

Chapter 1

INSTITUTIONAL ARRANGEMENTS FOR SETTING ACCOUNTING STANDARDS IN AUSTRALIA

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- 1 identify the main sources of regulation of financial reporting;
- 2 identify the major developments in the institutional arrangements for accounting standard-setting;
- 3 explain the present accounting standard-setting arrangements;
- 4 explain the process of developing accounting standards and concepts statements in Australia;
- 5 explain the process of developing interpretations; and
- 6 explain the process of enforcing accounting standards and interpretations.

QUESTIONS

- 1 The three main sources of regulation governing accounting policies and financial reporting practices in Australia are government legislation, the Australian Securities Exchange Ltd (ASX) Listing Rules, and accounting standards and other pronouncements issued by the Australian Accounting Standards Board (AASB).

Government Legislation:

In the private sector, the most important legislation specifying financial reporting requirements is the *Corporations Act 2001*. In particular, the Corporations Act specifies general requirements that require the financial report to comply with accounting standards and to present a true and fair view. The form and content of the statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows are considered in accounting standards issued by the Australian Accounting Standards Board (AASB) that are discussed in later chapters of this book.

ASX Listing Rules:

The listing rules of the ASX apply only to entities whose securities are listed on the ASX. The disclosure requirements of the ASX are contained in Chapter 3 (continuous disclosure), Chapter 4 (periodic disclosure) and Chapter 5 (additional reporting on mining and exploration activities) of the listing rules. The listing rules specify the detailed disclosure of financial information and require the disclosure of some information not required by the Corporations Act (e.g. various disclosures relating to the 20 largest holders of each class of quoted equity securities). If a listed company does not comply with the ASX Listing Rules, it may be delisted.

The ASX has also issued *Corporate Governance Principles and Recommendations* as amended in 2014 through its Corporate Governance Council. There are eight guidelines to which 29 recommendations are attached. The guidelines and associated recommendations are not mandatory. However, the listing rules include two mandatory requirements relating to the corporate governance guidelines. First, ASX Listing Rule 4.10.3 requires listed entities to disclose in their annual reports the extent to which they have followed the guidelines during the reporting period. Second, ASX Listing Rule 12.7 requires that companies included in the S&P/All Ordinaries Index have an audit committee and that companies included in the S&P/ASX 300 Index have an audit committee that is constituted in accordance with the *Corporate Governance Principles and Recommendations*.

Accounting Standards and Other Pronouncements Issued by the AASB:

The third source of regulation governing financial reporting is accounting standards and

interpretations prepared by the Australian Accounting Standards Board (AASB). Accounting standards and interpretations are concerned with both accounting measurement and disclosure. Authority is provided to AASB accounting standards by the Corporations Act. The Accounting Professional and Ethical Standards Board (APESB) provides similar authority for Australian accounting standards via *APES 205* 'Conformity with Accounting Standards' (para. 5).

- 2 The role of the ASX's *Corporate Governance Principles and Recommendations* as amended in 2014 is to provide a voluntary code of best practice corporate governance to guide listed companies. There are eight principles supported by 29 recommendations provided to listed companies. The guidelines and associated recommendations are not mandatory. However, the listing rules include two mandatory requirements relating to the corporate governance guidelines. First, ASX Listing Rule 4.10.3 requires listed entities to disclose in their annual reports the extent to which they have followed the guidelines during the reporting period. Second, ASX Listing Rule 12.7 requires that companies included in the S&P/All Ordinaries Index have an audit committee and that companies included in the S&P/ASX 300 Index have an audit committee that is constituted in accordance with the *Corporate Governance Principles and Recommendations*.

The guidelines are always a 'work-in-progress' as their application and relevance need to be monitored as business practices and community expectations change over time.

- 3 The Australian Professional and Ethical Standards Board (APESB) was established as an initiative of CPA Australia and the then ICAA (now CAANZ) primarily to develop and issue appropriate professional and ethical standards for their membership. (The IPA has subsequently become a member.)

