



New South Wales
TREASURY

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Dear Mr Stevenson

AASB ED 192 Revised Differential Reporting Framework

New South Wales Treasury welcomes the opportunity to provide comments on the above exposure draft.

NSW Treasury does not support the proposed Tier 2 Reduced Disclosure Regime for any public sector entities. In our opinion, all public sector entities should be classified as Tier 1 entities required to report under full IFRSs as adopted in Australia because, in the generally accepted usage of the term, they are publicly accountable. We believe users expect full and open disclosure from public sector entities.

In addition, we strongly believe that the reporting entity concept should not be abandoned because it answers the question of who should prepare general purpose financial statements (GPFSS). The proposed change in focus will largely leave the answer to this question to the regulators. It appears counterintuitive for the AASB to prescribe the distinction between types of entities that apply full and reduced disclosure IFRS (by using the principle of public accountability), without first addressing the primary issue of who should prepare GPFSS. The reporting entity concept creates a link between the existence of users dependent on GPFSS as a basis for making and evaluating resource allocation decisions and the need to prepare GPFSS. The reporting entity concept is at a principle level and allows judgement to be exercised. It underlies the definition of GPFSS.

Our detailed views in relation to the matters raised in the exposure draft follow.

Yours sincerely

Robert Williams
for Secretary

ED 192 Revised Differential Reporting Framework

General comments:

1. Reporting entity concept

The reporting entity concept should not be abandoned as it answers the fundamental question of who should be preparing general purpose financial statements (GPFSS). In contrast, the proposed approach will largely leave the answer to this question to the regulators. Traditionally, the use of the reporting entity concept in the application paragraphs to the standards has meant that the principle of who should report has been the realm of the Accounting Standard setters. The danger in leaving this to the regulators is that the regulators are not compelled to follow any reporting entity principle. This means that entities that would have otherwise been reporting entities may not be required by the regulators to report.

If regulators were to use the reporting entity concept, it would help ensure consistency in identifying entities that should prepare GPFSS across jurisdictions (AASB Consultation Paper page 26, paragraph 9.11). However, we must rely on the regulators to voluntarily follow the concept.

It seems counterintuitive for the AASB to prescribe the distinction between types of entities that apply full and reduced disclosure IFRS (by using the principle of public accountability), without first addressing the initial issue of who should prepare GPFSS.

The reporting entity concept is well known in Australia and has been used since the early 1990s. The switch to a focus on GPFSS means that we are just told what they are, not who should prepare them. Under ED 192, the proposed focus on GPFSS is dependent on the sector within which the entity operates, the purpose for which it is created or the manner in which it is constituted.

Conversely, the reporting entity concept creates a link between the existence of users dependent on GPFSS as a basis for making and evaluating resource allocation decisions and the need to prepare GPFSS. The reporting entity concept is at a principle level; and allows judgement to be exercised. It underlies the definition of GPFSS.

2. Public accountability

The term 'public accountability' generally refers to the relationship between those who govern; e.g. the State government and those who are governed; e.g. the public. Those in government are expected to be accountable to the public for their decisions and actions.

However, the IASB definition for 'public accountability' has a very narrow focus (on the for-profit private sector only). Entities with public accountability must apply full IFRSs (Tier 1).

In our opinion, all public sector entities should be classified as Tier 1 entities; e.g. government departments and statutory bodies, as well as public trading enterprises and statutory state owned corporations. Although they do not meet the narrow IASB definition of "publicly accountable", users expect full and open disclosure from public sector entities. Clearly, for the public sector, the public wants to know whether community outcomes and services have been achieved effectively and efficiently and that there is accountability for the expenditure of funds provided by taxpayers.

3. Trans-Tasman Convergence

New Zealand is currently proposing something quite different to the Australian proposals:

- New Zealand proposes 3 tiers instead of 2 – the 3rd tier consists of not-for-profit private and not-for-profit public sector "small" entities who would report in a "simple format". The tiers are based on thresholds.
- New Zealand proposes different sectors; i.e. for-profit public sector would be included with other for-profit entities while the public sector is considered to be all not-for-profit. Australian proposal has public sector in one category – both for-profit and not-for profit entities.

