



Treasury

Dr Keith Kendall  
The Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Dear Dr Kendall

## **Exposure Draft (ED) 298 *General Presentation and Disclosures***

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the invitation to provide feedback on ED 298 *General Presentation and Disclosures*.

HoTARAC is comprised of senior public sector specialists in accounting and financial reporting in the Australian, State and Territory Governments. HoTARAC's interest in the topic arises from its members' roles in preparing public sector financial statements.

ED 298 is intended to address concerns about the use of non-GAAP management performance measures (MPMs) in public documents that often relate to, but are not drawn from, amounts the statutory financial statements. HoTARAC notes there is little evidence this concern extends to the Australian public sector.

HoTARAC strongly supports the use of GAAP measures of results and cash flows when commenting on statutory financial statements prepared under GAAP. The requirement in ED 298 to reconcile non-GAAP measures to GAAP measures will enhance transparency.

However, the definition of MPMs is fairly broad. This could potentially lead to existing performance measures published by governments to be unintentionally caught. HoTARAC recommends further consultation on how the MPM concept would be applied to government financial statements.

In accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049), financial statements of Australian governments are prepared consistent with the presentation principles of Government Finance Statistics (GFS). Overlaying the requirements in ED 298 will add additional line items to governments' statements of profit or loss. Several of the requirements of ED 298 also appear to conflict with GFS requirements. This will add complexity to government financial statements and further consultation is needed on how the requirements of ED 298 will converge with AASB 1049.

Overall, HoTARAC recommends the Board should consider if the application of ED 298 to the public sector should be timed to coincide with its Public Sector Framework project.



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HoTARAC's response to the specific matters for comment is attached to this letter. If you have any queries regarding our comments, please contact Sean Osborn from NSW Treasury on (02) 9228 5932 or by email to [sean.osborn@treasury.nsw.gov.au](mailto:sean.osborn@treasury.nsw.gov.au).

Yours sincerely

A handwritten signature in black ink, appearing to read "Stewart Walters", on a light-colored background.

**Stewart Walters**

CHAIR

Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)

15 May 2020

## AASB Specific Matters for Comments

- 1. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**
- (a) not-for-profit entities; and**
  - (b) public sector entities, including GAAP/GFS implications;**

In HoTARAC's view, some further refinement is needed for public sector entities to merge the proposed changes in ED 298 with requirements in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). HoTARAC recommends consultation with public sector preparers.

In particular, HoTARAC notes the following:

- It will be difficult for public sector entities to classify income and expenses in the comprehensive result into the proposed new categories in ED 298 para 45 (operating, integral associates and joint ventures, investing and financing). This is because AASB 1049 para 30 requires presentation of transactions or economic flows in a manner that is consistent with applying the principles in the ABS GFS Manual. HoTARAC is of the view that including the new categories under transactions and other economic flows respectively will make the statement of comprehensive income lengthy and complicated. Additional consultation and guidance are needed to specify how public sector entities should present line items in the comprehensive results.
- It appears the definition of 'integral' and 'non-integral' associates and joint ventures is at the onus of the preparer and would be subject to audit scrutiny. Further guidance is needed to clarify the definition for public sector entities.
- The proposed classification of interest and dividends received as investing activities; and interest paid as financing activities in the statement of cash flows, is contrary to current practice in much of the public sector. Illustrative examples in AASB 1049, classify these as operating activities. This will impact the cash surplus / deficit and Commonwealth's key budget measure, the underlying cash balance. Guidance is needed to align the ED 298 presentation requirements with AASB 1049.
- The proposed definition of 'management performance measures' is relatively broad. Governments are generally required to publish a broad range of information, including in budgets and annual reports, and share performance and expenditure information on a variety of platforms including websites and media releases. The broad definition of performance measures may make application of para 106 and 108 onerous for public sector entities. HoTARAC recommends further research to understand the relevance and usefulness of the proposed disclosure for public sector entities.

- 2. Whether there any significant inconsistencies or other issues between the proposals and the requirements of ASIC RG 230 Disclosing non-IFRS financial information that should be addressed by any resulting standard;**

No comment.

**3. Whether, overall, the proposals would result in financial statements that would be useful to users;**

HoTARAC recommends the Board consult with the public sector to consider how the requirements of ED 298 should be applied to public sector financial statements. In particular, whether the new line items will provide useful information to users. HoTARAC notes that public sector entities are funded differently to the private sector, therefore, operating activities for the public sector may be different. HoTARAC is of the view that tailoring to public sector entities will be necessary before this assessment can be made.

**4. Whether the proposals are in the best interests of the Australian economy;**

No comment.

**5. Whether the proposals are auditable, or whether they would give rise to any auditing or assurance challenges; and**

No comment.

**6. unless already provided in response to specific matters for comment 1 – 5 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.**

Introducing new line items and reformatting statements of profit or loss will require substantial changes to accounting systems for multiple government agencies. Data will also need to be collected for previous years to ensure time series information is available for the Commonwealth and rating agencies.