NSW GOVERNMENT | Treasury

Contact: Peter Gibson
Telephone: (02) 6215-3551
Email: peter.gibson@finance.gov.au

Dr Keith Kendall
Chair, Australian Accounting Standards Board (AASB)
PO Box 204
Collins Street West
VIC 8007 Australia

Dear Dr Kendall,

ED 309 - Disclosure Requirements in Australian Accounting Standards—A Pilot Approach

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to the AASB's Invitation to Comment on this exposure draft.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories and the Australian Government.

HoTARAC appreciates and supports the efforts of the International Accounting Standards Board to improve disclosures in financial statements. However, HoTARAC does not support the approach contained in ED 309.

HoTARAC does not believe the proposed pilot approach will successfully achieve its objectives. We broadly agree with the reasons given by the dissenting IASB members in paragraphs AV1-AV14 of the Basis for Conclusions on the IASB Exposure Draft. In the Australian Public Sector, comparability is relatively less important than for the for-profit sectors, but we accept the arguments of Mr Edelman, Mr Gast and Ms Lloyd on comparability given they are focused on for-profit entities.

Additionally, HoTARAC's view is the requirement of entities to follow disclosure objectives will introduce more subjectivity in the assessment of appropriate disclosure. In litigious countries there is a potential for courts to adjudicate on the acceptability of disclosures, in some cases many years after the financial statements are issued. This will be *de facto* external legal interpretation of the accounting standards. Different legal decisions in different countries will establish precedents that further reduce international comparability of entity financial outcomes.

HoTARAC's view is that there are insufficient links between specific disclosure objectives and specified disclosures in AASB 13 and AASB 119 (IFRS 13 and IAS 19), even though the proposals acknowledge that this is a key success factor for the proposals.

Further, HoTARAC's view is that there are already provisions in accounting standards that support appropriate disclosure, principally in AASB 101 (IAS 1). We acknowledge that these may need additional focus, in which case the appropriate action could be a combination of reviewing the content on such standards, and further interpretative and/or educational work by the IASB.

In Australia, implementation of the proposals would create additional issues for transaction neutrality policy. The disclosure objectives that will be established are linked to the decisions that users will make using financial statements. The decisions that users might make with financial information of not-for-profit entities, will differ from those made by users of for-profit entities. In HoTARAC's view, this is already an issue, with the specific disclosure requirements of many existing standards being excessive for perceived public-sector information needs. However, the proposed pilot approach is likely to highlight this further. As an example, users of public sector financial statements do not exhibit a regular interest in the highly detailed disclosures that exist and remain proposed for AASB 13 and AASB 119 (IFRS 13 and IAS 19). HoTARAC supports simplification in disclosure requirements for disclosure objectives tailored to the public sector, but expects specification of multiple disclosure objectives across sectors will require considerable additional work from the AASB, and add complexity to the accounting standards.

Finally, the proposals do not explain how they would be would be applied to Tier 2 entities (*IFRS for SMEs*), and there would be similar issues for potential Tier 3 entities in the Australian context. Work is required to rationalise the difference in disclosures across tiers with disclosure objectives.

We believe that some elements of the approach proposed by the IASB could be a useful development on this issue at the IFRS level. Developing disclosure objectives will be a beneficial exercise to place greater focus on disclosure. However, they could be used in a way that does not – at least initially – require such strong compliance with the objectives. For example, the IASB could develop disclosure objectives for a standard and:

a. Publish them so they are not mandatory, such as in the Basis for Conclusions, or non-mandatory guidance in the standards; and
b. The IASB could still use the objectives as a guide when developing detailed disclosure requirements for each standard.

HoTARAC provides no comments on the IASB specific matters for comment, because we do not support either the approach or the disclosures proposed for AASB 13 and AASB 119 (IFRS 13 and IAS 19).

In respect of the AASB specific matters for comment:

1. Disclosure objectives developed by the IASB for for-profit entities may not apply equally well to not-for-profit entities, for the reasons set out above.

   We expect that the proposals would require regulatory bodies such as ASIC to incur costs to undertake additional work in establishing policy and reviewing entity financial statements.

2. The dissenting IASB members describe the auditing and assurance challenges with the approach. It is unclear whether assurance standard-setters have been consulted when the IASB has developed the Exposure Draft.

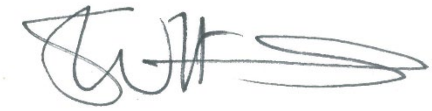
3. In HoTARAC's view the proposals would not result in public sector financial statements of benefit to public sector users.

4. We provide no view whether the proposals are beneficial to the Australian economy.

5. Beyond transition costs, the proposal will result in a net overall cost increase in on-going reporting and associated processes, of an unquantified amount. We would expect lower costs in financial statement preparation and assurance if disclosures are substantially simplified (but which is not evident in the proposals for AASB 13 and AASB 119). We expect that these cost reductions would be more than offset by

additional costs alluded to by the dissenting IASB members, such as reviewing and documenting achievement of disclosure objectives, and subsequent examination by assurance providers. Additional legal challenges to disclosures would result in further costs.

Yours sincerely,



Stewart Walters
CHAIR
Heads of Treasuries Accounting and Reporting Advisory Committee
12 August 2021