- New Zealand relies on the IFRS for SMEs for its Tier 2 and a reliance on IPSAS for some of the categories: Australia is likely to reject the IFRS for SMEs and does not seem ready to embrace IPSAS.

So, overall, convergence may be difficult.

4. *Transitioning between tiers*

NSW Treasury believes transitioning between tiers would be more time-consuming and costly than envisaged by the AASB.

Specific Matters for Comment

(a) whether you agree with the introduction of a second tier of reporting requirements for preparing general purpose financial statements (GPFs) for:

- (i) for-profit private sector entities that do not have public accountability;**
- (ii) not-for-profit private sector entities; and**
- (iii) public sector entities other than those required by the AASB to apply Tier 1?**

If not, and you support differential reporting, what other classifications of entities do you think would be more appropriate for differential reporting and why?

(i) and (ii) No comment

(iii) NSW Treasury does not support a second tier of reporting for any public sector entities.

- The IASB definition for ‘public accountability’ has a very narrow focus. All public sector entities should be classified as Tier 1 entities. Although they do not meet the narrow IASB definition of ‘publicly accountable’, users expect full and open disclosure from public sector entities. Clearly, for the public sector, the public wants to know whether community outcomes and services have been achieved effectively and efficiently and that there is accountability for the expenditure of funds provided by taxpayers.
- For very small NSW public sector entities, NSW Treasury does not believe that the Tier 2 reduced disclosure regime proposed by the AASB would result in any significant benefits.
- Nor do we recommend any total exemptions from financial reporting as is the case in the private sector.

(b) whether you agree that entities within the second tier should be able to apply the proposed reduced disclosure regime, which retains the recognition and measurement requirements of full IFRSs or would you prefer another approach (e.g. IFRS for SMEs)? If you prefer the IFRS for SMEs, what do you consider to be the specific advantages of the individual differences of recognition and measurement requirements in the IFRS for SMEs compared with full IFRSs?

If there is a reduced disclosure regime, NSW Treasury prefers the AASB proposal to the *IFRS for SMEs*. The AASB proposal retains the full recognition and measurement requirements of IFRSs, which would facilitate consolidation at the State government level. And it is closer to full IFRS, which has already been accepted in Australia.

(c) the definition of public accountability (which is used to identify those for-profit entities that must apply Tier 1) and whether there are categories of entities in the Australian environment that should be cited as examples of publicly accountable entities other than those already identified in paragraph 26;

- The definition is not what the general population would consider to be ‘public accountability’. The term ‘public accountability’ generally refers to the relationship between those who govern; e.g. the State government and those who are governed; e.g.

the public. Those in government are expected to be accountable to the public for their decisions and actions.

- We would prefer a broader definition for public accountability which would capture the public sector. For example, in its 2004 Discussion Paper on SMEs, the IASB's preliminary view was that an entity has public accountability if there is a high degree of outside interest in the entity from non-management investors or other stakeholders, and those stakeholders depend primarily on external financial reporting as their means of obtaining financial information about the entity; or the entity has an essential public service responsibility because of the nature of its operations (preliminary view 3.2).
- NSW Treasury has no recommendations for any other examples.

(d) whether you would require any other classes of public sector entities, such as Government Departments, Government Business Enterprises or Statutory Authorities, to be always categorised as 'Tier 1' reporting entities and, if so, the basis for your view;

- NSW Treasury considers all public sector entities should be in Tier 1, including Government Departments, Government Business Enterprises and Statutory Authorities. Although they do not meet the narrow IASB definition of "publicly accountable", users expect full and open disclosure from public sector entities. Clearly, for the public sector, the public wants to know whether community outcomes and services have been achieved effectively and efficiently and that there is accountability for the expenditure of funds provided by taxpayers.
- The AASB has differentiated between Tier 1 and Tier 2 for the for-profit private sector on the basis of whether the entity is publicly accountable or not publicly accountable but has not done anything comparable for the public sector. If, contrary to our view, the AASB has Tier 1 and Tier 2 for the public sector, we believe the AASB should develop and apply a principle to distinguish between Tier 1 and Tier 2 public sector entities instead of leaving it up to the relevant regulator to determine.

