



Project:	Australian Financial Reporting Framework	Meeting	AASB May 2017 (M157)
Topic:	Project plan	Agenda Item:	7.1
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		Decision-Making:	High
		Project Status:	Project planning

Introduction

- 1 As part of the AASB research strategy discussion in February 2015, the Board decided to add the Reporting Framework project to the AASB work program.
- 2 Staff have since conducted various outreach activities including a forum with mid-tier accounting firms and two roundtable discussions with not-for-profit sector entities. Staff also sought feedback from constituents while conducting outreach activities for other projects such as the IFRS review and AASB agenda consultation. Feedback received is generally consistent – there is a need to reconsider reporting requirements of Australian entities.
- 3 In 2016, staff drafted two comparison research reports, one on the for-profit sector and one for the not-for-profit public sector, presenting key differences between the financial reporting frameworks available in Australia and ten other countries. The first report *Thresholds for Public Lodgement of Financial Statements – Private Sector, For-Profit Entities* was presented to the Board in October 2015 but has not been publicly released. The second report is in draft stage. Research is also underway to compare financial reporting requirements for the Australian not-for-profit private sector and other jurisdictions.
- 4 This agenda paper provides an updated project plan outlining key steps and potential timing for progressing the project.

Project rationale, objective(s) and link to AASB strategy

Project rationale

- 5 In 2014, the FRC's Financial Reporting Taskforce presented a report of its investigation into the various reporting requirements in Australia for all types of entities. The report shows a complex, sometimes duplicative, web of requirements.¹
- 6 For for-profit entities, the Australian reporting framework uses the reporting entity concept to determine if corporate entities prepare general purpose financial reports (GPFS) or special purpose financial reports (SPFS). The AASB Research Report No. 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* published in 2014, provides evidence that having preparers determine whether an entity is a reporting entity results in unsatisfactory outcomes, principally because:
 - (a) entities that conclude they do have not users requiring financial information (and therefore the entity prepares SPFS) are still required to publicly lodge their accounts;
 - (b) the SPFS may not be of high quality. In many cases the recognition and measurement requirements in accounting standards appear not to have been applied or it is not clear whether they have been applied;
 - (c) the decision about whether an entity is a reporting entity and prepares GPFS or is not a reporting entity and prepares SPFS seems to have no correlation with the key characteristics (as set out in SAC 1) of the entities concerned; and
 - (d) there is a relatively high incidence of GPFS among companies limited by guarantee (66% of this group prepare GRFS). There is a relatively low incidence among large proprietary companies (20%) and user information needs may not be met for these companies.
- 7 The concerns raised in the FRC's report were generally consistent with feedback received from constituents concerning the not-for-profit private sector. For example, there is considerable variation in the thresholds for financial reporting and the reporting requirements set by different regulators across the private sector in Australia (applicable to large proprietary companies, charities, incorporated associations, co-operatives, trade unions and other entities). The complexity and variety of the requirements can lead to confusion for entities when determining their reporting requirements. When entities determine that they are not a reporting entity, they may elect to prepare SPFS to meet their public lodgement obligations. These reports vary significantly in quality.
- 8 The feedback received in the IFRS review and AASB Agenda Consultation projects demonstrated that there is a need to revisit the not-for-profit public sector reporting framework. In particular, the identity of the users of public sector financial statements

¹ http://www.frc.gov.au/files/2015/03/Financial_Reporting_Taskforce_Report.pdf

and their information needs is unclear. This information is required to better assess and balance user needs and cost.

- 9 As shown in the IFRS review and AASB agenda consultation projects, constituents from all sectors were generally supportive of AASB leading the Reporting Framework project and working in conjunction with other key regulatory bodies to determine user needs for information and to consider the costs and benefits of the financial reporting requirements.

Project objective(s)

- 10 The overall objective of the project is to clarify and simplify the Australian financial reporting framework, so that objective criteria determine (a) which entities are required to prepare GPFS and (b) the reporting requirements applicable to entities. The criteria should ensure that only those entities that prepare GPFS are lodging financial statements which are publicly available. The project aims to cover both corporate and non-corporate entities, in the for-profit, public and not-for-profit sectors. The project will be carried out in conjunction with policymakers and regulators. Simple and clear legislative wording that could be used by all regulators should be one outcome.

