Australian Government
Australian Accounting Standards Board

Cover Memo

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	AASB February 2026 (M218)
Topic:	**Not-for-Profit Financial Reporting Framework – Project update, working draft of Tier 3 Standard**	**Agenda Item:** **Date:**	4.0 22 January 2026
Contact(s):	Jim Paul jpaul@aasb.gov.au Evelyn Ling eling@aasb.gov.au Maggie Man mman@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High High Finalising Standard

Objectives of this agenda item

1 The objectives of this agenda item are for the Board to:

(a) receive an update on its Not-for-Profit Private Sector Financial Reporting Framework (NFP FRF) project (this agenda paper); and

(b) consider a working draft of the Tier 3 Standard (Agenda Paper 4.1). This working draft reflects sweep issues and other matters identified through staff's re-examination of the Standard, incorporating all previous Board decisions on finalising the Tier 3 requirements. Agenda Paper 4.2, available in the supplementary folder, provides a clean version of the working draft without tracked changes.

2 Staff expect Board members will focus primarily on the sections of the working draft Tier 3 Standard presented to the Board as a mark-up of ED 335 for the first time, which are detailed in the introduction to Agenda Paper 4.1.

Background and decisions made by the Board

3 ED 335 was issued in late October 2024 with a four-month consultation period ending 28 February 2025. The exposure draft contained the Board's proposals for a Tier 3 Standard with simplified recognition, measurement, presentation and disclosure requirements, transition provisions and effective date. At the same time, the Board issued ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*, which exposed the Board's proposals to extend the application of the *Conceptual Framework for Financial Reporting* and Australian Accounting Standards to more NFP private and public sector entities.

4 At its May 2025 meeting, the Board considered collations of the feedback on the proposals in ED 335 and decided to continue the projects and begin redeliberation.

5 From the July to November 2025 meetings, the Board redeliberated on certain proposals in ED 335 and made decisions about them, in addition to some editorial decisions. A summary of the Board's decisions, including the extent of revisions to the proposals in ED 335, is provided in **Appendix A.**

6 The Not-for-Profit Private Sector Financial Reporting Framework Project Summary also provides an overview of the Board's decisions in respect of the project resulting in ED 335.

Cross-cutting projects update

7 Agenda Paper 3.1 at this meeting provides a preliminary summary of feedback on AASB ITC 56 *Post-implementation Review of Tier 2 and the Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities and Further Update of Tier 2*. Staff note that one stakeholder expressed concerns with the Board's proposal to exclude aligning the Tier 3 Standard with the presentation requirements in AASB 18 *Presentation and Disclosure in Financial Statements,* while proposing alignment with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. The stakeholder suggested this approach could undermine comparability objectives. Staff note that the Board had previously considered similar feedback at its 3 July 2025 Board meeting and, as noted in Appendix A, decided not to align Tier 3 requirements with those in AASB 18, except for updating the titles of the financial statements (as reflected in Agenda Paper 4.1 at this meeting) and broadly aligning the requirements for presenting an analysis of expenses (i.e. permitting the analysis to use a mixed presentation based on the nature and function of expenses).[1]

8 Staff will continue to monitor the feedback from AASB ITC 56 after its comment period closes on 22 January 2026 and bring any relevant feedback for the NFP FRF project for further Board consideration.

Project timeline and milestones

9 The table in paragraph 12 sets out an expected joint timeline for the NFP FRF and Conceptual Framework: Not-for-Profit Amendments projects to facilitate Board member consideration, given the interaction between these two projects.

10 The proposed timeline has been revised since it was last presented at the November 2025 Board meeting. In light of limited staff resources and the significant time and effort required from both staff and the Board, staff now propose to bring a pre-ballot draft of the Tier 3 Standard together with a pre-ballot draft of the amending Standard containing proposals from ED 334 to the March 2026 Board meeting. This change reflects that the Board has already completed its substantial technical decisions regarding ED 334 and ED 335 and staff resources remain constrained. This approach will allow the Board to vote on the final pronouncements out of session (expected before June 2026).

11 Staff will also continue to work on other accompanying documents following the Board's vote on the pronouncements. This includes updating the *AASB Not-for-Profit Entity Standard-Setting Framework* and other materials outlined in the timeline below.

