

Explanatory Statement

Accounting Standard AASB 1048 *Interpretation and Application of Standards*

April 2006



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Reasons for Issuing AASB 1048

The Australian Accounting Standards Board (AASB) is implementing the directive of the Financial Reporting Council (FRC) to adopt the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. In considering the adoption of the Standards of the IASB, the AASB reached the conclusion that it was desirable to issue an Accounting Standard clarifying the status of the pronouncements of the Urgent Issues Group, the UIG Interpretations (previously known as UIG Abstracts), that are approved by the AASB. The Standard also clarifies the status of AASB Interpretations. UIG and AASB Interpretations are referred to collectively in the Standard as Australian Interpretations.

All Australian Interpretations have the same authoritative status and those that are equivalent to the IASB Interpretations must be applied to achieve compliance with the International Financial Reporting Standards (IFRSs) of the IASB.

The IASB defines IFRSs as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards (IASs); and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Australian Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

Before identifying the main features of the Standard, the adoption of the IASB Standards is described and the need for a 'service Standard' like AASB 1048 is explained.

Adoption of IASB Standards

In implementing the FRC's directive, the AASB has replaced relevant existing AASB Standards with Australian Standards equivalent to those of the IASB. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

This Standard complements the set of Australian equivalents to each IASB Standard (IFRS and IAS) and Interpretation of the IASB. This set includes Australian Interpretations that correspond to the IASB Interpretations originated by the IFRIC or the SIC. When considering the most effective approach to implementing the FRC directive, the AASB decided that Australian-source documents were needed to provide equivalents to the IASB Interpretations, and that these should be UIG Interpretations. Subsequently, the AASB decided to also issue AASB Interpretations. Correlation between the Australian Interpretations and the IASB Interpretations is provided in Table 1 of this Standard. This Standard will be re-issued when necessary to bring the correlation up to date.

Need for a Service Standard

In the Australian context, Australian Interpretations do not have the same legal status as Standards (delegated legislation) and are treated as 'external documents' by the *Acts Interpretation Act 1901* (and also by the *Legislative Instruments Act 2003*). Although references in one Standard to a second Standard are ambulatory (automatically moving forward to refer to the most recently-issued version of the second Standard), references in a Standard to external documents are stationary (being fixed in time to refer to the contents of the external document when the Standard was issued). A reference to an Australian Interpretation in an AASB Standard issued earlier (for example, in July 2004) than the reporting date at the end of the first effective reporting period can only refer to the Interpretation that existed then (in July 2004). It cannot refer to any revised version of the Interpretation that may exist at the nominated reporting date (for example, 30 June 2006). However, an AASB Standard can be issued in July 2004, referring to a second AASB Standard (existing in July 2004) and, when the first Standard is applied at 30 June 2006, the reference will be to the then-current version of the second Standard, even if it has been re-issued after July 2004.

After analysing the issues, the AASB decided the service Standard approach constitutes the most effective way to ensure that the compliance required in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, has the same meaning as intended in IFRS 1.

The service Standard approach involves issuing an AASB Standard listing the Australian Interpretations corresponding to each IASB Interpretation, and referring to that Standard in every other AASB Standard where necessary to refer to an Interpretation. This enables references to the Interpretations in all other AASB Standards to be updated by re-issuing the service Standard.

This approach preserves the status of Australian Interpretations as ‘external documents’ referred to in a Standard, with the ‘contents’ fixed in time to that existing when the Standard takes effect. It does not treat the Interpretations as delegated legislation or confer ambulatory status on the reference. In each AASB Standard where there is a need to refer to an Australian equivalent of an IASB Interpretation, the reference will be to this Standard, phrased as “*UIG (or AASB) Interpretation (number) (title) identified in AASB 1048 as corresponding to IFRIC (or SIC) (number)*”. This reference, being to another AASB Standard, is ambulatory and will refer to the Standard, AASB 1048, that is in force from time to time. AASB 1048 itself will contain the direct references to the external documents and it will be re-issued to keep all references to Interpretations in the other Standards up to date.

