

# **Explanatory Statement**

## ***AASB 2005-5 Amendments to Australian Accounting Standards***

June 2005



**Australian Government**

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**Australian Accounting  
Standards Board**

## EXPLANATORY STATEMENT

### Adoption of Australian Equivalents to IFRSs

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.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards (IAS); 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) Urgent Issues Group (UIG) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

In implementing the FRC's directive, the AASB is replacing 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 uses 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.

On 15 July 2004, the AASB made the set of Australian Standards equivalent to IFRSs, together with several associated Australian Standards, effective for annual reporting periods beginning on or after 1 January 2005.

AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and AASB 139 *Financial Instruments: Recognition and Measurement* were both issued initially at this time. These are the Australian equivalents of IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 39 *Financial Instruments: Recognition and Measurement*.

## **Reasons for Issuing AASB 2005-5**

This Standard makes consequential amendments to Australian Accounting Standards AASB 1 and AASB 139.

The amendments arise from the approval in June 2005 of Urgent Issues Group (UIG) Interpretations 4 *Determining whether an Arrangement contains a Lease* and 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, which are the Australian equivalents to International Financial Reporting Interpretations Committee (IFRIC) Interpretations 4 and 5 respectively. The amendments are consistent with those made by the IFRIC Interpretations to International Financial Reporting Standards (IFRSs).

## **Main Features of this Standard**

### **Application Date**

The application date of this Standard is linked to the application date of UIG Interpretations 4 and 5. Accordingly, this Standard is applicable to annual reporting periods beginning on or after 1 January 2006. When an entity early adopts UIG Interpretation 4 or 5 for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2006, this Standard is also applied as appropriate for that earlier period.

### **Change from AASB 1 (December 2004)**

AASB 1 (revised in December 2004) generally requires prior period information, presented as comparative information, to be restated as if the requirements of a UIG Interpretation had always applied. The change made by this Standard is to include in AASB 1 an optional exemption from these requirements that allows a first-time adopter to determine whether an arrangement existing at the date of transition to Australian equivalents to IFRSs is, or contains, a lease on the basis of facts and circumstances at that date. Otherwise, the arrangement would have to be assessed as at its inception and subsequently reassessed as required by the Interpretation in the periods before transition to Australian equivalents to IFRSs.

### **Change from AASB 139 (May 2005)**

The scope of AASB 139 (revised in May 2005) is amended by this Standard to exclude rights to reimbursement for expenditure required to settle either provisions recognised in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* or liabilities that had been originally recognised as provisions in accordance with AASB 137. The effect of the amendment is that a contractual right to receive such reimbursement in the form of cash will be accounted for in the same way as other forms of rights to such reimbursement, rather than in accordance with AASB 139.

### **Consultation prior to Issuing this Standard**

Public consultation was part of the process undertaken by the UIG prior to its decision to issue UIG Interpretations 4 and 5. 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*.

A Regulatory Impact Statement has not been prepared in connection with the issue of this Standard as the amendments it makes 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.