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Australian Charities and Not-for-profits Commission

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Australian Accounting Standards Board (**AASB**)

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

The Australian Charities and Not-for-profits Commission (**ACNC**) welcomes the opportunity to comment on the AASB's ***Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities).*** We understand the objective of the AASB is to support development of a simple, proportionate, consistent, and transparent financial reporting framework for application by smaller Not-for-Profit (NFP) entities and remove the ability of certain NFP entities to prepare special purpose financial statements (SPFS).

About the ACNC

The ACNC is the national regulator of charities. The ACNC does not regulate not-for-profit entities that are not registered charities. The objects of the *Australian Charities and Not-for-profits Commission Act 2012* (Cth) (**ACNC Act**) are to:

- maintain, protect and enhance public trust and confidence in the Australian not-for-profit sector
- support and sustain a robust, vibrant, independent and innovative Australian not-for-profit sector
- promote the reduction of unnecessary regulatory obligations on the Australian not-for-profit sector.

The ACNC maintains a free and searchable online public register of charities (**the Charity Register**). In most cases, each charity's entry includes details about its location, activities, its people, its governing rules and annual reporting, including finances. The Charity Register helps the public to understand the work of the charity sector and provides for transparency of charities. There are currently around 60,000 registered charities in Australia.

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The impact on the charity sector

We see the potential benefits of the proposed Tier 3 reporting framework for its simplicity and standardisation of concepts that have not applied neatly to the NFP sector.

We have provided general comments below which are focused on the impact of the new reporting framework on registered charities. The Appendix provides our response to questions asked by the AASB in Part A and Part B of the Discussion Paper.

The ACNC is supportive of changes that provide simple and consistent financial reporting within the charity sector. This helps build public trust and confidence in a sector mostly made up of small charities (65.3% are small, and 31.4% of these have less than $50,000 in annual revenue) and run by volunteers (51% of charities report not having any paid staff at all). Small charities are not required by the ACNC legislative framework to submit a financial report. Medium and large charities (those with revenue of $500,000 or more) must submit a financial report.

Our analysis of charity financial reports shows application of the 'reporting entity' concept varies considerably across the sector. We estimate 20 per cent of all registered charities (12,000) will be impacted by change to the 'reporting entity' concept; and more than two thirds (about 70 per cent) of all medium and large charities will need to transition from SPFS to Tier 3.

Tier 3 introduces accounting treatment of recognition and measurement that a charity preparing SPFS might not previously apply. These are complex to some, and many charities may not have or be able to easily acquire, accounting knowledge, technical expertise, or the resources (pro bono access to sector practitioners or the funds to pay them) to apply Tier 3. Charities may also face additional challenges including having to make consequential changes to their own governing document (i.e., because it references the preparation of financial report in accordance with the Australian accounting standards), introduce new systems and record keeping measures (to effectively implement Tier 3), while keeping up with any reporting obligations to regulators (to avoid penalty or other administrative actions) and or to funders and donors.

In the further development of the new accounting standards, there needs to be an appropriate balance between the objectives of simplicity and consistency, and a standard that is fit for purpose across the charity sector.

Careful consideration be given to transition processes, including the need to strengthen the sectors' financial literacy and capability so that they can confidently apply the standard. The ACNC will support the AASB in its efforts to develop simple, clear, easy to understand guidance materials on Tier 3. It will also support the AASB in any work it carries out it does to improve the sector's general financial understanding and reporting capabilities. Improving the financial literacy and capability of registered charities will help them comply with their reporting obligations to the ACNC and other agencies, and thereby increase their transparency and accountability to the public.

The ACNC has considerable guidance materials and resources to support charities. This includes a free suite of online courses designed to enhance leadership and accountability within the charity sector. We have two courses that focus on charity reporting obligations, explaining the ACNC legislative reporting requirements, and we will work to update these courses if changes to the not-for-profit financial reporting framework eventuate.

The duration of any transition process will also be important. As outlined in more detail in the Appendix, the ACNC may need to make changes to its legislative framework which can be a time-consuming process. Other regulatory bodies may also need to make similar changes to their legislative and or policy frameworks, and funders may need to amend specific reporting and accounting obligations in their guidelines and agreements.

