31 March 2023

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Via website: www.aasb.gov.au

Dear Keith

Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-For-Profit Private Sector Entities)

As the representatives of over 300,000 professional accountants, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on the above Discussion Paper (DP). We make this submission on behalf of our members and in the public interest.

CPA Australia and CA ANZ commend the Australian Accounting Standards Board (AASB) for its considerable efforts in developing the DP. We strongly support the proposals to develop and introduce a new Tier 3 accounting standard (T3 Standard) which offers smaller not-for-profit (NFP) private sector entities a proportionate, consistent, and comparable basis for their financial reporting needs. Such a standard is absolutely essential if there is going to be a change to the ability of certain private sector NFP entities to prepare special purpose financial statements (SPFS) when satisfying legislative requirements requiring compliance with accounting standards.

Given the significance of these reforms, we have greatly appreciated the opportunity to engage regularly with the AASB throughout the development phase of these proposals and have continued to consult widely with our members and other stakeholders in developing our recommendations.

We are pleased to offer our overall support for the proposed simplifications to the full recognition and measurement requirements of IFRS that are being offered in the DP. In particular, the simplifications of key areas of complexity including revenue/income, leases, consolidation, and financial instruments are welcomed by our members and should provide a more appropriate reporting solution for this sector's reporting needs.

Our support for these proposals has been informed by both member engagement, as noted above, and by the following research projects that we have conducted while these proposals were being developed:

- CPA Australia funded research examined how stakeholders use the annual report (including financial statements) of NFP organisations and so will provide valuable insights to the AASB in further developing these and other NFP related reporting requirements. The research also found that overall, the NFP sector faces challenges when preparing financial statements applying current accounting standards.

- CA ANZ funded research conducted in 2019 on the planned implementation of the special purpose reporting reforms which noted that over 80% of NFP respondents sought reduced recognition and measurement requirements and over 87% sought reduced disclosures. This has been supplemented by data from the 2022 CA ANZ IFRS Survey which indicated that members continue to seek simplified recognition, measurement and disclosure requirements for smaller entities in both the for-profit and NFP sectors.

Tier 3 proposals – some key recommendations

Our detailed responses to the specific questions raised by the AASB on these Tier 3 proposals are provided in the **Attachment** to this letter. However, we wish to emphasise the following key recommendations:

Stand-alone accounting standard

We agree with the AASB preliminary view (paragraph 4.3) that the Tier 3 reporting requirements should be presented as a single stand-alone accounting standard. However, to be effective, the T3 Standard needs to be as comprehensive as possible so that the need to refer to accounting requirements in higher tiers occurs only in rare circumstances. Therefore, we recommend that the AASB undertake additional outreach and research in order to ensure that the reporting needs of the target NFP audience are clearly identified and addressed within the T3 Standard.

Revenue

We support the AASB's proposals to simplify the recognition of revenue in this sector. However, we consider that the simplified terminology being proposed for revenue recognition still presents interpretative challenges that will be difficult for the sector to overcome, making it challenging for them to implement the new requirements in a consistent and cost-effective manner. We therefore recommend that the AASB considers other simpler and more robust criteria for the deferral of income, as detailed in our response to Question 42.

We also note that the existing legislative reporting thresholds for a wide range of legal entities are linked to reported revenue. Therefore, the impact of this simplification will need to be carefully considered in implementing the T3 Standard. This is because it will impact replacement thresholds and transition provisions as well as the transitional and education strategies needed to support these. We discuss this issue further under broader policy issues below.

Disclosures

We are concerned that the AASB's proposed approach to disclosures for Tier 3, as set out in Section 6 of the DP, will result in a level of disclosure that places an excessive and unnecessary burden on entities to whom the T3 Standard is targeted. As noted above, the findings from the 2022 CA ANZ IFRS Survey indicated that over 75% of entities applying AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060) still consider the level of disclosure required in AASB 1060 needs to be reduced for those entities within its scope. We therefore recommend that the AASB focuses on providing additional simplifications of both content and language in all areas of disclosure to ensure the entire T3 Standard contains fit for purpose disclosures in a NFP context.

International developments

We note that the AASB is a participant in the International Financial Reporting for Non-Profit Organisations (IFR4NPO) project that is seeking to develop international financial reporting guidance for NFPs (now titled INPAG). Whilst the AASB has decided to proceed with the development of a domestic, financial reporting framework for Australian NFPs, some of our stakeholders have suggested that there is benefit in Australia adopting internationally accepted NFP financial reporting guidance.

One of the reasons that the AASB decided to not pursue the potential adoption of a IFR4NPO-based financial reporting solution was the need for a more immediate financial reporting solution for Australian NFPs. The AASB was of the view that this may not be feasible with the IFR4NPO project, given the timelines proposed for that project. Whilst we appreciate the rationale behind this decision, we suggest that the AASB continues to monitor the progress of the IFR4NPO project and its potential future suitability for NFP financial reporting in Australia. In particular, the progress and timing of the IFR4NPO project might now be sufficiently closely aligned with the development of the T3 Standard to justify the AASB waiting for the finalisation (or close to finalisation) of the IFR4NPO project to inform the accounting requirements in the T3 Standard.

We also recommend that the AASB closely monitors the development of and amendments to the New Zealand External Reporting Board (XRB) Tier 3 and Tier 4 NFP accounting standards and incorporate their experience and learning into the development of Australian specific Tier 3 reporting requirements.

Broader policy issues

If the T3 Standard is to become an effective part of Australia's reporting framework it is necessary to clearly indicate which NFPs are able to apply the new standard in preparing their financial statements. We therefore offer our views on how this might best be quickly and effectively implemented, given the significance of the much-needed reform.

Regulatory reform

We agree with the AASB's view that the establishment of appropriate reporting thresholds for NFPs is within the remit of relevant NFP legislation or regulatory authority. However, as identified in the AASB Research Report 10 (Legislative and Financial Reporting Requirements), there are numerous NFP legislative/regulatory requirements that currently require preparation of financial statements/financial information. The time, and necessary legislative action required to ensure that all these requirements are amended to both recognise the proposed new T3 Standard and to set out relevant reporting thresholds that will establish which NFPs can apply the T3 Standard, is likely to be considerable. Therefore, we are of the view that it is inappropriate to view this approach as the only implementation option.

Our proposal for a transitional threshold

As an interim solution, whilst regulatory reform progresses, we propose that the AASB introduces a transitional mechanism into the T3 Standard that targets the standard to those entities for whom it is intended. Based on feedback from our members and our own analysis, we suggest that the mechanism be based on revenue and set at an upper threshold limit of between $5m–$10m. This would allow NFPs with revenue below a yet to be decided amount within this range, to adopt the T3 Standard to prepare financial statements that could state compliance with Australian Accounting Standards (AAS). We discuss our rationale for this approach in more detail in our response to Question 1.

Transition and educational support

Such a significant change to our regulatory framework will require a significant transitional period and a comprehensive plan for transition that addresses:

- The necessary regulatory reforms noted above, which should be supported by a targeted communications program for all relevant regulators that details the AASB's recommendations for legislative change and associated educational and transitional considerations.
- The need for a supporting conceptual framework that reflects the NFP sector's needs.
- Education initiatives on the new requirements that will both explain them and serve to improve the overall financial literacy of the NFP sector, which could be a key benefit of these reforms.
- Strategies to address implementation challenges identified during transition.
- Strategies to address insights from post-implementation reviews conducted on broader NFP standards.

Our response to Question 4 provides further details on this issue and includes a recommendation for a formal Transition Resource Group, similar to that established by the IASB for IFRS 15 *Revenue from Contracts with Customers*.

Research

The DP notes these proposals for the development of a T3 Standard are premised on stakeholder feedback and research findings that indicate that smaller NFP entities find the current Tier 2 reporting requirements overly complex to apply. Much of the data being relied on was originally published in June 2014 as AASB Research Report No.1 (Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements).

We appreciate that the AASB is aware of, and has been involved in, various academic and research initiatives that will likely inform this project. However, the original research findings, with their important focus on the nature of the sector and its use of special purpose reporting, are likely to be outdated and may not reflect changes that have occurred in the sector since the research was undertaken. We therefore believe the research findings that underpin this project should be updated before finalising the proposed T3 Standard, as a necessary precursor to its effective implementation.

Such research should provide a clearer indication of the current size, nature and reporting practices of the population and the spread of the various regulators which will be crucial to supporting the implementation of this standard.

Broadening the scope of the proposed T3 Standard

While our members welcome the AASB's development of a T3 Standard for the NFP sector, they remain of the view that there is a place for a T3 Standard for similar-sized entities in the for-profit sector. Such a standard would provide proportionate relief from the full recognition and measurement requirements of IFRS on a cost-benefit basis in this sector. We therefore recommend that the AASB consider commencing a project following publication of the T3 Standard, to explore how it could be repurposed to apply to similar sized entities in the for-profit sector.

