



**Transition to international standards
and applying the hierarchy of pronouncements**

At the AASB's May meeting, members agreed to issue an Accounting Interpretation to explain the manner in which the hierarchy of pronouncements in AASB 1001 and AAS 6 *Accounting Policies* is applied, particularly in view of the impending transition to AASB equivalents to IASB pronouncements in 2005.

The AASB's strategy is to make Australian equivalents of international standards and that will be mandatory for Australian reporting entities. This will take effect for reporting periods beginning on or after 1 January 2005. The AASB's Acting Chairman, Ruth Picker commented: "in the meantime, where there is an IASB pronouncement on a topic and no Australian equivalent, an entity is not required to apply the IASB pronouncement, but may have regard to its principles in selecting an accounting policy. Any resulting change of accounting policy would be treated as voluntary and, in accordance with AASB 1001 and AAS 6, the effects of the change would be recognised in net profit or loss/result when the change is made."

The AASB equivalents to IASB Standards that will be mandatory for reporting periods beginning on or after 1 January 2005 are scheduled to be issued by 31 March 2004. Members acknowledged that many constituents would like to early-adopt some AASB equivalents to IASB Standards in managing their transition to the new and revised Standards. However, there are complications concerning the differences between the transitional requirements of individual IASB Standards and the proposed IFRS 1 on first-time adoption. Members agreed to seek further information from the IASB before dealing with the differences and announcing a policy on early adoption.

Members also discussed current concerns about the financial reporting impact of declining equity markets on employer-sponsored defined benefit superannuation plans. The Acting Chairman of the AASB, Ruth Picker, explained: "entities need to be aware that AASB 1028 *Employee Benefits* requires detailed disclosures about accrued benefits, the net market value of plan assets and vested benefits, and about the accounting policy in respect of defined benefit superannuation plans. When AASB 1028 was last reviewed the Board decided to continue to not have any recognition requirements for superannuation liabilities and to leave the issue to a future project related to international convergence." Ms Picker also noted that: "there will be an AASB Standard for application for reporting periods beginning on or after 1 January 2005 equivalent to IAS 19 *Employee Benefits* that will deal with the recognition of superannuation liabilities. This will occur as part of the AASB's strategy to adopt IASB Standards by 2005."

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