

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

Re: Invitation to Comment: Post-implementation Review of Tier 2 and the Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities and Further Update of Tier 2 – ITC 56

Dear Dr Kendall,

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to the Invitation to Comment *Post-implementation Review of Tier 2 and the Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities and Further Update of Tier 2 – ITC 56* (ITC 56).

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 wishes to thank the Board and staff for the considerable effort in preparing ITC 56, and in particular the detailed information to compare various requirements, which were most useful in our consideration of the matters raised.

There is extensive use of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* by public sector entities, which HoTARAC will separately provide information to the AASB about.

HoTARAC considers that AASB 1060 has provided benefit through relief from preparing full disclosures required by Tier 1 Australian Accounting Standards. However, HoTARAC concludes that AASB 1060 has only partially met its objective of achieving an appropriate balance between meeting user needs and minimising the costs for entities preparing Tier 2 GPFS. Disclosures required by AASB 1060 are in parts too onerous, particularly in the absence of a Tier 3 for smaller entities.

As a result, HoTARAC does not agree with proposals to amend AASB 1060 for various disclosures now required by IFRS for SMEs. Presentation and disclosure requirements in IFRS for SMEs are designed to support its non-IFRS recognition and measurement principles, and therefore should not always be taken as a fit-for-purpose starting point for presentation and disclosure requirements for an Australian Tier 2 reporting framework.

HoTARAC notes IFRS 19 was designed to meet the needs of a different cohort of users than AASB 1060 and therefore does not consider it should form a replacement to, or the basis of amendment to AASB 1060.

Attached is HoTARAC's response to ITC 56.

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

Section 1: Post-implementation review

Topic 1 – Overall objective and assessment of AASB 2020-2

HoTARAC provides no response.

Topic 2 – Overall objective and assessment of AASB 1060

2. Regarding AASB 1060, please provide your views on the following matters:

(a) Overall, has the Standard met its objective of achieving an appropriate balance between meeting user needs and minimising the costs for entities preparing Tier 2 GPFS?

HoTARAC considers that overall, AASB 1060 has partially met its objective of achieving an appropriate balance between meeting user needs and minimising the costs for entities preparing Tier 2 GPFS. Benefits have been realised in that entities have had relief from some disclosures. However, disclosures are generally excessive, and particularly in the absence of a third tier of reporting requirements, AASB 1060 does not provide a sufficient balance in meeting user needs and minimising costs in relation to smaller entities.

For AASB 1060 to meet this objective, HoTARAC considers that there should be a third tier of reporting available to public sector entities. Development of a Tier 3 should include evaluation of the needs of users of both Tier 2 and Tier 3 financial statements. However, improvements to AASB 1060 from this current post-implementation review need not be delayed pending introduction of any Tier 3 framework.

(b) Were the costs of applying the Standard for the first time broadly in line with expectations?

Australian governments have mixed experience – some introduced Tier 2 reporting with AASB 1060, and others introduced Tier 2 reporting under the previous Reduced Disclosure Requirements. Some also do not permit application of Tier 2 at this stage.

Costs of applying the Standard for the first time were broadly in line with expectations.

(c) Are the ongoing costs of applying the Standard broadly in line with expectations?

The ongoing costs of applying the Standard are broadly in line with expectations. This may include periodic reassessment of the distinction between Tier 1 and Tier 2. For some governments, this includes maintenance of separate model financial statements for Tier 2 purposes – under the Reduced Disclosure Requirements, this was not necessary as an approach of highlighting disclosures not required under Tier 2 was able to be adopted.

Some entities that apply AASB 1060 have a very limited quantum of transactions and balances. HoTARAC is providing information to AASB staff separately on the use of AASB 1060 by Australian governments.

Topic 3 – Transition relief for FP private sector entities transitioning from SPFS to AASB 1060

HoTARAC provides no response.

Topic 4 - Transition relief for entities transitioning from GPFS to AASB 1060

4. In respect of entities that transitioned from GPFS (Tier 1 or Tier 2 (RDR)) to AASB 1060:

(a) Was the optional transition relief used?

