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Our ref Submission - ITC 46 - AASB
agenda consultation 2022-2026

Contact Patricia Stebbens +61 9288 6261

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Dear Keith

Invitation to Comment (ITC) 46 - AASB Agenda Consultation 2022-2026

We are pleased to have the opportunity to comment on *ITC 46 – AASB Agenda Consultation 2022-2026*.

In our view, the following projects should be a priority for the Board over 2022 to 2026:

- 1 The AASB's current domestic projects, particularly those relating to the not-for-profit and public sectors, including planned post-implementation reviews
- 2 Sustainability reporting
- 3 Intangible assets
- 4 Long term discount rates in the not-for-profit public sector – this project could be a relatively quick fix for the Board. Refer to our comments on Question 1 in the Appendix to this letter
- 5 Interim reporting by superannuation entities

Not-for-profit sector

We support continued focus on developing the financial reporting framework for the not-for-profit and public sectors. We believe this area should continue to be an ongoing area of priority of the AASB given it is strongly influenced by the needs of users in the domestic market. In addition, the not-for-profit sector is not the focus of international standard setters.

Sustainability reporting

We recognise that global and local events in recent years, such as the COVID-19 pandemic and climate change, are shifting the focus from the familiar financial reporting matters to topics that are extending the demand for external reporting to keep up with the rapidly changing world.



We believe that sustainability reporting should be given priority focus within the AASB's agenda. We see sustainability reporting as a significant challenge for businesses and the reporting community in the short to medium term, heightened by the events of COP 26 and the announcement of the International Sustainability Standards Board (ISSB).

We believe that globally consistent sustainability reporting disclosures are imperative to the success of this initiative. As such, we strongly recommend the AASB uses the ISSB standards for sustainability reporting, similar to the setting of accounting and external reporting standards where the AASB sets standards that maintain IFRS compliance. We encourage the AASB to engage early with the subject matter and obtain local stakeholder feedback as soon as possible. We believe there is a greater scope for the AASB to influence the global standards the earlier feedback and observations are provided to the ISSB.

This is consistent with our support of the AASB's proposed position set out in ITC 48 *Extended External Reporting* for entities to voluntarily adopt the Taskforce on Climate-related Financial Disclosures (TCFD) framework when disclosing the impacts of climate-related risks and opportunities. However, we see this endorsement as a temporary domestic measure with the longer-term objective of adopting a set of global standards on sustainability reporting. Given the announcement of the ISSB, the ISSB is best equipped to develop the standards on this topic for adoption internationally.

Given the specialised nature of this topic, we recommend that the AASB ensure it has access to qualified specialists to enable it to research and respond to the rapid changes anticipated to develop in this area. As has already been seen, international developments and progress has been swift and significant. Resources and the projects undertaken will need to be efficiently and effectively targeted to areas where they are relevant to Australia, and where Australia can have an impact to the international standard setting process.

Furthermore, there is a strong linkage between remuneration reporting, service performance reporting in the not-for-profit sectors and tax transparency disclosures to the sustainability reporting framework. For example, organisations are beginning to incorporate climate considerations into executives' remuneration incentive programs. Service performance reporting and tax transparency disclosures lean themselves into social reporting within the sustainability reporting framework. We believe an active project on sustainability reporting will inevitably require research to enable further development in these three areas to meet the changing requirements of a modern user of corporate reporting.

Intangible assets

We support the review of IAS 38 *Intangible Assets* by the International Accounting Standards Board (IASB Board) and consider that the AASB should prioritise relevant research so that it can influence and inform the global project.

IAS 38 was one of the few standards highlighted by many stakeholders as no longer fit for purpose in response to the IASB Board's *Third Agenda Consultation*. There are an increasing number of questions both in the global and domestic markets about how to deal with new-age intangible assets and given the advancement of digitalisation, new forms of assets and transactions are being created which IAS 38 did not envisage when it was developed, for example cryptocurrencies and initial coin offerings.



Interim reporting – superannuation entities

As certain superannuation entities are imminently required to report on a half-yearly basis, urgent attention will need to be given to provide appropriate guidance on the matter. Neither AASB 134 *Interim Financial Reporting* nor AASB 1056 *Superannuation Entities* is fit for this purpose. Further context and details are included in Question 2(b) in the Appendix to this letter.

We have set out our detailed comments on the agenda priorities and responses to the specific questions in the ITC in the Appendix to this letter.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact Julie Locke on (02) 6248 1190, or myself on (03) 9288 6261.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Pat Stebbens', with a long horizontal flourish extending to the right.

Patricia Stebbens
Partner



Appendix

Question 1 – Inactive projects:

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

The following projects should be retained in the 2022-2026 work programs.

Long term discount rates

We have seen entities in the not-for-profit public sector experience challenges when using market yields on government bonds as the spot discount rate for their post-employment benefit obligations as well as other similar provisions. We have received feedback that these discount rates are too volatile and are not reflective of how these entities manage their obligations. In some instances, these entities are creating two sets of accounts; one that uses spot discount rates and complies with accounting standards for financial statement reporting purposes, and another that uses an actuarial defined long-term forecast rate that is used for internal reporting and management of their obligations.

Consultation with stakeholders and further assessment of the impact of the volatility of spot discount rates in the public sector for defined benefits and other long-term provisions would be beneficial in addressing identified concerns. We believe this is a key area of focus given the extent of defined benefits and other long-term provisions within the public sector.

