

~ *Covering Letter* ~

26 March 2026

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

Submission on Exposure Draft ED 338

Dear Dr Kendall

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide feedback on Exposure Draft ED 338 on the application of AASB 18 to whole-of-government and entity financial statements in the public sector.

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.

In respect of our submission enclosed as an Appendix to this covering letter:

- HoTARAC's responses have been limited to Question 1, Questions 16 to 31, and Questions 33 to 35.
- In respect of Questions 12 to 15, the status of universities as "public sector entities" will depend upon the specific legislative framework in each jurisdiction. In light of this, and the specific outreach undertaken by the AASB with the university sector Australia wide, HoTARAC has elected not to provide specific responses to these questions.
- HoTARAC welcomes the proposed relief, via accounting policy choice, from specific requirements of AASB 18 that either conflict with the whole-of-government financial reporting framework in Australia, or do not align with the financial reporting needs of the not-for-profit public sector.
- We also draw your attention to the fact that HoTARAC's 2026 submission on ITC 56 identified several questions that we indicated would be addressed in our response to ED338. Our responses to questions 16, 20, 22, and 23 in the attached also include responses to ITC 56 Q2.5, Q2.10, Q2.11, Q2.12 and Q2.13.

In respect of ITC 56 Q2.1 and Q2.2, Tier 2 general purpose financial statements are currently prepared by a wide range of public sector departments and statutory entities across all jurisdictions, with many jurisdictions having made significant efforts in recent years to move toward Tier 2 reporting.

It is HoTARAC's view that the AASB should consider the impact of AASB 18 on AASB 1060 without delay. AASB 1060 should afford the same accounting policy choices for NFP public sector entities regarding AASB 18 changes irrespective of whether Tier 1 or Tier 2 general purpose financial statements are prepared.

HoTARAC therefore supports the AASB replacing the AASB 101 presentation requirements in AASB 1060 with the AASB 18 classification and presentation requirements, in order to retain consistency in the classification and presentation of items in the primary financial statements of both Tier 1 and Tier 2 entities.

Please contact Greg Hall (Principal Accountant at Queensland Treasury) should you wish to discuss any of HoTARAC's responses or require further information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andy Hobbs', with a long horizontal stroke extending to the left.

Andy Hobbs
Chair, Heads of Treasuries Accounting and Reporting Advisory Committee
Executive Director, Financial Stewardship and Public Reporting, NSW Treasury

Encl: Appendix 1 - HoTARAC Responses to ED 338 - Questions 16 to 31, 33, 34 and 35

NFP public sector entities, including governments

Statement of profit or loss presentation

AASB 18.47 requires an entity to classify income and expenses into specific categories. As noted in paragraph

BC51–BC55, stakeholder feedback indicated that those categories are unlikely to provide additional information to users of an NFP public sector entity's GPFS. Therefore, the AASB is proposing to add paragraph Aus46.1(b) to AASB 18 to provide an accounting policy choice for NFP public sector entities to select to not classify income and expenses into the operating, investing and financing categories in the statement of profit or loss.

Q.16 Do you agree with the proposed paragraph Aus46.1(b) in AASB 18? Please explain your reasons.

HoTARAC agrees with the proposed paragraph Aus46.1(b) in AASB 18 to address the issues raised in our 11 April 2025 submission, which we observe are appropriately reflected in paragraphs BC51-BC55.

By way of additional comment, HoTARAC provides the following response to address Q2.10 in ITC 56. HoTARAC supports the same modifications for an accounting policy choice applying to entities preparing Tier 2 GPFS under AASB 1060. Allowing the same relief and providing an accounting policy choice would ensure consistency in presentation across Tier 1 and Tier 2 NFP public sector entities, particularly given the use of AASB 1060 by government departments in several jurisdictions.

Presentation of expenses

AASB 18.78 requires an entity to classify and present operating-category expenses in line items in a way that provides the most useful structured summary of its expenses, considering the matters set out in AASB 18.B80, using one or both of these characteristics: the nature of expenses; or the function of the expenses within the entity. This is different to the requirements in AASB 101.99, which requires an entity to present expenses by either their nature or function.