Conclusion

We look forward to continuing engagement with the AASB, our members, regulators, and other stakeholders in further developing these proposals. We would also like to express our gratitude to a working group of our members who provided direct input to the development of this submission.

If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Yours sincerely

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Attachment

Introduction

Question 1. Paragraphs 1.3 to 1.8 discuss the Board's view that it should not develop 'reporting thresholds' to specify which reporting Tier that a not-for-profit private sector entity must, at a minimum, comply with in preparing financial statements.

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

We agree with the AASB's view that the responsibility for setting reporting thresholds should be with the relevant NFP regulator. Therefore, if the AASB is to operationalise the new T3 standard, collaboration with relevant regulators will be essential to ensure all financial reporting related laws and regulations are amended. We note that paragraph 1.2 of the DP identifies that such an initiative has been included as a potential future project. We recommend that this collaboration includes a communications program, aimed at all relevant regulators in each jurisdiction, detailing the recommendations for legislative change and associated educational and transitional considerations. Our experience with the special purpose reporting reforms in the for-profit sector indicates this would be of value in achieving ideal outcomes.

Notwithstanding the above, feedback from our members is that a Tier 3 general purpose financial reporting standard is an essential part of the Australian financial reporting framework and needs to be implemented as soon as possible. Therefore, we do not support the AASB waiting for this legislative solution as the only implementation option.

Instead, as noted in the cover letter, we propose that the AASB introduces into the T3 Standard a transitional mechanism that targets the standard to those entities for whom it is intended. Based on feedback from our members and our own analysis, we suggest the upper transitional threshold should be based on revenue and set between $5m–$10m. This will mean that, in the transitional period, NFPs with revenue below a yet to be decided amount within this range would be able to adopt the T3 Standard to prepare their financial statements.

We note that paragraph 1.3(a) of the DP states that the AASB's authority does not extend to establishing thresholds that dictate whether an entity must prepare financial statements that comply with Australian Accounting Standards (AAS). It also states that the AASB has the authority to constrain or require the use of a tier of GPFS by certain entities by limiting the application of specified AAS. We note here that the T3 Standard is a tier of GPFS.

We believe that the AASB has already successfully exercised its authority through SAC 1 *Definition of the Reporting Entity* (SAC 1), which introduced the "reporting entity" concept into our regulatory framework, as a method of providing effective differential reporting, almost 30 years ago. We also note that, more recently, it introduced the concept of "public accountability" as a means of providing futher differential reporting relief. Therefore, we believe that the AASB does have, and should exercise, the authority to determine who should be permitted to apply this new T3 Standard in order to ensure that the standard is implemented as soon as possible.

We believe that implementing a numerical threshold for differential reporting for the NFP sector is not inconsistent with the principles that are inherent in SAC 1 or the use of the "public accountability" concept as a delineator between Tier 1 and Tier 2 General Purpose Financial Statements (GPFS). Rather than using the more general and judgemental concepts of "reporting entity" or "public accountability", this approach simply provides a more concrete, quantitative delineator.

We acknowledge that our recommendation for a transitional threshold is a broad range, which reflects the lack of current data about the scope and size of the NFP sector. We therefore recommend that the AASB undertakes further research to identify the appropriate transitional threshold within our recommended \$5m–\$10m range. As part of this research, consideration will need to be given to the likely impact of the proposed simplification of revenue recognition requirements in the T3 Standard. We believe that the move away from the requirements of AASB 15 *Revenue from Contracts with Customers* (AASB 15) will result in changes to the reported revenue of many entities on transition. It may also introduce a level of fluctuation into an NFP's revenue going forward which may make the use of an average revenue threshold over 2–3 years a more appropriate basis on which to set the transitional threshold.

We acknowledge that there is a risk that introducing a transitional threshold as proposed could become the de-facto permanent threshold for regulatory purposes. However, we note that the AASB has indicated that its discussions with Commonwealth and State/Territory NFP regulators suggest they are receptive to a proposed new T3 Standard and the resulting necessity for amendment to the relevant regulations in due course. We therefore strongly encourage the AASB to continue to actively work with Commonwealth and State/Territory NFP regulators. Such engagement should both assist in the identification of the appropriate transitional threshold within our recommended range and ensure that the relevant statutory financial reporting requirements are amended to accommodate the T3 Standard.

If the AASB does proceed with introducing a transitional threshold as proposed, we suggest this could be included as part of any "transitional provisions" section of the T3 Standard. These can then be reviewed and amended once there is no longer a need for the transitional threshold. Alternatively, the transitional threshold could be included as a guideline in the Basis for Conclusions accompanying the standard. This latter approach would be similar to the "low value asset" amount reflected in the Basis for Conclusions relating to AASB 16 *Leases.*

We offer the following analysis in support of our \$5m–10m revenue-based threshold proposal:

- **Revenue basis** – It is certainly possible that other criteria (e.g., using costs rather than revenue, as is the case in New Zealand or a combination of revenue and other criteria) could be employed in determining the appropriate basis for the threshold. However, most NFP laws and regulations in Australia use revenue as their basis for determining thresholds for financial reporting purposes. Therefore, we believe it would be more efficient and more familiar to most stakeholders to continue to determine such thresholds based on revenue.
- **Upper limit of range** – The DP suggests that the T3 Standard could be suitable for NFPs with revenue between \$500k and \$3m, the parameters for a medium-sized charity under the Australian Charities and Not-for-profits Commission (ACNC) legislation. We also note that the 2018 independent review of the ACNC legislation recommended the revenue threshold for medium-sized charities be revised to between \$1m and \$5m. Although both of these thresholds were the

bases for differential assurance requirements, we believe that they are the lowest level at which a differential financial reporting requirement should commence. This is because, given the widespread current use of special purpose reporting in this sector, there are many larger NFPs for whom a Tier 3 level of reporting would still provide the necessary level of accountability on a cost-benefit basis. In particular, we note that many for-profit entities of equivalent size are not required to report and lodge financial statements under the *Corporations Act 2001* size test. Therefore, we believe that an upper threshold somewhere in the \$5m–\$10m may be the most suitable benchmark.

- **Lower limit of range** – We recommend that the AASB does not include a lower amount for NFPs that can adopt the T3 Standard. This is because we believe that it would create unnecessary problems for entities required by legislation to prepare financial reports in accordance with accounting standards. For example, under the *Corporations Act 2001*, a public company limited by guarantee with revenue above \$250k is required to prepare financial reports. Placing a lower threshold of, say \$300k, would mean a public company limited by guarantee with revenue of \$275k, would not be able to adopt the T3 Standard. Therefore, the T3 Standard should be available to any entity who wishes to use it (limited only at the maximum revenue end of the range).

Question 2. Paragraphs 1.9 to 1.11 discuss the Board's view that it does not intend to develop proposals for reporting service performance information as part of this project.

Do you agree? Why or why not? If you disagree with the Board's view, what requirements do you think entities should be required to apply? Would these requirements apply to all not-for-profit private sector entities or only be reporting requirements of a specified reporting tier?

We agree with the AASB's intention not to develop service performance reporting requirements as a part of this project. Given the importance of and complexity of this topic, we agree that the inclusion of service performance requirements in the T3 Standard would unnecessarily delay its finalisation. We therefore support the AASB's proposal to commence a separate dedicated project that considers establishing service performance reporting for the entire NFP sector, including both private and public sector NFPs.

As the AASB progresses the project on service performance reporting, we recommend reference is made to developments on this topic as part of the IFR4NPO project, particularly in the context of private sector NFPs.

Question 3. The 'objective' and 'primary users' incorporated in the Framework for the Preparation and Presentation of Financial Statements include modifications for not-for-profit entities. Paragraphs 1.14 to 1.16 discuss the Board's Conceptual Framework: Not-for-Profit Amendments project and how it interacts with this project. Do you agree that the Framework for the Preparation and Presentation of Financial Statements (including the modifications for not-for-profit entities) appropriately:

(a) depicts the objective of general purpose financial reporting for not-for-profit private sector entities; and

(b) identifies the set of primary users of the financial statements of a not-for-profit entity. Why or why not? If you disagree, what is your reasoning?

The Board plans to extend the application of the Conceptual Framework for Financial Reporting to all not-for-profit entities once the modifications for not-for-profit entities are included and on the release of a Tier 3 Standard. Do you have any other concerns about applying the Conceptual Framework for Financial Reporting to smaller not-for-profit private sector entities that have not already been noted in paragraph 1.14? If so, please describe them.

As noted in our response to Question 12, the development of fit-for-purpose reporting requirements for NFPs should be underpinned by amendments to the Conceptual Framework for Financial Reporting (conceptual framework).

We agree that it is necessary for the conceptual framework to appropriately depict the objective of general purpose financial reporting and identify users of financial statements prepared by NFP private sector entities. However, we believe that this is challenging without a clear and comprehensive view of the population to which the T3 Standard is to be targeted. Therefore, we support an update to AASB Research Report 1 (Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements), as noted in our cover letter. This will provide a clearer understanding of the extent of the regulatory reform required and the nature of the regulated NFP population being targeted by the T3 Standard.

