



Project:	Review of IFRS adoption	Meeting:	AASB August 2016 (M153)
Topic:	Project Update	Agenda Item:	9
		Date:	16 August 2016
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		Decision-Making:	Low
		Project Status:	In progress

Introduction and objective of this paper

- 1 In broad terms, there are two parts to this project:
 - ~ a literature review; and
 - ~ a report on stakeholder experiences.
- 2 The literature review on IFRS adoption in Australia is near completion. At the time of writing this Board paper, the literature review is under review by two academic staff who identified by the Academic Advisory Panel. The report is scheduled to be published in late August 2016 on the AASB website.
- 3 The objective of this paper is to provide the Board an update on progress, and initial summary of findings, for the second part of the research project, which involves seeking views and feedback from stakeholders on IFRS adoption and ongoing implementation in Australia.

Scope of the project

- 4 While the project is not intended to identify any particular alternatives to IFRS, the outreach was being conducted in the context that any concerns about IFRS need to be considered in light of what the alternatives might be.
- 5 The review is not a comparison between IFRS as the foundation for both for-profit and not-for-profit entity reporting and previous Australian GAAP (AGAAP), because it is not feasible to know how the latter might have developed to address the challenges of the last decade. However, an aspect of the outreach was to determine whether there

are areas in which previous AGAAP might help inform future directions on some topics.

- 6 This project excludes the review of Tier 2 principles – there is a separate project underway to revise the basis for the Reduced Disclosure Regime.

Outreach activities

- 7 From April to August 2016, staff conducted a series of outreach activities in Canberra, Melbourne, Sydney, Perth, Brisbane and Adelaide. The outreach activities included:
- (a) interviewing 72 individual preparer, user and auditor stakeholders across the spectrum from small entities to large and from all sectors – for-profit sector entities, public sector and other not-for-profit sector entities;
 - (b) gathering views from the following forums:
 - (i) Directors Forums with the Australian Institute of Company Directors (AICD, one in Melbourne and one in Sydney in June 2016;
 - (ii) Not-for-Profit Forums in August 2016, one in Melbourne with the CPA Australia and one in Sydney with the CA ANZ; and
 - (iii) An AASB Accounting Firms Forum held in May 2016.
- 8 In addition, in conjunction with staff presentations of the AASB research agenda at Universities in Melbourne, Sydney, Canberra, Brisbane, Adelaide and Perth in April and June 2016, staff also sought feedback from academics on the impacts of IFRS adoption.

Interviewing procedures

- 9 A semi-structured approach with scheduled and unscheduled probing questions was used for interviewing stakeholders.
- 10 Staff focused on the following questions while talking to individual stakeholders from the for-profit sector:
- (a) What was your experience of adopting IFRS in Australia around the time of transition?
 - (b) What is your current view on the adoption of IFRS in Australia?
 - (c) Do you think there are alternatives to IFRS adoption? If so, what would you suggest?
- 11 In addition to the questions above, staff also raised the following questions when talking to NFP stakeholders:
- (d) What is your view on the AASB's *Process for Modifying IFRS for NFP*?

(e) What alternatives/improvements might you suggest to the AASB's *Process of Modifying IFRS for NFP*?

- 12 Staff satisfied themselves that each stakeholder interviewed has experience relevant to the objectives of the interview.
- 13 The interviews were not recorded. In each interview session, at least two staff took notes, and the notes were verified and compared between staff. Stakeholders were informed that the interview responses would not be attributed to particular individuals or entities in any publications or other public papers.

Forums

- 14 Questions used in the interview sessions were also used in the forums.
- 15 At the start of each forum, a short presentation was given to inform participants about the background and intent of the research project. At least two staff were available to facilitate the discussions and were taking notes. The level of formality of each forum differed depending on the number of participants and the venue setting.
- 16 Although participants discussed the issues as groups, it was not intended to be a consensus process. Participants were encouraged to share and discuss their views as individuals.

Key common themes raised by stakeholders

- 17 At the time of writing this staff paper, staff are analysing feedback received from stakeholders and drafting the research report. This paper highlights overall key common themes raised by the stakeholders. A draft of a report on the IFRS review will be provided to the Board at the October meeting.

Responses to question (a): What was the participant's experience of adopting IFRS in Australia around the time of transition?

- 18 Most stakeholders commented that, due to the time since transition, their recollections of their experiences of adopting IFRS are generally broad. Many noted that it is difficult to identify specific costs associated with the transition to IFRS due to the demands relating to other events at the time (for example, broader information systems upgrades, some of which were brought forward to address both IFRS adoption and other issues).
- 19 A minority of those interviewed from the for-profit sector were with their current employers at the time of transition. A majority of those interviewed from the not-for-profit public sector were with their current employers at the time of transition.
- 20 Some stakeholders specifically commented that they consider the transition process was well-handled within their own organisations. Some also specifically recalled the convergence process that preceded transition as having helped the transition process.
- 21 Most stakeholders from all sectors identified 'people costs' as the major costs of adopting IFRS around the time of transition. Many larger entities drew on internal resources to achieve transition. Many of the smaller entities hired consultants or relied

on auditors to help with transition. Users generally noted training as the single most important factor on transition, including discussions with the entities they monitor. Most preparer stakeholders outside the financial services sector indicated that information system upgrades were not a major feature of transition.