The APESB has reviewed existing professional and ethical standards such as the old Code of Professional Conduct and Miscellaneous Professional Statements (APS series) and guidance notes (GN series). The subsequent APES series of ethical and professional standards approved by the APESB are mandatory for accountants who are members of CPA Australia, the ICAA and the IPA.

The specific professional standard and ethical standard *APES 205* 'Conformity with accounting standards' requires members to comply with accounting standards as follows:

- 4.3 Members who are involved in, or are responsible for, the preparation and/or presentation of Financial Statements of a Reporting Entity shall take all reasonable steps to ensure that the Reporting Entity prepares General Purpose Financial Statements.

- 5.1 Members shall take all reasonable steps to apply Australian Accounting Standards when they prepare and/or present General Purpose Financial Statements that purport to comply with the Australian Financial Reporting Framework.
- 5.2 Where Members are unable to apply Australian Accounting Standards pursuant to paragraph 5.1, they shall take all reasonable steps to ensure that any departure from Australian Accounting Standards, the reasons for such departure, and its financial effects are properly disclosed and explained in the General Purpose Financial Statements.
- 5.5 Members in Public Practice shall take all reasonable steps to ensure that Clients have complied with Australian Accounting Standards when they perform an Audit or Review Engagement or a compilation Engagement of General Purpose Financial Statements which purport to comply with the Australian Financial Reporting Framework.

Compliance with *APES 205* is mandatory for members of the professional accounting bodies, and non-compliance represents a breach of the code of ethics issued by the Accounting Professional and Ethical Standards Board. Failure by members to comply with the requirements of *APES 205* could result in disciplinary proceedings being brought against them, which could result in the imposition of a fine or expulsion from the professional body.

- 4 The present institutional arrangements for accounting standard-setting in Australia are summarised in Figure 1.1 in Chapter 1.

Financial Reporting Council:

The Financial Reporting Council (FRC) is a statutory body under the *Australian Securities and Investments Commission Act 2001*. It is the peak body responsible for the broad oversight of the accounting and auditing standard-setting process in Australia. The FRC is also responsible for monitoring the effectiveness of auditor independence requirements in Australia and has an oversight function of the Auditing and Assurance Standards Board (AUASB).

In general, the FRC has responsibility for oversight of the AASB and for presenting reports and advice on the Australian accounting standard-setting process to the Minister. The role of the FRC includes:

- appointment of the members of the AASB (except for the full-time Chair who is appointed by the Minister);
- approving and monitoring the AASB's priorities, business plan, budget and staffing arrangements;
- determining the AASB's broad strategic direction;

- giving the AASB directions, advice or feedback on matters of general policy and the AASB's procedures; and
- monitoring the development of international accounting and auditing standards, working to further the development of a single set of accounting and auditing standards for world-wide use and promoting the adoption of these standards.

Although the FRC has wide-ranging powers, the FRC cannot become involved in the technical deliberations of the AASB. For example, the FRC does not have the power to veto a standard formulated or recommended by the AASB, nor direct the AASB in relation to the development or making of a particular standard.

Under section 235A of the *Australian Securities and Investments Commission Act 2001*, members of the FRC are appointed by the Minister and hold office on terms and conditions determined by the Minister. <www.frc.gov.au>.

Australian Accounting Standards Board:

The Australian Accounting Standards Board (AASB) began operations in 1991, replacing the Australian Accounting Standards Review Board (ASRB). At this time, the ASRB was Australia's sole standard-setting body for the private sector and its activities were complimented by the Public Sector Accounting Standards Board (PSASB) which developed accounting standards applicable to all other reporting entities. The passage of CLERP in October 1999 resulted in the activities of the PSASB merging into those of the AASB.

The reconstituted AASB is an Australian government agency under the Australian Securities and Investments Commission Act. It has responsibility for making accounting standards applicable not only to entities coming under the jurisdiction of the Corporations Act but also for entities in the public sector and the remainder of the non-corporate sector. The AASB's major functions are specified in section 227(1) of the Australian Securities and Investments Commission Act as follows:

- 1) to develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards;
- 2) to make accounting standards under section 334 of the *Corporations Act 2001* for the purposes of the national scheme laws;
- 3) to formulate accounting standards for other purposes;
- 4) to participate in and contribute to the development of a single set of accounting standards for worldwide use; and
- 5) to advance and promote the main objectives of Part 12 of the Act as set down in section 224, which include reducing the cost of capital, enabling Australian entities

to compete effectively overseas and maintaining investor confidence in the Australian economy.

