

Exposure Draft

AASB ED 1XX
FRSB ED 1XX
Month 2010

Proposals for Amendments to Australian Accounting Standards and New Zealand Financial Reporting Standards (For-Profit Entities)

Prepared by the
Australian Accounting Standards Board
and by the
**Financial Reporting Standards Board of the
New Zealand Institute of Chartered Accountants**

Comments by XX Month 2010



Australian Government

**Australian Accounting
Standards Board**

Financial Reporting Standards Board
of the New Zealand Institute of Chartered Accountants

Commenting on this Exposure Draft

Comments on this Exposure Draft are requested by XX Month 2010. Comments should be addressed to either the Australian Accounting Standards Board or the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants¹, as follows:

The Chairman Australian Accounting Standards Board PO Box 204 Collins Street West Victoria 8007 AUSTRALIA E-mail: standard@asb.gov.au	Director – Accounting Standards New Zealand Institute of Chartered Accountants PO Box 11 342 Wellington NEW ZEALAND E-mail: ASD@nzica.com
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All submissions received will be considered by both Boards.

It would be appreciated if respondents send their submissions in electronic form (preferably in Microsoft Word format) as that allows for the efficient collation and analysis of comments. Submissions will be made available to the public unless otherwise requested. All non-confidential submissions to the AASB will be made available on the AASB website: www.aasb.gov.au.

Respondents are requested to indicate on their submission on whose behalf (for example, own behalf, a group of people or an entity) the submission is being made.

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AASB website (www.aasb.gov.au) and the NZICA website (www.nzica.com). Alternatively, printed copies of this Exposure Draft are available in Australia by contacting:

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¹ The New Zealand Institute of Chartered Accountants is the operating name of the Institute of Chartered Accountants of New Zealand, a body established under the Institute of Chartered Accountants of New Zealand Act 1996. All references to the New Zealand Institute of Chartered Accountants, or to the Institute, in this document mean the Institute of Chartered Accountants of New Zealand.

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Australia

[Draft] Australian Accounting Standard AASB 10XX *Proposals for Amendments to Australian Accounting Standards and New Zealand Financial Reporting Standards (For-Profit Entities)* is set out in paragraphs 1 – XXX. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting*

Policies, Changes in Accounting Estimates and Errors provides a basis for selecting and applying accounting policies.

New Zealand

[Draft] Financial Reporting Standard No. XX *Proposals for Amendments to Australian Accounting Standards and New Zealand Financial Reporting Standards (For-Profit Entities)* (FRS-XX) is set out in paragraphs 1 – 118. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard.

In respect of entities reporting in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs), FRS-XX should be read in the context of its objective and the Basis for Conclusions, the New Zealand *Preface* and the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements (NZ Framework)*. NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

PREFACE

Background

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Private sector for-profit entities complying with Australian Accounting Standards will simultaneously comply with IFRSs. Many other entities complying with Australian Accounting Standards will also simultaneously comply with IFRSs.

New Zealand Financial Reporting Standards

The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants develops financial reporting standards

which it submits to the Accounting Standards Review Board (ASRB) for approval. The ASRB reviews and, if it thinks appropriate, approves financial reporting standards submitted to it for the purposes of:

- (a) the *Financial Reporting Act 1993*;
- (b) the *Crown Entities Act 2004*;
- (c) the *Public Finance Act 1989*;
- (d) the *Local Government Act 2002*; or
- (e) any Act that requires a person to comply with the Financial Reporting Act as if that person were a reporting entity.

These Acts specify the financial reporting requirements for most profit-oriented and public sector entities. Some not-for-profit entities are also required by legislation or governing documents to prepare general purpose financial statements in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). In the absence of a specific legislative definition of GAAP, conformity with NZ GAAP implies compliance with all New Zealand financial reporting standards applicable to the entity.

Entities applying New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) are also required to apply relevant New Zealand-specific Financial Reporting Standards (FRSs).

NZ IFRSs are based on Standards and Interpretations issued by the IASB and may include requirements that are specific to New Zealand entities. In most instances, these requirements are either restricted to public benefit entities or include additional disclosures that address domestic, regulatory or other issues. In developing requirements for public benefit entities, the FRSB also considers the requirements of IPSASs, as issued by the IPSASB of the International Federation of Accountants.

New Zealand-specific FRSs deal with issues which have not been addressed by the IASB such as prospective financial statements and summary financial statements.

