



Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Ms Peach

Proposed deferral of application dates of the new/coming standards on *Income of Not-for-Profit (NFP) Entities* and *AASB15 Revenue from Contracts with Customers* (incorporating the yet to be issued guidance for NFP entities), and on *Service Concession Arrangements for Grantors*.

As you are aware, the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC has been, and remains, highly supportive of AASB's efforts over recent times to progress and finalise high quality standards suitable for the Australian context (incorporating both the private and public sectors) on accounting for revenue from contracts with customers (AASB15 and the related NFP implementation guidance), accounting for income by NFP entities, and grantor accounting for service concession arrangements. Without doubt, the implementation of these standards/guidance once issued will significantly improve the quality of financial reporting by public sector and other NFP reporting entities.

The reason for writing is to request the AASB to consider deferring the application dates of these standards for the public sector and other NFP reporting entities in light of:

- the additional time it has taken to finalise the standards including: the related NFP implementation guidance and the expected scale of change required for their implementation;
- the particular public sector reporting protocols that implicitly provide for the effective implementation of new standards one year earlier via jurisdictional Budgets; and
- the consequent implications on the preparers of financial reports to prepare and deliver effective implementation in an orderly managed manner.

Further support for this request is provided below:

AASB15 AND AASB *Income of Not-for-Profit Entities*

ED 260 *Income of NFP Entities* was issued in April 2015 proposing guidance to assist NFP entities to apply the principles of AASB 15 *Revenue from Contracts with Customers* and replace the income recognition requirements in AASB 1004 *Contributions*. The proposed application date for the Australian Implementation Guidance for NFP entities in relation to AASB 15 and [draft] AASB 10XX was for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. HoTARAC notes that the application date was subsequently deferred to annual reporting periods beginning on or after 1 January 2018 (with no comparatives required) to align with the deferred application date for AASB 15.

Based on HoTARAC's understanding of the deliberations of the AASB to date, the proposed standard and associated guidance are expected to substantially change revenue recognition by public sector/NFP entities, in particular, for the accounting of grant revenue and licence fees which are major sources of revenue for the public sector. The planning, education and implementation of these changes will require substantial effort and investment in education, and high level briefings, analysis of the changes, assessment of the financial impacts for each entity in the respective jurisdictions, and implementation of system and process changes. Given the delay in the finalisation of the standard and guidance in relation to the application of AASB 15 by NFP entities, HoTARAC seeks a deferral of the application date by at least a further 12 months with no comparatives.

In HoTARAC's view, the requested deferral would provide a similar lead time for the preparation and implementation of the changes as the private sector, has had for AASB 15, that was initially issued in December 2014 with an initial application date for annual reporting periods beginning on or after 1 January 2017 before being deferred for a further year (i.e. total lead time of 3 years).

Service Concession Arrangements: Grantors

ED 261 *Service Concession Arrangements: Grantor* was issued in May 2015 in relation to the accounting for service concession arrangements by a grantor that is a public sector entity. The proposed application date for the [draft] AASB 10XX was for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

HoTARAC's response to the ED in August 2015:

- recommended the mandatory effective date be delayed to ensure preparers have sufficient time to identify all relevant arrangements, and gather and analysis all necessary information; and
- requested additional guidance to ensure the control criteria, definition of public service and transitional provisions could be applied consistently and appropriately.

NSW Treasury (our Member) in their individual submission recommended:

- clearer explanation of the principles behind the proposed standard and guidance; and
- the AASB initiate and prioritise a project to develop a more principles-based, transaction neutral approach to accounting for service concession arrangements that would allow preparers to state compliance with IFRS.

The public sector has entered into a significant number of material transactions that would potentially qualify as service concession arrangements. Further innovations to existing arrangements are expected, with an increasing trend towards privatisation and business models in which the government competes with the private sector.

HoTARAC anticipates that the assessment of how the proposed new standard applies will be a lengthy process, under which each potential service concession arrangement will need to be closely examined. Where appropriate, it will also be necessary to determine the alternative accounting treatment of transactions that do not fall under the proposed new standard, but which contain features similar to a service concession arrangement.

Preparers will also need to address the practical implications. In particular operators may not have provided relevant information on service concession arrangements to the grantors in the past, and there may be some restrictions on obtaining such information.

HoTARAC understands that the AASB is continuing to develop the proposed standard and guidance. However, implementing the proposed standard and associated guidance will require substantial time and resources and HoTARAC strongly recommends a deferral of the application date by at least a further 24 months.

Other public sector considerations

The requested deferrals to the above new standards are also to recognise the unique needs of public sector entities, as the new standards are expected to be first implemented for the earlier production of respective jurisdictions' budgets, with budget preparation in most jurisdictions beginning at least six to nine months before the start of the applicable financial reporting period. Furthermore, sufficient lead-time should also be provided to jurisdictions to enable impact analysis of the new standards prior to the budget deliberation process to establish a baseline, which realistically could only begin once the standard and guiding principles have been issued by the AASB.

In addition, other substantial new accounting standards will come into effective during the coming years, particularly *AASB 16 Leases* and *AASB 9 Financial Instruments*, which HoTARAC accepts is no different to for-profit entities. However, the for-profit entities will not have the additional burden of analysing and determining approaches to compliance with the additional standards on which we are seeking deferrals, as these will primarily apply to NFP entities.

If you have any queries regarding HoTARAC's comments, please contact Geoff Britt from the ACT by phone on 02 6207 0259 or by email, geoff.britt@act.gov.au.

Yours sincerely



Stephen Miners

Acting Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

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