HoTARAC does not have experience in applying the optional transition relief.

(b) Did the optional transition relief achieve its objective of reducing the effort required during the transition? If not, what additional forms of transition relief should the AASB consider providing when developing transition requirements in future standard-setting projects?

HoTARAC has no suggestions as to alternative transition relief.

Topic 5 – Educational materials

5. In relation to the removal of SPFS for certain FP private sector entities, were the educational initiatives, including webinars and publications, prepared by AASB staff helpful?

HoTARAC provides no comment.

6. In relation to AASB 1060, were the educational initiatives, including webinars and publications, prepared by AASB staff helpful?

Some HoTARAC members were not aware of such educational materials – those that were found them to be helpful in adopting AASB 1060.

7. Were there any other activities or resources that would have been helpful that the AASB could consider in future standard-setting projects?

It would be helpful to cross-reference Tier 1 requirements to the relevant sections of AASB 1060. This would assist in preparation of model financial statements, and for consideration by preparers of both Tier 1 and Tier 2 financial statements.

Topic 6 – Disclosure of individually material items

8. Do you consider the absence of a specific disclosure requirement for individually material items of income and expense in AASB 1060 has led to any problems in either preparing or using Tier 2 financial statements?

HoTARAC has not identified any such issues and notes that overriding considerations of materiality should be sufficient.

9. Do you think the AASB should add an explicit disclosure requirement to AASB 1060 that requires the disclosure of individually material items of income and expense?

HoTARAC members do not consider such a requirement necessary.

Topic 7 – Adequacy of disclosure requirements

10. Do you have any comments about the disclosure requirements of AASB 1060, including their adequacy or practicality in application?

Please provide your views on the requirements, relevant circumstances and their significance, and areas where you consider changes are needed. Examples to illustrate your responses are also most helpful.

Please also consider whether the potential amendments to AASB 1060 outlined in Section 2 of this ITC regarding the current project to update AASB 1060 would address any concerns you may have.

HoTARAC has not identified any areas where increased disclosure requirements should be incorporated into AASB 1060.

Tier 2 financial statements in some jurisdictions must include disclosures that would otherwise only be applicable for Tier 1 financial statements. There is no consistency between jurisdictions as to

these additional requirements, which indicates such policy matters are sufficiently managed government-by-government. HoTARAC is providing information to AASB staff separately on variations to the Tier 2 framework with further information.

As noted above, HoTARAC considers that AASB 1060 is only partially effective in achieving an appropriate balance between meeting user needs and minimising the costs for entities preparing Tier 2 financial statements. HoTARAC suggests that consideration of whether reliance on IFRS for SMEs adequately informs the AASB's Tier 2 framework.

Topic 8 – Maintaining AASB 1060

11. Do you have any comments about the AASB's current approach to maintaining AASB 1060, including the frequency and timing of updates?

Please explain the reasons for your view.

Some jurisdictions consider that maintenance of AASB 1060 in conjunction with consideration of amendments to Tier 1 standards is helpful. In particular, some entities within governments prepare financial statements for multiple reporting entities, some of which might be applying different tiers. Further, clarity about Tier 2 disclosures following new or amended Tier 1 standards allows for the timely redesign of information systems, to ensure sufficient data collection for Tier 1 and Tier 2 concurrently. Some minor variability in timing, such as an annual update approach, would be acceptable.

One jurisdiction identified that, consistent with the general principle that AASB standards should be based on IFRS accounting standards, AASB 1060 updates should be based on updates to the IASB's IFRS for SMEs accounting standard. The previous RDR Framework approach, where Tier 2 disclosures remained in topic-based standards, would have avoided inconsistent Tier 1 and 2 disclosure requirements due to infrequent updates of the IFRS for SMEs accounting standard.

Topic 9 – Other matters

12. Are there any regulatory issues or other issues arising in the Australian environment that adversely affect the application of AASB 1060 and AASB 2020-2?

HoTARAC has not identified any such issues.

