



Project:	Application of AASB 18 and AASB 107 by Superannuation Entities and Not-for-profit Entities	Meeting:	AASB May 2026 (M220)
Topic:	NFP public sector entities (excluding universities)	Agenda Item:	3.3
		Date:	30 April 2026
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		Decision-Making:	High
		Project Status:	Consider ED 338 feedback

Objectives of this agenda paper

- The objectives of this agenda paper are for the Board to:
 - consider** feedback received on the ED 338 proposals to provide relief from certain AASB 18 requirements for the following NFP public sector entities preparing Tier 1 GPFS:
 - governments applying AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
 - NFP public sector entities controlled by those governments; and
 - local government entities; and
 - decide** on whether to proceed with or amend these ED 338 proposals.
- Unless otherwise specified, for ease of reference in this paper, “NFP public sector entities” refers to the entities described in paragraph 1, and excludes universities.**¹
- The abbreviations noted in the Cover Memo apply to this paper.

¹ The Australian Government’s Department of Education treats most universities as NFP public sector entities for the purposes of financial reporting. However, as universities are not consolidated into any government and are subject to specific reporting requirements set out in the *Higher Education Support Act 2003*, the discussions in this paper are less relevant to universities. The application of AASB 18 by universities is discussed in Agenda Paper 3.4.

Background and overview of ED 338 proposals regarding NFP public sector entities

- 4 During the development of ED 338, staff undertook targeted outreach in the first half of 2025 and received questionnaire responses from key stakeholders.² Based on the feedback received from the targeted outreach, the Board determined that it is justifiable under the *AASB Not-for-Profit Entity Standard-Setting Framework* for NFP public sector entities preparing Tier 1 GPFS to depart from AASB 18 and the revised AASB 107 (i.e. the version of AASB 107 after incorporating changes made by AASB 18).
- 5 At the time, the Board noted feedback suggesting that the GPFS presentation formats:
 - (a) prescribed in AASB 1049 are more appropriate than AASB 18 formats for Whole of Government (WoG) and General Government Sector (GGS) reporting;
 - (b) prescribed by the Treasury offices of each government for federal, state and territory government entities provide more useful information to users than the AASB 18 formats; and
 - (c) prescribed by each Office of Local Government for the local government entities provide more useful information to users than the AASB 18 formats.
- 6 Accordingly, ED 338 proposed:³
 - (a) requiring governments to continue presenting the GPFS of WoG and GGS in accordance with the formats specified in AASB 1049, rather than the formats in AASB 18; and
 - (b) providing accounting policy choices for NFP public sector entities preparing Tier 1 GPFS to elect to apply certain AASB 18 requirements, thereby allowing relevant regulators to continue prescribing presentation formats that best meet users' information needs.

ED 338 submissions received regarding NFP public sector entities

- 7 Seven comment letters included responses to the SMCs relating to NFP public sector entities. They are: Deloitte, KPMG, CPA Australia (CPAA), Chartered Accountants Australia and New Zealand (CA ANZ), Australasian Council of Auditors-General (ACAG), BDO, and Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC).
- 8 AASB staff held a virtual roundtable on 18 February 2026 to obtain views on the proposals relating to NFP public sector entities. Throughout the session, there were at least 100 participants, with between 41 and 91 participants responding to the polling questions conducted during the roundtable.

Overview of staff recommendations

- 9 Most of the seven respondents and roundtable participants agreed with the ED proposals, subject to some refinements. Accordingly, in respect to the NFP public sector entities described in paragraph 1 that prepare Tier 1 GPFS, staff recommend the Board proceed as proposed in ED 338 to modify AASB 18 and relevant Standards to give effect to the matters outlined in paragraph 6.

2 For more details on the targeted outreach, please refer to Agenda Paper [5.1](#) for the May 2025 meeting (M212), as well as Agenda Paper [3.1](#) for the July 2025 meeting (M213).

3 ED 338 also proposed clarifying certain AASB 18 principles in an NFP context. The feedback on those proposals will be discussed at the June meeting.

Structure of this paper

- 10 SMCs 16–17, 20–23, 25–26 of ED 338 relate to NFP public sector entities. The feedback on each of these SMCs is discussed in a separate section of the paper. For context, each section includes a summary of:
- (a) the relevant requirements in AASB 18, AASB 107 and AASB 1054 and the proposed modifications regarding NFP public sector entities included in ED 338 (with proposed new or revised paragraphs shaded in blue);
 - (b) the Board’s rationale for proposing the modifications;
 - (c) the relevant SMC; and
 - (d) where relevant, a high-level overview of the IPSASB’s preliminary views, as set out in its [Consultation Paper](#) *Presentation of Financial Statements*.

IPSASB’s project

- 11 The IPSASB is undertaking a project to develop a new IPSAS to replace IPSAS 1 *Presentation of Financial Statements*, with the objective of enhancing the communication effectiveness of financial information presented GPFs. The project will be undertaken in three phases – Consultation Paper, Exposure Draft, and Final Pronouncement – with the final Standard targeted for final approval at the December 2028 IPSASB meeting.
- 12 In the Consultation Paper phase, the IPSASB has considered IFRS 18 *Presentation and Disclosure in Financial Statements* as a starting point and has developed preliminary views on how its requirements should be adapted to reflect the financial reporting objectives of NFP public sector entities.
- 13 On 27 April 2026, the IPSASB issued a [Consultation Paper](#) (CP) titled *Presentation of Financial Statements*, together with an illustrative Exposure Draft, for public comment until 14 September 2026.

SMC 16: Statement of profit or loss presentation

AASB 18 requirement and ED 338 proposal

Statement of profit or loss

46 An entity shall include all items of income and expense in a reporting period in the statement of profit or loss unless an Australian Accounting Standard requires or permits otherwise (see paragraphs 88–95 and B86).

Aus46.1 For the purposes of paragraph 46 and notwithstanding paragraph 47:

(a) a superannuation entity ...; and

(b) a not-for-profit public sector entity is not required to classify income and expenses into the operating, investing and financing categories in the statement of profit or loss. A not-for-profit public sector entity that elects to apply this relief shall not apply paragraphs 47–66, 69(a), 69(b), 70–74 and B30–B77. Such an entity shall treat references in this Standard to ‘operating expenses’ as expenses presented in the statement of profit or loss, including when applying paragraphs 75(a)(ii), 79–82 and 85.

