

# Primary Financial Statements – IASB ED Outreach project plan

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### APPROVAL

[approver's name] [approver's position]

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**Commented [JB1]: Note to Board members:**  
Approval of the project plan to be recorded subject to the Board's decision.



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## 1 PROJECT PROPOSAL/EXECUTIVE SUMMARY

Following feedback from users, the IASB is expected to be issuing an Exposure Draft (forthcoming ED) in December 2019 to propose revisions to the requirements of the primary financial statements, in particular the statement of financial performance.

Given the pervasive nature of the proposals, Staff recommend that the Board comment on the forthcoming ED and direct staff to conduct outreach on the ED, including roundtables and targeted outreach, with a view to providing feedback in the form of an AASB submission on the forthcoming ED to the IASB.

## 2 OBJECTIVES & PROJECT OUTCOMES

### 2.1 WHAT ARE THE OBJECTIVES OF THIS PROJECT?

#### What is overall objective?

The objective of the IASB's project is to make targeted improvements to the primary financial statements with a focus on the statement of financial performance. This includes:

- Introducing defined subtotals in the statement of financial performance
- Providing better information on management performance measures (ie non-GAAP information)
- Improving disaggregation in primary financial statements

The IASB is planning to issue an Exposure Draft in December 2019. As such, the objective of the AASB's work on this project is to provide feedback to the IASB to ensure the proposals are fit-for-purpose for Australian stakeholders.

#### What is the issue and extent of the issue?

The IASB's 2015 Agenda Consultation identified that improvements were required to the primary financial statements as a matter of priority. In particular users of financial statements noted <sup>1</sup>:

- Statements of financial performance are not sufficiently comparable between different companies
- Non-GAAP measures can provide useful information, but transparency needs to be improved
- There is insufficient disaggregation in financial statements

#### What evidence is available to define the issue?

In November 2016 the IASB Staff presented an overview of its research and outreach activities to the IASB<sup>2</sup>. Some of the major findings on the presentation of financial statements were as follows:

- the structure and content of the statement(s) of financial performance vary even among entities in the same industry.

<sup>1</sup> See <https://www.ifrs.org/-/media/project/primary-financial-statements/supporting-materials/pfs-project-overview-sept-2018.pdf>

<sup>2</sup> IASB Agenda Papers 21A-21E from November 2016.



- users of financial statements would like more comparability in the structure and content of the statement(s) of financial performance and would welcome more defined subtotals and line items in that statement.
- users of financial statements would like to see greater disaggregation of information in the primary financial statements and the notes.
- alternative performance measures can provide relevant information to users. However, users find that there is often a lack of transparency around how these measures are calculated or why they are disclosed.
- users find the permitted presentation alternatives for the statement(s) of financial performance and the statement of cash flows unhelpful as they reduce comparability.
- electronic reporting of financial information is facilitated if there are more required line items and subtotals and greater disaggregation of the information provided.
- users expressed few concerns about the presentation of the statement of financial position.

The IASB has also published an [academic overview](#) of the Primary Financial Statements outlining evidence, which includes a study from Australia, indicating that the evidence would be relevant locally<sup>3</sup>. Additionally, the Board has previously considered an Australian study in relation to non-GAAP reporting measures which indicated the need for further consideration by standard-setters<sup>4</sup>. Feedback from the AASB's User Advisory Committee in August 2019 also indicated support for the direction of the IASB proposals.

#### **What additional evidence is needed and why?**

Given this project has entered the IASB's standard-setting phase, there is no need for academic research by the AASB at this stage. Instead, feedback on the IASB's Exposure Draft is needed to further inform the outcomes of the project.

#### **Who are the impacted stakeholders?**

In case the new standard will be issued, the impacted stakeholders would be:

- All preparers of financial statements in all sectors
- All users of financial statements
- Regulators
- Professional Services Firms

<sup>3</sup> Greg Clinch, Ann Tarca and Marvin Wee, 'The Value Relevance of IFRS Earnings Totals and Subtotals and Non-GAAP Performance Measures', 8 March 2018. Available at SSRN: <https://ssrn.com/abstract=3178567>

<sup>4</sup> See presentation by Stephen Taylor, May 2017 [https://www.aasb.gov.au/admin/file/content102/c3/5.1\\_Presentation\\_Non-GAAP\\_Reporting\\_M157.pdf](https://www.aasb.gov.au/admin/file/content102/c3/5.1_Presentation_Non-GAAP_Reporting_M157.pdf)

**What are the expected changes and benefits<sup>5</sup>?**

Issue (in brief)	Expected change	Expected benefits
Inconsistency in calculation of subtotals in the financial statements (e.g. operating profit)	Introduce defined subtotals and categories in the statement of profit or loss	Provide additional relevant information and a structure that is more comparable between entities
	Introduce principles and guidance for aggregation and disaggregation	Provide additional relevant information and avoid obscuring material information
Inconsistency in presentation of unusual or non-recurring items	Introduce disclosures on unusual items	Provide additional relevant information, in a single location
Performance measurements are often not clear	Introduce disclosures on Management Performance Measures (MPMs)	Provide transparency & discipline in use of such measures, in a single location
Inconsistent presentation of the items in the statement of cash flows	Introduce targeted improvements to the statement of cash flows	Improve comparability between entities

**Urgency/importance?**

The IASB is expected to issue the ED in December 2019 with comment period closing 30 June 2020 (ie 6 months comment period).

