

Policy Statement

PS 4
April 2002

International Convergence and Harmonisation Policy



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PREFACE

Background to the Development of the Policy Statement

In July 2001 the AASB issued Exposure Draft ED 102 “International Convergence and Harmonisation Policy” to merge and propose revisions to Policy Statement 4 “Australia – New Zealand Harmonisation Policy” and Policy Statement 6 “International Harmonisation Policy” to reflect changes arising from the reconstitution of the Australian Accounting Standards Board (AASB), the International Accounting Standards Board (IASB) and the activities of the International Federation of Accountants Public Sector Committee (PSC).

Under section 227 of the *Australian Securities and Investments Act 2001* (ASIC Act 2001), the AASB has a specific function “to participate in and contribute to the development of a single set of accounting standards for world-wide use”. Further, the ASIC Act 2001 provides in section 225 that a function of the Financial Reporting Council is:

“to monitor the development of international accounting standards and the accounting standards that apply in major international financial centres, and:

- (i) to further the development of a single set of accounting standards for world-wide use with appropriate regard to international developments; and
- (ii) to promote the adoption of international best practice accounting standards in the Australian accounting standard setting process if doing so would be in the best interests of both the private and public sectors in the Australian economy.”

One of the objectives of the reconstituted IASB is “to bring about convergence of national accounting standards and International Accounting Standards to high quality solutions”. The primary objective of the PSC is to develop international standards and guidance for public sector entities.

Policy Statement PS 4 sets out the AASB’s policy concerning its strategies for fulfilling its function of participating in, and contributing to, the development of a single set of accounting standards for world-wide use, and the harmonisation of Australian accounting standards with those issued by the IASB, PSC and other IASB liaison member standard-setting bodies.

In developing Policy Statement PS 4, the AASB consulted with its Consultative Group and considered comments from other constituents on ED 102 “International Convergence and Harmonisation Policy”. This Policy Statement supersedes Policy Statement 4 “Australia – New Zealand Harmonisation Policy” and Policy Statement 6 “International Harmonisation Policy” which were issued by the former AASB and Public Sector Accounting Standards Board in July 1994 and April 1996 respectively.

POLICY STATEMENT PS 4

“INTERNATIONAL CONVERGENCE AND HARMONISATION POLICY”

Background

- 1 The primary objective of the Australian Accounting Standards Board (AASB) is to continually improve the quality of general purpose financial reports in Australia, so that users of those reports are better able to make and evaluate decisions about the allocation of scarce resources. This will assist in maintaining and improving the efficiency of Australian capital markets and in improving the accountability of private and public sector reporting entities.
- 2 There is considerable divergence between standards issued by national and international standard-setting bodies. The globalisation of economic activity has resulted in an increased demand for high quality, internationally comparable financial information. The AASB believes that it should facilitate the provision of this information by pursuing a policy of international convergence and international harmonisation of Australian accounting standards. In this context, “international convergence” means working with other standard-setting bodies to develop new or revised standards that will contribute to the development of a single set of accounting standards for world-wide use. “International harmonisation” of Australian accounting standards refers to a process which leads to these standards being made compatible with the standards of international standard-setting bodies to the extent that this would result in high quality standards. Both processes are intended to assist in the development of a single set of accounting standards for world-wide use.
- 3 There are several organisations which are working towards improving the international comparability of financial reporting. They include:
 - (a) the International Accounting Standards Board (IASB) established by the International Accounting Standards Committee, the objectives of which include the development of a single set of high quality, understandable and enforceable global accounting standards, International Financial Reporting Standards (IFRSs), and the convergence of national accounting standards and IFRSs;

- (b) the International Federation of Accountants Public Sector Committee (PSC), which was established primarily to develop international standards and guidance for public sector entities; and
 - (c) the standard-setting bodies of Australia, Canada, France, Germany, Japan, New Zealand, United Kingdom, and United States of America which have liaison relationships with the IASB, through members of the IASB who have formal liaison responsibilities with these national standard-setting bodies.
- 4 This Policy Statement outlines the AASB's international convergence and international harmonisation objectives and the strategies it will employ in achieving them. The strategies will allow the AASB to pursue international convergence and international harmonisation of Australian accounting standards.

Objectives

- 5 The AASB's international convergence objective is to pursue, through participation in the activities of the IASB and the PSC, the development of an internationally accepted single set of accounting standards which can be adopted in Australia and elsewhere for both domestic and world-wide use in order to achieve the benefits set forth in paragraph 7 of this Policy Statement.
- 6 A single set of internationally accepted accounting standards is not likely to be achievable in the short term. Accordingly, the AASB's international harmonisation objective is to work towards the development of accounting standards in Australia that harmonise with IFRSs and International Public Sector Accounting Standards (IPSASs) issued by the PSC, where the AASB concludes that such standards are likely to be in the best interests of both the private and public sectors in the Australian economy. Where IFRSs and/or IPSASs are considered by the AASB to not represent best international practice, the interim objective is to work towards adopting standards that are considered by the AASB to be best international practice and to endeavour to influence the deliberations of the IASB and the PSC to adopt what the AASB considers to be best international practice.