General comments that inform our additional comments at the Appendix.

We support the proposal that Tier 3 adopt a single self-contained accounting standard which would serve as a 'one-stop shop' for charities.

We support a model that excludes the most complex items and transactions that rarely occur, whilst acknowledging the challenge inherent in balancing comprehensiveness with inclusion only of the most common transactions.

We support the simplification of the standards and the provision for discretion in application of, for example, the consolidated financial statement requirements.

Additional matter for consideration

As the AASB is the standard setter, we appreciate that it does not have authority to definitively set the thresholds at which each tier applies. However, in considering the implementation of this framework, we are concerned that with each regulator at the Commonwealth, state or territory government level setting their own thresholds for applying Tier 3 (whether by virtue of legislation or administrative process), this could lead to confusion and unnecessary red tape for the sector.

Having to be aware of and report on different requirements for different government bodies is likely to create additional burden for charities. We note that the lack of consistency in financial reporting requirements across Australia has been a persistent issue predating the establishment of the ACNC, which was intended to operate as a 'one stop shop'.

We consider that the Tier 3 framework presents an opportunity to harmonise reporting by establishing a single set of revenue thresholds for the charity and broader NFP sector. We highly value the approach taken to bring together Commonwealth, state and territory governments to collaborate on a single national fundraising framework. We suggest that the Tier 3 proposal could be used to leverage momentum and bring together regulatory bodies to agree on uniform Tier 3 reporting thresholds.

Further questions

Please contact Mel Yates at Melville.Yates@acnc.gov.au or 03 9275 9595.

Sincerely,

Sue Woodward AM
Commissioner
Australian Charities and Not-for-profits Commission

Enc: Appendix – Response to specific questions for comment

Appendix – Response to specific questions

PART A – EXTENDING THE DIFFERENTIAL REPORTING FRAMEWORK

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?

The AASB should establish clear reporting thresholds for Tier 3 reporting. Introduction of reporting thresholds will provide clarity and promote consistency within the entire not-for-profit sector. We understand that the AASB are currently conducting research into common transactions and practices within the not-for-profit sector. Findings from this research, together with other relevant research findings should be used to determine the appropriate thresholds, as well as with consultation with the sector.

We note that under the ACNC's current legislative framework, medium and large charities (annual revenue of $500,000 or more) are required to prepare and lodge an annual financial report. Small charities may also need to prepare an annual financial report if required by their governing document, grant application or terms of a funding agreement, or some other regulators.

The ACNC has reached a streamlined reporting arrangement with all state and territory regulators that also regulate incorporated associations and fundraisers. These regulators recognise financial reports (prepared under the ACNC framework) even if they do not strictly align with their current thresholds. We understand that some jurisdictions are seeking to align their incorporated associations thresholds with the ACNC's reporting thresholds.

Regarding the sector's ability to comply, we remain concerned that given the sector is predominantly operated by volunteers, particularly in smaller charities, and these charities may have resource constraints, there may be a lack of technical expertise and capacity to understand and comply with Tier 3 reporting.

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 proposal of the AASB to exclude Service Performance Reporting (**SPR**) as part of this project, whilst acknowledging that SPR may help charities to communicate their impact (in addition to their current avenues, such as their annual reports, web pages, social media and in their annual reporting to the ACNC).

Implementing SPR as part of this project would add to the already significant reporting burden associated with transitioning to the new framework. The potential complexities involved in developing service performance information requires careful consideration and this is best done separately to this initiative.

Registered charities share common characteristics and reporting challenges with non-profit organisations worldwide and therefore there is an opportunity to learn from international experience. The ACNC suggests that the AASB leverage any advancements in the international development of 'narrative reporting' through the Exposure Draft of the International Non-Profit Accounting Guidance.

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.

The ACNC supports a fit-for-purpose conceptual framework for the sector. We agree the framework should deliver the objective of general purpose financial reporting in the not-for-profit sector, particularly as it relates to accountability to the public.

