

30 October 2006

Mr Jorge del Busto  
Secretary, Financial Reporting Council  
c/- The Commonwealth Treasury  
Langton Crescent  
Parkes ACT 2600

Dear Mr del Busto,

### **Sector-Neutral Accounting Standard-Setting in Australia**

The Board is pleased to respond to the Financial Reporting Council's invitation to comment on its June 2006 paper *The Use of a Sector Neutral Framework for the Making of Australian Accounting Standards*, which incorporated *A Review of the Policy of Sector-Neutral Accounting Standard-Setting in Australia* (the Simpkins Report).

The Board's general comments are set out in this letter. Comments on the specific matters for consideration raised in the FRC paper are attached in Appendix 1.

#### **General Comments**

The Board supports the FRC in consulting widely in its review of the approach to sector-neutral standard-setting in Australia. The Simpkins Report is a useful review of the current state of standard-setting in Australia. However, the Board has recently made a number of refinements to its business plan and work program in relation to sector-neutral accounting standards that are not reflected in the Report, which renders some of the observations dated. The Board also considers that Australia and New Zealand are acknowledged as amongst the world leaders in public sector financial reporting. Both the Board and the NZ Financial Reporting Standards Board set standards for the public and private sectors, covering both for-profit and not-for-profit entities, within one series of pronouncements.

The Board considers that the Simpkins Report gives both explicit and implicit support to its present plans for addressing public sector and other not-for-profit accounting issues in the future. The Board acknowledges that whilst some public sector stakeholders have expressed some frustration at the difficulties of implementing Australian equivalents to International Financial Reporting Standards in their sector and a lack of progress and consultation to a degree, they have not generally questioned the Board's transaction-neutral approach and the standard-setting arrangements. The Report also usefully identifies a range of accounting issues that the Board will consider in determining its priorities and its future interactions with stakeholders. However, we do not consider that the Report warrants any significant changes to the manner in which the Board sets sector-neutral accounting standards.

*Standard-Setting Resources*

A significant proportion of the Board's resources has been applied to the development and implementation of Australian equivalents to International Financial Reporting Standards up to and including the 2005-06 year, in response to the FRC's first strategic direction, which concerned the adoption of IFRSs in Australia for Corporations Act entities. The Board's work resulted in standards applicable not only to private sector or for-profit entities (the principal focus of the International Accounting Standards Board (IASB)), but also to public sector and other not-for-profit entities. In developing the Australian equivalents to IFRSs, the Board invited constituents to comment on the suitability of the requirements for not-for-profit entities, and modified their application to such entities when appropriate. However, the implementation of these standards in the public sector has recently identified further difficulties, which are now receiving urgent attention from the Board.

The Board has also placed considerable emphasis on the second strategic direction of the FRC, on the harmonisation of accounting standards and Government Finance Statistics (GFS), which was identified by the FRC as an urgent priority. This work has resulted to date in the recent publication of Accounting Standard AASB 1049 *Financial Reporting of General Government Sectors by Governments*.

Given the significant resources consumed in response to the priority of the FRC's strategic directions, other planned domestic projects have not progressed as far as the Board had anticipated. The Board acknowledges that there now exists a back-log of other domestic projects, but considers that this has not been caused by any structural issues. As indicated below, the Board is now applying significant resources to public sector and other not-for-profit sector accounting issues.

The Board does not support the dilution of limited standard-setting resources across more than one board or more than one complete series of standards to accommodate the various sectors. A single standard-setting board represents the most effective and efficient way of developing standards applicable to the full range of entities, as well as requirements applicable to specified groups of entities (whether sectors or other groupings) when appropriate in meeting the objectives of financial reporting. A single series of standards can also accommodate any requirements applicable only to specified groups of entities, in addition to common requirements, as the Board has demonstrated in its Australian equivalents to IFRSs. However, the Board will continue to consider the most effective way of presenting financial reporting requirements in standards. This is especially the case in respect of the forthcoming IASB proposals concerning a comprehensive pronouncement for small and medium-sized entities (SMEs), where a number of different approaches might be available to the Board.

The Board has leveraged the time available in full-Board meetings by using sub-committees of Board members to develop draft documents prior to meetings. The Board will consider how to improve and increase its use of sub-committees, along with the use of advisory panels on specific issues or topic areas. For example, the Board will consider the way in which the New Zealand Financial Reporting Standards Board addresses not-for-profit issues in conjunction with its Public Benefit Entities Working Group, which consists of both Board members and external experts.

