



ACT
Government

Chief Minister, Treasury and
Economic Development

AASB 30-31 August 2016
Agenda paper A.1 (M153)

ITC 34 Sub 1

Ms Kris Peach
The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Ms Peach

Invitation to Comment 34 – AASB Agenda Consultation 2017–2019

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on the Invitation to Comment 34: *AASB Agenda Consultation 2017–2019*.

HoTARAC supports the AASB's proposed agenda for the period 2017–2019 and appreciates the consideration given to issues relevant to the public sector.

While HoTARAC priorities are broadly consistent with those articulated in HoTARAC's last letter to the AASB on this matter (Attachment A), recommendations have been updated to reflect work to be undertaken by the International Public Sector Accounting Standards Board and changes to the AASB's work plan, particularly the review of the Australian Reporting Framework. HoTARAC suggests the Framework review be assigned the highest priority due to its potential impact on other areas of financial reporting. Recommendations are based on the assumption that the AASB's current suite of projects is progressed to completion.

Responses by HoTARAC to the questions posed in the Invitation to Comment are in the attachment to follow.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Department of Finance on (02) 6215 3551.

Yours sincerely

For

David Nicol
CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

March 2016

General Comment

HoTARAC considers that to a large extent the decision over which topics are added, removed or prioritised will depend on the outcomes of the research project on the Australian Reporting Framework. This potentially fundamentally alters the reporting obligations of public sector entities and, consequently, those accounting issues that are a priority for this sector.

Question 1.

What topics, including external reporting topics, do you think should be added to the AASB work program (research and standard-setting)? Please outline the reasons why you think the project(s) should be addressed by the AASB.

HoTARAC wrote to the AASB in June 2015 to outline public sector priority issues ([Attachment A](#)). While HoTARAC priorities are largely unchanged, the list has been modified as we expect disclosures to be addressed in the framework review, the IASB has released guidance on the application of materiality and the IPSASB is scheduled to release a consultation paper on non-exchange expenses this year.

Given some of the issues raised in the HoTARAC letter have been, or are expected to be, addressed in current or pending projects, HoTARAC suggests adding the following topics:

- Fair value measurement: HoTARAC recommends this project focus on the valuation of assets held for their service potential and valuation and the application of obsolescence in the public sector. Additional guidance is also sought on the application of the fair value model to the range of restrictions that are more common in the public sector, including where assets are subject to agreements to transfer them in the future for no or nominal consideration.
- Discounting of long-term liabilities (particularly employee benefits): HoTARAC suggests considering the use longer term average interest rates, to remediate the large fluctuation in values of long-term liabilities associated with use of the spot rate.
- Post-implementation review of AASB 1055 *Budgetary Reporting*: preparation and audit work undertaken for the 2014-15 financial statements indicates that disclosing this information at the entity level imposes a burdensome reporting obligation for questionable benefits to users.

HoTARAC notes that this list is predicated on the assumption that financial instrument disclosures and accounting for grants from the grantor perspective are respectively addressed through the framework review and IPSASB consultation paper.

Question 2.

What priority should be ascribed to the project(s)? Please outline the reasons why you think the project(s) should be prioritised in this manner by the AASB.

Research Projects

As noted above, HoTARAC recommends the highest priority be assigned to the research project on the Australian Reporting Framework as this potentially impinges on all areas of financial reporting, including the other research projects on the conceptual framework and IFRS adoption.

HoTARAC regards the process of modifying IFRS for public sector application as following from the issues considered in the framework review, such as the reporting entity, disclosure requirements and overall simplification of reporting requirements.

HoTARAC also regards the role of the IPSASB conceptual framework as following from the fundamental issues considered in the framework review.

As the framework review will not be completed before the preparation of the 2015-16 financial statements, HoTARAC has also assigned a high priority to the suggested review of AASB 1055 as this imposes a significant burden on preparers.

For not-for-profit public sector entities, information on parent entities and subsidiaries will depend on the boundaries for the reporting entity considered in the framework review.

HoTARAC suggests the project on the carbon tax be held in abeyance as Australia does not currently have such an emissions trading scheme and the current policies for carbon abatement do not give rise to difficult accounting issues.

HoTARAC's suggested ranking is:

1. Australian Reporting Framework
2. Not-for-profit conceptual framework issues
3. IFRS Adoption in Australia
4. Post-implementation review of AASB 1055.
5. Information on entities within a group
6. Carbon tax/emissions trading scheme/abatement scheme.

Standard Setting Program

HoTARAC notes that there is only one new exposure draft pending on the revision of reduced disclosure requirements and has no suggestions for removing projects. However, HoTARAC would point out that Reduced Disclosure Requirements will be closely linked to the Framework review. HoTARAC would suggest that the new projects on fair value measurement and discounting of long-term liabilities proposed in the response to question one be assigned the highest priority.

Question 3.

Are there any topics on the current AASB work program that you think should be removed from the work program? Please outline the reasons why you think the project(s) should be removed.

HoTARAC does not have any recommendations for removing topics, but would suggest the carbon tax be placed in abeyance until the Government revisits this issue and the research project on information on entities within a group be merged with the framework review or deferred until it is completed.

HoTARAC would further propose the AASB consider the extent to which projects can be completed sequentially or issues overlap to maximise the use of limited resources. In particular, the framework review is likely to cover topics addressed in the not-for-profit conceptual framework and IFRS adoption for not-for-profits entities research projects and HoTARAC suggests the AASB consider the opportunity for synergies.

Attachment A



ACT
Government

Chief Minister, Treasury and
Economic Development

Attachment A

Ms Kris Peach
The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Ms ~~Peach~~ ^{Kris},

Priority Public Sector Accounting Issues

Thank you for attending the February meeting of the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC). As foreshadowed at that meeting, and in other discussions, the attached provides a list of priority public sector accounting issues for consideration by the Australian Accounting Standards Board (AASB). The issues are identified in no particular order of importance.

A core principle underpinning the issues raised is that the cost of providing information should not exceed the benefits to users of financial reports, consistent with the AASB's policy paper *Process for Modifying IFRS for PBE/NFPs*.

HoTARAC looks forward to future opportunities to collaborate with the AASB on standard setting developments, particularly in light of recent initiatives taken by the Board to proactively engage public sector stakeholders.

If you have any technical queries regarding HoTARAC's position please contact Peter Gibson from the Department of Finance on 02 6215 3551.

Yours sincerely



David Nicol
Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

5 June 2015

Chief Minister, Treasury and Economics Development Directorate | Canberra Nara Centre
GPO Box 158 Canberra ACT 2601 | phone: 132281 | www.act.gov.au

Attachment A - Continued:

ATTACHMENT: LIST OF PRIORITY PUBLIC SECTOR ACCOUNTING ISSUES

Fair Value Measurement

HoTARAC notes that the AASB has proposed some interim adjustments to public sector disclosure requirements relating to fair value measurement under AASB 13. HoTARAC considers the application of fair value measurement to the public sector continues to be a major concern. Issues HoTARAC views as being of particular importance are the concept of obsolescence, to which there is no available AASB guidance on its application in the public sector context, and the application of the fair value model to public sector assets held for their service potential, including circumstances where reliable measurement may not be possible.