12 Staff will continue to actively consider and make any necessary updates to the project timelines at each Board meeting.

Topics	**Date**
ED 334	This meeting

1 As presented in Agenda Paper 5.3 for the 3 July 2025 meeting, the Board decided not to align Tier 3 requirements with AASB 18 because:

(a) Tier 2 entities applying AASB 1060 are not yet required to apply AASB 18 and the Tier 3 Standard will likely be issued prior to the amendments would be made to align AASB 1060 with AASB 18 to be applicable to Tier 2 entities; and

(b) Although AASB 18 contains the most recent IFRS-based (Tier 1) presentation and disclosure requirements, it does not necessarily follow that the presentation and disclosure requirements for lower tiers of reporting should align with AASB 18. The IASB did not align its recently issued third edition of the IFRS for SMEs Standard with IFRS 18.

Topics	Date
• Redeliberation: Effective date • Consider a working draft amending Standard including consequential amendments ED 335 • Consider working draft of the Tier 3 Standard and make decisions on all remaining technical issues, including sweep and other issues	
ED 334 • Bring a pre-ballot draft amending Standard for consideration ED 335 • Bring a pre-ballot draft Tier 3 Standard for consideration ED 334 and ED 335 considerations • Consider due process (costing and whether to re-expose)	March 2026 Board meeting
• Consider Explanatory Statement and vote on final pronouncements.	Before the end of Q2 2026
• Update the AASB Not-for-Profit Entity Standard-Setting Framework • Update Research Report 10 *Legislative and Regulatory Financial Reporting Requirements (Updated)* • Develop a Table of Differences summarising the main differences between the Tier 3 Standard and the International Non-Profit Accounting Standards • Produce any accompany guidance/FAQs	Before the end of Q2 2026

Question to Board members
1) Do Board members have any comments on the project timeline presented in paragraph 12 above, or any other matters noted in this agenda paper?

Appendix A

Topics	Board decisions
ED 335 proposals	
Section 1: *Objective, Scope and Application*	• Clarify that topic-based Accounting Standards apply to specified transactions/ events within their scope • Reconfirm not to develop financial reporting thresholds on who can apply the Tier 3 Standard • Clearly explain the NFP entities to which the Tier 3 Standard is intended to apply
Section 2-7 relating to primary financial statements	• Add guidance on disclosing liabilities with covenants in Section 3 • Permit dual classification of expenses by nature and function if more useful in Section 4 • Clarify that cash receipts from investment and cash receipts from/payments under loans held for dealing or trading purposes are cash flows from operating activities in Section 6 • Clarify the difference between the alternative approaches to presenting cash flows from operating activities under the indirect method in Section 6 • Align titles of financial statements in the Tier 3 Standard with those used in AASB 18 *Presentation and Disclosure in Financial Statements* • Require an entity that accounts for investments in notable relationship entities to present the same financial statement line items as specified for investments in associates and joint ventures
Section 8: *Consolidated and Separate Financial Statements*	• Clarify the operation of Section 8 and its requirements, including the interaction between Sections 8 and 13 • Clarify that separate financial statements have the same meaning as in Tier 1/ Tier 2 reporting requirements • Clarify that if an entity elects to measure and recognise its first investment in a notable relationship entity at fair value through other comprehensive income (FVTOCI), that measurement basis must be applied consistently to all of the entity's investments in notable relationship entities • Clarify the relationship between power and the right to appoint key management personnel • Clarify that an entity discontinues fair value measurement and applies the cost model for investments in unlisted equity instruments, including investments in notable relationship entities, and investments in subsidiaries, associates and joint ventures in separate financial statements, when the variability in the range of reasonable fair value measurements is significant and their probabilities cannot be reasonably assessed
Section 9: *Accounting Policies, Estimates and Errors*	Require full retrospective application of corrections of prior period errors and related disclosures
Section 10: *Financial Instruments*	• Specify that AASB 9 applies (with other relevant Standards) only to the more complex financial instruments and financial instruments not commonly held by Tier 3 entities that are listed in paragraph 10.3, which will require an entity to develop appropriate accounting policies for other such financial instruments • Specify that an entity need not separately recognise and measure embedded derivatives • Not require the recognition of a commitment to provide a loan at a below-market interest rate • Amend paragraph 10.7(a) to clarify that all financial assets held to generate both income and a capital return for the entity are to be measured at fair value

