Australian Government

Australian Accounting Standards Board

IFRS Adoption in Australia

September 2009

Key Areas covered

- Institutional arrangements
- Decision to adopt IFRSs
- Preparing for IFRS adoption
- IFRS adoption process
- Key policy decisions
- Outcomes so far
- Ongoing challenges

Institutional arrangements

- Financial Reporting Council (FRC) oversees AASB – both are Australian government agencies
- An AASB objective (under enabling legislation) is to participate in and contribute to the development of a single set of accounting standards for world-wide use
- FRC can give broad strategic direction to the AASB

Institutional arrangements

- AASB standards are delegated legislation – subject to Parliamentary disallowance
- Entities required to report under the *Australian Corporations Act 2001* must apply AASB standards
- Compliance with standards administered by Australian Securities and Investments Commission
- Professional requirements

Institutional arrangements

AASB's mandate covers all types of reporting entities:

- for-profit entities, such as listed companies
- not-for-profit public sector entities, such as the Australian government
- not-for-profit private sector entities, such as charities

Decision to adopt IFRSs

- FRC strategic direction 2002 to adopt IFRSs from 1 January 2005
- In line with EU adoption timetable
- Applied 2004 IFRS ‘stable platform’

Decision to adopt IFRSs

Benefits:

- help attract capital to Australia = lower cost of capital
- lower costs for preparers, auditors and users of multinational entities' financial reports (no need to re-cast)
- fill some gaps in Australian GAAP (AGAAP), such as financial instruments

Decision to adopt IFRSs

Costs:

- loss of AGAAP guidance, such as on employee benefit accounting
- introduction of optional accounting treatments = less comparability
- loss of freedom to develop own for-profit entity standards
- implementation costs of change

Preparing for IFRS adoption

- Began a convergence process in 1996, culminating in 2002 publication of the *Australian Convergence Handbook*
- By 2002 had already significantly narrowed the number of differences between IFRSs and AGAAP

Preparing for IFRS adoption

By 2002, the main differences between IFRSs and AGAAP were areas in which:

- IFRSs were more comprehensive, including: financial instruments recognition & measurement and post-employment benefits; and
- AGAAP was more comprehensive, including: insurance, extractive activities, intangible assets, and conceptual framework

IFRS adoption process

- Each IFRS the subject of an AASB Exposure Draft asking whether the IFRS is in the best interests of the Australian economy
- To provide constituents time to become familiar with IFRSs and develop information systems, due process completed by July 2004
- Gave most entities almost two years to implement IFRSs – first annual balance date for which IFRSs were generally applicable was 30 June 2006

IFRS adoption process

- To facilitate IFRS adoption the AASB issued AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to IFRSs* in April 2004
- AASB 1047 required entities to disclose the relevant impacts in their financial reports for the year preceding the year of adoption – typically the year ended 30 June 2005

IFRS adoption process

- Retained key features of Australian insurance and extractive activities standards, since IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* grandfather existing relevant national GAAP meeting particular criteria

Key policy decisions

- Whether to retain all the IFRS optional accounting treatments
- Whether to retain Australian-specific disclosures
- The extent to which IFRSs should apply – all entities or only specified classes of entity?

Key policy decisions

- AASB originally removed IFRS options that were not previously in AGAAP (to maintain comparability), such as the ‘corridor’ approach for actuarial gains and losses on post-employment benefits
- Subsequently included all IFRS options (to avoid confusion about IFRS adoption and allow Australian entities the choices available to others)

Key policy decisions

- AASB originally included numerous Australian-specific disclosure requirements from AGAAP
- Subsequently removed most of those requirements (to avoid confusion about IFRS adoption and remove additional disclosure burden)
- Some Australian-specific disclosures retained, such as dividend imputation

Key policy decisions

- For-profit entities should comply completely with IFRSs
- Not-for-profit entities (both private and public sector) should apply IFRSs to the extent feasible – ‘transaction neutrality’
- In practice, not-for-profit entities generally comply with IFRSs, the main exceptions being impairment for non-cash generating assets and non-exchange income recognition

Key policy decisions

- With very few exceptions, the same transaction is accounted for in the same manner no matter which type of entity undertakes it
- Assists comparability across entities and transfer of accounting skills across private and public sectors

Key policy decisions

- Originally used the term 'Australian Equivalents to IFRSs' – however, this created confusion about whether Australia had 'adopted' IFRSs
- Now refer to IFRSs or Australian Accounting Standards (as applicable) – Policy Statement to be issued soon will emphasise that IFRSs = AASs in relation to for-profit entities

Outcomes so far

- Australian entities' financial reports are more readily understood world-wide
- Synergies in the preparation, audit and analysis of Australian financial reports for entities that are part of a multinational group
- Gaps in AGAAP filled – in the area of financial instrument recognition and measurement in particular

Outcomes so far

- Initial upfront costs of adoption, particularly in implementing IAS 39 for entities such as banks and insurers
- Pace of change – numerous IFRS amendments often driven by issues that are not a concern in Australia
- Australian issues may not be a global priority, such as emission trading rights

Ongoing challenges

- Moving from a developer of domestic standards to being a contributor to international standards
- The AASB has had to reinvent itself:
  - leads research, such as extractive activities and intangible assets
  - comments on all IASB consultative documents, and encourages Australian constituents to do so
  - participates in international forums such as the NSS Group and the AOSSG

Ongoing challenges

- Reinventing the AASB continued:
  - inform IASB/IFRIC of interpretation issues, rather than developing own interpretations
  - close relationship with New Zealand FRSB
  - actively participate in IPSASB activities
  - continue not-for-profit and public sector projects
  - reconsider differential reporting framework

IFRS Adoption

- Questions?
- Comments?