ED225 sub 2

Department of Treasury and Finance

1 Treasury Place
GPO Box 4379
Melbourne Victoria 3001
Telephone: (03) 9651 5111
Facsimile: (03) 9651 2062
DX 210759

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Contact: Veronique Row
Phone: 02 6215 2104
Our Ref: RMS 12/05097

Mr Kevin Stevenson
Chairman
Australian Accounting Standard Board
PO Box 204
COLLINS ST WEST VIC 8007

Dear Mr Stevenson Kevin

ED 225 Annual Improvements to IFRSs 2010-2012 Cycle

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on Exposure Draft 225 *Annual Improvements to IFRSs 2010-2012 Cycle.*

HoTARAC is commenting only on the proposed improvements which are considered to have the most impact on Australian public sector reporting. These exclude the proposed improvements to IFRS 2 *Share-based Payment*, IFRS 8 *Operating Segments* and IAS 12 *Income Taxes.*

While HoTARAC broadly supports the proposed improvements, we have the following comments and recommendations:

<u>IFRS 13 *Fair Value Measurement*</u>

The International Accounting Standards Board (IASB) proposes amendments to the Basis for Conclusion in IFRS 13 to explain the rationale for the deletion of paragraphs B5.4.12 of IFRS 9 *Financial Instruments* and AG79 of IAS 39 *Financial Instruments: Recognition and Measurement.* HoTARAC notes that the deletion of wording from a standard is generally interpreted by preparers as indicating what is, or is not, acceptable accounting practice to users. On this basis, if the original deletions did not reflect the intent of the IASB, any rectification should be included in the standard itself, rather than in the Basis for Conclusions.

<u>IAS 1 *Presentation of Financial Statements*</u>

At least one HoTARAC jurisdiction believes that "discretion" should have prominence over the entity's "expectations" in the determination of whether the liability is non-current in paragraph 73 and in order to reduce subjectivity, the threshold for meeting "expectations" needs to be higher, such as the existence of a commitment to a plan to act. A minority of HoTARAC jurisdictions is of the opinion that the last sentence of the paragraph is not clear and suggests rewording or providing clarification on the intent of the IASB.

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IAS 16 *Property, Plant and Equipment*

HoTARAC is unclear on the conclusion reached in BC5 that the definition of carrying amount implies accumulated depreciation represents the difference between gross and net carrying amounts (and by extension the application of this principle to IAS 38). HoTARAC recommends clarifying the term "net carrying amount" as this is not used in either the current IAS 16 or IAS 38 standards.

IAS 38 *Intangible Assets*

HoTARAC recommends that the revised IAS 38 Basis for Conclusions should include a more complete explanation of the rationale for the amendments proposed in this Exposure Draft, rather than delegating this explanation to the Basis for Conclusions for IAS 16. Additionally, HoTARAC notes that paragraph BC1 should refer to "amortisation" instead of "depreciation".

Transitional Provisions

HoTARAC supports the transitional provisions for IFRS 3 *Business Combinations*, IAS 1 *Presentation of Financial Statement* and IAS 36 *Impairment of Assets* which propose the amendments be applied prospectively. HoTARAC notes the transitional provisions for IFRS 3 and IAS 36 state the amendment to be applied prospectively while IAS 1 states "an entity need not apply that amendment to comparative information". HoTARAC recommends the IASB uses consistent languages to reflect its intention for prospective application.

HoTARAC also notes that the proposed amendments to other standards do not clarify whether the amendments should be applied retrospectively or prospectively. Being silent on this matter would mean the retrospective application as per IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. HoTARAC seeks clarification as to whether this is the IASB's intention.

AASB Specific Matters for Comment

HoTARAC has not identified any regulatory issues or other issues specific to public sector Not-for-Profit entities or Generally Accepted Accounting Principles – Government Finance Statistics harmonisation.

In relation to the AASB's disclosure proposals for Tier 2 entities, HoTARAC questions the rationale for the proposed new/amended disclosures in AASB 8 *Operating Segments*. Previous decisions regarding AASB 8 have excluded almost all its paragraphs for Tier 2 entities, including paragraphs 22 and 28. On that basis, the proposed new/amended disclosures for AASB 8 should also be exempted for Tier 2 entities.

In respect of other standards for which amendments are proposed, HoTARAC supports the AASB's disclosure proposals for Tier 2 entities. HoTARAC believes the proposals would result in financial statements that would be useful to users and the benefits of the proposals outweigh the costs. HoTARAC has no comments on whether the proposals are in the best interests of the Australian economy.

If you have any queries regarding HoTARAC's comments, please contact Alastair Higham or Veronique Row from the Australian Department of Finance and Deregulation on 02 6215 2832 and 02 6215 2104 respectively.

Yours sincerely

Grant Hehir
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE
9 August 2012