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Headlines is presented as an interactive PDF, with links to online resources on key topics. Simply click on the links ([which look like this](#)). The Headlines table of contents is also interactive – click on the topic you want to go to, and Headlines will jump to three.

International Financial Reporting Standards

Ready to take the plunge?

International Financial Reporting Standards (IFRS) are no longer something for the future – they are here. Delay is not an option for companies moving to IFRS for 2005. The IFRS transition date for many companies passed on 1 January 2004. Other milestones for IFRS comparative information will follow in rapid succession.

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PricewaterhouseCoopers recently completed a survey to help companies to assess their readiness for IFRS and highlight areas that will need further attention before the first IFRS financial statements are published. Companies' readiness for IFRS was assessed in the following main areas:

- Project set-up and resourcing
- Communicating impacts
- Embedding – data, systems, training, process and controls
- Key technical issues.

Structured interviews were conducted with 39 company officers – generally the IFRS transition project leader – in July 2004. The vast majority of these companies are publicly listed. All of them are in the process of changing to IFRS for 2005. All the companies were asked the same key questions, and their readiness assessed on a scale of 0 to 4 against specific criteria for each question.

The results show that the vast majority of the companies surveyed still have a lot of work to do to make the change to IFRS. This is a concern, though perhaps not surprising given that the final text of the standards they are being asked to implement has only recently been released. Companies must now forge ahead with their plans and make fast progress in the next few months.

Key findings

Over 90% of Australian companies surveyed have at least some understanding of the impact of IFRS on their business

A majority of companies have at least started to assess the impact of IFRS on their reporting and key performance indicators. One in ten, however, has not started this crucial part of making the change to IFRS.

A majority of companies have started to set up their IFRS project framework

Most companies have set up their IFRS project and begun the process of planning the change, even though some of these are still finalising their project management and procedures. The rest have either made very limited progress or not started at all (13%). Those that are behind the curve will need to catch up quickly, as a clear project framework can help to give the capital markets confidence that companies can deliver timely and reliable IFRS information.

None of the companies surveyed have already focused on communicating to the market

None of the respondents have determined how they will communicate changes in their financial information to the markets. The challenge for companies is to avoid 'surprises' that could trigger negative market reactions.

Shortage of skilled resources is one of the toughest challenges companies face

61% of companies have at least some full-time resource working on their IFRS transition projects. However, just 15% of respondents are confident that they have the right people and skills in place to help them complete the change in time. The concern for companies is whether the people they need will be available as the demand for IFRS specialists reaches its peak in 2004/2005.

Training and communication strategies are still pending for the majority of companies

Just under a third of companies either have their training / communications strategies in place and in action, or they are in the process of a comprehensive needs analysis. This leaves a majority with a lot of work to do in this area. Staff at all levels in an organisation need to understand the new reporting language and how it affects their working practices.

Most companies have significant work ahead to embed IFRS as 'business as usual'

Identifying missing information that will be needed for IFRS reporting is a critical step for companies changing to IFRS. This must now be made a priority for almost three-quarters of companies that have yet to complete this step. Companies will need IFRS comparative data for 2004 in their 2005 accounts.

The experience of existing IFRS reporters has shown that adapting IT systems to produce the required information is one of the most challenging and time consuming steps.

So far, just 24% have sourced their IFRS data, completed their assessment of the priority information systems enhancements and prioritised development effort. Only once these steps have been taken can companies generate audited financial statements for the 2005 financial year and be sure that they will not surprise the market.

Implications for Australian companies

This is the biggest accounting change in a generation, and it comes at the same time as other big corporate reporting changes such as the CLERP 9 requirements. IFRS is intended to give investors and other stakeholder's access to high-quality financial information that, for the first time, is comparable across borders.

Analysts and investors are starting to call for more information on IFRS. Some investment analysts have reported that readiness for IFRS will be included in their evaluation of management performance. This suggests that if companies are unable to demonstrate during 2004 that they have 'IFRS 2005' under full control, they risk damaging themselves in stakeholders' eyes.

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The results of this survey show that some companies have made significant progress and should be well placed to meet their IFRS deadlines. Conversely, a majority of companies still have a lot to do to make a successful transition. Now, with less than two months until IFRS comes into force, delay is no longer an option.

For more information, or to download a copy of the survey results, visit <http://www.pwc.com/au/ifrs>

In force

Hierarchy of accounting pronouncements

The Australian Accounting Standards Board (AASB) has commented on the International Accounting Standards Board's (IASB) [hierarchy of pronouncements](#) to be considered in making judgements on accounting policies in the absence of a standard or an interpretation that specifically applies to a transaction or event.

