



Australian Government

**Australian Accounting
Standards Board**

AASB RESEARCH REPORT NO 4: REVIEW OF ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN AUSTRALIA

It has been more than ten years since Australia adopted International Financial Reporting Standards (IFRS Standards), which took effect on 1 January 2005.

In 2015 the AASB commenced a review of IFRS Standards adoption to hear the views and experiences of Australian stakeholders, with the objective of assessing the ongoing relevance of IFRS Standards to Australian for-profit and not-for-profit (NFP) reporting entities (eg charities and public sector). This report summarises the stakeholder feedback we received.

Australia's Adoption of IFRS Standards – Key Feature

A key feature of Australia's adoption of IFRS Standards was that the AASB continued to apply its transaction-neutral policy to standard-setting.

This means the same transaction would be accounted for in the same manner irrespective of the entity's sector orientation, unless there is a compelling reason to have a different requirement.

For NFP entities, IFRS Standards are used as a starting base, modified as appropriate considering user needs, NFP application issues, prevalence & magnitude of issues and cost/benefit analysis. NFP sector-specific guidance and examples are now routinely provided.

What We Heard

- The IFRS Standards transition process has been reasonably smooth for most sectors.
- While IFRS Standards are currently an appropriate basis for AASB Standards developed for NFP entities, further modifications are needed to improve the quality and the cost-efficiency of financial reporting.
- One of the key benefits of adoption across all sectors is that it has enabled users and preparers to move between sectors, and between countries, with transferable knowledge and skills.
- Some entities, in particular those that operate in other countries that use IFRS Standards, have experienced cost savings in preparing financial reports. In contrast, some small and medium-sized entities (SMEs) and NFP entities have concerns regarding the costs of fully complying with AASB Standards, particularly the disclosure requirements.

What's next?

The AASB's work program

The outcomes of this review will be used in the AASB's future work program including the following projects:

- Australian Financial Reporting Framework – to simplify and clarify who should publicly lodge financial reports
- IPSASB and AASB Standards Benchmarking
- AASB's *Process for Modifying IFRS Standards for NFP* review.

Feedback received from the review is consistent with feedback from AASB's 2017-2019 Agenda Consultation project.

As a result, the Board will be considering whether to add the following projects (among others) on to its work program: Fair value guidance for NFP public sector, accounting for volunteer services, review of Australian-specific disclosure paragraphs in AASB Standards, and contributions by owners.

The AASB's continued work

The AASB will continue to:

- conduct regular outreach and consultation activities with its stakeholders along with education sessions that will address relevant topics on reporting requirements
- monitor the standard setting activities undertaken by other international accounting standards setters, including the IPSASB for the public sector and not-for-profit private sector.

Literature review

The first stage of the review project comprised a literature review of the impact of adoption of IFRS Standards in Australia. Most studies related to for-profit entities; there appeared to be a lack of research relating to NFP entities. The literature review also guided planning effective targeted outreach activities. The literature review was published as *AASB Research Report No 3* in October 2016.

The application of the literature search method and criteria¹ identified 35 research papers published in high-quality academic journals that focussed specifically on four major lines of inquiry:

1. quality of Australian financial reporting
2. comparability of Australian financial reporting
3. benefits for investors and analysts
4. perceptions of senior personnel from publicly listed Australian companies.

Evidence suggests that IFRS Standards adoption has largely been positive for listed companies

- More analyst following and greater analyst forecast accuracy.
- Improved value relevance of financial information and fewer firms engaging in earnings management.
- IFRS goodwill impairment and deferred taxes regimes were associated with improved accounting quality. Some studies however, suggested some measures of accounting quality have not improved when compared with Australian Generally Accepted Accounting Principles (AGAAP) and that prior AGAAP treatments for identifiable intangible assets were more appropriate.
- Research suggests that annual reports have become longer but easier to read.
- Improved comparability with global peers for Australian entities' financial reporting practices.

Overall, there was no substantial empirical evidence to suggest that reconsideration of adoption of IFRS Standards is warranted for for-profit entities.

Further research on NFP entities is needed because the literature review focused on research related to the for-profit sector and inferences may not be applicable to the NFP sector.

Given that Australia adopted IFRS Standards in 2005 for all sectors under its transaction neutral approach, it is important to assess the ongoing relevance of IFRS Standards for the NFP sector.

Accordingly, the AASB conducted targeted outreach as a separate project to gather views from a wider range of stakeholders from all sectors. The feedback received from the outreach is summarised and provided in this report.

