

Explanatory Statement

AASB 2006-2 Amendments to Australian Accounting Standards

March 2006



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 Board 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.

Reasons for Issuing AASB 2006-2

AASB 2006-2 is an amending Standard which makes amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*.

A requirement of AASB 1 (issued in July 2004) is that entities must make an unreserved statement of compliance with Australian equivalents to IFRSs if they are to be eligible to access the transitional provisions offered by AASB 1, which among other things provide transitional relief from certain requirements in some Standards.

During 2005, the AASB was contacted by a number of key constituents in the not-for-profit public sector with significant concerns relating to the transition to Australian equivalents to IFRSs. In particular, they were concerned that they are unable to make an unreserved statement of compliance with Australian equivalents to IFRSs due to information deficiencies that have caused non-compliance with previous GAAP. In order to rectify this situation, the AASB has decided to insert an “Aus” paragraph to allow the use of AASB 1 by not-for-profit public sector entities experiencing extreme difficulties in complying with some Standards subject to making certain disclosures.

Main Features of this Standard

This Standard was made by the AASB on 21 March 2006 under section 334 of the *Corporations Act 2001*.

Application Date

This Standard is applicable to annual reporting periods ending on or after 30 June 2006 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

Main Change

The change to AASB 1 is the addition of paragraph Aus3.2. This paragraph is inserted in order to assist not-for-profit public sector entities in the rare circumstances when they experience extreme difficulties in complying with the requirements of Australian equivalents to IFRS due to information deficiencies that have caused non-compliance with previous GAAP.

Consultation prior to Issuing this Standard

The amendment made by AASB 2006-2 has been made in response to concerns raised by constituents and brought to the attention of the AASB. The AASB issued Invitation to Comment 10 *Proposed Amendments to AASB 1* for public comment in February 2006. All the responses received supported the proposal to widen access to AASB 1 to certain not-for-profit public sector entities experiencing extreme difficulties complying with certain Australian equivalents to IFRSs.

A Regulatory Impact Statement has not been prepared in connection with the revision of this Standard as the amendment it makes does not have a direct, or substantial indirect, effect on business or restrict competition, is of a minor or machinery nature and does not substantially alter existing arrangements.