Financial Instruments Disclosures

HoTARAC considers that public sector amendments are needed to simplify disclosures on financial instruments to better align to user needs. Accordingly, the AASB should consider whether greater flexibility can be introduced, in particular to avoid unnecessary disclosures that are of no value to users. For example, for some public sector entities many of the existing financial instrument disclosures, such as liquidity, credit and foreign exchange risk, do not reflect their primary risks, which relate to their budgeted funding.

HoTARAC would also recommend guidance be developed for the NFP public sector entities with respect to Expected Credit Losses applicable to financial instruments. A preliminary examination has suggested that there are financial instruments unique to the public sector where relevant measurement and disclosure requirements for expected credit losses and other requirements of AASB 9 would not be appropriate.

AASB 119 Employee Benefits

HoTARAC continues to be of the view that the AASB should explore the use of a longer term average interest rate for long term employee benefit calculations, such as the superannuation liability, rather than the spot rate currently used. The spot rate is subject to excessive fluctuation leading to unreliable measurement and excessive over/under valuation of employee benefits. This requirement often does not reflect the management of superannuation and other employee liabilities. This is a particular issue for the public sector due to the magnitude of employee liabilities and relatively large proportion of defined benefit superannuation obligations, which can result in the surplus or deficit arising from the impact of policy decisions being overshadowed by spot rate movements.

HoTARAC would further recommend that if this project is progressed, the wider issue of consistency of the discounting of other long term liabilities be considered.

Moreover, under a revised AASB 119, taxes payable on contributions are required to be included in the gross defined benefit obligations as an actuarial assumption. The impact is to gross up net liability for Superannuation Contributions Tax that will probably never be paid. Given the magnitude of government superannuation liabilities, this requirement does not reflect the governments' financial position.

Attachment A- Continued:

Application of Materiality in Disclosure

HoTARAC recommends the AASB clarify the application of the terms "material", "significant", "at a minimum" and "major" in disclosure requirements, with these terms sometimes used within the same standards. This is often a cause for confusion among preparers and auditors and is particular pertinent given the current emphasis on making financial statements more concise. The AASB may consider including definitions in the AASB Glossary of Defined Terms.

Budget versus Actual Comparisons

HoTARAC recommends that the AASB undertake a post implementation review of the requirements of AASB 1055 *Budgetary Reporting* at an appropriate time. Preparatory work undertaken for the 2014-15 financial statements indicates that disclosing this information at entity level imposes a burdensome reporting obligation for questionable benefits to users.

Accounting for Grants from the Grantor Perspective

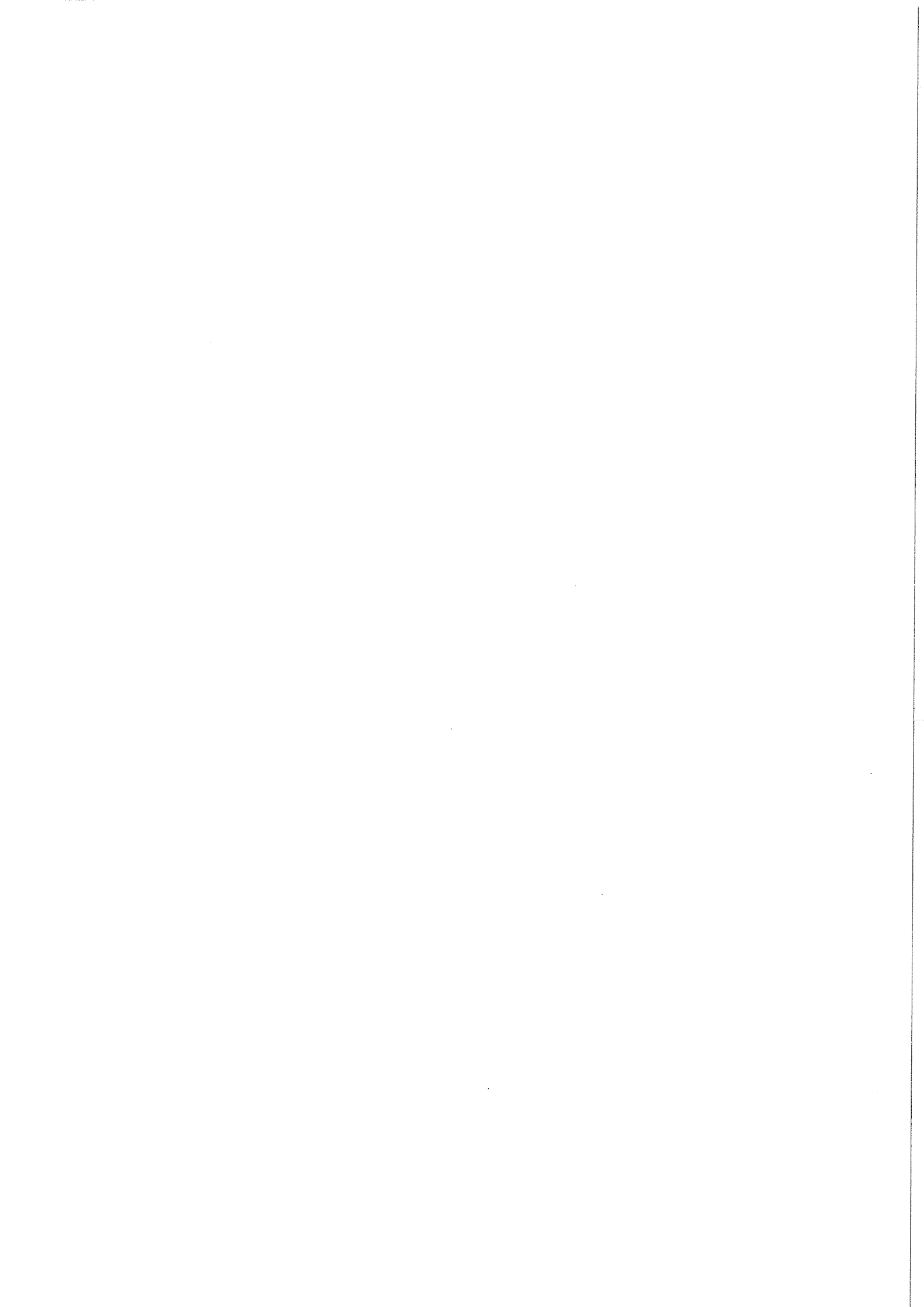
HoTARAC welcomes the AASB's ED on *Income from transactions of NFP entities*, which includes guidance on grants from a recipient perspective. This would be an opportune time to review the limited guidance available for grants from a payer viewpoint, particularly in respect to the timeframe for recognition, noting the principles outlined in paragraphs 26 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* are not consistent or adequate to cover the range of grants made by public sector.

HoTARAC notes in this respect that IPSASB have been considering a project on this topic, separate from their equivalent revenue standard.

Other topics to be Addressed by the AASB

HoTARAC understands that the AASB will be undertaking a broad review of the reporting framework, including requirements specifically applying to the public sector. We look forward to the opportunity to contribute to this discussion. While we would expect such a review to be comprehensive, issues that are of particular interest to HoTARAC members include tiers of reporting (including considering the definition of "reporting entity"), administered and controlled reporting, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, and the application of transaction neutrality principles.

