



18 February 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Via website: www.aasb.gov.au/current-projects/open-for-comment

Dear Keith

Invitation to Comment 46: AASB Agenda Consultation 2022—2026

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to respond to the Australian Accounting Standards Board's (AASB) Invitation to Comment 46: Agenda Consultation 2022—2026 ("the ITC").

We support the work the AASB is doing and appreciate the opportunity to contribute views on future projects and the AASB work plan for the 2022—2026 period. In formulating our response, we have considered the views of Chartered Accountants and other key stakeholders, including through the [2021 Chartered Accountants IFRS Survey](#), canvassing more than 750 Chartered Accountants and industry professionals, including financial statement preparers, auditors, directors, and users of financial statements. We have also conducted targeted outreach activities and consultation through roundtables and regular local forums.

In assessing the AASB's work program, it is critical to our stakeholders that the AASB is able to complete its existing projects in a timely manner before commencing new projects. We also believe that, in determining the priorities and allocation of its resources, the overriding factor for the AASB should be to focus on the timely development and maintenance of a principles-based comprehensive set of high-quality financial reporting standards for the Australian market. We therefore recommend that the NFP framework reform, the AASB's fair value project and the post-implementation review of AASB 1058 continue to be prioritised, with resources allocated such that these projects can be completed in the shortest possible timeframe before considering how new projects, based on this consultation, can be accommodated.

We also note that agility, including on resourcing, will be critical to be able to respond to evolving impacts of COVID-19 and other macro issues such as climate change.

Appendix A contains our detailed responses to the specific questions raised in the ITC and **Appendix B** provides more information about CA ANZ. If you have any questions about our submission, please contact Zowie Pateman at Zowie.Pateman@charteredaccountantsanz.com.

Yours sincerely

Amir Ghandar FCA
Leader, Reporting and Assurance

Simon Grant FCA
Group Executive, Advocacy and
Professional Standing

Appendix A

Responses to specific questions

Question 1 – Inactive projects

Are there any inactive projects you think should be retained in the AASB 2022–2026 work program?

Remuneration reporting

Transparency in executive remuneration for listed companies is important and we support efforts to make the disclosures as streamlined and effective for users as possible. While these disclosures should be comprehensive, there is a requirement for clear, concise and effective communication that results in a single coherent report. We believe executive remuneration disclosure requirements should also include the long-term value proposition – extending the discussion of the relationship between the remuneration policy, and corporate and executive performance, to value creation.

The main source of executive remuneration disclosure requirements is the *Corporations Act 2001* (s300A - Annual directors' report – specific information to be provided by listed companies) and the *Corporations Regulations 2001* (s2M.3.03) as opposed to the AASB accounting standards. In our view, because the AASB can have an influential role in advocating to Treasury for simpler statutory remuneration reporting requirements, this project should be retained on the work program.

Crowd-sourced equity funding

The Australian Financial Reporting Framework project is likely to begin tackling many of the key issues here, in addition to the post-implementation review of these reforms. However, given the legislative framework for crowd-sourced equity funding is relatively new, we would support retaining this project on the work program to monitor and ensure that the issues are fully resolved in this process.

Definition of fundraising

While we agree that the lack of a universal statutory definition of “fundraising” is an issue, we do not believe that the best way to resolve it falls within the AASB’s remit, but rather demands a consistent legislative approach across all the States/Territories. This is sometimes raised in relation to addressing user needs for greater accountability and transparency around the use of fundraising revenue but in our view, this needs to be more comprehensively addressed through the proposed project on service performance reporting.

Long term discount rates

We acknowledge there are still concerns about the impact of applying long term discount rates based on government bond yields for defined benefit liability measurement, especially in times of volatile interest rates. While this is less of an issue currently whilst the interest rates are relatively low and stable, these challenges are likely to re-emerge when this is no longer the case. On this basis we believe this project should be retained on the work program and an appropriate solution sought, although other projects are of more pressing priority at present.