Link to AASB strategy

- 11 The Board's strategy for the period 2015-2019 identifies five strategic directions.² The project is consistent with the following strategic directions:
- (a) strategic direction 1 'use IFRS and transaction-neutrality as a starting point, taking into account cost/benefit considerations and user needs';
 - (b) strategic direction 2 'take a leadership role in shaping the Australian Reporting Framework';
 - (c) strategic direction 3 'facilitate and encourage active stakeholder participation in developing standards'; and
 - (d) strategic direction 5 'to maintain relevance, investigate expanding the scope of activities to cover external reporting rather than just financial reporting.

Project scope

- 12 The scope of the project is to identify objective criteria to determine (a) which entities are required to prepare GPFS and (b) the reporting requirements applicable to entities.
- 13 The project will include the following research activities:
- (a) describing the current Australian requirements and how these compare internationally, i.e. benchmarking reporting requirements and thresholds to other jurisdictions;

2 The AASB Strategy 2015-2019 is available on the AASB website at:
http://www.aasb.gov.au/admin/file/content102/c3/AASB_Strategy_2015-2019.pdf.

- (b) reviewing ‘economic significance’ and other reporting criteria for public financial reporting; and
 - (c) examining user needs for financial information with consideration of the costs and benefits of the financial reporting requirements.
- 14 The project will also have implications for these topics:
- (a) the requirements of AASB 101;
 - (b) the application paragraphs in Australian accounting standards (i.e. Aus paragraphs);
 - (c) the continuing need for the AASB’s SAC 1;
 - (d) whether all government departments and agencies are reporting entities;
 - (e) whether to limit the exceptions in AASB 10 and AASB 128 from presenting consolidated financial statements or applying the equity method to entities other than the ultimate Australian entity;
 - (f) related party disclosures (in the public sector);
 - (g) the need for Tier 3 GPFS requirements and their format; and
 - (h) the need for guidance about the meaning of GPFS to assist policymakers in understanding the role of GPFS.
- 15 Working in conjunction with other key regulatory bodies, consultation papers will be developed to address policies for:
- (i) for-profit private sector reporting;
 - (ii) not-for-profit public sector reporting; and
 - (iii) not-for-profit private sector reporting.
- 16 Staff envisage that the project will involve coordination with regulatory bodies, and extensive outreach with preparers and users of the financial statements.

Staff assessment

- 17 Having regard to the proposed project scope and project milestones, staff assess the project as follows:
- (a) Priority High
 - (b) Timing Urgent
 - (c) Resource commitment Significant
 - (d) Project length 18 months

(e) Project scale

Major project

Key stakeholders

- 18 Users, preparers and auditors of financial information of for-profit private sector and not-for-profit private and public sector are the key stakeholders of the project. In addition, the following regulators, policy makers and other are key stakeholders of the project:

<u>Corporate Financial Reporting Framework</u>	
Auditing and Assurance Standards Board (AUASB)	Business Council of Australia
Australian Institute of Company Directors	Chartered Accountants Australia and New Zealand
Australian Prudential Regulation Authority	CPA Australia
Australian Restructuring Insolvency and Turnaround Association (ARITA)	Department of the Treasury
Australian Securities and Investments Commission (ASIC)	Group of 100 (G100)
Australian Shareholders Association (ASA)	Institute of Public Accountants (IPA)
Australian Private Equity and Venture Capital Association Limited	New Zealand Accounting Standards Board (NZASB)
Australian Taxation Office (ATO)	Reserve Bank of Australia
<u>Not-for-Profit Private Sector Financial Reporting Framework</u>	
Auditing and Assurance Standards Board (AUASB)	Chartered Accountants Australia and New Zealand
Australian Charities and Not-for-profits Commission	CPA Australia
Australian Institute of Company Directors	Institute of Public Accountants (IPA)
Australian Taxation Office (ATO)	New Zealand Accounting Standards Board (NZASB)
Business Council of Co-operatives and Mutuals	Philanthropy Australia
<u>Not-for-Profit Public Sector Financial Reporting Framework</u>	
Auditing and Assurance Standards Board (AUASB)	Australian Department of the Treasury
Australasian Council of Auditors-General (ACAG)	Institute of Public Accountants (IPA)

