Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Forthcoming IASB Standard IFRS 18 *Presentation and Disclosure in Financial Statements***	**Meeting:**	AASB November 2023 (M200)
Topic:	**Timing and processes for considering IFRS 18 application issues for public sector and NFP entities and entities preparing Tier 2 GPFS**	**Agenda Item:**	8.1
		Date:	13 November 2023
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Objectives of this paper

1 The IASB is expected to issue Accounting Standard IFRS 18 *Presentation and Disclosure in Financial Statements* in the second quarter of 2024 to replace IAS 1 *Presentation of Financial Statements*. IFRS 18 is expected to be effective for annual periods beginning on or after 1 January 2027, with earlier application permitted.

2 In preparation for the Board's consideration of the making of AASB 18 in 2024 (the AASB version of IFRS 18, see staff assumptions described in paragraphs 4–9), the objectives of this paper are for the Board to:

(a) **consider** whether further due process steps would be needed to determine whether modifications to IFRS 18 requirements and guidance would need to be developed for:

(i) Whole of Government (WoG) and General Government Sector (GGS) preparing Tier 1 general purpose financial statements (GPFS) in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;

(ii) for-profit and not-for-profit (NFP) public sector entities preparing Tier 1 GPFS;

(iii) NFP private sector entities preparing Tier 1 GPFS; and

(iv) for-profit entities, NFP private sector entities and public sector entities preparing Tier 2 GPFS in accordance with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*;

(b) if further due process steps are needed, **decide** the appropriate due process steps and the timing of those steps in light of cross-cutting projects; and

(c) **consider** whether AASB 18 should initially be applied only to for-profit entities or be applied to all entities.

Attachments

3 Attachments for this paper are in the supporting material folder. They are comment letters from public sector stakeholders on Exposure Draft [ED 298 *General Presentation and Disclosures*] (January 2020), which is the AASB version of the IASB Exposure Draft ED/2019/7 *General Presentation and Disclosures* published in December 2019 as part of the Primary Financial Statements project.

Agenda Paper 8.2 Comment letter from the Australasian Council of Auditors-General (ACAG)

Agenda Paper 8.3 Comment letter from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)

Assumptions made by staff in developing this paper

4 One of the Board's key performance indicators (KPI) is to issue IASB-equivalent Standards within two months of the release of the IFRS Standard for for-profit entities.[1] Accordingly, the Board is expected to decide whether to issue AASB 18 in 2024 (within two months of the IASB issuing IFRS 18), subject to its due process noted in paragraph 5.

5 Paragraphs 7.6.1 and 7.6.2 of the *AASB Due Process Framework for Setting Standards* (Due Process Framework) note the processes the Board would follow when issuing an IFRS-based Standard. Those paragraphs are reproduced below (emphasis added):

> 7.6.1 Once an IFRS Standard has been issued by the IASB, the AASB considers the final document and whether there are any further modifications required under either the **For-Profit or Not-for-Profit Entity Standard-Setting Frameworks that have not already been considered during the prior consultation processes**.
>
> 7.6.2 Generally, not-for-profit amendments are subject to a separate due process. The application of IFRS-based Standards may be limited to for-profit entities until the not-for-profit amendments are determined.

6 In its submission to the IASB on ED/2019/7, the Board noted that it broadly supports the direction of ED/2019/7, including the proposed revised structure of the statement of profit or loss. However, the Board also highlighted a few areas that it considered important for the IASB to consider in developing the final Standard. Staff observed from Agenda Paper 21 for the IASB's November 2023 meeting that the IASB has tentatively decided to make changes to some requirements originally proposed in the ED and will be considering certain sweep issues before finalising IFRS 18.

7 In accordance with the due process in paragraph 7.6.1 of the Due Process Framework, after considering the final version of IFRS 18, depending on the extent of changes made to the Standard from the ED proposals, there is a possibility that the Board might decide to undertake further due process steps or standard-setting work based on the *AASB For-Profit Entity Standard-Setting Framework* to consider whether any modifications to the Standard or

1 See page 32 of the *Australian Accounting Standards Board and Auditing and Assurance Standards Board Corporate Plan 2023–2024*.

guidance might need to be developed for for-profit private sector entities preparing Tier 1 GPFS.

8 This paper does not discuss issues relating to for-profit private sector entities preparing Tier 1 GPFS and does not contain any staff views regarding the application of IFRS 18 for those entities.

9 This paper discusses issues relating to entities preparing Tier 2 GPFS, NFP private sector entities and public sector entities. For the purposes of discussing the timing related to due process steps or standard-setting work for those entities, the staff analysis and recommendations in this paper are developed based on the following assumptions:

(a) further due process steps or standard-setting work will not be needed before making AASB 18 for application by for-profit private sector entities preparing Tier 1 GPFS; and

(b) the Board will make AASB 18 within two months of the IASB issuing IFRS 18, in accordance with its KPI described in paragraph 4.

10 The staff recommended due process steps and related draft timeline noted in the diagram in paragraph 17 and Appendix D are subject to change if the Board decides to undertake further due process steps or standard-setting work for for-profit entities preparing Tier 1 GPFS prior to making AASB 18.

Reasons for bringing this agenda item to the Board

11 Paragraph 25(a) of the *AASB Not-for-Profit Entity Standard-Setting Framework* (NFP Entity Standard-Setting Framework) states that the Board would consider the need for NFP-specific Standards, amendments, guidance or examples when a new IFRS Standard is issued.

12 Additionally:

(a) at the time of analysing Australian stakeholders' comments on ED 298 (for the purposes of responding to the IASB on ED/2019/7), the Board did not consider the comments raised by ACAG and HoTARAC because that feedback was not relevant to for-profit entities.[2] The Board decided that feedback from public sector stakeholders should be analysed in detail when the proposals are closer to being finalised by the IASB; and

(b) in accordance with paragraph 7.6.2 of the Due Process Framework (quoted in paragraph 5), when making AASB 18, the Board will need to decide whether the application of AASB 18 may be limited to for-profit entities until any NFP amendments are determined (this is discussed in Section 5 of the paper).

13 Accordingly, in preparation for the Board's consideration of the application of AASB 18 in accordance with the due process described in paragraph 12(b), staff ask the Board to decide whether further due process steps and/or standard-setting work would be needed to determine whether, and how, modifications to IFRS 18 requirements or guidance would need to be developed for:

(a) WoG and GGS (see Sections 1 and 2);

(b) for-profit and NFP public sector entities preparing Tier 1 GPFS (see Sections 1 and 2);

2 The Board received four comment letters on ED 298. The Board considered comments from QBE and the University of Technology Sydney as well as feedback received from outreach activities when responding to the IASB. See the project summary for further information.

(c) NFP private sector entities preparing Tier 1 GPFS (see Section 3); and

(d) entities preparing Tier 2 GPFS, in accordance with the *AASB For-Profit Entity Standard-Setting Framework* (see Section 4).

14 Under paragraph 6.6 of the Due Process Framework, due process steps on IASB-related and domestic proposals for new Standards, amending Standards, Interpretations or other guidance may include:

(a) publishing Discussion Paper, Consultation Paper, Initiation to Comment, research paper or agenda consultation;

(b) establishing a project advisory panel, implementation or transition resource group or other type of specialist advisory group;

(c) holding roundtables and education sessions to solicit feedback; or

(d) undertaking field work.

Summary of staff recommendations

15 Staff recommend including all entities within the scope of AASB 18 when the Board makes that Standard in 2024. Staff recommend, prior to the mandatory effective date of AASB 18, reconsidering the need for any scope exclusion or deferral of the Standard for public sector and NFP private sector entities after the Board has considered the progress of its due process and standard-setting work.

