

**ASIC**

Australian Securities & Investments Commission

Media and information releases

IR 05-16 ASIC guidance on disclosing the impact of IFRS for full-year financial reports

Tuesday 26 April 2005

The Australian Securities and Investments Commission (ASIC) today outlined its expectations about the nature and extent of disclosure required under Australian Accounting Standard AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* for 30 June 2005 annual financial reports.

The objective of AASB 1047 is to inform financial report users about the impact of changes in accounting policies arising from the implementation of International Financial Reporting Standards (IFRS) in the financial reporting period leading up to the first financial report prepared in accordance with IFRS.

AASB 1047 requires disclosure of:

- any known or reliably estimable information about the quantified impacts on the financial report had it been prepared using IFRSs; or
- if such impacts are not known or reliably estimable, a statement to that effect. In this case AASB 1047, suggests that entities should also update their disclosures made in 2004 about the management of the transition to IFRSs and the explanation of the key differences in accounting policies expected to arise.

'Given the positive outcome of our review of the AASB 1047 disclosures at 30 June 2004, which indicated that most listed entities expected to manage the transition to IFRSs, we would expect that most entities will now be able to disclose the quantified impact of the changes', ASIC's Chief Accountant, Mr Greg Pound, said.

'The requirement that the first set of annual financial reports under IFRS at 30 June 2006 must include comparative figures for most items, and also, that entities will need an opening IFRS balance sheet at 1 July 2005 for their 30 June 2006 reporting means that entities should be in a position to produce reliable information for reporting under AASB 1047', Mr Pound said.

It is expected that the form and content of the disclosure will vary between entities. The information required by AASB 1047 should, however, be provided at a level of detail such that users of the financial report can understand the nature and extent of the significant impacts on the financial report.

In the rare cases, where an entity's management of the transition to IFRS has unavoidably not reached a point where it is practicable to provide reliably estimable quantitative information, disclosure to that effect should be provided with an explanation as to the reasons and the directors' expectations about the ongoing management of the transition

process.

To the extent that an entity knows or is able to reliably estimate the quantitative impact of some, but not all of the key accounting policy changes, the disclosure should comprise the quantified impacts of those accounting policy changes that can be reliably estimated. For any items for which the quantified impacts cannot be reliably measured, a narrative explanation must still be provided. The narrative component should explain the reasons for not being able to quantify the impact and to the extent practicable, indicate whether any impact on relevant financial statement line items is likely to be positive or negative.

'ASIC does not believe that it is appropriate to withhold information about the quantified impact, even where not all possible impacts are known or have been reliably estimated. To meet the requirements of the Standard, that information needs to be provided to achieve transparency about the matters which remain uncertain and the reasons for that uncertainty', Mr Pound said.

ASIC will be reviewing compliance with AASB 1047 as part of its ongoing review of financial reports of listed entities.

Audit reporting

ASIC is aware that different views appear to be emerging about whether in some circumstances the provision of quantitative disclosures could lead to the inclusion of an 'emphasis of matter' in the audit report.

An 'emphasis of matter' section is included in an audit report in limited circumstances where the auditor wishes to draw attention to or emphasise a matter of relevance to users of the audit report. It is not a qualification of the audit opinion and can accompany an unqualified or a qualified opinion. It can only be used in the limited and specific circumstances identified in Auditing Standard AUS 702 *The Audit Report on a General Purpose Financial Report*. One of those circumstances is where an inherent uncertainty exists and is disclosed in the financial report.

ASIC is of the view that disclosures under AASB 1047 do not fall within the AUS 702 requirements for use of an 'emphasis of matter' relating to an inherent uncertainty merely because an accounting standard or the interpretation of that standard may change prior to the preparation of the first IFRS financial report, or because the entity might later choose to apply a different option under the standard. The IFRS standard represents the authoritative and objective requirement at that point in time and any appropriate interpretation or option chosen represents the entity's decision as to its application at the time of the disclosure. A statement to this effect could be provided in the financial report. Assuming that the auditor accepts the policy and the underlying financial records and data are available and correctly applied to implement the policy, a reliable measurement or estimate is available.

An issue may arise for an auditor where disclosure of any relevant information about the policy and its implementation is not provided or an estimate is provided that cannot be supported by the records and data and is therefore unreliable. In these cases the auditor's responsibility to consider a qualified audit report becomes relevant.

Background

Companies and entities required to prepare financial reports under the requirements of Chapter 2M of the Corporations Act are required to comply with Australian equivalents to International Financial Reporting Standards (IFRS) for reporting periods beginning on or after 1 January 2005.

Entities with 30 June year ends will publish their first IFRS financial reports for the half-year

ended 31 December 2005 and for the year ended 30 June 2006.

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