

Accounting alert

Analysis of the latest accounting developments delivered to you via e-mail

Disclosure of the impact of IFRS convergence proposed from June 2004

ED 129 can be obtained from the AASB's web site: www.aasb.com.au

New Standard proposed to apply from June 2004

These proposals may impact convergence plans and market expectations

Both narrative and financial disclosures would be required

The Australian Accounting Standards Board (AASB) has released Exposure Draft ED 129 'Disclosing the Impact of Adopting AASB Equivalents to IASB Standards' (ED 129).

This Accounting Alert provides an overview of ED 129 and some analysis of the issues arising.

Overview

As noted in Accounting Alert 2003/14, the AASB has decided to fast-track a new Standard on the disclosure of the impact of adopting AASB equivalents to International Financial Reporting Standards (IFRS) in annual and half-year financial reports ending on or after 30 June 2004. ED 129 is the first step in this process.

These proposed disclosure requirements will have the following impacts:

- convergence disclosures that would normally be made under the Australian equivalent of IFRS 1 'First-time Adoption of International Financial Reporting Standards' will effectively be brought forward to June 2004;
- entities may need to reassess their IFRS convergence projects to ensure that information gathering and analysis necessary for the disclosures are appropriately planned and timed; and
- markets may be informed on a 'piece meal' basis of impacts, particularly in the early stages, requiring analysis of which convergence areas to address first, the disclosures required, and market expectations of the entity's overall level of preparedness for IFRS convergence.

Comments on ED 129 close on 31 January 2004, leaving only limited time for interested parties to make a submission to the AASB.

Details of the proposed disclosures

The key proposals are as follows:

- the new Standard would apply to both half-years and full years ending on or after 30 June 2004;
- all reporting entities would be required to disclose in their financial report:
 - o explanations of changes in accounting policies expected to have material impact on adoption of so-called 'Australian International Financial Reporting Requirements' (AIFRPs); and
 - o any known or reliably estimable quantitative information relevant to assessing the expected impacts of such adoption.



Impact on IFRS convergence programs

The proposed requirements will in many cases require entities to bring forward or change their planning and analysis for IFRS convergence, so that the new disclosures can be made, particularly in relation to the future financial impacts of convergence.

The future financial effects of convergence are expected to be included in financial reports unless it is 'impracticable' to do so. ED 129 notes that 'reliable estimation of the future financial effects is impracticable when it cannot be performed after making every reasonable effort to do so'.

In other words, to avoid the disclosure of financial information in forthcoming financial reports, entities will need to be able to illustrate that they have not been able to make 'every reasonable effort' to determine the financial impacts of IFRS convergence. The AASB has indicated that they expect that many entities will not be in a position to make full disclosure of the financial impacts of convergence at 30 June 2004.

However, this approach may not be a palatable choice for entities such as disclosing entities that are subject to intense public scrutiny.

Many commentators argue that the disclosure of the impact of IFRS convergence is effectively already required by listed entities under the ASX Listing Rules. The number of questions raised about IFRS convergence at recent AGMs might also indicate an expectation from users of financial reports that major corporates should be well prepared for convergence and therefore be able to make the necessary disclosures even at 30 June 2004.

Disclosing entities will therefore need to manage investor and analyst expectations carefully, especially in light of their continuous disclosure obligations and the actions of entities in their peer group.

Should all reporting entities provide these disclosures?

The AASB has asked for feedback on its proposal that any Standard resulting from ED 129 should apply to all reporting entities and all general purpose financial reports.

It might be expected that many non-disclosing entities would find preparation for the disclosures for 30 June 2004 to be overly onerous, and this may support a delayed application date.

The impact of this proposal will be to effectively 'force' the vast majority of entities to at least begin their IFRS convergence process by 30 June 2004, and this may be beneficial for those entities that have not yet begun a convergence project.

Therefore, there may be some positive impacts on the general level of preparedness for IFRS convergence resulting from requiring the disclosures from June 2004.

We envisage that many entities may not be able to fully come to terms with the IFRS convergence process in the short time frame to 30 June 2004.

However, by allowing an 'impracticable' out in relation to the financial impact disclosures, non-disclosing entities may effectively have more time in which to prepare for the disclosure of the financial impacts of IFRS convergence.

In some respects, it might be expected that many entities will initially make 'generalised' disclosures in the initial application period depending on what balances and transactions they have.

The proposals would bring forward disclosure of the financial impact to June 2004

Disclosing entities may face an expectation that the financial impact disclosures are made

Some reporting entities may find the disclosures onerous, but might adopt 'generalised' disclosures in the initial application period

Action Points

Entities should consider the following points in relation to ED 129:

- Do we agree with the proposals in ED 129? Is the application date too early or the scope too wide? Should we make a submission to the AASB?
- Do we know the major impact areas of IFRS convergence for our organisation? How advanced is analysis in these areas?
- Does our current IFRS convergence program allow for the new disclosures from June 2004? Do we need to reprioritise certain aspects?
- What impacts will ED 129 have on our planned liaison with analysts and investors? What information about IFRS convergence has been previously provided? Will additional information or announcements be necessary?

Feedback and assistance

We welcome your feedback on the matters covered in this Accounting Alert – please email your comments to accounting_alerts@deloitte.com.au.

For assistance in applying the requirements outlined above in your organisation, please contact your local Deloitte office or contact our Lead National Technical Partner, Bruce Porter on (03) 9208 7490, or by email to bruporter@deloitte.com.au.

Appendix: Overview of major IFRS convergence impact areas

The table below classifies in general terms the impacts of the various International Financial Reporting Standards which form the basis of the forthcoming AIFRPs. Whilst any of the Standards listed can have large impacts in particular industries or on particular entities depending on their individual circumstances, it might be expected that those items classified as having both high commercial impact and effort to implement may affect many Australian reporting entities.

This table can be used as a basis for determining major areas of focus as part of the IFRS convergence process, and therefore those areas that are most likely to give rise to disclosures under the proposals in ED 129.

Commercial Impact (Net Profit)	21: Effects of Changes in FX Rates* 18: Revenue* 32: Financial Instruments (Disclosure)* 20: Accounting for Gov't Grants & Disclosure of Gov't Assistance* 38: Intangible Assets 40: Investment Property IFRS 4: Disposal of Non-current Assets and Presentation of Discontinued Operations (ED 4)	39: Financial Instruments (Recognition) 12: Income Tax 16: Property, Plant, Equipment* IFRS 3: Business Combinations (ED 3) 19: Employee Benefits* IFRS 2: Share-based Payments (ED 2) 36: Impairment of Assets IFRS 5: Insurance contracts (ED 5)
	1: Presentation of Financial Statements 2: Inventories 7: Cash Flow Statements 8: P&L for the Period, Errors and Changes in Policy 10: Events after Balance Sheet Date 11: Construction Contracts 14: Segment Reporting 17: Leases 23: Borrowing Costs 24: Related Party Disclosures 26: Accounting by Retirement Benefits Plans	27: Consolidated Statements & Accounting for Investments in Subsidiaries 28: Accounting for Investments in Associates 29: Financial Reporting in Hyper-Inflationary Economies 30: Disclosure in Financial Statements of Banks & Similar Institutions 31: Financial Reporting of Interests in Joint Ventures 33: Earnings Per Share 34: Interim Financial Reporting 37: Provisions, Contingent Liabilities & Assets 41: Agriculture
	Effort to Implement (Time & Skills Required)	

**Applicable in limited circumstances*

There are also a number of overview and detailed publications on the IFRS convergence process available on our web site: www.deloitte.com.au.