



Treasury

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Dear Dr Kendall

AASB Agenda Consultation – Invitation to Comment 46

The purpose of this letter is to respond to the invitation to comment on the AASB Agenda Consultation. HoTARAC has focussed on projects where the AASB has the capacity to undertake Australian-specific work.

Existing Projects

HoTARAC notes that the AASB does not intend to consult about existing active projects, on the basis that these will be completed as planned. Not all of these are necessarily on the currently published work plan, and we referred to Paragraph 12 of the April 2021 AASB Board Paper for the full list.

In particular, HoTARAC requests that the post-implementation review (PIR) of AASB 1059 *Service Concession Arrangements* be expedited, as this standard continues to cause implementation difficulties in jurisdictions. It could be expedited by giving it priority in the series of PIRs planned for the next three years.

Inactive Projects

HoTARAC strongly holds the view that long term discount issues should remain on the agenda as a high priority. The nature of public sector liabilities, particularly defined-benefit superannuation, means that minor changes in discount rates have accounting impacts that potentially dominate the financial statements to the extent that other important issues of financial position and financial performance are masked.

This issue was accepted onto the current AASB agenda following the previous agenda consultation. We understand that it was made inactive, because the IASB also had an issue on discount rates. However, the IASB project did not consider the specific issue of concern to HoTARAC.

HoTARAC also believes that remuneration reporting, for the public sector, should remain on the agenda, due to diversity in reporting between jurisdictions.

New Projects

The list of HoTARAC priorities includes new projects. HoTARAC has developed priority lists for both major projects and narrow scope projects, noting that categorisation as major or narrow scope will depend on the final project scope.

- These comprehensive lists have been submitted, to enable the Board to consider whether some possible projects could be integrated with similar projects proposed by other stakeholders.
- Nevertheless, the lists are presented in order of descending priority, so the first item in each list is the highest HoTARAC priority.
- Narrow scope projects have been submitted separately because resource constraints may make it possible for the Board to incorporate one or more narrow scope projects into its work plan, when it is unable to incorporate a major project.

We note that the Board seeks feedback on three specific projects:

- Sustainability reporting.
- Service performance reporting.
- Digital reporting

HoTARAC believes the first two of these are important in the long-term, and should appear on the work program. In our view digital reporting should be led by the regulators responsible for lodgements, such as ASIC, with the AASB restricting its involvement to matters where accounting standards do not facilitate digital reporting, and vice-versa.

The HoTARAC priorities

The following are the HoTARAC priorities for AASB projects over the period 2022-26:

Major/Complete Projects

1. Discount rates for long-term employee benefits and superannuation.
2. Systematic review of public sector disclosures (e.g., disclosures for Tiers 1 and 2).
3. Outstanding issues on AASB 16 *Leases* that are particularly relevant to the public sector, to the extent not caught in the post implementation review (e.g., variable lease payments; centrally procured software; sub-leases within government groups, right-of-use asset impairment).
4. Review of harmonisation differences in recognition and measurement with Government Finance Statistics. We understand that this was a recommendation from the recent post-implementation review of AASB 1049.
5. Service Performance reporting.
6. AASB 9 *Financial Instruments* – termination for convenience clauses and other Australian specific matters.
7. Concepts of 'control' - a review to ensure the concepts of control are consistent across the standards.
8. Application to Australian Standards of the IPSASB revised property, plant and equipment standard.
9. Remuneration Reporting.

