



Australian Government

**Australian Accounting
Standards Board**

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Directorate-General for Financial Stability,
Financial Services and Capital Markets Union
European Commission
Brussels
Belgium
(Submitted online)

Dear Directorate Staff,

European Commission Consultation Document
Fitness Check on the EU Framework for Public Reporting by Companies

The Australian Accounting Standards Board (AASB) appreciates the opportunity to provide its comments on the EC Consultation Document (March 2018). The AASB has limited its comments to Section III of the Consultation Document, specifically the part that addresses the adoption of IFRS Standards for listed companies under the IAS Regulation.

In 2004, the AASB first issued Australian Standards equivalent to IFRS Standards, in order to adopt IFRS Standards at the same time as the European Union. The AASB did so in the expectation that IFRS Standards would become the global Standards, to support comparable financial reporting around the world for the benefit of financial statement preparers and users. Accordingly, we have a vested interest in the outcomes of your consultation as changes to current requirements may limit the benefits that Australia has already obtained and hopes to continue obtaining from the adoption of IFRS.

To provide context to our response, in Australia publicly accountable for-profit private sector entities are required to comply with Australian Accounting Standards, which are legal instruments. This automatically means compliance with IFRS Standards, and financial statements contain a declaration of compliance with both Australian Accounting Standards and IFRS Standards, which ensures there is no confusion for international investors over the accounting policies applied.

The AASB does have the power to modify IFRS Standards for application in Australia. However, the AASB has established a standard-setting framework that requires the AASB to consider the impact of IFRS Standards as a whole, not just individually. Accordingly, the AASB would contemplate non-compliance with IFRS Standards by publicly accountable for-profit private sector entities only in highly unlikely and exceptional circumstances. Further details are set out in the Appendix to this letter. Our recent publication *Review of Adoption of International Financial Reporting Standards in Australia* ([AASB Research Report No. 4](#), March 2017), indicated our stakeholders continue to support the adoption of IFRS Standards.

We note that no accounting standard is perfect and often reflects significant compromises. However, in our view, the ability to actively participate in the development of IFRS Standards, which is promoted by the IASB's due process, is a key factor in being able to accept IFRS Standards. Australia accepts that not all its preferred outcomes will be achieved, but aims to ensure its views have been given adequate consideration and that, overall, IFRS Standards continue to result in benefits greater than costs.

Accordingly, we urge the EC to confirm its full commitment to the goal of a single, high-quality set of international accounting standards, being IFRS Standards.

If you have any questions regarding this submission, please contact Clark Anstis, Technical Principal (canstis@asb.gov.au), or me.

Yours faithfully,

A handwritten signature in blue ink that reads "K. E. Peach". The signature is written in a cursive, flowing style.

Kris Peach
Chair

APPENDIX

Adoption of IFRS Standards in Australia

We note the statement in the Consultation Document indicating the extent of IFRS adoption globally.

IFRS Standards have been adopted in full in Australia since 2005 (the same time line as in Europe), applying to all companies and other entities preparing financial statements in accordance with Australian Accounting Standards (Tier 1), not just to consolidated financial statements of listed companies. As the AASB adopts a transaction neutral basis for the development of Standards across all sectors of the economy, IFRS Standards are also the basis for the Standards applying to not-for-profit entities in the private sector and the public sector. The AASB develops one set of Australian Accounting Standards to cover all sectors.

In developing Australian Accounting Standards, the AASB exposes IASB proposals contemporaneously, so that the AASB can provide more informed submissions to the IASB as well as being in a position to issue Australian equivalents of new IFRS Standards within two months of the IASB issuing its pronouncement. This timing is one of the AASB's key performance indicators. It permits the effective date of AASB Standards (including amendments) to be the same as the effective date of the corresponding IFRS Standards and ensures that Australian companies are not disadvantaged if their international competitors choose to adopt new Standards before their effective date.

Australian Accounting Standards (which incorporate the IFRS Standards word for word) apply to companies under national legislation, the *Corporations Act 2001*. Therefore, the adoption of IFRS Standards in Australia has legislative backing.