The Minister appoints the chair of the AASB, and the chair is subsequently accountable to the Minister regarding the operations of the AASB. The AASB comprises nine part-time members plus the full-time chair. Member appointments to the AASB are made by the FRC from nominations received from a number of bodies including CPA Australia, the ICAA, the Business Council of Australia and the ASX. In addition, the AASB presently has one observer – the member of the International Accounting Standards Board, the Australian representative of the IFRS Interpretations Committee. Meetings of the AASB are open to the public. <www.aasb.com.au>.

The Office of the AASB:

The *Governance Review Implementation (AASB and AUASB) Bill 2008* was passed by Parliament in June 2008. *Inter alia*, the Bill established the Office of the AASB to support the operations of the AASB through the provision of technical and administrative services, information and advice. The chief executive officer of the Office is the chair of the AASB, who is also responsible to the Minister for the financial management of the Office.

The Minister:

The Minister is one of three Treasury Ministers from the Federal Government.

- 5 The AASB will typically issue material for public comment and discussion with stakeholders in the form of:
- Discussion Papers (DP) outlining a wide range of possible accounting policies on a particular topic;
 - Exposure Drafts (ED) of a proposed standard or amendment to a standard;
 - Invitations to Comment (ITC) that seek feedback on broad proposals; or
 - Draft Interpretations of a standard.

At present, constituents' comments on the materials issued by the AASB are obtained from the following avenues: Focus Groups, Project Advisory Panels, Interpretation Advisory Panels, and the Academic Advisory Panel.

Focus Groups:

There are currently two Focus Groups – the User Focus Group and the Not-for-Profit Focus Group. In general, these groups serve as a resource to the AASB in formulating standard-setting priorities, advising on specific agenda projects and providing feedback to assist on developing standards. The User Focus Group generally comprises eight to

10 investment and credit professionals and the Not-for-Profit Focus Group comprises eight to 10 professionals with expertise and involvement in charitable and related organisations.

Project Advisory Panels:

Input is also received from Project Advisory Panels that work with the AASB staff to develop agenda material relating to specific standard-setting projects for consideration by the Board. Invitations are issued to experts in a particular field or topic area to join a Project Advisory Panel.

Interpretation Advisory Panels:

As part of the process of issuing interpretations, the AASB decides, on a topic-by-topic basis, whether to appoint an *Interpretation Advisory Panel*. The role of the Advisory Panel is limited to preparing alternate views on a specific issue and, where relevant, recommendations for consideration by the AASB. An Interpretation Advisory Panel normally comprises between four and eight members. These members include the AASB Chair, at least one other AASB member, and other members appointed on the basis of their professional competence and practical experience in the topic area. Members are typically drawn from a register of potential Interpretation Advisory Panel members maintained by the AASB.

Academic Advisory Panel:

In 2015 the AASB established an Academic Advisory Panel, which is chaired by the academic member of the AASB and consists of six other academics from around Australia. One aim of the Academic Advisory Panel is to increase the level of communication between the AASB and the research community. Standard setters around the world are increasingly seeking objective evidence to inform their deliberations, and the Academic Advisory Panel assists the AASB by bringing relevant research findings to its attention and encouraging researchers to explore topics of mutual interest with the AASB.

- 6 (a) The due process used to develop an accounting standard is summarised in Figure 1.2 in Chapter 1. The first step is *identification of a technical issue* to be added to the AASB's work program. This can happen in one of three ways:
- 1) Inclusion in the AASB's program of issues on the International Accounting Standards Board's (IASB) and the International Financial Reporting Interpretations Committee's (IFRIC) work programs;
 - 2) Inclusion in the AASB's program of issues on the International Public Sector Accounting Board's (IPSASB) work program; and

- 3) Inclusion in the AASB's work program of issues identified by AASB Board members and staff, as well as Australian organisations and individuals. (Issues relating to for-profit entities are normally referred to the IASB or IFRIC for consideration, while issues relating to not-for-profit entities may be referred to the IPSASB or addressed domestically.)