As noted in paragraphs BC56–BC59, at a practical level, given expenses are a key focus area for users of public sector GPFS, the AASB considered that it is important to maintain consistent reporting to promote comparability. The AASB is proposing to add paragraph Aus78.1(b) to provide an accounting policy choice for an NFP public sector entity to elect to classify and present expenses in line items in the statement of profit or loss based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant (consistent with the current requirements in AASB 101.99), instead of applying AASB 18.78 and B80–B82. This accounting policy choice would not prohibit a Treasury Office and the Office of Local Government from mandating the appropriate basis for presenting expenses to achieve consistency in reporting.

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Q.17 Do you agree with the proposed paragraph Aus78.1(b) in AASB 18? Please explain your reasons.

HoTARAC agrees with the proposed paragraph Aus78.1(b) in AASB 18 to address the issues raised in our 11 April 2025 submission, which we observe is appropriately reflected in paragraph BC57 and BC59.

HoTARAC concurs with the observation in BC58 that the matters set out in AASB 18.B80(a) – regarding determining how to use the characteristics of nature and function to provide the most useful structured summary of expenses – are not as relevant for users of NFP public sector entities' general purpose financial statements.

NFP-specific guidance

As noted in paragraphs BC41–BC42, the AASB decided to propose adding the following paragraphs to AASB 18 to provide guidance for NFP entities preparing Tier 1 GPFS, including NFP public sector entities:

- (c) paragraphs Aus9.1 and AusB5.1 – to require an NFP entity to consider the common information needs of users of GPFS of NFP entities described in the *Conceptual Framework for Financial Reporting*; and
- (d) paragraph AusB80.1 – to require an NFP entity, when presenting expenses, to consider what line items provide the most useful information to users of financial statements about the entity's "operations or main activities", which is broader than considering "the main components or drivers of the entity's profitability" required by AASB 18.B80.

Q.18 In respect to NFP public sector entities preparing Tier 1 GPFS, do you agree with the proposed paragraphs Aus9.1 and AusB5.1 in AASB 18 to require these entities to consider the common information needs of users of GPFS of NFP entities described in the *Conceptual Framework for Financial Reporting*? Please explain your reasons.

HoTARAC agrees with the proposed paragraph Aus9.1 and Aus B5.1 in AASB 18 to provide guidance for NFP entities Tier 1 GPFS, including NFP public sector entities. Although HoTARAC's previous submission did not directly reference the *Conceptual Framework for Financial Reporting*, the proposed new paragraph would address the issues raised in regard to information needs of users of NFP public sector entity financial statements, consistent with the commentary in paragraph BC42.

Q.19 Do you agree with the proposed paragraph AusB80.1 in AASB 18 that NFP public sector entities preparing Tier 1 GPFS should consider what line items provide the most useful information to users of financial statements about the entity's "operations or main activities", which is broader than considering "the main components or drivers of the entity's profitability" required by AASB 18.B80? Please explain your reasons.

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HoTARAC agrees with the proposed paragraph AusB80.1 in that it would be more applicable to consider the entity's 'operations or main activities' rather than 'the main components or drivers of the entity's profitability' when classifying operating expenses of NFP public sector entities. This principle is consistent with the rationale outlined in our response to Question 18.

Relief from disclosing information about management-defined performance measures (MPMs)

As noted in paragraphs BC60–BC62, stakeholder feedback indicated that NFP public sector entities publish a broad range of written communications about their performance and it would be difficult for public sector auditors to provide reasonable assurance that the MPMs are complete. Given that most subtotals used in those documents are well-defined or well-understood by users, the AASB considered that the cost and effort would outweigh the benefits of requiring NFP public sector entities to identify all MPMs and to disclose information about MPMs.

The AASB is proposing to add paragraph Aus117.1 to AASB 18 to provide an accounting policy choice for NFP public sector entities to elect to not identify and disclose information about MPMs.

Q.20 Do you agree with the proposed paragraph Aus117.1 in AASB 18? Please explain your reasons.

As outlined in our 11 April 2025 submission, MPM's contemplated by AASB 18 are not particularly relevant in a public sector context, including key fiscal aggregates for whole-of-government reporting under AASB 1049 that do not fall within the definition of MPM's.

HoTARAC agrees with the proposed paragraph Aus117.1 in AASB 18 to address these concerns and the rationale contained in paragraphs BC60-BC62 supporting the proposed accounting policy choice for NFP public sector entities.

By way of additional comment, HoTARAC provides the following response to address Q2.5 and Q2.11 of ITC 56. HoTARAC supports the same modifications for an accounting policy choice applying to entities preparing Tier 2 GPFS under AASB 1060.