Finally, we note that the Board is currently seeking to finalise a number of projects with particular importance to the public sector, such as service concession arrangements and the application of depreciated replacement cost to impairment assessments. HoTARAC sees this as a positive development.





Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
VIC 8007

4 March 2016

Dear Kris,

Invitation to comment ITC 34 *AASB Agenda Consultation 2017-2019*

We are pleased to respond to your invitation to comment on the AASB's priorities for its domestic work program for the period 2017 to 2019.

Australian reporting framework

The review of the Australian reporting framework, particularly reporting by large proprietary companies, should be given high priority. It was disappointing to see financial reporting requirements being included in tax legislation last year, rather than amending the *Corporations Act* tiers of reporting and/or the accounting standards. The AASB is well placed to assist Treasury in ensuring the reporting framework is one which meets the needs of users.

A second phase of the review should encompass the varying needs of smaller entities and public sector entities. We would support exploring the possibility of a third tier of financial reporting which could be used by very small entities such as small charities or small companies undertaking crowd-sourced funding activities. We would also support exploring the needs of users of financial reports in the public sector to see if they are being met by current requirements.

External reporting projects

We support the AASB taking a broader role, in particular in relation to the disclosure of pro-forma and prospective information in IPO documents. Investors and preparers would benefit from some standardised requirements for information disclosed in IPO documents.

The current rules for remuneration reporting are complex and include redundant, overlapping requirements. There is significant room for improvement. We believe the AASB is well placed to assist Treasury consider what type of information stakeholders need and how this is measured. The AASB could also explore providing guidance on potential alternative measurement principles or disclosures which are commonly used to explain remuneration paid and payable in the future. PwC have conducted extensive outreach around the needs of the investor community and the future of remuneration reporting, and Margot le Bars would be available to assist in a project advisory panel.

Public sector priorities

We are pleased to see the projects on service concession arrangements and income for not-for-profit entities are expected to be completed in the third quarter of this year. In terms of the longer-term agenda, we would suggest the AASB focus on providing guidance as to how the fair value measurement requirements are to be applied by not-for-profit entities. This would assist with a consistent application. The Board should also consider other issues being discussed, for example at the International Public Sector Accounting Standards Board to ensure our own standards keep pace with IPSASB developments.

PricewaterhouseCoopers, ABN 52 780 433 757

*Freshwater Place, 2 Southbank Boulevard, SOUTH BANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au*



Post-implementation review of adoption of IFRS

The current work program includes a post-implementation review of the adoption of IFRS in Australia. Given the international comparability and access to global markets IFRS provides for listed for-profit entities, we believe it would be highly unlikely Australia would revert back to local GAAP. Thus we believe additional research would not change the outcome and would be better directed elsewhere. There is also no merit in comparing IFRS with the previous Australian GAAP, as it is not possible to know how the latter would have developed to address the challenges of the last decade.

Instead, we recommend that the post-implementation review should focus primarily on the impact on not-for-profit entities and small entities with reporting responsibilities. In particular, the project should address the question of whether the policy of transaction neutrality should be maintained, or whether it would be more cost effective to create a separate reporting framework for not-for-profit entities. Additionally whether a third tier of reporting is necessary for smaller entities.

If you have any questions or would like to discuss the comments made in this letter, please contact Regina Fikkers on 02 8266 8350 or me on 03 8603 3820.

Best regards

A handwritten signature in black ink that reads 'John A. Dovaston'.

John Dovaston
Partner



10 Shelley Street
Sydney NSW 2000

P O Box H67
Australia Square 1215
Australia

ABN: 51 194 660 183
Telephone: +61 2 9335 7000
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Our ref Submission - ITC34 AASB Agenda
Consultation 2017-19

7 March 2016

Dear Kris

Invitation to Comment (ITC) 34 - AASB Agenda Consultation 2017-2019

We are pleased to have the opportunity to comment on *ITC 34 - AASB Agenda Consultation 2017-2019*.

We support the AASB in its strategy to take a leadership role in shaping the Australian Reporting Framework and particularly in its efforts to cover the broader issues around external reporting not only financial reporting, especially as the global and domestic focus turns more towards Integrated Reporting <IR> and the increased linkage across all corporate reporting. This is emphasised by the current Disclosure Initiative project aimed at promoting clearer messaging in financial statements.

We suggest that engagement at this broader level could be achieved by supporting the IASB in its pursuit of involvement and relevance in the <IR> sphere. In our view domestically, <IR> principles of reporting holistically how an organisation performed against its strategic objectives and related strategies could be applied in the context of *Exposure Draft (ED) 270 – Reporting Service Performance Information*. We support the continued work relating to ED 270.

Consistent with the above, we support the proposed collaboration of the AASB with other regulators (such as Treasury and Australian Taxation Office) to enhance the consistency and application of pronouncements that impact wider corporate reporting. However, we caution that any projects undertaken in collaboration with other regulators engage with all appropriate stakeholders to clearly identify what users view as requiring change, and linkages to other areas of corporate reporting, prior to any changes being proposed. We see this as especially important where any project on remuneration reporting to be undertaken.

We also support continued engagement with the not-for-profit sector, both public and private, in providing practical guidance relating to fair value measurement given the challenges and divergent application we continue to see in this area.

Our responses to the questions in the ITC are included in the Appendix to this letter.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact Julie Locke on (02) 6248 1190, or myself on (02) 9455 9120.

Yours sincerely



Kim Heng
Partner

Appendix

1 What topics, including external reporting topics, do you think should be added to the AASB work program (research and standard-setting)? Please outline the reasons why you think the project(s) should be addressed by the AASB.

1.1 Fair value guidance in the not-for-profit sector

We have seen entities in the not-for-profit sector experience significant challenges applying *AASB 13 Fair Value*, in particular in the public sector context where most entities are required to recognise non-current assets at fair value. We are aware of divergent interpretations of AASB 13 by valuers and engineers. These challenges have been highlighted in the recent AASB projects relating to service concession arrangements and the proposals to remove DRC in favour of CRC.

We are of the view that more work on this topic is required and that simply issuing guidance in isolation may not resolve the existing challenges. Instead, a broader piece of work involving stakeholders such as the engineering and valuation professions, and including education would be required in order to ensure clarity of understanding and promote consistency of application.

1.2 Contributions by owners

We acknowledge that this topic was covered in the recent exposure draft relating to *Exposure Draft (ED) 260 – Income of Not-for-profit entities*. In our submission on ED 260, we recommended that given the current reliance and the significant transactions undertaken using the existing guidance, we suggest that any changes to this guidance should be subject to a separate project with appropriate consultation.

A more detailed assessment of the concerns and limitations of the current guidance is warranted. There is diversity of application in practice, and the transactions affect for-profit and not-for-profit public sector entities, as well as not-for-profit private sector entities.

1.3 Remuneration reporting

This topic has enjoyed a period of relative stability with general understanding by users of the principles of measurement, both by existing accounting standards and alternate market methods. We do agree, however, that the remuneration report could benefit from a simplification of disclosures as it has in many instances become a lengthy compliance report. However, we would not advocate any proposed changes until an analysis of what users' actual needs around remuneration reporting are has been established.

Consultation with appropriate stakeholders to clearly identify what users view as requiring change, and their linkages to other areas of corporate reporting, would in our view be crucial to achieving a successful outcome. We recognise that collaboration with many stakeholders and other regulators will be required, however, believe the skills brought by the AASB staff and Board to this process will increase the likelihood of a consistent and workable outcome being achieved.