Cooperatives and mutual entities

We believe the Australian Financial Reporting Framework project and its post-implementation review, along with the Co-operatives National Law, is likely to resolve the key issues here.

Question 2 – Potential projects

- (a) Do you agree that the AASB should add any of the proposed external reporting projects to the work program? Include any feedback as to the scope of the proposed external reporting projects.
- (b) Are there any other projects you think the AASB should include as part of its work program for 2022–2026? Specify the scope of these projects and take into consideration the AASB’s capacity for additional projects.
- (c) What priority would you give to each of the potential projects – high, medium or low?

2a) Proposed external reporting projects

Sustainability reporting (high priority)

As a starting point, we note the structure that the International Financial Reporting Standards (IFRS) Foundation has adopted for the formation of the International Sustainability Standards Board (ISSB). The ISSB has been formed by virtue of a change to the IFRS Foundation’s Constitution, and it sits alongside the International Accounting Standards Board (IASB). It is our view that this not only ensures the impartiality of the ISSB but ensures that expertise and resources are allocated appropriately.

We agree that, as a first step, the AASB would be best placed to act in a caretaker capacity for considering an appropriate local structure and dedicated interpretation of the envisaged international sustainability standards for the Australian landscape. The caveat however being that in the medium to longer-term, we recommend the Financial Reporting Council (FRC) consider mirroring the international structure adopted by the IFRS Foundation and establish a separate Australian Sustainability Standards Board. Australia has typically been a taker of international standards and this structure would best enable the domestic issuance of sustainability standards, whether voluntary or mandatory.

There are multiple considerations for the Australian corporate reporting environment of incorporating sustainability standards. For example, the skills and capabilities needed for the FRC and AASB members and from a governance perspective, we recommend the current skills matrix is updated to reflect this.

Additionally, we note the wording of both the *Corporations Act 2001*¹ and the *Australian Securities and Investments Commission (ASIC) Act 2001*² currently only refer to accounting standards, they do not explicitly cover sustainability standards. Therefore, amendments will be needed to the legal framework that the AASB operates within.

We support a ‘climate first’ approach to sustainability reporting but consider that this should form the first step of a broader roadmap (which could include the development of an overarching conceptual framework for corporate reporting) that covers the full range of environmental, social, and governance (ESG) criteria that are material to enterprise value creation. Nature/biodiversity is another area that is evolving at pace. The Australian Government has indicated its support for the Taskforce on Nature-related Financial Disclosures (TNFD).³ A beta version of the TNFD Framework for nature-related risks is expected to be released in early 2022.⁴

¹*Australian Securities and Investments Commission (ASIC) Act 2001*. Sections 224(a), (aa)(i), 225(1)(a), (1)(e), (2)(e), (2)(f), (2)(g), (2)(h)(i), 227(1)(a) and (1)(b)

²*Corporations Act 2001*. Sections 5, 9, 227(4) and 334

³ <https://minister.ave.gov.au/ley/media-releases/australia-joins-global-moves-value-natural-capital>

⁴ <https://tnfd.global/news/nov-dec-newsletter/>

Service performance reporting (medium priority)

In our view, the need for service performance reporting is becoming increasingly prevalent. External stakeholders of NFPs have wide-ranging information needs that financial statements alone are unable to meet. Non-financial information is important for accountability and decision making, as well as “telling the story” of how value is created by the entity.

In Australia, although many public sector entities are required to report service performance information under applicable laws and regulations and those set by funders, there is no existing reporting standard for such reporting. The ACNC requires some non-financial information to be reported annually and has recently mandated the inclusion of certain information about charity programs.⁵ On this basis we agree the AASB should add this project to its work program.

We are aware that at the February 2021 meeting the AASB tentatively decided not to include any service performance reporting proposals in the NFP reporting framework consultation document. We appreciate the AASB recognises that service performance reporting is important but feels that framework issues need to be prioritised which is a decision we support given the importance of framework reform.