*Present Plans of the Board*

The Board's Business Plan for the 2006-07 year (published on its website) presents the Board's objectives under the new international regime for financial reporting for business enterprises, combined with a significant program of non-IFRS matters particularly covering the private not-for-profit sector and the public sector. The Board also has published on the website, since late 2005, a Public Sector Policy Paper that sets out the Board's ongoing plan for dealing with public sector issues. The Policy Paper is periodically updated.

These plans will ensure that the Board places appropriate emphasis upon issues that are particularly relevant to public sector and/or other not-for-profit entities. To this end, the Board periodically reviews its work program to ensure that it is aligned with its business plan. For example, the work program (see Appendix 2) has recently been modified to considerably reduce the staff time allocated to IASB projects, with more time allocated to domestic projects, particularly public sector projects. The Board is also considering the extent of the resources that it should commit to issues concerning not-for-profit entities.

The Board continues to hold the view that a single set of standards is the most effective way to develop and present standards generally, but notes that some standards will be relevant to only some sectors or types of entities, given the nature of the transactions that they address. The Board supports a "transaction neutrality" strategy for the standards, under which like transactions are treated in the same way for all entities. This has commonly been referred to as "sector neutrality". This strategy is regarded as a guiding principle rather than as a constraint, so that if the needs of users of particular types of entities require a difference in treatment, then the Board would consider that carefully in concluding on the appropriate requirements.

The Board is participating in the work of the IASB and of the International Public Sector Accounting Standards Board (IPSASB) in respect of revising or developing conceptual frameworks for accounting standard-setting. These projects provide an opportunity for standard-setting Boards around the world to consider the needs of financial report users in respect of public sector and other not-for-profit entities, as well as for-profit entities. The Board considers that a better long-term outcome will be gained by participating in these international projects than by committing resources to developing its own unique public sector conceptual framework.

*Convergence with New Zealand Standards*

The standard-setting approach to the adoption of IFRSs is very similar in both Australia and New Zealand, including integrating requirements for not-for-profit entities in the national standards corresponding to IFRSs. The Board notes the importance of working with the Financial Reporting Standards Board (FRSB) of New Zealand to minimise differences between Australian and New Zealand standards, to share both staff and Board resources and to integrate work programs to the extent practicable to make the best use of these resources. For example, the Boards intend to review their definitions of not-for-profit entities (Australia) and public benefit entities (NZ), as the Boards have intended the same distinction from for-profit entities.

To facilitate this trans-Tasman convergence, a *Protocol for Co-operation Between the Australian Accounting Standards Board and Financial Reporting Standards Board* has been signed, and the Chairman of each Board is a member of the other. Other initiatives such as joint Board meetings are also being undertaken.

In conclusion, the Board is of the view that major structural changes to the standard-setting process in Australia are not required and indeed would be likely to delay the resolution of issues. The Board is keenly aware of the range of issues that need to be addressed in the public sector and other not-for-profit sector, and is putting a greater part of its resources to those issues now that the FRC's first and second strategic directions have been covered, or at least substantially advanced. In doing so, the Board will continue to apply transaction neutrality as a guiding principle, acknowledging that specific requirements may be appropriate in particular cases depending on the needs of financial report users.

The comments in Appendix 1 on the specific matters raised by the FRC amplify the matters raised in this letter. Please contact me if you would like further information or to clarify any aspect of our submission.

Yours faithfully,

David Boymal  
Chairman

### Comments on Specific Matters for Consideration

This Appendix presents the Board's responses to the specific matters on which the FRC is seeking comment.

1	In your view, how well are the needs of all users of general purpose financial reports, including users of public sector and other not-for-profit entities in Australia, being met?
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General purpose financial reports in Australia provide much useful information to their users, and report users have provided only limited feedback to the Board on the reports or any unsatisfied needs. This lack of input is being addressed by the Board in forming user focus groups and through other initiatives (see issue 7 below). The Board typically receives correspondence from financial report preparers and auditors in respect of issues requiring resolution rather than from report users identifying unsatisfied needs or other problems.