We also recommend that the AASB considers the IFR4NPO project that includes proposals for a conceptual basis for the reporting entity concept and for identifying primary users NFP financial statements.

For the reasons stated above, we are unable to express other views on the appropriateness of any potential amendments on this proposal without considering such modifications to the conceptual framework.

Question 4. As noted in paragraph 1.18, the Board intends to align the timing of any new Tier 3 reporting requirements with the timing of any extension of the Australian Accounting Standards to a broader set of not-for-profit private sector entities.

Do you agree? Why or why not?

We agree with the AASB view that the effective dates of the:

- Tier 3 reporting requirements,
- The amendments to extend the application of AAS to a broader set of NFP entities, and
- Stage 1 amendments to the conceptual framework

should be aligned to ensure consistent application of the conceptual framework and smooth transition to the T3 Standard. However, we refer to our comments in respect of the conceptual framework in our response to Question 3 above.

The selection of an effective date needs to benefit from the learnings of the for-profit reform project and take into consideration both the significant resource constraints of the NFP sector and the necessary transition and education resources that will need to be provided to underpin the transition (see the comments in our cover letter).

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Our experience with the implementation of the financial reporting reforms in the for-profit sector has indicated that the process is complex and that it is not easy to both foresee where the challenges might arise, and to resolve them. Examples include:

- financial reporting by Australian Financial Services (AFS) licensees (which has now been addressed),
- financial reporting requirements applicable to Queensland Building and Construction Commission (QBCC) licensees (awaiting final resolution), and
- Special Disability Trusts (now addressed through an amendment to relevant statutory requirements).

A matter of particular concern was the challenge of effectively communicating the scope of the reforms, which was complex due to the legislative framework, and which required clear and constant messaging.

Since there is an even greater number of regulators and laws governing the NFP sector, we suggest that the AASB set up a Transition Resource Group similar to that established by the IASB for IFRS 15 *Revenue from Contracts with Customers*. Such a group could assist with:

(i) ensuring the effective and smooth operationalising of the T3 Standard,

(ii) communicating with regulators about the need for and nature of necessary changes and associated educational and transitional considerations,

(iii) assisting regulators with their messaging on the impact on regulated populations, and

(iv) ensuring that the impact on regulated populations is consistent with the AASB's stated objectives for the T3 Standard.

Extending the differential reporting framework for not-for-profit entities

Question 5. Paragraphs 2.5 to 2.7 propose to extend the set of not-for-profit private sector entities to which Australian Accounting Standards apply by superseding (in part) SAC 1. The effect is that more entities will be required to prepare general purpose financial statements when required to prepare financial statements that comply with Australian Accounting Standards.

Do you agree with extending the set of not-for-profit private sector entities to which Australian Accounting Standards apply? Why or why not? If not, what alternative approach do you suggest?

We are unable to form a view on this proposal without a clear understanding of all the types of NFP entities that will transition to preparing GPFS under the proposed T3 Standard. This clarity of scope, and resulting associated regulatory reform was identified by the AASB as an essential element of its reforms to the for-profit sector reporting, in order to ensure that:

- the costs of transition did not outweigh the benefits, and
- all relevant regulators understand and appropriately implement the changes.

As noted in our response to Question 4, there were some unintended consequences arising from the for-profit financial reporting reform project which are still being resolved. In addition the complexity of the scope clause, while essential to the effective targeting of the reforms, necessitated both the AASB and the professional accounting bodies expending considerabe effort to ensure all stakeholders clearly understood the new requirements.

Given the NFP sector is already faced with limited resources and a complex and inconsistent regulatory framework (as identified in AASB Research Report 10), the need for a clear understanding of affected NFP entities is even more critical. Therefore, we recommend that the AASB takes a similar approach to understanding the impact of the T3 Standard on the target population of the NFP sector in implementing these latest set of reforms.

As noted in our response to Question 1, we believe introducing a transitional threshold and corresponding amendments to statutory reporting requirements would ensure that appropriate GPFS reporting requirements are only imposed on an appropriate population of NFPs. However, it is not possible to identify unintended consequences and unnecessary overregulation within the regulatory framework without more detailed analysis and a clear understanding of the population that will be impacted by the T3 Standard.

Of particular concern will be legislation that applies to both for-profits and NFPs, such as Aged Care legislation. Although this legislation requires GPFS it does not stipulate the type of GPFS. Consideration will need to be given to how the differential reporting regimes applicable to for-profits and NFPs will apply in such cases.

Question 6. Paragraphs 2.10 to 2.12 propose the introduction of a simpler further reporting tier (Tier 3) for not-for-profit private sector entities that are required to prepare financial statements complying with Australian Accounting Standards, which serves as a proportionate response for smaller sized entities with less complex transactions and events.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

We agree with the AASB that introducing a third tier would provide smaller NFPs with proportionate financial reporting requirements when they are required to prepare financial statements in compliance with AAS.

As recommended in our cover letter, the AASB should consider commencing a project once the T3 Standard is published, to explore how it could be repurposed to apply to entities in the for-profit sector. Our members support the principle of reduced recognition and measurement for both the for-profit and NFP sectors. Given the transaction-neutral approach to standard-setting that the AASB adopts we believe there is a place for a T3 Standard in the for-profit sector as well.

Question 7. Paragraphs 2.13 to 2.17 discuss the Board's view to not develop a fourth tier of accounting for not-for-profit private sector entities.

Do you agree? Why or why not? If not, what alternative approach do you suggest?

We agree with the AASB's preliminary view that it should not develop a fourth tier of reporting for NFPs at this stage as we do not believe that cash-based accounting is an appropriate basis for preparing GPFS.

However, very small NFPs would find it beneficial if the AASB developed and issued guidance on cash accounting that sits outside the scope of GPFS. Some legislative requirements in Australia place an obligation on all NFPs within their remit to prepare financial statements, or some financial information. We would hope that the regulatory reforms precipitated by the T3 Standard may assist in ensuring reporting requirements are proportional for all entities. With that in mind, where very small NFPs remain subject to such statutory financial reporting obligations, we recommend that the AASB considers the XRB's Tier 4 NFP cash-based accounting standard as appropriate guidance for these entities.

Tier 1 and Tier 2 reporting requirements

Question 8. Paragraphs 3.1 to 3.5 discuss the Board's view to not make changes to the existing requirements specified by Tier 1 and Tier 2 Australian Accounting Standards, as presently modified for not-for-profit private sector entities.

Do you agree? Why or why not?

We agree with the AASB that changes to the existing requirements in Tier 1 and Tier 2 standards should not be made by this project. However, we note that there could be potential amendments in the future as a result of the post-implementation reviews being undertaken through Invitation to Comment 50 (income of NFP entities) and Invitation to Comment 51 (various topics).

Setting of Tier 3

Question 9. Paragraphs 4.3 to 4.6 discuss the Board's view to specify Tier 3 reporting requirements in a single stand-alone accounting standard. The stand-alone pronouncement is expected to:

(a) specify only accounting requirements for transactions, events and conditions that are common to a smaller not-for-profit entity;
(b) in the main, not require an entity to refer to requirements set out in other Australian Accounting Standards; and
(c) express accounting requirements in a manner that is easy to understand by preparers and users who do not consider themselves to be "accounting experts".

Do you agree? Why or why not? If you disagree with the Board's view, which aspect(s) of the standalone accounting standard as listed in (a) – (c) concerns you the most? Please explain.

We agree with the AASB's proposal to specify Tier 3 reporting requirements in a single stand-alone accounting standard that is drafted with the needs of simpler NFPs in mind. We also recommend that this standard should be developed to be as self-contained and comprehensive as possible in order to maximise its usefulness to this sector. Therefore, we encourage the AASB to ensure, by updated research and liason with sector stakeholders, that it addresses all the common transactions of NFPs that fall within its intended scope.

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Question 10. As discussed in paragraphs 4.10 to 4.14, Tier 3 not-for-profit private sector entities can opt-up to Tier 1 or Tier 2 reporting requirement in its entirety. However, the Board has not yet formed a view on whether it should restrict the range of accounting policies available to an entity preparing Tier-3-compliant financial statements. In your opinion, should an entity preparing Tier-3-compliant financial statements have the ability to opt up to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards for:

(a) transactions, events and circumstances covered in the Tier 3 reporting requirements that are specifically permitted by the Board only; or
(b) all transactions, events and circumstances, regardless of whether they are covered in the Tier 3 reporting requirements.

Do you agree? Why or why not? Please explain your answer.

The feedback we received from our stakeholders suggests Tier 3 entities should only be permitted to opt up to Tier 2 (or Tier 1) in its entirety.