Digital financial reporting (high priority)

The use of technology in financial reporting is becoming more prevalent and has well documented benefits. While the IFRS Taxonomy has not been adopted mandatorily in Australia, we support steps toward mainstreaming digital financial reporting up to and including mandatory adoption. We believe XBRL-based digital reporting is a primary way of addressing the complexity of disclosures. Digital reporting is a first step in enabling users to access financial reporting disclosures in a way that is customised to their needs and capacity, as opposed to ‘one size fits all’ financial statements.

90% of respondents to the 2021 Chartered Accountants IFRS Survey indicated that the IASB should maintain or increase its current level of focus for digital financial reporting, to which it currently allocates approximately 5% of its resources. Feedback we received suggested more work is required to improve the availability of and stakeholders’ accessibility to quality data.

Therefore, we would support the AASB increasing its focus on facilitating digital financial reporting practice in Australia. The focus on digital financial reporting should comprise the consideration of alternative methods to enhance and expand adoption of digital financial reporting.

2b) Other external reporting projects

Going concern

The AASB staff paper presents a case for the IASB to address the disparity between the auditing and accounting standards requirements in relation to going concern.⁶ We acknowledge this is not an Australian (or New Zealand) specific issue, therefore our preference is for this to be an international standard setting project. However we do believe a timely response is required and we supported the New Zealand Accounting Standards Board (NZASB) going ahead of the IASB and aligning the disclosure requirements in the accounting standards with those in the auditing standards in this regard. In the interest of trans-Tasman harmonisation we would also support the AASB taking this on as a domestic project in the interim.

⁵ <https://www.acnc.gov.au/media/news/enhancements-charity-register-benefit-donors-and-charities>

⁶ Going Concern Disclosures: A Case for International Standard Setting, AASB Staff Paper, October 2021 https://aasb.gov.au/media/u5nqrquw/sp_goingconcerndisclosures_10-21.pdf

Question 3 – Research projects

- (a) Do you agree that the AASB should add any of the proposed research projects to the work program?
- (b) Are there any other research projects you think the AASB should include as part of its work program for 2022–2026? Specify the scope of these projects and take into consideration the AASB’s capacity for additional projects.
- (c) What priority would you give to each of the potential projects – high, medium or low?

3a) Proposed research projects

We support the AASB undertaking research to gather empirical evidence that identifies the information needs of Australian users to inform the future direction of current and new AASB and IASB projects.

Encouraged disclosures (low priority)

In our submission to the IASB on ED/2021/3: *Disclosure Requirements in IFRS Standards – A Pilot Approach* we supported the retention of specific disclosure requirements as opposed to the introduction of specific disclosure objectives and items of information.⁷ However, we do consider that a “standards-level review of disclosures” project is needed to review the existing standards to identify excessive or redundant requirements and inconsistent language. By way of example, we also noted there are several standards where disclosures are “encouraged” (e.g., IAS 7 *Statement of Cash Flows*, paragraph 50 and IAS 41 *Agriculture*, paragraph 43). Therefore, the AASB should allocate some resources to ensure that it can support the IASB in its work on this project by providing the Australian domestic perspective.

AASB 112 Income Taxes and tax transparency disclosures (low priority)

The disclosure requirements under AASB 112 and the voluntary disclosures of the Voluntary Tax Transparency Code developed by the Board of Taxation are complex, therefore we would support research into whether these disclosure requirements are meeting user needs. We would also support the AASB revisiting AASB 12 and its draft guidance on the Voluntary Tax Transparency Code recommendations.

Intangible assets: recognition and measurement (high priority)

72% of respondents to the 2021 Chartered Accountants IFRS Survey indicated that intangibles should be a medium to high priority project. The feedback we received suggests that IAS 38 is outdated and no longer reflects what is being demanded by the modern business environment. New forms of intangibles have developed and evolved over time because of new technologies and business models that were not considered when IAS 38 was originally issued. Recognition of certain internally generated intangible assets are not currently permitted under IAS 38 and there are no disclosure requirements for these unrecognised internally generated intangible assets, even though they are often significant to a business.

