Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	Application of AASB 18 and AASB 107 by Superannuation Entities and Not-for-profit Entities	**Meeting:**	AASB May 2026 (M220)
Topic:	For-profit public sector entities	**Agenda Item:**	3.5
		Date:	30 April 2026
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Objectives of this agenda item

1 The objectives of this agenda paper are for the Board to:

(a) **consider** stakeholder feedback on proposals in ED 338 regarding for-profit (FP) public sector entities preparing Tier 1 GPFS; and

(b) **decide** on whether to proceed with or modify these proposals.

2 The abbreviations noted in the Cover Memo apply to this paper.

Background and overview of ED 338 proposals

3 In developing ED 338, the Board received only limited feedback from targeted outreach relating to FP public sector entities, and the feedback focused only on the requirements in the revised AASB 107 regarding dividends and interest cash flows.

4 As noted in paragraph BC94 of ED 338, in accordance with the *AASB For-Profit Entity Standard-Setting Framework*, the Board's default position is to use IFRS Standards and transaction neutrality as a starting point. The Board observed that the feedback obtained from the targeted outreach indicates no justification for departing from the revised AASB 107. Accordingly, the AASB decided to propose requiring FP public sector entities to apply AASB 18 and the revised AASB 107 without modification.

Current practice regarding the classification of dividend and interest cash flows

5 The current version of AASB 107 (before incorporating AASB 18 changes) permits an entity to elect to classify:

(a) dividends paid and interest paid as financing or operating cash flows; and

(b) dividends received and interest received as investing or operating cash flows.

6 Currently, all public sector entities, including for-profit public sector entities, in the Commonwealth, state and territory governments are required by their respective Treasury offices to classify dividends received and interest paid and received as operating cash flows. This classification is consistent with that applied in Whole of Government GPFS and Government Finance Statistics.

Amendments to AASB 107 made by AASB 18

7 AASB 18 amended AASB 107 to remove the current accounting policy choice that allows entities to classify cash flows from dividends and interest as operating cash flows. The revised AASB 107 requires entities that do not either invest in assets or provide financing to customers as a main business activity to classify:

(a) dividends paid and interest paid as financing cash flows (AASB 107.33A and 34A(a)); and

(b) dividends received and interest received as investing cash flows (AASB 107.34A(b)).

Specific Matters for Comment in ED 338

8 ED 338 included Specific Matters for Comment (SMCs 29–31) seeking further stakeholder input on the application of the revised AASB 107.

SMC 29: Do you consider it would be more important for the cash flow statements of for-profit public sector entities to be comparable with for-profit private sector entities or NFP public sector entities? Please explain why.

SMC 30: Please explain how important it is for for-profit public sector entities to have consistent classification of dividend and interest transactions between the income statement and the cash flow statement (noting that the AASB has decided that these entities categorise income and expenses in accordance with AASB 18)?

SMC 31: Assuming the AASB's proposals are implemented and dividends received and interest paid and received will continue to be classified as operating cash flows in the whole of government and GGS financial statements, please outline the cost and effort that would be required to adjust different cash flow classifications of for-profit public sector entities to facilitate consolidation into the whole of government financial statements and how they compare with the benefits of complying with the revised requirements of AASB 107?

Summary of stakeholder feedback

9 Seven comment letters included responses to SMCs 29–31. They are: Deloitte, KPMG, CPA Australia (CPAA), Chartered Accountants Australia and New Zealand (CAANZ), Australasian Council of Auditors-General (ACAG), BDO and Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC).

Supportive stakeholder feedback

10 Other than the mixed views noted by some CPAA members and one ACAG jurisdiction (noted later in the paper), all other respondents consider FP public sector entities should have their cash flow statements aligned and comparable with FP private sector entities. Respondents' support was based on the following views:

(a) There is no strong conceptual basis for relief or exemptions for FP public sector entities. These entities operate commercially, are not government-funded, and have historically applied the same dividend and interest classifications as FP private sector entities. The AASB limits changes to Australian Accounting Standards that are counterparts of IFRS Accounting Standards to NFP-specific issues, and new FP public sector exceptions are not justified.

