

TREASURY ANALYSIS - AASB 2007-4

AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments (April 2007) amends 35 Australian Accounting Standards as a result of a review of Australian equivalents to International Financial Reporting Standards

Major impact of changes for 2007/08

- Certain accounting policy options reinstated.
- Disclosure requirements reduced by deleting several Aus paragraphs.
- New and amended disclosures.
- In practice, the impact on the NSW public sector should be minimal.

Key features of Standard

- The amendments arise because the AASB has decided that, in principle, all options that currently exist under IFRSs should be included in the Australian equivalents to IFRSs and additional Australian disclosures should be eliminated, unless considered particularly relevant in the Australian reporting environment.
- The Standard applies to annual reporting periods beginning on or after 1 July 2007 (i.e. years ending on or after 30 June 2008, for 30 June year-end entities). Early adoption is permitted; however, NSW Treasury is likely to prohibit early adoption.

Reinstated accounting policy options (not likely to be adopted by NSW public sector entities)

- Presentation of cash flow statement using the 'indirect method' (AASB 107).
- Dividends paid may be classified as an operating cash flow (AASB 107).
- For-profit entities provided with options related to government grants allowing grants in the form of transfers of non-monetary assets to be recognised at nominal amount; grants related to assets to be presented as a deduction from the carrying amount of the asset; and grants related to income to be deducted in reporting the related expense (AASB 120).
- Interests in jointly controlled entities may be recognised using proportionate consolidation (AASB 131).
- New alternative numerical reconciliation to explain the relationship between tax expense / (income) and accounting profit (AASB 112).
- For-profit entities must use the market yield on high quality corporate bonds to discount superannuation liabilities, unless there is no deep market in corporate bonds in Australia, in which case yields on government bonds must be used. However, not-for-profit public sector entities must continue to use the government bond rate (paragraph Aus78.1 of AASB 119).

Reduced disclosures (limited application)

- Disclosure requirements reduced by deleting several Aus paragraphs to decrease the differences between Australian Accounting Standards and IFRS.

Other Information

- A copy of AASB 2007-4 is available from the AASB website: <http://www.aasb.com.au>.

Main differences applicable for 2007/08 compared to 2006/07

- In practice, there should be very few, if any, differences in 2007/08 compared with 2006/07 because NSW Treasury is likely to prohibit the use of any of the reinstated options.

Impact on the public sector

- Most changes impact both for-profit and not-for-profit entities. However, the changes that relate to ‘reinstated options’ are not expected to be applicable to NSW public sector entities because it is likely that NSW Treasury will prohibit the use of any of the reinstated options (See policy and implementation issues section below).
- Deleted disclosures will have limited or no application to NSW public sector entities; eg disclosures regarding interim financial reports, biological assets, banks and similar financial institutions and presentation currency.
- The Standard does not deal with specific not-for-profit paragraphs as they are expected to be reviewed in conjunction with the New Zealand Financial Reporting Standards Board.

Policy and implementation issues

- Treasury will update its Treasury Mandates Circular in respect of the ‘reinstated options’ and is likely to confirm the current treatment as Treasury’s mandate (ie not permit the use of any of the new options).
- NSW Treasury is likely to mandate, as a Treasury policy, the superannuation disclosure requirement in deleted paragraph Aus121.1 of AASB 119 *Employee Benefits* relating to a measurement in accordance with AAS 25 *Financial Reporting by Superannuation Plans*, pending the outcome of AAS 25 deliberations.
- Regarding unfunded superannuation liabilities, AASB 2007-4 removes the statement in paragraph Aus78.1 of AASB 119 *Employee Benefits* that Australia does not have a sufficiently active and liquid market for high quality corporate bonds, leaving this conclusion to the discretion of any for-profit entity or not-for-profit private sector entity. However, this amendment does not mean that the AASB has changed its view. It continues to require not-for-profit public sector entities to discount using the government bond rate. Therefore, NSW Treasury is likely to mandate, as a Treasury policy, that all NSW public sector entities must use market yields on government bonds to discount post-employment benefit obligations.
- Treasury will not allow early adoption of this Standard (as there is no benefit to do so).
- However, paragraph 30 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires agencies to disclose in their 2006/07 financial statements both that the Standard is not being early adopted and that there is likely to be no financial impact from the application of this Standard when adopted.

This summary has been written in general terms and is intended for reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.