



Project:	EC Consultation Document on public reporting by companies	Meeting:	AASB June 2018 (M165)
Topic:	Consider draft response	Agenda Item:	5.1
Contact(s):	Clark Anstis canstis@asb.gov.au (03) 9617 7616	Project Priority:	Low
		Decision-Making:	Low
		Project Status:	Draft response

Objective

- 1 The objective of this paper is to:
 - (a) seek the Board’s views on a draft AASB submission to the European Commission on its Consultation Document *Fitness Check on the EU Framework for Public Reporting by Companies*; and
 - (b) agree on the process for finalising an AASB submission (if any).

Attachments

- Agenda item 5.2 Draft AASB submission;
- Agenda item 5.3 European Commission, Consultation Document *Fitness Check on the EU Framework for Public Reporting by Companies* (March 2018); and
- Agenda item 5.4 “IASB and IFRS Foundation chairmen urge constituents to respond to European Commission consultation”, IFRS Foundation (27-3-18).

Background

- 2 Public financial reporting by companies in the European Union is based on a range of EU Directives, Regulations and recommendations of the European Commission (EC) that have been promulgated over a very long period. IFRS Standards have been adopted in Europe for consolidated financial statements of listed companies since 2005, but with several carve-outs (exclusions) in relation to financial instruments. A multi-layered endorsement mechanism in the EU also means that EU endorsement of IFRS Standards might occur later than the IASB’s application date or could be delayed at various points.
- 3 The EC is now consulting on whether the EU public reporting framework is fit for purpose, issuing the attached Consultation Document (agenda paper 5.3) for online response by 21 July

2018. Online submission is stated to be required for a response to be taken into account, in order to ensure a “fair and transparent” consultation process. Therefore, it might not be possible to provide a submission in the form of a letter, in which case an AASB submission would be made through comments lodged via an online survey form.

- 4 The EC Consultation Document presents 66 specific questions and notes that a respondent might choose to respond only to sections or questions of interest. The EC Document includes questions in relation to all limited liability companies (which are required to lodge audited financial statements), listed companies, banks and insurers, certain non-financial information reporting by large public-interest entities, and electronic reporting (the “digitalisation challenge”).
- 5 Section III addresses the adoption of IFRS Standards for listed companies under the IAS Regulation (see page 18 of the EC Document). This section is the most relevant for a response from the AASB, as the other sections are more specific to European requirements and circumstances. Section III states that the current level of commitment to IFRS by third country jurisdictions differs significantly and that very few of the major capital markets have made the use of IFRS “as issued by the IASB” mandatory. It also notes that the current endorsement process prevents the EU from modifying the content of IFRS Standards, and asks whether this is still appropriate (see Question 19).
- 6 The IASB and IFRS Foundation Chairmen have issued a public response (agenda paper 5.4), rebutting statements in the EC Consultation Document regarding the extent and manner in which IFRS Standards have been adopted in other jurisdictions. Their response outlines the significance of unmodified IFRS Standards in the USA, Japan, China and India, as well as global adoption statistics. They question the implication in the EC Document that Europe is an outlier in adopting IFRS Standards without modification. Finally, they urge their constituents to respond to the ED Document. Hence our consideration of responding.

Draft submission

- 7 The AASB has the ability to modify IFRS Standards for application in Australia. It does so for not-for-profit entities (private sector or public sector) when warranted, but has not done so for for-profit entities apart from the reduced disclosure requirements of Tier 2. Accordingly, compliance with Australian Accounting Standards (Tier 1) by for-profit entities automatically means compliance with IFRS Standards. In May 2018, the AASB published its formal policy setting out its for-profit entity standard-setting framework.
- 8 The AASB can hardly respond to the EC to suggest that it should not have the power to modify IFRS Standards, given that the AASB does itself have that power. However, it would be useful to provide the FP entity standard-setting framework to the EC and to highlight that the policy requires the AASB to consider the impact of IFRS Standards as a whole, not just individually, and the expectation that the AASB would contemplate non-compliance with IFRS Standards for publicly accountable FP entities only in highly unlikely and exceptional circumstances.
- 9 Modification for for-profit entities (Tier 1) was considered seriously by the AASB some years ago in respect of whether to adopt the IASB’s non-consolidation approach to the accounting by investment entities for controlled entities, but in the end the AASB maintained IFRS compliance. This is the only occasion when departure from IFRS Standards for Tier 1 for-profit requirements has been considered as a real possibility.

- 10 The AOSSG might make a submission to the EC as well, but that is uncertain. Nevertheless, the AASB's submission could also refer to the adoption of IFRS Standards in significant Asian-Pacific jurisdictions, such as Australia, New Zealand, Hong Kong and Singapore. China, Japan and India are covered by the IFRS Foundation comments.
- 11 The IAS-regulation part of Section III in the EC Document also addresses some related issues, as follows:
- whether the EU endorsement process or IFRS Standards pose obstacles to sustainability and long-term investments;
 - the true and fair view principle and whether an EU conceptual framework is needed;
 - whether the IASB *Conceptual Framework for Financial Reporting* should be adopted; and
 - whether to prescribe European financial statement layouts, to improve comparability.
- 12 Staff do not recommend the AASB addressing these further issues in a submission, or any of the other sections in the EC Document. These issues are more specific to the EU than the IFRS adoption questions, even though the AASB might have views about the EU adopting the IASB's Conceptual Framework or refraining from prescribing layouts while the IASB is carrying out its Disclosure Initiative projects.

Questions for Board members

- 1 Do Board members agree that the AASB should make a submission to the EC?
- 2 If so, do members agree with the content of the draft submission? If not, what aspects of the submission would Board members like to be amended, further developed or added?

- 13 Staff will update the draft submission to reflect Board members' comments following the Board meeting. Given that the AASB comment letter would need to be submitted before the AASB's next meeting, staff recommend that the AASB submission be finalised out of session by the Chair.

Question for Board members

- 3 Do Board members agree with the staff recommendation for the AASB submission to be finalised out of session by the Chair?