Allowing the same relief and providing an accounting policy choice would ensure consistency in presentation across Tier 1 and Tier 2 NFP public sector entities, particularly given the use of AASB 1060 by government departments in several jurisdictions. It would enable efficient consolidation for presentation of whole of government financial statements under AASB 1049 where other key fiscal aggregates are reported (refer to our response to Question 26).

Cash flow classification – dividends received and interest paid and received

As noted in paragraphs BC63–BC69, the AASB decided to propose adding paragraph Aus34D.1 to AASB 107 to retain the current accounting policy choice for NFP public sector entities to elect to classify dividends received and interest paid and received as operating cash flows. The AASB also proposes adding paragraph Aus6.1 to AASB

107 to specify that, in respect of NFP public sector entities that elect to classify the receipt of interest and dividends as operating activities, investing cash flows do not include the receipt of interest and dividends as described in paragraphs 34A–34D of the revised AASB 107.

The AASB noted that currently NFP public sector entities classify dividends paid as financing cash flows and dividends received and interest paid and received as operating cash flows, which is consistent with the ABS GFS Manual.

Q.21 Do you agree with the proposed paragraphs Aus6.1 and Aus34D.1 in AASB 107 in respect to NFP public sector entities? Please explain your reasons.

HoTARAC agrees with:

- a) the proposed paragraphs Aus34D.1 and Aus6.1 to AASB 107 effectively permitting NFP public sector entities an accounting policy choice to elect to classify dividends received and interest paid and received as operating cash flows; and
- b) the reasons outlined in paragraphs BC63-BC69 supporting the proposed accounting policy choice for NFP public sector entities.

The amendments will address key concerns outlined in our 11 April 2025 submission.

Operating cash flow reconciliation

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

Q.22 Do you agree with the proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054 in respect to NFP public sector entities? Please explain your reasons.

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HoTARAC agrees with the proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) to AASB 1054 to ensure the proper and consistent application of the accounting policy choice for NFP public sector entities proposed in paragraph 46.1(b) of AASB 18 (as addressed in Question 16). HoTARAC agrees with the reasons outlined in paragraphs BC70-BC71.

By way of additional comment, HoTARAC provides the following response to address Q2.12 of ITC 56. HoTARAC supports the proposal that NFP public sector entities preparing Tier 2 GPFS be provided with the same relief granted to NFP public sector entities preparing Tier 1 GPFS. This will ensure consistency in presentation and usefulness across the sector and enable an efficient whole of government consolidation to be performed.

Aggregation and disaggregation

As noted in paragraphs BC72–BC75, the AASB received limited feedback from stakeholders during the targeted outreach on the AASB 18 requirements relating to aggregation and disaggregation, and the feedback did not indicate a specific reason to modify the requirements for NFP public sector entities. Therefore, the AASB decided that the requirements should be applied by these entities.

Q.23 Do you agree that no modifications are needed for NFP public sector entities with respect to aggregation and disaggregation requirements set out in AASB 18? Please explain your reasons. If you consider modifications are needed, please describe the changes and explain why they are necessary.

In light of the proposed relief in paragraph Aus46.1(b), HoTARAC has not identified a specific further need for modifications regarding the requirements relating to aggregation and disaggregation for NFP public sector entities. This would permit individual jurisdictions to determine the extent to which the existing reporting of “other” items requires further disaggregation to meet jurisdictional-specific requirements.

This is consistent with the observations in paragraph BC75 of AASB 18 that *“applying the aggregation and disaggregation requirements might not significantly affect how line items and disclosures are currently disclosed”* given the IASB also expressed in BC75 to IFRS that *“an entity would generally conclude that line items previously determined to be a ‘material class of items’ would also contribute to a useful structured summary.”*

By way of additional comment, HoTARAC provides the following response to address Q2.13 of ITC 56. For similar reasons to those already outlined, HoTARAC agrees that no modifications to the existing requirements in AASB 18 on aggregation/disaggregation are needed for entities preparing Tier 2 GPFS.

Effective date

The AASB is proposing that the modifications to AASB 18, AASB 107, AASB 1039, AASB 1054 and AASB 1049 proposed to be made in this Exposure Draft should be applied when the entity applies AASB 18. AASB 18 applies to NFP public sector entities, including governments, for periods beginning on or after 1 January 2028 with early application permitted, which is one year after the mandatory effective date for for-profit entities.