Furthermore, our research findings on the recognition of intangibles, goodwill and associated impairment in financial reports from 2010 to 2020 in Australia and worldwide emphasises the importance of revisiting the accounting requirements for goodwill and intangibles.⁸ We have therefore recommended the IASB undertakes a comprehensive review of IAS 38 *Intangible Assets* to ensure it remains relevant in meeting user needs. We also recommended the IASB’s project should address requirements for the recognition and measurement of internally generated intangible assets. Therefore, the AASB should allocate resources to ensure that it can support the IASB in its work on this project by providing the Australian domestic perspective.

⁷ <https://www.charteredaccountantsanz.com/news-and-analysis/advocacy/policy-submissions/joint-submission-on-iasbs-new-disclosure-approach>

⁸ <https://www.charteredaccountantsanz.com/member-services/technical/reporting/reporting-in-focus/how-long-is-the-piece-of-string>

Sustainability reporting (high priority)
Service performance reporting (medium priority)
Digital financial reporting (high priority)

Given the importance of these projects as priority standard setting projects (see our response to Question 2(a)), we support the inclusion of supporting research for these projects in the AASB's research agenda. We also support the AASB liaising with other policy makers on other disclosures beyond the scope of AAS based financial reporting. This is critical to ensure that the objectives of different disclosure regimes are consistently developed to meet their intended objectives.

Costs and benefits analysis (medium priority)

We concur that cost/benefit analysis is an integral part of the standard-setting process. Research to help standard setters understand how to develop and undertake adequate and effective cost/benefit analysis is critical to effective standards setting.

3b) Other research projects

The progression of some current projects, including the Australian Financial Reporting Framework project, and the addition of future projects to the AASB work agenda would be better informed by obtaining empirical evidence that identifies the range of information needs of Australian users across multiple sectors.

In this context, we would also encourage the AASB to undertake research projects to support the post-implementation reviews of AASB 2020-2 (especially around scope and cost/benefit), AASB 1060 (e.g., whether it is meeting user needs), and the NFP appendices to AASB 10 and 12.

Question 4 – Other comments

Do you have other comments on the AASB's activities and work program?

Current external reporting projects

#1 NFP private sector financial reporting framework
#4 Conceptual framework for NFP private sector and public sector
#5 Public sector financial reporting framework

In terms of allocating the AASB's limited resources appropriately to address the highest priority topics to its stakeholders – we believe the highest priority should be given to the Australian Financial Reporting Framework project as it is likely to have an impact on a range of entities that includes large and small corporates, private and public sector not-for-profit entities. We acknowledge the AASB's commitment to completing current standard-setting projects but emphasise the importance of completing the Australian Financial Reporting Framework project in a timely manner.

#2 Fair value measurement

Reaching completion on this project is important for stakeholders as there is no immediate solution coming from the IPSASB for a myriad of accounting issues, so we support the AASB progressing this domestically in the interim.

#3 Insurance activities in the public sector

While this project has limited applicability, the entities that it applies to are individually significant and are an important part of the Australian economy.

#6 Assessment of IPSAS

We support the AASB's strategy to maintain a significant level of interaction with the IPSASB. However, now that there is no Australian representative on the IPSASB, it will be important for the AASB to interact with the IPSASB through alternative mechanisms to ensure that Australia has appropriate and adequate opportunities to contribute to and influence the development of IPSAS.

#7 Audit engagement related disclosures

In Australia, certain entities must disclose fees paid to their external audit firm (including any network firm) separately for 'audit' and 'non-audit' services. However, this can lead to the assumption that all the 'non-audit' services are consulting, advisory or other types of services that could compromise independence. In our submission to the Parliamentary Inquiry into the Regulation of Auditing in Australia we expressed our support of efforts to clarify such fee disclosures in financial reports to improve transparency by amending these requirements to provide a more meaningful disclosure of fees (i.e., audit, assurance, audit related, and non-audit related services). In its report the committee recommended the introduction of defined categories and associated fee disclosure requirements in relation to audit and non-audit services (recommendation 3).⁹

While we support this work occurring nationally, this is not an Australian (or New Zealand) specific issue, an international standard setting project would promote greater consistency. Therefore, in our submission to the IASB on its Third Agenda Consultation we encouraged it to add this small project to its work plan as a high priority.¹⁰

#8 AASB 1058

There are significant implementation issues with this standard and so the forthcoming post-implementation review is an important project.

