

CHANGE TO PROCESS FOR ISSUING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL ACCOUNTING STANDARDS

The Australian Accounting Standards Board (AASB) decided at its meeting yesterday to change its proposed schedule for making AASB standards equivalent to International Financial Reporting Standards (IFRSs). Announcing the change, the Acting Chairman of the AASB, Ruth Picker, said the decision was based on legal opinion the Board has received, relating to the process of making standards. It does not affect the policy of adopting the standards of the International Accounting Standards Board (IASB) in Australia by 1 January 2005 (as announced by the Financial Reporting Council (FRC) in July 2002).

Previously, the AASB had intended to issue the new AASB standards in a staged process, making each Standard as it was approved. The Board has now decided that all Australian equivalents to IASB standards will be made at the same time, when the set is complete. This is likely to be around April 2004, following finalisation by the IASB (by 31 March 2004) of all its standards applicable from 1 January 2005.

Until then, the AASB will continue its schedule of approving the equivalents and, subject to resolution of copyright issues, place them as Proposed Standards on its web site, available for downloading. The Proposed Standards will not actually be made until around April 2004.

Companies will only be able to decide after the set is issued whether to adopt for application to reporting periods before 1 January 2005, since the choice of early adoption under Section 334 of the *Corporations Act 2001* applies only to Standards, not Proposed Standards. The Board will consider at its next meeting whether to permit early adoption by companies of some standards (piecemeal adoption) or require simultaneous adoption of all in the set. The Acting Chairman, Ruth Picker, noted "Constituents need to be aware that early adoption by companies is a separate issue from the process of "adoption" in Australia, through the making of new standards by the AASB."

The Acting Chairman, Ruth Picker, said "Although this change in the process of making Australian equivalents to IFRSs may not be welcomed by some, it will not affect the proposed effective date of 1 January 2005." She added that there will be some advantages from delaying the actual making of the standards until the set is complete. An AASB equivalent standard will be able to include all amendments made by the IASB up till then in any other standards affecting that standard (for example, the amendments currently proposed for IFRS 1 in ED 2 and other EDs). In the interim, the availability of Proposed Standards should provide the business community with sufficient information to proceed with amendments to their financial reporting systems.

Background

In making Australian equivalents of IFRSs, the AASB is very aware of the need to ensure these are consistent with the *Corporations Act 2001* and valid in accordance with the *Acts Interpretation Act 1901*. Translation of an IFRS into Australian terms requires references to

MEDIA RELEASE

other IFRSs to be replaced by references to (new) AASB standards. The difficulty is that the new Australian Standards to be referred to do not exist at present.

Accounting standards are disallowable instruments and any references to external documents and to other disallowable instruments are governed by the *Acts Interpretation Act 1901*. This fixes references to external documents to apply only to their content at the effective date of the instrument but is less certain in respect of references to other disallowable instruments. It can be interpreted as permitting only references to other instruments that exist when the first is made.

The legal opinion received by the Board states there is a significant risk that a reference in an AASB standard to another AASB standard that does not exist when the first is made will have no effect and cease to be part of that Standard. On this basis, when the second (referenced) Standard is made later, it would be unlikely to cure the invalidity of the reference in the first Standard as, technically, that reference would not still exist.

To be certain of the validity of a cross reference in one standard to a second, the second standard must exist at the time the first standard is made. So, the second standard needs to be made before or at the same time as the first and, before the second standard is made, all standards to which it refers must likewise exist or be made concurrently, and so on along the chain.

The set of standards issued by the IASB currently comprises the new IFRS 1 *First-time Adoption of International Financial Reporting Standards* (19 June 2003) and most of the earlier series, IASs 1 to 41. As they have been developed and re-issued over the years, numerous cross references have evolved. On average, each IASB standard refers to 7 or 8 other Standards.

Detailed analysis of the cross-references in each IASB Standard confirms the result is gridlock, chain-linking each to every other IASB Standard. The most recent standard, IFRS 1, is not exempt from this chain-linking and neither is the proposed IFRS on share-based payment (ED 2). There are no subsets of standards that refer only to others in the subset.

Accordingly, the Board has decided that adoption process in Australia cannot be safely achieved by the process proposed earlier: staged release of the new standards, one by one. All Australian equivalents to the current IASB standards will need to be made concurrently. The IASB has promised that it will have issued (or re-issued) by 31 March 2004 all those IFRSs applicable to accounting periods beginning on or after 1 January 2005. Thus, the set of Australian equivalents will be made soon after the IASB completes that process.

For more information, please contact:

Ellen Stoddart, Senior Project Manager
Telephone (03) 9617 7635

Angus Thomson, Technical Director
Telephone (03) 9617 7618

MEDIA RELEASE