Information in general purpose financial reports is useful to report users in all sectors, as there are many common information needs. However, as the requirements in Australian equivalents to IFRSs have been developed principally in relation to for-profit entities, based on IASB standards, it is to be expected that the needs of users of financial reports of for-profit entities have been emphasised. Despite this, the Board has modified the requirements of IFRSs for application by Australian public sector and other not-for-profit entities when considered appropriate, which directly responds to the perceived needs of users of the financial reports of such entities.

The IPSASB has agreed to develop a conceptual framework in relation to public sector entities, and this is expected to address the objectives of public sector financial reports, including the needs of their users. The Board will be participating in this work, which will therefore provide a basis for more explicit consideration of user needs when deciding upon requirements for public sector entities. As the Board is working on a range of issues of importance to the public sector, including contributing to IPSASB projects that deal with public-sector specific issues, it expects that the needs of users of financial reports of public sector entities will be better served in the future.

At the same time, the IASB is carrying out a project in conjunction with the US Financial Accounting Standards Board (FASB) to revise their existing conceptual frameworks. The Board has joined with a number of other national standard-setters (in Canada, New Zealand and the United Kingdom) to monitor and comment upon that work in relation to public sector and other not-for-profit entities. Thus the Board is keen to ensure that the needs of financial reports users in those sectors are adequately considered.

2	Will the current approach of the AASB enable the standard-setter to respond to the more challenging environment of the future and ensure the needs of public sector and other not-for-profit users are appropriately met?
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The current, general approach of the Board is a single set of topic-based standards that are "transaction neutral" as between the for-profit, private not-for-profit and public not-for-profit sectors. The Board has agreed that like transactions and events should be dealt with in a like

manner for all types of entities unless there is sound reason to be different in particular circumstances.

Nevertheless, some standards are likely to apply only to certain types of entities due to the issues addressed. The Board does not propose to retain or establish complete industry-based or sector-based standards. For example, the Board is undertaking a project that is likely to propose the removal of AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*, with the requirements either incorporated into other standards or deleted if they are already adequately or more appropriately addressed in other standards or the conceptual framework. This outcome would be consistent with the IASB's approach that only unique industry features will be dealt with separately in industry-based standards.

The Board will continue to consider the best way to deal with specific financial reporting issues as they are addressed, rather than committing to a single, inflexible standard-setting approach. This is appropriate as the Board aims under its Business Plan to deal with unique issues that have particular relevance to the public sector and other not-for-profit entities, thus ensuring that the needs of those financial reports users are better met, howsoever the "current approach" of the AASB might be characterised. Improved liaison with those interested in public sector and other not-for-profit financial reporting will also assist.

The Board has made a significant contribution to the work of the IPSASB in the past and intends to continue to do so. The Board contributes to this work in a range of ways, including discussion of major topics during meetings, submissions on exposure drafts and agenda papers, technical staff support for an Australian member of the IPSASB and staff attendance at IPSASB meetings. Whereas the IPSASB's focus in the past has been on developing standards corresponding to those of the IASB, it is now addressing significant public-sector issues that go beyond IASB standards, such as non-exchange revenue, social policy obligations and heritage assets. This work also will assist the Board in developing standards that respond to the needs of public sector financial report users.

Furthermore, the Board and the New Zealand FRFB have agreed that, in the longer term, once the relevant definitions and guidance are aligned, the Boards should seek to have converged requirements for not-for-profit entities / public benefit entities in the Australian and New Zealand equivalents to IFRSs. This also will result in the needs of other not-for-profit users being better met.

The Board's current Work Program is attached as Appendix 2. It shows that many of the Board's projects are relevant specifically to the public sector and other not-for-profit sector. Many of the accounting issues raised in Part 6 of the Simpkins Report are included, including most of those listed in paragraph 6.45 as issues raised frequently for attention. The Board intends to consider the accounting issues flagged in the Simpkins Report, especially in Parts 6 and 7, when reviewing its work program and priorities.

3	Do you consider that having a conceptual framework that is applicable and appropriate to all entities is a necessary element in Australian standard-setting for all sectors? What approach to establishing a conceptual framework(s) do you consider appropriate?
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The Board presently supports a conceptual framework generally applicable to all entities, and notes that whether one or more documents should be prepared ultimately will be determined as the present conceptual framework projects develop. The first Australian Statement of Accounting Concepts, SAC 1 *Objectives of Financial Reporting by Public Sector Entities* (December 1985), was prepared by the then Public Sector Accounting Standards Board (PSASB) of the Australian Accounting Research Foundation. However, subsequent Statements of Accounting Concepts were jointly developed by the PSASB and the then Accounting Standards Review Board (ASRB) or its successor, the then Australian Accounting Standards Board. This approach recognised, after much debate, that there are many common accounting concepts that are relevant to the various sectors.

