



**Australian Government**

**Australian Accounting  
Standards Board**

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10 January 2005

Sarah Bachelard  
Committee Secretary  
Parliamentary Joint Committee on Corporations and Financial Services  
Suite SG.64  
Parliament House  
Canberra ACT 2600

Dear Ms Bachelard

### **Inquiry into Australian Accounting Standards**

Thank you for this opportunity to comment on the inquiry into Australian Accounting Standards tabled in compliance with the *Corporations Act 2001* on 30 August and 16 November 2004.

#### ***Single set of accounting standards for world-wide use***

The Australian Accounting Standards Board (AASB) is constituted under the *Australian Securities and Investments Act 2001*. A key function of the AASB is to participate in and contribute to the development of a single set of accounting standards for world-wide use [section 227(1(d))]. In undertaking this function, the AASB may make or formulate an accounting standard by issuing the text of an international accounting standard [section 227(4)] and may distribute the text of a draft international accounting standard for the purposes of consultation [section 227(5)].

#### ***FRC directive***

The Financial Reporting Council (FRC), the AASB's oversight body, issued a directive in July 2002 that the AASB adopt International Accounting Standards Board (IASB) standards for application to periods beginning on or after 1 January 2005.

In February 2004, the AASB sought clarification from the FRC regarding the July 2002 directive. In the light of some negative responses from a small number of companies most seriously affected by the proposed changes, the AASB asked whether the FRC had contemplated that there might be some exceptions or exemptions allowed to companies in the application of Australian equivalents to IASB standards. The FRC responded that it did not contemplate that there would be any exceptions or exemptions allowed to companies reporting under the Corporations Act.

In March 2004, in the light of media and other reports that many companies would be unable to meet the 1 January 2005 application date for the new standards because of the delays in finalising the standards by the IASB, the FRC further discussed the application date. The FRC determined that the 1 January 2005 application date should stand, subject to the IASB producing its “stable platform” of standards by 31 March 2004 and the AASB producing the Australian equivalents of those standards by 30 June 2004. Both of these dates were achieved by the IASB and the AASB respectively.

### *Consultation*

In making Australian equivalents to IASB standards, the AASB used its normal thorough due process. Exposure Drafts or Invitations to Comment were issued for public comment in respect of all the standards. The AASB considered the comments received and made all of its technical deliberations at meetings open to the public.

In framing the explanatory introductions to its Exposure Drafts and Invitations to Comment the AASB was mindful of the main objects of Part 12 of the ASIC Act and asked respondents to comment on whether the proposed standard is appropriate and workable and whether it is in the best interests of the Australian economy.

It was difficult for both the AASB and respondents to make an assessment of the costs versus the benefits of adopting particular IASB standards [ASIC Act, section 231]. As noted in the Regulation Impact Statements prepared for each standard by the AASB, the costs are more easily measured than the benefits, and the benefits tend to relate to the adoption of all the standards as a set and the resulting international comparability rather than being associated with individual standards. Most respondents to most of the Exposure Drafts and Invitations to Comment considered that the benefits of adoption outweigh the costs.

### *Structure and terminology*

In order to be faithful to the FRC’s directive on adopting the IASB’s standards, the AASB decided that it needed to adopt the same wording and structure of standards as the IASB to the extent possible. Accordingly, the AASB set about establishing the extent that this could be done within the Australian legislative and business environment. This has involved seeking legal advice from the Australian Government Solicitor about wording and other advice from the Office of Legislative Drafting on issues such as treating “black letter” and “normal text” as being of the same status and the use of terminology such as “shall” versus “must” and “financial report” versus “financial statements”.

The AASB believes that a reader of its standards should immediately be aware of the changes the AASB has made to the original IASB standards. It has achieved this by retaining the original IASB paragraph numbering, identifying additional AASB paragraphs with “Aus” paragraph numbers, and indicating where any original IASB paragraphs have been deleted.

The AASB is satisfied that it has developed suitable policies regarding the structure and terminology of AASB standards to ensure that they are both consistent with IASB standards and workable in the Australian legal environment.

### ***Removal of optional treatments***

The standard setter's role is to help ensure that transactions of the same type are reported in the same way by all reporting entities. Standard setters generally, including the AASB and the IASB endeavour to avoid having optional treatments in their standards on the basis that optional treatments compromise comparability. Nevertheless, a number of the "older" standards inherited by the IASB from its predecessor (the International Accounting Standards Committee) have explicit optional treatments. In adopting these standards, the AASB has considered in each case whether it should remove optional treatments in the knowledge that it can remove optional treatments from AASB versions of IASB standards without jeopardising the achievement of the FRC's strategic directive. An entity complying with an AASB Standard that includes only one of the optional treatments in an IASB standard is complying with both the AASB and IASB standards.

The AASB's policy was to assess in each case whether:

- \* the relevant existing AASB standard requires only one treatment;
- \* removing an optional treatment would result in a reporting burden that is no more onerous than existing Australian requirements;
- \* there is significant regulatory risk involved in allowing an optional treatment and "loosening" reporting requirements;
- \* removing an optional treatment helps to maintain the AASB's reputation as a credible national standard setter; and
- \* retaining an optional treatment would enable the AASB to achieve an FRC strategic direction.

The AASB decided to remove optional treatments relating to cash flow statements and interests in joint venture entities.