Profit-oriented entities complying with full NZ IFRSs (that is, profit-oriented entities that do not make use of any differential reporting concessions) and FRSs will simultaneously comply with IFRSs. Public benefit entities complying with full NZ IFRSs and FRSs may also simultaneously comply with IFRSs, depending on whether they are affected by requirements specific to public benefit entities.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB and the FRSB follow before making a new Standard or amending an existing Standard. Exposure Drafts are designed to seek public comment on proposals for new Standards or amendments to existing Standards.

Reasons for Issuing this Exposure Draft

The AASB and the FRSB have jointly developed this Exposure Draft, with the intention of issuing common Standards to the extent feasible.

In August 2009, the New Zealand and Australian Prime Ministers agreed on a Joint Statement of Intent that outlines Outcome Proposals to help achieve a single economic market across New Zealand and Australia. In the Outcome Proposals, the convergence of accounting standards for for-profit entities has a short term timeframe of two years while public benefit entities (PBE)/not-for-profit (NFP) entities have a medium term timeframe of five years.

In line with the Outcome Proposals, the AASB and FRSB are implementing the convergence of financial reporting standards in both jurisdictions in two phases:

- (a) Phase 1, the focus of this Exposure Draft, addresses the proposals for modifications from IFRSs in respect of for-profit entities;
- (b) Phase 2 is expected to address the proposals for modifications from IFRSs in respect of PBE/NFP entities based on the Boards' *Process for Modifying IFRSs for PBE/NFP*; and
- (c) Phase 3 is expected to address convergence of requirements for both for-profit and PBE/NFP entities for Tiers of reporting other than Tier 1.

The AASB and FRSB decided at their October 2009 joint meeting that they will consider developing a joint exposure draft as part of Phase 2 in due course.

The benefit of this Exposure Draft is the alignment of financial reporting standards in Australia and New Zealand and consequent the reduction of costs for those operating in both jurisdictions.

Main Features of this Exposure Draft

In Australia, the proposals in this Exposure Draft are applicable to for-profit entities in the private sector or the public sector. In New Zealand, the proposals are applicable to profit-oriented entities that have adopted New Zealand equivalents to IFRSs.

This Exposure Draft contains proposals about each relevant modification from foundation IFRSs that affects for-profit entities and aims, in the first instance, to eliminate differences from the foundation IFRSs – or that any supplements to IFRSs should be the same in both jurisdictions, where feasible.

This Exposure Draft proposes the following amendments:

- (a) the removal of paragraphs from the following standards:
 - (i) AASB XXX/NZ IAS X:
 - i. Remove: [To be inserted]
- (b) the removal of paragraphs from the following standards with the replacement wording to be contained within the respective standard:
 - (i) AASB XXX/NZ IAS X
 - i. Remove: [To be inserted]
 - ii. Replace with: [To be inserted]
- (c) the removal of paragraphs from the following standards with the replacement wording to be contained in a separate standard:
 - (i) AASB XXX/NZ IAS X:
 - i. Remove: [To be inserted]
 - ii. Replace with: [To be inserted]

Implications of the Proposals

If the proposals in this Exposure Draft are adopted, those involved with preparing and using financial statements of for-profit entities operating within Australia and New Zealand will need to familiarise themselves with the changes as proposed in the following:

- (a) proposed amendments to other Australian Accounting Standards, set out in Appendix A;
- (b) proposed amendments to other New Zealand financial reporting standards, set out in Appendix B; and
- (c) proposed standard, set out in Appendix C.

Differential Reporting Proposals

Given the developments around the outcomes from the differential reporting proposals, this Exposure Draft is based on 'Tier 1' accounting standards (that is, Standards that do not contain differential reporting concessions) issued as at XX Month 2010.

Application Date

It is proposed that the Standards amended as a result of this Exposure Draft be applicable to annual reporting periods beginning on or after a date two years after the date of issue of those Standards with early adoption permitted.

Transitional Provisions

The transitional provisions in the ED propose prospective application from the start of the earliest comparative period presented in the first financial statements to which the resulting Standard applies, with retrospective application permitted.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by XX Month 2010. The Boards would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the major issues. The Boards regard supportive and critical comments as essential to a balanced review of the issues and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Submissions received by one of the Boards will also be provided to the other Board for its consideration.

