

Explanatory Statement

Accounting Standard AASB 1048 *Interpretation and Application of Standards*

September 2007



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Reasons for Issuing AASB 1048

Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 January 2005 include Australian equivalents to International Financial Reporting Standards (IFRSs). IFRSs comprise Accounting Standards and Interpretations. IFRSs are issued by the International Accounting Standards Board (IASB), and their adoption in Australia is in accordance with a strategic direction made by the Financial Reporting Council (FRC).

This Standard clarifies that all Australian Interpretations have the same authoritative status. Those that are equivalent to the IASB Interpretations must be applied to achieve compliance with IFRSs. Australian Interpretations issued by the AASB comprise both AASB and UIG Interpretations. UIG Interpretations were developed by the Urgent Issues Group, a former committee of the AASB.

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 simple reference to an Australian Interpretation in an AASB Standard can only refer to the Interpretation that existed when the Standard was issued. It cannot refer to any revised version of the Interpretation that may exist at a later reporting date. However, an AASB Standard can refer to a second AASB Standard and, when the first Standard is applied at a later reporting date, the reference will be to the then-current version of the second Standard, even if it has been re-issued since the first Standard was issued.

The service Standard approach involves issuing an AASB Standard – this Standard – that lists the Australian Interpretations, 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 “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 will be re-issued to keep all references to Interpretations in the other Standards up to date.

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*.

Main Features of this Standard

This Standard (issued in September 2007) supersedes the previous version of AASB 1048, issued in March 2007. At its meeting in August 2007, the AASB approved Interpretation 13 *Customer Loyalty Programmes* and Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, which are now referred to in the Standard. Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* and Interpretation 12 *Service Concession Arrangements* were revised as a result of Accounting Standard AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (June 2007), and are now referred to in the Standard. Interpretation 113 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, revised as a result of the *Erratum: Proportionate Consolidation* (July 2007), is now referred to in the Standard.

Application Date

This Standard is applicable to annual reporting periods ending on or after 30 September 2007 (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.

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 (March 2007)

The difference between AASB 1048 (as issued in March 2007) and this version issued in September 2007 is the addition of five Interpretations to Table 1 in paragraph 9 of the Standard, as set out in the following table.

Table 1 – Additions

Interpretation <i>Issue Date</i>	Title	Application Date (annual reporting periods)	IFRIC or SIC
1 [revised] <i>June 2007</i>	Changes in Existing Decommissioning, Restoration and Similar Liabilities	(beginning) 1 January 2009	IFRIC 1
12 [revised] <i>June 2007</i>	Service Concession Arrangements	(beginning) 1 January 2009	IFRIC 12
13 <i>August 2007</i>	Customer Loyalty Programmes	(beginning) 1 July 2008	IFRIC 13
14 <i>August 2007</i>	AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	(beginning) 1 January 2008	IFRIC 14
113 [revised] <i>July 2007</i>	Jointly Controlled Entities – Non-Monetary Contributions by Venturers	(beginning) 1 July 2007	SIC-13

Consultation Prior to Issuing this Standard

Public consultation was part of the process undertaken by the AASB in developing submissions on the Draft Interpretations D19 and D20 issued by the IFRIC for public comment. IFRIC Interpretations 13 and 14 contain essentially the same requirements as were proposed in D20 and in D19 respectively. Revised Interpretations 1 and 12 incorporate consequential amendments as a result of the issue of a revised AASB 123 *Borrowing Costs*, which followed consideration of the submissions received on Exposure Draft ED 149 *Proposed Amendments to AASB 123 Borrowing Costs*. Revised Interpretation 113 incorporates amendments as a result of the *Erratum: Proportionate Consolidation* (July 2007), consistent with the decisions of the AASB made in relation to ED 151 *Australian Additions to, and Deletions from, IFRSs*. Accordingly, there appeared no need for the AASB to undertake further public consultation in respect of the updating of AASB 1048.

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