13. Does the application of the requirements in AASB 1060 and AASB 2020-2 result in major auditing or assurance challenges?

HoTARAC is not aware of any such challenges.

14. Are the requirements in the best interests of the Australian economy?

Provision of AASB 1060, in a form which supports IFRS recognition and measurement principles, is in the best interest of the Australian economy.

15. Are there any other matters that the AASB should be aware of as it undertakes this PIR of AASB 1060 and AASB 2020-2?

If so, considering the objective of a PIR as described in the introduction on page 6, please provide your views on those issues or matters, relevant circumstances and their significance, and areas where you consider changes are needed. Examples to illustrate your responses are also most helpful.

HoTARAC considers that the AASB should explicitly consider whether very small entities required to prepare general purpose financial statements are adequately served by AASB 1060, particularly in sectors where the forthcoming Tier 3 will not be available.

Section 2: AASB 1060 update

Topic 1 – Potential amendments to AASB 1060 based on the third edition of the IFRS for SMEs Accounting Standard

1.1 Do you agree with the AASB’s proposed approach for assessing whether to amend AASB 1060 in relation to amendments made by the IASB to the IFRS for SMEs Accounting Standard (see page 36)? If you disagree, with which aspects of the proposed approach do you disagree and what alternatives would you suggest instead?

It is unclear whether disclosures required by IFRS for SMEs are an appropriate base for the AASB’s consideration, given that IFRS for SMEs provides for alternative recognition and measurement principles. Although ITC 56 demonstrates that disclosures particular to the alternative recognition and measurement principles can be removed, it may not follow that the quantum of disclosures more generally necessary for an alternative recognition and measurement framework are required for the IFRS-based framework adopted in Australia. HoTARAC considers that the AASB should more fundamentally consider what disclosures are fit-for-purpose for users of the intended applicants of Tier 2 in Australia. With this, the degree of usage of IFRS for SMEs as a base could be determined.

We suggest that the alignment of AASB 1060 with the IFRS for SMEs is limited to the changes that do not result in additional disclosures in AASB 1060. Demand for disclosures in addition to the existing AASB 1060 are not apparent, despite there being numerous years since introduction of the IFRS standards the third edition of IFRS for SMEs now reflects.

1.2 Do you agree with the AASB’s recommendations for amendments to AASB 1060, as listed in Table 2.1.1 (which starts on page 38)? If you disagree, with which recommendations do you disagree and what would you suggest instead?

HoTARAC does not consider the recommendations for amendments to AASB 1060, as listed in Table 2.1.1, are sufficiently founded in analysis of the needs of users in conjunction with the costs for entities preparing Tier 2 financial statements. Proposed amendments for increased disclosure for fair value and financial liabilities in particular would not add to the usefulness of financial statements.

Instead, HoTARAC suggests the AASB performs further analysis of the needs of users in an Australian context, and critically reviews whether a baseline approach of IFRS for SMEs is appropriate, particularly given the different recognition and measurement principles applied.

1.3 Do you agree with the AASB’s recommendations not to amend AASB 1060 for the changes presented in Table 2.1.2 (which starts on page 52)?

If you disagree, with which recommendations do you disagree and what would you suggest instead?

HoTARAC agrees that AASB 1060 should not be amended for the changes presented in Table 2.1.2.

Topic 2 – Potential effects of AASB 18 on AASB 1060

2.1 Should the AASB consider the impact of AASB 18 on AASB 1060 in advance of the IASB considering the suitability of the IFRS 18 requirements for the IFRS for SMEs Accounting Standard? If you think the

AASB should consider the impact of AASB 18 on AASB 1060 now, please consider the following questions for Topic 2. If you think the AASB should wait for the IASB's next edition of the IFRS for SMEs Accounting Standard, please explain your reasons.

HoTARAC considers that there are merits in both options and HoTARAC members have mixed views as to which option is preferable.

In a letter dated 11 April 2025, HoTARAC provided high level views on the application of AASB 18 to the whole-of-government and entity financial statements in the public sector. HoTARAC notes the consultation the AASB is conducting through ED 338 on the application of AASB 18 and AASB 107 to superannuation and not-for-profit entities. Further consideration of the matters raised in ED 338 is necessary to inform the answer to this question.