We also agree the primary users of financial reports in the not-for-profit sector will be different to the for-profit sector. Annual financial reports submitted by registered charities are available on the Charity Register, and can be accessed by a variety of users, including donors and funding bodies, members and beneficiaries, professional advisors, researchers, journalists, regulators, and government officials.

We have some concerns about the expansion of the Conceptual Framework for Financial Reporting, which removes the subjective assessment of 'reporting entity' in SAC 1. Some of these concerns include:

1. The removal of the definition of 'reporting entity' in SAC 1 means that charities will no longer be able to prepare SPFS. The removal of the ability to prepare SPFS will have a significant impact on the sector, and it is important that the AASB provide detailed guidance and support to charities who will need to transition from SPFS to Tier 3. Guidance will need to reflect the variety of SPFS currently being prepared by charities.

2. Some charities that currently prepare SPFS may not be able to adopt Tier 3, for example, if they exceed the Tier 3 threshold. It is unclear whether these charities will be ready to transition to Tier 2 or above. It is important that any future outreach and consultation for Tier 3 includes charities that are above the minimum intended threshold (especially those preparing SPFS) to raise their awareness and understanding of the potential impact.

3. The inclusion of not-for-profit modifications may pose difficulties for entities that need to consolidate financial statements including for-profit and not-for-profit subsidiaries.

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?

The ACNC agrees with the AASB's approach. The AASB should provide sufficient lead time for the mandatory adoption of General Purpose Financial Statements by charities and should engage in an extensive educational campaign (including the development of simple, plain English guidance for charities preparing SPFS) to minimise the reporting burden and help support a successful implementation.

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 support the extension of the Australian Accounting Standards to the not-for-profit private sector in principle. The proposed change to supersede SAC 1 means that charities will no longer be able to prepare SPFS for the purpose of meeting ACNC legislative reporting requirements.

The removal of SPFS aligns with changes in the for-profit sector, following AASB 2020-2 *Amendments to Australian Accounting Standards*, which also removed SPFS for some for-profit private sector entities.

The move towards general purpose financial reporting for both for-profit and not-for-profit entities (which includes charities) enhances transparency and accountability through the provision of consistent and comparable financial information.

However, the ACNC recognises that the transition to any new reporting standard will be a complex and challenging process, and it is important to ensure that charities are not unduly burdened by these changes. Half of all charities are run by volunteers.[1] We expect this will add to the administrative burden on charities.

It will be important for the AASB to consult with the sector to help shape the transition process including the practical support that charities may need to be able to successfully implement their transition. Guidance and support will need to consider the varying levels of technical expertise and accounting knowledge of the sector. The ACNC is willing to discuss how we can assist the AASB with this process.

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?

The ACNC supports the introduction of a consistent framework to replace SPFS. We support a proportionate approach to reporting based on reporting thresholds. The discussion paper does not establish reporting thresholds. This makes it difficult to determine whether Tier 3 is proportionate.

As previously noted, the ACNC regulates a diverse charity sector – half of which have revenue less than $250,000.[2] Under the ACNC's legislative framework, charities with annual revenue of $500,000 or more are required to prepare and lodge a financial report. We note our legislation does not empower the ACNC to determine which charities must apply a particular tier of the Australian Accounting Standards.

[1] Australian Charities and Not-for-profits Commission, Australian Charities Report 8th edition, 2022

[2] Australian Charities and Not-for-profits Commission, Australian Charities Report 8th edition, 2022

Regardless of the maximum reporting threshold, the AASB's guidance needs to reflect the diversity and level of knowledge within the charity sector.

The ACNC encourages the AASB to consult with the charities when determining how to determine when to apply Tier 3. Our response to Question 1 and 5 also addresses the question of thresholds (and we suggest utilising current research to help inform thinking on an appropriate threshold).

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?

The ACNC does not require charities with revenue below $500,000 to prepare financial statements. These charities are only required to provide financial information in the Annual Information Statement.

We do not see a need for a fourth tier.

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?

The ACNC cannot comment on this question as the discussion paper does not specify a threshold for Tier 3.

Please refer to our response to Question 3 (point 2) in relation to charities who may exceed the threshold for Tier 3 and may therefore have to comply with Tier 1 or 2 reporting requirements.