Q.24 Do you agree that NFP public sector entities, including governments, should be required to apply AASB 18 and the modifications proposed to be made in the Exposure Draft for periods beginning on or after 1 January 2028? If not, which date do you consider these entities should be required to apply AASB 18?

HoTARAC supports the modifications proposed by ED338 commencing when public sector agencies and not-for-profit entities would first apply AASB 18.

Consequently, HoTARAC supports the effective date beginning on or after 1 January 2028, with early application permitted, in respect of NFP public sector entities and government.

Statement of changes in equity

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

Q.25 Have you identified a public-sector-specific reason that would warrant an NFP public sector entity, or a government, to depart from the AASB 18 requirement to present a statement of changes in equity in their Tier 1 GPFS? If so, please explain.

HoTARAC has not identified a public-sector specific reason to depart from the AASB 18 requirement to present a statement of changes in equity in NFP public sector Tier 1 GPFS given it is a fundamental component of the GPFS.

Whole of government and GGS financial statements

Line items to be presented in primary financial statements

AASB 1049 requires a government to present specific subtotals (key fiscal aggregates) in the income statement of the whole of government and GGS financial statements. As noted in paragraphs BC76–BC79, the feedback from the FRC’s PIR of AASB 1049 noted that key fiscal aggregates provide important information to users and for comparability of governments’ financial performance. Accordingly, the AASB decided that governments should continue presenting key fiscal aggregates in accordance with AASB 1049.

The AASB proposes adding paragraphs Aus23.1(b) and AusB8.1(b) to AASB 18 to specify that a government does not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary.

Q.26 Do you agree with the proposed paragraphs Aus23.1(b) and AusB8.1(b) in AASB 18 that a government should not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary – and therefore would be required to present all applicable line items and subtotals in accordance with AASB 1049? Please explain your reasons.

As outlined in our 11 April 2025 submission, AASB 18 is incompatible with the requirements of AASB 1049 for the presentation of whole-of-government financial statements aligned with the Uniform Presentation Framework (UPF) and conflicts with the presentation of key fiscal aggregates required by GFS.

For these reasons, HoTARAC strongly, and unanimously, supports AASB 1049 remaining unchanged and AASB 18 having no application to whole-of-government financial statements.

HoTARAC agrees with the outcome of the proposed paragraph Aus23.1(b) and AusB8.1(b) in AASB 18 to address these concerns (recognising the ‘unwieldy’ wording in AASB 18 around ‘structured summaries’ mirrors the wording in IFRS 18).

Amendments to AASB 1049 arising from the FRC's PIR of AASB 1049

As noted in paragraph BC86, in response to the feedback the FRC received on its PIR of AASB 1049, the AASB decided to propose amending the following paragraphs in AASB 1049 to align with recent Accounting Standards:

(a) AASB 1049.14(f) – to explain the effect of AASB 1049.13 on the application of the accounting policy choice provided in the proposed paragraph Aus34D.1 in AASB 107 regarding the classification of cash flows from interest paid and received and dividends received;

(b) AASB 1049.14(g) – to refer to AASB 1058 *Income of Not-for-Profit Entities* instead of AASB 1004 *Contributions* because AASB 1058 and AASB 15 *Revenue from Contracts with Customers* supersede the income recognition requirements previously contained in AASB 1004; and

(c) AASB 1049.31(a)(ii) – to refer to the phrase 'fair value through other comprehensive income' instead of 'available-for-sale' to align with the terminology in AASB 9 *Financial Instruments*.

Q.27 Do you agree with amending AASB 1049.14(f) to explain the effect of AASB 1049.13 on the application of the accounting policy choice provided in the proposed paragraph Aus34D.1 in AASB 107 regarding the classification of cash flows from interest paid and received and dividends received? Please explain your reasons.

HoTARAC agrees with amending paragraph AASB 1049.14(f) to remove redundant references relating to dividends paid and further explaining the effect of AASB 1049.31 on the application of the proposed paragraph Aus34D.1 in AASB 107.

Consistent with our response to Question 26, this addresses concerns around the interaction of AASB 18 with AASB 1049.

Q.28 Do you agree with updating the references to Standards and terminology in AASB 1049.14(g) and 31(a)(ii)? Please explain your reasons.

HoTARAC supports the update to terminology in AASB 1049.14(g) and 31(a)(ii) to remove superseded references and ensure consistency and avoid confusion in applying Australian Accounting Standards.