Benefits of Convergence and Harmonisation

- 7 The main benefits of international convergence and international harmonisation include:
- (a) increasing the comparability of financial reports prepared in different countries and providing participants in international capital markets with better quality information on which to base investment and credit decisions. It will also reduce financial analysis costs through analysts not having to recast information on a common basis and requiring knowledge of only one set of financial reporting standards rather than several;
 - (b) removing barriers to international capital flows by reducing differences in financial reporting requirements for participants in international capital markets and by increasing the understanding by foreign investors of Australian financial reports;
 - (c) reducing financial reporting costs for Australian multinational companies and foreign companies operating in Australia and reporting elsewhere;
 - (d) facilitating more meaningful comparisons of the financial performance and financial position of Australian and foreign public sector reporting entities; and
 - (e) improving the quality of financial reporting in Australia to best international practice.

Strategies

- 8 The AASB views its international convergence and international harmonisation objectives as integral to its standard-setting activities for both private and public sector reporting entities.
- 9 The AASB will adopt work program strategies and international liaison and monitoring strategies that enable it to:
- (a) participate in and contribute to the development of a single set of accounting standards for world-wide use; and
 - (b) to increase the comparability of Australian accounting standards with IFRSs and IPSASs and the accounting standards of other IASB liaison member standard-setting bodies.

Work program strategies

- 10 In relation to its work program, the AASB will endeavour to:
- (a) align its work program with that of the IASB and the PSC, but only after having due regard to issues that may not affect or may not have the same priority as the IASB and the PSC and subject to the programs of the IASB and the PSC being reflective of the issues identified as priorities by the IASB liaison member standard-setting bodies;
 - (b) allocate staff and other resources so that the AASB can, as agreed with the IASB, the PSC and other IASB liaison member standard-setting bodies, lead projects on certain issues on the agendas of the IASB and the PSC and provide support on others;
 - (c) fully consider the views of the IASB and the PSC and other IASB liaison member standard-setting bodies in its deliberations on issues;
 - (d) issue, where relevant, IASB and PSC discussion papers and exposure drafts, with minimum modifications dealing with domestic issues, for input from AASB constituents;
 - (e) work with the IASB and the PSC, through the AASB liaison IASB member and the Australian representative on the PSC, to remove incompatibilities between an existing or proposed international accounting standard and the corresponding Australian existing or proposed accounting standard, in situations where the AASB is of the view that the international accounting standard is inappropriate in the Australian context. In this regard the AASB will also work towards achieving harmonisation of general purpose financial reports and Government Finance Statistics;
 - (f) accept the views of the IASB, the PSC and the majority of other IASB liaison member standard-setting bodies on an issue in question where such acceptance will lead to international convergence on the issue, even though that view is not the preferred position of the Board, unless such acceptance is considered not to be in the best interests of both the private and public sectors in the Australian economy.

International liaison and monitoring strategies

- 11 The AASB will endeavour to:
- (a) routinely and closely monitor international developments in financial reporting;
 - (b) maintain and enhance relationships with the IASB, the PSC and other IASB liaison member standard-setting bodies by:
 - (i) participating in meetings of IASB liaison standard-setting bodies and other relevant meetings with the IASB, PSC and other IASB liaison member standard-setting bodies;
 - (ii) ensuring there is an effective information exchange between the AASB, the IASB, the PSC and other IASB liaison member standard-setting bodies;
 - (iii) participating in staff exchange programs with the IASB, the PSC and other IASB liaison member standard-setting bodies;
 - (iv) making submissions, where resources permit, on proposed accounting standards issued by the IASB, the PSC and other IASB liaison member standard-setting bodies; and
 - (v) making AASB staff available to the AASB liaison IASB member and the Australian representative on the PSC for briefings on technical matters; and
 - (c) maintain and enhance relationships between the Urgent Issues Group of the AASB and the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and similar groups of other IASB liaison member standard-setting bodies by ensuring there is an effective information exchange between the various groups.
- 12 The AASB liaison IASB member, the Australian representative on the PSC and a New Zealand standard-setting representative have non-voting observer status at AASB meetings.

Conformity Statements

- 13 Australian accounting standards will include a conformity statement which outlines the standard's conformity with the corresponding IASB, PSC and New Zealand accounting standards and the principal differences between it and these accounting standards.