We are of the view that a free choice approach, as explained in paragraph 4.11(a) of the DP, would undermine the comparability of financial statements and consistency of application of the recognition and measurement requirements. Restricting accounting policy choices will also make the T3 Standard simpler to understand and apply, reducing the cost of compliance. Therefore, we do not believe that opting up by class of transactions should be permitted. We recognise that this will require the T3 Standard to be comprehensive and self-contained, but we believe that this is the most appropriate way to make the standard workable for this sector.

We also note that the AASB has proposed to introduce accounting policy choices in certain circumstances (e.g., an accounting policy choice to prepare separate financial statements with additional disclosures or consolidated financial statements). We assume that in such situations where accounting policy choices are allowed in the T3 Standard, alternative accounting requirements will be covered within T3 Standard without having to opt up to a higher tier.

Finally, we suggest that the AASB gives consideration to including requirements for opting down which are currently not addressed by the DP. This would allow NFPs currently preparing financial statements based on a higher tier of reporting (Tier 1 or 2), that are eligible to apply the T3 Standard, being able to elect to report under the T3 Standard.

Question 11. Paragraphs 4.15 to 4.20 discuss the Board's preliminary view on the transactions and other events and conditions that may not be covered in a Tier 3 Standard. The types of items the Board intends to scope out from the Tier 3 Standard include:

(a) biological assets, and agricultural produce at the point of harvest;
(b) insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features;
(c) expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource is demonstrable;
(d) business combinations;

(e) obligations arising under a defined benefit superannuation plan;
(f) share-based payment arrangements;
(g) the accounting by an operator in a service concession arrangement; and
(h) financial assets and financial liabilities other than those identified in Section 5 of this Discussion Paper.

Do you agree? Why or why not? If you disagree, which of the balances, transactions and events do you think should be included in the Tier 3 Standard?

We broadly agree with the list of transactions/events proposed to be omitted from the T3 Standard except for (d) business combinations and (h) referring to non-basic financial assets and liabilities.

In respect of (d), feedback from our members indicates that mergers and amalgamations are common in the NFP sector, even amongst smaller NFPs.

We therefore suggest that the AASB undertakes further research to understand whether business combinations, in particular mergers/amalgamations, are economically significant and prevalent within smaller NFPs. Such understanding would justify and support the development of some suitably modified requirements. We acknowledge that any consolidation requirements included in the T3 Standard may be of some assistance to NFPs in addressing organic growth. Providing some limited and simplified guidance based on AASB 3 *Business Combinations* is likely to be helpful.

In respect of (h), feedback from our members is that the current list of basic financial instruments is insufficient to represent a comprehensive response to accounting for these instruments. Therefore, this would require those applying the T3 Standard to opt up to Tier 2 for financial instruments. We do not believe this requirement to opt up is necessary or appropriate (see our response to Question 21).

We do not support the proposals in paragraph 4.16 and Figure 4.1 *Tier 3 transactions and other events and conditions*, which note that a stand-alone T3 Standard may also include cross references to other AAS, allow opt-up to higher tiers, and which suggests an accounting hierarchy when a transaction is scoped out from the T3 Standard.

We believe that such a framework is too complex and costly to implement and that it is vital that the T3 Standard should be developed to be as comprehensive and self-contained as possible, ensuring there is only minimal need to refer to other AAS.

Question 12. Paragraphs 4.21 to 4.23 discuss the Board's preliminary view on the hierarchy for entities to apply in developing accounting policies when preparing Tier 3 general purpose financial statements for transactions and other events outside the scope of the Tier 3 requirements. That is, an entity should:

(a) first apply Tier 2 reporting requirements; and
(b) otherwise apply judgment to develop an accounting policy by reference to:
  (i) principles and requirements in Tier 3 reporting requirements dealing with similar or related issues; and
  (ii) the definitions, recognition criteria and measurement concepts in the Australian Conceptual Framework that don't conflict with Tier 3 reporting requirements.

When developing an accounting policy, an entity may also consider principles and requirements in Tier 1 and Tier 2 reporting requirements, or pronouncements of other

standard-setting bodies with a similar conceptual framework, other accounting literature and accepted industry practices.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer an alternative accounting policy hierarchy for these transactions and events?

We do not agree with the hierarchy suggested by the AASB in developing accounting policies. We consider reference to similar or related requirements in the T3 Standard should come first before considering Tier 2. Since the objective of the project is to develop simpler requirements, considering the principles and requirements in the T3 Standard should be prioritised.

Such an approach will require the T3 Standard to be as comprehensive as possible, as noted in our response to Question 10, to eliminate the need for any opting up to Tier 2.

We consider modifications to the conceptual framework (stage 2) should also be completed to effectively implement the option suggested in paragraph 4.21(b). If the T3 Standard is to become a recognised standard that will give rise to GPFS for NFPs, an underlying consistent conceptual framework is essential.

Question 13. Paragraphs 4.24 to 4.27 discuss the Board's view to limit revisiting its Tier 3 reporting requirements to no more than once every AASB agenda consultation cycle (5 years) and only when if there is a substantive case, in accordance with the AASB Due Process Framework for Setting Standards, for doing so.

Do you agree? Why or why not? If you disagree with the Board's view, how often do you prefer the Board should revisit its Tier 3 reporting requirements? Please explain.

We agree with the AASB's proposal to limit revisiting the T3 Standard in line with the AASB agenda consultation cycle (every 5 years). This presumes there will be a normal post-implementation review two years after its issue. We also recommend revisiting our proposed transitional threshold two to three years after the effective date, at which time also the progress of regulatory reform will need to be considered.

Primary Financial statements

Question 14. Paragraphs 5.10 to 5.16 discuss the Board's preliminary view that Tier 3 general purpose financial statements comprise a statement of profit and loss and other comprehensive income, statement of financial position, statement of cash flows and explanatory notes.

(a) Do you agree? Why or why not? If you disagree with the Board's view, which financial statements do you think should not form part of the Tier 3 general purpose financial statements?

As noted in the paragraphs 5.17 to 5.19, the Board has not yet formed a view whether a statement of changes in equity should also form part of the Tier 3 general purpose financial statements.

(b) Do you think the statement of changes in equity should also form part of the Tier 3 general purpose financial statements? If you support including a statement of changes in equity,

do you think the information presented should be required as a separate statement or as part of the notes to the financial statements?

(a) We agree that the four primary financial statements identified in paragraph 5.10(a)-(d) should form part of a GPFS for a Tier 3 NFP entity. This preserves basic reporting consistency between all three reporting tiers which will assist both preparers and users' understanding of the financial statements.
However, we suggest that consideration be given to whether there is a need for "other comprehensive income" to be included either as part of the statement of profit and loss and other comprehensive income, or as a separate statement. Given the aim of the project is to simplify financial reporting requirements for smaller NFPs, if there are simpler options for presenting financial information normally presented in Other Comprehensive Income, such options should be explored. For example, it may be possible to present the information as a separate section of the Statement of Profit and Loss, below the profit/loss or operating surplus/deficit line.

We also recommend that in developing the Exposure Draft for the T3 Standard, consideration be given to labelling the individual financial statements using more NFP friendly terminology e.g., statement of financial performance as opposed to statement of profit or loss. This would align with the approach used in the XRB Tier 3 NFP Standard.

(b) Feedback we have received indicates that the statement of changes in equity (SOCE) provides useful information to users, especially when an entity has reserves other than retained earnings (e.g., revaluation reserve, restricted reserves). Whilst there may be additional costs in preparing such information, the benefits to users are likely to exceed any additional costs.

However, there is differing feedback on whether the SOCE should be included as a part of primary financial statements or included as a disclosure in the notes to the financial statements. For example, in circumstances where the only reserve to record is retained earnings, a separate SOCE is not necessary to convey relevant information. To address the differing views, we suggest providing a choice as to the presentation of the SOCE information. That is, either as a primary financial statement or as a disclosure in the notes to the financial statements.

Question 15. Paragraphs 5.20 to 5.24 discuss the Board's preliminary view that the information to be presented on the face of the statement of the financial position and statement of profit or loss and other comprehensive income should be consistent with those specified by AASB 1060 supplemented by explanatory guidance and education materials to help entities present information on the face of the financial statements.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the alternative approaches to presenting information on the face of the financial statements as specified in paragraph 5.21(a) or 5.21(b)? If not, do you have other suggestions on how information should be presented on the face of the financial statements?

Subject to our response to Question 14, we agree with the AASB's preliminary view to develop presentation requirements consistent with AASB 1060, supported by supplementary material. This approach maintains basic consistency in the presentation of financial statements across all three reporting tiers while allowing flexiblity for management to determine the extent of presentation on the face of the primary financial statements, based on the needs of their users. This will be important in encouraging NFPs to consider their financial statements as a communication tool rather than as a regulatory compliance exercise.

Question 16. Paragraph 5.25 to 5.33 discuss the Board's preliminary view to require the statement of cash flows to present:

(a) cash flows from operating activities separately from other cash flows;
(b) cash flows from operating activities using the direct method; and
(c) cash and cash equivalents as specified by AASB 1060.
Do you agree? Why or why not? If you disagree with the Board's view, which presentation requirements from (a) to (c) or the statement of cash flows concern you the most? Do you prefer other simplification(s) to the statement of cash flows? Please explain why.