(b) Governments seek competitive neutrality between FP public sector and private sector entities, and having the same financial reporting requirements as FP private sector entities supports this (ACAG and HoTARAC).

(c) Under the Government Finance Statistics (GFS) framework, Public Non-Financial Corporations (PNFC) and Public Financial Corporations (PFC) align with the FP private sector because they operate on a market basis and largely recover costs through commercial or regulated pricing, often in competition with private entities. Consistency between FP public sector entities and FP private sector entities is therefore crucial for GFS reporting and macroeconomic analysis by the ABS (HoTARAC).

(d) Consistent classification of dividend and interest transactions between the income statement and cash flow statement improves user understanding (CAANZ).

(e) Users of GPFS may not distinguish between government equity injections and debt from treasury corporations, and interest flows may reflect cash management rather than financing or investing decisions. On balance, consistent classification with FP private sector entities better meets user needs across sectors (HoTARAC).

11 Existing government consolidation systems already map public sector financial data effectively for Whole of Government reporting, so any cost or effort to adjust cash flow classifications for FP public sector entities is expected to be minimal, manageable and consistent with existing practice. The required information for consolidation is generally already separately disclosed and in most jurisdictions, only a small number of FP entities are consolidated, with many transactions eliminated, meaning limited preparation or audit effort regardless of classification. Therefore, the benefits of comparability outweigh consolidation adjustment costs (HoTARAC, Deloitte, KPMG, CAANZ, ACAG).

Mixed feedback

12 CPAA received mixed feedback from its members. Comparability with private sector peers was seen as most useful for public sector entities that compete in the commercial market, while alignment with NFP public sector entities was viewed as more relevant for entities within broader public sector accountability frameworks. Respondents also noted heightened public and parliamentary scrutiny, with cash flow classification potentially affecting perceptions of performance and funding.

13 Overall, CPAA consider that a differentiated approach may be warranted to reflect the different operating contexts across FP public sector entities.

Opposing view

14 One ACAG jurisdiction considered that cash flow classification should be based on the nature of an entity's activities rather than whether it is FP or NFP, as this enables users to better understand the overall financial reporting story. They recommended further consultation with preparers and users of FP public sector entities' GPFS.

15 They also noted that some FP public sector entities (particularly PNFC) operate more like NFP entities than FP private sector entities, including having non-capital-raising objectives. In some jurisdictions, PNFCs already prepare GPFS using formats aligned with those of the controlling government and other NFP public sector entities. They questioned why similar accounting policy choices for dividend and interest cash flow classifications have not been extended to PNFC entities, and cautioned that

the proposal to require FP public sector entities to change current cash flow classifications may increase divergence and costs across the public sector.

16 The ACAG jurisdiction also commented that some of the issues outlined in paragraphs BC60–BC62 of ED 338 explaining why MPMs should not be mandated for NFP public sector entities may be equally applicable to FP public sector entities. They recommended that the AASB undertake further research or targeted outreach with FP public sector entities before mandating MPM disclosure requirements for those entities.

Staff observations and recommendations

17 In respect to the suggestion from the abovementioned ACAG jurisdiction to further consult with FP public sector stakeholders, staff noted that the HoTARAC's submission identified that some Treasury offices have already undertaken outreach with their FP public sector entities. Therefore, staff do not consider it necessary to conduct additional outreach.

18 The suggestion from CPAA and the abovementioned ACAG jurisdiction to adopt a differentiated approach based on the operating context or nature of the FP public sector entity has some merit. However, staff consider that the information provided by the majority of stakeholders, included in paragraphs 10 and 11, sufficiently supports having no modifications for all types of FP public sector entities and counters the concerns raised.

19 Staff recommend that the Board proceed with the ED proposals to require FP public sector entities preparing Tier 1 GPFS to apply AASB 18 and the revised AASB 107 without modification.

Question for the Board
Q1: Do Board members agree with the staff recommendation? If not, what do you propose instead?