Implementation of this approach to clarifying the status of Australian Interpretations ensures there is no difference between the status in the hierarchy accorded to Interpretations in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* compared with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

A further advantage of this approach, compared with alternative approaches, is that it is able to be combined with implementing the perceived need for an AASB Standard clarifying the status of all Australian Interpretations, irrespective of whether they correspond to an IASB Interpretation.

Main Features of the Standard

The Standard (issued in April 2006) supersedes the previous version of AASB 1048, issued in December 2005. At its meeting on 5-6 April 2006, the AASB approved UIG Interpretation 9 *Reassessment of Embedded Derivatives* and agreed to re-issue AASB 1048 to refer to this Interpretation and also to UIG Interpretation 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*, which was

approved by the AASB in February 2006, and UIG Interpretation 8 *Scope of AASB 2*, which was approved at its 8 March meeting.

Application Date

This Standard is applicable in general to annual reporting periods ending on or after 30 April 2006 (see paragraph 3). To be consistent with the position for AASB Standards equivalent to IFRSs, early adoption of this Standard is not permitted for annual reporting periods beginning before 1 January 2005. However, early adoption is otherwise permitted as specified in paragraph 4.

First-time Application and Comparatives

When an entity first applies this Standard in the context of adopting all Australian equivalents to IFRSs, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1, generally requires prior period information, presented as comparative information, to be restated as if the requirements of the Australian equivalents to IFRSs (including those Australian Interpretations equivalent to the IASB Interpretations) had always applied. This differs from the requirements in previous Australian Standards, where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

Main Requirements

This Standard identifies the Australian Interpretations and classifies them into two groups: those that correspond to an IASB Interpretation and those that do not. Entities are required to apply each relevant Australian Interpretation in preparing financial reports that are within the scope of the Standard. Australian Interpretations are issued by and may be purchased from the AASB. They are also available on the AASB's website at www.aasb.com.au.

In respect of the first group (Table 1), it is necessary for those Australian Interpretations, where relevant, to be applied in order for an entity to be able to make an explicit and unreserved statement of compliance with IFRSs. The IASB defines IFRSs to include the IFRIC and SIC Interpretations.

In the second group (Table 2), this Standard lists the other Australian Interpretations, that do not correspond to the IASB Interpretations, to assist financial report preparers and users to identify the other authoritative pronouncements necessary for compliance in the Australian context.

The Standard will be re-issued when necessary to keep the Tables up to date.

Changes from AASB 1048 (December 2005)

The difference between AASB 1048 (issued in December 2005) and this version issued in April 2006 is the addition of three UIG Interpretations to Table 1 in paragraph 9 of the Standard, as set out in the following table.

Table 1 – Additions

Interpretation Issue Date	Title	Application Date (annual reporting periods)	IFRIC or SIC
7 <i>February 2006</i>	Applying the Restatement Approach under AASB 129 <i>Financial Reporting in Hyper-inflationary Economies</i>	(beginning) 1 March 2006	IFRIC 7
8 <i>March 2006</i>	Scope of AASB 2	(beginning) 1 May 2006	IFRIC 8
9 <i>April 2006</i>	Reassessment of Embedded Derivatives	(beginning) 1 June 2006	IFRIC 9

Consultation prior to Issuing this Standard

Public consultation was part of the process undertaken by the UIG prior to its decisions to approve UIG Interpretations 7, 8 and 9. Accordingly, there appeared no need for the AASB to undertake further public consultation in respect of this Standard. In making this Standard, the AASB was mindful of its obligations under section 334 of the *Corporations Act 2001* and also that failure to maintain an up-to-date listing of Australian Interpretations corresponding to the IASB Interpretations could endanger compliance with the FRC directive on adoption of IFRSs in Australia.

A Regulatory Impact Statement has not been prepared in connection with the issue of this Standard as the amendments made do not have a direct, or substantial indirect, effect on business or restrict competition, are of a minor or machinery nature and do not substantially alter existing arrangements.