Narrow Scope Projects

1. AASB 124 *Related Party Disclosures* - review of application for the public sector, e.g. the current effectiveness of disclosures in the Public Sector. This could be included in a post-implementation review of AASB 124.
2. Expected credit loss (ECL) issues - receivables that are perceived to be risk-free e.g. between government; ECL requirements for statutory receivables; instruments within corporate groups (the latter has also been identified as a potential project by the IASB).
3. More guidance on issues of concern to the public sector - accounting for centrally-procured software; aspects of application of the revenue standards, particularly AASB 15 *Revenue from Contracts with Customers*.
4. Harmonising requirements where there are separate provisions for legislated and contractual arrangements (provisions, statutory receivables, financial guarantees).
5. Application of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* in the public sector.
6. AASB 102 *Inventories* – valuation and recognition by for-profit public-sector entities where inventory is transferred at no cost from other public sector entities.
7. AASB 1058/AASB 16 – review existing relief associated with having to fair-value below-market leases, following IPSASB consideration of leasing issues.
8. Narrow scope amendments to Interpretation 1038 to more closely align with actual public sector practice, e.g. application to investments of the state in public corporations.
9. Remove the requirement for a statement of changes in equity in public sector financial statements where it is unnecessary or redundant - which is most of the time in the public sector.
10. Accounting treatment for machinery of government changes, including impacts at an individual entity level compared to the consolidated level. This spans AASB 1004, AASB 3, Combinations under Common control and the accounting for revaluation surpluses under AASB 116 when associated assets are transferred.

We note that it may be possible to combine narrow scope projects requiring minimal resources as a single “omnibus public-sector” project.

Further details of each proposed project are in the Appendix.

HoTARAC would welcome further discussion on the agenda consultation. Please contact Peter Gibson in the first instance on (02) 6215-3551 or peter.gibson@finance.gov.au .

Yours sincerely

Stewart Walters
Chair, Heads of Treasuries Accounting and Reporting Advisory Committee
XX January 2022

Appendix – Descriptions of projects

1. Discount rates for long-term employee benefits and superannuation.

Use of the “spot rate” to measure long term employee benefit liabilities continues to result in financial statements that are not easy to interpret. While this issue potentially also applies to the private sector, it is more pronounced in the public sector. Alternatives to the “spot rate” for the public sector should be considered, such as using average rates, or rates related to expected returns.

2. Systematic review of public sector disclosures (e.g. disclosures for Tiers 1 and 2).

Disclosures required of public sector entities continue to be regarded as onerous and/or not relevant to users. This could be remedied by reviewing application of disclosures to the public sector. This could be undertaken over time if it would require extensive resources. It may result in Aus paragraphs being added to the disclosure sections of standards.

3. Outstanding issues on AASB 16 *Leases* that are particularly relevant to the public sector, to the extent not caught in the post implementation review

Examples include variable lease payments; leases of centrally “procured” software; existence and accounting for sub-leases within government groups, right-of-use asset impairment. All these items are more prevalent in the public sector than in the private sector, and have been subject to diverse interpretations. The project might include guidance in AASB 16.

4. Review of harmonisation differences in recognition and measurement between accounting standards and Government Finance Statistics.

We understand this was a recommendation from the recent post-implementation review of AASB 1049. Harmonisation differences are perceived to have increased in recent years, and the project would consider options to reduce the differences. The project would identify differences standard-by-standard, and develop options for addressing them if possible.

5. Service Performance reporting.

A re-focus of the current inactive project. The proposals previously rejected by constituents should be subject to a review, taking into account public sector accountabilities in each jurisdiction. It may be necessary to have slightly different models for the public and private not-for-profit sectors. The project outcome would be a standard. This project may need to be integrated with any climate-related reporting requirements for the public sector.

6. AASB 9 *Financial Instruments* – termination for convenience clauses and other Australian specific matters.

There are a range of items included in the HoTARAC response to the post-implementation review of AASB 9. These are either specific to the public sector or much more prevalent in the public sector than the private sector. The project outcome may be additional guidance or education material. We understand that the AASB has agreed to additional educational material to support accounting for termination for convenience clauses.

7. Concepts of ‘control’ - a review to ensure the concepts of control are consistent across the standards.

Control over assets and control of subsidiaries are different concepts but could be made more consistent.

8. Application to Australian Standards of the IPSASB revised property, plant and equipment standard.

This project would review the final version of the IPSASB standard, to determine if there is any guidance or other public-sector specific material that could be used as additional guidance for AASB 116 *Property, Plant and Equipment*.