For-profit public sector entities

AASB 18 amended AASB 107 to require entities that do not either invest in assets or provide financing to customers as a main business activity to classify:

- (a) dividends paid as financing cash flows (AASB 107.33A);
- (b) interest paid as financing cash flows (AASB 107.34A(a));
- (c) dividends received as investing cash flows (AASB 107.34A(b)); and
- (d) interest received as investing cash flows (AASB 107.34A(b)).

As noted in paragraphs BC93–BC94, the AASB considered that the stakeholder feedback received to date did not indicate a public-sector-specific reason for for-profit public sector entities to depart from the revised AASB 107 or from AASB 18.

Q.29 Do you consider it would be more important for the cash flow statements of for-profit public sector entities to be comparable with for-profit private sector entities or NFP public sector entities? Please explain why.

Refer to Q.30 for HoTARAC's combined response to both questions.

Q.30 Please explain how important it is for for-profit public sector entities to have consistent classification of dividend and interest transactions between the income statement and the cash flow statement (noting that the AASB has decided that these entities categorise income and expenses in accordance with AASB 18)?

HoTARAC's consensus position is consistent classification and presentation of cash flow information, including dividends and interest received, between for-profit public and private sector entities is sufficiently important to be maintained with the commencement of AASB 18. Our reasons are set out in the following dot points:

- Determining the optimum capital structure and dividend policy of for-profit public sector entities is essential to returning financial value to the government whilst ensuring commercial viability, competitive neutrality and public policy outcomes from Government ownership.
- For-profit public sector entities are a source of income for the government through the payment of dividends and the National Tax Equivalent Regime (NTER) to ensure competitive neutrality between government businesses and private sector competitors. As both items are recognised as revenue for the General Government Sector, capital structure and dividend policy plays a key role in the budget process.
- Historically, the classification and presentation of dividend and interest transactions in the financial statements of for-profit public sector entities has been consistent with the for-profit private sector.

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- Under the GFS framework, for-profit public sector entities in the Public Non-Financial Corporations (PNFC) and Public Financial Corporations (PFC) sectors are aligned with the for-profit private sector because they operate primarily on a market basis and, unlike General Government entities, typically recover all or most of their production costs through sales to consumers on a commercial or price-regulated basis. (In some cases, certain entities may even operate in full competition with private sector entities.) Comparability and accuracy remains vital for GFS reporting and statistical macroeconomic analysis undertaken by the Australian Bureau of Statistics.
- One HoTARAC jurisdiction observed that some financial statement users of for-profit public sector entities may, in practice, make little practical distinction between equity injected by government and debt borrowed through government treasury corporations when assessing capital structure and associated cash flows. Further, some entities within the for-profit public sector consider that interest received and interest paid reflects cash management policies that are not designed to reflect investing and financing considerations that the private sector might apply and are more reflective of operational controls. Notwithstanding this, on balance, consistent classification and presentation of financing and investing cashflows by for-profit public sector with other for-profit private sector entities may better meets the needs of all users.

As a result of our analysis, informed by varying degrees of outreach with for-profit public sector entities across jurisdictions, HoTARAC has not identified any strong conceptual grounds to provide relief or exemptions to for-profit public sector entities in the same manner as for not-for-profit public sector entities.

Q.31 Assuming the AASB's proposals are implemented and dividends received and interest paid and received will continue to be classified as operating cash flows in the whole of government and GGS financial statements, please outline the cost and effort that would be required to adjust different cash flow classifications of for-profit public sector entities to facilitate consolidation into the whole of government financial statements and how they compare with the benefits of complying with the revised requirements of AASB 107?

HoTARAC considers that existing consolidation systems across jurisdictions already map public sector entity financial data correctly and efficiently for whole-of-government reporting purposes. Consequently, the cost and effort to adjust different cash flow classifications of for-profit public sector entities to facilitate consolidation into the whole of government financial statements is expected to be minimal.

33 Are there any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals?

HoTARAC's initial concerns around impacts on whole-of-government reporting and potential conflicts with GFS requirements have been addressed through the AASB's ED 338 proposals.

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34 Do the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

HoTARAC considers there would far greater auditing and assurance challenges if the proposed accounting policy relief proposed was not offered; or there was inconsistent reporting between the for-profit public and private sectors.

35 Overall, would the proposals result in financial statements that would be useful to users?

Yes.

End of Submission.