Setting aside specific application to the public sector, there is significant adoption of AASB 1060 and it may be difficult for users of multiple financial statements to easily interpret mixed financial statement preparation, particularly if this is over an extended period. Early analysis by the AASB of the needs of users of Tier 2 financial statements in relation to AASB 18-style presentation may also inform the IASB in its consideration of IFRS for SMEs.

There is also merit in the AASB waiting until the IASB concludes on the potential incorporation of IFRS 18-style presentation into IFRS for SMEs. Should the IASB later conclude IFRS 18 presentation is not necessary to include in IFRS for SMEs, this could be informative as to what Australian users may need from financial statements.

2.2 Do you agree with replacing the AASB 101 presentation requirements in AASB 1060 with the AASB 18 classification and presentation requirements, to retain consistency in the classification and presentation of items in the primary financial statements of both Tier 1 and Tier 2 entities? If you disagree, with which aspects do you disagree and what would you suggest instead?

HoTARAC wishes to consider this matter further in conjunction with consideration of ED 338.

2.3 If you agree that the classification and presentation of items in the primary financial statements should remain consistent for Tier 1 and Tier 2 entities (see question 2.2), which of the following approaches do you prefer?

Option A: Include in AASB 1060 all of the relevant classification and presentation requirements that are in the main body of AASB 18 (see Appendix 2.2.A in this ITC), update the relevant defined terms in Appendix A of AASB 1060 and add references to additional guidance in Appendix B of AASB 18 where applicable. Applying this approach would result in including all relevant classification and presentation requirements from AASB 18 in AASB 1060. Therefore, Tier 2 entities would not be required to comply with AASB 18 (although AASB 1060 would reference to Appendix B of AASB 18 for additional guidance).

Option B: Specify in AASB 1060 that Tier 2 entities should refer to AASB 18 for the classification and presentation requirements for primary financial statements. Under this approach, a new Appendix would be added to AASB 18 to list the disclosure paragraphs that do not apply to Tier 2 entities, consistent with the approach for other Australian Accounting Standards that continue to apply to Tier 2 entities.

Please provide the reasons for your preference.

Should the AASB conclude that amended classification and presentation of items in the primary financial statements should be consistent for Tier 1 and Tier 2 entities, HoTARAC prefers Option A. As noted above, some consider a resource to cross-reference AASB 1060 requirements to other AASB standard requirements would be useful support in applying AASB 1060.

2.4 When operating expenses are presented by function in the statement of profit or loss, should AASB 1060 include a requirement to disclose:

(a) specified expenses by nature in a single note (as required by paragraphs 83–85 of AASB 18 for Tier 1 entities); and

(b) a qualitative description of the nature of expenses in each function line item (paragraph 82(b) of AASB 18)?

Please provide the reasons for your view.

HoTARAC mainly has experience in financial statements being presented by nature and does not provide a view.

2.5 For management-defined performance measures (MPMs), should AASB 1060 include:

(a) a reference to the disclosure requirements in AASB 18 for Tier 2 entities that use MPMs as defined in AASB 18 (i.e. similar to the way that Tier 2 entities that disclose operating segments are required to apply AASB 8 Operating Segments);

(b) the full text of paragraphs 117–125 of AASB 18 (i.e. the same requirements as for Tier 1 entities);

(c) only some disclosure requirements about its MPMs (e.g. only qualitative information or a reconciliation of each MPM to the most directly comparable subtotal or total specified by the Australian Accounting Standards); or

(d) no disclosure requirements for MPMs?

Please provide the reasons for your view.

If you support only some disclosure requirements, please identify which disclosures should be required and why.

HoTARAC members had mixed views that either option (c) or (d) is preferable. HoTARAC will consider application in a public sector context further through ED 338.