We agree with the AASB's preliminary view to present cash flows from operating activities separately from other cash flows using the direct method.

However, we have received mixed feedback from our members about whether it is appropriate to separate or combine investing and financing cash flows. While the separation can add complexity, feedback received is that NFP entities in the Tier 3 target range have both types of cash flows and that separately categorising and disclosing them can be an educational tool for both preparers and users in better understanding their operations.

It is also important to ensure that the presentation requirements that are developed should not create unnecessary compliance costs by requiring changes to accounting software or systems being used by many smaller NFP entities. We therefore recommend that in finalising these requirements, the AASB considers these issues and also develops educative material on the value of the statement of cash flows and how it should be read in conjunction with the other primary financial statements and explanatory notes.

We also agree with the AASB decision, set out in paragraph 5.33 of the DP, to include short-term, highly liquid investments as cash equivalents provided that they are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. This retains consistency with the statement of cash flows specified by AASB 1060 and best reflects the practice of smaller NFPs.

Consolidated financial statements

Question 17. Paragraph 5.34 to 5.47 discusses the Board's preliminary view to allow an entity to present either:

(a) separate financial statements as its only financial statements, even if it has subsidiaries, however, require information on the parent's significant relationships; or

(b) consolidated financial statements consolidating all its controlled entities.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements, for example Tier 3 accounting requirements should require an entity

with subsidiaries to prepare consolidated financial statements in accordance with AASB 10? Please specify and explain why.

We agree with the AASB's preliminary view to optionally exempt a parent entity from presenting consolidated financial statements and present separate financial statements as its only set of financial statements.

However, we believe the following issues need to be addressed in further developing this standard:

- The extent of disclosures required for a parent's significant relationship(s), and what a significant relationship is, are not yet clear. A significant relationship could be any relationship not necessarily within the remit of control.
- Additional guidance that will address the challenges associated with identifying control/subsidiaries and recognising an entity as a parent in the NFP sector, which many of our stakeholders have identified as an area of challenge. In this regard the issues identified in the control discussion in ITC 51 Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements, relating to NFP's concerns about identifying control in the context of consolidation are of relevance and will need to be addressed for the T3 Standard also. The guidance produced by the XRB on identifying relationships for financial reporting purposes (XRB EG A9) may be of assistance.
- The nature of the significant relationship disclosures, foreshadowed in paragraph 5.53-54 of the DP to support parent entity only financial statements.

The DP does not clarify whether the AASB intends to develop any simplified reporting requirements for consolidated financial statements under the T3 Standard, or whether this will be an area where an NFP will be required to opt up in order to ascertain consolidation requirements. Our preferred approach, in the interests of making the T3 Standard comprehesive and stand-alone, is that the AASB develop simplified consolidation requirements within the T3 Standard for NFPs that choose to prepare consolidated financial statements.

Separate financial statements of the parent

Question 18. Paragraph 5.48 to 5.54 discuss the Board's preliminary view on the accounting requirements for a parent that presents separate financial statements to measure its interest in subsidiaries either:

(a) at cost;

(b) at fair value through other comprehensive income; or

(c) using the equity method of accounting.

Do you agree? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Please specify and explain why.

Where an NFP parent entity chooses to prepare separate, rather than consolidated, financial statements we believe that for most entities, it will be sufficient to account for interests in subsidiaries at cost. However as noted in paragraphs 5.53 and 54 of the DP additional disclosures that detail the nature of the significant relationships and, if control exists, why consolidation is not considered appropriate will be necessary.

We do not believe that the use of equity accounting in this circumstance is appropriate as it is inconsistent with the decision not to consolidate, as that decision recognises the actual nature of the NFP relationships. We also do not support including the option to measure such interests at fair value through other comprehensive income (noting our response to Question 14). Consistent with our view that T3 accounting policy choices should be limited, we believe this adds unnecessary complexity and will reduce comparability and consistency of accounting practices within the NFP population. However, if, as the AASB continues to develop its proposals regarding the application of control in the NFP sector (as noted in our response to Question 17) evidence of a significant need to provide an accounting policy choice where subsidiaries are held as financial investment vehicles may appear. Under these circumstances fair value through other comprehensive income should be considered as a policy option (see also our response to Question 33).

Changes in accounting policies and correction of accounting errors

Question 19. Paragraph 5.55 to 5.60 discuss the Board's preliminary view to develop a requirement for a modified retrospective approach to apply to changes in accounting policies and correction of accounting errors.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements for changes in accounting policies and correction of accounting errors; for example, should Tier 3 accounting requirements continue to require the accounting treatment specified by AASB 108 to retrospectively reflect voluntary changes in accounting policies and correction of accounting errors? Please explain your answer.

We agree with the AASB's preliminary view to require a modified retrospective basis to recognising a voluntary change in accounting policy. However, we do not agree that this approach should also be applied to the correction of prior period errors.

Instead, we recommend that comparatives and opening retained earnings should be adjusted where prior period accounting errors are identified. Feedback from our members is that such adjustments will ensure users have all the necessary comparable information in respect of accounting errors that may have occurred in a previous year or years. Our members are also of the view that the benefits of making such adjustments will exceed costs.

Changes in accounting estimates

Question 20. Paragraph 5.61 discusses the Board's proposal to develop a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB's proposal to develop a requirement for changes in accounting estimates to be accounted for prospectively, consistent with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108). We believe the requirements of AASB 108 are not complex and have been effectively applied by many different entities over many years.

Financial instruments

Question 21. Paragraphs 5.62 to 5.76 discuss the Board's preliminary views with respect to the accounting for financial instruments, in particular to develop simpler reporting requirements only for the identified 'basic' financial instruments.

The Board intends to require certain 'more complex' financial instruments to be accounted for in accordance with AASB 9 (or other Australian Accounting Standard, as appropriate) if the financial instrument is not otherwise addressed by a topic-based Tier 3 requirement. In addition, the Board intends not to specifically highlight or address particular financial instruments or transactions considered in AASB 9, AASB 132 and AASB 139 where these items and transactions are not common to not-for-profit private sector entities.

Do you agree with the Board's approach to the identified 'basic' financial instruments? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

In general, we agree with the AASB's preliminary view to develop simpler requirements for basic financial instruments and to require application of AASB 9 for more complex financial instruments (subject to our comments below).

We also agree that the current list of basic financial instruments identified under paragraph 5.69 does include many of the common financial instruments of smaller NFPs. However, feedback from our members is that the list may benefit from further research in order to ensure that the list of basic financial instruments is as comprehensive as possible. For example, some smaller NFPs may enter into a commitment to provide a loan to another smaller NFP at a below-market interest rate. Currently, this type of financial instrument is considered a 'more complex' financial instrument, which we do not consider is necessarily appropriate. Similarly, financial guarantees are common and should be addressed by a Tier 3 standard.

We appreciate the rationale behind the proposal to require opting up to AASB 9, AASB 132 and AASB 139 if the accounting requirements for a financial instrument are not addressed by the T3 Standard. However, feedback we have received is that requiring smaller NFPs to apply these standards could be challenging. Therefore, it is essential to reduce, as much as possible, the circumstances when smaller NFPs have to refer to the Tier 1 and 2 standards, by ensuring that the T3 Standard addresses a more comprehensive set of financial instruments.

We also note that the recent IASB Exposure Draft for an updated IFRS for SMEs proposes removing the option to opt up to IAS 39/IFRS 9 *Financial Instruments*. We suggest that the AASB considers a similar approach to develop self-contained accounting requirements for financial instruments within the T3 Standard.

Question 22. Paragraphs 5.77 to 5.80 discuss the accounting for embedded derivatives. The Board has formed a preliminary view that a proportionate response for Tier 3 reporting requirements is not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable and measurable, including any embedded derivatives.

The Board is seeking to understand the extent to which a smaller not-for-profit private sector entity is likely to have derivatives embedded within its contracts, or enter into arrangements or contracts that may result in a derivative financial instrument. This will help inform the Board how it should approach these instruments in a future Tier 3 Standard.

Are you aware of any clauses in contracts of smaller not-for-profit private sector entities that would give rise to a derivative? Have you provided an arrangement with another party or entered into a net-settled contract that would meet the definition of a derivative? Please explain.

Feedback from our members indicated that contracts containing derivatives were not common in the NFP sector. We therefore agree with the AASB's preliminary view to not require an entity to separately recognise certain derivative financial instruments, including embedded derivatives.

Question 23. Paragraphs 5.81 to 5.82 discuss the Board's preliminary view that an entity preparing Tier 3-compliant financial statements will not have access to hedge accounting.

Do you agree? Why or why not? Please specify and explain why. Are you aware if smaller not-for-profit private sector entities use hedge accounting?

