Australian Government

Australian Accounting Standards Board

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5 August 2011

Mr Grant Hehir
Chair
Heads of Treasuries Accounting and Reporting
Advisory Committee
Department of Treasury and Finance
GPO Box 4379
Melbourne Vic 3001

Dear Grant

RE: AASB Technical Agenda/Priority Public Sector Issues

Thank you for your two letters of 28 July, 2011. The AASB appreciates very much the input from HoTARAC on AASB's work programme. As we discussed recently, it is particularly timely given the forthcoming AASB symposiums on the public sector and not-for-profit work programme, to which HoTARAC members are warmly invited. These symposiums are intended to be opportunities for all constituents to both better understand the issues being dealt with in individual projects and to raise issues or topics that we might address.

You mention in one letter the funding arrangement between the Commonwealth and the States and Territories. As the then Minister noted, the AASB is an independent agency. One ramification of this is that funding matters are not put before the Board. The dangers of linking funding and standard-setting are well documented (eg as transpired for the IASB in the Enron case).

However, I can assure you that the Board is absolutely intent on further developing financial reporting in the public and private not-for-profit sectors. The current programme, exposure drafts and resource allocation are indicative of that commitment, as is the significant number of members on the Board with substantial public sector experience. This commitment is why we would welcome HoTARAC input in relation to our work programme.

Incidentally, the Board regularly reviews and revises its work programme, and publishes revised versions immediately after any amendments. We do not actually set that programme at one time expecting it to last for 12 months. We do, however, in the "active projects" section of the work programme, set out the expected publications by project and timing over the short term. Other sections of the work programme identify "non-active projects (subject to resources" and "agenda decisions to be made". Thus input from parties such as HoTARAC and ACAG is welcome at any time in relation to possible new projects. Of course, resources constrain how much new work we can take on at any one time.

You raise three specific priorities before turning to other matters: phase 2 of the GAAP/GFS harmonisation, control in the public sector and accounting for non-exchange revenue.

ED 212 *Not-for-Profit Entities within the General Government Sector (proposed AASB 10XX, including proposals relating to Tier 2 disclosure requirements)* was issued in June and closes for comments in October 2011. We look forward to HoTARAC's comments on that Exposure Draft. Whether FRC's direction can be complied with is a matter now for the outcome of due process. The Board has worked hard to produce proposals intended to enhance the quality of financial reporting by entities within the GGS. The reactions to the previous ED were quite mixed, including from some HoTARAC members, and we expect that the debate will again be lively this time. It is critical that respondents provide clear reasoning for their views and that they address the various issues now included in the ED.

In relation to control in the public sector, work is well progressed on the first couple of phases in this project and the presentations prepared for the symposiums outline these and what is to come. The issues involved include, but go beyond, the issue of administered items.

In relation to non-exchange revenue we are preparing an exposure draft. The Basis is substantially written and other parts of the draft are being prepared. In part (only), the draft will dovetail with the IASB project on revenue from contracts with customers, which is now to be re-exposed. So our timing is likely to be impacted. We are quietly confident that the approach being developed for the not-for-profit sector will constitute a distinct improvement over both existing requirements and those of the IPSASB (which were the basis of the first ED we issued).

Briefly, I set out below comments on each of the other projects listed by you:

(a) Service concession arrangements: the Board is closely tracking the IPSASB's project and intends to make maximum use of its final standard (hopefully to be completed this half year). We hope to move to a standard as soon as possible on this subject.
(b) Borrowing costs – this deferred project is to be reactivated as soon as resources are available. The issues around the impact of borrowing costs on measuring assets at depreciated replacement cost have been discussed by the Board and we are now in a position to re-consider the application of AASB 123 *Borrowing Costs* to not-for-profit entities in the context of the policies in its *Process for Modifying IFRSs for NFP/PBE*;
(c) Accounting for environmental issues: we are not sure what is intended by this reference. We are working on ETS research to be ready when it becomes an issue through the IASB or as a result of legislation here. We are considering whether anything is needed on carbon tax. Initial reviews suggest no new accounting issues. But the Board will be looking at this in September. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which already addresses environmental liabilities, is subject to review by the IASB and we have worked closely with IASB staff when that project has been active. We doubt we will see much change in the existing requirements in the short to medium term and are not receiving issues from practice. Is there something else that you have in mind?
(d) SMEs: the Reduced Disclosure Regime (RDR) is now available for all public sector entities other than whole of government and local government. We are conducting detailed research across the sectors into the use of special purpose financial reports. Preliminary findings are likely to emerge in the next few months. At this stage, it is difficult to know whether the consequences from this research will relate to accounting, enforcement or de-regulation. The newly formed New Zealand Accounting Standards Board (NZASB) is about to consider adopting RDR for tier 2 and we are assisting them.