16 Staff consider that further input from stakeholders are needed to determine whether, and how, modifications to AASB 18 or guidance would need to be developed. Leveraging AASB and IPSASB cross-cutting projects, staff recommend:

(a) in respect to WoG, GGS and for-profit and NFP public sector entities preparing Tier 1 GPFS, developing public-sector-specific modifications to IFRS 18 for those entities by:

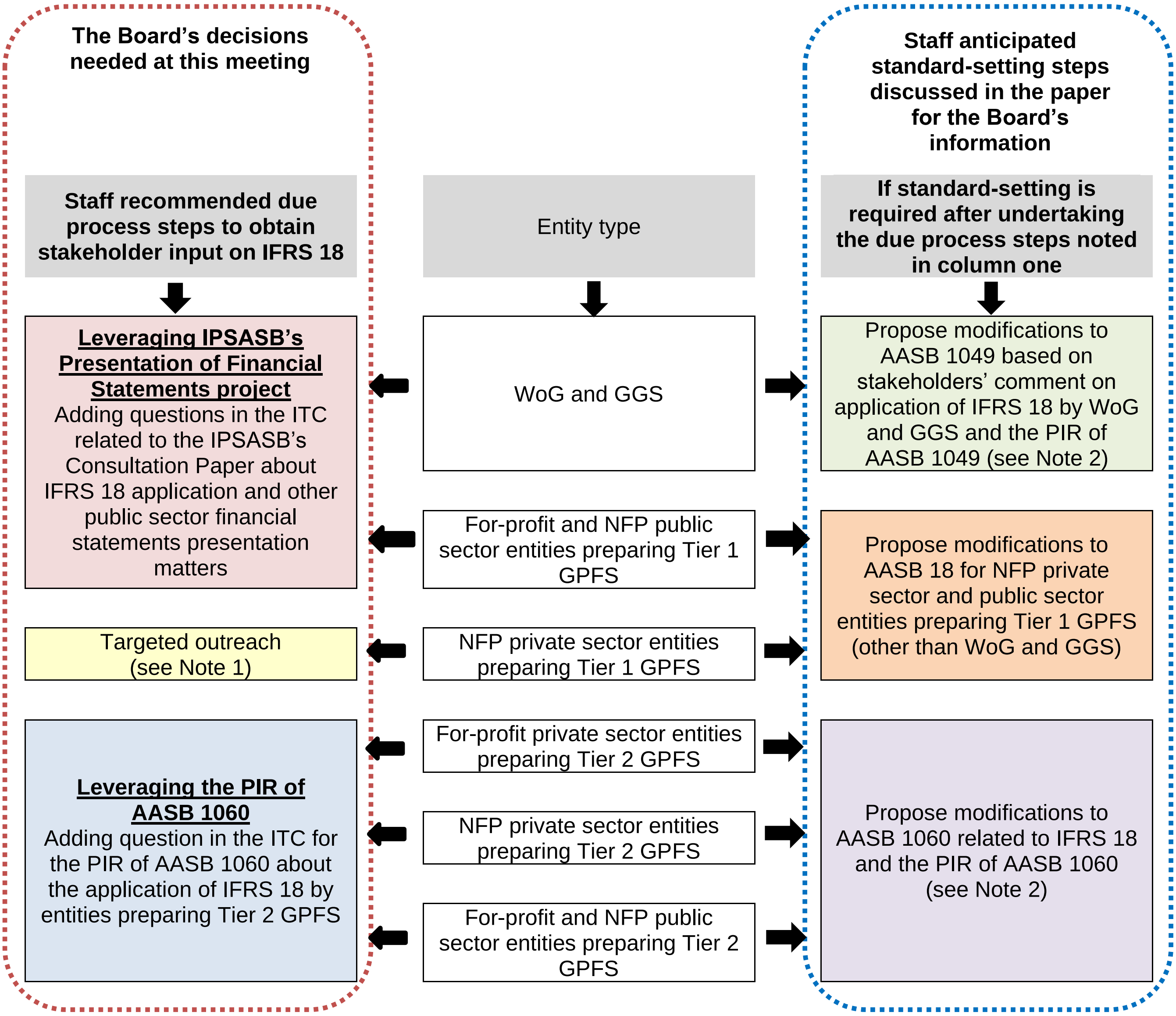
(i) contributing to the IPSASB's Presentation of Financial Statements project. Staff recommend exposing IPSASB's Consultation Paper in Australia for comment and adding AASB-specific questions to that document to gather stakeholder feedback; and

(ii) considering stakeholders' comments on the PIR of AASB 1049 commissioned by the FRC in 2020–2021;

(b) in respect to NFP private sector entities preparing Tier 1, undertaking targeted outreach to obtain stakeholder feedback regarding the application of IFRS 18 requirements; and

(c) in respect to entities preparing Tier 2 GPFS, expanding the scope of the forthcoming Invitation to Comment (ITC) related to the Post-Implementation Review (PIR) of AASB 1060 (expected to be published in Q4 2024) to add a section about the changes to the presentation of financial statements and disclosures introduced by IFRS 18 to gather stakeholder feedback on whether modification to IFRS 18 requirements or guidance would be needed for entities preparing Tier 2 GPFS.

17 The below diagram provides an overview of staff views and recommendations in this paper.



Note 1: At this stage, staff consider that obtaining feedback via targeted outreach (rather than through a consultation document) might provide sufficient input on the application of IFRS 18 by NFP private sector entities preparing Tier 1 GPFS. This is because feedback from NFP stakeholders preparing Tier 2 GPFS and NFP public sector entities might provide input to the Board on whether modifications to IFRS 18 would be needed for NFP entities preparing Tier 1 GPFS (see also paragraphs 58–60).

Note 2: Subject to the result of the additional due process steps noted in column one of the diagram, staff anticipate that modifications to AASB 1049, AASB 18 and AASB 1060 might be needed to reflect changes introduced by AASB 18. Ideally, to reduce disruption to entities, all proposed modifications to a Standard, including any modifications arising from the PIR of that Standard, should be made at the same time.

However, the Board could propose modifications to AASB 18, AASB 1049 and AASB 1060 related to the application of IFRS 18 in one Exposure Draft and undertaking separate Exposure Draft processes, at a later time, to consider any modifications to AASB 1060 arising from the PIR of AASB 1060, and modifications to AASB 1049 arising from the PIR of AASB 1049.

Structure of this paper

18 This paper follows the following structure.

(a) Section 1: Applying IFRS 18 requirements by WoG, GGS and public sector entities

(i) Section 1.1: Additional subtotals in the statement of profit or loss

(ii) Section 1.2: Disclosures about management-defined performance measures

(b) Section 2: Cross-cutting public-sector-specific projects

(c) Section 3: Applying IFRS 18 requirements by NFP entities preparing Tier 1 GPFS

(d) Section 4: Applying IFRS 18 requirements by entities preparing Tier 2 GPFS

(e) Section 5: The application of AASB 18

(f) Appendix A: AASB 1049 terminologies and defined subtotals (for information)

(g) Appendix B: Overview of cross-cutting AASB public-sector-specific projects (for information)

(h) Appendix C: Comments initially raised by ACAG and HoTARAC that have been addressed by IASB's tentative decisions (for information)

(i) Appendix D: Overview of draft timeline for due process steps and standard-setting tasks described in Section 1–4 (for information)

Section 1: Applying IFRS 18 requirements by WoG, GGS and public sector entities

19 The main changes to financial reporting requirements expected to be introduced by IFRS 18 are to:

(a) require additional subtotals in the statement of profit or loss;

(b) require disclosures about management-defined performance measures;

(c) enhance the requirements for grouping of information (aggregation and disaggregation) to help a company to provide useful information. These requirements include general principles for aggregation and disaggregation and specific requirements for disaggregation of 'other' balances, presentation of operating expenses in the statement of profit or loss and disclosure of specified operating expenses by nature included in each function line item; and

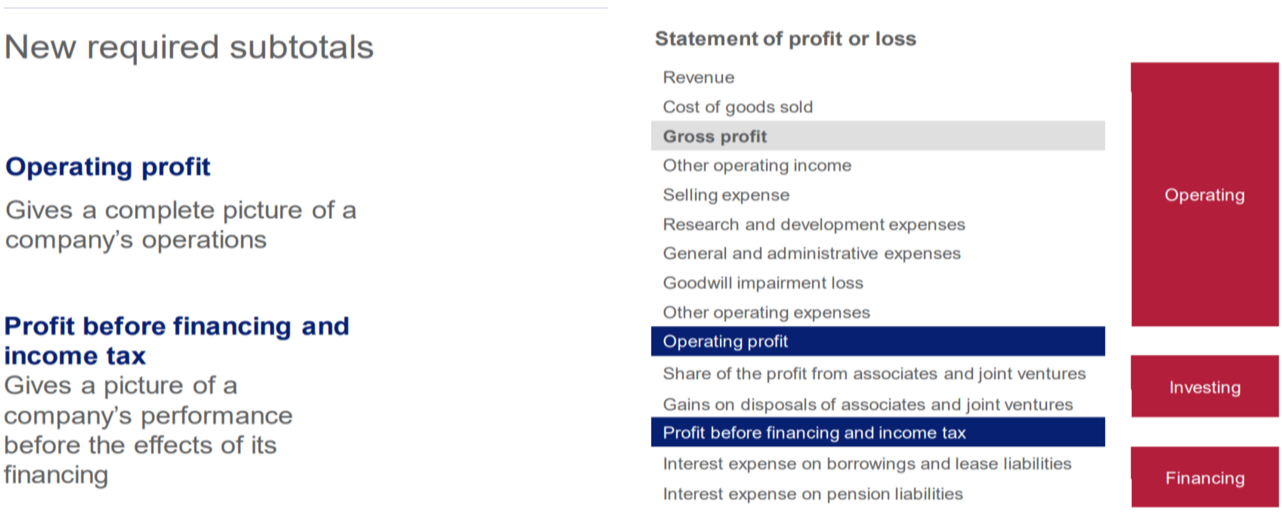
(d) require limited changes to the statement of cash flows, including the use of operating profit or loss subtotal as the starting point for the indirect method in the statement of cash flows.