We agree with the AASB's preliminary view that hedge accounting as an accounting policy choice as part of the T3 Standard should not be allowed. Feedback we have received is that hedging of financial instruments is not common amongst smaller NFPs and therefore requirements for hedging are not required in a comprehensive T3 Standard dealing with financial instruments.

As AASB 9 includes hedge accounting, if an option to opt up to AASB 9 is included in the T3 Standard, it could give rise to a potential conflict with the proposed removal of hedge accounting requirements from the T3 Standard.

Question 24. Paragraphs 5.83 to 5.85 discuss the Board's preliminary view to develop a requirement for basic financial assets and financial liabilities to be initially measured at their fair value. Transaction costs and fees incurred by the entity to acquire a financial asset or assume a financial liability are to be immediately expensed.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB's preliminary view that basic financial assets and financial liabilities should be initially measured at fair value, with associated transaction fees and costs expensed. Feedback we have received indicates that it is common for the transaction price to equal fair value in the case of financial assets acquired or financial liabilities assumed by smaller NFPs.

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However, in circumstances where financial instruments are donated rather than acquired, the transaction price may not equal fair value. In such circumstances, we suggest additional disclosures should be developed to ensure relevant information is made available to users.

Question 25. Paragraphs 5.86 to 5.104 discuss the Board's preliminary develop a requirement for basic financial assets and financial liabilities to be subsequently measured as follows:

(a) basic financial assets that are held to generate both income and a capital return – at fair value through other comprehensive income; and

(b) other basic financial assets and financial liabilities – at cost. Interest income and interest expense on these instruments are to be recognised as amounts accrue or are incurred, calculated by reference to the contractual interest rate. Any initial premium or discount on acquisition of the basic financial asset or financial liability is to be amortised on a straight-line basis over the life of the instrument, unless another systematic basis or shorter period is more reflective of the period to which the premiums or discounts relate.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB's preliminary view that there should only be a single accounting method for the subsequent measurement of financial assets or financial liabilities and that this method be based on the nature of the asset/liability. This simplifies the accounting for the preparer and improves comparability between entities. We therefore support the use of fair value through other comprehensive income (noting our response to Question 14) for basic financial assets that are held to generate both income and a capital return. We support valuation at cost for all other basic assets and liabilities.

We agree with the AASB's preliminary view of aligning investment in units held in a managed investment scheme with that of ordinary shares (paragraphs 5.90–5.91).

We agree with the proposal that the recognition of interest income/expenses should be based on the contractual rate and not the effective interest rate and that the impairment of basic financial assets measured at cost should be based on the incurred loss model.

We agree with the AASB's view not to use amortised cost as a measurement basis given the complexities in the application of the effective interest rate method.

Question 26. Paragraphs 5.105 to 5.108 discuss the Board's preliminary view to develop a requirement for impairment of basic financial assets measured at cost to be recognised when it is probable that some or all of the amount owed will not be collectible. The impairment loss is to be measured at the anticipated uncollectible amount.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Based on feedback from our members, we support the proposed incurred loss impairment model (paragraph 5.107) as we believe this is less complex to apply. Adopting this approach by reference to either a probability-weighted estimate or 'most likely outcome' is likely to provide the necessary flexibility, whilst also ensuring user-relevant information is provided.

Question 27. Paragraphs 5.109 to 5.114 discuss the Board's preliminary view to develop a requirement that a financial asset is derecognised only when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset.

The Board also formed a preliminary view not to address instances of debt instrument exchanges or modification of the terms of a financial liability as part of its Tier 3 Standard. An entity treats a modification of the terms of a financial liability or an exchange of a debt instrument for a different debt instrument as an extinguishment of the original financial liability.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB's preliminary view that a financial asset should be derecognised only when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset. However, we note that much of the terminology used originates from AASB 9 and can be difficult to understand for those dealing with basic financial instruments in smaller NFPs. Accordingly, we recommend that simpler terminology be used in describing the requirement and/or that guidance be developed and provided to explain the terminology.

Fair value measurement

Question 28. Paragraphs 5.115 to 5.119 discuss the Board's preliminary view to not depart from the principles of AASB 13 Fair Value Measurement when developing reporting requirements for Tier 3 not-for-profit private sector entities as it thinks maintaining a consistent understanding of 'fair value' across the different reporting tiers is important.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer any other alternative requirements Tier 3 not-for-profit private sector entities? Please specify and explain why.

In principle, we agree with the view that fair value should have the same meaning as in AASB 13 *Fair Value Measurement* (AASB 13). However, as noted in paragraph 5.117, measuring fair value following the framework set out in AASB 13 may pose application challenges for NFPs, especially for those NFPs that currently prepapre SPFS to satisfy their legislative obligations. We therefore agree with the AASB's proposals to express the AASB 13 framework in a manner that is easier for preparers applying the T3 Standard. We will provide our feedback on these simpler proposals when they are developed and published for comment.

We note that the recently closed Exposure Draft of revisions to the IASB's IFRS for SMEs standard is proposing simplifying the requirements in IFRS 13 *Fair Value Measurement* for its intended audience. This work may assist the AASB in progressing its proposals.

Question 29. Paragraphs 5.120 to 5.121 discuss the Board's preliminary view 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 for instances described in paragraph 5.120.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We understand the rationale for the AASB's preliminary view that cost may be an appropriate estimate for fair value when it represents the best estimate of fair value as described. However, we do not believe that NFPs should be put in a position whereby they are required to determine whether or not this is the case. Therefore we support the inclusion of a rebuttable presumption that "cost is the best estimate of fair value" as an effective means of simplifying the application of this requirement.

Likley scenarios where this presumption would be rebutted would be those where financial assets are donated or gifted (with a cost of nil) or acquired by an NFP at a concessional value. These circumstances are the ones where we would support NFPs needing to determine an appropriate value for recognition purposes. As noted in our response to Question 24, in such circumstances we suggest additional disclosures should be developed to ensure relevant information is made available to users.

Inventory

Question 30. Paragraphs 5.125 to 5.126 discuss the Board's preliminary view to develop Tier 3 reporting requirements that are consistent with the requirements in AASB 102 Inventories.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB's proposals as the requirements in AASB 102 *Inventories* are not complex and have been effectively applied by many different types of entities over many years.

However, we note that some additional NFP specific guidance or supporting application material on valuing donated inventory would be of benefit in the T3 Standard as this is a regular area of member concern.

Biological assets

Question 31. Paragraph 5.128 discusses the accounting for biological assets if not scoped out from a Tier 3 Standard. The Board's preliminary view is not to include biological assets and agricultural produce at the point of harvest in a Tier 3 Standard as discussed in paragraphs 4.20.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer the accounting for biological asset should be included in a Tier 3 Standard and accounted for in accordance with the requirements for inventory? Please specify and explain why.

We have not received feedback that indicates there is a need for accounting requirements for biological assets to be included in the T3 Standard. Unless the AASB receives feedback to the contrary, or identifes this as a need from its further research into common transactions, we agree with the AASB's preliminary view.

Investments in associates and joint ventures

Question 32. Paragraphs 5.129 to 5.132 discuss the Board's preliminary view to develop a requirement for interests in associates and joint ventures to be measured:

for a Tier 3 not-for-profit private sector entity that is:

(a) a parent entity that presents consolidated financial statements or it is not a parent entity, the entity applies the equity method of accounting consistent with the requirements in AASB 128 Investments in Associates and Joint Ventures to its interests in associates and joint ventures; and

(b) a parent entity that presents separate financial statements as its only financial statements, the entity does not apply the equity method of accounting to measure its interest in associates and joint ventures.

The Board has not yet discussed other exemptions and exceptions to applying the equity method as it is only consulting on its general approach to accounting for interests in associates and joint ventures at this stage of its project.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB's preliminary view, explained in paragraph 5.131(a). that, when consolidated financial statements are being prepared by the NFP parent entity,

interests in associates and joint ventures should be accounted for using the equity method. Consistent with the feedback received by the AASB, that is noted in paragraph 5.130, we have not received feedback expressing concerns around requiring the equity method of accounting for interests in associates and joint ventures.

However, paragraph 5.131(b) proposes that even if the NFP entity is not a parent (and hence not preparing consolidated accounts), it still needs to apply the equity method of accounting. We do not support this approach and believe that the rationale in paragraphs 5.133 and 5.134 which allows either the cost or fair value method to be used to account for investments in associates and joint ventures may be more appropriate in these circumstances. However, in progressing this particular suggestion, please refer to our comments in our response to Questions 18 and 33.

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Separate financial statements of the investor

Question 33. Paragraphs 5.133 to 5.134 discuss the Board's preliminary view to allow an accounting policy choice to require an investor that presents separate financial statements, whether in addition to consolidated financial statements or equity-accounted financial statements, to measure its interest in associates and joint ventures as either:

(a) at cost; or

(b) at fair value through other comprehensive income.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We understand the rationale behind the AASB's preliminary view to allow an accounting policy choice. Measurement at cost may be appropriate where the NFP's interest in an associate or joint venture is to further its NFP objectives whilst measurement at fair value may be appropriate where the interest is an investment (subject to our response to Question 18).