The second step involves the development of a *project proposal* by the AASB. This contains an assessment of the potential benefits of the project, the potential costs of not undertaking it, resource availability and timing. After reviewing the proposal the AASB makes a decision on whether to place the project on its agenda (and therefore work program).

Once an issue is included on the AASB's agenda, the third step involves the preparation of *agenda papers* by AASB staff. Agenda papers consider the scope of issues, alternative approaches, and the timing of outputs. They are prepared using material drawn from the IASB, IPSASB, the New Zealand Accounting Standards Board, and other such organisations.

The fourth step involves the exposure of the results of the research conducted in step three to facilitate *public comment and discussion with stakeholders* in the form of:

- Discussion Papers (DP) outlining a wide range of possible accounting policies on a particular topic;
- Exposure Drafts (ED) of a proposed standard or amendment to a standard;
- Invitations to Comment (ITC) that seek feedback on broad proposals; or
- Draft Interpretations of a standard.

Feedback from the public and stakeholders may be obtained through round-table discussions with stakeholders, Focus Groups, Project Advisory Panels, Interpretation Advisory Panels, and the Academic Advisory Panel.

The fifth step involves Board discussion of the results of the feedback received on an agenda item. There are two possible outcomes from this discussion:

- 1) A standard is not issued. In this situation, the Board notes its view in the minutes of a meeting or in a formal Board agenda decision.
- 2) An accounting standard is issued.

- (b) Students should visit the Work in Progress page on the AASB website <www.aasb.gov.au>.

- 7 (a) The due process used by the AASB to develop accounting standards is outlined in the answer to Question 6(a).

- (b) Currently, the AASB issues interpretations as a means of providing timely guidance on urgent financial reporting issues. For example, *AASB Interpretation 2* 'Members' Shares in Co-operative Entities and Similar Instruments' deals with how to determine the economic substance of 'shares' issued by co-operative entities to their members. For example, often a co-operative entity's constitution requires the entity to buy-back its shares from a member who decides to leave the co-operative. As the entity cannot avoid buying-back the share, this suggests that the share instrument is more in the nature of a liability than an equity instrument (even though it is called a 'share'). Interpretation 2 provides guidance on how to classify such 'shares'.

The due process used to develop an interpretation has a much shorter timeframe than the due process necessary to develop an accounting standard. To illustrate, the AASB will issue an interpretation as follows:

- Interpretation Advisory Panels may be formed, as required on a topic-by-topic basis. The role of a panel is to prepare alternative views on the issue and, where appropriate, make recommendations to the AASB.
- The due process will include publishing the composition of each panel and its recommendation on the AASB's website for an appropriate period. Where the AASB proposes to issue an interpretation, the proposed interpretation will be further exposed on the AASB's website for an appropriate period before the AASB considers it for formal adoption.

- 8 AASB Interpretations are designed to provide timely guidance to preparers of financial statements on various financial reporting issues. For example, sometimes after an accounting standard is issued, problems occur in its implementation where diversity in practice arises because financial statement preparers interpret the requirements of the standard in diverse ways. In addition, financial reporting problems may arise which do not warrant either amendments to an existing standard or the preparation of a new standard. In these cases, it may have been appropriate to resolve the problems by issuing an interpretation to clarify, explain or elaborate upon existing standards. Thus, interpretations have a much narrower scope than accounting standards. They do not introduce 'new' requirements, rather they clarify the application of the existing requirements in the relevant accounting standards.

- 9 An answer to this question should identify the differences between accounting standards and accounting interpretations as follows:

(a) **Scope**

- Accounting standards address much broader issues/topics than interpretations. Accounting standards prescribe accounting and disclosure requirements

relating to a broad area/topic, for example, *AASB 137* 'Provisions, Contingent Liabilities and Contingent Assets'.

