

DRAFT AASB SUBMISSION

European Commission, Consultation Document *Fitness Check on the EU Framework for Public Reporting by Companies*

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on the EC Consultation Document. The AASB has limited its comments to Section III of the Consultation Document, specifically the part that addresses the adoption of IFRS Standards for listed companies under the IAS Regulation.

The AASB notes the published comments of the IASB and IFRS Foundation Chairmen, as set out in the IASB release “IASB and IFRS Foundation chairmen urge constituents to respond to European Commission consultation”, IFRS Foundation (27-3-18). The AASB supports the views expressed in that release.

Adoption of IFRS Standards in Australia

IFRS Standards have been adopted in Australia since 2005 (the same time line as in Europe), applying to all companies and other entities preparing financial statements in accordance with Australian Accounting Standards (Tier 1), not just to consolidated financial statements of listed companies. As the AASB adopts a transaction neutral basis for the development of Standards across all sectors of the economy, IFRS Standards are also the basis for the Standards applying to not-for-profit entities in the private sector and the public sector. The AASB develops one set of Australian Accounting Standards to cover all sectors.

The AASB has the ability to modify IFRS Standards for application in Australia. It does so for not-for-profit entities (private sector or public sector) when warranted, but has not done so for for-profit entities, apart from the reduced disclosure requirements of Tier 2. Accordingly, compliance with Australian Accounting Standards (Tier 1) by for-profit entities automatically means compliance with IFRS Standards. Publicly accountable for-profit entities are not eligible to apply Tier 2 requirements, and so are required to prepare financial statements that comply with Tier 1 requirements (and therefore IFRS Standards).

In May 2018, the AASB published its formal policies *For-Profit Entity Standard-Setting Framework* and *Not-for-Profit Entity Standard-Setting Framework*. These Frameworks identify when the AASB would consider departing from IFRS Standards in relation to that sector.

The Power to Modify IFRS Standards

If the EC were to adopt the power to modify IFRS Standards, the AASB would encourage the EC to clarify the circumstances in which it might consider modifying the IFRS requirements. For example, the AASB’s *For-Profit Entity Standard-Setting Framework* requires the AASB to consider the impact of IFRS Standards as a whole, not just individually (see paragraph 41). In contrast, the EC Consultation Document notes (in footnote 13) that in considering whether IFRS Standards are conducive to the European public good, the Commission has followed a pragmatic approach that allows identification of key matters of concern on a case by case basis. In the AASB’s view, a higher hurdle is appropriate before departure from IFRS Standards should be contemplated.

The AASB's *For-Profit Entity Standard-Setting Framework* records the expectation that the AASB would contemplate non-compliance with IFRS Standards for publicly accountable for-profit entities only in highly unlikely and exceptional circumstances (see paragraph 44). The criteria set out in paragraph 44 for the AASB to consider non-compliance with IFRS Standards for publicly accountable for-profit entities are major, substantive criteria that are highly unlikely to be satisfied except in extreme circumstances.

All of the following criteria would have to be present for the AASB to consider non-compliance:

- (a) substantive evidence, including a detailed cost/benefit analysis that IFRS Standards as a whole framework would result in a loss of investor confidence in the Australian economy (assessing financial stability, economic growth, cost of capital implications, investment of international capital, change in behaviour by investors and other key stakeholders);
- (b) the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework are no longer adequately met;
- (c) significant and consistent feedback from investors, preparers and accounting professionals that IFRS Standards are no longer appropriate in the Australian context;
- (d) the New Zealand Accounting Standards Board making a similar assessment;
- (e) a significant number of major countries currently applying IFRS Standards decide to no longer apply IFRS Standards; and
- (f) a demonstrably more appropriate alternative is available.

Prior to the establishment of this policy, modification for for-profit entities (Tier 1) was considered seriously by the AASB some years ago in respect of whether to adopt the IASB's non-consolidation approach to the accounting by investment entities for controlled entities, but in the end the AASB maintained IFRS compliance. This is the only occasion when departure from IFRS Standards for Tier 1 for-profit requirements has been considered as a possibility.

Adoption of IFRS Standards in the Asia-Pacific Region

The adoption of IFRS Standards in Australia is noted above. The use of or aspirations for unmodified IFRS Standards in Japan, China and India is described in the IASB release (the comments of the IASB and IFRS Foundation Chairmen) noted above.

Full adoption of IFRS Standards for for-profit entities also features in other major jurisdictions in the Asia-Pacific region, including New Zealand (Tier 1, as in Australia) and Hong Kong.