¹ See [AASB Research Report No 3 – The impact of IFRS adoption in Australia: Evidence from academic research.](#)

Outreach activities



80 interviews

With individual preparers, users and auditors, across the spectrum from small to large entities from all sectors – for-profit sector entities, public sector and other NFP entities.

5 forums with 127 participants

Attended by representatives from accounting firms, the Australian Institute of Company Directors (AICD) and NFP forums with CPA Australia and Chartered Accountants ANZ.

6 university visits

Consultation with academics involved in teaching and research at Australian universities.

Who did we listen to?

Stakeholders interviewed had at least three years' experience in the for-profit and/or NFP sectors and most were involved in the transition from AGAAP to IFRS Standards. Interviews were conducted using a semi-structured interview approach.²

Entities represented one-on-one interviews		Number
For-profit	Listed companies	26
	Large proprietary companies	2
NFP private sector	Large charities	4
	Others	6
NFP public sector	Local government departments	11
	State government departments	15
	Commonwealth departments	16
Total		80

Positions held	Number
Chief financial officers/executive directors/executive managers	29
Non-executive directors	10
Senior accountants/senior managers/managers	20
Auditors	14
Analysts	7
Total	80

² Stakeholders were informed that interview responses would not be attributed to particular individuals or entities in any publications or public papers. While the interviews were not recorded, each session was attended by at least two AASB staff members who took notes that were later compared and verified.

Questions used in the interview sessions were also used in the forums.

Each forum opened with a short presentation to inform participants of the background and intent of the IFRS Standards review. At least two AASB staff members were available to facilitate the discussions and to take notes. The level of formality of each forum differed depending on the number of participants and the venue setting.

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.

Sectors Represented

Forum	NFP Private	NFP Public	Other [^]	Total		
CPA Australia NFP Standards update and IFRS Review Forum	18	6	21	45		
Chartered Accountants ANZ NFP Standards Update and IFRS Review Forum	28	6	4	38		
Mid-tier accounting firms Forum			26	26		
Directors Forum with AICD	For Profit	NFP Public	NFP Private & For Profit ⁺	NFP Private & Public ⁺	Other [^]	Total
Melbourne	2	1	2	1	3	9
Sydney	5		2		2	9
					Total	127

[^] Accounting firms and independent consultants.

⁺ Directors who are board members of separate entities, each of which are in different sectors.

What did we ask?

Question	For Profit Sector	NFP Sector
What was your experience adopting IFRS Standards in Australia around the time of transition?	✓	✓
What is your current view on the adoption of IFRS Standards in Australia?	✓	✓
Do you think there are alternatives to IFRS Standards adoption?	✓	✓
What is your view on the AASB's <i>Process for Modifying IFRS Standards</i> for NFP entities?		✓
What alternatives/improvements might you suggest to the AASB's <i>Process for Modifying IFRS Standards</i> for NFP?		✓

Feedback received – all stakeholders

What was your experience of adopting IFRS Standards in Australia around the time of transition?

Most participants commented that the transition process had been reasonably smooth due to the time provided between making available AASB Standards incorporate IFRS Standards, and the transition date and the gradual convergence with international standards prior to adoption.

Some stakeholders noted that the transition from AGAAP to IFRS Standards likely involved less work than would be needed to transition to the new revenue and leases standards.

The common costs of adopting and implementing IFRS Standards during the transition period for all sectors related to staff education and training, updates to information systems and additional audit work.

Many stakeholders, including preparers, users or auditors of financial statements, acknowledged that the transition to IFRS Standards was used as an opportunity to bring their staff and systems up-to-date –and many of the costs would have been incurred in any case as AGAAP developed. Accordingly, it was not possible to directly attribute to adoption of IFRS Standards many of the costs incurred around the time of transition.

What is your current view on the adoption of IFRS Standards in Australia?

There was a view that adopting IFRS Standards was the right decision for Australia with regard to Australia's position in the world.

There was general support for using IFRS Standards as the starting base for NFP entity reporting with appropriate modification and development of guidance. Some specific standards however, such as AASB 13 *Fair Value Measurement*, were identified as being costly to apply without meeting users' needs, and therefore such standards may require more modifications and guidance. Some stakeholders from the NFP sector suggested the AASB considers further reduction of some disclosure requirements that are less relevant to their sector.