Additionally, we understand there may be possible changes from the post-implementation reviews being conducted through Invitation to Comment 50 – *Income of Not-for-Profit Entities* and Invitation to Comment 51 – *Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements*. These note these reviews could potentially inform changes to accounting standards for charities applying Tier 1 and 2 Australian Accounting Standards.

PART B: PROPOSED TIER 3 REPORTING REQUIREMENTS

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 support the decision to specify Tier 3 reporting requirements in a single stand-alone accounting standard. However, we acknowledge that despite the AASB's efforts to express the Tier 3 standards in an easily understandable manner, some organisations in the sector with limited financial literacy and technical expertise may find it challenging to apply. Therefore, the ACNC is willing to work with the AASB and the charity sector to provide additional support and guidance to these organisations to ensure they can comply with the new reporting requirements effectively. It is important to ensure that the introduction of Tier 3 does not inadvertently create further barriers for smaller organisations.

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 ACNC considers that allowing entities preparing Tier 3 financial statements to 'opt-up' to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards may complicate the reporting process and adversely impact the main objective of promoting consistency and comparability of financial information. Therefore, we recommend that Tier 3 applicable entities should have the option to opt-up to Tier 1 or 2 in its entirety. However, we are open to feedback from the sector regarding any specific class of transactions where an opt-up might be appropriate. In such cases, we suggest that the opt-up paragraph should be written in a clear and easy-to-understand manner.

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 support the scoping out of more complex items from the standard as set out in the question. We do not believe that the potential benefits of increased consistency in the treatment of affected transactions or disclosures justify the added complexity for Tier 3 entities. In our analysis of charities' annual financial reports, we found that these transactions or events are rare.

There is one exception to this, which is business combinations. Business acquisitions and mergers are not uncommon within the sector, and we have seen more than 1200 charities apply for voluntary revocation citing mergers as their reason. Therefore, we recommend that further consideration be given to how aspects of AASB 3 Business Combinations could be adapted for inclusion within Tier 3.

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 suggested hierarchy for developing policies outside the scope of Tier 3 requirements. Instead, we suggest that preparers should have the flexibility to choose whichever option from the list best suits their needs. We believe that this approach will provide a more appropriate and tailored solution for reporting on these transactions. We acknowledge that this may adversely impact the consistency and comparability of financial information in some cases but considering that these transactions are likely to be uncommon in the sector generally, we feel that flexibility for preparers is the primary concern here.

We acknowledge that introducing choice and flexibility may have the unintended consequence of increasing the compliance burden for preparers, therefore clear guidance as to when to exercise that flexibility will be 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 view for revisiting Tier 3 no more than once in every AASB agenda consultation cycle. And we highlight the need for a thorough and robust post-implementation review after the issue of Tier 3. We also note that many not-for-profit entities may not become aware of the new requirements until Tier 3 is mandated, therefore the requirements should not be revisited too soon unless there is a major concern.

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 - 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?

For 14 (a), we agree with maintaining the provision of a statement of profit and loss and other comprehensive income, statement of financial position, statement of cash flows and explanatory notes.

For 14 (b), we see the benefits of the statement of changes in equity to provide information, such as reserves, accounting for errors or changes to accounting policies. However, our interactions with charity stakeholders indicate the statement is less commonly used or relied upon by users. From a cost-benefit perspective, we recommend that the statement of changes in equity is optional. In providing reporting simplification, Tier 3 should not require more than the existing Tier 2 requirements (para. 26 of AASB 1060 permits a single statement to combine income and retained earnings when criteria outlined in para. 62 are met).

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?

We agree there is a need for more consistent line items in financial statements. Through our interactions with smaller registered charities regarding financial reporting, it is apparent that many organisations prefer a more prescriptive approach, such as a "checklist" or "tailoring" approach. This approach would provide explicit reporting requirements and reduce the subjective and judgmental aspects of the reporting process, making it easier for these organisations to transition to new reporting standards despite limited resources.

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 equivalent 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.

For 16(a), we agree. Feedback received from charity stakeholders is that information contained in the statement of cashflows is useful to users, especially the cash flows from operating activities. To simplify Tier 3 and minimise regulatory burden in relation to the statement of cash flows, we propose there will be less need to separately distinguish cash flows from investment activities and financing activities.