9. Remuneration Reporting.

Remuneration reporting practice in the public sector is inconsistent across jurisdictions, leading not only to diversity of interpretation of the elements of remuneration, but also inconsistent disclosures. The latter is partly due to the very abbreviated remuneration reporting requirements in AASB 124, meaning that government jurisdictions have each developed their own practices. This is a different issue to that for the private sector, where the remuneration reporting requirements are consistent at a principles level under the Corporations Act, but are widely considered as not achieving their desired purpose of explaining the link between performance and remuneration.

Narrow Scope Projects

1. AASB 124 *Related Party Disclosures* - review of application for the public sector, e.g. the current effectiveness of disclosures in the Public Sector.

This could be included in a post-implementation review of AASB 124. Entities in most HoTARAC jurisdictions have very rarely reported any related party transactions other than remuneration of KMPs, which could mean that the standard is not working as intended, or it is superfluous for the public sector.

2. Expected credit loss (ECL) issues - receivables that are perceived to be risk-free e.g. between government; ECL requirements for statutory receivables; instruments within corporate groups (the latter has also been identified as a potential project by the IASB).

There are a range of issues such as those mentioned above that have greater prevalence in the public sector. The project output would be public sector guidance.

3. More guidance on issues of concern to the public sector - accounting for centrally-procured software; aspects of application of the revenue standards, particularly AASB 15 *Revenue from Contracts with Customers*.

This could be commenced by reviewing whether the recent decisions on the narrow scope review of AASB 1058/15, and recent IFRIC agenda decisions have addressed the issues. If there are remaining issues, project output could be guidance in AASB 16 and additional guidance in AASB 15.

4. Harmonising requirements where there are separate provisions for legislated and contractual arrangements (provisions, statutory receivables, financial guarantees).

Contractual financial assets and liabilities are within the scope of AASB 9 *Financial Instruments*. Non-contractual liabilities are within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. There are differences in the recognition and measurement rules under the respective standards, even for different arrangements with similar terms and conditions.

5. Application of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* in the public sector.

Application of the definition of provisions is particularly difficult, taking into account more constructive obligations than for the private sector, and more measurement uncertainty. The results can be financial statements that are of limited benefit to users, where there are material provisions. This issue could be addressed initially by considering application of the revised conceptual framework to not-for-profits, an existing AASB project, and potentially involving research and further work on the standard itself.

6. AASB 102 *Inventories* – valuation and recognition by for-profit public-sector entities where inventory is transferred at no cost from other public sector entities.

This is not addressed by AASB 102. It is a situation usually unique to the public sector. The project outcome would be guidance, or amendment to AASB 102.

7. AASB 1058/AASB 16 – review existing relief associated with having to fair-value below-market leases.

HoTARAC notes that the AASB intends to consider this issue once the IPSASB has completed its project on public-sector specific leasing issues. This could be included as part of major project number 3.

8. Narrow scope amendments to Interpretation 1038 to more closely align with actual public sector practice, e.g. application to investments of the state in PNFCs/PFCs.

Modern public sector practice includes frequent changes to allocations of funds, a situation not envisaged by the wording or application of the existing interpretation. The project outcome would be relatively minor changes to the wording of the interpretation.

9. Remove the requirement for a statement of changes in equity in public sector financial statements where it is unnecessary or redundant - which is most of the time in the public sector.

The public sector does not usually have changes in equity other than those included in the balance sheet, statement of cash flows, and the statement of profit and loss and comprehensive income. Further, public sector entities do not often have different classes of equity for which detailed allocation of transactions is important. The project outcome would be an Aus paragraph in AASB 101.

10. Accounting treatment for machinery of government changes, including impacts at an individual entity level compared to the consolidated level. This spans AASB 1004, AASB 3, Combinations under Common control and the accounting for revaluation surpluses under AASB 116 when associated assets are transferred.

There are a range of issues that are particularly prevalent or applicable to public sector entities when there is an administrative restructure, as defined in AASB 1004. Further, restructures are particularly prevalent in some governments. Some of the issues are not unique in principle for the public sector, but may have greater practical diversity in the public sector. The project would initially focus on defining these issues more closely and researching current practice.