

Explanatory Statement

AASB 2005-6 Amendments to Australian Accounting Standards

June 2005



Australian Government

**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 3 *Business Combinations* was issued at this time and is based on the Australian equivalent to IFRS 3 *Business Combinations*. IFRS 3 does not apply to business combinations involving entities or businesses under common control. AASB 3 does not exclude those transactions from its scope. Accordingly, AASB 3 includes the defined term “contributions by owners”.

Reasons for Issuing AASB 2005-6

AASB 2005-6 makes amendments to AASB 3.

Since issuing AASB 3, the AASB has become aware of some concerns that the presence of the Australian definition of “contribution by owners” in AASB 3 may give rise to different treatments compared with the treatments under IFRSs.

Main Features of this Standard

This Standard was made by the AASB on 22 June 2005 under section 334 of the *Corporations Act 2001*.

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2006 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

Main Changes from AASB 3 (July 2004)

The main changes from AASB 3 (July 2004) are:

- (a) deletion of the definition of contributions by owners; and
- (b) adoption of the IFRS 3 scope exclusion for business combinations involving entities or businesses under common control.

Consultation prior to Issuing this Standard

The AASB considered various options for dealing with the concerns raised by some constituents that the presence of the Australian definition of contribution by owners in AASB 3 may give rise to different treatments compared with the treatments under IFRSs. In March 2005 the AASB issued

an Invitation to Comment (ITC). One proposal was to amend AASB 3 by deleting the definition of contribution by owners from AASB 3 and rewriting AASB 3 paragraph Aus56.1.

The majority of respondents supported the proposal to amend AASB 3. In addition, some respondents commented that business combinations involving entities or businesses under common control should not be within the scope of AASB 3 in the same way that these transactions are scoped out of IFRS 3 *Business Combinations* because the AASB is concerned that the presence of the Australian definition of contribution by owners in AASB 3 may give rise to unintended consequences for IFRS compliance.

Some respondents also suggested that the definition of contribution by owners should be deleted from AASB 1004 *Contributions* (which applies to not-for-profit entities) and UIG Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* (which applies to not-for-profit entities). The AASB investigated making these changes but decided that requirements and guidance in IFRS is presently inadequate to deal with the relevant issues in the context of not-for-profit entities.

A Regulatory Impact Statement has been prepared in connection with the revision of this Standard..