Categories in the statement of profit or loss

47 An entity shall classify income and expenses included in the statement of profit or loss in one of five categories (see paragraph B29):

- (a) the operating category (see paragraph 52);
- (b) the investing category (see paragraphs 53–58);
- (c) the financing category (see paragraphs 59–66);
- (d) the income taxes category (see paragraph 67); and
- (e) the discontinued operations category (see paragraph 68).

AASB rationale for the proposal

AASB 18.47 requires an entity to classify income and expenses into specific categories.

As noted in paragraph BC51–BC55 of ED 338, stakeholder feedback from targeted outreach indicated that those categories are unlikely to provide additional information to users of an NFP public sector entity’s GPFS and there is no clear benefit that would justify the costs of implementation because of the following reasons.

- Treasury offices, Offices of Local Government and AASB 1049 prescribed reporting formats are fit for purpose, well understood, and aligned with budget management. Key subtotals (e.g. net cost of services) are embedded in both reporting and budget management practices. These formats align with how entities manage and monitor recurrent expenditure.
- Introducing new categories would reduce clarity and usefulness, rather than improve it – many entities present an operating result that excludes non-cash items (e.g. depreciation, amortisation, impairments, fair value movements), capital grants related to asset construction or purchase and restricted grants and investment funds.
- The financing and investing categories have limited relevance because these activities are minimal relative to their core service delivery role. Moving items such as interest on employee benefit liabilities out of operating results is not meaningful to users.

- Debt financing is typically handled centrally – funding is provided to the consolidated fund and are allocated via appropriations. As a result, GPFs do not reflect the full economic cost of borrowing, reducing the relevance of financing categories at the entity level.
- Administrative restructures and machinery-of-government changes would be problematic because entities would be required to continually reassess their main business activities and therefore the categorisation of income and expenses.
- The implementation costs would be high with limited benefit – changes would include new charts of accounts and revised reporting mappings.

ED 338 proposed adding paragraph Aus46.1(b) to AASB 18 to provide an accounting policy choice for NFP public sector entities to elect to not classify income and expenses into the operating, investing and financing categories in the statement of profit or loss.

SMC 16

Do you agree with the proposed paragraph Aus46.1(b) in AASB 18? Please explain your reasons.

Stakeholder feedback

14 The following table provides an overview of stakeholder feedback.

	Agreed with the proposed paragraph Aus46.1(b)	Disagreed with the proposed paragraph Aus46.1(b)
Of the seven comment letters	Except for one ACAG jurisdiction, all seven agreed	One ACAG jurisdiction disagreed
Roundtable participants	Tier 1: 47 participants Tier 2: 33 participants	Tier 1: 10 participants Tier 2: eight participants

Support for the proposals

15 Stakeholders who agreed with adding the proposed paragraph Aus46.1(b) provided the following reasons:

- the AASB’s rationale noted in paragraph BC51–BC55 of ED 338 ED 338 (HoTARAC).
- there is no evidence to suggest the AASB 18 categories are useful to users and is more likely to confuse them (all but one ACAG jurisdiction).
- the approach balances conceptual alignment with AASB 18 against operational and governance needs. Existing reporting frameworks align with budget, Government Finance Statistics (GFS) and governance processes, and clear operating-capital distinctions are essential for rate-setting, financial sustainability assessments and public accountability. Mandating AASB 18 without flexibility risks reducing clarity and misrepresenting operating performance (CPAA).
- while there are potential comparability issues, they are manageable through mandated accounting policies that preserve consistency and user familiarity with existing formats (Deloitte and KMPG). ACAG expressed similar views, while acknowledging jurisdictional differences.

- (e) an accounting policy choice approach is necessary to preserve meaningful, comparable results, as governance and accountability depend on familiar face-of-statement presentations rather than IFRS 18 requirements (CPAA).
- (f) the proposed accounting policy choice would support entities to achieve compliance with AASB 1049 (CAANZ and Deloitte).
- (g) cost-benefit considerations (Deloitte). Mandating new presentation formats could create unnecessary system redesign costs and confuse preparers and users accustomed to established formats (CPAA).

Disagreement with the proposals

- 16 One ACAG jurisdiction considers financial statement classification and presentation should be consistent across all entities. They believe the proposals would increase diversity in reporting between for-profit and NFP public sector entities, requiring more adjustments for WoG consolidation.
- 17 During the 18 February 2026 roundtable, three local government participants commented about comparability and raised concerns about how much flexibility should be provided:
 - (a) some councils operate commercial enterprises – potential differences from the for-profit sector may reduce the overall quality of reporting – it was questioned whether regulators would view divergence unfavourably;
 - (b) inappropriate outcomes could arise if suitably qualified personnel are not making informed decisions on cost categorisation and presentation formats; and
 - (c) permitting accounting policy choices can create difficulties for specialised software providers that supply model financial statements that align with the approved formats from Offices of Local Government.

Staff analysis

- 18 With regard to the ACAG jurisdiction that disagreed with the proposed accounting policy choice, staff refer to HoTARAC's comments in response to SMC 29 and 30 where they stated it is important to maintain consistent classification and presentation between for-profit public and for-profit private sector entities. In response to SMC 31, they also considered that existing consolidation systems across jurisdictions already map financial data correctly and efficiently for WoG reporting purposes.⁴
- 19 With regard to the local government participant's concerns:
 - (a) it would be up to the respective Offices of Local Government to weigh up whether they prioritise comparability for local governments that operate commercial enterprises in mandating accounting policies when there is a policy choice under AASB 18; and
 - (b) the accounting policy choice would allow local government entities to continue with their existing statement of profit or loss format and therefore staff only anticipate education and software redesign costs would need to be incurred where the Office of Local Government in a particular jurisdiction mandated a format change.