Current research projects

Intangibles (disclosures)

See our comments above for Intangible assets: recognition and measurement.

Leases

The 2021 Chartered Accountants IFRS Survey showed the overall impact of adopting the big three new accounting standards has grown since 2020, with IFRS 16 *Leases* is having the most significant impact (39%). In our submission to the IASB on its Third Agenda Consultation we recommended the IASB allocate most of its resources under 'Developing new IFRS Standards and major amendments to IFRS Standards' to the post-implementation reviews of IFRS 9, 15 and particularly IFRS 16.¹¹ We therefore recommend that the AASB also allocate appropriate research resources to enable the provision of an informed domestic response to these post-implementation reviews.

⁹https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/RegulationofAuditing/Report

¹⁰<https://www.charteredaccountantsanz.com/news-and-analysis/advocacy/policy-submissions/submission-on-iasbs-request-for-information-third-agenda-consultation>

¹¹<https://www.charteredaccountantsanz.com/news-and-analysis/advocacy/policy-submissions/submission-on-iasbs-request-for-information-third-agenda-consultation>

Digital assets

Digital assets are challenging traditional financial reporting boundaries. 74% of respondents to the 2021 Chartered Accountants IFRS Survey indicated that cryptocurrencies and related transactions should be a medium to high priority project. The following reiterates the comments we made in our submission to EFRAG on its *Discussion Paper – Accounting for crypto-assets/liabilities: Holder and issuer perspective*¹².

As the development of crypto-assets/liabilities is still at an early stage, we believe that the IASB should continue to monitor holders' and issuers' use of crypto-assets/liabilities. Whilst we consider the IASB should amend and/or clarify existing IFRS Standards in the short to medium term, we believe that developing a new standard with explicit requirements for the accounting for crypto-assets/liabilities may be the best way to address crypto-assets/liabilities related accounting matters in the long term.

The IFRS Interpretations Committee (IFRS IC) agenda decision; [Holdings of Cryptocurrencies](#), does not address crypto-assets other than cryptocurrencies, which represent only one subset of crypto-assets. Further, the varying functional uses and diverse economic characteristics of crypto-assets make it difficult to come up with a single accounting treatment that is appropriate for all crypto-assets in all circumstances. It remains unclear how other types of crypto-assets such as stablecoins, Central Bank Digital Currencies (CBDCs) and tokens should be reported. Therefore, we believe that there is an important need to address the accounting for crypto-assets/liabilities, other than cryptocurrencies discussed in the IFRS IC agenda decision.

In light of all the above, our submission to the IASB agenda consultation recommended that the IASB monitor and research the ongoing developments in the crypto ecosystem to enable the IASB to determine the most suitable accounting treatment of crypto-assets/liabilities in the long term. It will therefore also be important for the AASB to perform monitoring and research that will enable the provision of an informed domestic response to any IASB enquiries.

Understandability of accounting standards

Businesses and organisations, along with accounting standards are becoming progressively more complex and difficult to understand and apply. 68% of respondents to the 2021 Chartered Accountants IFRS Survey indicated that the IASB should increase its current level of focus for Improving the understandability and accessibility of the standards. Feedback we received recommends the IASB increase efforts toward reducing unnecessary complexity and ensuring the IFRS Standards are more clearly articulated with a consistent terminology and structure. Feedback also indicated the IASB should focus more on support activities to improve the accessibility and consistent application of IFRS Standards. It will therefore also be important for the AASB to perform monitoring and research that will enable the provision of an informed domestic response to any IASB enquiries.

¹²<https://www.charteredaccountantsanz.com/news-and-analysis/advocacy/policy-submissions/submission-on-accounting-for-crypto-assets-liabilities>

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.