(e) Fair value measurement of long term liabilities: This issue has a number of aspects that will be impacted by a number of projects. IFRS 9 has dealt with the treatment of own credit risk and where it is to be presented (Other Comprehensive Income). IFRS 13 *Fair Value Measurement* will be taken up soon in AASB 13. It provides detailed guidance on how to measure fair value when other individual standards require that measure. Measurement, in the broader sense, is being worked on in the context of the IPSASB and IASB conceptual frameworks. We do not see any short to medium term outcomes in this area.

(f) Discount rates: we are working with Hong Kong on a proposal to address discounting across the various standards and across sectors. This may be as an AOSSG project or as an IASB research project. This subject is also mentioned in the IASB agenda review. If the project proceeds, we will be seeking input from both a private and public sector perspective.

(g) Presentation of liabilities: we are not sure what you have in mind here, if it has to do with a matter other than own credit risk (see above).

(h) IPSASs: IPSASs are constantly reviewed by us and where appropriate used (eg for concession arrangements). We also support IPSASB with senior resources and considerable time. However, there is no current intention on the Board's part of directly adopting IPSAS as the basis for standards applying in the public sector. That is not a priority with which we would agree and would, if pursued, be very complex for the public sector (as NZ is finding now). Currently Australian standards have a high degree of alignment with IPSASs, but the reverse cannot be said of IPSAS aligning with Australian GAAP. FRC is, under your taskforce chairmanship, looking at the investment we make in IPSASs and we are assisting with that work. However, in the short to medium term we do not wish to divert further AASB resources from the more specific projects to address regime change. It would be disruptive, for no obvious gain.

(i) Disaggregated disclosures: this is earmarked as a project we would like to consider. It is difficult to separate disaggregation from the control in the public sector project and segment reporting. We also think the performance reporting project, a major priority we have, has much to say in this space. Though initially targeting NFP in the private sector, performance reporting seems likely to be equally applicable in the public sector. Much of the research being reviewed comes from that sector. It may be that the issues envisaged originally for disaggregated disclosures are picked up under other headings, at least in part. Does HoTARAC have views on performance reporting?

As a generality then, we believe that most of the priorities listed by you, with likely short to medium term consequences, are reflected in our programme. The possible exceptions seem to be accounting for environmental issues and presentation of liabilities, depending on what you had in mind. We would welcome further input on them or on any of the matters raised above. We would also be very happy to meet and discuss the issues.

Yours sincerely

Kevin Stevenson

Kevin M. Stevenson
Chairman and CEO

cc: Ms Lynn Wood, Chair, FRC

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Mr Kevin Stevenson
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Dear Mr Stevenson

PRIORITY PUBLIC SECTOR ACCOUNTING ISSUES 2011-13

In November 2009, the Heads of Treasuries Accounting and Reporting Advisory Committee wrote to you outlining its priority public sector accounting issues for consideration by the Australian Accounting Standards Board. I am writing to provide you with an update on the Committee's list of priority issues.

As highlighted in HoTARAC's previous priority list, there is an expectation that stage 2 of the GFS-GAAP harmonisation for entities in the GGS will be finalised in the near future in line with the Financial Reporting Council's expectations and strategic priorities.

Issues which jurisdictions have identified as the highest priority for the public sector for the period 2011 through to 2013 are 'Control in the public sector', including identification of controlled entities and a review of the present distinction between "controlled" and "administered" transactions and balances, and 'Non-exchange income and transactions', including recognition principles on transactions for both recipient and grantor. I note that this latter issue is listed as a high priority joint project with the New Zealand ASRB in the Board's Work Program.

In addition to the above priorities, a recent survey of jurisdictions by HoTARAC has re-affirmed the majority of the content of the previous list of issues which remain of primary concern. In order of importance jurisdictions have nominated the other issues as being:

- Service concession arrangements – grantor's perspective;
- Borrowing costs;
- Accounting for environmental issues, including the development of an Australian Standard;
- Application of small and medium-sized entities' requirements for the public sector, including consideration of a research project on a beneficial RDR for the Public Sector;

- Fair value measurement and presentation of long term financial liabilities and provisions using risk-free discount rates;
- Review and assessment of IPSASs as the accounting standards for the Australian Public Sector; and
- Disaggregated disclosures including appropriateness of their application to a broader range of public sector entities and as the basis for disaggregation of financial information.

HoTARAC trusts that this review of the list of priority issues will assist the Board in any deliberations regarding its work program priorities.

I would be pleased to provide any further clarification of the above issues if required. For any queries regarding HoTARAC's priorities, please contact Steve Mitsas at the Victorian Department of Treasury and Finance on (03) 9651 6245.

Yours sincerely

Grant Hehir
Chair
Heads of Treasuries Accounting and Reporting Advisory Committee.

28 July 2011

CC: Ms Lynn Wood,
Chair, Financial Reporting Council.