4 Agenda Paper 3.5 includes staff recommendations relating to for-profit public sector entities.

IPSASB's preliminary view

- 20 The IPSASB's preliminary view is that, at a conceptual level, categorising income and expenses into the operating, investing and financing categories would enhance users' understanding and improve comparability of financial performance, if this is supported by public-sector-specific guidance (CP paragraphs 4.12–4.18).
- 21 In considering the Australian NFP public sector context, staff note that the strong alignment between GPFS, budget reporting and Government Finance Statistics (GFS) frameworks is a critical factor. Accordingly, staff consider that the proposed accounting policy choice in ED 338 (paragraph Aus46.1(b)) represents a proportionate response, as it preserves existing, decision-useful presentation practices.

Drafting suggestions

- 22 BDO considers the proposed paragraph Aus46.1 should be moved to paragraph Aus47.1 instead. They also commented that the accounting policy choice should be more narrowly framed to ensure that the resulting presentation provides information that is "reliable and more relevant", consistent with the requirements of AASB 108 and the limitations proposed for the presentation of expenses under AASB 101.99 (as reflected in proposed paragraph Aus78.1(b)).
- 23 Staff consider that the requirement to ensure the reliability and relevance of information included in GPFS is an overarching principle embedded in AASB 18 and the Conceptual Framework. Accordingly, staff consider that no amendment to the drafting of the proposed paragraph Aus46.1 is necessary.
- 24 Consistent with the staff recommendation in Agenda Paper 3.2 regarding superannuation entities, staff recommend presenting paragraph Aus46.1 after paragraph 47 of AASB 18.

Staff recommendation

- 25 Staff recommend that the Board:
- (a) proceed with the proposed modifications – adding paragraph Aus46.1(b) to AASB 18; and
 - (b) present paragraph Aus46.1 after paragraph 47 of AASB 18.

Question to Board members

Q1: Do Board members agree with the staff recommendations? If not, what do Board members suggest?

SMC 17: Presentation of expenses

AASB 18 requirement and ED 338 proposal

Presentation and disclosure of expenses classified in the operating category

78 In the operating category of the statement of profit or loss, an entity shall classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of these characteristics (see paragraphs B80–B85):

- (a) the nature of expenses; or
- (b) the function of the expenses within the entity.

Aus78.1 Notwithstanding paragraph 78:

- (a) a superannuation entity...; and
- (b) a not-for-profit public sector entity is permitted to classify and present expenses in line items in the statement of profit or loss based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant. A not-for-profit public sector entity that elects to apply this paragraph shall not apply paragraphs 78 or B80–B82.

...

Presentation and disclosure of expenses classified in the operating category

Use of characteristics of nature and function

B80 In determining how to use the characteristics of nature and function to provide the most useful structured summary as required by paragraph 78, an entity shall consider:

- (a) what line items provide the most useful information about the main components or drivers of the entity's profitability. For example, for a retail entity a main component or driver of profitability might be cost of sales. Presenting a cost of sales line item might provide relevant information about whether the revenue generated from the sale of goods covers what, for retailers, are mainly direct costs, and by what margin. However, cost of sales is unlikely to provide relevant information about the important components or drivers of profitability if the link between revenue and costs is less direct. For example, for some service entities, information about operating expenses classified by nature, such as employee benefits, might be more relevant to users of financial statements because these expenses are the main drivers of profitability.
- (b) what line items most closely represent the way the business is managed and how management reports internally. For example, a manufacturing entity managed on the basis of major functions might classify expenses by function for internal reporting purposes. In contrast, an entity that has a single predominant function, such as providing financing to customers, might determine that line items comprising expenses classified by nature provide the most useful information for internal reporting purposes.
- (c) what standard industry practice entails. If expenses are classified in the same way by entities in an industry, users of financial statements can more easily compare expenses between entities in the same industry.
- (d) whether the allocation of particular expenses to functions would be arbitrary to the extent that the line items presented would not provide a faithful representation of the functions. In such cases, an entity shall classify these expenses by nature.

AASB rationale for the proposal

Currently, under AASB 101.99, an entity is required to present expenses by either their nature or function, whichever provides information that is reliable and more relevant. In contrast, AASB 18.78 requires an entity to consider the specific matters set out in AASB 18.B80 and determine which expenses

are presented by nature and which are presented by function, in order to provide the most useful structured summary of expenses.

During the targeted outreach in the first half of 2025, stakeholders commented that:

- currently, federal, state and territory government entities present expenses by nature based on Treasury mandates – consistent with the Australian Bureau of Statistics (ABS) GFS Manual. This facilitates governments in preparing WoG and GGS GPFS in accordance with AASB 1049, which also requires expenses to be presented by nature to be consistent with GFS; and
- AASB 1052 *Disaggregated Disclosures* requires government departments and local government entities to disaggregate expenses (and other information) for each major function or activity.

As noted in paragraphs BC56–BC59 of ED 338, at a practical level, given expenses are a key focus area for users of public sector GPFS, the Board considered that it is important to maintain consistent reporting to promote comparability.

ED 338 proposed adding paragraph Aus78.1(b) to AASB 18 to provide an accounting policy choice for NFP public sector entities to elect to classify and present expenses in line items in the statement of profit or loss based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant, consistent with the current requirements in AASB 101.99. This accounting policy choice would allow existing practice, including Treasury Office and Office of Local Government mandates, to continue to apply to achieve consistency within a jurisdiction.

SMC 17

Do you agree with the proposed paragraph Aus78.1(b) in AASB 18? Please explain your reasons.

Stakeholder feedback

26 The following table provides an overview of stakeholder feedback.

	Agreed with the proposed paragraph Aus78.1(b)	Disagreed with the proposed paragraph Aus78.1(b)
Of the seven comment letters	All seven agreed	Nil
Roundtable participants	Tier 1: 40 participants Tier 2: 22 participants	Tier 1: three participants Tier 2: three participants

27 Stakeholders agreed with the proposed paragraph Aus78.1(b) for the following reasons:

- the AASB’s reasons outlined in paragraphs BC56–BC59 of ED 338 (HoTARAC and ACAG).
- an optional approach is needed to preserve meaningful financial reporting and comparability, as councillors and oversight bodies focus on service delivery, budget performance and sustainability rather than IFRS-style classifications, with statement presentation directly affecting decisions and public accountability (CPAA).
- any risk of inconsistencies in presentation between public sector entities may be overcome by the Treasury and the Office of Local Government mandates (Deloitte), which is typically controlled through templates and alignment with WoG and GFS reporting requirements. Keeping the current AASB 101.99 approach maintains consistency with existing practices and

user expectations, while requiring AASB 18 presentation, without flexibility, could lead to unnecessary system costs and confusion for preparers and users familiar with established formats (KPMG and CPAA).

