

*Our Reference: TRO-17873*

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(Via email to: [standard@asb.com.au](mailto:standard@asb.com.au))

Dear David

Queensland Treasury welcomes the opportunity to comment on the discussion paper “Preliminary Views on an improved Conceptual Framework for Financial Reporting” drafted by the International Accounting Standard Board (IASB) and Financial Accounting Standards Board (FASB). We look forward to contributing further to the various phases of the conceptual framework project. Comments reflecting our views are attached.

If you require further clarification of any aspect of the attached comments, please do not hesitate to contact Ms. Sue Highland (Acting Director, Financial Management Branch) at phone number (061) 07 3405 6064 or email address [sue.highland@treasury.qld.gov.au](mailto:sue.highland@treasury.qld.gov.au).

Yours sincerely

Gerard Bradley  
Under Treasurer

Encl.

## QUEENSLAND TREASURY COMMENTS

### **IASB-FASB Discussion Paper (DP) – “Preliminary Views on an improved Conceptual Framework for Financial Reporting: The objective of financial reporting and qualitative characteristics of decision-useful financial reporting information”**

*(a) The IASB-FASB joint conceptual framework project has an initial focus on for-profit entities in the private sector. In relation to the topics of “objective” and “qualitative characteristics” covered by the Discussion Paper, what matters do you consider require attention if this revised Framework were also to be applied in Australia to not-for-profit entities in the private and public sectors and for-profit entities in the public sectors?*

The public sector is different from the private sector as it is not driven by profit and does not have the generation of a return on shareholders funds as its primary objective. In the public sector, assets often represent service potential as much as they do economic benefits. Most assets are typically acquired and held to deliver services without the intention of earning return. These differences, in turn, will affect the application of the concepts in the proposed discussion paper.

Queensland Treasury largely agrees with the report of the monitoring group on the implications for not-for-profit entities of the DP’s proposed concepts. The significant issues are discussed in detail as follows:

#### **DP Chapter 1: “the Objective of Financial Reporting”**

- **Users of the financial statements of public sector entities are different from those of private sectors**

There is an explicit view in the DP that the primary users of financial statements are investors and creditors (and their advisors), and that if their needs are catered for, then so will the needs of the other class of users be met.<sup>1</sup> However, the business of the public sector is fundamentally different to that of the private sector. Stakeholders providing finance to public sector entities are predominantly funders and financial supporters rather than investors (e.g. the public, taxpayers). Therefore, Queensland Treasury supports the more generic terms ‘funders and financial supporters’ rather than the specific terms ‘investors and creditors’ to broaden the identified primary user group.

- **Decision usefulness vs. accountability & stewardship**

As stated above, users of financial statements of public sector entities differ from those of private sector and primarily seek information for accountability purposes rather than information about their return on investment. Therefore, we believe that stewardship/accountability is a critical element of the objective of financial reporting and should be identified separately. Recent corporate collapses (e.g. Enron and HIH) also

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<sup>1</sup> Paragraph OB8 and OB12 of Chapter 1 of the DP

indicate that information regarding the discharge of stewardship responsibilities is equally important in the private sector.

- **The inappropriate focus on entity's future cash flows**

Queensland Treasury disagrees with the concentration on information for assessing the entity's future cash flows because we feel this rule is biased towards a private sector environment. Information needs differ for not-for-profit organisations and public sector entities. For example, as a major group of users of a City Council's financial statements, ratepayers would be more interested in the Council's ability to continue carrying out its functions by maintaining its physical operating capability than its ability to generate future cash flows. The DP's focus on information to assess cash flow prospects is elevated above information about financial performance, financial position, service performance and compliance with statutory requirements. The DP argues that "an entity can continue to provide goods or services to customers **only** by generating sufficient cash to pay for the resources it uses and to satisfy its other obligations"<sup>2</sup>. This is not the case with public sector entities, as they are able to obtain the necessary funds for public service delivery from government funding arrangements (e.g. annual appropriation, normally non-exchange transactions), rather than from the investment returns.

### **DP Chapter 2 "Qualitative characteristics of decision-useful financial reporting information"**

- **Inappropriate impacts from the concentration on entity's future cash flows**

Again, the DP's focus of the qualitative characteristics remains very much on private sector business entities, particularly on an entity's ability to generate future cash flows. For instance, The DP defines 'relevance' as information "capable of making a difference in the decisions of users by helping them to evaluate the potential effects of past, present or future transactions or other events on future cash flows..."<sup>3</sup>

- **Cost-benefit assessment**

We note that the cost-benefit analysis discussion in the DP is too private sector focused.<sup>4</sup> While some costs and benefits are the same for private and public sector entities some are different. For example, social policy obligations, the legislative framework and compliance might impact on the operating costs of public sector entities; and the benefit of a new policy generally not only focuses on the economic side, but also on community and environmental aspects.

- **Reliability vs. faithful representation**

The DP eliminates the term 'reliability' from the qualitative characteristics and replaces it with a broader concept of 'faithful representation', which implies putting more emphasis on 'relevance' and understating the importance of 'reliability'.

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<sup>2</sup> Paragraph OB13 of Chapter 1 of the DP

<sup>3</sup> Paragraph QC 8 of Chapter 2 of the DP

<sup>4</sup> Paragraph QC 53 of Chapter 2 of the DP

**Others: the broadening of the Framework from Financial Statements to Financial Reports.**

Queensland Treasury supports the DP's focus on financial reporting, rather than financial statements which means the framework will encompass financial statements as well as other financial and non-financial information. Consequently, as budgets have major significance for the public sector and provide users with more relevant information, we welcome the Board including information about budgets and the comparison of actual amounts in the financial reporting in a later phase of the project<sup>5</sup>.

*(b) Are the proposals in the Discussion Paper in the best interests of the Australian economy?*

The draft Framework only covers 'for profit entities in the private sector' but the DP indicates that 'not-for-profit and public sector entities' will be considered at a later date. This limits the use of the Framework for Australia, as the AASB *Framework* applies to all entities, whether for-profit or not-for-profit, in both private and public sectors.

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<sup>5</sup> Paragraph BC1.5 of Chapter 1 of the DP