Australian Government

Australian Accounting Standards Board

The Financial Reporting Framework – New Zealand's Choices and the Australian Landscape

Financial Reporting and Auditing Conference – A New Landscape

Victoria University of Wellington

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Matters to be Covered

- Trans Tasman Co-operation
- The Revised Australian Framework
- Regionalisation of Standard-setting
- Public Sector and Not-for-Profit Private Sector Reporting
- Concluding comments (personal)

Harmonization with New Zealand

- Single economic market – PMs have signed MoU
- Single set of standards to be applied by entities irrespective of domicile
- Focus initially on for profit entities likely to deal cross border
- But what of existing differential reporting and sector/transactional neutrality policies?

Application of Australian Accounting Standards

- Australian Accounting Standards are applied by:
  - entities required by the *Corporations Act 2001* to prepare financial reports;
  - governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
  - entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements. (NB: Australia has de-regulated the micros and is highly compliant with IPSAS)

GPFSs in the Australian context

- AASB 101: GPFSs are

  “financial statements intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs .”

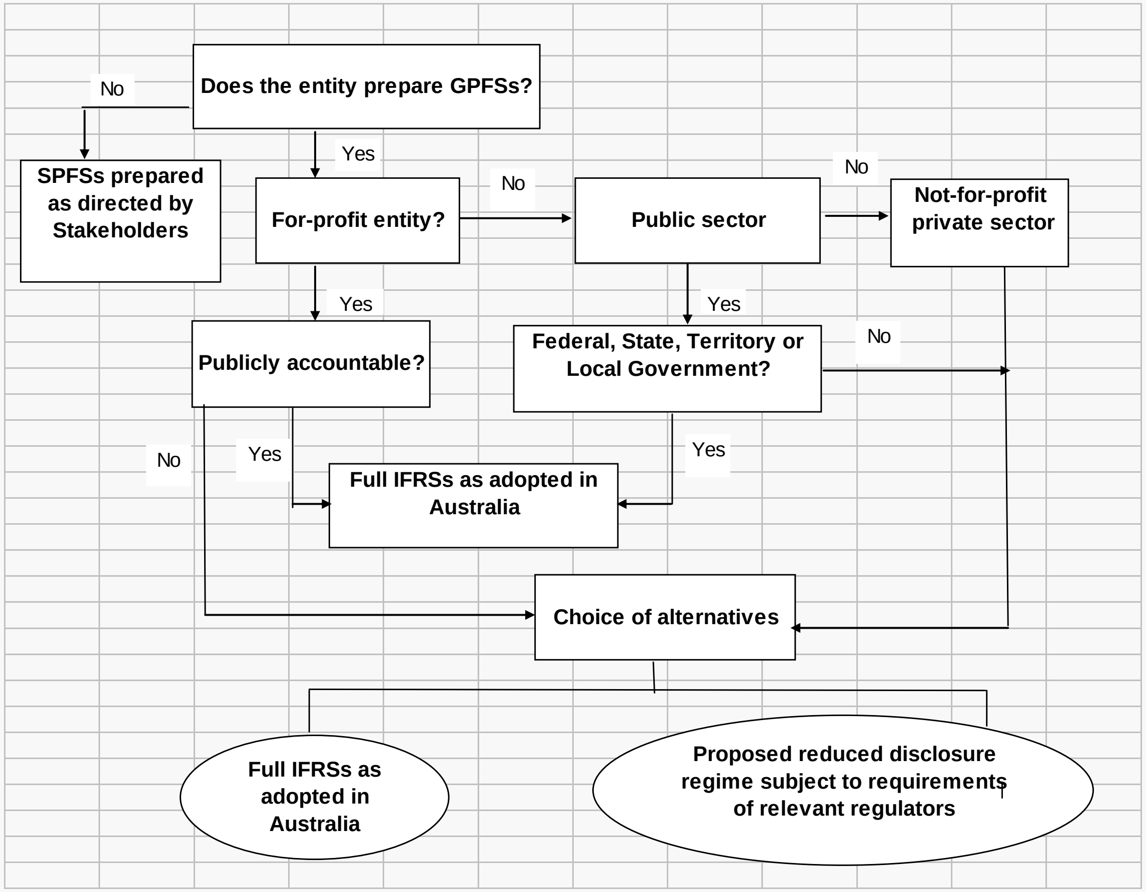
GPFS Tiers under New Framework

- Until now, Australia, unlike NZ, has not had a a developed differential reporting framework
- From 1 July 2010, now has Two tiers of GPFS requirements:
  - Full IFRSs as adopted in Australia (NFP-specific and domestic standards included) – Tier 1
  - Reduced Disclosure Regime (RDR) – Tier 2

RDR- Applicability

- An entity has public accountability if:
  - it has issued (or is in the process of issuing) debt or equity instruments in a public market; or
  - it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, such as a bank, insurance company, securities broker/dealer, mutual fund, or investment bank.