20 Both ACAG and HoTARAC, in their comment letters on ED 298, commented that the IASB's proposals are heavily focused on the disclosure needs of private sector investors which are different to the needs of public sector users. They noted that proposals would require significant consideration and possible amendment for the public sector. Their concerns are related to the proposed requirements described in (a) and (b).

21 Staff observed from Agenda Paper 21 for the IASB's November 2023 meeting that the IASB has made tentative decisions that would address some concerns raised by ACAG and HoTARAC in ED 298. Those comments are noted in Appendix C to this paper but are not specifically discussed. That is, this paper highlights the concerns specific to public sector entities related to the proposed requirements described in (a) and (b) that are unlikely to be addressed by the IASB.

Section 1.1: Additional subtotals in the statement of profit or loss

22 One of the main changes expected to be introduced by IFRS 18 is the requirement for an entity to add two additional subtotals in the statement of profit or loss – "operating profit" and "profit before financing and income tax" (except for some entities where financing is their main business activities). This is illustrated in the below diagram extracted from page 9 of Agenda Paper 4 for the November 2023 IFRS Advisory Council meeting.



23 The IASB has tentatively decided not to define "operating profit". Instead, in applying those proposed new subtotals, an entity would present in the statement of profit or loss income and expenses classified in the following three categories:

(a) Operating category: Income and expenses arising from an entity's operations, including volatile and unusual income and expenses arising from an entity's operations; and includes, but is not limited to, income and expenses from an entity's main business activities.

(b) Investing category: Income and expenses from assets that generate returns individually and largely independently of other resources held by an entity. Income and expenses from cash and cash equivalents are to be classified in the investing category rather than the financing category.

(c) Financing category: Income and expenses from changes in the carrying amount of liabilities that arise from transactions that involve only the raising of finance, interest income and expenses, and income and expenses arising from the effects of changes in interest rates.

Concerns raised by ACAG and HoTARAC regarding

24 AASB 1049 requires WoG and GGS to present consolidated primary financial statements in a manner that is consistent with the Government Financial Statistics (ABS GFS Manual) published by the Australian Bureau of Statistics (ABS).[3]

25 Specifically, among other requirements, AASB 1049 requires WoG and GGS to:

(a) classify income and expenses as "transactions" and "other economic flows", which is different to the IASB's proposed categories of "operating", "investing" and "financing"; and

(b) present additional line items/subtotals in primary financial statements in addition to the requirements under AASB 101 and AASB 107 *Statement of Cash Flows* (AASB 1049 paragraphs 28, 32 and 36–37), as follows:

(i) in statements of financial position – "net worth";

(ii) in statements of comprehensive income – "net operating balance" (which is different to the IASB's proposed "operating profit), "total change in net worth (before transactions with owners in their capacity as owners, where they exist)", and "net lending/(borrowing) and its derivation from net operating balance"; and

(iii) in statements of cash flows – "cash flows relating to investing in financial assets for policy purposes", "cash flows relating to investing in financial assets for liquidity management purposes", and "cash surplus/(deficit) and its derivation" (which is measured without the deduction of the value of assets acquired under finance leases and similar arrangements).

26 Appendix A includes relevant definitions related to those AASB 1049 terminologies and defined subtotals and line items for the Board's information.

3 The principles in ABS GFS Manual aligns with the Government Finance Statistics Manual issued by the International Monetary Fund (IMF), which are designed to enable preparation of uniform statistics relating to all IMF member countries and is widely recognised in the international statistical community. Further information about GFS Manual can be found on this page of the ABS's website.

27 ACAG and HoTARAC are of the view that clarification and guidance are needed to align the new IFRS 18 requirements with AASB 1049 requirements. They request the Board to clarify how and where the existing presentation requirements in AASB 1049 will be presented alongside the IASB's proposed new subtotals.

28 Although the concerns raised by ACAG and HoTARAC were mainly related to the WoG and GGS consolidated financial statements, they provided other comments in their submissions, including comments relevant to other public sector entities. Their comments are summarised in paragraphs 29–30.

29 ACAG commented that:

(a) it is unclear whether the new IFRS 18 subtotals can be modified or adapted to suit the particular circumstances of the public sector. For example, "operating" may not be the most appropriate term to encompass the transactions relevant to the public sector, and the Department of Finance/Treasury of some jurisdictions require their public sector entities to report a "net cost of services" subtotal which is before "Income from State Government";[4] and

(b) the Board could consider permitting public sector and NFP private sector entities to present additional subtotals that exclude non-operating items, such as capital grants. Capital grants can vary significantly from one year to the next and are not directly related to an entity's underlying operations. ACAG are of the view that many NFP entities, including some NFP public sector entities, would prefer excluding capital grants from operating profit as they regard its inclusion as potentially misrepresenting the entity's results.

30 HoTARAC commented that:

(a) including new categories under "transactions" and "other economic flows" will make the statement of comprehensive income lengthy and complicated;

(b) public sector entities are funded differently to the private sector, therefore, "operating activities" for the public sector may be different to private sector. HoTARAC recommends the Board consult with the public sector to consider how the IASB's proposed requirements should be applied to public sector financial statements; and

(c) 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. Changing the classification of these items will affect key budget measures, including the cash surplus/(deficit) line item in the statements of cash flows (as noted in paragraph 25(b)(iii)).

Staff analysis

31 Paragraph BC7 of the IASB's [Basis for Conclusions for ED/2019/7] states that "the lack of specific requirements in IAS 1 has led to diversity in the presentation and calculation of subtotals even among entities in the same industry. Subtotals with the same label are often defined differently by different entities. This diversity makes it difficult for users of financial

4 "Net cost of services" is a key budget control mechanism commonly used by Federal and State Governments. It is calculated as the "profit or loss" for the period prescribed in AASB 101, adjusted for government contributions and appropriations.

statements to understand the information provided and compare information across entities …"

32 Staff observed that diversity in presentation and calculation of subtotals presented in primary financial statements, which is the main reason why the IASB is proposing to require additional subtotals to be presented in the statement of profit or loss, is not a prevalent issue in the public sector. This is because:

(a) at the WoG and GGS level, subtotals to be presented in primary statements are prescribed in AASB 1049; and

(b) the Department of Finance/Treasury and the Office of Local Government in each jurisdiction prescribed standardised presentation requirements for its public sector entities.

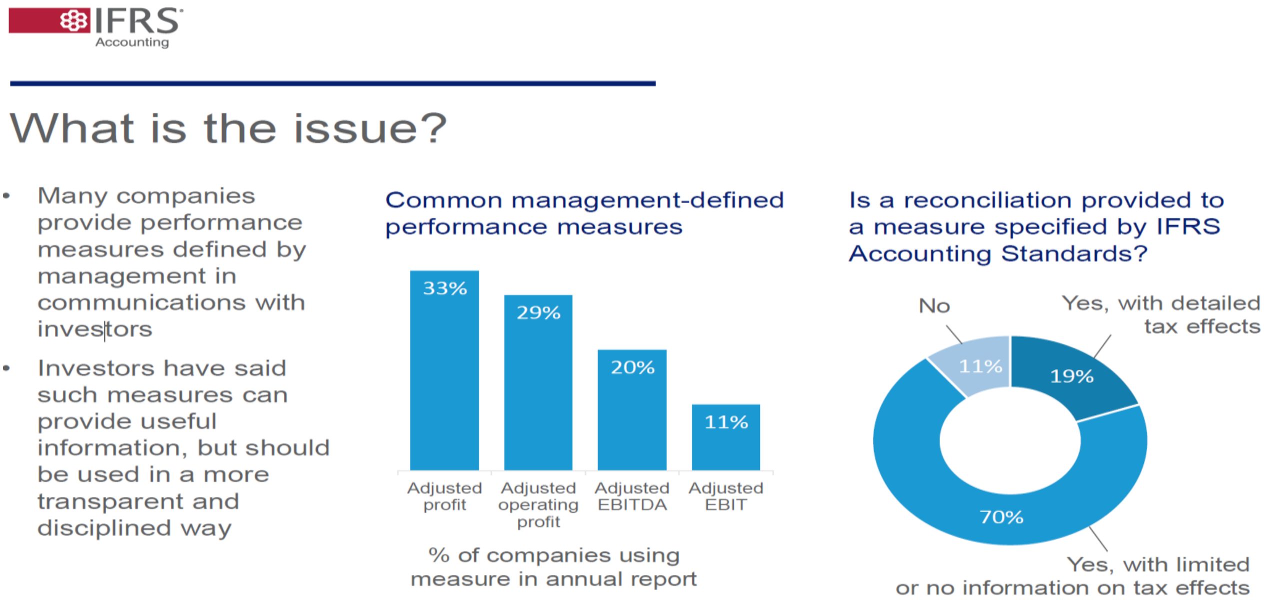
33 Accordingly, staff agree with ACAG and HoTARAC that standard-setting work would be needed to:

(a) assess which principles and requirements in IFRS 18 would be appropriate for WoG and GGS, in light of the requirements in AASB 1049; and

(b) determine whether any modifications or guidance would need to be developed to assist public sector entities preparing Tier 1 GPFS (other than WoG and GGS) in applying the principles of IFRS 18.