When the Board adopted Australian equivalents to IFRSs from 2005, it also replaced two Australian Statements of Accounting Concepts<sup>1</sup> with the IASB's *Framework for the Preparation and Presentation of Financial Statements*. Like the Statements of Accounting Concepts that preceded it, the *Framework* applies in Australia to all entities, whether for-profit or not-for-profit, in both the private and public sectors. However, the Board added a number of paragraphs to the Australian equivalent to the IASB *Framework* to address some aspects particular to public sector and other not-for-profit entities. The Board clearly had in view the need to ensure that the *Framework* was appropriate for all entities.

The Board's adoption of the current *Framework* left Statements of Accounting Concepts SAC 1 *Definition of the Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting* on issue. The Board is presently considering the appropriateness of its reporting entity concept, particularly in conjunction with its consideration of the IASB's project on small and medium-sized entities.

The objective of financial reports is also being considered through several international conceptual framework projects. For example, the IASB and the US FASB are carrying out a joint conceptual framework project, focussing initially on private sector businesses. The IASB and the FASB have indicated that, once concepts for those entities have been redeveloped, they will consider the applicability of those concepts to financial reporting by other entities, such as not-for-profit entities in the private sector and business entities in the public sector. This framework project is being monitored closely by the Board, which is concerned about the present narrow focus of the project. The Board has joined with a number of other national standard-setters to monitor and comment upon that work in relation to public sector and other not-for-profit entities.<sup>2</sup>

The Board also has offered to contribute resources, jointly with other standard-setters, to the development of a public sector conceptual framework by the IPSASB. An important aspect that will need to be addressed will be ensuring appropriate consistency between the private sector and public sector conceptual frameworks as they are revised or developed through these international projects. The Board considers that these international projects are the best approach to improving existing conceptual frameworks for accounting standard-setting, since

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1 SAC 3 *Qualitative Characteristics of Financial Information* and SAC 4 *Definition and Recognition of the Elements of Financial Statements*.

2 A report was issued in July 2006 by the chairs and senior staff of the Australian, Canadian, New Zealand and United Kingdom standard-setters, titled *The IASB/FASB Conceptual Framework Project's Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information – Application to not-for-profit entities in the private and public sector*. The report is published on the Board's website ([www.aasb.com.au](http://www.aasb.com.au)).

it is unlikely that financial report users in any one jurisdiction will have significantly different needs.

Nevertheless, the Board will undertake work to understand the needs of financial report users. For example, a number of roundtable discussions on conceptual framework issues were held with constituents in September 2006 to promote dialogue and to assist the Board and constituents to develop views on the issues. This will help to ensure that any conceptual framework, whatever form it takes, ultimately will be appropriate for all entities, not just business or for-profit entities.

- 4 Different approaches could be used to set standards in Australia. Which approach do you consider the most appropriate:
- to continue to develop a single set of standards;
  - to develop two separate sets of standards: one for profit-oriented entities and the other for not-for-profit entities; or
  - another approach e.g. three sets of standards (profit-oriented, public sector not-for-profit and other not-for-profit sets) or two sets of standards with other not-for-profit entities being addressed with profit-oriented entities? (If you prefer this option please describe the approach you prefer.)

The Board considers that developing a single set of topic-based standards is likely to be the most appropriate and efficient approach, noting that within this approach some standards are likely to apply only to certain types of entities due to the issues addressed. For example, the recent Accounting Standard AASB 1049 *Financial Reporting of General Government Sectors by Governments* applies only to governments. The Board will consider the best way of dealing with an issue when it is addressed, and believes that constituents are more interested in getting issues resolved rather than whether there should be one, two or three identifiable sets of standards. Furthermore, additional costs would be incurred to prepare, promulgate and distribute more than one complete set of standards.

Multiple sets of standards have been a source of some confusion in Australia in the past, with both the original series of Australian Accounting Standards (AAS), issued by the accounting profession, and the later series of Accounting Standards Review Board (ASRB) standards addressing the same issues. The ASRB series of standards became the AASB standards. From 2001, prior to adopting Australian equivalents to IFRSs, the Board had started to replace corresponding AAS and AASB standards with a single AASB standard when revisions were made, based on the view that it was unnecessary to have separate standards for different sectors or types of entities when the requirements were substantially the same.