For 16(b), we agree that the sector should be given a choice of using the direct or indirect method.

For 16(c), we agree cash and cash equivalent presentation should be consistent with AASB 1060.

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 proposal for a Tier 3 standard to exempt parent entities from preparing consolidated financial statements. This approach is consistent with the ACNC legislation which assesses a charity's revenue and reporting financial information at the registered charity level, even if the charity exercises control over subsidiaries. However, the option to prepare consolidated financial statements should still be available, particularly for those entities that already do so.

Regarding parent entities that prepare separate financial statements, we agree that disclosing information about their interests in other entities would be adequate for transparency purposes.

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.

We agree and encourage the AASB to consider the views of sector practitioners regarding the most cost-efficient ways of measuring a charity' interest in subsidiaries, presumably using the at cost or equity method.

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 requirement for a modified retrospective approach to reflect changes in accounting policies and correction of accounting errors. However, we note that a prior year error presents a higher risk to the understanding of financial information where a full retrospective correction is not required. Therefore, additional disclosure about the error including how it occurred, is warranted. This disclosure is not expected to be burdensome when an entity is already required to disclose what the error is and how it is corrected. Providing additional disclosure about the underlying cause of the error can enhance transparency and improve users' understanding of the issue, which may have a material impact on a user's decision.

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 encourage the AASB to consider the views of sector practitioners in relation to the requirement of accounting for changes in accounting estimates to provide relevant and useful information in a cost-efficient manner.

Question 21 to 27 – Financial instruments

We support the initiative of identifying basic financial instruments to simplify AASB 9 for a wider range of the sector (Q21). Also, we agree with the proposal not to require an entity to separately recognise certain derivative financial instruments that are not readily identifiable or measurable (Q22). We agree that Tier 3 should not cover hedge accounting (Q23). For other questions regarding the initial and subsequent measurements, impairment and derecognition, we encourage the AASB to consider the views of sector practitioners.

Question 28 to 29 – Fair value measurement

We agree with the preliminary view not to depart from the principles of AASB 13 when developing Tier 3 to maintain consistency across different reporting tiers (Q28). We also agree that cost may be an appropriate estimate with an exception for those donated financial assets for which the value is easily obtainable (Q29).

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 non-donated inventory should be accounted for consistently with AASB 102. To date, we have not received any feedback or comments from the sector regarding any areas of concern or potential opportunities for simplification to reduce reporting costs for inventory.

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.

Agree, refer to response in Q11.

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.

Refer to our response in Q17. For reporting simplification, we also consider a disclosure note would be adequate for transparency purposes. However, the extent of details to be included in a disclosure note should meet the information needs of users of Tier 3 charities.

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.

Building upon our responses in Q17 and Q32, we generally favour restricting the availability of accounting policy choices within Tier 3 in the interest of reporting consistency and comparability. However, we note this may not be applicable for many entities intended to use Tier 3. Therefore, we agree that accounting policy choice should be permitted, particularly if such a choice aligns with preference of the sector practitioners.

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 non-current assets? Please specify and explain why.

We support a simple and consistent treatment of property, plant, and equipment, as well as investment property. Our review of charities' financial reports indicates that revaluation of property, plant, and equipment is infrequent. However, since investment property is a significant non-current asset that usually appreciates in value rather than depreciates, allowing its revaluation would be appropriate. Generally, we do not consider any upward revaluation gain is part of a charity's revenue. Refer to Q37 in relation to borrowing costs.

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 disagree regarding the choice to allow measuring donated non-financial assets at cost. While we acknowledge the benefits of simplifying reporting for charities that do not need to determine the fair value of any in-kind donations, we believe that any material donated non-financial asset should at least be evaluated for fair value or an estimate. We also note that under

Australian Taxation Office requirements, it is up to the donor to let the deductible gift recipient know the market value of non-cash donations.

It is worth noting that the Productivity Commission is conducting an inquiry into philanthropy. Should many charities choose to measure donated non-financial assets at cost, which is typically zero or a nominal amount, charity financial statements may not appropriately reflect philanthropic giving arising from non-financial assets even though some of these gifts, such as real estate, can be substantial.