The issue is important as the primary financial statements are the primary mechanism to provide information on an entity's financial performance and financial position and are fundamental to every general purpose financial report.

This project could lead to significant changes in the way all entities present their primary financial statements (ie it is not limited to any sector or type of transaction).

Therefore, Staff consider the project priority is **high**, as it is important that the Board considers the views of Australian stakeholders and provides feedback to the IASB.

**Commented [JB2]: Question 1 to the Board:**  
Does the Board agree that the project priority is high?

**What are the project milestones and deliverables?**

- Outreach – Disclosure Initiative Panel Meeting
- Outreach – Targeted consultation – ASIC, APRA, ACNC, AUASB, User Advisory Committee, Disclosure Initiative project advisory panel
- Outreach – Roundtables (preparers, auditors, professional bodies, users)
- Education session for the Board

**Commented [JB3]: Question 2 to the Board:**  
Do you agree with the list of proposed deliverables?

<sup>5</sup> See <https://www.ifrs.org/-/media/feature/events-andconferences/2019/wss/presentations/primary-financial-statements.pdf>

- Comment Letter to IASB - Staff recommend that the AASB provides a submission to the IASB on its forthcoming ED on Primary Financial Statements based on reasons outlined above.

For details and timeline see section 5.

**Commented [JB4]: Question 3 to the Board:** Does the Board agree to provide a submission to the IASB on its Exposure Draft?

**Link to AASB Strategic Objectives**

#	Strategic Objective	Link to this project
1	Develop, issue and maintain principles-based, Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced. For 'publicly accountable' entities maintain IFRS compliance; for others, use IFRS Standards (where they exist), and transaction neutrality (modified as necessary), or develop Australian-specific standards and guidance.	Directly addressing – contributing to development of IFRS standards
2	With the AUASB, play a leading role in reshaping the Australian external reporting framework by working with the regulators to develop objective criteria on: <ul style="list-style-type: none"> <li>• who prepares external reports (including financial reports)</li> <li>• the nature and extent of assurance required on these external reports.</li> </ul>	Not addressing
3	Actively influence IASB, IPSASB standards and other international accounting and external reporting standards and guidance, by demonstrating thought leadership and enhancing key international relationships.	Directly addressing – influencing the IASB’s project and proposals
4	Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.	Directly addressing – outreach roundtables proposed
5	Influence initiatives to develop standards and guidance that meet user needs for external reporting integral to financial reporting.	Indirectly addressing – might reduce the number of performance measures outside the financial statements,



		making financial statements more useful standalone
6	Monitor and respond to, or lead on, emerging issues impacting the development of accounting and external reporting standards, including changing technologies.	Not addressing
7	Develop guidance and education initiatives, or promote development by others, to enhance the consistent application of accounting and external reporting standards and guidance.	Not addressing
8	Build a high performing team that operates efficiently, effectively and within budget, complying with all relevant legislation and Commonwealth Government requirements	Not addressing

## 2.2 PAST RELEVANT AASB PROJECT, HISTORY OF THE PROJECT AND CROSS-CUTTING PROJECTS

### Disclosure Initiative Program

The primary financial statements project makes up a subset of the IASB's Disclosure Initiative program. The AASB staff have been following this broad project and have created a Disclosure Initiative Panel to provide feedback to the Accounting Standards Advisory Forum (ASAF). Feedback already received via that channel should be considered.

## 3 PROJECT REPORTING REQUIREMENTS

### 3.1 WHAT SPECIALIST KNOWLEDGE IS REQUIRED AND HOW TO SOURCE IT?

No additional specialist knowledge is proposed as AASB staff are skilled in the preparation of the primary financial statements over a range of industries.

Staff will utilise the following existing advisory groups which staff consider will be sufficient:

- Disclosure Initiative Project Advisory Panel
- User Advisory Committee

### 3.2 WHAT ARE THE PROJECT REPORTING REQUIREMENTS?

Staff will provide fortnightly internal reporting on the project to the portfolio management team and report to the Board as part of the priorities and work program reporting.