2 What priority should be ascribed to the project(s)? Please outline the reasons why you think the project(s) should be prioritised in this manner by the AASB.

Project	Priority	Reasoning for priority
Fair value in the not-for-profit sector	High	Current diversity in interpretation in applying AASB 13. Clarity of understanding and promotion of consistency of application to enhance comparability.
Contributions by owners	Medium	Still an area of diversity in practice and between public and private sector not-for-profit entities. Promotion of consistency and transaction neutrality.
Remuneration reporting	Low	Level of understanding and disclosure is established in this area. Only impacts companies that are listed disclosing entities.

3 Are there any topics on the current AASB work program that you think should be removed from the work program? Please outline the reasons why you think the project(s) should be removed.

There are no topics currently on the published AASB work program that we believe should be removed.



11 March 2016

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Ms Peach

Invitation to Comment (ITC 34) AASB Agenda Consultation 2017-2019

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to contribute to the future domestic work program of the AASB. Please find attached the ACAG response to the *AASB Agenda Consultation 2017-2019* (ITC 34).

ACAG supports the AASB's current work program of standards-level projects and research projects as they are critical areas of attention for public sector financial reporting.

ACAG's suggestions for the 2017-2019 work program are based on our experiences as the auditor of public sector financial reports of not-for-profit and for-profit entities. We have suggested these projects on the basis that they either require clarification in terms of existing requirements and application guidance and/or to fill a void in existing pronouncements.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A. T. Whitfield', written in a cursive style.

A T Whitfield PSM
Chairman
ACAG Financial Reporting and Auditing Committee

Attachment

Specific Matters for Comment

1. What topics, including external reporting topics, do you think should be added to the AASB work program (research and standard-setting)? Please outline the reasons why you think the project(s) should be addressed by the AASB.

a) Projects for the AASB standard-setting work program

Topic	Reasons for inclusion
AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	<p>Current interpretation and application issues include:</p> <ul style="list-style-type: none"> • whether immaterial prior year errors can be adjusted retrospectively? • whether a third balance sheet should be prepared for the retrospective correction of prior period errors that are not quantitatively material? AASB 101.40A(b) requires a third balance sheet for material retrospective misstatements. However, preparers may currently both make a retrospective restatement, and refuse to make suitable disclosures on the basis that it is not quantitatively material. Should retrospective restatements be considered to be qualitatively material? • difficulties in distinguishing between an error and change in accounting policy and between a change in a change in accounting policy and a change in estimate • current trends of ‘un-zipping’ prior periods. The standard requires material prior period errors to be adjusted retrospectively, but is silent on the treatment of immaterial errors. In the absence of explicit guidance, entities are posting immaterial errors retrospectively. As the standard does not deal with immaterial errors, auditors have no basis to consider the practice unacceptable
AASB 101 <i>Presentation of Financial Statements – Going Concern Assumption</i>	<p>Currently, the existing requirements of AASB 101, para 25 & 26, do not cater for the public sector context where material uncertainties relating to the going concern assumption are different from the private sector. There are unique public sector factors that can influence the existence of a material uncertainty, including the entity’s government funding model, changes in the enabling legislation, and machinery of government changes. The standard could prescribe the factors a public sector reporting entity should consider when assessing if there is a material uncertainty.</p>
Grant expense/liability	<p>While the AASB is working on the accounting by the grantee (income), there is currently a lack of guidance from the grantor’s perspective as to when to recognise an expense.</p>

b) Projects for the AASB research centre work program

Topic	Reasons for inclusion
Post Implementation Review of AASB 13 <i>Fair Value Measurement</i>	<p>ACAG believes it is timely for a post-implementation review of AASB 13 and its application to the valuation of public sector assets. Since its implementation, the requirements of AASB 13 have been particularly difficult to apply to public sector assets mainly because of their nature and attributes which are not market or profit driven. ACAG has identified the following areas of concern:</p> <ul style="list-style-type: none"> • which valuation approach to use for a public sector asset where there are few or no market participants and where information about the inputs to a current replacement cost model may be scarce • the practical issues of creating a hypothetical market transaction in a hypothetical market • there is a lack of guidance on current replacement cost which has led to extreme variations in the valuation industry (e.g. the use of greenfield vs brownfield rates) • clarification on whether the income approach method should be used if the income is derived in a rate regulated market, e.g. water and electricity services • inconsistency of the interpretation and disclosure of significant unobservable inputs

Topic	Reasons for inclusion
	<ul style="list-style-type: none"> • lack of specific requirements for determining obsolescence in a public sector asset, including issues of overdesign or overcapacity and the availability of newer/cheaper technology • relationships between current replacement cost (CRC), useful lives and remaining service potential • clarification required on the links between depreciation and valuation and non-proportionate changes in accumulated depreciation • confusion between entity perspective v. market perspective when using the cost approach. The DRC method commonly used by valuers generally adopts an entity's perspective, i.e. "the market participant buyer steps into the shoes of the entity" (IFRS 13.BC78). On the other hand, there are instances when a valuer has adopted a market participant's perspective when determining the remaining service potential e.g. use market participant's estimate of remaining economic life rather than the entity's estimate of remaining useful life • need for a deprivation test in the current replacement cost approach (similar to that in the definition of value-in-use for NFP entities in AASB 136 – removed in ED 269) • whether to use a "gross" valuation or "net" valuation presentation approach in disclosures • clarification on what constitutes a unit of account and the contradiction of allowing assets to be separated into smaller units even when the highest and best use is in combination with other assets. • clarification on accounting for revaluation adjustments in a for-profit entity – is it necessary to allocate to all individual assets, or is it acceptable to allocate to certain classes only?
Measurement of Heritage assets	The AASB could leverage off the International Public Sector Accounting Standards Board's (IPSASB's) work planned for 2016 to research the measurement of heritage assets in the public sector. ACAG's view is that the existing requirements are not sufficient to address the valuation of heritage assets.
Post Implementation Review of AASB 1049 <i>Whole of Government and General Government Sector Financial Reporting</i>	In light of the recent amendments to the System of National Accounts and the Government Finance Statistics manual, ACAG believes it is timely for a post-implementation review of AASB 1049 <i>Whole of Government and General Government Sector Financial Reporting</i> . In addition, ACAG suggests that the AASB reconsider the requirement to have all property, plant and equipment measured at fair value.
Public sector combinations	The AASB could leverage off the work being undertaken by the IPSASB as existing Australian pronouncements do not adequately prescribe the accounting treatment of public sector combinations, and in particular, the requirements for machinery of government changes.
Post Implementation Review of AASB 1055 <i>Budgetary Reporting</i>	<p>We recommend the AASB undertake a post-implementation review of AASB 1055. Given other mechanisms such as final budget outcomes are the primary source of information about how agencies have performed against budgets, the value of the information in financial reports needs to be analysed against the costs of preparing and auditing recast budgets and explanations of major variances.</p> <p>We note there has been varied application of requirements. For example, in one jurisdiction budget information for the statements of financial position and cash flows, including explanation of major variances from budget, has not been required on the basis that the budget information included in those statements is not prepared on the same basis as accounting standards. Accordingly, it was determined that the related budget information and variance analysis was unlikely to result in useful information for users.</p> <p>Other interpretation and application issues include the:</p> <ul style="list-style-type: none"> • definition of "major variances" • quality of explanations for "major variances".