- (d) the choice will allow entities to provide more reliable, relevant and consistent information (CAANZ).

28 One roundtable participant from a professional services firm commented that it is not clear why the proposed paragraph Aus78.1(b) is necessary, given that AASB 18.78 permits an entity to continue presenting expenses solely by nature. While this observation is valid, AASB 18 requires an entity to first consider the specific matters set out in paragraph B80 when determining its method of presentation. As a result, without paragraph Aus78.1, there is a greater risk that entities may reach different conclusions, which could adversely affect comparability.

Staff recommendation

29 The majority of feedback supports the addition of proposed paragraph Aus78.1(b) to AASB 18. Therefore, staff recommend proceeding with the inclusion of this paragraph in AASB 18.

30 This staff recommendation is consistent with the IPSASB's preliminary view to retain the current accounting policy choice in IPSAS 1 to require presenting expenses by nature or by function. The IPSASB observed that it has not received any indications that mixed presentation is needed in the public sector, and "prohibiting mixed presentation would improve comparability of financial information across entities and jurisdictions, and more effectively respond to initial feedback from public sector constituents to reduce diversity of presentation in practice" (CP paragraphs 4.43–4.47).

Question to Board members

Q2: Do Board members agree with the staff recommendation in paragraph 29? If not, what do Board members suggest?

SMC 20: Relief from disclosing information about MPMs

AASB 18 requirement and ED 338 proposal

Management-defined performance measures

Identification of management-defined performance measures

117 *A management-defined performance measure is a subtotal of income and expenses that (see paragraphs B113–B122):*

- (a) an entity uses in public communications outside financial statements;
- (b) an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and
- (c) is not listed in paragraph 118, or specifically required to be presented or disclosed by Australian Accounting Standards.

Aus117.1 Notwithstanding paragraphs 118–125 and B113–B142, a not-for-profit public sector entity is not required to identify and disclose information about management-defined performance measures.

AASB rationale for the proposal

As noted in paragraphs BC60–BC62 of ED 338, stakeholder feedback from the targeted outreach included the following.

- Entities present ‘underlying results’ in their annual report that would meet the definition of an MPM. However, an explanation of how underlying results are calculated is usually provided, and therefore, there is little benefit in adding a disclosure note within GPFS.
- Entities have various forms of written communications about their performance and the subtotals used in those documents are typically well-defined and understood by users.
- Governments 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. Therefore, it would be difficult and costly for auditors to identify and provide reasonable assurance that MPMs are complete.
- The IASB’s concern regarding management using alternative presentations of income and expenses has limited application because alternative measures are not widely used. Entities typically provide service delivery metrics specific to a particular function that would have greater relevance to users than alternative subtotals. Users’ focus is on how the entity’s service delivery is funded and the net surplus or deficit.

The Board considered that the cost and effort would outweigh the benefits of requiring NFP public sector entities to identify all MPMs and to disclose information about them. ED 338 proposed adding paragraph Aus117.1 to AASB 18 to provide an accounting policy choice for NFP public sector entities to elect whether to identify and disclose information about MPMs.

SMC 20

Do you agree with the proposed paragraph Aus117.1 in AASB 18? Please explain your reasons.

Stakeholder feedback

31 The following table provides an overview of stakeholder feedback.

	Agreed with the proposed paragraph Aus117.1	Disagreed with the proposed paragraph Aus117.1
Of the seven comment letters	All seven agreed	Nil
Roundtable participants	Tier 1: 29 participants Tier 2: 17 participants	Tier 1: five participants Tier 2: five participants

- 32 Stakeholders agreed with the proposals for the following reasons:
- (a) the thinking included in paragraphs BC60–BC62 of ED 338 (HoTARAC, ACAG and Deloitte). MPMs are not particularly relevant, and key fiscal aggregates for WoG reporting under AASB 1049 are more important and do not fall within the MPM definition.⁵
 - (b) there is already significant information that is publicly available that is subject to audit assurance and therefore it is not necessary to mandate the disclosure of MPMs (Deloitte) and requiring formal identification and reconciliation of MPMs could create significant practical reporting and audit challenges (including assurance over completeness, definitional disputes and year-to-year changes), with limited incremental benefit to users. Therefore, the costs are likely to outweigh the benefits (CPAA and ACAG).
 - (c) in relation to the IPSASB’s project on the Presentation of Financial Statements, IPSASB board papers indicate a preliminary view to not to incorporate the IFRS 18 requirements for MPMs (CPAA). While not formally issued, these deliberations provide relevant international context and reinforce the case for proportionate and decision-useful information particularly in relation to the practicality and assurance challenges associated with MPM completeness.
- 33 A roundtable participant commented that it is unclear how MPMs would be identified in practice, whether they would be auditable, and the degree of discretion management would have in defining them. They also raised concerns about the auditability of non-standard MPMs that are not used consistently across entities, suggesting that further consideration is needed regarding how MPMs might be determined and clarified in an NFP context to determine which MPMs would require disclosure in GPFS. These concerns highlight the potential for additional cost and complexity for both auditors and preparers. Given the potentially large number of MPMs that public sector entities could disclose, providing an accounting policy choice not to disclose MPMs is considered appropriate.

Suggested clarification

- 34 KPMG recommended the Board clarify how the relief applies to measures already presented in GPFS notes (such as Net Operating Balance for fiscal or funding purposes).
- 35 One ACAG jurisdiction recommended that the Board clarify whether measures required by law would fall within the MPM definition, noting that such measures could be interpreted as not being ‘management-defined’.
- 36 Staff consider that there is no need for further clarification on these matters because:
- (a) the board has already observed that key fiscal aggregates do not fall within the MPM definition [ED 338, paragraph BC62]; and
 - (b) staff are of the view that it is unlikely that performance measures required by law would meet the definition of MPM because they are not management driven – however staff note that specific facts and circumstances would need to be considered for each entity.