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 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 charities should continue to have the option allowed in AASB 1058 *Income of Not-for-profit Entities*. Our view is that such an option should always be voluntary, noting that recognising and measuring volunteer services reliably could result in additional costs for charities and could potentially impact on their financial reporting requirements under proportionate reporting regimes where revenue determines the level of reporting required.

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 non-capitalisation of borrowing costs as this enables these costs to be expensed in the period they are incurred without the need for a judgemental process, making it a more straightforward approach.

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.

We have not received any feedback from the sector, nor have we identified any significant issues with the impairment model. Therefore, we are inclined to support the preference of the sector's practitioners to provide relevant and useful information in a cost-effective manner.

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 do not form a view to this question but agree to consider the frequency of such transactions within Tier 3 intended entities for reporting simplification purposes.

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.

We are not aware of any significant intangible assets held by the Tier 3 intended charities. The cost of including specific accounting requirements within Tier 3 appears to outweigh the benefits of accounting for uncommon transactions.

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 support the simplification of lease accounting for charities. We have heard that the current approach in AASB 16 is challenging for some charities and confusing for users of charity financial reports. We also support treating concessionary leases in the same way that does not require charities to undertake any fair value measurement, instead a simple disclosure note would be sufficient.

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 that Tier 3 income recognition should reflect a charity's operations through an expense-matching model. This approach is expected to simplify the application of AASB 15 and AASB 1058. It is also important to include the definition of revenue within the income recognition section.

To minimise potential confusion, we will work closely with the AASB as there would be two sets of income recognition models between Tier 3 and other tiers for charities to determine their size thresholds.

We also suggest the income recognition section should consider including 'principal vs agent' in simple language within Tier 3. This would avoid the need to address it in the Conceptual Framework. When a charity receives a grant on behalf of another charity and then forwards it to the second charity (sometimes known as auspicing), it appears to present challenges for some charities to determine if they are acting as principal (recognising the gross amount as revenue) or agent (recognising any fee or commission as revenue).

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 simplifying the accounting for employee benefits by not requiring adjustments for inflation or a discount rate is beneficial. However, we recognise that some level of probability assessment is still necessary.

To reduce the reporting burden on probability assessment, we would welcome the introduction of a general sector-specific set of probabilities within Tier 3. This would reduce the reporting burden on charities from conducting their own probability assessment.

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.

We are not aware of any feedback or observation on this topic.

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.

We are unable to form a view on this question as it is unclear whether there is a need within the sector for Tier 3 to address all the topics mentioned. For instance, all registered charities are exempt from income taxes, although we acknowledge that some not-for-profits are taxable. It is an example about the need and relevance of addressing certain issues in the Tier 3 reporting framework to ensure there is appropriate guidance.

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

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

We agree that AASB 1060 should be the starting point for developing Tier 3 disclosure requirements. While we understand that the 'bottom-up' approach has been deemed inappropriate, we see the value in focusing on the information needs of users of Tier 3 financial statements rather than comparing with Tier 2 requirements.

In our review of charities' financial statements, we observed that some disclosure notes were included simply to meet relevant requirements, resulting in 'boilerplate disclosures' that may not provide useful or relevant information in the context of the charity. Therefore, we believe that Tier 3 disclosure requirements should prioritise meeting the information needs of users.

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 suggest identifying common information needs from users in the disclosure notes to complement the figures already included in the financial statement. This approach would help to ensure that only key information is disclosed, which would in turn reduce the reporting burden. Any views from sector practitioners to provide relevant and useful information in a cost-effective manner would be valuable in addressing this matter.

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 disagree with the example disclosure requirements and suggest a single set of disclosures that can apply to both lessee and lessor. We see a need to simplify language and terminology.

As an example of disclosure requirements for leases, we suggest disclosing the following information:

- A description of the lease asset
- Lease terms and payments
- Any restrictions or dependencies on the use of the lease asset.

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 disclosure requirements for changes in accounting policies and correction of errors. Refer to our response in Q19.