Topic	Reasons for inclusion
Framework for Government budgets and forward estimates	<p>The AASB could look at a project, which is outside the conventional historical financial reporting, that researches the different accounting frameworks used by governments to prepare and report budget information and forward estimates. The government's budgets, forward estimates and final budget outcomes attract more interest from users and stakeholders than historical annual financial reports. In applying AASB 1055 <i>Budgetary Reporting</i>, it is clear that there are varying approaches in how these budgets and estimates are prepared.</p> <p>The AASB could develop a framework that includes:</p> <ul style="list-style-type: none"> • references to the qualitative characteristics of key assumptions and bases for prospective financial information • measurement and recognition requirements of the accounting standards • budgets to be prepared using the accounting policies required to account for financial results so that the actual results are directly comparable to budget estimates • linkage of the reporting budget information and actual outcomes with reporting of service performance information.
Government departments & AASB 1050 <i>Administered Items</i>	<p>The AASB has carried forward differentiation in accounting treatment of government departments from AAS 29 <i>Financial Reporting by Government Departments</i>. Government departments are defined with reference to being created pursuant to administrative arrangements or otherwise being designated as a government department. It is not clear what the conceptual basis is for the differential treatment of government departments is. For example, is the basis of differentiation that departments are core appropriation process? Contemporary government structures may not reflect this.</p> <p>Some of the differentiation for government departments may not be achieving outcomes intended. For example, in some jurisdictions, volunteer fire fighting entities are not government departments, which bring in to question the differentiation for mandatory recognition of volunteer services on the basis of whether or not an entity is a department.</p> <p>We particularly consider that review of the scope of AASB 1050 <i>Administered Items</i> is necessary. There are public sector entities, other than government departments, that manage administered items on behalf of government which are not required to disclose these transactions and balances in their financial reports. In reviewing the scope of this standard, further guidance on identifying administered items would be beneficial.</p>
Australian Reporting Framework	<p>The AASB could expand the scope of this project, beyond an examination of which entities should be in which tier, to consider whether the benefits could be achieved by other methods e.g. guidance on applying materiality and decluttering financial statements.</p>
Post Implementation Review of AASB 124 <i>Related Party Disclosures</i>	<p>ACAG suggests that a post-implementation review of the AASB 124 Related party Disclosures and its application to the not-for-profit public sector financial reports would be beneficial. A review within a year or two of the implementation of AASB 124 would identify whether the objectives of the standard have been met, measuring the costs and benefits of compliance, and whether any changes or additional guidance is required. Through this early phase of preparing for the implementation of AASB 124, some examples that may require additional guidance include:</p> <ul style="list-style-type: none"> • it is not clear what constitutes a transaction (with a related party) that would potentially need to be disclosed. For example, in a local government context, does rezoning land owned by a Councillor constitute a related party transaction (RPT)? Also, would this be a material RPT that should be disclosed? • The definition of related party transactions includes the statement, “regardless of whether a price is charged”. Guidance on transactions within the public sector where there is no price charged would be beneficial. While it is clear in some instances that a related party transaction occurred (for example free electricity supply or forgiveness of debt), there are other circumstances (like changes of laws or zoning which provide a benefit to a KMP) that are more difficult to determine if they are a related party transaction.

2. What priority should be ascribed to the project(s)? Please outline the reasons why you think the project(s) should be prioritised in this manner by the AASB.

a) Projects for the AASB standard-setting work program

Topic	Priority assigned	Reasons
AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	High	The uncertainty and lack of clarity of the accounting requirements is creating confusion amongst preparers and auditors which is leading to a decline in the quality of financial reporting and increased costs.
AASB 101 <i>Presentation of Financial Statements – Going Concern Assumption</i>	Medium	ACAG are only requesting guidance be provided for management's going concern assessment for not-for-profit public sector entities, particularly as public sector entities often cease, but with their functions continuing elsewhere.
Grant expense/liability	High	There are tens of \$billions of grants issued by Australian Governments every year, without any direction or clear guidance from Australian Accounting Standards as to the recognition of the expense.

b) Projects for the AASB research centre work program

Topic	Priority assigned	Reasons for assignment
Post Implementation Review of AASB 13 <i>Fair Value Measurement</i>	High	The uncertainty and lack of clarity of the accounting requirements, such as measurement of public sector assets and the application of the fair value hierarchy, is creating confusion amongst preparers and auditors which is leading to a decline in the quality of financial reporting and increased costs.
Heritage assets	Medium	The lack of prescriptive materials in existing pronouncements is creating inconsistent practices and reduces the comparability of financial reports.
Post Implementation Review of AASB 1049 <i>Whole of Government and General Government Sector Financial Reporting</i>	Medium	Recent amendments to the System of National Accounts and the Government Finance Statistics manual warrant a post-implementation review of the AASB 1049.
Public sector combinations	Medium	The lack of prescriptive materials in existing pronouncements is creating inconsistent practices and reduces the comparability of financial reports.
Post Implementation Review of AASB 1055 <i>Budgetary Reporting</i>	High	ACAG believes that further clarification and guidance will improve the consistency and comparability of financial reporting and improve the information provided to the users of government financial reports.
Framework for Government budgets and forward estimates	Medium	The lack of prescriptive materials in existing pronouncements is creating inconsistent practices and reduces the comparability of Government budget documents and historical financial reports that contain budget information.

Topic	Priority assigned	Reasons for assignment
Government departments & AASB 1050 <i>Administered Items</i>	Medium	It is likely that clarification of the conceptual basis would assist in more relevant information in financial reports.
Australian Reporting Framework	Medium	Before the AASB invests further effort in fine-tuning tiered reporting, ACAG suggests the Board consider whether tiered reporting is the right solution.
Post Implementation Review of AASB 124 <i>Related Party Disclosures</i>	High	The uncertainty and lack of clarity of the accounting requirements is creating confusion amongst preparers and auditors which may lead to a decline in the quality of financial reporting and increased costs upon implementation.

3. Are there any topics on the current AASB work program that you think should be removed from the work program? Please outline the reasons why you think the project(s) should be removed.

ACAG supports the AASB's current work program of standards-level projects and research projects as they are critical areas of attention for public sector financial reporting.

ACAG does not recommend the removal of any projects from the current AASB work program as the current projects are adequate and cater for a range of constituents such as for-profits, not-for-profits and public sector agencies.



11 March 2016

Kris Peach
Chair
Australian Accounting Standards Board
Podium Level, Level 14, 530 Collins Street
Melbourne, VIC 3000
Australia

CPA Australia Ltd
ABN 64 008 392 452
Level 20, 28 Freshwater Place
Southbank VIC 3006
Australia
GPO Box 2820
Melbourne VIC 3001
Australia
Phone 1300 737 373
Outside Aust +613 9606 9677
Website cpaaustralia.com.au

Online submission: www.aasb.gov.au

Dear Kris

Invitation to Comment - AASB Agenda Consultation 2017-2019

CPA Australia welcomes the opportunity to respond to the above Consultation. CPA Australia represents the diverse interests of more than 155,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the five strategic directions the AASB is currently focussed on, as part of its 2015-2019 strategy. In our view the AASB should undertake research to identify the information needs of users of financial reports, currently prepared applying Australian Accounting Standards (AAS). The progression of some current projects, including the Australian financial reporting framework project, and the addition of future projects to the AASB work agenda will be better informed by obtaining empirical evidence that identifies the range of information needs of Australian users across multiple sectors. With this in mind, we have provided our specific responses to questions below.