5 ED 338.BC62 states ‘AASB 1049 requires disclosure of key fiscal aggregates within the GPFS. Therefore, key fiscal aggregates do not fall within the definition of MPMs and would not be subject to the disclosure requirement set out in AASB 18.122.’

Staff recommendation

- 37 The majority of feedback supports the addition of proposed paragraph Aus117.1 to AASB 18 to provide the accounting policy choice not to disclose MPMs. Therefore, staff recommend proceeding with the inclusion of this paragraph in AASB 18.
- 38 This staff recommendation is consistent with the IPSASB’s preliminary view noted in paragraphs 6.20–6.27 of the CP. The IPSASB noted that MPMs are uncommon in the public sector, as these entities typically use broader metrics (e.g., surplus/deficit, debt, or budget measures) rather than subtotals of income and expenses. Consequently, the IPSASB proposes not to adopt the IFRS 18 MPM disclosure requirements.

Question to Board members

Q3: Do Board members agree with the staff recommendation in paragraph 37? If not, what do Board members suggest?

SMC 23: Aggregation and disaggregation

AASB 18 requirement and ED 338 proposal

AASB 18.41 includes the principles of aggregation and disaggregation, including classifying and aggregating line items based on shared characteristics and to provide a useful structured summary. This is a change from the requirements of AASB 101, which requires the separate presentation of each material class of similar items, according to their nature or function.

ED 338 proposes no modifications to these requirements.

AASB rationale for the proposal

As noted in paragraphs BC72–BC75 of ED 338, the Board received limited feedback from stakeholders during the targeted outreach on the AASB 18 requirements relating to aggregation and disaggregation, and the feedback did not indicate a specific reason to modify the requirements for NFP public sector entities:

- one stakeholder commented that these principles would likely lead to more useful information for users; and
- another stakeholder commented that these requirements are neither an improvement to existing practice nor a hindrance to providing useful information to users. However, moving to a structured summary approach is more prescriptive, which might be counter to the principle that preparers are responsible for determining the relevant information to present based on their user needs and the environment in which they operate.

The Board noted that the IASB’s intention relating to these requirements was to provide further guidance in response to feedback raised by users that information is not appropriately aggregated or disaggregated (paragraph BC71 of IFRS 18) and judgement would be needed to apply these requirements.

SMC 23

Do you agree that no modifications are needed for NFP public sector entities with respect to aggregation and disaggregation requirements set out in AASB 18? Please explain your reasons. If you consider modifications are needed, please describe the changes and explain why they are necessary.

Stakeholder feedback

- 39 All seven respondents who provided a comment letter agreed that no modifications are needed for NFP public sector entities with respect to aggregation and disaggregation requirements set out in AASB 18. Roundtable participants were not asked for their views on this AASB 18 requirement.
- 40 Stakeholders agreed with no modifications for the following reasons:
- (a) the thinking noted in paragraphs BC72–BC75 of ED 338 (ACAG).
 - (b) individual jurisdictions can determine the extent to which the existing reporting of “other” items requires further disaggregation to meet jurisdictional-specific requirements (HoTARAC).
 - (c) the requirements are sufficiently flexible to support materiality and decision-useful reporting – provided entities retain appropriate flexibility in overall presentation, the requirements should operate effectively without undermining established budget-aligned reporting and comparability within jurisdictions (CPAA).
 - (d) the requirements are helpful and generally applicable across sectors (CAANZ).
 - (e) the requirements can provide additional transparency for users on the amounts disclosed in the financial statements (ACAG).
- 41 KPMG commented that in some cases, ‘other’ can be a prescribed fiscal classification label rather than a residual/immaterial category. As AASB 18 tightens expectations around the use of ‘other’, the AASB may wish to monitor whether this creates practical tensions for entities required to follow prescribed fiscal classification frameworks. Although no other stakeholders raised this issue, staff support monitoring any implementation issues that may arise.

Staff recommendation

- 42 Feedback supports NFP public sector entities applying the aggregation and disaggregation principles in AASB 18 without modification. Therefore, staff recommend no modifications be made to the aggregation and disaggregation requirements set out in AASB 18, as proposed in ED 338.
- 43 The IPSASB is proposing to incorporate and build on the IFRS 18 aggregation and disaggregation principles with public-sector-specific guidance. Staff plan to monitor the IPSASB’s project and, in due course, assess whether any final public-sector-specific guidance would be useful for Australian public sector entities.

Question to Board members

Q4: Do Board members agree with the staff recommendation in paragraph 40? If not, what do Board members suggest?

SMC 25: Statement of changes in equity

AASB 18 requirement and ED 338 proposal

AASB 18.10 states that a complete set of financial statements comprises a statement of changes in equity for the reporting period. ED 338 proposes no modifications in regard to this.

AASB rationale for the proposal

As noted in paragraph BC87 of ED 338, a stakeholder commented as part of the Financial Reporting Council's (FRC's) independent Post-implementation Review (PIR) of AASB 1049, that the mandatory requirement to present a statement of changes in equity in the GPFS of an NFP public sector entity should be removed in circumstances where it is redundant because it does not provide additional information to that in the other statements and explanatory notes. They did not indicate a public-sector-specific reason.

In contrast, other stakeholders, while acknowledging that there are cases where the information contained in the statement can be readily found in other components of the financial statements, did not support removing the requirement because the statement is a fundamental component of the GPFS.

The AASB considered that the feedback received did not indicate a public-sector-specific reason to warrant entities to omit the statement. The AASB decided to seek further input from stakeholders on this matter.

SMC 25

Have you identified a public-sector-specific reason that would warrant an NFP public sector entity, or a government, to depart from the AASB 18 requirement to present a statement of changes in equity in their Tier 1 GPFS? If so, please explain.