Section 1.2: Disclosures about management-defined performance measures

34 The IASB is proposing to require entities to make disclosures about management-defined performance measures (MPMs). Page 16 of the IASB's webinar presentation slides, which is reproduced below, provides examples of common MPMs and the issue IASB is aiming to resolve.



35 After considering stakeholders' feedback to ED/2019/7, IASB has tentatively decided to define MPMs as "subtotals of income and expenses that communicate to users of financial statements management's view of an aspect of an entity's financial performance" (paragraph C57 of Agenda Paper 21 for the IASB's November 2023 meeting).

36 Among other tentative decisions, the IASB has tentatively decided to require an entity to disclose in a single note to the financial statements (paragraph C66 of Agenda Paper 21 for the IASB's November 2023 meeting):

(a) why a MPM communicates management's view of performance, including an explanation of:

(i) how the MPM is calculated;

(ii) how the measure provides useful information about the entity's performance; and

(b) a reconciliation between a MPM and the most directly comparable subtotal or total specified in IFRS Accounting Standards.

Concerns raised by ACAG and HoTARAC

37 Both ACAG and HoTARAC questioned the usefulness to disclose information about MPMs in public sector entity financial statements. They commented that Governments are required to disclose their performance, either within the financial statements or as part of the annual reports and budget papers. As such, it may not be necessary to require MPMs to be disclosed in financial statements as entities can provide value-added additional information as appropriate without it being mandated. HoTARAC recommends further research to understand the relevance and usefulness of the proposed disclosure for public sector entities.

38 ACAG commented that if the proposals are mandated, it would be beneficial for the Board to provide additional guidance on applying the principles of MPMs in the public sector context to aid in transparency and comparability. They also provided the following comments:

(a) the additional information disclosed by GGS entities in compliance with AASB 1055 *Budgetary reporting* and the additional disclosures required by AASB 1052 *Disaggregated Disclosures* could be considered MPMs. ACAG recommends the Board provide guidance on how the proposals on MPMs interact with the current requirements in AASB 1055 and AASB 1052; and

(b) determining the completeness of MPMs disclosed in the financial statements might be a challenge for public sector entities because public sector entity financial statements have a broad range of users. It is unclear in the proposals what "communicate to users of financial statements" means. If MPMs encompass all public communications including social media, it would make it difficult for auditors to provide reasonable assurance that the MPMs are complete given the numerous communications that would need to be scanned.

Staff analysis

39 Paragraphs BC146–BC147 of the IASB's Basis for Conclusions for ED/2019/7 states that research undertaken by the IASB indicated that many companies provide MPMs in communications with users that can provide useful information, but there is a lack of transparency in how the MPMs are calculated and a lack of clarity regarding why those MPMs provide management's view of the entity's performance.

40 Staff consider that those issues raised by IASB's stakeholders about the lack of transparency in how are MPMs are calculated are unlikely to be prevalent in the public sector. Moreover, staff consider that WoG and GGS already comply with some of the principles of the IASB's proposals described in paragraph 36. This is because:

(a) AASB 1049 defined the additional subtotals in the primary statements of WoG and GGS financial statements (described in paragraph 25(b) above) and those subtotals are clearly defined and well understood by stakeholders including those in the statistic community;

(b) those additional subtotals described in (a) are “key fiscal aggregates” defined in AASB 1049.[5] AASB 1049 Appendix A states that key fiscal aggregates are “data identified in the ABS GFS Manual as **useful for macro-economic analysis purposes, including assessing the impact of a government and its sectors on the economy**.” Accordingly, staff consider that key fiscal aggregates defined in AASB 1049 could be considered MPMs (based on the recent IASB’s tentative definition noted in paragraph 35) as they would be subtotals of income and expenses that communicate to users of financial statements the financial performance of WoG and GGS; and

(c) AASB 1049 paragraph 41 requires WoG and GGS to disclose reconciliations of key fiscal aggregates measured under applicable Australian Accounting Standards and ABS GFS Manual.

41 Accordingly, staff agree with ACAG and HoTARAC that:

(a) further investigation and consultation with stakeholders would be needed to understand the relevance and usefulness of the proposed MPMs disclosure for public sector entities, in particular for WoG and GGS; and

(b) guidance would be needed to develop to identify MPMs in the context of public sector entities given the current disclosure requirements under AASB 1049, AASB 1052 and AASB 1055.

Staff conclusion regarding public sector entities

42 Based on the staff analysis noted in paragraphs 31–33 and 39–41, staff consider that the feedback from ACAG and HoTARAC indicate that two standard-setting projects are needed to:

(a) Standard-Setting Project 1 – develop modifications to IFRS 18 requirements or guidance for public sector entities preparing Tier 1 GPFS (other than WoG and GGS). Staff consider that any such modifications to IFRS 18 might also be relevant for NFP private sector entities preparing Tier 1 GPFS; and

(b) Standard-Setting Project 2 – modifications to AASB 1049 (related to WoG and GGS consolidated financial statements) to reflect relevant changes to financial statements presentations and disclosures introduced by IFRS 18.

43 Staff consider that the timing of those projects should take into account the timing of cross-cutting AASB and IPSASB projects. This is discussed in Section 2.

Question for Board members

Q1: Do Board members agree with the staff conclusion in paragraph 42 that two standard-setting projects are needed to consider relevant modifications to IFRS 18 and AASB 1049 for public sector entities and WoG and GGS?

5 Key fiscal aggregates are: opening net worth, net operating balance, net lending/(borrowing), change in net worth due to revaluations, change in net worth due to other changes in the volume of assets, total change in net worth, closing net worth and cash surplus/(deficit) (AASB 1049 Appendix A).

Section 2: Cross-cutting public-sector-specific projects

FRC's PIR of AASB 1049

44 In 2020–2021, the FRC commissioned an independent PIR of AASB 1049. Due to staff resource constraints, staff have not yet had an opportunity to consider the stakeholder feedback in detail. Staff consider that the scope of Standard-Setting Project 2 described in paragraph 42(b) should include considering whether modifications to AASB 1049 are needed based on the feedback received in the PIR. Appendix B provides a high-level overview of stakeholder feedback received in the PIR.

45 Staff consider that, to minimise disruptions to WoG and GGS, ideally, the Board would aim to develop one Standard to modify AASB 1049. However, if pressed for time – to make relevant modifications to Standards to allow WoG and GGS and public sector entities to apply AASB 18 at the expected mandatory effective date of annual periods beginning on or after 1 January 2027 with appropriate transition period – the Board could consider a two-phase approach via two Exposure Draft (ED) processes:

(a) one ED process to propose modifications to AASB 1049 to reflect relevant changes to the presentation of WoG and GGS consolidated financial statements based on IFRS 18; and

(b) undertake another ED process at a later time to propose further modifications to AASB 1049 to address stakeholder comments received in the PIR of AASB 1049.

IPSASB's Presentation of Financial Statements project

46 At its September 2023 meeting, the IPSASB approved the project brief for its Presentation of Financial Statements project. Based on that project brief, staff note that the IPSASB's project:

(a) aims to enhance communication of financial information by replacing IPSAS 1 *Presentation of Financial Statements* to help all public sector entities communicate their financial information better for accountability purposes and to the decision-makers that use this information;

(b) would consider reconciliation between statement of financial performance and budget information;

(c) would continue emphasising harmonisation with statistical accounting and address reconciliation between financial statements and GFS;

(d) would consider the forthcoming IFRS 18 to determine whether to introduce a sectioned statement of financial performance based on the three IFRS 18 categories; and

(e) would consider how IFRIC 17 *Distributions of Non-cash Assets to Owners* – that addresses how an entity should measure distributions of non-cash assets to owners acting in their capacity as owners – would affect public sector financial reporting.

