



Treasury

Contact: Peter Gibson
Telephone: (02) 6215-3551
Email:
peter.gibson@finance.gov.au

Dr Keith Kendall
Chair, Australian Accounting Standards Board (AASB)
PO Box 204
Collins Street West
VIC 8007

Dear Dr Kendall

ITC 44 - Request for Comment on the IASB Request for Information on Third Agenda Consultation

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to the AASB's Invitation to Comment on the IASB Agenda Consultation.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories and the Australian Government.

HoTARAC's views are contained in the attachment, and reflect not only public-sector circumstances, but broader financial reporting applications. We note that the issues reflected in this submission represent international issues, and differ from Australian-specific issues subject to the AASB Agenda Consultation.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stewart Walters'.

Stewart Walters
CHAIR
Heads of Treasuries' Accounting and Reporting Advisory Committee
August 2021

Questions from Invitation to Comment: Request for Comment on the IASB Request for Information on Third Agenda Consultation

Question 1—Strategic direction and balance of the (IAS) Board’s activities:

a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.

(b) Should the Board undertake any other activities within the current scope of its work?

HoTARAC’s view is that there will be a natural tendency to a decreased focus on new standards, and potentially more on maintaining existing standards, including post-implementation reviews. This reflects the completion of a number of major projects. The IASB should be discriminating in the projects that it takes onto its agenda, including through this agenda consultation. It can do this by rigorously applying the criteria (see Question 2) and only select projects that clearly satisfy most of these criteria.

There should be an overall increased focus on digital reporting, given its potential benefit for users, preparers and regulators. However, HoTARAC notes that digital reporting comprises more than just maintenance of the IFRS Taxonomy, and the IASB should consider alternative methods of delivering the IFRS Taxonomy that would reduce the IASB resource commitment.

Understandability and accessibility of accounting standards should be increased. Recent academic research, and HoTARAC’s own experience as a preparer, has demonstrated that accounting standards are difficult to understand, even after allowing for the complex nature of the subject matter.

Ongoing engagement with a broad range of stakeholders remains important, particularly early in a project. Our observation is that current engagement focuses on existing and potential equity investors in large, publicly-listed corporations, whereas International Accounting Standards are relevant to a wider group of users and preparers. Accordingly, the range of stakeholders that are consulted should be expanded. HoTARAC agrees that surveys are an efficient and effective method of collecting input.

The IASB should also continue to promote *IFRS for SMEs* internationally.

HoTARAC notes the intent of the Trustees of the IFRS Foundation with respect to sustainability standards. While not a specific matter for IASB agenda consultation, HoTARAC’s view is that sustainability standard-setting should be responsible for its own resourcing, and resources should not be diverted from accounting standard-setting to sustainability standard-setting.

Question 2—Criteria for assessing the priority of financial reporting issues that could be added to the (IAS) Board’s work plan

HoTARAC’s view is that cost/benefit should be formally added to the criteria. In the Request for Information the IASB identifies that it evaluates projects by assessing whether the project will meet investors’ needs, while taking into account the costs of producing the information. However this statement is not reflected in the seven criteria, and risks being overlooked.

Further, HoTARAC’s view is that the criteria should be formally focused on more than investors, to include all the primary users articulated in the Conceptual Framework.

Question 3— (IASB) Project Priorities

HoTARAC's view is that the following frequently-suggested projects are in the high priority category for the IASB. We accept that it may not be possible to undertake all high-priority projects.

HoTARAC has not provided information about medium and low priority projects, but we would be pleased to provide such information if required.

