



**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

## **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



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Attachment A

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

Dear Ms ~~Peach~~ <sup>Kris</sup>,

### 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

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.