## 4 ASSUMPTIONS, RISKS & OTHER CONSIDERATIONS

### 4.1 ASSUMPTIONS, CONSTRAINTS AND RISKS

- **Assumptions:**
- SPFS removal for for-profit entities project, NFP private financial reporting framework project, public sector financial reporting framework project and Simplified Disclosure project will run to plan and not require additional resources than planned
- No unexpected high-priority projects will arise
- Board will largely agree with staff recommendations (ie no need to re-write draft comment letter entirely)
- No domestic specific modification for NFP/public sector needs to be considered and consulted on
- No additional substantial changes in the ED when issued by IASB apart from those previously communicated.

### 4.2 WHAT ARE THE KEY PROJECT DELIVERY RISKS?

Risk	Risk assessment (likelihood)	Potential impacts	Mitigation strategy	Residual risk
Other high-priority projects overrun on time and unexpected new high priority projects added	High	Resources may have to be re-allocated to finish more important projects	Plan and secure sufficient resources (external if needed) on high-priority projects to accommodate delays. This is however subject to budget constraints	Medium
Low attendance at roundtables	Medium	Feedback will not be sufficient or will not draw out key issues	Early advertisement of roundtables and strategic timing	Low
Disagreement on proposals by stakeholders	Low	Could require additional outreach to understand issues and draft response to IASB	Identify key issues early via outreach with DI panel and key stakeholders.  Provide education during the sessions.	Low



Risk	Risk assessment (likelihood)	Potential impacts	Mitigation strategy	Residual risk
Additional substantial changes in the actual ED than communicated by IASB	Low	Could require additional outreach	Monitor closely the project.	Low
Additional domestic standard-setting activity required for specific areas in NFP or Public Sector	Low	Additional guidance has to be provided for NFP or Public Sector areas	Monitor closely the project	Low

#### 4.3 SPECIFIC SECTOR CONSIDERATIONS (FP/NFP/PUBLIC OR INDUSTRY-SPECIFIC)

Given the AASB's transaction neutrality approach to standard-setting, the Board should consider whether there are any NFP/public sector issues that may require additional domestic standard-setting.

Staff consider there may be some sector-specific considerations required to be considered upon the IASB finalising this project, including:

- **Public sector** – as noted in [Agenda Paper 13.1 GAAP GFS Reconciliation Requirements](#) (September 2019 AASB meeting), the IASB's tentative decision on Management Performance Measures could have particular implications for paragraphs 16-18D of AASB 1049. This is because many of the fiscal aggregates (including key fiscal aggregates) are GFS concepts. However the fiscal aggregates disclosed in financial statements are not measured in accordance with GFS but are measured on the GAAP basis in accordance with paragraph 16 of AASB 1049. Consistent with the direction of the IASB's project, staff are concerned that removing the GAAP/GFS reconciliation requirement altogether without requiring some clarifying disclosures could mislead users (particularly users who are not familiar with Australian public sector financial reporting requirements) into thinking they are (pure) GFS measures.
- **NFP sector** – forthcoming research to be presented at the AASB Research Forum 2019 has indicated that there is potential value in providing more detailed disclosure of expenses, such as disaggregation of expenses and specific disclosure of expense types that donors are interested in, as well as more clarity and consistency in cost classifications, particularly for expenses classified as fundraising and administration. As such, the Board may be required to consider whether any additional tailoring would be required for NFP entities.

#### 4.4 RELEVANT STANDARDS, LEGISLATION AND REGULATIONS

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*



- ASIC RG 230 *Disclosing Non-IFRS Financial Information* and RG 247 *Effective Disclosure in an Operating and Financial Review* – may require revision if proposals progress to standard stage
- AASB 1049 *Whole of Government and General Government Sector Financial Reporting*
- Australian Charities and Not-for-Profits Commission Act 2012 (for reporting of AIS information)

#### **4.5 INTERACTION WITH IASB**

This project directly relates to the IASB. Feedback will need to be gathered for the following IASB-delivery dates:

- Comment letter closing period – 30 June 2020
- Capital Markets Advisory Committee (via UAC) – likely agenda item March 2020
- Accounting Standards Advisory Forum (via AOSSG) – likely agenda item April 2020
- International Forum of Accounting Standard Setters (IFASS) – likely agenda item March 2020

#### **4.6 INTERACTION WITH AUSTRALIAN AUDITING STANDARDS**

The AUASB will need to be consulted to ensure that the proposals are capable of being audited. In particular, the proposals for management performance measures may need to be specifically considered to ensure the suitability of the proposals.

#### **4.7 CONSIDERATION OF NEW ZEALAND ACCOUNTING STANDARDS**

The NZASB will also conduct outreach on this topic. The AASB and NZASB Staff will discuss this topic in their liaison meeting to identify whether any issues identified in the respective countries would be cross-cutting.