The current standards, the Australian equivalents to IFRSs, generally apply to all entities, with any different requirements for not-for-profit or public sector entities incorporated into each standard. This approach ensures that any differences are clearly identified by the Board itself in developing the standards and by readers of the standards in addressing their requirements. Otherwise there is potential for differing requirements to be “hidden” across standards applicable to different types of entities, making it more difficult for financial report preparers, auditors and users.

A small number of AAS Standards remain on issue alongside the Australian equivalents to IFRSs: AAS 25 *Financial Reporting by Superannuation Plans*, and the public-sector specific standards AAS 27, AAS 29 and AAS 31, referred to earlier (see Issue 2). The Board has a

current project to revise AAS 25, and the resulting standard would be issued as an AASB standard. The project to address the potential replacement of AAS 27, AAS 29 and AAS 31 has been noted above. What seems to the Board to be more important are the requirements that replace these old standards, not whether a separate series of standards should be retained or another series introduced. For example, amendments to specific transitional provisions in AAS 27, AAS 29 and AAS 31 were made by the Board in AASB 1045 *Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A* (October 2002), where those “A” Standards were themselves earlier amendments of the principal Standards. Constituents generally have accepted the transition towards one series of standards without raising major concerns over the number of series that should be used for accounting standards in Australia.

- 5 If, in response to Consultation Issue 4, you considered standards different from those applying to the for-profit sector should be developed for one or more sectors, please indicate, for each sector, what the primary base should be for those standards:
- Government Finance Statistics (GFS);
  - International Public Sector Accounting Standards (IPSAS); or
  - a range of sources, including International Financial Reporting Standards, IPSAS and GFS, depending on the particular issue being considered?

The Board considers that a single series of standards is the preferred, general approach, based on its support for transaction-neutral standards. However, this approach does allow for different requirements for specified groups or types of entities when this is warranted.

The Board is planning to use IFRSs to provide the core direction for the accounting treatment of transactions and other events. However, in recognition of the fact that the IASB develops IFRSs specifically for the for-profit sector, and in view of the different business models in the other sectors, the Board is likely to amend the IFRSs where necessary in order that they are also appropriate for use in the other sectors.

The Board notes that many of the IPSASB standards are based on dated IFRSs but that the IPSASB is now starting to issue exposure drafts and standards that are not covered by Australian or IASB standards. The Board’s practice is to consider exposing these for public comment and incorporating them into Australian standards to the extent appropriate. With the issuance of AASB 1049, the Board is also turning its attention to the question of the scope of its work on harmonising GFS and accounting standards. The Board therefore will continue to consider a range of sources in developing standards for public sector and other not-for-profit entities.

- 6 If a single set of standards continues to be developed in Australia, do you prefer:
- the current approach of the AASB;
  - a matrix approach, retaining specific standards for types of public sector and possibly also other not-for-profit entities while maintaining a general set of topic based standards applicable to all entities;
  - an approach involving a single set of standards but with non-standard level guidance (such as the Statements of Recommended Practice in the United Kingdom) applicable to particular sectors or groups of entities in sectors?

As noted above, the current general approach of the Board is a single set of topic-based standards founded on transaction neutrality, although some standards are likely to apply only

to certain types of entities due to the issues addressed. This would seem to fall within a matrix approach, if a label was required.

At times local needs in Australia may lead to identifying issues or topics that have not been addressed by international standard-setters and which might not be addressed in the foreseeable future. The Board will seek to identify these local needs and where appropriate create local standards covering matters not addressed internationally. This would cover both the sectors not addressed by international standard-setters and topics not addressed by international standard-setters. However, it will be necessary for the Board to ensure that compliance with IFRSs is not compromised for Corporations Act entities, as specified in the FRC's first strategic direction to the Board.

The Board presently does not support the issuance of non-standard guidance like the UK SORPs, which are prepared by other entities but endorsed in some form by the national standard-setter, whether the guidance is applicable generally or to particular sectors or groups of entities. The authority of such pronouncements would be unclear, particularly in a regime such as ours where the standards are legally mandated for some entities.