Australasian Council of Public Accounts Committee (ACPAC)	New Zealand Accounting Standards Board (NZASB)
Australian Institute of Company Directors	State/ Territory – Public Accounts Committee.
Chartered Accountants Australia and New Zealand	State/ Territory – treasury and finance departments, consumer affairs departments (non-corporate entities)
CPA Australia	The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)
Australian Department of Finance	

Project milestones

- 19 Staff have identified the following as key milestones of the project. These will be reassessed periodically and revised/extended to ensure the project path remains appropriate and the project can be adequately resourced.

Major project milestones	Staff comment
Present a project plan	Project plans were presented in previous AASB meetings. This paper provides an update on the project plan.
Identifying the specific issues to be addressed by the project (refining project scope), and developing a proposal as to how remaining known concerns could be addressed	Staff have previously been made aware of issues for constituents.
Develop communications strategy	This project requires significant additional effort with respect to outreach activity and communication deliverables.
Research – study reporting requirements in other jurisdictions and locate relevant academic research	In 2016, staff conducted a benchmarking exercise for the for-profit sector. A similar benchmarking exercise is underway for the not-for-profit private sector and the public sector. Relevant academic research is needed, particularly on user information needs.
Develop Consultation Papers	Involve Advisory Panels, stakeholders, academics and relevant government regulators to develop Consultation Papers.

Major project milestones	Staff comment
Board approves the Consultation Papers	Board to determine an appropriate comment period; this may be 60 days.
Review of stakeholder feedback on the Consultation Papers	Extent of staff effort will depend in part on the communications strategy.
Redeliberations on the Consultation Papers to provide basis for recommendations	Depending on the feedback received, this may take one or two Board meetings.
Finalise recommendations	Staff effort will be dependent on Board decisions from redeliberations.
Education (if any) completed	Extent of staff effort is dependent on Board decisions on the communications strategy.

Outline of project plan and timetable

20 The principal steps and potential timing for the four phases of the project are as follows:

Phase 1 – Research Reporting Criteria		
	Project step	Expected completion
1.1	Benchmark reporting requirements and thresholds to other jurisdictions, identifying potential alternative thresholds for public lodgement of financial statements. Develop comparison research reports to inform discussion: (a) for-profit private sector (completed) (b) not-for-profit public sector (in progress) (c) not-for-profit private sector	July 2017
1.2	Research ‘economic significance’ and other reporting criteria for public financial reporting (and, with AUASB, auditing requirements) (a) discuss with constituent groups: <ul style="list-style-type: none"> • preparers – AICD, BCA, G100, HoTARAC • accountants and auditors – Big 4 and medium-sized firms, CA ANZ, CPAA, IPA, ACAG • users – lenders, credit reporting agencies • insolvency experts – CAANZ, ARITA (b) discuss with regulators: <ul style="list-style-type: none"> • Commonwealth – Treasury, Finance, ASIC, ACNC, APRA, ATO, RBA, AUASB 	September 2017

Phase 1 – Research Reporting Criteria		
	Project step	Expected completion
	<ul style="list-style-type: none"> • State/Territory – treasury and finance departments, consumer affairs departments (non-corporate entities) (c) academic research: <ul style="list-style-type: none"> • University of Melbourne – research paper on operationalising tests for economic significance • Other research, including consultation with research teams from Monash/ANU (Kober, Ng & Lee); Macquarie (Johansen, Carey & Tanewski); and Macquarie/Newcastle (Evans, Handley & Wright) 	
1.3	Discuss findings to date with the AASB	October 2017