Topics	Board decisions
	• Amend paragraphs 10.12 and 10.13 regarding reliable fair value measurement of unquoted equity instruments to avoid the apparent inconsistency with fair value measurement as described in Tier 1 and Tier 2 reporting requirements • Amend paragraph 10.16 so that the calculation of interest income and expense is not limited by the carrying amount of the financial asset or financial liability at the beginning of a period • Amend paragraph 10.21 to require an impairment loss to be measured as the difference between the asset's carrying amount and the estimated future cash flows receivable • Amend paragraph 10.27 to clarify that separate disclosure is required of those fair value measurements that are based on a quoted price in active market for an identical asset or liability
Section 11: *Fair Value Measurement*	Remove 'in general' from para. 11.7 to limit the scope of when an entity considers whether a different use by market participants would maximise the value of the asset
Section 12: *Inventories*	• Clarify that the accounting policy choice for initial measurement can be made for each individual item of inventory • Remove reference to course materials under development • Add reference to net realisable value • Move the guidance on measuring a loss of service potential of inventories held for distribution to Section 23: *Impairment of Assets* and clarify that measurement of recoverable amount is required when one of the impairment indicators is present

Section 13: *Investments in Associates and Interests in Joint Arrangements*	• In applying the equity method of accounting:
	  o require transaction costs incurred in acquiring an associate or joint venture to be expensed as incurred
	  o not to articulate how the consideration paid for the associate or joint venture should be determined
	  o allow, but not require, an investor to adjust an investee's financial statements to reflect the application of the investor's accounting policies
	• Clarify that the election to measure the investment in an associate or joint venture at FVTOCI applies to all associates, and all joint ventures, respectively
	• Same as for Section 8, clarify when an entity discontinues fair value measurement and applies the cost model

Section 14: *Investment Property*	• Remove disclosure requirements of commitments for repairs, maintenance or enhancements • Require investment property measured under the fair value model to be measured under the cost model in Section 15 until disposal of the investment property if the entity determines that the fair value is not reliably measurable on a continuing basis
Section 15: *Property, Plant and Equipment*	• Clarify that parts of Section 15 apply to investment property measured at cost • Remove reference to software and include land and buildings as an example of a class of assets • Remove disclosures required for the nature and amount of loans for which items of property, plant and equipment are pledged as security
Section 16: *Intangible Assets*	• Remove the disclosure requirement in para. 16.28(b) regarding whether an independent valuer was involved when intangible assets are stated at revalued amounts • Remove disclosures required for the nature and amount of loans for which intangible assets are pledged as security

Topics	Board decisions
	• Remove requirement to disclose the line items in the statement of profit or loss and other comprehensive income (or alternative statements) that include any amortisation of intangible assets
Section 17: *Entity Combinations*	• Require an entity combination to be recognised from the date of gaining control of the acquired entity or operating unit • Extend the exemption from fair value measurement to donated non-financial assets acquired by the entity at a nominal or significantly discounted amount and that were initially measured at cost. For the purpose of accounting for entity combinations, the carrying amount of such donated assets should be determined as if the Tier 3 Standard had always applied • Specify that an internally generated intangible asset acquired in an entity combination is not recognised • Clarify that it is the acquiree's accounting policies that are adjusted before the carrying amounts of the acquiree's assets, liabilities and items of equity are combined with those of the acquirer
Section 18: *Leases*	Lessees are not required to separate cost of services from lease payments
Section 19: *Provisions and Contingencies*	• Clarify that provisions are measured at the entity's best estimate of the undiscounted amount to be paid • Provide an impracticability exemption from the disclosures about contingent liabilities and contingent assets (other than brief descriptions), and require disclosure when the exemption has been applied • Delete the specific disclosure requirements for guarantees and the examples of firm commitments
Section 20: *Revenue*	• Include brief guidance that internal expectations communicated by an entity's management regarding the intended use of an asset received do not, on their own, give rise to a deferred revenue obligation if those expectations were formed and communicated after the asset has been received • Clarify in illustrative examples E, F and H that the 'common understanding' referred to in the examples exists regardless of whether the reporting entity is subject to an enforceable obligation to provide the promised goods or services • Add an illustrative example of a charity that establishes a common understanding with donors when it raises donations for a specified appeal that if greater funds are raised than needed for the intended purposes, the excess funds will be redirected to an alternative charitable purpose • Clarify in the scope paragraph that sales of assets are revenue when they arise in the course of the entity's ordinary activities • Replace the reference in paragraph 20.5 to fair value as the initial measurement requirement for debtors with a reference to transaction price • Clarify that if a pledge has been made to the entity and an inflow of economic benefits is probable, the disclosure requirements for contingent assets in paragraph 19.15 would apply to the pledge
Section 21: *Expenses*	Finalise as exposed in ED 335
Section 22: *Borrowing Costs*	Delete Section
Renumbered Section 22: *Impairment of Assets*	• Clarify that the recoverable amounts of non-financial assets (other than inventory) are measured at an individual asset level • Include inventories as a class of non-financial assets for which disclosures of information about impairment losses would be required