Specific Matters for Comment

Questions for both Australian and New Zealand Constituents

The Boards would particularly value comments on the following aspects:

- (a) overall, whether the proposals are appropriate to apply to for-profit entities; and
- (b) prospective application per the transitional provisions.

Australian-specific Questions

The AASB would also particularly value comments on the following aspects:

- (a) the proposed amendments to other Australian Accounting Standards, as set out in Appendix A;
- (b) whether, overall, the proposals would result in financial statements that would be useful to users; and
- (c) whether the proposals are in the best interests of the Australian economy; and
- (d) whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposed requirements.

New Zealand-specific Questions

The FRSB would also particularly value comments on the following aspects:

- (a) the proposed amendments to other New Zealand financial reporting standards, as set out in Appendix B;
- (b) whether the proposals are in the best interests of users of general purpose financial statements of for-profit entities in New Zealand;
- (c) whether the proposals are in the best interests of the New Zealand economy; and
- (d) whether there are any regulatory issues or other issues arising in the New Zealand environment that may affect the implementation of the proposed requirements.

[DRAFT] ACCOUNTING STANDARD
AASB 10XX / FRS-XX

***PROPOSALS FOR AMENDMENTS TO
AUSTRALIAN ACCOUNTING
STANDARDS AND NEW ZEALAND
FINANCIAL REPORTING
STANDARDS (FOR-PROFIT
ENTITIES)***

Objective

- 1 The objective of this **Standard** is to amend other Australian Accounting Standards to achieve convergence of financial reporting standards in Australia and New Zealand.

AUSTRALIA

Application

- X This Standard applies to:**
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;**
 - (b) general purpose financial statements of each other reporting entity; and**
 - (c) financial statements that are, or are held out to be, general purpose financial statements.**
- X This Standard applies to annual reporting periods beginning on or after ... [date].**
- X This Standard may be applied to annual reporting periods beginning on or after ... [date] but before ... [date]. If an entity applies this Standard to such an annual reporting period, it shall disclose that fact.**

AUSTRALIA

- X **The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**
- X **When applicable, this Standard supersedes AASB 1004 *Contributions* (December 2007).**

Scope

NEW ZEALAND

- X **Entities that are reporting in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) shall apply the requirements of this Standard.**

Definitions

- 2 The following terms are used in this Standard with the meanings specified:

[To be inserted]

Transition

- 3 **An entity shall apply this Standard prospectively from the beginning of the earliest comparative period presented in the financial statements to which this Standard is first applied. Retrospective application is permitted.**

NEW ZEALAND

Effective Date

- X **An entity shall apply this Standard in its annual financial statements for periods beginning on or after ... [date]. Earlier application is permitted. If an entity applies this Standard in its financial statements for a period before ... [date], it shall disclose that fact.**

Proposals

Australian Accounting Standards	New Zealand IFRSs	Proposals (Supporting Reasons)
<i>IFRS 1 First-time Adoption of International Financial Reporting Standards</i>		
		Remove/Retain

BASIS FOR CONCLUSIONS

*This Basis for Conclusions accompanies, but is not part of, **AASB 10XX / FRS-XX**.*

[To be inserted]

APPENDIX A

**PROPOSED AMENDMENTS TO OTHER
AUSTRALIAN ACCOUNTING STANDARDS**

These proposals accompany, but are not part of, AASB 10XX.

The wording of AASB 10XX as set out in this Exposure Draft presumes that the following amendments will be made to other Standards at the same time as the approval of a Standard resulting from the ED. If approved, these amendments would have the same application date as that Standard. The amendments would be made via an amending Standard rather than as part of or appended to the principal Standard on the proposals.

The proposed amendments are shown here in marked-up form (new text is underlined and deleted text is struck through).

[To be inserted]

APPENDIX B

**PROPOSED AMENDMENTS TO OTHER
NEW ZEALAND STANDARDS**

*These proposals accompany, but are not part of, **FRS-XX**.*

The amendments in this Appendix shall be applied in annual financial statements for annual periods beginning on or after ... [date]. If an entity applies this [proposed] Standard for an earlier period, these amendments shall be applied for that earlier period.

In the amended paragraphs, new text is underlined and deleted text is struck through.

[To be inserted]

APPENDIX C
PROPOSED STANDARD

*These proposals accompany, but are not part of, **AASB 10XX/FRS-XX**.*

[To be inserted]