- 22 Auditing entities in both the private and public sector developed materials internally, with the larger private sector firms doing so with the benefit of global input. Many of the auditing firms regarded transition as a business opportunity.
- 23 In the public sector, many entities relied on a ventral agency (Treasury or Finance Department) to help guide them through transition and, in some cases, there were key individuals who drove the transition process. For those with long-term involvement in the public sector, most regarded the transition to IFRS as a relatively simple exercise. The following themes were also raised in interviews:
- (a) Some stakeholders think that there were adequate resources to implement the IFRS adoption. However, some stakeholders, in particular from SME for-profit and not-for-profit entities, expressed the view that it was a costly exercise.
 - (b) Some stakeholders commented that there were sufficient materials available to be used. For example, some stakeholders noted the AASB's *The Australian Convergence Handbook* and other publications shared from accounting firms had been useful to assess the impact of the adoption. However, more guidance developed by the AASB would have been helpful.
 - (c) Some stakeholders consider that the AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* helped ensure preparers were organised for the adoption process and the disclosures required in financial statements were useful for users to understand the likely impact of IFRS adoption on the entities they monitor;
 - (d) There is a general agreement that if IFRS had not been adopted, AGAAP would have slowly converged with 'international standards' in any case;
 - (e) There were concerns about the costs of adopting IFRS could outweigh the proposed benefits, especially for the public sector, the NFPs and SME.
 - (f) Some stakeholders expressed the view that Australia would lose its influence on developing accounting standards which are aligned with the Australian economy.

Responses to question (b): What is your current view on the adoption of IFRS in Australia?

- 24 Many stakeholders acknowledged that they started to realise the benefits of IFRS in more recent years, particularly as more countries adopt IFRS. In addition, many expressed the view that it could have been more costly if Australia had not adopted IFRS.
- 25 Some benefits identified from stakeholders are:

- (a) cost savings, in particular for for-profit sector entities operating internationally that were required to prepare audited financial statements in different GAAPs;
- (b) enabling accounting professionals to move from one sector (or location) to another;
- (c) enabling entities, in particular for-profit entities, to compete internationally;
- (d) enhancing comparability of financial statements across countries; and
- (e) being able to readily assist subsidiaries in countries that have adopted IFRS in recent years.

26 Common concerns raised by some stakeholders are:

- (a) it can be costly for entities to manage the many changes to standards;
- (b) there are excessive disclosure requirements and the costs of some of the disclosure requirements may outweigh the benefits;
- (c) the inconsistent interpretations of standards between preparers and auditors from various sectors and jurisdictions can impair the comparability of financial statements;
- (d) the uncertainties of the timing of new standards to be released by the IASB can be costly to entities – planned IASB application/release dates are often missed;
- (e) the standards are not written clearly, for example words such as ‘should’ or ‘may’ have caused confusion; and
- (f) the standards have not considered the growth of technology and its impact.

27 Many stakeholders also expressed their concerns on specific standards. Those concerns were recorded by staff to be considered in the agenda consultation project.

Responses to question (c): Do you think there are alternatives to IFRS adoption? If so, what would you suggest?

28 There is strong support for the AASB having adopted IFRS because its principles-based approach is considered appropriate and is consistent with the approach to previous AGAAP.

29 Although some stakeholders from the private for-profit sector suggested that US-GAAP could be the alternative to IFRS, they also noted it would be costly to move away from IFRS. Some suggested that, although IFRS is preferred, it is important to converge with the US-GAAP down the track.

30 Some stakeholders commented that it is important to review IFRS periodically by considering:

- (a) the extent to which other countries have adopted IFRS;

- (b) whether IFRS are still suitable for Australia; and
- (c) the extent to which IFRS might have been influenced by other jurisdictions which affects the quality of financial reporting in Australia.

31 Many stakeholders from NFPs and SMEs expressed concerns that the costs of complying with IFRS are significant and suggested considering more modifications to the standards for those sectors. Staff noted these concerns are expected to be considered as part of the AASB's Australian Financial Reporting Framework project.

Responses to question (d): What is your view on the AASB's Process for Modifying IFRS for NFPs?

Responses to question (e): What alternatives/improvements might you suggest to the AASB's Process of Modifying IFRS for NFPs?

- 32 Some stakeholders expressed the view that the AASB had got the balance between transaction neutrality and catering for NFPs 'about right'. More stakeholders expressed the view that the AASB has been too cautious in making changes to IFRS for NFPs. Many stakeholders believe the level of detail in IFRS is substantial and many IFRS do not cater sufficiently well to NFP needs. A recurring example raised was the lack of guidance on fair value measurement in respect of property, plant and equipment.
- 33 Many stakeholders think there are gaps to be filled in the public sector. As such, there is strong support for developing standards and modifying IFRS standards for NFPs, including having the AASB develop supplementary guidance tailored to NFPs.
- 34 Most stakeholders think that the AASB should consider users' needs when developing or modifying standards for the NFPs.
- 35 Some stakeholders expressed the view that the problem of complying with reporting requirements lies with the definition of reporting entities rather than the specific requirements of IFRS.
- 36 Although in support of a modification of IFRS for NFPs, some stakeholders think that the AASB should be mindful that modifying IFRS could impair the common goal that is the transaction neutral approach.

Updated project plan

37 Staff proposed to publish a report which covers the main findings from the review. Following is the updated project timeline:

September 2016 Draft Report

October 2016 Publish Report

Question to the Board

Does the Board have any comments or questions in relation to the summary of the findings from the review?