Phase 2 – Research User Needs		
	Project step	Expected completion
2.1	Complete literature review that addresses evidence of user needs for financial information prepared by for-profit private entities, not-for-profit private entities and public sector entities	August 2017
2.2	Identify gaps in the literature and determine the scope of research to be conducted	August 2017
2.3	Identify research teams to conduct research (staff, consultants, academics)	September 2017
2.4	Work on research projects	October 2017 - February 2018
2.5	Draft report on results of work in progress	February 2018
2.6	Present to the AASB. Obtain feedback	March 2018
2.7	Complete research and publish final report	April 2018

Phase 3 – Corporate Financial Reporting Framework		
	Project step	Expected completion
3.1	Ongoing consultation, including outreach activities, with key stakeholders in light of concurrent work on phases 1 – 4 on: <ol style="list-style-type: none"> (a) objective criteria for public lodgement of GPFs rather than subjective application of reporting entity concept: <ul style="list-style-type: none"> • types of entities • reporting thresholds (b) potential implications of revised criteria 	December 2017

Phase 3 – Corporate Financial Reporting Framework		
	Project step	Expected completion
	<ul style="list-style-type: none"> • who should report and what should be reported (and audited) • some entities preparing GPFS or SPFS no longer required to lodge financial statements • some entities preparing SPFS required to lodge GPFS instead • simplified transition from SPFS to Tier 2 GPFS <p>(c) potential implications for wholly owned subsidiaries</p> <ul style="list-style-type: none"> • no longer required to report • deed of cross-guarantee reconsidered 	
3.2	Develop Consultation Paper, working in conjunction with other key regulatory bodies	March 2018

Phase 4 – Not-for-profit Reporting Framework Consultation		
	Project step	Estimated timing
	<i>Not-for-Profit Private Sector</i>	
4.1	<p>Ongoing consultation with relevant key stakeholders and regulatory bodies such as charities regulator (ACNC) and with consumer affairs departments re state/territory-regulated entities in light of concurrent work in phases 1 – 4:</p> <ul style="list-style-type: none"> • determine the reporting thresholds • determine reporting levels – possibility of new, simplified requirements (Tier 3) replacing SPFS for small entities 	March 2018
4.2	Conduct focus group discussions with sector participants	January-February 2018
4.3	Develop Consultation Paper, working in conjunction with other key regulatory bodies	June 2018
	<i>Not-for-profit Public Sector</i>	
4.4	<p>Ongoing consultation with key stakeholders and regulatory bodies of public sector reporting such as Treasury and Finance departments in light of concurrent work in phases 1 – 4:</p> <ul style="list-style-type: none"> • reporting levels – application of Tier 2; possibility of new, simplified requirements (e.g. Tier 3) for small entities • departments – reporting entities or disaggregated disclosures? • administered and controlled items 	March 2018

Phase 4 – Not-for-profit Reporting Framework Consultation		
	Project step	Estimated timing
4.5	Conduct focus group discussions with sector participants	January-February 2018
4.6	Develop Consultation Paper, working in conjunction with other key regulatory bodies	June 2018

Resources required

21 The following resources will be required:

Resources	Expected contribution
(a) Staffing – standard-setting	Technical director/Assistant – Medium Project manager/APM ³ /Intern – High
(b) Staffing – research	Research director – High Project manager/Assistant/Intern – High
(c) Project advisory panel	Staff recommend a project advisory panel to be established for each sector.
(d) Other	Staff recommend appropriate external consultants be involved in the project, in particular academics to perform research on user needs.

Factors that might add to complexity and length of the project

22 The following factors may add to the complexity and length of the project:

- (a) Divergent views amongst stakeholders about how reporting requirements should be changed;
- (b) Priorities and capacities of external parties (i.e. relevant regulatory bodies and policy makers) that staff will be working with;
- (c) Lack of research evidence and findings to support decision making; and
- (d) Change in staff capacity.

Related AASB, IASB and IPSASB projects

23 Staff identified the following as current projects where outcomes may affect, or could be affected by, this project:

Source	Project

3 Assistant Project Manager

Source	Project
AASB	<ul style="list-style-type: none">• Service performance reporting• Reduced disclosure regime

Questions for Board members

Q1 Do Board members agree with the proposed project objective and project scope set out in paragraphs 10-16 and 19-20?

Q2 Do Board members have any other comments about the proposed project plan?