

Accounting Alert

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Pending Standards can be obtained from the AASB's website: www.aasb.com.au

International Convergence Update (Including Impact on June 2004 Reports)

The Australian Accounting Standards Board (AASB) has recently issued a number of Pending Standards as part of the convergence process with International Financial Reporting Standards (IFRS), while at the same time agreeing to relax the proposed disclosure requirements at 30 June 2004 of the impact of adopting AASB equivalents to IFRS.

Also, the US Securities and Exchange Commission (SEC) has proposed that US foreign private issuers that adopt IFRS will only need to present one year of comparative information.

This *Accounting Alert* provides an overview of these developments.

Overview

Following the receipt of comments on ED 129 '*Disclosing the Impact of Adopting AASB Equivalents to IASB Standards*', as discussed in *Accounting Alert* 2003/15, the AASB has agreed to amend its original proposals to address many of the concerns expressed. The revised proposals clarify that only narrative disclosures would be required for annual or interim periods ending on or after 30 June 2004, with increased quantitative disclosure of any known or reliably estimable impacts in 30 June 2005 financial reports.

The AASB has made available the following Pending Standards:

- AASB 2 '*Share-based Payment*'¹
- AASB 119 '*Employee Benefits*'²
- AASB 128 '*Investments in Associates*'
- AASB 140 '*Investment Property*'

Although approved, these Standards are not yet finalised and in accordance with their proposed application date cannot be early adopted prior to financial years beginning on or after 1 January 2005. Copies of the Pending Standards are available from www.aasb.com.au.

Finally, the SEC has proposed amendments to Form 20-F that would allow US foreign private issuers that change their basis of accounting to IFRS to present only one year of comparative information. This proposal would allow Australian entities that are US foreign private issuers to have the same date of transition in terms of AASB 1 '*First-Time Adoption of Australian International Financial Reporting Pronouncements*' for both Australian and US reporting purposes.

Proposed relaxation of disclosures at 30 June 2004 regarding impact of IFRS

Proposed relief for US foreign private issuers when adopting IFRS

Footnotes

¹ Refer IAS Plus Newsletter '*IASB Publishes IFRS 2 Share-based Payment*', available from www.iasplus.com.

² Refer *Accounting Alert* 2004/04 for details on AASB 119.

Disclosing the impact of adopting AASB equivalents to IASB standards

The AASB has agreed on the following disclosures when disclosing the impact of adopting AASB equivalents to IASB Standards:

Narrative disclosures only required at 30 June 2004

- in respect of financial reporting periods ending on or after 30 June 2004, an explanation about how the transition to AASB equivalents of IASB Standards is being managed, with narrative explanations of the key differences in accounting policies;
- in respect of financial reporting periods ending on or after 30 June 2005, any known or reliably estimable information about the impact on the current period had the financial report been prepared using the 'new' Standards. Alternatively, if the impact is not known or reliably estimable, a statement to that effect. These disclosures are to be based on the wording in Pending AASB 108 'Accounting Policies, Changes in Accounting Policies and Estimates' regarding the impact of accounting standards issued but not yet implemented. For financial reports ending on or after 31 December 2004 these disclosures would be encouraged but not mandatory.

Quantitative disclosures encouraged but not mandatory at 31 December 2004

These requirements are not as stringent as the original proposals as they will not compel entities to bring forward their IFRS convergence projects in order to provide the disclosures. The amendments also address issues raised with respect to the timing of the availability of final Standards, the prospective nature of the originally proposed disclosures leading to issues surrounding directors and auditors signing off of financial reports and the potential market confusion resulting from 'piece-meal' disclosures.

Pending AASB 128 'Investments in Associates'

The requirements of Pending AASB 128 are largely consistent with IAS 28 and AASB 1016 'Accounting for Investments in Associates'. The most significant changes to existing practices are as follows:

Venture capitalists no longer have to equity account investments in associates

- investments that would otherwise be associates held by venture capital organisations, mutual funds, unit trusts and similar entities will be excluded from the scope of Pending AASB 128 where they are accounted for under AASB 139 'Financial Instruments: Recognition and Measurement' at fair value through the profit or loss;
- equity accounting does not need to be applied to investments that would otherwise be associates, where held by an investor whose owners do not object to the equity method not being applied, whose debt or equity securities are not publicly traded and are not in the process of being issued into a public market, and the ultimate Australian or any intermediate parent of the investor prepares and lodges consolidated financial reports in accordance with Australian International Financial Reporting Pronouncements;
- differences between an investor and associate's reporting dates must not exceed 3 months and where reporting dates differ, adjustments should be made for the effects of significant transactions or events between the reports;
- equity accounted losses must also be applied to reduce long term interests, such as preference shares or long-term receivables and loans, that are in substance part of the net investment;
- equity accounting would not be applied to investees where significant influence was previously established by reference to the investor's capacity to affect substantially only one of the operating or financial activities of the investee, but not both;
- business combinations project will create subsequent changes to equity accounting, for example, non-amortisation of goodwill.

Preference shares and long term loans may be reduced when equity accounting losses

Pending AASB 140 'Investment Property'

Pending AASB 140 introduces requirements into Australia specifically in relation to investment properties. Such assets were not previously distinguished under Australian GAAP except they were not required to be depreciated under AASB 1021 'Depreciation'. Pending AASB 140 allows the application of either the:

Investment properties accounted for under the cost model must be depreciated

- cost model, requiring depreciation and impairment testing of all investment property; or
- fair value model, requiring an annual assessment of fair value with gains and losses being recognised in the profit or loss.

Additional Australian specific guidance has been included to assist not-for-profit entities determine the application of the Standard to property held to meet service delivery objectives rather than to earn rental or for capital appreciation and to require initial measurement at fair value where assets are acquired at no or nominal cost.

SEC proposed rules on first-time adoption of IFRS

Only 1 year of comparatives would be required for US foreign private issuers when they adopt IFRS

The SEC has proposed amendments to Form 20-F to ease the burdens that foreign companies may face when they adopt IFRS affecting Australian entities that are US foreign private issuers. Where entities change their basis of accounting to IFRS, the SEC is proposing that entities that first adopt IFRS for any financial year beginning no later than 1 January 2007, only one year of comparatives needs to be provided rather than the current requirement for two years of comparative information prepared on a consistent basis of accounting.

Additional disclosure would be required in the year that IFRS is adopted including disclosure of:

- the application of the exceptions under AASB 1/IFRS 1;
- a specified level of detail in the reconciliation from old Australian GAAP to IFRS.

At this stage there is no change in the requirement for a reconciliation to US GAAP.

Comments on the SEC proposals, available from www.sec.gov/rules/proposed.shtml, close on 19 April 2004.

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 determining the impact of the proposed requirements on 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.

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