- a) Borrowing costs – funding from general borrowings. HoTARAC members do not often capitalise borrowing costs, given an Australian-specific amendment. However, prior to this amendment, members did have to capitalise costs from general borrowings, and experienced complexity when there were many series of general borrowings.
 - b) Borrowing costs – capitalisation reduces comparability. The issues raised in the Request for Information adequately summarise most issues. There is an additional issue about the relationship between borrowing costs and use of the revaluation model for property, plant and equipment that should be considered if this project is added to the agenda.
 - c) Climate-related Risks – estimates of the long-term future. HoTARAC agrees that long-term estimates are important in assessing climate-related risks, but suggests the project be broadened to include all long-term estimates with high levels of uncertainty. HoTARAC's experience is that the long-term nature of many public-sector assets and liabilities make measurement with reliability difficult e.g. leases, financial instruments.
 - d) Going concern – both disclosures and the basis of preparation where the going concern assumption is inappropriate. This has been an issue for independent public-sector entities for some time. The issues are adequately reflected in the Request for Information. HoTARAC emphasises that this is a long-term issue not limited to the COVID-19 situation.
 - e) Intangible assets – internally generated intangible assets are representing an increasing proportion of business value in the information economy.
 - f) Negative interest rates - these remain present in many economies. In HoTARAC's view the IFRIC agenda decision only partially addresses the issue.
 - g) Inconsistent application of “other comprehensive income” – it is difficult to explain to some users why some items form part of other comprehensive income, and other items of a similar nature do not. Recycling forms a part of this issue. HoTARAC notes that inconsistency is facilitated by a lack of precision in the Conceptual Framework.
 - h) Application of Expected Credit Losses (ECL) model to intra-group transactions should at least be reviewed – HoTARAC has observed that many entities appear to have determined an approach in the absence of guidance or standards, but we are unclear whether inconsistency in practice has resulted. In HoTARAC's view this issue could be justifiably extended to include ECL on instruments where there is a change in credit risk, but the instruments still remain within the risk-free range. E.g. select government securities.
 - i) Statement of cash flows – categorisation of items as operating, investing and financing. HoTARAC is not convinced that the proposed reclassification of some cash payments as investing or financing is reflective of the way such payments are managed, even by entities that are not financial institutions.
 - j) Aligning the definition of “cost” in IFRS standards – theoretically, different definitions of costs make financial statements less comparable and mix the measurement bases more than necessary. Practically, preparers need to understand and apply different definitions with different criteria to different financial statement elements, which increases costs of preparation.
-

HoTARAC has several other observations about project priorities.

- a) HoTARAC is of the view that two other narrow scope projects could be added to the agenda either for the IASB or the Interpretations Committee.
 - Primary financial statements – remove the requirement for a primary statement of changes in equity where it is redundant e.g. where there is only a single class of equity holders and all changes in equity are either reflected in the statement of comprehensive income or the statement of financial position, or could adequately be described by narrative disclosure; and
 - Accounting for “termination for convenience” clauses. Such clauses frequently appear in contracts and typically allow either party to terminate the contract at any time without reason and without penalty (other than to compensate the other party for some of the contract costs already incurred to the date of termination). HoTARAC notes that there appears to be diversity in views about whether such clauses are considered substantive performance obligations or not, hence affecting revenue recognition under IFRS 15, and whether such clauses have consequences under IFRS 9.
 - b) HoTARAC is of the view that the current project on the work plan “Provisions – Targeted Improvements” should be discontinued unless it can be refocussed to ensure that there is not inappropriate liability recognition. Previous attempts to change the standard have not progressed, and changes to the liability definition in the Conceptual Framework make it difficult to conclude that new attempts at change will result in more relevant financial information.
 - c) HoTARAC notes that several of the frequently-suggested projects relate to cryptocurrencies held as assets. While we accept there is international interest in the subject, we question whether there are currently sufficient holdings by entities that apply IFRS to comprehensively meet the selection criteria for new projects.
 - d) Our view is that more entities applying IFRS are presently affected by accounting for pollutant pricing mechanisms. A project could remain on the forward work plan, as discussed in paragraphs B68-B71 of the Request for Information. It could also form part of an integrated strategy that considers climate-risks and sustainability standards.
-