

BULLETIN
of the
FINANCIAL REPORTING COUNCIL

2002/4 — 3 July 2002

ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS BY 2005

The Chairman of the Financial Reporting Council (FRC), Mr Jeffrey Lucy, AM, today announced that the FRC has formalised its support for the adoption by Australia of international accounting standards by 1 January 2005.

Subject to the Government's support at the appropriate time for any necessary amendments of the Corporations Act, this will mean that, from 1 January 2005, the accounting standards applicable to reporting entities under the Act will be the standards issued by the International Accounting Standards Board (IASB). After that date, audit reports will refer to companies' compliance with IASB standards.

The FRC considered the issue at its meeting on 28 June and formally endorsed the 2005 objective, in line with statements made recently by the Parliamentary Secretary to the Treasurer, Senator the Hon Ian Campbell. Mr Lucy paid tribute to the Government's strong leadership over the last five years in pressing for the international convergence of accounting standards. This objective is reflected in the Government's 1997 Corporate Law Economic Reform Program initiative (CLERP 1) and amendments made in 1999 to the *Australian Securities and Investments Commission Act 2001*.

The FRC fully supports the Government's view that a single set of high quality accounting standards which are accepted in major international capital markets will greatly facilitate cross-border comparisons by investors, reduce the cost of capital, and assist Australian companies wishing to raise capital or list overseas.

Mr Lucy said he understood that the 1 January 2005 timing is somewhat later than the Government would have liked. However, it is determined by the decision of the European Union to require EU listed companies to prepare their consolidated accounts in accordance with IASB standards from that date, in support of the EU single market objective. Australia certainly cannot afford to lag Europe in this regard, Mr Lucy said. He also expressed his support for efforts to encourage the United States to further converge its standards with IASB standards with a view to eventual adoption.

Mr Lucy was pleased to note that the Chairman of the IASB, Sir David Tweedie, had issued a statement in London welcoming the FRC's decision. Sir David said that the FRC's announcement demonstrates growing support for the development and implementation of a single set of high quality global accounting standards by 2005.

“This vote of confidence is a reflection of the leadership role that Australia continues to play in standard-setting, and will increase momentum for convergence towards high quality international standards. The input and active participation of interested parties in Australia and the Australian Accounting Standards Board (AASB), under the leadership of Keith

Alfredson, are and will remain a vital element in ensuring the IASB's success. It is through national standard-setters, such as the AASB, and the members of our various committees that we are able jointly to develop high quality solutions to accounting issues, leverage resources to research topics not yet on the international agenda so as to expedite conclusions, reach interested parties throughout the world and better understand differences in operating environments, thus fulfilling our role as a global standard-setter."

The full statement is available on the IASB's website www.iasb.org.uk.

While there will be a need for business and the accounting profession to adapt to significant changes in some standards, and to some complex new standards, the AASB has been harmonising its standards with those of the IASB for some years, resulting in substantial synergies between the two.

Nevertheless, Mr Lucy urged the accounting bodies to prepare for the changeover through their programs of professional development and their influence on accounting education. He also urged the business community to participate fully in commenting on exposure drafts of IASB standards issued in Australia in the period ahead.

Mr Lucy noted that implementation issues would also need to be considered by the FRC (to the extent they did not involve the content of particular standards) and the AASB between now and 2005. These could relate, for example, to the timing of introduction of particular IASB standards in Australia before 1 January 2005 (which would be AASB standards until that date), as well as to issues of interpretation.

The FRC and AASB will be doing everything they can to keep constituents informed about these issues and to communicate an overall strategy for adoption, Mr Lucy said.

Mr Lucy also confirmed that Australia would be making a substantial financial contribution, through the FRC, to the International Accounting Standards Committee (IASC) Foundation in 2002-03. This contribution will be sourced from funds available to the FRC for the standard setting process contributed by the Commonwealth, State and Territory governments, the three accounting bodies, the Australian Stock Exchange, and from the Financial Industry Development Account (as announced by Senator Campbell on 12 June).

Among the FRC's functions are to further the development of a single set of accounting standards for world-wide use and to promote the adoption of international best practice accounting standards in Australia if doing so would be in the best interests of both the private and public sectors in the Australian economy.

The IASB, which is based in London, is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in financial statements. In pursuit of this objective, the IASB cooperates with national standard setters, including the AASB, to achieve convergence in accounting standards around the world.

The AASB has been harmonising its standards with IASB standards for a number of years and is now working in close partnership with the IASB as a liaison standard setter, aligning its work program with that of the IASB and standing ready to allocate resources to lead or support projects on the IASB agenda. Recently, the AASB issued to its Australian constituents invitations to comment on a number of exposure drafts of IASB standards.

Australians are actively involved in the work of the IASB. Mr Ken Spencer is a member of the oversight body for the IASB, the IASC Foundation Trustees (and Chairman of the Foundation's Nominating Committee). Mr Warren McGregor is a member of the IASB, also designated the

Liaison Member for Australia and New Zealand. Mr Kevin Stevenson, a former director of the Australian Accounting Research Foundation, is the IASB's Director of Technical Activities. Australians are also on the IASB's Standards Advisory Council (Mr Peter Day and Mr Ian Mackintosh) and its Interpretations Committee (Mr Wayne Lonergan).

The FRC is established under the *Australian Securities and Investments Commission Act 2001*. It is the peak body responsible for the broad oversight of the accounting standard setting process for the private, public and not-for-profit sectors. It comprises key stakeholders from the business community, the professional accounting bodies, governments and regulatory agencies.

- Key functions of the FRC are to advise the Government on the accounting standard setting process and the development of international accounting standards, appoint members of the independent standard setter, the Australian Accounting Standards Board (AASB) (other than the Chairman who is appointed by the Treasurer), approve and monitor the AASB's priorities, business plan, budget and staffing arrangements, and determine its broad strategic direction.

For further information, please contact the secretariat of the Financial Reporting Council, c/- The Treasury, Langton Crescent, Parkes ACT 2600.

Mr Michael Kooymans

Ph: (02) 6263 3984

Fax: (02) 6263 2770

E-mail: mkooymans@frc.gov.au

Or visit the FRC's website at www.frc.gov.au.