### ***Additional disclosures***

In some cases the IASB standard requires fewer disclosures than the existing Australian standards. If the AASB judged that a disclosure remains useful, it retained that disclosure by adding it to the relevant Australian equivalent to the IASB standard. This occurs, for example, in AASB 119 *Employee Benefits* (paragraphs Aus121.1 and Aus121.2) and in AASB 133 *Earnings per Share* (paragraphs Aus63.1 to Aus63.5).

### ***Additional guidance***

In some cases, the existing Australian standards on a particular topic include useful guidance on applying the requirements that is not present in the IASB standards. In such cases the AASB decided to preserve that guidance in attachments to the relevant Australian equivalents to IASB standards. The AASB was careful to retain only that guidance that it considers to be consistent with the IASB standards. Australian guidance is attached, for example, to AASB 116 *Property, Plant and Equipment* and AASB 127 *Consolidated and Separate Financial Statements*.

### ***Timing of application***

Section 230 of the ASIC Act notes that the accounting standards for the preparation of financial reports for a period may require the inclusion in those reports of comparative amounts for earlier periods. Consistent with IASB standards:

- \* AASB 101 *Presentation of Financial Statements*, paragraph 36, generally requires comparative information to be provided for the previous period (as do existing Australian standards); and
- \* AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 22, generally requires that, when a change in accounting policy is applied retrospectively the comparative amounts be disclosed as if the new accounting policy had always been applied – that is, the change is applied retrospectively.

Since the Australian equivalents of IASB standards are to be applied to periods beginning on or after 1 January 2005, one year of comparative information would start from 1 January 2004 for a company with a December year-end. The AASB was able to allay concerns that this may be viewed as being retrospective standard setting. The comparative information in the current year's report is considered to be part of the current report, not a re-write of last year's report. Accordingly, paragraph Aus2.8 of AASB 108 notes that a requirement in an Australian Accounting Standard to restate comparative information does not, of itself, give rise to a requirement to replace the original financial report for the preceding period.

### ***Australian currency***

Consistent with the IASB standards, AASB 121 *The Effects of Changes in Foreign Exchange Rates* permits an entity to use more than one presentation currency and does not require that a financial report to be presented in Australian currency. The AASB appreciates that there has been a long-standing requirement for entities to present financial reports prepared under the Corporations Act in Australian currency. The AASB decided to add further requirements and commentary to overcome these concerns.

Paragraph Aus53.1 of AASB 121 requires that, when the presentation currency is different from the Australian currency, the entity disclose the reason and justification for not using the Australian currency. In addition, paragraph Aus38.1 of AASB 121 comments that, for the purpose of reporting under the Corporations Act, entities are only permitted to present a financial report that purports to be drawn up in accordance with the Corporations Act in one presentation currency. These particular requirements and commentary are the result of consultation arising from the issue of an Invitation to Comment *Presentation Currency of Australian Financial Reports*, and of discussions with the Australian Securities and Investments Commission.

### ***Differences arising from adopting Australian equivalents to IASB standards***

Each Australian equivalent to an IASB standard that replaces an existing Australian standard includes a section explaining the differences between the two standards. This is to provide users of the standards with a useful guide to the accounting treatments that they may need to change. It also highlights to users of financial information those areas in which the financial reports they read are likely to change.

In addition, in order to sharpen the focus of preparers of financial reports on the impending changes and to highlight the changes to users of financial information, the AASB issued AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* in April 2004. AASB 1047 requires entities, in respect of financial reports for annual or interim reporting periods ending on or after 30 June 2004 to disclose:

- (a) an explanation of how the transition to Australian equivalents to IFRSs is being managed; and
- (b) a narrative explanation of the key differences in accounting policies that are expected to arise from adopting Australian equivalents to IFRSs. [paragraph 4.1]

AASB 1047 also requires entities, in respect of financial reports for annual or interim reporting periods ending on or after 30 June 2005 to disclose:

- (a) any known or reliably estimable information about the impacts on the financial report had it been prepared using the Australian equivalents to IFRSs; or
- (b) if the impacts in (a) above are not known or reliably estimable, a statement to that effect. [paragraph 4.2]

#### ***Flow on consequences***

The AASB has consulted with numerous individuals and organisations during 2003 and 2004 about the impacts that the Australian equivalents to IASB standards might have on other areas of endeavour that rely on accounting information. This includes the Australian Taxation Office, the Australian Prudential Regulation Authority, the banking industry and the management investment scheme industry.

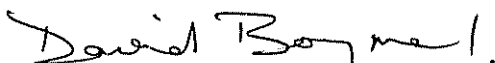
The AASB has helped to highlight those areas that it believes the ATO needs to address and has also signalled that the ATO needs to do its own review of the legislation it administers to determine whether changes need to be recommended to the Parliament.

The AASB has addressed a range of issues raised by industry groups. In some cases, the concerns have been accommodated in the standards, for example, concerns about the application of financial instrument disclosures to parent entities. In other cases, the AASB has thoroughly investigated the issues and determined that the change needed to accommodate the concerns would jeopardise the greater effort to achieve consistency with IASB standards, for example, in relation to the recognition of internally generated intangible assets.

#### ***Further information***

Please let me know if the Committee requires any further information from the AASB in conducting its inquiry.

Yours sincerely



David Boymal  
Chairman