The differing status of pronouncements has been an issue in the past in Australia, especially in relation to the status of UIG Abstracts vis-à-vis standards. The Board first issued AASB 1048 *Interpretation and Application of Standards* in 2004 alongside the Australian equivalents to IFRSs to clarify that UIG (and now AASB) Interpretations have the same status as standards issued by the Board.

The question of status now also arises in relation to IASB (and AASB) Bases for Conclusions, Illustrative Examples, Implementation Guidance and similar material, where these accompany a standard but formally are not part of the standard. The Board has now been able to publish such IASB materials on its website, for use by Australian residents only due to copyright restrictions, but has also removed from the standards nearly all of the specific Australian guidance to ensure that it does not cause entities to not comply with IFRSs. Nevertheless, additional Australian guidance could be appropriate for entities for which IFRS compliance was not required, and the Board's approach to this may change as it addresses more specific issues for public sector and other not-for-profit entities.

7 Would developing a Statement of User Needs for the public sector and other not-for-profit sectors, based on research, and including an analysis of how any different needs impact financial reporting be useful? If so, please suggest how that Statement of User Needs could be developed and maintained. Do you have any other views on how user input could be enhanced?

The development of a Statement of User Needs may well be unnecessary, as an addition to the work on user needs that is being done or will be done around the world in the context of the various conceptual framework projects (see Issue 3). That work is expected to assess user needs for the public sector and other not-for-profit sector, directly in relation to the public sector in respect of the IPSASB framework, and in respect of the IASB/FASB project via the monitoring of that work by the group of national standard-setters in relation to not-for-profit entities. Preparation of a detailed or separate Statement might consume significant resources without adding significantly to the development of appropriate standards.

The Board is providing opportunities for various financial report user constituencies to meet with and provide input to the Board. For example, the Board has established a corporate

sector financial report users advisory panel comprising analysts and similar report users, and is in the process of establishing a similar panel for private sector not-for-profit entities. In relation to public sector not-for-profit entities, the Board has worked with an extensive working group and advisory panel in respect of the GAAP/GFS harmonisation project, and has recently held a roundtable discussion with public sector constituents to canvass a broad range of issues associated with the review of AAS 27, AAS 29 and AAS 31.

The Board is keen to ensure that it has a productive relationship with user groups. This will enable it to identify user needs, which will be useful input to the conceptual framework projects and also to its development of requirements addressing specific not-for-profit issues.

Furthermore, in responding to the IASB's project on small and medium-sized entities, the Board expects to assess the needs of users of financial reports of such entities. The Board is aware that there is considerable interest in this project from many entities and groups, and is looking forward to their contributions to the process of determining appropriate modifications of IFRSs and the Australian equivalents for application by SMEs.

8	Do you consider that there is enough clarity on the direction that the AASB is taking in establishing requirements for the public sector and other not-for-profit sector, including identifying the base set or sets of standards which will be adopted?
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The Board's Business Plan for 2006-07 was published on the AASB's website in June 2006, along with a companion document on Business Plan Initiatives. These documents set out the Board's principal objectives and activities for the present financial year. In addition, the Board's Work Program and the extensive Public Sector Policy Paper are also published on the website. These are periodically updated to keep constituents informed of changes and developments.

One of the Board's initiatives is the establishment of a broad communications strategy and function. Included in the strategy will be a review of processes to communicate decisions taken at Board meetings, plans to ensure that other Board activities are made known to stakeholders, and procedures to ensure that various stakeholder groups meet with the Board or the staff at appropriate intervals to provide views on particular matters and feedback on Board activities.

At the September Board meeting, for example, the Board consulted with public sector constituents on how its review of AAS 27, AAS 29 and AAS 31 should be managed to ensure that no vacuum is created if these standards are withdrawn. The Board is also meeting with its Consultative Group in November, to discuss its work program, priorities and a range of specific issues which are of particular relevance to not-for-profit entities, such as service concessions and differential reporting.

9	A number of options to enhance the recognition of different environments and issues in sectors have been identified in the Report. Do you consider any of the options, including those relating to board membership, sub-boards or committees, expectations of board members, staffing or explicit board sign-offs would enhance the ability of the standard-setting process to meet user needs?
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The Board considers that it is in the best position to deal with accounting issues arising in respect of public sector and other not-for-profit entities. Under the *Australian Securities and Investments Commission Act 2001*, the Board has responsibility for preparing standards for the purposes of the *Corporations Act 2001* as well as for other purposes, which covers the public sector and the other not-for-profit sector.