In addition, to maximise efficiencies, the AASB and NZASB staff have agreed to undertake joint outreach with the AASB's User Advisory Committee.

#### **4.8 CONSIDERATION OF GFS (PUBLIC SECTOR ENTITY PROJECTS)**

See section 4.3 above. Staff will consult with the ABS to understand whether there are any other implications for GAAP/GFS harmonisation that staff are unaware of.

#### **4.9 CONSIDERATION OF IPSASB (PUBLIC SECTOR ENTITY PROJECTS)**

The IPSASB is not required to be considered as this is not a public sector specific project.

## 5 PROJECT TIMELINE AND RESOURCES

Milestone	Who? (Target audience, eg Board, stakeholders)	Date	Resources required – responsible person and time
<p><b>Issue domestic equivalent of Exposure Draft.</b> Including:</p> <p>Communications via AASB Weekly Update</p> <p>Invite for outreach roundtables contemporaneously</p>	Stakeholders	Dec 2019	<p>Project Manager 15 hours</p> <p>Senior Project Manager 7.5 hours</p> <p>Communications Manager 7.5h</p>
<p><b>Disclosure Initiative Panel Meeting</b></p> <p>Seek preliminary feedback on the proposals in the Exposure Draft</p> <p>Develop presentation pack that can also be used for outreach – feedback from DI meeting can also be used to target feedback from outreach.</p> <p>Includes staff time to consider technical content and IASB's rationale in detail.</p>	Disclosure Initiative Panel	Feb 2020	<p>Project Manager 47.5 hours</p> <p>Senior Project Manager 27.5 hours</p> <p>Technical Director 8 hours</p>
<p><b>Targeted outreach</b></p> <p>Targeted individual meetings with key stakeholders, seeking feedback on all topics including:</p> <p>ASIC</p> <p>APRA</p> <p>ACNC</p> <p>AUASB Staff (and AUASB if recommended by AUASB staff)</p>	Stakeholders	Feb-Mar 2020	<p>Project Manager 20 hours</p> <p>Senior Project Manager 12 hours</p> <p>Technical Director 10 hours</p>

**Commented [JB5]: Question 4 to the Board:**  
Would the Board prefer to instead invite these stakeholders to roundtable events and receive feedback in public forums? This would save time but may not result in as detailed feedback.



Milestone	Who? (Target audience, eg Board, stakeholders)	Date	Resources required – responsible person and time
User Advisory Committee (joint with NZASB staff) (if additional proposals to those discussed in Aug '19 meeting)			
<p><b>Outreach roundtables and webinar</b></p> <p>Approx. 1 hour education session followed by 1-2 hours of interactive discussion to seek feedback on all topics. Proposed locations:</p> <p>Melbourne Sydney</p> <p>Webinar (online)</p> <p>Separate FP/NFP sessions to accommodate stakeholder feedback that NFP entities prefer separate consultation.</p> <p>Proposed to be combined with Goodwill and Impairment outreach (Discussion Paper expected Q1 2020)</p>	Stakeholders	13-17 April 2020	<p>Project Manager 20 hours</p> <p>Senior Project Manager 15 hours</p> <p>Technical Director 10 hours</p>
<p><b>Preliminary views and draft comment letter</b></p> <p>Verbal feedback on outreach</p> <p>Staff to prepare education session and draft comment letter and seek Board's preliminary views on comments to IASB</p>	Board	29-30 April 2020	<p>Project Manager 37.5 hours</p> <p>Senior Project Manager 20 hours</p> <p>Technical Director 7.5 hours</p>

**Commented [JB7]: Question 5 to the Board:**  
Do Board members agree with the proposed date for outreach?

Staff consider this most appropriate as:

- It is after the busier Jan-March period
- It is after school holidays
- It will allow joint outreach on the IASB Goodwill and Impairment Discussion Paper assuming the DP is not delayed

However, this date will mean that a written summary of the feedback will not be available for the April meeting.

**Commented [JB6]: Question to the Board:**

Recent outreach has seen low engagement in other capital cities. However, given the pervasive nature of this topic, interest may be broader than previous roundtables. As such, if the Board wishes, staff could either:

- Ask for expressions of interest in other capital cities
- Advertise outreach in other capital cities and cancel if take-up is low

Does the Board have a preference?



<b>Milestone</b>	<b>Who? (Target audience, eg Board, stakeholders)</b>	<b>Date</b>	<b>Resources required – responsible person and time</b>
<b>Comment letter to AASB closing date</b> Allowing time to consider comment letters	Stakeholders	15 May 2020	n/a
<b>Approve final comment letter</b> Staff to provide summary of comment letters Board paper Staff to amend draft comment letter based on Board views shared in April and any additional formal comment letters received.	Board	11 June 2020	Project Manager 75 hours  Senior Project Manager 37.5 hours  Technical Director 15 hours