1. What topics, including external reporting topics, do you think should be added to the AASB work program (research and standard-setting)? Please outline the reasons why you think the project(s) should be addressed by the AASB.

As stated above, we believe the AASB should undertake research to gather empirical evidence that identifies the information needs of Australian users that will inform the future direction of current and new AASB projects. In this context, we support the AASB's efforts in seeking to identify projects for external reporting that fall outside conventional financial reporting but we urge that they are based on the identification of users and their needs.

We also support the AASB liaising with other policy makers on other disclosures beyond the scope of AAS based financial reporting. This is critical to ensure that the objectives of different disclosure regimes are consistently developed to meet their intended objectives.

2. What priority should be ascribed to the project(s)? Please outline the reasons why you think the project(s) should be prioritised in this manner by the AASB.

Research projects

Highest priority should be given to the Australian financial reporting framework project as it is likely to have an impact on a range of entities that includes large and small corporates, private and public sector not-for-profit entities. The project's direction should be informed by empirical evidence on the identification of users and user information needs identified within the different sectors.

The role of tiers of reporting, including a possible third tier of reporting for smaller entities, particularly those in the not-for-profit sector, should be explored as part of this project. We also suggest the AASB explores the possibility of simplifying financial reporting recognition and measurement requirements for small to medium entities (SMEs) in the for-profit and not-for-profit sectors. We believe this consideration is necessary, particularly as complex new requirements for revenue recognition and leases come into effect in the near future.

Standard-setting projects

Highest priority should be given to the project on Income of not-for-profit entities. As AASB 15 *Revenue from Contracts with Customers* comes into effect for periods beginning on or after 1 January 2018, we consider the timely conclusion of this project and issuance of the final standard essential.

3. Are there any topics on the current AASB work program that you think should be removed from the work program? Please outline the reasons why you think the project(s) should be removed.

We do not think any of the topics should be removed from the current AASB work program.

If you require further information on any of our views expressed in this submission, please contact Ram Subramanian, CPA Australia by email at ram.subramanian@cpaaustralia.com.au.

Yours sincerely



Dr Eva Tsahuridu
Manager – Accounting Policy

20 June 2016

Ms K Peach
The Chairperson
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007

Dear Kris

Re: ITC 34 AASB Agenda Consultation 2017-2019

1. Thank you for the opportunity to provide input on the AASB 2017-2019 agenda. I apologise for the lateness of this submission and trust that it will receive consideration by the AASB.

Time for fundamental change

2. It is time to address several fundamental shortcomings in Australian standard-setting and regulatory framework which have been neglected for far too long. The AASB should take a more direct role as *pre-eminent standard-setter* for reporting financial and non-financial information in Australia. With a properly co-ordinated approach, there should be little need for other parties such as Australian Securities and Investments Commission to set accounting rules or make exceptions to those set by the AASB.

3. There are many areas of reporting where the AASB should extend its remit, such SMSF, non-financial performance measurements, and forward looking information. The AASB should work with current 'rule-owners' to ensure a co-ordinated to quality reporting.

4. The AASB should devote less far resources to international projects where Australia is perceived to have very little influence and focus on domestic issues. As part of this re-direction of resources, we also see little benefit AASB's research activities.

5. We support the current projects underway and, in particular, the work on the Australian reporting framework and the post-implementation review of the adoption of IFRS.

Key considerations

6. In addition to our themes in paragraphs 2-5 above, a summary the key points we would like to the AASB to consider in its deliberations on the development of its 2017-2019 work programme are:

1. **Australian reporting framework:** While we support the current work being undertaken in relation to the requirements to lodge general purpose financial statements, we would like to see a more exhaustive consideration of the factors requiring the preparation of general purpose financial reports, including addressing the issue of public interest and transparency. We would also like the AASB to specifically address the reporting needs of SME lodgers with ASIC.
2. **Foreign entity preparers:** We believe a review of the foreign entities requirements to prepare and lodge general purpose financial reports is required to address both public interest and transparency concerns.
3. **ASIC financial reporting class orders** (and like guidance): These should be reviewed and where appropriate include as "Aus" paragraphs in AASB standards.

4. **Financial reporting for Self-Managed Superannuation Funds (SMSFs):** The AASB should address the financial reporting requirements of SMSFs as we are of the opinion that given the structure of the administrative arrangements of the SMSFs industry SMSFs users are dependent users.
 5. **Reported performance measures:** We are of the view that there is a divergence in practice in the use of crucial performance measures such as net interest margin and comparable store sales. As such, the AASB should consider providing guidance on the use of such measures.
 6. **IFRS Post-implementation review:** We support the needs to undertake a post-implementation review of IFRS. We are particularly concerned with anecdotal increase of the use of alternative performance measures since the introduction of IFRS. We believe the scope of the IFRS post-implementation review of IFRS should consider whether “vanilla” IFRS is meeting the requirements of Australian users.
 7. **Public accountability For Not-For-Profits:** We believe the AASB 1053 *Application of Tiers of Australian Accounting Standards* definition of public accountability should be addressed for the not-for-profit sector.
 8. **Alternative reporting measures and forward looking statements:** We strongly support the AASB in issue of the Reporting Service Information exposure draft, and would encourage the AASB to undertake further work in the area of Integrated Reporting and the reporting of forward looking statements.
 9. **Management commentary:** We believe financial statements on their own do not provide a complete picture of the financial performance of an entity. This can only be achieved by the inclusion of appropriate management discussion and analysis (MDA). We recommend the AASB develop a standard on MDA based on the IFRS Practice Statement and ASIC RG 247.
 10. **Profit announcements:** We are of the opinion the primary information provided to investors is no longer the Annual Report but rather the profit announcements (preliminary final reports) provided to markets. The existing guidance in this area should be enhanced and the AASB should work with market regulators to provide consistency of measurement and content.
- 7.** Finally, we express disappointment in the time required to develop and issue new standards. In particular, the time from development to issue of standards on Service Concessions Arrangements: Grantor and Income for Not-for-Profits appears inordinately lengthy. We suggest the AASB review resources and project management practices to expedite the development and issue of new and revised standards.

Detailed comments on these matters are attached.

If you would like to discuss our comments, please contact me or Mr Stephen La Greca (stephenlagreca@aol.com).

Yours sincerely



Colin Parker

Appendix

1. Australian reporting framework

Introduction

1. GAAP Consulting supports the work being undertaken to determine which entities are required to prepare general purpose financial reports, as well as post-implementation review of RDR.

Reduced Disclosure Regime (RDR)

2. In relation to RDR, we are not a supporter; it is checklist approach and lazy way out for preparers and auditors. They should be using materiality to reduce financial reporting disclosures. The AASB should abandon the RDR reporting framework.