Topics	Board decisions
	• Clarify that Section 23 applies only to non-financial assets by removing the requirement to disclose impairment information for investments in associates and joint ventures in paragraphs 23.11(c) and (d) • Require impairment losses to be disclosed separately from depreciation and amortisation expenses by omitting paragraph 23.12 • Clarify in Section 23 that the loss of service potential of inventories held for distribution is measured by reference to the cost or current replacement cost of the inventories, as appropriate, rather than to the more easily determinable amount
Renumbered Section 23: *Employee Benefits*	Finalise as exposed in ED 335, subject to further Board consideration of Agenda Paper 4.1 at this meeting
Renumbered Section 24: *Income Taxes*	Finalise as exposed in ED 335, subject to further Board consideration of Agenda Paper 4.1 at this meeting
Renumbered Section 25: *Foreign Currency Translation*	Clarify that exchange gains/losses on monetary items are recognised in profit or loss, subject to further Board consideration of Agenda Paper 4.1 at this meeting
Renumbered Section 26: *Events Occurring after the Reporting Period*	Finalise as exposed in ED 335, subject to further Board consideration of Agenda Paper 4.1 at this meeting
Renumbered Section 27: *Related Party Disclosures*	Finalise as exposed in ED 335, subject to further Board consideration of Agenda Paper 4.1 at this meeting
Renumbered Section 28: *Transition to Tier 3 General Purpose Financial Statements*	• Delete the option in paragraph 28.4 to grandfather the application of Tier 1 or Tier 2 accounting policies for any or all asset or liabilities existing on the date of transition to the Tier 3 Standard • Add an explanation that the date of transition will be the same date, regardless of whether Section 9 or Section 28 is applied, unless a Tier 3 NFP entity transitioning via Section 28 elects to present full comparative information in accordance with the Tier 3 Standard • Add specific exemption that a parent entity first-time adopter of the Tier 3 Standard that elects to prepare consolidated financial statements and applies Section 28 may elect to apply Section 17 *Entity Combinations* on a prospective basis to entity combinations that occurred before the date of transition to the Tier 3 Standard • Extend the optional relief for entities selecting Section 9 on transitioning to the Tier 3 reporting requirements to apply a modified retrospective approach to correcting prior period errors, with the exemption available only on transition to the Tier 3 Standard • Extend the scope of the transitional provisions in paragraph 28.11(e) so that an entity may elect to present changes in the fair value of its investments in notable relationship entities and investments in associates and joint ventures in other comprehensive income at the date of transition to the Tier 3 Standard And subject to further Board consideration of Agenda Paper 4.1 at this meeting
Appendix A: *Glossary of terms*	Include Tier 2 terminology in the glossary of terms or within the body of the Tier 3 Standard where the same meaning is intended and subject to further Board consideration of Agenda Paper 4.1 at this meeting.
Appendix B: *Effective Date*	Annual reporting periods beginning or after 1 July 2029, with earlier application permitted and subject to further Board consideration of Agenda Paper 4.1 at this meeting
Appendix C: *Amendments to other Australian Accounting Standards*	Finalise as exposed in ED 335, subject to further Board consideration of Agenda Paper 4.1 at this meeting