(e) the clarification of the meaning of GPFSSs and modifying the way the reporting entity concept is used;

- We do not agree with eliminating the reporting entity concept and do not believe that the focus should change to GPFSSs.
- The reporting entity concept answers the fundamental question of who should be preparing GPFSSs. In contrast, the proposed approach will largely leave the answer to this question to the regulators. Traditionally, the use of the reporting entity concept in the application paragraphs to the standards has meant that the principle of who should report has been the realm of the Accounting Standard setters. The danger in leaving this to the regulators is that the regulators are not compelled to follow any reporting entity principle. This means that entities that would have otherwise been reporting entities may not be required by the regulators to report.
- It seems counterintuitive to prescribe the distinction between types of entities that apply full and reduced disclosure IFRS (by using the principle of public accountability), without first addressing the initial issue of who should prepare GPFSSs.
- The switch to a focus on GPFSSs means that we are just told what GPFSSs are, not who should prepare them. Under AASB ED 192, the proposed focus on GPFSSs is dependent on the sector within which the entity operates, the purpose for which it is created or the manner in which it is constituted.
- Conversely, the reporting entity concept creates a link between the existence of users dependent on GPFSSs as a basis for making and evaluating resource allocation decisions and the need to prepare GPFSSs. The reporting entity concept is at a principle level; and allows judgement to be exercised. It underlies the definition of GPFSSs.

- (f) **the extent and nature of the proposed disclosures under the RDR (Tier 2), including whether the RDR would be effective in reducing sufficiently the disclosure burden on entities in preparing their GPFS;**

The AASB has performed a comprehensive review of disclosure requirements; however, there still seems to be quite extensive disclosure in certain standards. NSW Treasury is not convinced that the disclosure burden would be sufficiently reduced to justify a change from full IFRS reporting to a reduced disclosure regime.

- (g) **any particular disclosure requirements that:**

- (i) **have been retained in the RDR that you consider should be excluded from the RDR, and your reasons for exclusion;**
 (ii) **have been excluded from the RDR that you consider should be retained, and your reasons for retention;**

No specific recommendations; however, for very small public sector entities (other than any entities required by the AASB to apply Tier 1), NSW Treasury believes the proposed disclosures remain quite extensive, such that the benefits of a second tier do not justify the costs. On this basis, we do not support the RDR for the public sector.

- (h) **transitional provisions for entities applying Tier 1 or Tier 2 for the first time and moving between Tiers;**

NSW Treasury believes transitioning between tiers would be more time-consuming and costly than envisaged by the AASB.

- (i) **whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals;**

There are some relevant developments which the AASB may wish to consider:

- Corporations Act Amendment Bill proposals and the NSW Fair Trading exposure draft provide examples of what happens when the reporting entity concept is abandoned. The regulator proposes to exempt some companies limited by guarantee from reporting (based on thresholds). The regulator also proposes to exempt parent entities from separate reporting and proposes to exempt small cooperatives from reporting (again based on thresholds). The danger here is that the regulator could progressively exempt from reporting any or all Tier 2 entities in any manner they choose.

(1) Proposed differential reporting framework under the Corporations Act (Corporations Amendment Corporate Reporting Regime) Bill 2010.

- This Bill proposes the introduction of a differential reporting framework for companies limited by guarantee, resulting in a three tiered reporting framework based on thresholds, with some totally exempt from reporting.
- Another proposal in the Bill is to relieve parent entities from preparing and lodging financial statements when they prepare consolidated financial statements. The reason for this proposal is the long-standing debate over whether parent entity financials are really useful when consolidated financials are also prepared.

(2) NSW Fair Trading Exposure Draft on revised Cooperatives Law (that could be adopted nationally)

- Large cooperatives will apply accounting standards
 - Small cooperatives will be exempt from financial reporting
- In the public sector, jurisdictions could prescribe tiers in different ways, leading to a lack of comparability. We understand that some jurisdictions are legislating additional tiers with differential requirements.

- (j) whether, overall, the proposals would result in reducing the costs of preparing GPFSS that would remain useful to users; and**

NSW Treasury agrees the proposals should result in reduced costs for private sector entities (except for entities currently preparing SPFSs that must in future prepare GPFSSs).

But in the public sector, the costs may not be justified and may exceed the benefits for Tier 2 entities.

- (k) whether the proposals are in the best interest of the Australian economy.**

No comment.