47 The project brief includes an indicative timeline for the project, which is reproduced below.

Expected Completion		Major project milestone
2023	September	Approval of Project Brief
2025	June	Approval of Consultation Paper (Stage 1)
2025	November	End of CP comment period (Four months)
2026	September	Approval of Exposure Draft (Stage 2)
2027	February	End of ED comment period (Four months)
2027	December	Approval of Final Pronouncement (Stage 3)

48 Staff consider that the IPSASB's project is highly relevant to the Board's consideration of presentation of financial statements for public sector entities.

AASB Public Sector Financial Reporting Framework project

49 The Board added the Public Sector Financial Reporting Framework project to its work program since 2019. That project has the objective of clarifying and simplifying the financial reporting framework for public sector entities. Appendix B provides an overview of project for the Board's information.

50 Since the IPSASB is planning to consider how the principles in IFRS 18 should apply to NFP public sector entities as well as presenting budget information and Government Finance Statistics information in financial statements, which may provide input to the Board on the issues described in paragraph B3 of Appendix B, staff consider that it would be beneficial for the Board to consider the IPSASB's project when developing modifications to Australian Standards regarding public sector financial reporting, including the forthcoming AASB 18 and AASB 1049.

AASB PIR of Selected Public Sector Pronouncements

51 At its May 2023 meeting, the Board approved publishing an ITC for the PIR of the following public-sector-specific pronouncements:

(a) AASB 1050 *Administered Items*;

(b) AASB 1051 *Land Under Roads*;

(c) AASB 1052 *Disaggregated Disclosures*;

(d) AASB 1055 *Budgetary Reporting* (in the context of GGS entities);

(e) AASB 1004 *Contributions*; and

(f) Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

52 However, at its June 2023 meeting, the Board decided to defer the publication of that ITC to prioritise the development of ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*.

53 Staff note that there is no regulatory deadline for completing this PIR. Staff consider that it would be important to first consider stakeholder feedback related to AASB 1050, AASB 1052 and AASB 1055 before recommencing the planning work of the Public Sector Financial Reporting Framework.

Staff recommendation regarding public sector entities

54 Taking into account the abovementioned cross-cutting projects, and the staff view noted in Section 5 below (to initially include all entities within the scope of AASB 18 and prioritise work to consider public sector and NFP application issues), staff are of the view that:

(a) the two standard-setting projects described in paragraph 42 about assessing the application of IFRS 18 by public sector entities and by WoG and GGS should be prioritised over the PIR of Selected Public Sector Pronouncements and the work needed to address feedback received from the PIR of AASB 1049; and

(b) Australian stakeholders feedback on the IPSASB's project would likely provide significant input to the Board's own projects.

55 According, staff recommend actively contributing to the IPSASB's project. Staff recommend exposing the IPSASB's Consultation Paper in Australia for comment (which is likely to be in the form of AASB ITC document), and adding AASB-specific questions in that ITC to get stakeholder feedback on:

(a) the application of IFRS 18 requirements by Australian public sector entities (that feedback would inform the Board's Standard-Setting Project described in paragraph 42(a)); and

(b) whether any IPSASB's proposals, including about presentation of budget information and GFS reporting information, would be appropriate for application by Australian public sector entities (that feedback would inform the Board's Standard-Setting Project described in paragraph 42(b) and the Board's Public Sector Financial Reporting Framework project).

56 Staff recommend undertaking the following public sector standard-setting tasks in the order presented below:

(a) assessing the application of IFRS 18 requirements by public sector entities together with stakeholders' comments on the PIR of AASB 1049;

(b) responding to the IPSASB's Consultation Paper by exposing it in Australia for comment and adding AASB-specific questions to that document;[6]

(c) based on the work in (a) and (b), develop public-sector-specific modifications to AASB 18, which would require publishing an Exposure Draft. If appropriate, staff consider that the Exposure Draft should also include any proposed modifications for NFP private sector entities preparing Tier 1 GPFS;

(d) based on the work in (a) and (b), develop modifications to AASB 1049. As discussed in paragraph 45, if pressed for time, the Board can consider prioritising modifying AASB 1049 to reflect relevant changes introduced by IFRS 18 and undertaking another Exposure Draft process to address comments received from the PIR. If the Board decides to take the two-phase approach, relevant modifications to AASB 1049 regarding IFRS 18 can be exposed as part of the Exposure Draft described in (c);

(e) undertake the PIR of Selected Public Sector Pronouncements after the Board has progressed the tasks in (a)–(d); and

(f) consider the next steps of the Board's Public Sector Financial Reporting Framework project after the Board considers the results of the IPSASB's project and the PIR of Selected Public Sector Pronouncements.

57 Appendix D to this paper provides an overview of the indicative draft timeline for the abovementioned tasks for the Board's consideration.

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6 Subject to the Board's decision on the timing of other public-sector-specific tasks, staff consider that it might not be efficient to also publish the IPSASB Exposure Draft in Australia for comment. Instead, staff propose to consider the IPSASB's proposals in developing the Board's own consultation document relating to the Public Sector Financial Reporting Framework project.

Question for Board members

Q2: In respect to public sector entities, subject to the Board's consideration of Section 5, do Board members agree with the staff views and recommendations in paragraphs 54–56, including:

(a) prioritising the consideration of IFRS 18 application over the PIR of Selected Public Sector Pronouncements and the work needed to address feedback received from the PIR of AASB 1049; and

(b) responding to the IPSASB's Consultation Paper and leveraging that paper to get input from Australian Stakeholders stakeholder on:

(i) the application of IFRS 18 requirements by Australian public sector entities; and

(ii) whether any IPSASB's proposals, including about presentation of budget information and GFS reporting information, would be appropriate for application by Australian public sector entities?

Section 3: Applying IFRS 18 requirements by NFP private sector entities preparing Tier 1 GPFS

58 Because some comments raised by ACAG and HoTARAC regarding the application of AASB 18 appear to be relevant for NFP private sector entities (e.g. comments about capital grants and terminologies), staff considered:

(a) whether there would be a need to publish a consultation paper to gather input from stakeholders on the application of IFRS 18 requirements by NFP private sector entities preparing Tier 1 GPFS; and

(b) if so, whether it would be appropriate to leverage any forthcoming consultation or proposal documents relating to other NFP private sector projects (e.g. the forthcoming Exposure Draft related to the NFP Private Sector Financial Reporting Framework project which the Board is expecting to publish in H2 2024).

59 At this stage, staff recommend not to obtain input on the application of IFRS 18 requirements by NFP private sector entities preparing Tier 1 GPFS via any consultation paper, and instead, to discuss the matter with the Board's NFP Project Advisory Panel and other NFP private sector stakeholders during liaison meetings.

60 Staff consider that undertaking targeted outreach with relevant stakeholders might provide sufficient input on the matter. This is because:

(a) there is likely only a small number of NFP private sector entities preparing Tier 1 GPFS (because SAC 1 has not yet been amended for NFP entities and therefore many NFP private sector entities are preparing special purpose financial statements);

(b) feedback from stakeholders preparing Tier 2 GPFS (discussed in Section 4) and NFP public sector entities would likely provide input on whether modifications to IFRS 18 would be needed for NFP entities preparing Tier 1 GPFS; and

(c) NFP private sector entities preparing Tier 1 GPFS would have the opportunity to provide feedback on any proposed modifications to AASB 18 if the Board proceeds to an Exposure Draft.

61 Staff also consider that it might create confusion to stakeholders if the forthcoming Exposure Draft relating to the NFP Private Sector Financial Reporting Framework project is expanded to include the discussion of application of IFRS 18 by NFP private sector entities.

Question for Board members

Q3: Do Board members agree with the staff view in paragraphs 58–60 to obtain input about the application of IFRS 18 by NFP private sector entities preparing Tier 1 GPFS via discussion with stakeholders to inform any further standard-setting process?

Section 4: Applying IFRS 18 requirements by entities preparing Tier 2 GPFS

62 In accordance with paragraph 51–56 of the *AASB For-Profit Entity Standard-Setting Framework*, in respect to the process for setting Standards for for-profit entities preparing Tier 2 GPFS, the Board would first consider whether a new IFRS Standard or an amending Standard introduce a significant recognition and measurement difference between full IFRS Standards and the *IFRS for SMEs* Standard. If not, the Framework states that no further action is required unless:

(a) the disclosures address a matter of public policy;

(b) the disclosures are of particular relevance in the Australian environment; or

(c) the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.