Stakeholder feedback

- 44 All seven respondents who provided a comment letter commented that they have not identified a public-sector-specific reason that would warrant an NFP public sector entity, or a government, to depart from the AASB 18 requirement to present a statement of changes in equity. Roundtable participants were not asked for their views on this AASB 18 requirement.
- 45 Stakeholders outlined the following reasons why public-sector entities should present a statement of changes in equity:
- (a) many entities have asset revaluation movements, and adjustments through equity (including Machinery-of-Government changes) that are useful to present in the statement (ACAG).
 - (b) it is a fundamental component of the GPFS and should not be removed as it contains useful information for users to understand an entity's movement in net assets. It supports transparency and stewardship over public resources (HoTARAC, Deloitte and CPAA).
 - (c) public sector financial statements already provide a statement detailing funding/equity movements (often linked to appropriations and contributed equity) (KPMG).
 - (d) while some stakeholders noted it may be redundant where equity movements are limited, the prevailing view is that it remains a fundamental component of Tier 1 GPFS, supporting transparency and stewardship over public resources (CPAA).

Staff recommendation

- 46 Staff recommend no modifications to the AASB 18 requirement for NFP public sector entities to present a statement of changes in equity in their Tier 1 GPFs.
- 47 This staff recommendation is consistent with the IPSASB's preliminary view noted in Chapter 5 of the CP, to maintain (1) requirements to present revenue and expense items recognised outside surplus or deficit directly in net assets/equity, on the Statement of Changes in Net Assets/Equity, and (2) requirements related to reclassification adjustments.

Question to Board members

Q5: Do Board members agree with the staff recommendation in paragraph 46? If not, what do Board members suggest?

SMC 26: Line items to be presented in the primary financial statements of WoG and GGS financial statements

AASB 18 requirement and ED 338 proposal

The roles of the primary financial statements and the notes

...

Information presented in the primary financial statements

...

- 23 Some Australian Accounting Standards require specific line items to be presented separately in the primary financial statements (for example paragraphs 75 and 103 of this Standard). An entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if Australian Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements (see paragraph B8).

Aus23.1 Notwithstanding paragraph 23:

- (a) a superannuation entity applying AASB 1056 *Superannuation Entities*; and
(b) a government applying AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;

is not required to judge whether to present separately a line item in the primary financial statements based on whether it is necessary for the statement to provide a useful structured summary.

The roles of the primary financial statements and the notes

...

Information presented in the primary financial statements

- B8 Paragraph 23 explains that an entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary, even if the line item is required by Australian Accounting Standards. For example, an entity need not present a line item listed in paragraph 75 if doing so is not necessary for the statement of profit or loss to provide a useful structured summary of income and expenses, or a line item listed in paragraph 103 if doing so is not necessary for the statement of financial position to provide a useful structured summary of assets, liabilities and equity. If an entity does not present the line items listed in paragraphs 75 and 103, it shall disclose the items in the notes if the resulting information is material (see paragraph 42).

AusB8.1 Notwithstanding paragraph B8, consistent with paragraph Aus23.1:

(a) a superannuation entity applying AASB 1056; and

(b) a government applying AASB 1049;

is not required to judge whether to present separately a line item in the primary financial statements based on whether it is necessary for the statement to provide a useful structured summary.

AASB rationale for the proposal

AASB 1049 requires a government to present specific subtotals (key fiscal aggregates) in the income statement of WoG and GGS financial statements. However, under the general principle in AASB 18.23, a government need not present a key fiscal aggregate if it determines that doing so is not necessary to provide a useful structured summary.

As noted in paragraphs BC76–BC79 of ED 338, the feedback from the FRC’s PIR of AASB 1049 noted that key fiscal aggregates provide important information to users and for comparability of governments’ financial performance. Accordingly, the Board decided that governments should continue presenting key fiscal aggregates in accordance with AASB 1049, which the board observed may have no clear link to providing a useful structured summary.

Accordingly, to avoid any implication that presenting key fiscal aggregates might not be consistent with providing a useful structured summary, ED 338 proposed adding paragraphs Aus23.1(b) and AusB8.1(b) to AASB 18 to specify that a government does not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary.

SMC 26

Do you agree with the proposed paragraphs Aus23.1(b) and AusB8.1(b) in AASB 18 that a government should not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary – and therefore would be required to present all applicable line items and subtotals in accordance with AASB 1049? Please explain your reasons.

Stakeholder feedback

- 48 All seven respondents who provided a comment letter agreed with adding the proposed paragraphs Aus23.1(b) and AusB8.1(b) in AASB 18. Roundtable participants were not asked for their views on this proposal.
- 49 Stakeholders agreed with proposed paragraphs for the following reasons:
- (a) maintaining the current AASB 1049 presentation formats is important (Deloitte). AASB 18 is incompatible with WoG GPFS aligned with the Uniform Presentation Framework (UPF) and conflicts with GFS requirements for key fiscal aggregates (HoTARAC, KPMG). AASB 1049 is a high-quality, well-supported standard (CAANZ).
 - (b) key fiscal aggregates (e.g. net operating balance and fiscal balance) are well understood, embedded in budget processes, aligned with GFS reporting and central to fiscal oversight (KPMG). Allowing omissions of line items or subtotals would reduce comparability with budget papers and weaken fiscal accountability, while also increasing costs and continuing to require all AASB 1049 presentations is appropriate and necessary (CPAA, CAANZ).

- (c) the approach aligns with the proposed public sector amendments, the purpose of AASB 1049, and feedback from the FRC's PIR of AASB 1049 (KPMG).

Drafting suggestions

- 50 KPMG recommended the Board clarify and strengthen the drafting in paragraph Aus23.1(b) and suggested the following be added at the end of the paragraph: "and rather presents the specific line items in the primary financial statements as required by AASB 1056 and AASB 1049 respectively."
- 51 BDO recommended the AASB clarify in Aus.23.1 and AusB8.1(b) that a government "should not judge" the need of separate presentation of the line items as the proposed draft paragraph would not prevent the government from choosing to apply paragraph 23.