The most recent restructure of accounting standard-setting in Australia (at the start of 2000) saw the Board reconstituted under the *Corporate Law Economic Reform Program Act 1999* as part of the Commonwealth Government's corporate law reform program. At this time the accounting profession's Public Sector Accounting Standards Board (PSASB) was disbanded and its activities were taken over by the Board. This approach recognised that there had been much duplication in the work of the two Boards over many years, with the Boards reaching the same conclusions on the vast majority of issues. The Board therefore does not support limiting its remit to Corporations Act entities and re-establishing another board or boards to address standards for public sector and other not-for-profit entities.

For five years in the 1980s (1984-1988), the scarce standard-setting resources in Australia were split across the Accounting Standards Review Board (developing standards under the Companies Act/Codes), the PSASB (developing standards for public sector entities) and the profession's Accounting Standards Board (the AcSB, developing standards for private sector entities). The ASRB and the AcSB were merged in late 1988, as the resources required to support these Boards separately could not be justified. The Board advises against a return to such a fractured structure.

Formal sub-boards reporting to one main board are not supported as this would increase the time demands on members and staff and the administrative burden without significantly improving the efficiency with which the main board would be able to conclude on issues. This would be similar to having separate boards to deal with particular sectors. The Board notes that sub-boards could represent an extension of its current use of sub-committees of Board members by including other people who can bring additional expertise and perspectives to the discussion of issues. The Board is keen to learn from the experience of the New Zealand Financial Reporting Standards Board in respect of its Public Benefit Entities Working Group, which consists of both FRSB members and external experts and develops views on not-for-profit issues for consideration by the FRSB.

The Board notes that its constituents have not proposed radical structural changes to accounting standard-setting in recent years. In the Board's view, their interest lies in getting their particular issues addressed and resolved by the Board. Nevertheless, the Board reviews its operating procedures from time to time, and makes changes when necessary to ensure that its standard-setting is done efficiently and effectively. For example, the Board is now using sub-committees of Board members to a greater degree than previously, and considers that this approach has considerable potential to improve the efficiency of the Board as a whole in addressing difficult issues.

Board members, who are appointed by the FRC, come from a range of backgrounds to ensure that different perspectives are considered in identifying and responding to accounting issues. However, members specialising in only one sector may limit the cross-fertilisation of ideas if they proffer only their specialist perspective rather than seeking to consider all perspectives in addressing issues.

The staff and the Board make use of project advisory panels when input is needed from expert constituents on specific issues or questions relating to some complex topic areas, such

as insurance and superannuation. In addition, under the Board's new Interpretations model, ad hoc advisory panels may be appointed by the Board when addressing interpretation issues. The Board intends to include Bases for Conclusions in its local pronouncements, which should mean that the way in which the Board has assessed specific public sector and other not-for-profit issues should be apparent, with the result that a formal, separate Board sign-off on sectoral aspects should not be necessary.

The Board is deeply aware of the demand for addressing significant public sector and other not-for-profit issues, and is keen to ensure that appropriate standards are the outcome. It has a range of activities, structures and plans in place to achieve this. The Board's official Consultative Group, the various report user and other constituent groups and advisory panels all help the Board to understand the issues arising in or perspectives of different sectors, which should result in standards that better reflect the objectives of general purpose financial reporting and meet the needs of financial report users.

10	Are there any other matters that you would like to suggest for consideration by the FRC?
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The Board does not have any other comments at this stage.

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**AASB Work Program for the coming year as at October 2006\***

The timing and outcomes shown are estimates and are subject to change. The AASB will be involved with all the IASB and IPSASB projects in various capacities – only those of particular relevance to the AASB are included in this short-form work program. The documents and actions noted are not necessarily a complete reflection of the matters the AASB will consider in progressing each project.