Remuneration reporting

Remuneration reporting has enjoyed a period of relative stability with general understanding by users. We do believe, however, that the remuneration report could benefit from simplification of disclosures as it has in many instances become a lengthy compliance report. Consultation with relevant stakeholders to clearly identify the needs of users, and consideration of the linkages to other areas of corporate reporting, such as sustainability reporting, would be key in achieving more meaningful remuneration reporting by organisations.

With the focus on social and governance reporting within the sustainability framework, this review should occur simultaneously with the consideration of the needs of users that will enable them to better understand the strategy, objectives and outcome of the organisation. This includes the not-for-profit and public sectors. Although the not-for-profit and public sectors are not currently affected by remuneration reporting requirements to the same extent as listed corporates, any project should extend to these sectors as they represent large sectors with significant allocation of resources and accordingly users could gain valuable insight into the objectives of the organisation from remuneration reporting.

We recognise this project will require collaboration with many stakeholders and other regulators and will be resource intensive. However, we believe given the importance of this project, the skills brought by the AASB staff and Board are best placed to develop this project and to ensure a successful outcome.



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.**

Sustainability reporting

We believe that sustainability reporting should be given priority focus within the AASB's agenda for the reasons noted in our covering letter.

Service performance reporting

Linked to sustainability reporting, we support the AASB revisiting service performance reporting for not-for-profit entities. We believe that this ties in with the focus on social responsibility within an effective sustainability reporting framework.

We acknowledge the work performed by the AASB on service performance reporting and the mixed views to progress this project to-date, particularly with calls from not-for-profit entities to reduce 'red tape'. However, we recommend the AASB consult with users of this information within the not-for-profit sector, as well as preparers, to ascertain what further work and where standard disclosures would be most useful. Communicating which entities would be in-scope of any service performance reporting, and whether there would a tiered level of disclosures – similar to the Australian financial reporting framework – would assist in both the level of engagement and acceptance of progressing this project.

- (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.**

We believe the AASB should include the following additional project as part of its work program.

Half-year interim reporting for superannuation entities

Treasury released proposed draft legislation, *Treasury Laws Amendment (Financial Reporting and Auditing Requirements for Registrable Superannuation Entities) Bill 2021*, for consultation in August 2021 that would see certain superannuation funds prepare half-year interim financial reporting for the first time. Currently, there is no specific guidance on the format and disclosures for half-year reports in AASB 1056 *Superannuation entities*, and AASB 134 *Interim Financial Reporting* is not fit for purpose for superannuation entities. We recommend the AASB consider releasing guidance for such reporting.

(c) What priority would you give to each of the potential projects – high, medium or low?

Project	Priority	Reasoning for priority
Sustainability reporting	High	Significant area of focus on a global scale for all stakeholders. ISSB is set to develop reporting disclosures imminently and there will be a limited window of opportunity to provide meaningful input relating to the Australian market.
Half-year interim reporting for superannuation entities	High	Legislation released in exposure draft with expectation of enactment in the near future. Neither AASB 134 nor AASB 1056 is fit for purpose for guidance for interim reporting by superannuation entities.
Service performance reporting	Medium	Linked to the social responsibility aspect of a sustainability framework. We acknowledge that a large part of initial developments in sustainability reporting may focus on environmental disclosures, however we expect the social aspect of this framework will closely follow.
Digital financial reporting	Low	Considering the shifting of focus to topics that are extending the demand for external reporting to keep up with the rapidly changing world as noted above, and given the AASB only has a limited amount of resources, we believe this potential project should have a low priority.

Question 3 – Research projects:

(a) Do you agree that the AASB should add any of the proposed research projects to the work program?

Intangible assets: recognition and measurement

We support the review of this standard internationally and urge the AASB to conduct relevant research so that it can actively participate in these developments, ensuring that the needs of the Australian markets are included for consideration in the global project.

AASB 112 Income Taxes and tax transparency disclosures

We support further research regarding tax disclosures in Australia. As outlined above, we expect tax transparency will form part of the sustainability reporting journey. With greater prominence given to tax transparency by the Australian Taxation Office (ATO) in recent years, we recommend the AASB engage with the ATO and the Board of Taxation to understand their intentions and areas of focus in relation to tax transparency before recommencing any research in this area, as key issues may already be on their project agendas. Any research project should be focused on areas relevant to the remit of the AASB and not generic or duplicative to projects of other stakeholders.



Sustainability reporting and Service Performance reporting

We support research into sustainability and service performance reporting for reasons as outlined above in Question 2 above.

(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.

There are no additional research projects we believe the AASB should include as part of its work program.

(c) What priority would you give to each of the potential projects – high, medium or low?

Area of Research	Priority	Reasoning for priority
Intangible asset: recognition and measurement	High	IAS 38/AASB 138 is no longer fit for purpose with an increasing number of questions arising about how to deal with new-age intangible assets and digitalisation which need to be urgently addressed.
Sustainability reporting	High	Refer comments in Question 2(c) above.
Service performance reporting	Medium	Linked to the social responsibility aspect of a sustainability framework. Refer comments in Question 2(c) above.
AASB 112 <i>Income Taxes</i> and tax transparency disclosures	Medium	
Digital financial reporting	Low	Refer comments in Question 2(c) above.
Encouraged disclosures	Low	Although this research would contribute to the IASB Board’s <i>Disclosure Initiative project</i> , given the number of high priority projects, we consider resources should be focused on these high priority projects.

Question 4 – Other comments:

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

We have no further comments on the AASB’s activities and work program.