



ACT
Government

Chief Minister, Treasury and
Economic Development

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

Dear Ms Peach ^{Kris}

Invitation to Comment (ITC) 33 *Request for Comment on IASB's Request for Views: 2015 Agenda Consultation*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on ITC 33 *Request for Comment on IASB's Request for Views: 2015 Agenda Consultation*. HoTARAC's detailed comments and responses to questions from the request are in the Attachment.

HoTARAC members apply the IFRS suite of standards, modified for not-for-profit application by the AASB, and HoTARAC's comments are provided from this perspective.

HoTARAC's view is that the IASB should take a methodical approach to its work plan. To this end HoTARAC is of the view that the conceptual framework project and disclosure initiative are fundamental to the development of other standards/interpretations and therefore warrant the highest level of priority. Therefore, we urge that those two projects be completed in a timely manner. This would help to minimise future work in applying the outcomes of these projects to the existing framework and to assist the future standard setting actions to align with commonly agreed underlying principles. HoTARAC notes that a number of projects overlap, might it be possible to liberate resources through rationalisation.

HoTARAC supports the extension of the IASB's remit to cover the not-for-profit sector and would further recommend this include the Government sector. However, HoTARAC notes that any extension of the remit would require a more fundamental consideration of the objective of financial reporting.

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

Yours sincerely

David Nicol

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

5 November 2015

Question 1. The IASB’s work plan includes five main areas of technical projects:

- (a) its research programme;
- (b) its Standards-level programme;
- (c) the Conceptual Framework;
- (d) the Disclosure Initiative; and
- (e) maintenance and implementation projects.

What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

HoTARAC indicative suggestions for prioritising resources are:

1. Conceptual framework
2. Disclosure initiative
3. Standards-level program
4. Research program
5. Maintenance and implementation projects

HoTARAC notes that there is a logical order in which projects should be sequenced to maximise the effective use of the IASB’s resources. As the conceptual framework guides the development of pronouncements, this would be an obvious priority over the initiation and finalisation of other projects. Similarly, the disclosure initiative encompasses a number of areas, including materiality and should be a priority for the IASB as this will guide the disclosure requirements in new standards. HoTARAC regards the increasing complexity and length of financial reports as an issue that should be urgently addressed. Accordingly, HoTARAC urges the IASB to progress this project as quickly as possible.

The standards-level program should follow from the conclusion of the conceptual framework and disclosure initiative. HoTARAC notes that this ranking is intended to be indicative, and there are standard level programs that should be prioritised to address an urgent accounting issue. HoTARAC would recommend prioritising finalising the standards on Leases and Insurance. Further resources could be assigned to the research program while these projects are progressed.

Finally, maintenance and implementation would be easier to complete as these are generally minor changes, which will be less likely to touch on conceptual issues.

Question 2. The IASB’s research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33.

Should the IASB:

(a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.

(b) remove from its research programme the projects on foreign currency translation (see paragraphs 39–41) and high inflation (see paragraphs 42–43)? Why or why not?

(c) remove any other projects from its research programme?

(a) HoTARAC recommends the IASB add a project on government grants to align this with ‘performance obligation’ concept underpinning IFRS 15 *Revenues from Contracts with Customers*. Consistent with HoTARAC’s comments on question 7 below, there is also a lack of guidance about how government grants should be accounted for by grantors. Therefore, HoTARAC recommends the IASB initiate a project to address this.

(b) HoTARAC agrees the foreign currency translation and high inflation projects be removed as they have limited relevance, particularly in the current low inflation environment.

(c) HoTARAC notes that a number of projects potentially overlap (such as the primary financial statement and disclosure initiative) and the IASB could consider combining projects to free additional resources.

Question 3. For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/ medium/low) and urgency (high/medium/low). Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

The relative importance HoTARAC assigns to each project follows on from question 1.

Project stage	Project	Relative importance	Urgency	Reason
Assessment Stage	Definition of a Business	Medium	Medium	Conceptual issue that should be considered in conjunction with the Conceptual Framework project
	Discount Rates	High	High	The consistent use of discount rates is critical to the comparability of financial information.
	Goodwill and Impairment	Low	Low	This touches on a number of conceptual issues such as asset definitions and should wait conclusion of the conceptual framework project.
	Income Taxes	Medium	Medium	