However, our preference is that accounting policy choices in the T3 Standard should be limited wherever possible. Therefore, we recommend that the AASB establishes whether there is a prevalence of smaller NFPs holding interests in associates or joint ventures as an investment. If this is not common, we suggest limiting the accounting policy choice to just cost.

Property, plant and equipment, and investment property

Question 34. Paragraphs 5.135 to 5.144 discuss the Board's preliminary view to require property, plant and equipment and investment property, other than with respect to borrowing costs, to be recognised and measured in a consistent manner to Tier 2 Australian Accounting Standards.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements such as not to allow smaller not-for-profit private sector entities to revalue their noncurrent assets? Please specify and explain why.

We agree with the AASB's preliminary view to require property, plant and equipment to be recognised and measured consistently with the Tier 1 and Tier 2 requirements.

However, feedback from our members is that an additional simplification that requires investment property to be accounted for in the same way as property plant and equipment would be beneficial. This is because our members feel that the need to address separate classification, measurement, recognition and disclosure requirements for investment properties may create unecessary complexity while providing little additional information value for users.

We also agree with the AASB's view, as stated in paragraph 5.140, that additional guidance and educational material to support application of the revaluation model would be helpful.

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Non-financial assets aquired for significantly less than fair value

Question 35. Paragraphs 5.145 to 5.152 discuss the Board's preliminary view to allow an entity the following accounting policy choice for initial measurement of non-financial assets acquired for significantly less than fair value:

(a) inventory to be measured at cost or at current replacement cost; and
(b) other non-financial assets to be measured at cost or at fair value.
The Board also decided not to permit an entity to subsequent apply the revaluation or fair value model if the donated non-financial asset were initially measured at cost.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements discussed in paragraph 5.152? Please specify and explain why.

We agree with the AASB's view that smaller NFPs may encounter difficulties in applying the principles in AASB 13 for the initial measurement of non-financial assets acquired for significantly less than fair value. However, we are concerned about the omission in financial statements of important information relating to philanthropic giving through donated non-financial assets at less than market value. In particular, we note that such information will be of statistical relevance to the targets for doubling philanthropic giving by 2030 announced by the Assistant Minister for Competition, Charities and Treasury. This announcement also signposts the commencement of a Productivity Commission review aimed at providing a roadmap to achieving this objective.

For the reasons stated above, we suggest that the AASB considers introducing a requirement to initially measure non-financial assets acquired for significantly less than fair value as follows:

- At fair value, where the value can be easily obtained (e.g., property with readily identifiable market value), or
- At cost, where the value cannot be easily obtained, complemented by additional disclosures. Such additional disclosures may be of particular relevance where the non-financial assets are donated and the cost is nil.

Where a NFP has recognised non-financial assets acquired at significantly less than fair value or at cost, we agree with the proposal to not permit an entity to subsequently apply the revaluation or fair value model.

Where a NFP applies the cost model on initial measurement, as noted above, there is the potential for loss of important information to users as noted above. To address this, we support the AASB's intention (paragraph 5.147) to develop appropriate disclosures to supplement the accounting policy choice made.

Volunteer services

Question 36. Paragraph 5.153 discusses the Board's preliminary view to propose retaining the option to permit, but not require, a smaller not-for-profit entity to recognise volunteer services

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received, or a class of volunteer services, if the fair value of those services can be measured reliably.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements? Please specify and explain why.

We agree with the AASB's proposals as this approach is consistent with that taken in AASB 1058 *Income of Not-for-profit Entities*.

We also note that the AASB does not intend to develop disclosures around other non-IFRS information including remuneration and fundraising/volunteer services and nor does it intend to extend disclosures about an entity's related parties beyond what is currently required in AAS (paragraph 1.12), despite recognising the usefulness of this information to the users of NFP financial statements.

However, in the interests of ensuring that the T3 Standard is stand-alone and comprehensive, we believe that it is important to ensure that any disclosures that are considered useful for NFPs, even if not IFRS-based, including disclosures relating to volunteer services, should be incorporated into the T3 Standard as it is developed. The DP states that the AASB does not intend to consider these matters during 2022–2026, which may create an information gap for users.

Borrowing costs

Question 37. Paragraphs 5.154 to 5.156 discuss the Board's preliminary view to require all borrowing costs to be expensed in the period incurred for Tier 3 not-for-profit private sector entities.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives requirements? Please specify and explain why.

We agree with the AASB's proposals as this approach represents the simplest accounting policy choice. Moreover, we do not expect smaller NFPs to incur substantial borrowing costs.

Impairment of non-financial assets

Question 38. Paragraphs 5.157 to 5.162 discuss the Board's preliminary view that the impairment model for non-financial assets of Tier 3 entities should:

(a) only require non-financial assets subsequently measured at cost or deemed cost to be subject to impairment testing;
(b) only require entities to consider whether non-financial assets are impaired when the asset has been physically damaged or when its service potential might have been adversely affected by a change in the entity's strategy or changes in external demand for the entity's services;
(c) require impairment of a non-financial asset to be recognised if its carrying amount exceeds its recoverable amount being the higher of its fair value less costs of disposal and its value in use. Tier 3 reporting requirements will include a rebuttable presumption that fair value

less costs of disposal is expected to be the most appropriate measure of a non-financial asset's recoverable amount because non-financial assets are generally not held by not-for-profit private sector entities to generate cash flows; and

(d) allow entities to group non-financial assets that do not generate cash flows that are largely independent from other assets into cash-generating units for impairment purposes.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternative requirements discussed in paragraph 5.162? Please specify and explain why.

Feedback from our members is that the AASB's proposed simplfied impairment model set out in paragraph 5.160 will provide necessary and effective simplifications to the complex task of assessing impairment.

Assets held for sale

Question 39. Paragraph 5.163 discusses the Board's preliminary view not to propose introducing any specific requirements for property, plant and equipment or other non-current assets that a smaller not-for-profit private sector entity intends to sell rather than hold for its continuing use.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

We agree with the AASB that specific requirements for non-current assets held for sale are unnecessary in the T3 Standard. Similar to the AASB's expectations, feedback from our members is that such occurrences are infrequent amongst smaller NFPs.

However, according to paragraph 5.163 the AASB expects the accounting treatment to be consistent with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (AASB 5). It is not clear whether it will be a mandatory requirement to follow AASB 5 in such circumstances. Further, given our previous recommendation that the T3 Standard should be as self-contained as possible. In the unlikely event that the AASB receives feedback that there is a need to specify accounting requirements for non-current assets held for sale, the AASB should consider including the necessary simplified requirements within the T3 Standard.

Intangible assets

Question 40. Paragraphs 5.164 to 5.167 discuss that the Board has not yet formed a view to develop requirements for accounting of intangible assets in a Tier 3 Standard. The Board is seeking to understand the extent of use of intangible assets by smaller not-for-profit private sector entities including the typical forms of any intangible assets held. This will help inform the Board's deliberations on intangible assets in a future Tier 3 Standard.

Are you aware of any intangible assets and their type, either internally generated or externally acquired, commonly held and recognised by smaller not-for-profit private sector entities? If so, please provide details of these assets.

Technology-based activities are increasing in our economy and feedback from our members is that NFPs, including smaller ones that are the focus of the T3 Standard, are engaging in, and being impacted by, such activities. Common examples are software and crypto assets (including cryptocurrencies) which can either be donated or acquired. In addition, other intangible assets such as copyrights, licences, trademarks etc., can also either be donated or acquired by smaller NFP entities.

While we acknowledge that intangible assets may not be commonly acquired or held by smaller NFPs, we believe there is sufficient evidence of a need for a proportionate accounting requirement for intangible assets in the T3 Standard. Such guidance should clearly articulate the characteristics of an intangible asset, in order to address some of the current practical challenges being encountered with the application of AASB 138 to the digital economy, while also making it clear that there is a demonstrable need to achieve a future economic benefit.

Leases

Question 41. Paragraphs 5.168 to 5.178 discuss the Board's preliminary view on accounting requirements for leases, including:

(a) requiring a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. A similar requirement would apply for lessors;

(b) concessionary lease arrangements ('peppercorn' leases) would be accounted for in the same manner as other leases; and

(c) not including specific requirements for sale and lease back transactions, or for manufacturer or dealer lessors.

Do you agree with the Board's preliminary view? Why or why not? If you disagree with the Board's view, which of the requirement(s) in (a) – (c) concerns you the most? Do you prefer that Tier 3 accounting requirements should be consistent with AASB 16 Leases? Please explain why.

To the best of your knowledge, are sale and lease back transactions common for smaller not-for-profit private sector entities?

We agree with the AASB's preliminary view that lessees should recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is available and more appropriate. Feedback from our members is that the current requirements in AASB 16 are too complex which has meant many NFPs preparing SPFS have not applied these new requirements. We understand that those that have transitioned to preparing GPFS under Tier 2 have incurred substantial costs in applying the AASB 16 requirements.