Key benefits of IFRS Standards adoption identified were:

- cost savings for entities (with a foreign parent or with foreign-based subsidiaries) that previously required multiple national GAAPs to be applied across the group
- for larger private entities, adoption facilitated access to international capital markets
- for listed entities, adoption facilitated the activities of analysts by enhancing comparability of financial statements across borders
- the ability to readily assist subsidiaries in jurisdictions that have adopted IFRS Standards in recent years.

Key concerns raised were more in the nature of ongoing concerns with standards, rather than transition issues:

- entities incur costs to manage changes to standards
- there are excessive disclosure requirements and the costs of some may outweigh the benefits, particularly for SMEs and NFP entities
- the inconsistent interpretations of standards between preparers and auditors from various sectors and jurisdictions can impair the comparability of financial statements, ie the application of fair value
- the uncertainties of the timing of new standards can be costly to entities; planned IFRS Standards application/release dates are often missed
- the standards are not always written clearly, for example words such as 'should' or 'may' have caused confusion³
- the standards do not consider the use of technology for reporting such as disclosing financial information on the website rather than in the paper-based annual reports
- stakeholders from the NFP sector and SMEs stated that some specific IFRS Standards, for example applying AASB 13 *Fair Value Measurement*, can be costly to apply and are not relevant to their circumstances.

Do you think there are alternatives to IFRS Standards adoption? If so, what would you suggest?

There is currently general support for the adoption of IFRS Standards because they are largely principles-based, which is consistent with the approach to previous AGAAP.

Some stakeholders from the for-profit private sector suggested that while US-GAAP could be an alternative to IFRS Standards it would be costly to move away from IFRS Standards.

Most stakeholders who mentioned US-GAAP expressed a view that it would be an inappropriate basis for reporting in Australia because of its rule-based approach. Some suggested that although IFRS Standards are preferable, it is important that IFRS Standards and US-GAAP converge over time.

Some participants pointed to the importance of reviewing the use of IFRS Standards in Australia periodically by considering:

- the extent to which other countries have adopted IFRS Standards
- whether IFRS Standards are still suitable for Australia
- the extent to which IFRS Standards might have been influenced by other jurisdictions in a way that affects the quality of financial reporting in Australia.

Most stakeholders acknowledged it is not feasible to go back to relying entirely on domestically-driven GAAP.

Some stakeholders from the NFP public sector entities noted that the International Public Sector Accounting Standards Board (IPSASB) Standards are currently not suitable for adoption in Australia, mainly because their development lags behind IFRS Standards. These stakeholders asked the AASB to closely monitor IPSASB's activities to consider the future suitability of IPSASB Standards.

³ This finding is consistent with [AASB Research Report No 2 \[www.aasb.gov.au/admin/file/content102/c3/July_2016_\(KASB-AASB\)%20Accounting%20Judgments%20on%20Terms%20of%20Likelihood%20in%20IFR....pdf\]](http://www.aasb.gov.au/admin/file/content102/c3/July_2016_(KASB-AASB)%20Accounting%20Judgments%20on%20Terms%20of%20Likelihood%20in%20IFR....pdf).

Feedback received – stakeholders from the not-for-profit sector

What is your view on the AASB's *Process for Modifying IFRS Standards for NFP*?

What alternatives/improvements might you suggest to the AASB's *Process for Modifying IFRS Standards for NFP*?

Australia adopted IFRS Standards in 2005 for all sectors under its transaction neutral approach, in which similar transactions and events should be accounted for in a similar manner by all types of entities, whether in the for-profit or NFP sector.

It is important to note that it is not the intention of the AASB to have identical standards for all sectors; rather, for the NFP entities, IFRS Standards are used as the basis for the sector with modification as appropriate to suit the sector's needs.⁴

From the targeted outreach conducted, the common key benefits of the policy of transaction neutrality identified by NFP entities stakeholders are:

- it facilitates the mobility of accounting professionals from one sector to another (ie moving from the for-profit sector to the NFP sector and vice versa) and facilitates access to reporting expertise across sectors
- where relevant, it enables benchmarking of financial performance and position across sectors.

Some stakeholders expressed the view that:

- the level of detail in IFRS Standards is substantial and some specific standards 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)
- although the AASB had the balance between transaction neutrality and catering for NFP entities 'about right' the AASB has been too cautious in making changes to IFRS Standards for NFP entities; AASB should consider more modification of AASB Standards and development of guidance as appropriate
- the AASB should consider who the main users of financial reporting of NFP entities are and what the users' needs are when developing or modifying standards for the NFP entities
- the broadly defined reporting entities concept is confusing. The reporting requirements can be complicated for some sectors in particular, eg NFP private sector entities may have different reporting requirements if located in different states in Australia
- while further modification of IFRS Standards for NFP entities may be necessary, the AASB should be mindful that widespread modifications to IFRS Standards should be avoided to retain the benefits of the transaction neutral approach.

