

17 February 2022

The Chair
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

via email: standard@asb.gov.au

Dear Keith

AASB Invitation to Comment ITC 46 AASB Agenda Consultation 2022–2026

Deloitte is pleased to respond to Australian Accounting Standards Board ('AASB' or 'Board') Invitation to Comment ITC 46 *AASB Agenda Consultation 2022–2026* (ITC 46).

We appreciate the opportunity to comment on the Board's 2022-2026 priorities to ensure it is focusing its limited resources appropriately to address the highest priority topics to its stakeholders.

Overall, we recommend the Board include the following projects to its work program as we believe progress on these projects will result in improved financial statements that are useful to users:

- Sustainability reporting
- Remuneration reporting
- Service performance reporting
- Digital financial reporting.

We also recommend the AASB consider adding the following potential projects to provide much needed clarity for stakeholders in these areas:

- Auditor remuneration disclosures
- Imputation (franking) credits, including the impacts of the revised research and development (R&D) tax offset regime
- Interpretation 1052 *Tax Consolidation Accounting*
- Specialised assets in the public sector.

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Our detailed responses to the AASB Request for Comment in ITC 46 are outlined in the Appendix.

Please contact me at +61 3 9671 7871 or moverton@deloitte.com.au if you wish to discuss any of our comments.

Yours sincerely



Moana Overton
Partner

APPENDIX – DETAILED RESPONSES TO THE AASB REQUEST FOR COMMENTS IN ITC 46**1. Inactive projects****Are there any inactive projects you think should be retained in the AASB 2022–2026 work program?***For-profit sector projects*

We believe that the project on remuneration reporting should be retained in the AASB 2022–2026 work program with a medium priority. In progressing this project, we believe the scope needs to be focused on improving and streamlining remuneration reporting requirements to address the concerns relating to poor remuneration disclosures. However, we have concerns about the AASB's capacity in taking on this project independently and recommend that the AASB should work effectively with Treasury to ensure that project objectives are achieved on an efficient and timely basis.

We do not support retaining the project on crowd-sourced equity funding as we believe that the AASB has adequately dealt with this issue and it appears that the AASB has not received further stakeholder concerns on this matter.

Not-for-profit ('NFP') sector projects

While we appreciate that there is room for improved and simplified fundraising reporting in the NFP space due to the absence of a generally accepted Australia-wide definition of 'fundraising', we do not support the AASB retaining the project on the definition of fundraising.

As each state and territory have their own definition of fundraising, we have concerns on how a new standardised definition of fundraising developed by the AASB would be adopted in practice. We note that for a new standardised definition of fundraising to improve reporting, each state and territory would be required to amend its legislation for the new definition to take effect. Accordingly, unless each state and territory will amend its legislation to take into account a new standardised definition of fundraising, this will not achieve the project aim to address the lack of transparency and comparability of fundraising activities between NFP entities that operate in various jurisdictions.

We also note that as part of ACNC's work on reducing red tape for charities that engage in fundraising activities that are regulated by state and territory agencies, the ACNC has made progress on streamlined reporting arrangements on licensing requirements and annual reporting obligations. Given that the ACNC is currently harmonising ACNC regulatory requirements with the numerous state and territory laws that cover charities, we think the ACNC might be better placed to take on this project. If the AASB decides to retain this project on its agenda, we believe it is imperative that the AASB works closely with the ACNC to ensure that the project objectives are achieved.

In respect of the project on long term discount rates, we believe this project should not be retained as we understand the issue with the spot rate is not isolated to the public sector. While the nature and mechanics of defined benefit plans in the public sector may be different to other sectors, these differences do not, in our opinion warrant separate accounting standard-setting for the public sector.

Other projects

We do not support retaining the project on co-operatives and mutual entities as we believe that the AASB has adequately dealt with this issue via the FAQ issued in July 2018 and it appears that the AASB has not received further stakeholder concerns on this matter.

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.**

Sustainability reporting

We believe that the project on sustainability reporting should be added to the AASB 2022–2026 work program with a high priority.

We echo the views expressed in our submission to AASB Invitation to Comment ITC 48 *Extended External Reporting*.

We remain committed to the goal of global sustainability standards and will continue to support the new International Sustainability Standards Board with stakeholders around the world. We encourage the AASB to be an integral part of, and play an instrumental role in, the development of such global sustainability standards.

We further believe the AASB should dedicate resources to developing domestic sustainability reporting material for the not-for-profit sector as these entities may require supplemental guidance to the global standards which are developed for for-profit companies.

Service performance reporting

Service performance reporting is a project of a high importance in the NFP space as many of the NFP private entities financial statement users would find service performance disclosures useful for accountability and decision making. Accordingly, we believe that the project on service performance reporting should be added to the AASB 2022–2026 work program with a medium priority.

Given the long timeframe as AASB started this project in 2009, we think it is imperative for the AASB to proceed with this project with the aim of making significant progress as soon as possible. If the AASB decides not to proceed with the project as a priority, organisations may develop their own framework which may result in a lack of comparability and may result in reduced support for the AASB project when it eventuates.

Digital financial reporting

We fully support adding a project on digital financial reporting to the AASB 2022–2026 work program with a medium priority. We support the development of digital financial reporting practice in Australia. We believe this project would benefit from significant effort dedicated to establishing its scope to suit the Australian regulatory context.