63 The IASB is developing IFRS 18 to address feedback from users of for-profit entities' financial statements relating to presentation of financial statements and disclosures, in particular, regarding:

(a) diversity in the presentation and calculation of subtotals used in the statement of profit or loss. As quoted in paragraph 31, paragraph BC7 of the IASB's Basis for Conclusions for ED/2019/7 states that this diversity in the presentation and calculation of subtotals makes it difficult for users of financial statements to understand the information provided and compare information across entities; and

(b) the lack of transparency in how the management-defined performance measures (MPMs) are calculated. As noted in paragraph 39, paragraphs BC146–BC147 of the IASB's Basis for Conclusions for ED/2019/7 indicated that there is a lack of transparency in how the MPMs are calculated and a lack of clarity regarding why those MPMs provide management's view of the entity's performance.

64 Staff consider that there is merit in undertaking domestic due process steps to obtain stakeholder input about whether, and if so how, IFRS 18 requirements should be incorporated in AASB 1060 for Tier 2 GPFS. This is because:

(a) IFRS 18 would, among other changes, change the presentation of the statement of profit or loss and it would be important to obtain stakeholder input on whether:

(i) the concerns raised by IASB's stakeholders regarding subtotals and MPMs would extend to Tier 2 GPFS, or otherwise, whether the IFRS 18 requirements would be of particular relevance for entities preparing Tier 2 GPFS; and

(ii) there would be an interest in reading the statement of profit or loss of a Tier 2 GPFS following the same presentation as that for Tier 1 GPFS, and in the disclosures about MPMs (the IASB's tentative decisions about the MPMs disclosure requirements is noted in paragraph 36);

(b) other than stakeholder comments from outreach activities on ED 298, the Board did not receive feedback from for-profit entities or NFP private sector entities preparing Tier 2

GPFS. In addition to the comment letters from ACAG and HoTARAC (see Agenda Papers 8.2 and 8.3), the Board received only two other submissions on ED 298 which were from QBE and UTS (professor Peter Wells). Both QBE and UTS prepare Tier 1 GPFS and staff did not note any Tier 2-specific comments in those submissions;

(c) the comments from ACAG and HoTARAC on ED 298 (discussed in Section 1) may also be relevant to public sector entities preparing Tier 2 GPFS; and

(d) the IASB decided at its October 2023 meeting not to consider alignment with IFRS 18 in the third edition of the *IFRS for SMEs* Standard. Therefore, it is unlikely that IASB will issue any proposal document for aligning the *IFRS for SMEs* Standard with IFRS 18 in the near future.

65 Accordingly, staff consider that the feedback received on ED 298 is insufficient and further due process steps are needed to gather further input from stakeholders about whether modifications to IFRS 18 requirements or guidance would need to be developed for for-profit, NFP private sector and public sector entities preparing Tier 2 GPFS.

66 Staff observed that the Board has a regulatory requirement to complete a PIR of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* before July 2026. Accordingly, it is expected that the Board will publish an ITC to seek stakeholder feedback on AASB 1060. Subject to approval from the Board, staff expect that the ITC should be published in the fourth quarter of 2024, after the IASB has issued IFRS 18.

67 Staff recommend expanding the ITC for the PIR of AASB 1060 to also include a section about the changes to the presentation of financial statements and disclosures introduced by IFRS 18, and adding questions to stakeholders about whether any modifications to IFRS 18 requirements or guidance would need to be developed for entities preparing Tier 2 GPFS. Staff consider that leveraging the PIR of AASB 1060 project would be the most efficient and cost effective way to obtain stakeholder input on IFRS 18.[7]

68 Further to the two-phase approach described in paragraph 45 for modifying AASB 1049 for WoG and GGS, staff consider that if pressed for time – to make relevant modifications to Standards to allow entities preparing Tier 2 GPFS to apply AASB 18 with appropriate transition period – the Board can consider:

(a) proposing modifications to AASB 1060, AASB 18 and AASB 1049 related to the application of IFRS 18 in one Exposure Draft; and

(b) undertaking separate Exposure Draft processes, at a later time, to consider modifications to AASB 1060 arising from the PIR of AASB 1060, and modifications to AASB 1049 arising from the PIR of AASB 1049.

69 Appendix D to this paper provides an overview of the indicative draft timeline for the abovementioned steps and tasks for the Board's consideration.

7 As discussed in Agenda Item 3, staff consider that the ITC for the PIR of AASB 1060 should also include questions for stakeholders about the forthcoming IFRS Standards *Subsidiaries without Public Accountability: Disclosures* (expected to be issued in H2 2024 with an expected application date for annual periods beginning on or after 1 January 2027) and the third edition of the *IFRS for SMEs* Standard that is currently being developed.

Questions for Board members

Q4: Do Board members agree with the staff view in paragraphs 64–65 that domestic due process steps are needed to gather further input from stakeholders about whether modifications to IFRS 18 requirements or guidance would need to be developed for-profit, NFP private sector and public sector entities preparing Tier 2 GPFS?

Q5: If the Board agrees in Q4, do Board members agree with the staff recommendation in paragraph 67 to expand the ITC for the PIR of AASB 1060 to gather feedback on IFRS 18?

Section 5: The application of AASB 18

Application of IFRS 18 requirements by Australian entities

70 Paragraph 7.6.2 of Due Process Framework states that "the application of IFRS-based Standards may be limited to for-profit entities until the not-for-profit amendments are determined." Accordingly, staff assessed whether it would be appropriate to include all entities the scope of the Standard when the Board makes AASB 18 in 2024.

71 There are precedents for the Board to initially exclude certain entities from the scope of a new IFRS-based Standard or to defer the application date of a Standard for certain entities. For example:

(a) when issuing AASB 10 *Consolidated Financial Statements* in 2011, the Board provided a one-year deferral for NFP entities due to time needed to consider NFP and/or public sector application issues; and

(b) when issuing AASB 17 *Insurance Contracts* in 2017, the Board excluded NFP public sector entities from the scope of the Standard and prioritised standard-setting work to develop public-sector-specific modifications to AASB 17.

72 If the Board does not prioritise work to consider IFRS 18 application issues for public sector and NFP private sector entities, staff consider that initially scoping out those entities from AASB 18 would provide comfort to stakeholders that those entities would not be required to apply the new Standard at the expected mandatory effective date of annual periods beginning on or after 1 January 2027.

73 Initially excluding certain entities from the scope of AASB 18 would mean that those entities would continue applying AASB 101 *Presentation of Financial Statements* unless the Board decides otherwise.

Arguments for initially scoping out public sector and NFP private sector entities

74 Staff acknowledged that the Board has other priority projects in its work program and there might be arguments for deferring wok on considering IFRS 18 application issues for NFP and public sector entities, such as:

(a) the experience of for-profit entities might provide insights to the Board on how the Standard would need to be modified to assist public sector entities and NFP private sector entities in applying the Standard.[8] The IFRS Advisory Council is planning to undertake implementation support activities for IFRS 18 throughout 2025–2027 and it

8 IASB staff noted in Agenda Paper 30E for the October 2023 IASB meeting (page 17) that consideration about aligning the *IFRS for SMEs* Standard with IFRS 18 would benefit from the implementation experience of entities applying full IFRS Standards.

might be beneficial for the Board to consider any publication from those activities when developing any Australian modifications to the Standard;

(b) there might be risk of stakeholder fatigue to request Australian stakeholders to consider how the requirements of IFRS 18 might affect their financial statements since significant stakeholder engagement are expected for the following projects:

   (i) Climate-related Financial Disclosure – some NFP and public sector entities are expected to apply the forthcoming Australian Sustainability Reporting Standards from annual periods beginning on or after 1 July 2024 on a mandatory basis; and

   (ii) the NFP Private Sector Financial Reporting Framework project, including proposed NFP-specific modifications to the *Conceptual Framework for Financial Reporting* (the Board is expecting to publish the related Exposure Draft in H2 2024); and

(c) in respect to public sector entities:

   (i) the Board added Public Sector Financial Reporting Framework project to its work program with an objective of addressing broader public sector financial statements reporting issues (see Appendix B for information about the project). Issues regarding application of IFRS 18 should be considered collectively with other reporting issues. It would be more cost effective and less disruptive to entities if the Board issues one lot of amendments to relevant Standards rather than multiple lots; and

   (ii) the IPSASB is undertaking its Presentation of Financial Statements project which would consider how the principles in IFRS 18 should apply to NFP public sector entities as well as presenting budget information and Government Finance Statistics information in financial statements (see Section 2 for details). It would be beneficially for the Board to consider the final IPSAS from that project when developing modifications to Australian Standards regarding public sector financial reporting.