⁴ [Process For Modifying IFRSs for PBE/NFP \[www.aasb.gov.au/admin/file/content102/c3/Final_Process_for_modifying_IFRSs_Oct_2009.pdf\]](http://www.aasb.gov.au/admin/file/content102/c3/Final_Process_for_modifying_IFRSs_Oct_2009.pdf)

In addition to the need to consider further modification and development of guidance to the AASB Standards as appropriate, some stakeholders from the public sector expressed the view that there are gaps in the standards used in the public sector including:

- accounting for public sector licenses and intangibles
- accounting for service concession arrangements
- the discount rate used for employee benefit liabilities.

In summary, there are benefits of using IFRS Standards as a starting base for the NFP sector; however further modifications to the AASB Standards and development of guidance should be considered and reviewed regularly.

These findings are consistent with a research paper *The perceptions of NFP managers: Initial insights on financial statement preparation, the conceptual framework, and accounting standards* presented by Ralph Kober from Monash University (co-authored with Janet Lee and Juliana Ng from the Australian National University) to the AASB at its December 2016 meeting.⁵

The research included a survey of 242 managers and financial statement preparers from the NFP private entities that were both reporting entities and had an annual revenue in excess of AU\$1 million and found that 55.4% of the respondents also agreed that the sector neutral approach adopted by the AASB is currently appropriate.

Additionally, most respondents indicated that their preference is to have a single set of accounting standards that are applicable for both the for-profit and not-for profit sectors, but where appropriate extra paragraphs are included in accounting standards that deal solely with issues specific to the NFP sector.

⁵ [The perceptions of NFP managers: Initial insights on financial statement preparation, the conceptual framework, and accounting standards](http://www.aasb.gov.au/admin/file/content102/c3/10.2_Presentation_NFP_survey_AASB_December_2016_M155.pdf) [www.aasb.gov.au/admin/file/content102/c3/10.2_Presentation_NFP_survey_AASB December 2016_M155.pdf]

Conclusion



The overall feedback suggests that the adoption of IFRS Standards was generally positive for the Australian economy.

There is a view that complying with the IFRS Standards-based AASB Standards is challenging for some entities, particularly NFP entities. That view is underpinned by the general consensus that using IFRS Standards as a basis for standard setting is currently suitable along with further modifications (including adding sector-specific guidance and examples) where needed for the NFP sector.

To ensure the standards are aligned with users' needs and are relevant to specific sectors, the AASB will continue to monitor the standards setting activities undertaken by other international accounting standards setters, including the IPSASB for the public sector.

The AASB will continue to conduct regular outreach and consultation activities with its stakeholders along with education sessions that will address relevant topics on reporting requirements for all sectors.

The findings from this review will be considered and incorporated into the following AASB projects:

AASB 2017-2019 Agenda Consultation

This purpose of the agenda consultation is to seek views from constituents on the projects the AASB should be addressing that are primarily domestic in nature. The domestic work program of the AASB addresses financial reporting issues in relation to public sector entities; NFP entities; and Australian specific issues relating to for-profit entities.

Australian Reporting Framework

This project aims to simplify the reporting requirements by working with other policy-makers and regulators to clarify public reporting criteria and thresholds. For some entities, this could mean that public reporting would not be required; for others, special purpose financial statements might no longer be permitted to meet lodgement requirements.

The project is also intended to consider the possibility of Tier 3 requirements for smaller entities, particularly in the NFP sector. Consultation with stakeholders through proposal documents and workshops, for example, will be essential to this project.

IPSASB and AASB Standards Benchmarking

This project will identify the differences between the two sets of standards and their possible impact on public sector accounting. The analysis will be the basis for informed discussion and consideration of further modifications or development of guidance for the public sector NFP private sector. The project will inform discussions as to whether or not Australia should move to IPSASB.

Ongoing Research

The AASB will conduct ongoing research activities to ensure the standard setting process is supported by extensive outreach and evidence. We will engage with academics and research, including the 2017 AASB Research Forum which will gather a broad range of stakeholders to discuss practical accounting issues identified in research.

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AASB Research Report Series

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