



Accounting Standards Review Board  
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8 November 2006

Dear Sir

**Subject: Review of the Policy of Sector Neutral Standard Setting in Australia**

The Accounting Standards Review Board (ASRB) appreciates the opportunity to comment on the *FRC Review of the Policy of Sector Neutral Accounting Standards Setting in Australia*.

The ASRB is a New Zealand Crown entity responsible for approving financial reporting standards submitted to it for the purposes of the following New Zealand legislation:

- The Financial Reporting Act 1993
- The Crown Entities Act 2004
- The Public Finance Act 1989
- The Local Government Act 2002

From this you can see that the ASRB is responsible for approving financial reporting standards that are applicable to both the public and private sectors.

The ASRB has a further statutory function of liaising with Australian standard setters with a view to harmonising New Zealand and Australian financial reporting standards. The ASRB therefore has a particular interest in Australia's policy of sector neutral standard setting in Australia.

Our detailed comments on the Matters for Consideration highlighted in the Review are set out in the appendix to this letter.

Should you wish to discuss this further, please contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'W. E. Hunt', written over a horizontal line.

Warwick E Hunt  
Chairman

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Appendix

## Comments on the identified Matters for Consideration

**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?**

We are unable to comment directly on this matter as it affects Australia. However, the financial reporting environment in New Zealand is similar to Australia's: for example, financial reporting standards are sector neutral and have been so for more than a decade. In our view, sector neutral standards have worked well over that period and have improved the quality of financial reporting in both sectors, but particularly in the public sector.

Also similar to Australia, we in New Zealand have decided to adopt International Financial Reporting Standards (IFRS). This decision has resulted in a number of challenges. In particular, because IFRS are developed solely for application by profit oriented entities, such standards are not always directly applicable by service oriented, public sector entities (termed public benefit entities, or PBEs, in the New Zealand literature). For this reason, the New Zealand Equivalents of IFRS (NZ IFRS) include amendments to the original IFRS to make them suitable for application by PBEs. Although not a perfect solution, we believe this is workable in the short term until there is greater clarity about user needs and the emerging conceptual frameworks (see our response to questions 3 and 7).

**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?**

The approaches of both the AASB and New Zealand's Financial Reporting Standards Board (FRSB) are evolving.

The initial adoption of IFRS in both Australia and New Zealand was an enormous undertaking within a demanding timeframe for what are essentially voluntary boards (wholly voluntary in the case of the FRSB and voluntary with the exception of the Chairman in the case of the AASB). Despite this, the two countries have produced suites of standards, based on IFRS, that ensure compliance with IFRS by profit oriented entities, and are suitably adapted for adoption by PBEs. The ASRB believes that adapting future IASB standards for use by PBEs as those standards are developed and in an environment where there is less time pressure should mean that the boards will be able to devote more effort to PBE specific issues.

The pressure to complete initial suites of standards also had the undesirable result that Trans-Tasman cooperation on these issues was not afforded the priority it perhaps deserved. Since that time, Trans-Tasman cooperation has been considerably strengthened, for example:

- by the establishment of the Trans-Tasman Accounting Standards Advisory Group

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- by the cross-membership of the AASB and the FRSB, and the FRC and the ASRB
- by the signing of the Memorandum of Understanding between the AASB and the FRSB
- by the periodic joint meetings of the AASB and the FRSB

The ASRB is confident that such arrangements will serve to strengthen the cooperation between the standard setters in our two countries and enhance the quality of the resulting standards, including the modifications made for PBEs.

We consider these initiatives are important and worthwhile in helping to ensure the needs of PBEs will be met going forward.

**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?**

A sound conceptual framework is an essential feature of any comprehensive financial reporting structure. If sector neutral standards are to continue, as the ASRB believes they should, the ASRB also believes it essential that there should be a common, sector neutral conceptual framework. We note that the work currently being undertaken by the IASB and the United States' Financial Accounting Standards Board (FASB) to develop a common framework is, at least in its early stages, being developed solely for profit oriented entities: the needs of not-for-profit entities are due to be considered at phase G of this project, just before the phase H, finalisation stage. The ASRB regards this as unfortunate, but, perhaps, understandable.

However, we are also aware of a number of other developments with respect to conceptual frameworks. In particular:

- the work being carried out on behalf of a number of national standard setters (including Australia and New Zealand) to monitor the joint IASB/FASB conceptual framework project
- the initiation of a conceptual framework project by the International Public Sector Accounting Standard Board (IPSASB) that is based on the work of the IASB/FASB

The ASRB believes that it is perhaps too early to determine how best to ensure that a conceptual framework applicable by all sectors is finally developed, but firmly believes that the work currently being undertaken should be continued and supported. The ASRB further believes that the collaborative nature of the work being carried out holds the best prospects for a satisfactory outcome.

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**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 together with profit-oriented entities? (If you prefer this option please describe the approach you prefer)**

The ASRB strongly supports the continuation of a single set of standards. As set out earlier in this submission, the ASRB believes that having a single set of standards over the past decade or more has resulted in higher quality standards for both the for profit and not-for-profit sectors.

Inevitably, if more than one set of standards were to be developed, they would begin to diverge in their requirements. Although the current methods of including PBE material into standards may not be ideal, they at least ensure that the differences are kept to the minimum.

Having said that, the ASRB acknowledge that there are a number of very significant challenges and these should not be underestimated.

**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 such 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 ASRB does not consider different sets of standards should be developed. However, this does not mean that the work of other organisations should be ignored. In particular, the ASRB believes that the work of the IPSASB should be supported and should be considered when developing additional requirements for PBEs in the Australian and New Zealand equivalents to IFRS.

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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; or**
  - **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?**

The ASRB supports a continuation of the current approach.

However, the ASRB acknowledges that PBEs do sometimes experience difficulty applying the requirements of sector neutral standards and, therefore, the ASRB also supports the development of PBE-specific application guidance in appropriate circumstances; provided that such guidance does not conflict with the application of IFRS by profit-oriented entities for similar transactions or events.

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?**

Financial statements are prepared for the benefit of users. It therefore goes without saying that user needs should drive the requirements of accounting standards. Any research that informs on the needs of users would therefore be valuable for standard setting.

The ASRB believes that the most appropriate place to incorporate discussion on the needs of users is the conceptual framework. We have already commented under question 3 that cooperation on the development of concepts suitable for PBEs with the IPSASB and other national standard setters is desirable. The ASRB believes that any research that is carried out on the user needs for the public sector and other not-for-profit sectors should be shared so that it may be taken account of in developing the conceptual framework.

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 sectors, including identifying the base set or sets of standards which will be adopted?**

The ASRB does not have sufficient in-depth knowledge of this to comment.

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- 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?**

As has been implied throughout this submission, the ASRB believes that the most appropriate objective for setting standards for PBEs is for the development of standards that are consistent internationally (and particularly between Australia and New Zealand) and, to the extent possible, with IFRS as developed for profit oriented entities. Therefore, the ASRB advocates determined efforts of cooperation among the IPSASB and national standard setters that have responsibility for standards in the public sector and that share similar conceptual frameworks.

- 10. Are there any other matters that you would like to suggest for consideration by the FRC?**

The ASRB has no further matters it wishes to raise.