



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

via submission portal: <https://www.aasb.gov.au/current-projects/open-for-comment>

15 February 2022

Dear Keith,

Re: Invitation to comment ITC 46 *AASB Agenda Consultation 2022-2026*.

We are pleased to respond to your invitation to comment on the Australian Accounting Standards Board (AASB)'s priorities for its domestic work program for the period 2022 to 2026 (ITC 46).

While we appreciate that the consultation is concerned with the AASB's future work program, we note that there are still a number of important projects on the current work program which will take some time to complete and hence need resources beyond 2022. Before starting new projects, we consider the AASB should focus its efforts in particular on the Not-for-Profit (NFP) Private Sector Financial Reporting Framework. There is an urgent need for a reporting framework that is simple, proportionate, consistent, transparent and cost effective for all NFP private sector entities in Australia and we recommend completion of this project be given a high priority.

Inactive projects

Remuneration reporting

We recommend keeping the Remuneration reporting project active, albeit with medium to low priority. The AASB staff paper *Review of Executive Remuneration Disclosure Requirements* published in September 2021 concluded that the level of detail that must be disclosed by for profit listed entities in Australia is more onerous than most of the other jurisdictions in the study. Our own research undertaken together with the G100 in 2017¹ similarly identified a number of redundant, overlapping requirements and demonstrated that there are opportunities to streamline these requirements for listed entities.

¹ PwC and Group of 100 *Remuneration Reporting - Streamlined, May 2017*



Stakeholders continue struggling with these requirements and as a consequence remuneration reports take up a disproportionate amount of time to prepare and audit compared to the rest of the annual financial report. We would therefore welcome a thorough review of the requirements to ensure remuneration reports include the information actually needed by the users of those reports. However, we also acknowledge that the AASB will need support from Treasury for this project and therefore encourage the AASB to discuss the research results and the feedback from the agenda consultation with Treasury as a first step.

NFP definition of fundraising

We also see some merits in revisiting the need to clearly define what constitutes fundraising, possibly as part of the current NFP financial reporting framework project. NFP entities have different interpretations as to what constitutes fundraising and as a consequence there continues to be diversity in practice in particular in the context of reporting under state-based legislation. The issue is becoming even more prevalent with the increasing number of 'social enterprises' where the lines between fundraising and other activities undertaken by the entity may be blurred. The lack of a clear definition also affects the ability of stakeholders to assess and compare how effectively donated funds have been used and to make donating decisions.

We agree that the other inactive projects listed in Table 2 can be removed from the AASB's work program.

Potential projects

Sustainability reporting

As noted in our submission from 28 January 2022 on the draft Position Statement proposed to be adopted by the AASB in relation to Extended External Reporting (EER), we strongly support the establishment of the International Sustainability Standards Board (ISSB) to provide the foundation for consistent and global sustainability reporting.

However, as explained in that submission, in our view it is premature to assume that the AASB will be the right body to take on the standard setting in relation to sustainability reporting in Australia. There should be a comprehensive consultation around what is the most appropriate standard setting body, along with determining what enabling legislation is required.

The standard setting body - whether it is a new body, or an existing, potentially reshaped body such as the AASB - should take on the role of contributing to the development of globally accepted sustainability standards by the ISSB, which includes participating and providing input to the global discussion/debates. They should also have the legal authority to



endorse adoption of the standards in Australia as well as developing any additional local guidance and requirements as required.

Service performance reporting

While we acknowledge that Research Report 14² provides international evidence that stakeholders would prefer service performance information (such as output-based or outcome-based effectiveness of the entity's operations) over financial statement information, we do not believe that this project should be added back to the standard-setting agenda at this point in time.

Instead, we encourage further research to identify what type of information Australian stakeholders of NFP private sector entities do require in addition to what is already currently being provided either through the financial statements or the additional information included in the Annual Information Statement that is separately lodged with the ACNC.

Further, as noted by the AASB in ITC 46 (page 14), service performance reporting and sustainability reporting are potentially closely related and there may be an opportunity to incorporate service performance reporting elements when adapting the global sustainability standards for not-for-profit private sector entities. Any work undertaken in relation to this project right now would likely have to be revisited in the light of the sustainability standards and it would therefore not appear to be a good use of resources if this project was picked up again in the short term.

Digital reporting

We agree that there is a need for investment in digital reporting. Digitisation offers significant benefits in the medium term and other jurisdictions have already moved in this direction. However, before initiating a standard-setting project, we recommend undertaking further research to ensure the project will deliver the benefits sought by stakeholders. In particular, we recommend identifying:

- the key stakeholders (ie key users, drivers, supporters and beneficiaries of digital reporting), and
- what these stakeholders expect to get out of digital reporting (i.e. what data do they need, in what format, how are they going to use this data and what are the additional benefits that digital reporting can provide compared to the standard reporting process).

² AASB Research Report 14: Literature Review: Service Performance Reporting for Not-for-profits - February 2020



We further note that unless there is strong push from large investors, which we have not seen to date, preparers will only start investing in this if there is also a Government mandate, e.g. a requirement from ASIC to lodge financial statements as tagged digital reports.

Other suggestions

As noted in our overall comments, we recommend that the board directs its limited resources to prioritise and finalise the NFP financial reporting framework project and provide further guidance on NFP specific issues such as grant accounting prior to investing in additional projects.

In this context we note that assessing whether an entity is an NFP under the current definition in various Australian Accounting Standards (e.g. AASB 102 *Inventories*) is also becoming increasingly more difficult because of the emergence of social enterprises. While we acknowledge that the project to revisit the definition of NFP has been discontinued, we encourage the AASB to consider whether application guidance in relation to this point may be warranted.

Research projects

We have no strong views in terms of the potential topics and their priorities, but refer to our comments above in relation to suggested research on service performance reporting and digital reporting.

In relation to the tax transparency disclosures, we have the following observations :

- The majority of the tax transparency disclosures from the Voluntary Tax Transparency Code (TTC) are commonly provided outside of the financial statements and accompanying notes. Some of those disclosures may ultimately be incorporated into ESG reporting.
- Any research in this area would need to consider the context in which this information is needed and who needs it. In other words, is it mainly the Government or a Tax Authority that would use this information or do other users also need this information? If yes - who are these users and why do they need the information?
- If the research is to be undertaken specifically in relation to the information disclosed in the financial statements, it would need to provide evidence that the primary users of the financial statements (i.e. particularly investors) need this information in the context of assessing the financial position and financial performance of the entity.



Should you need any further information, please feel free to contact Meina Rose on 0432 320 540 or me on the number below.

Yours sincerely,

A handwritten signature in black ink that reads 'Jan McCahey' in a cursive script.

Jan McCahey
Partner

Mobile: 0407 928 635
Email: jan.mccahey@pwc.com