



ACT
Government

Chief Minister, Treasury and
Economic Development

ITC 39 sub 18

Ms Kris Peach
The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Ms Peach

Invitation to Comment (ITC) 39 – Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to ITC 39 - *Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*.

On balance, HoTARAC supports the approach preferred by the AASB in ITC39 (Option 1), on the basis that no change will be required for not-for-profit (NFP) public sector entity as part of Phase 1. This provides a logical short-term approach to the “SPFS problem”, integrated with the implementation of the IFRS Revised Conceptual Framework. HoTARAC notes that consideration of public sector reporting requirements will also involve consideration of the issues raised in the *Discussion Paper: Improving Financial Reporting for Australian Public Sector*, and that consideration of the issues raised in ITC 39 should not be considered in isolation.

The attachment to this letter sets out HoTARAC’s comments on the specific and general matters. If you have any queries regarding our comments, please contact Peter Brown from the Commonwealth Department of Finance on (02) 6215 2969 or by email to peter.brown@finance.gov.au.

Yours sincerely,

David Nicol

CHAIR

Heads of Treasuries Accounting and Reporting Advisory Committee

16 August 2018

Specific Matters for Comment

Question 1. Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia?

Yes. The main reason is we expect that the RCF will need to be modified for NFP issues, and that this process will take some time. While the ideal approach would be that modifications are made and the RCF applied to all entities at the same time, HoTARAC acknowledges the need of IFRS compliant entities to use the RCF on its application date.

HoTARAC does not expect major differences in application of accounting standards to emerge if the period for implementation of Phase 2 is kept short. If Phase 2 takes a long time there could be issues in “mixed” public sector groups comprised of entities applying different conceptual frameworks.

Question 2. Do you agree that the short-term approach should be made applicable to both publicly accountable for-profit private sector and public sector entities?

HoTARAC’s view is that the RCF should be applicable to all entities claiming compliance with IFRS (whether mandatorily or voluntarily), whether they are in the private or public for-profit sectors. Compliance with IFRS should be the criterion, not the sector in which they operate.

Question 3. Are you aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS that would have implications under the AASB’s short-term approach?

No. This is usually not an option in the not-for-profit (NFP) public sector, and we have not identified any instances in the for-profit public sector.

Question 4. Do you agree with the AASB’s amendments to the definition of ‘public accountability’ in AASB 1053 per IFRS for SMEs Standard?

No comment. This applies to entities in the for-profit private sector.

Question 5. Do you agree with the proposed amendments to SAC 1 Definition of the Reporting Entity and the following Australian Accounting Standards?

HoTARAC has not reviewed these proposals in detail. However, if they result in no change to the NFP public sector reporting requirements during Phase 1, HoTARAC would support the proposed amendments.

Question 6. Whether the AASB’s Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities has been applied appropriately in developing the proposals in Phase 1?

HoTARAC agrees that the *AASB Standard Setting Framework for Not-for-Profit Entities* has been appropriately applied. See also Question 8.
HoTARAC provides no comment in respect of the *AASB Standard-Setting Framework for For-Profit Entities*.

Question 7. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

HoTARAC notes that reporting requirements for NFP public sector entities are set by regulators in each jurisdiction, either in legislation or with authority derived from legislation, and which may limit the ability to make changes to financial reporting frameworks. However, HoTARAC does not expect this to affect the implementation of the proposals in Phase 1.

Question 8. Whether overall the proposals would result in financial statements that would be useful to users?

HoTARAC's view is that the Phase 1 proposals will not significantly change the usefulness of NFP public sector financial statements to users. Greater potential for providing useful information is within the scope of the reporting frameworks project, as currently documented in the *Discussion Paper: Improving Financial Reporting for Australian Public Sector*. Consideration of reporting models for the public sector may involve consideration of IPSAS standards

Question 9. Whether the proposals are in the best interests of the Australian economy?

No comment.

Question 10. The costs and benefits relative to the current requirements, & etc?

HoTARAC does not expect significant changes in financial statements of either for-profit or NFP public sector entities during Phase 1. Accordingly, we do not expect significant changes to preparation and audit costs for NFP entities.

There may be some additional costs incurred by for-profit public sector entities if an accounting policy selected using one conceptual framework is not acceptable – under the other conceptual framework – for application in consolidated financial statements (the “mixed group problem”). We do not expect this effect to be significant.