Proposed Revised Differential Reporting Framework



The Reduced Disclosure Regime

- Pragmatic but significant reduction in burden of reporting
- Involves full IFRS recognition and measurement requirements with substantially less disclosures
- Level playing field on recognition and measurement
- Always up to date
- Benefits from full IFRS improvements
- Consolidation friendly
- Provided in single shaded book – in context

The Reduced Disclosure Regime

- Benefits from IFRS for SMEs by:
  - drawing on IFRS for SMEs disclosures when R &M options align
  - applying ‘user needs’ and ‘cost benefit’ principles (used for IFRS for SMEs), when R &M options differ

Alternatives to RDR

- Alternatives to RDR:
  - IFRS for SMEs
    - Not ruled out in longer term
    - Issues with it in current form
  - Status quo
    - Not on

Issues with IFRS for SMEs

- Why change recognition and measurement? Do the elements change with the size of an entity?
- Impact on public sector
  - Revaluations of fixed assets precluded
  - Public sector revalues fixed assets
  - Public sector consolidates to W.O.G.
- Where are the big economies anyway when IFRS is currently being applied and options exist within it?

Issues with IFRS for SMEs

- The big plus of SMEs is disclosure reduction (which is mostly captured in proposed approach)
- Proposed approach more flexible and can be more immediate (revise as you go, use differential application dates versus 2 to 3 year tsunamis)
- Why create migration barriers between tiers?
- Education and training costs more severe under 2 book approach especially when not in sync
- Comparability with first tier who may be actual competitors, including for funds
- Why now? SMEs in the future?
  - R&M could improve
  - Updating could improve

Specific Standards under SMEs

- Reduced options
  - Expense borrowing costs
  - FV associates with published price
  - FV jointly controlled entities with published price
  - FV investment properties if FV can be measured reliably and w/out undue cost
  - FV biological assets if FV readily determinable and w/out undue cost
  - PPE/IA at cost – no revaluation option
  - FV Govt grants – rules out options
- What do these do except make the book look smaller?

Specific Standards under SMEs

- Different R&M of same things
  - Borrowing costs expense (capitalise)
  - NCA held for sale – ignore (show)
  - Unvested past service cost - expense (amortise to expense)
  - Net investment forex diffs – don’t recycle (do recycle)
  - SBP where counterparty has choice of settlement – treat as cash settled (treat as equity settled)
  - R&D – expense (capitalise D if..)
  - Goodwill/IA with indefinite life– amortise over 10 years max (impair)
- How helpful? Confusing?

Specific Standards under SMEs

- Financial instruments
  - Choose IAS 39 or simplified C&M
    - But IFRS 9 simplifies differently and after IASB rethink of SMEs
  - Varies hedging - eg hedge effectiveness testing
    - IASB may make more important simplifications soon
- Revenue
- Consolidations
- Presentation
- Etc etc

Tsunamis of change being stored up?

RDR – Research on Special Purpose Financial Statements

- Research beginning on profiles of reporters
- What choices in accounting policies?
- De-regulation?
- Enforcement?
- Other options?

Regionalisation of Standard-setting

- AOSSG – Asian Oceanian Standard-setters Group
  - 26 countries, 4.1 bn people, 34% of capital markets
- North America post IFRS adoption?
- IASB regional offices?

Public Sector and Not-for-profit Private Sector Reporting

- Multiple conceptual frameworks?
- Fears expressed by National Standard Setters group (NSS) to chairs of IPSASB and IASB
- IPSASB assures us no differences unless…
- IASB says it and FASB will turn to not-for-profit when….
- Real differences or just different boards looking at same issues at different times using different words?

What is Transactional Neutrality?

- Everybody is the same? No.
- Information needs to be displayed the same way? No.
- Private sector is bottom line myopic? Public sector has wider notion of performance? No.
- Fiscal sustainability is public sector specific? No.
- Economic building blocks are the same. -Yes.
  - Elements? - Yes
  - Recognition and measurement? –Yes
- Financial statements have a different purpose? – No (from user perspective).

Concluding comments

- Note that as important as each of the above areas are, they are largely beyond current short term international agendas
- The IASB and IPSASB both lack exposure to trying to improve financial reporting holistically across both sectors. Australia and NZ have valuable experience which we undervalue.
- On a scale of 1 to 10, progress towards integrated global requirements, similar to what we enjoy, can be rated no better than 2 or 3. The risk is of moving backwards needs to be managed.
- We are achieving some progress as we act in a united fashion internationally
- We will have to be better at influencing others as regionalisation increases. Must be able to convince peers.

Keep up to date

- Check out AASB website
  - www.aasb.gov.au

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