

Financial Reporting Council

Chairman:

Mr Jeffrey Lucy, AM
c/- The Treasury
Langton Crescent
Canberra ACT 2600

Telephone:

0418 829 432

Email:

jlucy@bigpond.net.au

Secretariat:

c/- The Treasury
Langton Crescent
Canberra ACT 2600

Telephone:

(02) 6263 3984

Facsimile:

(02) 6263 2770

E-mail:

mkooymans@treasury.gov.au

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Mr Keith Alfredson

Chairman

Australian Accounting Standards Board

PO Box 204

COLLINS STREET WEST VIC 8007

Dear Keith

Following discussion at the meeting of the Financial Reporting Council held on 12 December 2002, which you of course attended in accordance with the usual arrangements, the FRC now formally determines, under paragraph 225(2)(d) of the *Australian Securities and Investments Commission Act 2001*, the attached broad strategic direction for the Australian Accounting Standards Board for 2002-03.

Kind regards,

Yours sincerely

Jeffrey Lucy, AM

Chairman

ATTACHMENT

BROAD STRATEGIC DIRECTION PROVIDED BY THE FINANCIAL REPORTING COUNCIL TO THE AUSTRALIAN ACCOUNTING STANDARDS BOARD FOR 2002-03

In accordance with paragraph 225(2)(d) of *the Australian Securities and Investments Commission Act 2001*, the FRC sets the following broad strategic direction for the AASB for 2002-03:

- (a) The Board's strategy and activities should be consistent with the objectives of accounting standard setting set out in section 224 of the Act, in relation to the characteristics of the financial information to be required by accounting standards, facilitation of the Australian economy and maintenance of investor confidence.
- (b) The AASB should strike an appropriate balance in allocating resources to the development of accounting standards for the private, public and not-for-profit sectors.

- : The AASB should advise the FRC promptly of any resource constraints on the Board's ability to fulfil its responsibilities.

- (c) The AASB should follow its stated objective of pursuing, through participation in the activities of the IASB, the development of an internationally accepted single set of accounting standards. In working towards this objective, the AASB should:

- : work towards the adoption in Australia of accounting standards that are the same as those issued by the IASB — and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) — to ensure their applicability to Corporations Act entities for accounting periods beginning on or after 1 January 2005;
- : continue to work closely with the IASB and align its work program with that of the IASB;
- : continue its present harmonisation program, working towards the adoption of accounting standards in Australia that harmonise with standards issued by the IASB, unless such standards are considered not to be in the best interests of the Australian public and private sectors;

- : promptly issue IASB exposure drafts in Australia for comment by constituents, and limit the need for subsequent issue of an AASB exposure draft to cases justified by the newness and complexity of a standard;
 - : continue to remove non-conformities between existing Australian and IASB standards on a planned basis;
 - : address, on a transparent basis, any transitional issues falling within the Board's mandate that may arise for Australian reporting entities, having regard to the cost of capital objective of the Act;
 - : ensure, as far as possible, that the work of the Urgent Issues Group has close regard to IFRIC pronouncements;
 - : in consultation with the FRC, communicate to constituents an overall strategy for adoption of IASB standards from 1 January 2005 to facilitate constituents' knowledge of and preparedness for the change.
- (d) With regard to public sector reporting, the Board should pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.
- : The strategic direction agreed by the FRC involves including within Australian GAAP applicable to the public sector, the key features of the GFS framework. This will enable comparability across the public sector within Australia, without sacrificing the high level of international comparability which currently exists through GFS reporting.