Differential Reporting

3. We are of the view that the issue of differential reporting needs to be addressed more robustly. The application of the reporting entity concept and special purpose financial reports has been an unmitigated failure, primarily due to preparer, audit and regulatory failure to apply the principles of the reporting entity and requirements of AASB 101 *Presentation of Financial Statements*.

4. We believe that *IFRS for SMEs* has a role to play in a revised framework, particularly in the area of special purpose reporting. While we have some reservations as the current utility of the existing iteration of IFRS for SMEs, we believe the AASB should work with the IASB in the development a more “user friendly” version.

5. The AASB should consider a project on the concept of special purpose financial statements and, in particular, the circumstances in which they are appropriate and whether any minimum requirements should be set. The AASB should work with the accounting bodies in this regard.

Size test

6. We are concerned that unless a revised size test for lodgement with ASIC is set at such a high level so that it captures only the extremely large preparers then an unnecessary burden is placed on many SME preparers and users.

Lodgement

7. The AASB should continue, in conjunction ASIC and Treasury, to work on the application of a public interest test in determining which entities are required to lodge “full” general purpose financial statements. We are of the view that those who lodge have public accountability and should prepare full general purpose financial statements.

8. As an interim measure, the AASB should make it clear that special purpose financial statements prepared for Corporations Act purposes need to apply accrual accounting. AASB 101.27-28 requires accrual accounting to be determined in accordance with the Conceptual Framework. Therefore, special purpose financial statements for Corporations Act purposes require the measurement requirements of AASBs, including AASB 10 *Consolidated Financial Statements*, to be applied.

9. We are concerned that entities that have been granted licences (e.g. gaming, transport concessions etc.) from state, local or commonwealth governments or awarded government contracts should, in the

interest of transparency, be required to lodge full reporting entity financial statements that are publicly accessible.

10. We consider the requirement to lodge general purpose financial statements in such circumstances provides transparency and public scrutiny of the financial outcomes of such transactions, particularly when the decisions to grant contracts and licences are not always afforded public disclosure.

Australian specific guidance

11. In conjunction with the introduction of public interest test, AASB 1054 *Australian Additional Requirements* should include requirements to disclose the amounts and nature all non-tax payments made to and received by governments, including political donations.

12. The AASB should not shy away from requiring specific Australian disclosures nor addressing specific recognition and measurement issues, including the issue of interpretations. We are concerned that the primacy of IFRS compliance overrides the interest of Australian investors and other users.

13. While we support consistency with IFRS measurement and recognition requirements, we do not believe additional Australian disclosure or application/implementation guidance would necessarily impinge upon the ability for Australian preparers' ability to include statements of compliance with IFRS in their financial statements.

14. We note ASIC on half year basis issues "areas of focus" and while these releases provide insight on troublesome areas of IFRS application and interpretation, they provide little in the way of transparency as to the determinations ASIC has made in requiring restatement by individual preparers. As such, the "learnings" from such ASIC regulatory responses are unavailable to the general population of preparers and auditors. We believe that ASIC, in conjunction with the AASB, should issue the results of the application of ASIC interpretative determinations as guidance, either in the nature of "accounting bulletins" or, alternatively, as an interpretative accounting standard such as AASB 1057 *Application of Australian Accounting Standards*.

2. Foreign entity preparers

15. We are concerned that foreign owned entities, when they are required to prepare financial statements often prepare special purpose financial statements regardless of the scale of their Australian operations. We believe in light of current concerns in relation to Tax Base Erosion and Profit Shifting (BEPS) and foreign owned entities may hold government licences or contracts there is a public interest transparency requirement supporting the preparation and lodgement of general purpose financial statements by such entities.

16. As interim measure, we believe the AASB should reintroduce the pre-IFRS AASB 1025 *Application of the Reporting Entity* concept that deemed a foreign company that was not a subsidiary of an Australian holding company and was a subsidiary of listed overseas foreign entity as a reporting entity. We believe consideration should be given to extending this definition to all subsidiaries of foreign entities not just listed foreign entities.

17. We do not believe the current exemptions in the Corporations Act and those granted under ASIC class orders to foreign own entities are in the public interest. We believe the AASB should liaise with ASIC and Treasury in this regard to remove such exemptions.

3. ASIC accounting class orders (and like guidance)

18. We consider that ASIC, in conjunction with the AASB, should undertake a review of all current ASIC accounting-related class orders with a view to understanding the basis for their issue. We prefer

including ‘Aus’ guidance in the applicable accounting standard to address such issues. We do not believe ASIC should be a defacto standard-setter for corporates.

4. Financial reporting for Self-Managed Superannuation Funds

- 19.** We are concerned that the withdrawal of AAS 25 *Financial Reporting by Superannuation Plans* will leave a vacuum for self-managed superannuation funds (SMSFs). AASB 1056 *Superannuation Entities* has been geared to meet the requirements of public sector and APRA regulated funds.
- 20.** Currently, all three major providers of superannuation reporting packages to SMSFs (Class, SuperMate and BGL) use AASB 25 for their financial reporting template.
- 21.** We believe that most members of SMSFs are dependent users the entities that provide administration services to SMSFs provide a “turn-key” service and there is limited or no ability for the users of such services to demand any reporting other than provided by the administrators’ product offering.
- 22.** The large administration providers handle thousands of SMSFs; the AMP alone has over 10,000 SMFS under administration. SMSFs represent a significant proportion of the superannuation system with 566,735 SMFS out of 569,291 funds in total holding \$594B assets out of a total \$2.04T (29%).
- 23.** We are of view that SMSFs members, due to the administration arrangements, are not in position to demand information other provided by the administrators in accordance with SIS requirements.
- 24.** We, therefore, believe the AASB has responsibility to ensure the financial statements provided to SMSFs members are appropriate. As such, we strongly recommend that the AASB include a project to establish the needs of SMSFs members and produce an appropriate financial reporting standard for SMSFs.

5. Reported performance measures

- 25.** We are concerned that a number of industry specific performance measures are not reported by the industry participants on consistent basis, e.g., Net Interest Margin (NIM) in the banking sector and retail industry metrics such as comparable/same store sales, sales per square metre and gross margins.
- 26.** These industry performance metrics are used as key indicators of trend performance and are often the basis of comparison between industry participants.
- 27.** In relation to NIM, we understand there are differences arising from alternative treatments of trading book securities, the inclusion or not of margins arising from RMBS and conduit entities, and the effect of bank bill rediscounting. Similarly in retail, differences in when old and new stores are dropped and included impact same store and sales per square metre metrics, while gross margins are affected by diverse treatment of slotting and line fees and advertising contributions.
- 28.** As many of these metrics are derived from financial reporting numbers, we are of the view that the AASB, in conjunction with ASIC, need to review key industry performance metric, determine the existence of diversity in practice, and issue appropriate authoritative measurement guidance.

6. IFRS post-implementation review

Use of the IFRS designation

- 29.** IFRS is the global financial reporting language. It is time to remove the AASB designation for profit-seeking entities. It is recognised, inter alia, changes to the Corporations Act will be required.

30. Not-for-profit entities in the public and private sectors would continue to use AASB designation based on IFRS.

Alternative performance measures

31. We are concerned with post-IFRS the incidence of use alternative performance measures (APMs) to report 'profit' from an entity perspective other than profit determined in accordance with accounting standards has risen alarmingly. We are of the opinion that such APMs overshadow statutory profit and users of financial statements are misled.

