Australian Government

Australian Accounting Standards Board

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Mr Jason McNamara
Executive Director
Office of Best Practice Regulation
Department of the Prime Minister and Cabinet
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Dear Mr McNamara

Regulation Impact Statement – final assessment second pass

Further to our letters dated 17 November 2014 and 28 November 2014, I am writing in relation to the attached Regulation Impact Statement (RIS) prepared for Draft AASB 15 *Revenue from Contracts with Customers*. Draft AASB 15 incorporates the requirements of international accounting standard IFRS 15 *Revenue from Contracts with Customers*, which was issued by the International Accounting Standards Board (IASB) earlier this year. The regulatory burden to business has been quantified and offsets have been identified and quantified using the Regulatory Burden Measurement framework. These have been agreed with your office.

I am satisfied that the RIS addresses the concerns raised in your letter of 21 October 2014 and in other correspondence and discussions with your staff. Specifically, the attached RIS addresses the OBPR's stated concerns as noted below and includes a summary of key points relating to relevant sections of the RIS.

OBPR comment – the RIS should explain how the current standards are not meeting the needs of those preparing financial statements and the needs of users of financial statements.

This is explained in the section entitled 'What this Regulation Impact Statement is about' and also in paragraph 22. The lack of clear and comprehensive principles and guidance in current standards makes it difficult for the preparers of financial statements to apply the standards consistently to different types of transactions with similar economic characteristics. Consequently, there is diversity in accounting treatment across different types of entities and different types of transactions. The diversity affects both preparers of financial statements and the users of those financial statements. Further clarifications have been added to the RIS to note that diversity in the recognition of revenue decreases the usefulness and credibility of the revenue line as a measure of an entity's financial performance.

OBPR comment – the RIS should explain what would prevent an entity from preparing financial statements in accordance with the existing AASB standards and also stating they comply with IFRS if there are no relevant differences

Paragraph 25 has been revised to clarify that paragraph 25 of both IAS 1 *Presentation of Financial Statements* and AASB 101 *Presentation of Financial Statements* (the corresponding Australian accounting standard) requires an entity to make an explicit and unreserved statement in the notes to its financial statements that its financial statements comply with IFRS. The RIS also explains that there are related requirements for company directors and auditors to make statements regarding an entity's compliance with IFRS. Consequently, the fact that an entity is not applying AASB 15 (as the Australian standard that incorporates IFRS 15) would mean that the entity would be unable to claim that its financial statements are prepared in compliance with IFRS except in the rare circumstance where an entity has no revenue from contracts with customers. Furthermore, failure to adopt IFRS 15 in Australia would mean that international capital markets would cease to regard Australia as an IFRS compliant jurisdiction even if a particular entity did not have any revenue to recognise from contracts with customers.

OBPR comment – the examination of the status quo should consider the implications for Australian entities of being unable to claim that their financial statements are prepared in compliance with IFRS

Paragraph 101 now includes an expanded discussion of the implications for Australian entities if the AASB did not issue AASB 15. Those implications relate to expected increases in the cost of capital of Australian entities, increases in financial statement preparation costs for entities that also have to prepare financial statements in other jurisdictions that use IFRS, and expected increased costs for accounting-related goods and services because Australian entities will no longer be able to access those goods and services from the much larger international market due to the differences between Australian revenue standards and IFRS 15.

OBPR comment – the RIS should focus on the costs and benefits of each of the options identified in the RIS (for example, what are the practical implications for those preparing financial statements and investors, including the costs and benefits, of each of the options?)

Paragraphs 42-48 of the RIS discuss the AASB's approach to identifying the costs and benefits when setting accounting standards. After that context has been provided, the RIS considers in some detail the costs and benefits of Option 1, which is to adopt the requirements of IFRS 15 by issuing AASB 15. Paragraph 43 discusses the broader benefits of maintaining compliance with IFRS. The benefits and costs that relate specifically to the requirements in AASB 15 are discussed in paragraphs 50-51, 53-71 and 125-134. The discussion in paragraphs 125-134 in particular considers the implications that issuing AASB 15 has on:

- the reporting of revenue from contracts with customers in the financial statements;
- the comparability of financial information;
- the likely compliance costs for preparers of financial statements; and
- the likely costs of analysis for users of financial statements.

The RIS now includes a specific discussion of the costs and benefits of Option 2 (see also our response to another OBPR comment below).

For Option 3 (the option to retain the status quo), further detail is provided on the implications for Australian entities if the AASB does not adopt IFRS 15 by issuing AASB 15 in Australia.

OBPR comment – what is the impact of each option upon entities of different sizes or entities with financial arrangements of varying degrees of complexity?

Paragraph 40 of the RIS includes a general discussion on the effect of changing the existing requirements for revenue recognition. The types of entities that would be affected by either Option 1 or 2 are identified in paragraphs 60-68. Some correlation is expected between the type or size of an entity and the magnitude of effort required to comply with either Option 1 or Option 2, and that relationship reflects a general observation that larger-sized entities and publicly-accountable entities are more likely to have extensive business activities and to enter into complex transactions that would be impacted by AASB 15. More broadly, the AASB expects that the extent to which an entity is impacted by the requirements of AASB 15 will depend on the industry in which the entity operates. This is explained further in paragraph 68.

OBPR comment – the RIS should examine the impacts of each of the options identified in the RIS, including Option 2

The RIS now includes further detail on Option 2 including a measurement of its regulatory cost, which has been estimated in accordance with the Commonwealth Regulatory Burden Measurement framework. See paragraphs 80-98.

OBPR comment – the assumptions underlying the compliance costs should be made clear in the RIS and the composition of the compliance costs should be clear to the reader

The RIS now includes further detail on the assumptions made in estimating the compliance costs attributable to Option 1 and Option 2. This includes a summary of the impact by industry, the composition of compliance costs by activity and labour rate assumptions.

OBPR comment – the RIS should outline stakeholders' views on each option (for example, what were the main issues raised during consultation, how have these issues been addressed and were any alternative options raised during the consultation process?)

As noted in the RIS, Option 1 was subject to extensive public consultation and due processes conducted by the IASB for stakeholders internationally and by the AASB for domestic stakeholders. The RIS now explains the overall feedback received from Australian stakeholders on the proposals noting that, even though Australian stakeholders did not necessarily agree with each individual proposal in the draft revenue standard, most Australian stakeholders (and most of their peers internationally) indicated support for the revenue project generally and the overall objective of a single revenue model that can be applied across industries and transactions. In particular, no Australian stakeholders indicated that they would prefer that Australia lose its status as an 'IFRS compliant jurisdiction' rather than adopt IFRS 15 in Australia. The RIS also discusses two of the main proposals that generated a substantial amount of feedback during consultation and the Board's response to that feedback in finalising the requirements of the new revenue standard. For a more detailed discussion of the feedback received and responses to that feedback, the RIS provides a link to an external document which is available on the IASB's website.[1]

Paragraphs 35-36 have been added to the RIS to explain the relevance of Options 2 and 3 during the development of the new revenue standard.

Accordingly, I am satisfied that the RIS now meets best practice consistent with the *Australian Government Guide to Regulation*.

I submit the RIS to the Office of Best Practice Regulation for formal final assessment.

Yours sincerely

Angus Thomson
Deputy CEO

[1] See here