The AASB has the power to modify IFRS Standards for application in Australia. With regard to for-profit entities, the AASB experience with having modifications may be instructive. The modifications generally resulted in IFRS options that were not part of previous Australian GAAP not being included in the 2005 Australian Accounting Standards, and also retaining selected previous Australian GAAP guidance. However, the AASB has since reversed all the 2005 modifications to now have pure IFRS requirements. The international perception that Australian Accounting Standards were different from IFRS Standards due to the modifications convinced the AASB to remove the modifications, as the key benefit of adopting IFRS Standards – to remove investor uncertainty – was not being achieved. We do require additional disclosures for Australian jurisdiction-specific issues. We also disbanded our interpretative body, the Urgent Issues Group, to help maintain compliance with IFRS Standards.

Accordingly, compliance with Australian Accounting Standards (Tier 1) by publicly accountable for-profit private sector entities automatically means compliance with IFRS Standards. To provide further clarity for international investors, listed entities are required to make an explicit and unreserved statement of compliance with IFRS Standards in the notes, in addition to the statement of compliance with Australian Accounting Standards. Both statements are reported on in the auditor's report. Compliance with IFRS Standards is therefore a major policy expectation in Australia.

The Power to Modify IFRS Standards

In May 2018, the AASB published its [*For-Profit Entity Standard-Setting Framework*](#), which identifies the circumstances in which the AASB would consider departing from IFRS Standards.

If the EC were to adopt the power to modify IFRS Standards, the AASB would strongly encourage the EC to clarify the circumstances in which it might consider modifying the IFRS requirements. For example, the AASB's *For-Profit Entity Standard-Setting Framework* requires the AASB to consider the impact of IFRS Standards as a whole, not just individually (see paragraph 41). In contrast, the EC Consultation Document notes (in footnote 13) that in considering whether IFRS Standards are conducive to the European public good, the Commission has followed a pragmatic approach that allows identification of key matters of concern on a case by case basis. In the AASB's view, a higher hurdle is appropriate before departure from IFRS Standards should be contemplated.

The AASB's *For-Profit Entity Standard-Setting Framework* records the expectation that the AASB would contemplate non-compliance with IFRS Standards for publicly accountable for-profit entities only in highly unlikely and exceptional circumstances (see paragraph 44). The criteria set out in paragraph 44 for the AASB to consider non-compliance with IFRS Standards for publicly accountable for-profit entities are major, substantive criteria that are highly unlikely to be satisfied except in extreme circumstances.

All of the following criteria would have to be present for the AASB to consider non-compliance:

- (a) substantive evidence, including a detailed cost/benefit analysis that IFRS Standards as a whole framework would result in a loss of investor confidence in the Australian economy (assessing financial stability, economic growth, cost of capital implications, investment of international capital, change in behaviour by investors and other key stakeholders);
- (b) the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework are no longer adequately met;
- (c) significant and consistent feedback from investors, preparers and accounting professionals that IFRS Standards are no longer appropriate in the Australian context;
- (d) the New Zealand Accounting Standards Board making a similar assessment;
- (e) a significant number of major countries currently applying IFRS Standards decide to no longer apply IFRS Standards; and
- (f) a demonstrably more appropriate alternative is available.

Conceptual Framework

The EC Consultation Document also raises the question of whether the EU should endorse the IASB *Conceptual Framework for Financial Reporting* (Question 23). The conceptual framework is one of the sources to which an entity can refer in determining appropriate accounting policies that are not covered explicitly by existing IFRS Standards. This is set out in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 11.

In order to support comparable accounting policies under IFRS Standards, it is essential that the conceptual framework reference in that paragraph refers to the same framework – in this case, the IASB’s conceptual framework.

In Australia, the AASB is in the process of replacing its existing IFRS-compliant conceptual framework with the IASB’s revised conceptual framework. The AASB’s conceptual framework (which has additions for not-for-profit entities) has been IFRS-compliant since the adoption of IFRS Standards in 2005.