32. While pre-IFRS there were attempts to "game" profit figures by the use of extraordinary items (while they existed) and abnormal items, the adoption of IFRS has seen an increase in the number of adjustments to IFRS profit resulting in such reporting terms as underlying profit or cash earnings.

33. As part of the post-implementation review of IFRS, we believe the AASB should determine if there is correlation between the perceived increased use of APMs and what aspects of IFRS has resulted in the observed behaviour. It is our view that APMs should not be permitted.

Australian specific guidance

34. The post-implementation review of IFRS needs to consider whether the AASB's current approach of making no supplements to IFRS is in the interests of Australian investors and users and the broader public interest.

35. We believe that if current IFRS requirements do not meet investor or public interest needs the AASB has a responsibility to appropriately supplement IFRS. This responsibility also extends to addressing diversity in implementation that arises in Australia.

36. The post-implementation review should also examine the extent and manner by which other jurisdictions have dealt with amendments to IFRS.

7. Public accountability for Not For Profits

37. AASB 1053 *Application of Tiers of Australian Accounting Standards* in Appendices A and B deals with public accountability in relation to the NFP private sector. However, the AASB has not addressed the issue public accountability in relation to the NFP sector. The AASB should.

38. We believe consideration on the inclusion of definition of public accountability for NFPs needs to be addressed by the AASB as matter of urgency. In considering, the definition the application of the public accountability concept to NFPs the AASB should include:

- The receipt of funds, assets and grants from government (Commonwealth, State or Local), and
- The receipt of donations or bequests from the public.

39. In such circumstances, many NFPs should prepare general purpose financial statements.

8. Alternative reporting and forward looking statements

40. We strongly support the AASB in the issue of the Reporting Service Information for NFPs exposure draft and consider that the AASB should be expanding its responsibility beyond historical financial information.

- 41.** We believe the AASB should include in its projects:
- *Integrated reporting* – the AASB should monitor the development of integrated reporting with a view of the application of the principles to for-profit and NFP sectors
 - *Management Discussion and Analysis (MDA)* – see 9 below, and
 - *Forward looking statements* – the AASB should consider the development of standards covering forward looking statements by both the for-profit and NFP sectors including:
 - Pro-forma information included public offer documents including the application of AASB measurement standards to forward looking information
 - Preparation of forecast information for the inclusion in public offer documents including the basis of measurement and the extent AASB recognition and measurement requirements are to apply, and
 - Budget and Forward expenditure estimates prepared by governments including Commonwealth and State Budgets. It is arguable particularly at the whole of government level that Budgets receive more interest than historical financial results (other than the overall deficit/surplus), as such the basis for their preparation should be subject to an independently determined criteria.

9. Management commentary

42. We are of the opinion that financial statements without adequate Management Discussion and Analysis (MDA) does not provide sufficient information to assess the financial performance of an entity.

43. We believe the AASB should include a project to upgrade the existing IASB Management Commentary Practice Statement to enable it to form the basis of an MDA standard. The ASIC regulatory guide RG 247 *Effective Disclosure in an operating and financial review* could also be an input along with other existing guidance available. In due course, we envisage this regulatory guide would be unnecessary.

10. Profit Announcements

44. We believe the Annual Report as the primary source of financial information has been supplanted by the profit announcement (e.g. ASX preliminary final report). The profit announcement often precedes the annual report by as much as two months and has the potential to effect markets in an entity's securities emphatically than a three month old annual report.

45. While there are requirements such as ASX listing rule Chapter 4 *Periodic Reporting* and Appendix 4E *Preliminary final report*, we are the view a more comprehensive approach to reporting in profit announcements is warranted.

46. Such a review should build upon the existing Appendix 4E requirements (including examining the existing requirements for continued relevance or enhancement), address the use of industry performance measures, APMs and the nature and extent of MDA to be included.

Conclusion

47. The AASB should be the lead domestic standard-setter.



4 May 2016

Kris Peach
Chair, Australian Accounting Standards Board
By email: kpeach@asb.gov.au

Dear Kris

AASB Work Program - Regnan Perspectives

Thank you for our recent discussion. This letter reiterates and expands on key points.

Remuneration Guidance

We observe there has been significant innovation in, and enhancement to, remuneration disclosure since the two strikes rule was introduced, but this has all occurred 'voluntarily' and on individual company initiative, rather than in response to any particular framework. Principles based guidance could be useful in driving further improvement if it highlighted good practice and provided a conceptual framework for what constitutes 'good' disclosure. While there are other possible fora or organisations that could undertake this work, none clearly have a mandate for it or active plans to our knowledge. The AASB appears to have relevant skill sets to undertake such work. On the basis that broad consultation with all relevant stakeholders would be central to the approach, we are supportive of the initiative.

Voluntary Tax Transparency Code

Since we met, the federal government confirmed in the 2016 budget that the Voluntary Tax Transparency Code, proposed by the Board of Taxation, will be adopted, with the AASB to have a role in relation to guidance on effective tax rates.

Regnan considers that achieving meaningful and informative tax disclosure is a significant challenge. The Board of Taxation consultation to date appears to have been focused on a small number of potential reporters. Few user voices are evident. We would welcome the AASB reaching out to a broader group as it contributes to the next phase of this work.

Regnan - Governance Research
& Engagement Pty Ltd
ABN 93 125 320 041
AFSL 316351

Level 9, 387 George Street
Sydney NSW 2000
Australia

Phone +61 2 9299 6999
Fax +61 2 9299 6799
www.regnan.com



Intangible Assets

Regnan is concerned at the growing gap between market valuations and net book value recognised in financial accounts – intangible assets are an important component of this difference. Regnan has been active in the development of integrated reporting - via participation in the International Integrated Reporting Council investor network - and in advocating for the uptake of the (now finalised) integrated reporting framework which, in part, seeks to address this gap. In this context, we consider that there may be value in the IASB reactivating its work on intangible assets as a means to contribute to the conversation on how reporting entities should communicate with report users on intangibles – both booked and unbooked.

Other Priorities

Regnan staff are regular users of financial statements in our work, researching environmental, social and corporate governance related sources of risk and value for S&P/ASX200 stocks.

We observe a surprising diversity in financial statement disclosure, even among the large listed stocks that are our focus. We would be pleased to contribute to efforts by the AASB to narrow the diversity of practice toward the better end, especially in the areas of related party transactions, provisions, contingent liabilities and asset impairment.

We note the recent trend among leading companies to adopt simplified financial statements. We would value any efforts the AASB made toward wider adoption of this practice.

I look forward to continuing our dialogue on shared interests.

Sincerely

Alison George
Head of Governance

About Regnan

Regnan – Governance Research & Engagement Pty Ltd was established to investigate and address environmental, social and corporate governance related sources of risk and value for long term shareholders in Australian companies.

Its research is used by institutional investors making investment decisions, and also used in directing the company engagement and advocacy it undertakes on behalf of long term investors with \$82 billion, or ~5.5%, invested in S&P/ASX200 companies (at 31 Dec 2015).

Regnan was launched in 2007 having operated previously as the BT Governance Advisory Service. It is owned by institutional investors: BT Investment Management and Commonwealth Superannuation Corporation (CSC) (formerly ARIA).