Staff recommendations

- 52 The majority of feedback supports the addition of proposed paragraph Aus23.1(b) and AusB8.1 to AASB 18. Therefore, staff recommend proceeding with the inclusion of these paragraphs with the following amendments to address the suggestions made by KPMG and BDO as follows:⁶

Aus23.2 Notwithstanding paragraph 23, a government applying AASB 1049 *Whole of Government and General Government Sector Financial Reporting* presents all relevant line items required by that Standard in its primary financial statements.

AusB8.1 Notwithstanding paragraph B8 and consistent with paragraph Aus23.2, a government applying AASB 1049 presents all relevant line items required by that Standard in its primary financial statements.

Questions to Board members

- Q6: Do Board members agree with the staff recommendation to proceed with modifying AASB 18 to specify that a government should present all relevant line items required by AASB 1049, instead of presenting line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary?
- Q7: If so, do Board members agree with revising the proposed paragraphs along the lines recommended by staff, including renumbering the paragraphs? If not, what do Board members suggest?

SMC 21: Cashflow classification – dividends received and interest paid and received

AASB 107 requirement and ED 338 proposal

Definitions

- 6 **The following terms are used in this Standard with the meanings specified:**

...

***Investing activities* are the acquisition and disposal of long-term assets and other investments not included in cash equivalents and the receipt of interest and dividends as described in paragraphs 34A–34D.**

6 The staff suggested revised drafting of these paragraphs regarding superannuation entities is discussed in Agenda Paper 3.2.

...

Aus6.1 **Notwithstanding paragraph 6, in respect to superannuation entities applying AASB 1056 *Superannuation Entities* and not-for-profit public sector entities that elect to classify the receipt of interest and dividends as operating activities in accordance with paragraph Aus34D.1, investing activities do not include the receipt of interest and dividends as described in paragraphs 34A–34D.**

Interest and dividends

- 31** Cash flows from interest and dividends received and paid shall each be presented separately. Each shall be classified in a consistent manner from period to period applying paragraphs 32, 33A and 34A–34D.
- 32 The total amount of interest paid during a period is included in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with AASB 123 *Borrowing Costs*.
- 33 [Deleted]
- 33A An entity shall classify dividends paid as cash flows from financing activities.
- 34 [Deleted]
- 34A An entity, other than those entities described in paragraph 34B, shall classify:
- (a) interest paid (as described in paragraph 32) as cash flows from financing activities.
 - (b) interest and dividends received as cash flows from investing activities.
- 34B An entity that invests in assets or provides financing to customers as a main business activity (as determined applying paragraphs B30–B41 of AASB 18) shall determine how to classify dividends received, interest received and interest paid in the statement of cash flows by referring to how – applying AASB 18 – it classifies dividend income, interest income and interest expenses in the statement of profit or loss. An entity shall classify the total of each of these cash flows in a single category in the statement of cash flows (that is, either as operating, investing or financing activities).
- 34C In applying paragraph 34B, if an entity classifies the total of each of dividend income, interest income and interest expenses in a single category of the statement of profit or loss, the entity shall classify the total of each of dividends received, interest received and interest paid as cash flows arising from the associated activity in the statement of cash flows. For example, if an entity classifies all its interest expenses in the financing category of the statement of profit or loss, the entity would classify all its interest paid as cash flows from financing activities.
- 34D In applying AASB 18, an entity may be required to classify each of dividend income, interest income and interest expenses in more than one category of the statement of profit or loss. In such a case, in applying paragraph 34B the entity shall make an accounting policy choice to classify the related cash flows in one of the associated activities in the statement of cash flows. For example, if an entity classifies interest expenses in the operating category and the financing category of the statement of profit or loss, the entity would classify all its interest paid in accordance with its accounting policy as either cash flows from operating activities or cash flows from financing activities.

Aus34D.1 **Notwithstanding paragraphs 34A–34D, a superannuation entity and a not-for-profit public sector entity are permitted to classify interest paid and received and dividends received as cash flows from operating activities.**

AASB rationale for the proposal

AASB 18 amended AASB 107 to require entities that do not either invest in assets or provide financing to customers as a main business activity to classify dividends paid as financing cash flows, interest paid as financing cash flows, dividends received as investing cash flows and interest received as investing cash flows.

As noted in paragraphs BC63–BC69 of ED 338, during targeted outreach stakeholders raised significant concerns about changing the cash flow classifications for dividends received and interest paid and received for the following reasons:

- entities have consistently classified these cash flows as operating for many years, and this treatment is well understood by users. There is no evidence that adopting the revised AASB 107 classifications would provide more useful information or that the benefits would outweigh the transition costs.
- debt financing is typically managed centrally, with funds appropriated and allocated to entities. Entities responsible for undertaking debt financing are doing so as a main business activity, meaning it is operating in character. Any allocation of debt financing charges to other entities help ensure a relevant total cost of those entities' operations is recognised. Therefore, the interest expense would typically be associated with operating activities rather than financing activities.
- entities receive funding through appropriations, grants and centrally raised debt rather than from distinct customers or capital providers. As a result, the operating versus financing distinction is less meaningful than in the private sector.
- dividend and interest receipts are used to fund service delivery and day-to-day operations. Classifying these receipts as investing or financing cash flows would not reflect their operational purpose, particularly given the focus on net cost of services rather than operating profit.
- budget papers prepared under the UPF require cash flow classifications aligned with the ABS GFS Manual. Consistent classification in GPFS enhances comparability between financial statements and budget papers.
- consistent cash flow classification across government and other NFP public sector entities supports WoG and GGS consolidation and promotes comparability between entity-level GPFS, government GPFS and budget documentation.

ED 338 proposed adding paragraphs Aus6.1 and Aus34D.1 to AASB 107 to retain the current accounting policy choice for NFP public sector entities to elect to classify dividends received and interest paid and received as operating cash flows.

SMC 21

Do you agree with the proposed paragraphs Aus6.1 and Aus34D.1 in AASB 107 in respect to NFP public sector entities? Please explain your reasons.