ASIC announces transitional position on dollar disclosure

The Australian Securities and Investments Commission (ASIC) has [published a class order](#) to extend the date for compliance with the dollar disclosure regime from 1 January 2005 to 1 March 2005. Under the dollar disclosure provisions, providing entities and product issuers will be obliged to disclose various fees, benefits, costs and interests as amounts in dollars in their

Statements of Advice, Product Disclosure Statements and periodic statements. ASIC expects to publish a final policy statement in November 2004, which will specify in what circumstances, if any, ASIC might determine that dollar disclosure is not possible, unreasonably burdensome or contrary to clients' interests. The transitional relief gives the industry a short period of additional time to comply with the eventual final dollar disclosure regime and ASIC does not expect to grant any further general extension.

In progress

Accounting standards for small and medium-sized entities

The AASB has responded to a discussion paper issued by the IASB on international financial reporting standards (IFRS) for [small and medium-sized entities \(SMEs\)](#). The AASB does not favour providing relief from the recognition and measurement requirements in IFRS for any type of reporting entity. It considers that SMEs should be required to apply full IFRS. However there may be merit in relieving SMEs from some disclosure requirements. The AASB also considers that the quantitative "size test" should not be a factor in determining whether an entity is a reporting entity.

Administration of liquidator registration

ASIC has released a policy proposal paper on [External administration: Liquidator registration](#). It provides detailed and updated guidance on how ASIC proposes to interpret

the eligibility criteria to be a registered liquidator and official liquidators. It also explains how registration applications should be made, the ongoing obligations of registered liquidators under the Corporations Act 2001 and ASIC's expectations towards them. ASIC will be undertaking direct consultation with insolvency practitioners, insolvency lawyers and bodies representing creditors and employees before settling the policy, which is planned to be issued in the first half of 2005.

Relief for managed investment scheme constitutions

ASIC has [called for comments](#) on its proposal to grant class order relief relating to the constitutions of registered managed investment schemes. The proposed relief would allow the responsible entity (RE) of a scheme to retain limited discretion to charge entry and exit fees and make an allowance for certain transaction costs in some cases. It would also allow the RE to determine the recognition and timing, or method of valuation, of amounts affecting the value of scheme interests, if various conditions were met, which include disclosing the full details of transaction costs, entry and exit fees charged and valuations in the Product Disclosure Statement. ASIC aims to finalise its policy by 31 March 2005.

introduced by the Australian equivalents of IFRS. Accordingly, gains from disposal of property, plant and equipment, rather than proceeds from the disposal, should be included in aggregate revenue.

Business combinations issues

The IASB has issued an article explaining certain issues related to the implementation of the international accounting standard on [business combinations](#). In particular, the IASB has decided to retain the scope exclusions for combinations involving mutual entities or by contract alone without the obtaining of an ownership interest.

Breach notification Ð AFS licensees

ASIC has issued a guide on the [breach notification requirements](#) for Australian financial services (AFS) licensees under the Corporations Act 2001. It provides guidance on factors that licensees must consider in judging whether a breach or likely breach is 'significant' for the purpose of timely notification to ASIC, as well as examples of some breaches which may be significant. It also provides guidance on how to report a breach to ASIC in writing.

Inform

ASIC details auditor independence surveillance

The first round of ASIC surveillance to regulate compliance with the CLERP 9 [audit independence requirements](#) will commence in the last quarter of 2004. ASIC will be conducting on-site visits to review the systems and processes that audit firms have in place to ensure compliance with the independence requirements under the Corporations Act 2001. In the first year, ASIC will review the 'Big 4' accounting firms, selected mid-tier firms, and any other firms where evidence of systemic independence issues arise during the course of its financial reporting surveillance program. In the second year, ASIC will expand the program to cover audit firms with a smaller number of listed company clients, and over time all audit firms will be covered on a systematic basis.

Reporting revenue by government

The AASB has expressed a view on the requirement to disclose [Òaggregate revenueÓ](#) on the existing accounting standard on financial reporting by government. They believe, until the standard is revised, the requirement should be interpreted in light of the definitions relating to [ÒrevenueÓ](#) and [ÒincomeÓ](#)

ASIC targets unlicensed financial services businesses

ASIC will be [conducting compliance checks](#) over the next six months on anyone that appears to be conducting a financial services business without holding an Australian financial services licence (AFSL) or representing a licensee. Since the financial services reforms came into full effect on the transition deadline of 11 March 2004, unlicensed operators face a penalty of \$22,000 fine or imprisonment for two years, or both.

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