



To:	AASB members	Date:	1 March 2011
From:	Angus Thomson	Agenda Item:	4.1
Subject:	NZ/Australia convergence – ‘true and fair view’	File:	--

Action

Agree on the approach to be taken in AASB 101 *Presentation of Financial Statements* in respect of including the ‘true and fair view’ wording from IAS 1 *Presentation of Financial Statements*, and the related AASB Basis for Conclusions.

This matter is the last to be resolved before we can finalise the first phase of the Australia-New Zealand convergence project.

Attachments

Extract of the draft AASB 2011-X *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113]

Background

At its February 2011 meeting, the Board re-considered the basis on which it is including in AASB 101 the ‘true and fair view’ paragraphs from IAS 1, which require an entity to depart from Standards if compliance would not give a true and fair view, when the relevant regulatory framework requires, or otherwise does not prohibit, such departures.

The Board confirmed that it would include the ‘true and fair view’ paragraphs from IAS 1 in AASB 101, and to also include an Aus paragraph that prohibits entities from using those paragraphs when the AASB and its Standards form part of an entity’s regulatory framework.

The Board agreed its Basis for Conclusions should:

- (a) explain it is including the ‘true and fair view’ paragraphs for the sake of IFRS convergence and New Zealand convergence; and
- (b) acknowledge that entities will need to determine whether the regulatory framework that applies to them includes Australian Accounting Standards.

To expedite the process of finalising the first phase of the Australia-New Zealand convergence project the Board agreed to consider the relevant text at its March 2011 meeting.

A consequence of the Board's approach – reference to *Corporations Act 2001*

Staff note that the FRSB has included the following footnote in its revised NZ IAS 1.

Presentation of Financial Statements:

The Financial Reporting Act 1993 establishes the relevant regulatory framework for many entities in New Zealand. It is an example of a regulatory framework which prohibits departures from the requirements in NZ IFRSs as described in paragraph 19. Where an entity is subject to the requirements of the Financial Reporting Act and considers that financial statements prepared in accordance with NZ IFRSs and applicable Financial Reporting Standards do not give a true and fair view of the matters to which they relate, an entity shall apply the requirements set out in paragraph 23 and disclose the information and explanations required by the Financial Reporting Act.

Entities which are required to prepare financial statements in accordance with a regulatory framework other than the Financial Reporting Act will need to ascertain whether that regulatory framework permits or prohibits departures from the requirements of NZ IFRSs in the circumstances described in paragraph 19.

At the February meeting, the Board did not specifically discuss the previously agreed footnote in AASB 101 to the 'true and fair' paragraphs, which notes:

Entities required to prepare financial statements in accordance with a reporting framework that would not permit a departure from Australian Accounting Standards (for example, the Corporations Act reporting framework) are not permitted to do so.

Notwithstanding the path taken by the FRSB, AASB staff recommend the Board not include the footnote in AASB 101, and instead incorporate this message into the Basis for Conclusions, along with the wording about Australian Accounting Standards and the regulatory framework.

The attached extract of the draft AASB 2011-X has been prepared on the basis of the staff recommendation.