Arguments for initially scoping in all entities

75 Notwithstanding the arguments noted in paragraph 74, assuming the Board will issue AASB 18 for for-profit private sector entities preparing Tier 1 GPFS without undertaking additional standard-setting work, staff recommend the Board:

(a) include all entities within the scope of AASB 18 when it is issued in 2024;

(b) prioritise undertaking the due process steps and standard-setting work discussed in Sections 1–4 to consider IFRS 18 application issues; and

(c) prior to the mandatory effective date of AASB 18, reconsider the need for any scope exclusion or deferral of the Standard for public sector entities and/or NFP private sector entities, after the Board has considered the progress of its due process and standard-setting work.

76 This is because:

(a) given the Board's policy for adopting IFRS Standards for public sector and NFP private sector entities (and making modifications only when necessary), staff observed that based on the NFP Standard-Setting Framework, from a standard-setting perspective:

   (i) it would be more appropriate to align with the IASB's plan to issue IFRS 18 and replace IAS 1, and consider whether amendments to the new requirements introduced by IFRS 18 would be needed, than to permit public sector and NFP private sector entities to continue applying AASB 101 that would arguably be considered a non-IFRS-based Standard when IAS 1 is superseded by IFRS 18; and

(ii) if the Board decides to keep status quo for public sector and NFP private sector entities after undertaking standard-setting work – that is, to retain the requirements stated in AASB 101 without incorporating any changes introduced by IFRS 18 – the Board could add Aus paragraphs to AASB 18 to exempt those entities from certain IFRS 18 requirements, or modify relevant requirements, to achieve status quo;

(b) initially scoping in all entities and prioritising standard-setting work to consider public sector and NFP private sector entity application issues is the usual process that the Board follows when the IASB issues a new Standard. For example:

(i) AASB 9 *Financial Instruments* – no scope exclusion or deferral was provided to any entity. The Board added Appendix C *Australian implementation guidance* to AASB 9 two years after making AASB 9;

(ii) AASB 15 *Revenue from Contracts with Customers* – no scope exclusion or deferral was initially provided to any entity. The Board decided at the end of its standard-setting work to defer the application date of AASB 15 for NFP entities by one year; and

(iii) AASB 16 *Leases* – no scope exclusion or deferral was provided to any entity. The Board added NFP amendments to AASB 16 two years after making AASB 16;

(c) if the Board prioritise the work described in Sections 1–4 (particularly if the Board adopts the two-phase approach described in paragraph 68 to address IFRS 18 application issues before addressing comments from the PIR of AASB 1060 and the PIR of AASB 1049), it is likely that the Board would be able to finalise any public-sector or NFP-specific modifications to relevant Standards before public sector and NFP private sector entity would have to prepare financial statements applying AASB 18 under the expected mandatory application date of annual periods on or after 1 January 2027 (subject to consideration of any additional transition period needed for NFP and public sector entities to apply the modifications);

(d) IFRS 18, if issued in 2024, will have a longer implementation period compared with other new IFRS Standards. IFRS 18 and related modifications to other Standards are not expected to affect recognition and measurement requirements – they would only affect the presentation of the statement of profit or loss and the statement of cash flows and certain disclosures – therefore, implementation efforts by entities might not be as great as other new IASB Standards, such as those mentioned in (a); and

(e) IFRS 18 would consequentially amend other Accounting Standards in addition to replacing IAS 1. Excluding any entity from the scope of IFRS 18 and related modifications to other Standards would require the Board to main two versions of Accounting Standards to permit the excluded entities to continue applying existing Standards. Maintaining two versions of any Standard for any period of time would mean that the Board would also need to consider consequential amendments for any other international and domestic projects to both versions. Maintaining two versions of multiple Standards would be time consuming and would require significant staff resources. Significant staff time and resources were incurred to maintain two versions of Standards when the Board deferred the application of AASB 15 for NFP entities one year later than the application date for for-profit entities.

77 Staff consider that the arguments for initially including all entities within the scope of AASB 18 outweigh the arguments for initially excluding certain entities.

Question for Board members

Q6: Do Board members agree with the staff recommendation in paragraph 75 to:

(a) include all entities within the scope of the Standard when issuing AASB 18 in 2024; and

(b) prioritise undertaking the due process steps and standard-setting work described in Sections 1–4 to address Tier 2, public sector and NFP private sector entity application issues?

Appendix A: AASB 1049 terminologies and defined subtotals

A1 As noted in paragraph 25 of the paper, AASB 1049 requires WoG and GGS to:

(a) classify income and expenses as “transactions” and “other economic flows”; and

(b) present additional subtotals and line items in statements of financial position and statements of comprehensive income and statements of cash flows.

A2 The below table lists out those subtotals and relevant definitions.

AASB 1049 terminology and subtotal	**Relevant definition**
Terminology	
Transactions	Interactions between two institutional units by mutual agreement or actions within a unit that it is analytically useful to treat as transactions. Defined in the ABS GFS Manual (Glossary, page 263).
Other economic flows	Changes in the volume or value of an asset or liability that do not result from transactions (i.e. revaluations and other changes in the volume of assets). Defined in the ABS GFS Manual (Glossary, page 260).
Additional subtotal in the statement of financial position	
Net worth	Assets less liabilities and shares/contributed capital. For the GGS, net worth is assets less liabilities since shares and contributed capital is zero. It is an economic measure of wealth and reflects the contribution of governments to the wealth of Australia. Defined in the ABS GFS Manual (Glossary, page 259).
Additional subtotals in the statement of comprehensive income	
Net operating balance	This is calculated as income from transactions minus expenses from transactions. Based on the definition in the ABS GFS Manual (Glossary, page 259).
Total change in net worth (before transactions with owners in their capacity as owners, where they exist)	N/A – see above definition of net worth
Net lending/(borrowing) and its derivation from net operating balance	Net lending/(borrowing) – The financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position. Based on the definition in the ABS GFS Manual (Glossary, page 259).
Additional line item in the statement of cash flows	
Cash surplus/(deficit)	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets less distributions paid less value of assets acquired under finance leases and similar arrangements. Defined in the ABS GFS Manual (paragraph 2.124).

Appendix B: Overview of cross-cutting AASB public-sector-specific projects

B1 This appendix provides an overview of the Board's Public Sector Financial Reporting Framework project and an overview of stakeholder feedback received in the FRC's PIR of AASB 1049, for the Board's information.

Public Sector Financial Reporting Framework

Why did the Board add the project to the work program?

B2 In 2014, the FRC's Financial Reporting Taskforce published a report *Financial Reporting – Issues, Recommendations and Summary of Observations* from its investigation into Australia's financial reporting requirements. The report shows that the current financial reporting requirements for all sectors are complex. The Taskforce recommended that a new reporting framework is developed to define appropriate reporting requirements based on an entity's risk profile and public accountability and the likely users of an entity's financial reports.

B3 Moreover, the Board's Research Report No. 6 showed that the cost of preparation (including valuation of non-financial assets) and audit of Australian public sector entities' financial statements is estimated to be $0.9 billion a year. It outlines the following four key issues with the current financial reporting regime for the public sector in Australia.

(a) Issue 1: Significant cost of preparing GPFS when user needs are unclear.

(b) Issue 2: Inconsistency in reporting and assurance requirements across different jurisdictions in Australia.

(c) Issue 3: Complex and technical reporting requirements unique to Australian Public Sector.

(d) Issue 4: Lack of linkage of financial reports with performance reports, budget accountability reporting and fiscal sustainability reporting.

B4 Accordingly, the Board added the Public Sector Financial Reporting Framework project to its work program to clarify and simplify the financial reporting framework for public sector entities.

What are the objectives of the project?

B5 The objectives of the project are to:

(a) develop objective criteria to determine which entities of the Commonwealth and State, Territory and Local Governments should be required to prepare GPFS; and

(b) determine the financial reporting requirements that would apply to the financial statements.

What work has been undertaken?

B6 The FRC Public Sector Advisory Group (formerly Public Sector Working Group) was leading the initial phase of the project, including consulting stakeholders to understand whether a third reporting tier (with fewer requirements than Tier 1 or Tier 2 financial reports) would be beneficial to streamline the reporting requirements for certain public sector entities.