Stakeholder feedback

53 The following table provides an overview of stakeholder feedback.

	Agreed with the proposed paragraph Aus6.1 and Aus34D.1	Disagreed with the proposed paragraph Aus6.1 and Aus34D.1
Of the seven comment letters	Except for one ACAG jurisdiction, all seven agreed	One ACAG jurisdiction disagreed
Roundtable participants	Tier 1: 31 participants Tier 2: 20 participants	Tier 1: 10 participants Tier 2: Six participants

- 54 Stakeholders agreed with the proposed paragraphs for the following reasons:
- (a) the thinking reflected in paragraphs BC63–BC69 of ED 338 (HoTARAC, all but one ACAG jurisdiction and Deloitte). One ACAG jurisdiction noted the disclosure approach should be guided by the nature of the entity’s activities, rather than its for-profit status or NFP status.
 - (b) the current treatment is well-established in practice, aligns with GFS/budget presentation, supports comparability between GPFS and budget papers and the operating cash flow measures used to assess service delivery capacity and financial sustainability (KPMG and CPAA).
 - (c) mandating reclassification under the revised AASB 107 could reduce comparability, confuse users, and drive unnecessary systems changes. Many entities have limited dividend receipts and, in some jurisdictions, constrained borrowing, reinforcing the case for retaining flexibility, with the proposed relief unlikely to have a significant sector-wide impact (CPAA).
 - (d) the revised AASB 107 requirements are not likely to provide more useful financial information for users (CAANZ).
- 55 One ACAG jurisdiction did not support the proposals based on the view that disclosure of these items should be consistent across all entities. Staff refer to HoTARAC’s comments in response to SMC 29 and 30 where they stated it is important to maintain consistent classification and presentation between for-profit public and private sector entities. Other respondents also supported this approach. In light of the supporting comments noted in paragraph 54, staff consider that different cash flow classification requirements between NFP public sector entities and for-profit public sector entities are warranted.⁷
- 56 The roundtable participants who disagreed with the proposals at the roundtable did not provide their reasoning.

Staff recommendation

- 57 Staff recommend proceeding with the inclusion of paragraphs Aus6.1 and Aus34D.1 in AASB 107 in respect to NFP public sector entities.⁸
- 58 The presentation of the cash flow statement is outside the scope of the IPSASB CP. The IPSASB has indicated that any consequential amendments to IPSAS 2 *Cash Flow Statements* will be considered, as necessary, to ensure alignment with the requirements of the new presentation standard.

Question to Board members

Q8: Do Board members agree with the staff recommendation in paragraph 57? If not, what do Board members suggest?

7 Agenda Paper 3.5 includes staff recommendations relating to FP public sector entities.

8 Feedback regarding superannuation entities is discussed in Agenda Paper 3.2.

SMC 22: Operating cash flow reconciliation

AASB 107 requirement and ED 338 proposal

Reporting cash flows from operating activities

20 Under the indirect method, the net cash flow from operating activities is determined by adjusting operating profit or loss for the effects of:

- (a) changes during the period in inventories and operating receivables and payables;
- (b) non-cash items such as depreciation, provisions and unrealised foreign currency gains and losses classified in the operating category;
- (c) income or expenses classified in the operating category in the statement of profit or loss for which the cash effects are investing or financing cash flows; and
- (d) operating cash flows, such as income tax (in accordance with paragraph 35), for which the corresponding income or expenses are not classified in the operating category in the statement of profit or loss.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses classified in the operating category in the statement of profit or loss, the changes during the period in inventories and operating receivables and payables and any other operating cash flows for which the corresponding income or expenses are not classified in the operating category.

...

Aus20.23 ~~Notwithstanding paragraph Aus20.2, not-for-profit~~ ~~Not for profit~~ entities that use the direct method and that highlight the net cost of services in their statement of ~~comprehensive income for the reporting period~~ profit or loss shall disclose in the complete set of financial statements a reconciliation of cash flows arising from operating activities to net cost of services as reported in the statement of ~~comprehensive income~~ profit or loss.

AASB 1054 requirement and ED 338 proposal

Reconciliation of Net Operating Cash Flow to Profit (Loss)

16 When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to ~~profit (loss)~~:

- (a) the operating profit or loss subtotal in the statement of profit or loss, when the entity presents that subtotal in the statement of profit or loss in accordance with paragraph 69(a) of AASB 18;
or
- (b) the profit or loss total reported in the statement of profit or loss, when the entity does not present the operating profit or loss subtotal in the statement of profit or loss.

AASB rationale for the proposal

AASB 18 amended AASB 107 to require entities to use the 'operating profit or loss' subtotal, instead of the 'profit or loss' total, as the starting point for the indirect method of reporting cash flows from operating activities.

As noted in paragraphs BC70–BC71 of ED 338, consistent with the Board's proposals to provide an accounting policy choice for NFP public sector entities to elect to not present the 'operating profit or loss' subtotal in the statement of profit or loss, ED 338 proposed adding paragraph Aus20.2 to AASB 107 and paragraph 16(b) to AASB 1054 to specify that the 'profit or loss' total shall be used as the starting point for reconciling net cash flow from operating activities when the entity does not present the 'operating profit or loss' subtotal in the statement of profit or loss.

SMC 22

Do you agree with the proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054 in respect to NFP public sector entities? Please explain your reasons.

Stakeholder feedback

- 59 Except for one ACAG jurisdiction, all seven respondents who provided a comment letter agreed with the proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054. Roundtable participants were not asked for their views of this proposal.
- 60 Stakeholders agreed with the proposal for the following reasons:
- (a) the thinking noted in paragraphs BC70–BC71 of ED 338 (HoTARAC and all but one ACAG jurisdiction).
 - (b) it will ensure the proper and consistent application of the accounting policy choice proposed in paragraph 46.1(b) which will be useful to users (HoTARAC, CAANZ and CPAA).
- 61 One ACAG jurisdiction does not support the proposals regarding the statement of profit or loss presentation, which would result in this proposal being irrelevant. Paragraph 16 includes their reasons.

Stakeholder feedback

- 62 The majority of feedback supports the addition of proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054. Therefore, staff recommend proceeding with the inclusion of these paragraphs.

Question to Board members

Q9: Do Board members agree with the staff recommendation? If not, what do Board members suggest?