Project	Status	Q4 2006	Q1 2007	Q2 2007	Q3 2007 plus
<b>Domestic public sector specific</b>					
GAAP/GFS Harmonisation – implications for Whole of Government	AAS 31 AASB 1049			IP	ED
Other GAAP/GFS Harmonisation					IPs
Whole of Government review Government Department review Local Government review	AAS 27, 29 & 31 Policy paper IPs Para-by-para analyses	IPs	ED		Stds(r)
Administered items		IP	ED		Std
Control of an entity (long-term)				IP	ED
Public Sector not-for-profit Related Party Disclosures					IP
<b>Domestic not-for-profit sector**</b>					
Not-for-profit Entities, including definition	Various Stds		IP (definition guidance)		ED (definition guidance)
Segment Reporting by not-for-profit Entities	IP ED 145 Preface	IP		ED	
<b>Other domestic</b>					
Superannuation Plans	AAS 25	IPs	ED		Std(r)
Reporting entity & GPFR/SPFR	SAC 1 & SAC 2	IPs	IPs	ED	Stds(r) SACs(r)
Differences between IFRSs and Australian equivalents to IFRSs	Various Stds IPs	ED		Stds(r)	
<b>IASB adoption – substantive involvement***</b>					
Extractive Activities Phase II (long-term AASB-led research project)	AASB 6 IASB education sessions delivered		IPs	IPs	DP
Intangible Assets (long-term AASB-led research project)	AASB 138 AASB 3	Consult IASB advisors	IPs	IPs	Staff paper supporting IASB agenda proposal
Insurance Phase II (including participation in IASB Project Team)	AASB 4 AASB 1023(r) AASB 1038(r)	IPs	DP		ED
Revenue Recognition (including participation in IASB Project Team)	AASB 118			IPs	DP
Small- & Medium-sized Entities	SAC 1	AASB use of IASB SME work depends on the domestic reporting entity project			
Conceptual Framework	ITC 10 (objective and qualitative characteristics)		Further ITCs	Further Roundtables	Framework(r)
<b>IASB adoption – non-substantive involvement***</b>					
Fair Value Measurement Guidance		ITC (IASB DP)			ED
Business Combinations Phase II	AASB 3 ED 139				AASB 3(r)
Non-financial Liabilities	AASB 137 ED 140				AASB 137(r) AASB 119(r)
Consolidations	AASB 127 ED 141			ITC (IASB DP)	ED

Project	Status	Q4 2006	Q1 2007	Q2 2007	Q3 2007 plus
Segment Reporting by for-profit entities	AASB 114 ED 145	AASB 8			
Performance Reporting Stage A	AASB 101 ED 148		AASB 101(r)		
Performance Reporting Stage B	AASB 101 Advising IASB Working Group member		ITC (IASB DP)		ED
Financial Instruments – fundamental review	AASB 133 & 139 Advising IASB Working Group member				DP
Leases	AASB 117				DP
Puttable Instruments	AASB 132 ED 150			AASB 132(r)	
Management Commentary	IASB DP Comment letter				
Borrowing Costs	AASB 123 ED 149		AASB 123(r)		
Joint Ventures	AASB 131			ED	AASB 131(r)
Income Tax	AASB 112		ED		AASB 112(r)
Earnings per Share	AASB 133		ED		AASB 133(r)
<b>IPSASB convergence</b>					
Non-Exchange Revenues	AASB 1004 AASB 120 AAS 27, 29 & 31 AASB 118 IPSASB ITC ED 147			Possible AASB re-exposure	Stds(r)
Social Policy Obligations	AAS 27, 29 & 31 AASB 137 IPSASB ITC			ED based on IPSASB ED	Std
Heritage Assets	AASB 116 AAS 29 IPSASB consult <sup>n</sup> paper			IP	
Conceptual Framework – Public Sector Perspectives	Part of IPSASB working group				
Service Concessions	Part of IPSASB working group				
<b>Other international</b>					
New Zealand convergence	Both jurisdictions converging on IASB GAAP			IPs (not-for- profit paragraphs)	ED (not-for- profit paragraphs)
Conceptual Framework – Not-for-profit Entity Perspectives (shadowing IASB/FASB project – see above)	Part of NSS/IPSASB working group IP issued				

\* This work program is subject to deliberation by the Financial Reporting Council

\*\* The not-for-profit entity projects generally have implications for public sector not-for-profit entities

\*\*\* Projects may move from having substantive AASB involvement to having non-substantive involvement and visa versa depending on developments within those projects

Std=Standard ED=Exposure Draft ITC=Invitation to Comment DP=Discussion Paper (r)=revised IP=Issues Paper  
IASB=International Accounting Standards Board IPSASB=International Public Sector Accounting Standards Board  
NSS =National Standard Setters