2.6 Should AASB 1060 require disclosure of further information regarding:

(a) the aggregation and disaggregation of line items in the financial statements and/or notes; and

(b) the relevant line item(s) in the primary financial statements when amounts disclosed in the notes are included in one or more line items (paragraph 114 of AASB 18)?

Please provide the reasons for your view.

HoTARAC has mixed views as to whether increased disclosure should be supported. This question implies that Tier 2 entities should have disclosure requirements over and above those in AASB 18. It is not clear what those additional disclosures would be or why Tier 2 entities should have disclosure requirements that do not apply to Tier 1.

Questions regarding NFP private sector entities preparing Tier 2 GPFS

HoTARAC provides no response to questions 2.7, 2.8 and 2.9.

Questions regarding NFP public sector entities preparing Tier 2 GPFS

For questions 2.10 – 2.13, HoTARAC will consider these matters in conjunction with ED 338.

Topic 3 – Disclosure requirements in IFRS 19

3.1 Is it important for Tier 2 entities to be able to claim compliance with IFRS 19?

Please explain your view.

HoTARAC does not consider this important for the public sector. For entities within Australian governments, the ability to be able to claim compliance with IFRS 19 is largely not relevant, as Australian governments as parent entities do not comply with IFRS.

3.2 Which of the following options would you prefer:

(a) replace AASB 1060 with IFRS 19 and expand the scope from subsidiaries without public accountability to all Tier 2 entities;

(b) amend AASB 1060 to include the additional disclosures required by IFRS 19 to achieve compliance with IFRS 19;

(c) retain AASB 1060 and do not adopt IFRS 19 at all;

(d) adopt IFRS 19 as an alternative Tier 2 framework for subsidiaries without public accountability, so that these entities would have the option to prepare GPFS under either AASB 1060 or an AASB Standard incorporating IFRS 19; or

(e) adopt IFRS 19 as an alternative Tier 2 framework under which subsidiaries without public accountability would apply an AASB Standard incorporating IFRS 19 (without the option to apply AASB 1060 instead) and other Tier 2 entities would apply AASB 1060.

Please provide the reasons for your preference.

HoTARAC does not support options (a), (b), as IFRS 19 was designed to meet the needs of a different users to users of financial statements prepared in accordance with AASB 1060, as described in the IFRS 19 Basis for Conclusions.

HoTARAC members have mixed views as to whether IFRS 19 should not be adopted, or be adopted as an option, or as a requirement for subsidiaries without public accountability. Some consider that the availability of IFRS 19 would impose additional complexity. Other consider that the option to apply IFRS 19 may be of value to some multi-national private sector entities.

On the basis that HoTARAC does not anticipate application of IFRS 19 would be possible for entities within Australian governments, HoTARAC prefers option (d), but considers that views that consider multi-national private sector entities would best inform the choice between options (c), (d) or (e).

3.3 If you think only parts of IFRS 19 should be adopted in Australia, please identify the disclosure requirements currently not required under AASB 1060 that you consider appropriate for Tier 2 entities and/or subsidiaries without public accountability.

HoTARAC does not provide a view in light of the position noted at 3.2.

AASB general matters for comment

In addition to the specific matters for comment on each of the three topics in this section, the AASB would also value comments on the following:

- 1. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to: (a) not-for-profit entities; and (b) public sector entities, including GAAP/GFS implications?**

None noted.

2. Would the proposals create any auditing or assurance challenges?

HoTARAC does not provide a view.

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

Proposals to align AASB 1060 to IFRS for SMEs would likely not result in financial statements having increased utility to users.

4. Are the proposals in the best interests of the Australian economy?

The increased costs of AASB 1060 in light of IFRS for SMEs without demonstrable benefits are of questionable benefit to the Australian economy.

5. Unless already provided in response to the AASB specific matters for comment 1.1–3.3 above and/or general matters for comment 1–4 above, what are the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

The costs of the proposals would include:

- Increased costs to preparers in gathering information for and drafting disclosures, and audit
- Preparing alternative policies as to which entities may apply Tier 2 that take into account the reduced benefits of applying AASB 1060, including potential unwinding of application of AASB 1060.