Project stage	Project	Relative importance	Urgency	Reason
	Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)	Medium	Low	Touches on conceptual issues.
	Post-employment Benefits (including Pensions)	High	High	Movements in post-employment benefits can significantly impact on financial statements. However, any overlap with the conceptual framework and discount rate projects should also be considered.
	Primary Financial Statements (formerly Performance Reporting)	Medium	Medium	As noted on the IFRS work plan webpage, the interaction with the disclosure initiative needs to be considered.
	Provisions, Contingent Liabilities and Contingent Assets	Medium	Low	Conceptual issues that will need to be addressed following the conceptual framework project.
	Share-based Payment	Low	Low	This should wait until the conclusion of the conceptual framework project.
Development stage	Business Combinations under Common Control	Medium	Medium	There is an apparent gap in application of general principles to this type of combination.
	Disclosure Initiative—Principles of Disclosure	High	High	Completion of this project will underpin disclosures in standards and the application of materiality.
	Dynamic Risk Management	Low	Low	Suggest this be subordinate to conceptual framework project. Depending on the scope of this research project, it also relates to the financial instruments standard.
	Equity Method	Medium	Medium	
	Financial Instruments with Characteristics of Equity	Medium	Medium	This should be addressed or follow from the conceptual framework project.
Inactive	Extractive Activities/Intangible Assets/Research and Development (R&D)	Low	Low	
	Foreign Currency Translation	Low	Low	
	High Inflation	Low	Low	Not an issue in current economic environment.

Question 4. Do you have any comments on the IASB’s current work plan for major projects?

HoTARAC has no additional comments, but notes the difficulties in finalising projects such as leases may indicate fundamental flaws in the application of accounting concepts.

Question 5. Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders’ needs and is that support sufficient (see paragraphs 19–23 and 50–53)?

HoTARAC appreciates the IASB’s commitment to a three year review of implementation, but would recommend the IASB consider whether implementation reviews should be brought forward where there is evidence a new standard has proved difficult to apply in practice. Any issues identified through post-implementation reviews should influence further research or standard-setting activities.

Feedback to HoTARAC’s members suggests that users outside the finance industry have found the newly issued IFRS 9 *Financial Instruments* very technical and difficult to follow. HoTARAC recommends additional implementation support be provided on this standard. HoTARAC notes a Transition Resource Group was established for IFRS 15 *Revenue from Contracts with Customers*, a far less technically demanding standard.

Question 6. Does the IASB’s work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?

HoTARAC suggests the work plan be considered holistically. This would maximise the possibility of synergies between projects and minimise the duplication of effort. For example, HoTARAC notes that the projects on the definition of a business, business combinations under common control and goodwill and impairment all address the issue of entity combinations. Similarly, there is overlap between the discount rate and post-employment benefits projects. HoTARAC recommends the IASB consider including the rationale for a project, its priority and relationships to other projects in its work plan.

HoTARAC would also encourage the IASB to consider the complexity and breadth of the project in setting comment periods. For example, the comment period for the recent exposure draft on the conceptual framework was considered by some constituents to be too short.

Question 7. Do you have any other comments on the IASB’s work plan?

HoTARAC notes the first question of Appendix B on the IASB considering extending its remit, particularly to encompass entities in the private not-for-profit sector. HoTARAC supports the extension of the remit to the not-for-profit sector and would further recommend this include the Government sector. The Government sector is far larger proportion of the economy, typically accounting for over a third of GDP in most advanced economies.¹ The experience of the Australian domestic standard-setter, the Australian Accounting Standards Board (AASB), suggests that relatively minor changes to the IFRS suite of standards can accommodate both the private and public not-for-profit sectors, particularly for recognition and measurement. Consideration of public sector issues would also facilitate further cooperation and pooling of resources with the International Public Sector Accounting Standards Board (following from the MoU of December 2014) and the possibility of leveraging off AASB’s work in this regard.

Decisions over which projects to undertake, prioritise and determine importance will, to a large extent, be determined by the objective of financial reporting. The current narrow focus on short-term investors would suggest that priority should be given to those projects that provide these investors with relevant information in their buy, hold or sell decisions. Conversely, an extension of the IASB’s mandate would necessitate a broader view of financial accounting. HoTARAC notes that any extension of the IASB’s remit would require a more fundamental consideration of the objective of financial reporting. As the discussion paper only considers the period of 2016-2020, HoTARAC has provided comments on the basis that there will be no fundamental change in the objective of financial reporting or extension of the IASB’s remit.

Finally, the IASB could consider circumstances in which the resources of other standard-setters could be used to progress projects. For example, HoTARAC notes that the IASB has a project on Pollutant Pricing, a topic on which the AASB has produced non-authoritative accounting guidance².

Question 8. Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not? If not, what interval do you suggest? Why?

HoTARAC prefers the three year interval between IASB’s Agenda Consultations. Agenda Consultations not only benefit the IASB in shaping its strategic direction, but also provide relevant bodies, including other international and national standard setters and users of IFRSs, with an insight of how IASB prioritises its work, helping shape their own work and giving confidence that the issues identified in the implementation of IFRSs will be dealt with in a timely manner. The triennial consultation also ensures that the allocation of IASB resources to projects is responsive to user’s needs and provides flexibility in aligning the work plan with possible changes in the economic environment and financial reporting objectives such as the inclusion of the not-for-profit sector. During the intervals between Agenda Consultations, the IASB should retain the flexibility to accommodate emerging issues and/or requests through its standard-setting programmes.

¹ <http://www.heritage.org/index/explore?view=by-variables>

² <http://www.aasb.gov.au/Research-Centre/AASB-Staff-Papers.aspx>