B7 To facilitate initial discussions with stakeholders, staff of the AASB and the Commonwealth Department of Finance prepared draft templates to illustrate possible reporting requirements of Tier 3 financial statements. Those templates were discussed by HoTARAC members and the feedback indicated that such a Tier 3 reporting framework would likely be suited only for a small number of public sector entities. Instead, to better address the issues described in paragraph B3, HoTARAC suggested a review of Tier 1 and Tier 2 reporting requirements for public sector entities prior to progressing further with the development of a Tier 3 framework.

B8 Informal feedback received from ACAG also indicated the preference for the Board to consider broader public sector financial reporting issues to realign financial reporting requirements to the current needs of users of financial reports at all levels of government (i.e. not prioritising issues relating to smaller or less complex entities). ACAG commented that issues regarding consolidated financial reports, budgetary reporting, and administered items should be considered collectively as part of this project.

Why is this project not yet recommenced?

B9 Given the change in the focus of the project – from the previous focus of developing a Tier 3 framework to undertaking a wider ranging review of public sector financial reporting requirements – careful planning will be needed to redefine the scope of the project.

B10 This project has not yet been recommenced due to:

(a) staff resource constraints;

(b) the staff view that it would be beneficial to consider the IPSASB's Differential Reporting project. That project was put onto the IPSASB's work plan to consider developing reporting requirements (or exemptions to current requirements) for less complex public sector entities. However, at its June 2023 meeting, the IPSASB decided to develop other forms of guidance, in lieu of a standard-setting solution, to help public sector entities better access, understand, and apply IPSAS. Given the change in the project objective, this IPSASB project is unlikely to provide much input to the Board's projects; and

(c) as discussed in Section 2 of this paper, staff consider that it would be important for the Board to first consider the results of the IPSASB's Presentation of Financial Statements project and consider the AASB 1049 implementation issues (discussed below) and any stakeholder feedback on the forthcoming PIR of Selected Public Sector Pronouncements.

FRC's PIR of AASB 1049

B11 During the planning work of the Public Sector Financial Reporting Framework project, the FRC decided that it would be important to undertake a PIR of AASB 1049 and PIR of AASB 1055 (in respect to WoG and GGS) to:

(a) evaluate the extent to which AASB 1049 and the budgetary disclosure requirements in AASB 1055 have been successful in harmonising GFS and GAAP reporting, such that the objective of the FRC direction has been achieved;

(b) develop improvements, if needed, to AASB 1049 to better achieve the objective of the FRC strategic direction and the objectives set out in AASB 1049;

(c) evaluate the costs and benefits of applying AASB 1049 and the budgetary disclosure requirements in AASB 1055; and

(d) reassess whether there is a need to have a specific Accounting Standard to harmonise GFS and GAAP.

B12 The report on the PIR of AASB 1049 was included in Agenda Item 4B for the FRC December 2021 meeting (page 24 for the document).

B13 The PIR indicated that there is strong support for retaining AASB 1049 and AASB 1055 in their current form and that FRC direction has been achieved – AASB 1049 has been successful in harmonising GFS and GAAP reporting.

B14 Stakeholders commented that no significant changes should be made to AASB 1049 or AASB 1055 (in respect of WoG and GGS) but have provided some suggestions on how those Standards could be improved. Suggestions relating to presentation of primary financial statements, MPMs and aggregation/disaggregation information include:

(a) consider simplifying the requirement in AASB 1049 paragraph 48 for disclosure of total assets by function;

(b) consider permitting the use of more user-defined fiscal aggregates, in addition to those mandated as key fiscal aggregates in AASB 1049;

(c) remove the public sector requirement to present a statement of changes in equity in circumstances where it is redundant because it does not provide additional information to that in the other statements and explanatory notes; and

(d) reducing the extent of budgetary disclosures relating to the statements of financial position (information should focus only on items like capital expenditure, borrowings and unusual or particularly significant items).

B15 Due to current staff resource constraints, a timing has not been set regarding when to consider the PIR report in detail.

Appendix C: Concerns initially raised by ACAG and HoTARAC that have been addressed by IASB's tentative decisions

C1 Staff observed that the IASB has made several tentative decisions that would address some concerns raised by ACAG and HoTARAC in ED 298. Those comments are noted below for the Board's information.

C2 **Unusual income and expenses** – The Exposure Draft proposed introducing a definition of 'unusual income and expenses' and proposed requiring an entity to disclose unusual income and expenses in a single note. ACAG considered that the proposed definition was vague and would open to interpretation and raised concerns regarding the assurance of those amounts. The IASB has tentatively decided not to proceed with any specific requirements for disclosure of unusual income and expenses as part of the project (paragraph C52 of Agenda Paper 21 for the IASB's November 2023 meeting).

C3 **Integral and non-integral associates and joint ventures –** The Exposure Draft proposed requiring a new "operating profit or loss and income and expenses from integral associates and joint ventures" subtotal to be added to the statement of profit or loss. ACAG and HoTARAC recommended the AASB to provide further guidance to assist public sector entities to better understand whether "significant interdependency" exists in determining which associates and joint ventures are considered "integral". The IASB has tentatively decided to withdraw the proposed requirement (paragraph C3 of Agenda Paper 21 for the IASB's November 2023 meeting).

C4 **Income and expenses from cash and cash equivalents** – ACAG and HoTARAC did not agree with the proposal in the Exposure Draft to classify income and expenses from cash and cash equivalents in the financing category. The IASB has tentatively decided to classify income and expenses from cash and cash equivalents in the investing category rather than the financing category (paragraph C8(d) of Agenda Paper 21 for the IASB's November 2023 meeting).

C5 **The proposed concept of "the provider of finance will be appropriately compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration" to be added to the definition of 'financial activities' in IAS 7 *Statement of Cash Flows* –** The ACAG commented that further guidance would be needed to assist public sector entities in determine what "appropriately compensated" means in the public sector environment of low/free loans. The IASB tentatively decided not to proceed with the proposed addition to the definition of 'financing activities' in IAS 7 (paragraph C10 of Agenda Paper 21 for the IASB's November 2023 meeting).

C6 **Proposed changes to terminologies –** The ACAG did not support the proposed change in terminology in the Exposure Draft from "owners in their capacity as owners" to "holders of claims classified as equity" because public sector entities may have equity members without issuing the equity interest. The IASB tentatively decided not to revisit the lists of line items brought forward from paragraphs 54 and 82 of IAS 1 (paragraph C43 of Agenda Paper 21 for the IASB's November 2023 meeting).

Appendix D: Overview of draft timeline for due process steps and standard-setting tasks described in Sections 1–4

The below table provides an overview of the draft timeline for the due process steps and standard-setting tasks described in Sections 1–4 for the Board's consideration.

	H2 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027	Q1 2028	Q2 2028
PIR of AASB 1060 (Assuming: • the Board decides to maintain AASB 1060 after considering the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures*; and • modifications to AASB 1060 are needed due to feedback from the PIR and/or application of IFRS 18)	Publish ITC	Outreach	Outreach / Feedback statement	Develop ED to modify AASB 1060 including IFRS 18-related changes											
Assess application of IFRS 18 by public sector entities and stakeholders' comments on the PIR of AASB 1049 (Also consider feedback on IPSASB's project when developing ED to propose modifications to AASB 1049)	Analysis of issues			Develop ED to modify AASB 1049 including IFRS 18-related changes *(if the Board does not adopt the two-phase approach)*		Publish ED/ Outreach	Issue final Std								
Consider IPSASB's project, and exposing IPSASB's Consultation Paper in Australia for comment		Consider IPSASB meeting papers		Publish ITC and outreach	Prepare sub. to IPSASB										
Develop modifications to AASB 18 for NFP and public sector entities (publish ED for 60 days)					Publish ED to modify AASB 18/ Outreach	Issue final Std									
If the Board decides to adopt the two-phase approach, this ED would also include modifications to AASB 1060 and AASB 1049 to reflect relevant IFRS 18 requirements. However, a longer comment period might be needed					Publish ED to modify AASB 18/1060/ 1049	Outreach	Issue final Std								
PIR of Selected Public Sector Pronouncements (publish ITC for 150 days)								Publish ITC/ outreach	Outreach	Consider feedback	Consider standard-setting work				

	H2 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027	Q1 2028	Q2 2028
Develop modifications to AASB 1049 based on PIR feedback, if the Board decides to adopt the two-phase approach (publish ED for 90 days)										Consider IPSASB meeting papers	Publish ED to modify AASB 1049/ Outreach	Issue final Std			
Public Sector Financial Reporting Framework project												Consider IPSASB Std	Develop project scope	Develop consultation document	