a draft amendment to a Standard. An ED is issued when there is a specific proposal, includes a basis for conclusions, and if relevant, alternative views. An ED is a mandatory due process step.

Questions to Board members:

(1) Do Board members agree with the staff analysis and recommendations in paragraph 14 to proceed, in accordance with the *AASB Due Process Framework for Setting Standards*, with the development of an Exposure Draft on:

(a) the development of a Tier 3 Accounting Standard with simplified accounting requirements for smaller not-for-profit private sector entities; and

(b) the removal of special purpose financial statements for certain not-for-profit entities.

(2) If yes, do Board members agree with the staff's preliminary analysis and staff views on the next steps staff intend to take in the drafting of the ED for each topic/issue based on the categorisation in Table 1?

If not, what do Board members suggest?

15 If the Board agrees with the staff recommendations, the Board will be asked to consider the approach to drafting the ED for the Tier 3 requirements in Agenda Paper 3.2