- 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?**

Public sector projects

We suggest that the AASB should consider including a project in respect of accounting for specialised assets in the public sector, such as cultural assets (e.g. collections, archive documents, memorabilia), heritage assets (e.g. artefacts with archaeological significance, buildings and structures with architectural significance), natural assets (e.g. trees, biodiversity, herbariums) specifically on the conservation efforts around these assets and impact of that on their replacement value. We note that there are accounting challenges around how these assets are in scope of AASB 116 *Property, Plant and Equipment* and certain application challenges of deriving fair value under AASB 13 *Fair Value Measurement*.

For-profit sector projects

We suggest that the AASB should consider including the following projects to its work program to provide guidance to assist for-profit sector entities:

- **Auditor remuneration disclosures**

We note that the AASB is currently working on the audit engagement related disclosures project and we encourage the AASB to continue its efforts in completing this project to improve such disclosures. In progressing this project, we suggest the AASB should revisit the relevant Australian Accounting Standards considering its current work on auditor remuneration. We note that there is some confusion in practice where corporate entities are requesting further guidance on auditor remuneration disclosures, specifically on the appropriate period (e.g., financial year basis), the treatment of agreed fee adjustments in subsequent periods and whether disclosures should be made on an accrued or cash basis. We suggest the AASB consider adding this project on its agenda with a medium priority.

- **Imputation (franking) credits under revised research and development (R&D) tax offset regime**

AASB 1054 only specifically requires the disclosure of the amount of imputation credits available for use in subsequent reporting periods. Some entities have chosen to provide additional disclosures on franking credits showing the reconciliation from the actual franking account balance at the reporting date to the adjusted franking account balance using the guidance in AASB 1054.14, and also the impact of franking debits arising from declared dividends which have not been recognised as a liability in the financial statements. We believe that it would be beneficial for the AASB to consider providing guidance to entities to ensure they are making useful and relevant franking credit disclosures which permit users of the financial statements to gain a more comprehensive understanding of the possible frankability of future distributions.

In addition to improving franking credits disclosures in general, we suggest the AASB also consider providing specific guidance around disclosures of deferred franking debits under the revised R&D tax offset regime. Under the revised R&D tax offset regime, we note that in cases where the entity is in receipt of refundable R&D tax offsets, this gives rise to deferred franking debits that reduce future franking credits arising from the payment of income tax. This is because a franking credit will not arise as a result of income tax payments until the deferred franking debits are recovered. The impacts of accrued refundable R&D tax offset amounts should be considered when disclosing the amount of franking credits available. This may require additional narrative or other disclosure so that users understand the future impacts of the deferred franking debits on the level of franking credits available.

Given the above, we believe that the AASB should consider adding a project on improving franking credits disclosures to its work program with a medium priority. As imputation (franking) credits disclosures are converged with the New Zealand Accounting Standards Board (NZASB), we note the AASB may wish to consult with the NZASB in progressing this project.

- **Interpretation 1052 Tax Consolidation Accounting (Int 1052)**

Given Int 1052 was issued in June 2005, we believe it is timely to consider conducting a post-issuance review as some of the discussion may no longer be relevant in practice, especially as there have been updates made in recent years to AASB 112 *Income Taxes*. We note that Int 1052 covers discussion around the formation of a tax consolidated group which was in context for first-time tax consolidation when it was first issued. However, companies are now dealing with other complexities of a tax consolidation group such as issues arising during a takeover and the computation of deferred taxes associated with investments in subsidiaries, particularly when a subsidiary is leaving the tax consolidated group. Accordingly, we suggest the AASB consider adding this project on its agenda with a medium priority to provide stakeholders with much needed clarity and guidance.

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?**

Accounting standards research – Encouraged disclosures

We do not support adding this project to the work program as we believe encouraged disclosures are not considered a high priority by preparers in the preparation of financial reports accordingly other research projects should be prioritised. Furthermore, we have concerns that this project may be seen as inconsistent with the IASB's disclosure initiative projects.

Accounting standards research – Intangible assets: recognition and measurement

We are aware of many issues related to accounting for intangible assets in practice, and echo the views expressed in our global submission to the March 2021 IASB's third agenda consultation on its future work programme, supporting global standard-setting projects that would resolve some of the most common issues. We are uncertain from the description in ITC 46 of the proposed scope of a AASB project, and the interaction of that project with the IASB's work, and therefore while we consider resolving issues related to intangible assets a high priority, we make no further comment on how this should be dealt with in the AASB's work plan.

External reporting research and emerging technology and reporting

We echo the same views expressed in this letter above under the section on potential projects in question 2a regarding sustainability reporting, service performance reporting and digital financial reporting. Consistent with our views expressed above, we recommend the Board include these research projects to its agenda with sustainability reporting project with a high priority and service performance reporting and digital financial reporting projects with a medium priority.

Enhancing standard-setting process

We believe the research project on costs and benefits analysis is an administrative matter for the AASB to work through with the legislative authorities and accordingly we do not express a view on the appropriateness or priority of such a project.

4. Other comments

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

We have no further observations in addition to those already outlined elsewhere in this letter.