

18 February 2022

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

Dear Dr Kendall

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

Thank you for the opportunity to comment on ITC 46 AASB *Agenda Consultation 2022-2026* and input into the Australian Accounting Standards Board (AASB)'s work program.

IPA's members predominately service small business or work in the small business and small and medium enterprise (SME) sectors. Our members have limited resources to allocate to the understanding and implementation of new or revised financial reporting requirements. Whilst this limited resources also applies to other sectors, it is more pronounced for the SME sectors.

IPA is of the view that the benefits of any new or revised reporting requirements must outweigh the cost of their compliance. This is particularly important in the increasingly complex reporting landscape, which includes both reporting of financial and non-financial information. IPA notes the AASB undertakes a costs/benefits analysis in standard-setting and applies this in prioritising projects in its work program (as set out in ITC 46). To assist the AASB in better achieving this, and reducing the unnecessary burden on entities, especially SMEs, we offer the following general comments:

- It is imperative that the issued accounting pronouncements (including reporting frameworks, guidance and standards) are robust, unambiguous and can be applied to changing circumstances. That is, the pronouncements must be sufficiently "future proof" so that entities can account for changes in transactions and circumstances without the need for the AASB to amend existing and/or issue new guidance and/or standards. For example, in the "inactive project" of "Definition of fundraising" – it is unclear, prima facie, why income arising from fundraising cannot be accounted for under the existing accounting standards on revenue and income and that a specific definition for fundraising is necessary.
- The development of accounting pronouncements must be timely and in-line with international developments where possible. This is so that Australia can remain at the fore front of standard-setting and reporting. This in turn permits Australian entities to be competitive in its commerce and trade, as markets are likely to place a price for entities that do not report information on a timely and/or adequate basis compared to similar entities in other countries that do. An example of this is the area of sustainability reporting. IPA in its submission to ITC 48 *Extended External Reporting* agrees with the AASB's preliminary

support for the Taskforce on Climate-related Financial Disclosures. This is on the basis that the approach provides a way forward to the AASB to address the immediate needs of stakeholders, and affording the AASB the time to develop a formal position and framework for extended external reporting that accords with the AASB's standard-setting process. However, given the pace and amount of work being undertaken internationally, it may be perceived that the AASB is behind in addressing what the market and AASB's constituents view as an important area. Similarly, the service performance reporting project has been on the AASB's "potential projects" list for recommencing. This contrasts with the New Zealand External Reporting Board's issue of a service performance reporting standard in 2017.

Our response to the specific questions in the draft Position Statement are in Attachment 1.

If you have any queries with respect to our comments or require further information, please contact me at vicki.stylianou@publicaccountants.org.au or on mobile 0419 942 733.

Yours sincerely



Vicki Stylianou
Group Executive, Advocacy & Policy
Institute of Public Accountants

About the IPA

The IPA is one of the professional accounting bodies in Australia with over 47,000 members and students across 80 countries. Approximately three-quarters of our members either work in or are advisers to the small business and SME sectors. Since merging with the Institute of Financial Accountants UK, the IPA Group has become the largest SME and SMP focused accounting body in the world.

ATTACHMENT 1 – IPA’s response to specific questions to ITC 46

Question 1 – Inactive projects

Section 2.3 and Table 2 summarise inactive projects on which the AASB is seeking stakeholder feedback. Are there any inactive projects you think should be retained in the AASB 2022–2026 work program? To help the Board consider the feedback, please provide reasons explaining your views and other relevant information, including feedback on the project’s proposed scope(s).

IPA has confined its response to this question for projects that are relevant to SMEs.

Remuneration reporting – IPA supports the project and ranks it as low to medium in priority. IPA is a strong advocate for reducing red tape, streamlining of processes and reporting that decreases an entity’s cost of compliance. We therefore support the tenor of the project to reduce the complexity in remuneration reporting, including removing overlapping information disclosed in different parts of the financial reports. However, remuneration reporting is a sensitive area where the requirement for reporting stems from numerous regulatory bodies. Consequently, it is important the AASB undertake the necessary consultation with the relevant stakeholders and regulators so that the final accounting pronouncement achieves its intended purpose.

Crowd-sourced equity funding – IPA does not support the project. Based on the brief AASB’s “remarks” for the project, IPA does not have sufficient information to support the project.

Definition of funding – IPA does not support the project. As stated in our covering letter, IPA is unclear, prima facie, why income arising from fundraising cannot be accounted for under the existing accounting standards on revenue and income and that a specific definition for fundraising is necessary.

Co-operatives and mutual entities – IPA does not support the project in its current form. The scope of the project states that:

- The AASB is to “consider developing a guidance note for co-operatives and mutual enterprises (CMEs) setting out desired standards of reporting and initiate a project to identify appropriate principles and measures for reporting on the activities that CMEs have undertaken to achieve their purpose” and
- “the Board, at the May 2017 meeting, decided to develop guidance for CMEs to encourage the consistent application of Australian Accounting Standards and to improve users’ understanding of the financial statements”.

Whilst IPA supports the AASB developing guidance to assist entities for the above purposes, we are unclear as to why this guidance should only be for CMEs.

Question 2 – Potential projects

Section 2.4 and Table 3 provide an overview of proposed external reporting projects that the AASB propose to add to the work program.

- (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?

To help the Board consider the feedback, please provide reasons explaining your views and other relevant information.

Sustainability reporting

Service performance reporting

IPA agrees that the sustainable reporting and service performance reporting projects should be added to the AASB’s work program as high priority projects for the reasons stated in our covering letter and submission to ITC 48.

Digital financial reporting

IPA is of the view that, given the advances in technology, there is a role for digital financial reporting to aid the better analyses for decision making. However, digital financial reporting is an area that has been in development for a number of decades, and yet there are no definitive Australian guidance/standards in this area. Consequently, whilst we support the project in principle, analyses of the reasons for lack of impetus and what has changed that would enable the project, if undertaken, achieve its intended purposes.

Question 3 – Research projects

Section 3.3 proposes several 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?

To help the Board consider the feedback, please provide reasons explaining your views and other relevant information.

IPA considers the research projects on:

- **Sustainability reporting, service performance reporting and digital financial reporting** should be added to the work program as high priority projects. As the research projects would support the standard-setting projects in these areas.
- **Costs and benefits analysis** of policy making should be added to the work program as a medium priority project, as such analysis is an integral part of the standard-setting process. The review into how the costs and benefits analysis can be undertaken more effectively and efficiently would be beneficial to the standard-setting process.

- **Intangible assets: recognition and measurement** should be added to the work program as a medium priority project, as this will inform the AASB as to whether disclosures of unrecognised intangible assets would be useful to users.
- **Encourages disclosures and AASB 112 *Income Taxes* and tax transparency disclosures** are useful in providing evidence to support the AASB in deciding its standard-setting work. However, they are no urgency for their research. Accordingly, IPA is of the view that these should be low priority research projects.

Question 4 – Other comments

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

IPA have no other comments on the AASB's activities and work program.