In developing the T3 Standard we recommend that the AASB includes specific guidance on the application of the straight-line basis expense common to contractual circumstances such as rent free periods or rents with annual or other subsequent increases.

Income (including revenue)

Question 42. Paragraphs 5.179 to 5.188 discuss the Board's preliminary view that income recognition for Tier 3 entities should require an entity to assess whether a transaction is based on a common understanding, evidenced by the transfer provider in writing or some other form, that the entity is expected to use the inflows of resources in a particular way or act or perform in a particular way that results in outflows of resources, including:

(a) transferring goods or services;
(b) performing a specified activity;
(c) incurring eligible expenditure for a specified purpose; and
(d) using the inflows of resources in respect of a specified period.
Income is recognised in the manner that most faithfully represents the amount and pattern of consumption by the entity of the resources received. For all other income transactions, income is recognised at the earlier of receiving cash or obtaining a right to receive cash (receivable).

Do you agree? Why or why not? If you disagree, do you prefer any other alternative approach as discussed in paragraph 5.186? Please specify and explain why.

We agree with the AASB's view that income recogntion should be simplified for smaller NFPs. However, feedback we have received from our stakeholders suggests that the AASB's proposed approach could introduce further complexities. Introducing new terms such as "common understanding" and "other customary forms" could lead to interpretative challenges and inconsistent application. We also understand that some of the fact patterns being envisaged may not be common amongst smaller NFPs.

This is of particular concern because many of Australia's legislative reporting thresholds are underpinned by revenue, making it vital that revenue is recognised consistently year on year by the NFP sector.

We therefore suggest that the AASB considers other more robust criteria in allowing deferral of income. In this regard we recommend that the AASB explores the following in developing its proposals further:

- Therequirements in the IPSASB's recently approved IPSAS 47 *Revenue*,
- The proposals being developed as part of the IFR4NPO project, and
- The guidance in AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* (AASB 120) which recognises management intention or established plans that demonstrate the future application of funds etc.

Feedback from our members also supports the inclusion of specific guidance on the issue of identifying principal versus agent in the T3 Standard.

Employee benefits

Question 43. Paragraphs 5.189 to 5.199 discuss the Board's preliminary view that employee benefits expense is measured at the undiscounted amount of the obligation to the employee for:

(a) non-accumulation paid absences and termination benefits when the event occurs; and

(b) all other employee benefits when an employee has rendered the services that entitles the employee to consideration.

A provision for employee benefits is measured at the undiscounted future outflow expected to be required (including consideration of future pay increases) to settle the present obligation.

The Board has not yet determined the form of guidance to be developed to support preparers in determining the likelihood that an outflow of economic benefits that will be required to settle these obligations.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives, for example Tier 3 requirements should require future outflows of employee benefits expenses to be discounted? Please specify and explain why.

Are you aware of any industry-specific probability guidance that relates to employee benefits such as a long service leave? Please specify the source of that guidance.

We agree that it is necessary to simplify the accounting for employee benefits but believe that further thought and clarity needs to be given to the AASB's proposed simplification criteria.

For example, clarity is required around whether the future outflow expected is an inflation adjusted value, and if it is, whether an adjustment is required for such inflation. Similarly, clarity is needed around whether probability should be taken into consideration, for example, when calculating accumulated long service leave.

We also note that recent legislative changes to the *Fair Work Act 2009* have converted some eligible casual employment to permanent part-time or full-time status which could increase the likelihood of termination benefits (including long service leave) being recognised by the NFP sector in the future. This will make the provision of clear guidance in this area of increasing importance.

Question 44. Paragraph 5.200 discusses that the Board has not developed any other special requirements for accounting for termination benefits and defined benefit plans.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

As noted in our response to Question 43, we believe termination benefits could be a material accounting matter for smaller NFPs and we therefore suggest clear guidance in this area would be of value.

Other topics to be included in Tier 3 reporting requirements

Question 45. Paragraphs 5.201 to 5.219 discuss the Board's preliminary view that Tier 3 reporting requirements would be similar to those specified in the New Zealand Tier 3 reporting requirements for the following topics:

(a) commitments (disclosed in the notes to the financial statements);

(b) events after reporting period;

(c) expenses;

(d) foreign currency transactions;

(e) income taxes;

(f) going concern;

(g) offsetting; and

(h) provisions, contingent liabilities and contingent assets.

Do you agree? Why or why not? If you disagree with the Board's view, do you prefer other alternatives? Please specify and explain why.

Whilst we appreciate the rationale provided in footnote 18 on page 76 of the DP that led to the AASB's preliminary view that reporting requirements for the above topics could be aligned with those specified in the XRB's Tier 3 NFP Standard, it is not clear why this is the best approach in Australia.

The various laws, size and characteristics of entities in our NFP sector are different to those of New Zealand and therefore it would assist stakeholders if these simplifications were more clearly explained in the context of the Australian financial reporting environment. This would clarify how the Tier 3 requirements relate to those of Australia's current Tier 2 regime (which now differs from that in New Zealand) and would identify New Zealand specific jurisdictional issues that are not relevant to the Australian environment.

We also suggest developing simplifications for provisions and contingent liabilities which may be complex areas of accounting for smaller NFPs, but which provide important information for users.

Question 46. Paragraphs 6.1 to 6.11 discuss the Board's preliminary view that disclosure requirements for Tier 3 not-for-profit private sector entities should be developed based on the following principle:

(a) for transactions where there is a recognition and measurement difference between Tier 3 reporting requirements and Tier 2 general purpose financial statements, Tier 3 reporting requirements will:
  - **(i) adopt appropriate disclosure requirements from comparable jurisdictions, pronouncements or frameworks, if available; or**
  - **(ii) develop fit-for-purpose disclosure requirements if there are no comparable recognition and measurement requirements from other jurisdictions, pronouncements or frameworks. Fit-for-purpose disclosure requirements could be developed based on the disclosure requirements in AASB 1060 where the recognition and measurement requirements could be analogised to the Tier 3 reporting requirements.**

(b) for transactions where the recognition and measurement requirements for Tier 3 reporting requirements are the same as, or similar to, the corresponding recognition and measurement requirements for Tier 2 general purpose financial statements, the disclosure requirements in AASB 1060 will be used as a starting point with further consideration of simplifications that may be appropriate.

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Do you agree? Why or why not? If you disagree, what alternative approach do you suggest? Please specify and explain why.

While we support the use of AASB 1060 as a baseline for disclosure, the feedback we received from our outreach activities, and from the 2022 CA ANZ IFRS Survey, indicates that the disclosure requirements in AASB 1060 still do not strike the right cost/benefit balance. We therefore recommend that the AASB considers developing further simplified fit-for-purpose disclosure requirements for the T3 Standard, regardless of whether recognition and measurement requirements in the T3 Standard are different to the Tier 2 requirements.

Question 47. Paragraph 6.12 discusses the Board's preliminary view on the disclosure requirements for property, plant and equipment, and investment property would be for:

(a) initial measurement of non-financial assets acquired at significantly less than fair value – develop fit-for-purpose disclosures based on AASB 1060 as required for concessionary leases; and

(b) subsequent measurement of property, plant and equipment – adopt AASB 1060 disclosures with simplification of the language. No specific disclosures required for borrowing cost.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We broadly agree with the AASB's proposed approach. However feedback from our members is that the disclosure requirements in AASB 1060 would still result in an overall level of disclosure that is excessive for the needs of smaller NFPs. For example, we believe the disclosure proposed for movements in property, plant and equipment (example 1(e) on pages 91–92 of the DP) will be an excessive requirement for smaller NFPs. Therefore, we believe there is a need to more carefully assess all proposed disclosures on a cost/benefit basis.

Question 48. Paragraph 6.13 discusses the Board's preliminary view on the disclosure requirements for leases would be for:

(a) lessee – adopt IFRS for SMEs Standard disclosures for operating leases; and

(b) lessor – adopt AASB 1060 disclosures for operating leases with simplification of the language.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We broadly agree with the AASB's proposed approach. However, feedback from our members is that the proposed disclosure requirements would still produce an overall level of disclosure that is excessive for the needs of smaller NFPs. Therefore, we believe there is a need to develop disclosures which strike the right balance for cost/benefit reasons.

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Question 49. Paragraph 6.14 discusses the Board's preliminary view on the disclosure requirements for changes in accounting policies and correction of errors would be for:

(a) changes in accounting polices – develop fit-for-purpose disclosures based on AASB 1060 and removing non-applicable disclosures; and

(b) correction of errors – adopt New Zealand Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit).

Do you agree with the Board's preliminary view? Why or why not? If you disagree, do you prefer alternative disclosure requirements? Please specify and explain why.

We agree with the AASB's proposed approach for similar reasons to those provided in our response to Question 19 and, subject to our recommendation in our response to Question 19 on restating comparatives, for prior period accounting errors.