- Interpretations prescribe accounting and/or disclosure requirements relating to very specific/narrow issues, for example, *Interpretation 132* 'Intangible Assets – Web Site Costs'.

(b) Context/Framework

- AASB evaluates proposed accounting standards in the context of the conceptual framework.
- Interpretations are prepared in the context of existing accounting standards and the conceptual framework.

(c) Due Process

- Accounting standards are developed by the AASB after an extensive due process, including consultation with a broad range of constituents, and the preparation of discussion papers, exposure drafts and draft standards.
- Interpretations are prepared after a much less extensive due process, which does not involve the same level of constituent consultation, or preparation of documents for public comment.

(d) Approval Process/Veto Power

- After an accounting standard is finalised by the AASB, it may be disallowed by Parliament within 15 sitting days of it being tabled in Parliament.
- There is no such veto power in relation to interpretations.

(e) Authority

- **AASB Accounting Standards:** The *Corporations Act 2001* requires reporting entities to comply with AASB Accounting Standards and ASIC enforces compliance with those standards. Additional authority is derived from *AASB 1057* 'Application of Australian Accounting Standards' (accounting standards and interpretations) and *AASB 1048* 'Interpretation of Standards' (interpretations).
- **Interpretations:** Paragraph 5 of *APES 205* 'Conformity with Accounting Standards' *APSI* requires members of CPA Australia and CAANZ to comply with accounting standards and AASB Interpretations. CPA Australia and CAANZ enforce compliance with Australian Accounting Standards and AASB Interpretations.
- The *Corporations Act 2001* does not explicitly require compliance with interpretations, but ASIC has indicated support for the interpretations by attending and participating in meetings of the Interpretations Agenda Committee as an observer. Effectively, interpretations have the same authority as accounting standards.

10 The AASB's Interpretations model has been effective since 1 January 2008 and its major features are as follows.

- 1) Interpretation Advisory Panels may be formed, as required on a topic-by-topic basis. The role of a panel is to prepare alternative views on the issue and, where appropriate, make recommendations to the AASB.
- 2) A public register of potential Interpretation Advisory Panel members is maintained on the AASB website and it is from this register that Panel members are drawn.
- 3) Interpretations of IASB accounting standards are made by IFRIC. Where AASB accounting standards are equivalent to IASB accounting standards, the IFRIC Interpretations will be relevant in Australia. Additionally, if an issue arises that relates to the interpretation of an AASB accounting standard that is equivalent to an IASB accounting standard, it will be forwarded to IFRIC for consideration and possible inclusion in its work program. However, if an issue arises in relation to an AASB accounting standard that does not have an IASB equivalent, the issue will be resolved by the AASB.
- 4) The due process will include publishing the composition of each panel and its recommendation on the AASB's website for an appropriate period. Where the AASB proposes to issue an interpretation, the proposed interpretation will be further exposed on the AASB's website for an appropriate period before the AASB considers it for formal adoption.

11 The reasons for why the AASB would create the Academic Advisory Panel can be determined from examining the role of the Panel as specified in its Charter. The Charter states:

The role of the Panel is to contribute to meeting the AASB's strategies, particularly with regard to influencing the Australian financial reporting framework and influencing international standard setting with evidence-based research.

In fulfilling this role, the Panel is to facilitate:

- communication with the academic community and contacts with relevant academics on topics of interest to the AASB;
- matching up academics with AASB access to data and constituents and, in turn, helping to obtain grants and other resources;
- prioritising AASB research projects;
- identifying academic papers that could be provided/presented to the AASB, which could be on current projects or possible future projects;
- an academic-in-residence program;
- AASB staff conducting seminars for students, especially at Graduate and PhD levels;
- building relationships with relevant journals;
- access to relevant research databases;
- participating in relevant AASB liaison; and

- building the relationship with the AFAANZ board.
- 12 There are three groups responsible for enforcing the accounting standards issued by the AASB. They are: the accounting bodies; the Australian Securities and Investments Commission; and governments. The enforcement mechanisms employed by each of these groups are considered in turn.

Accounting Bodies:

The profession's attitude towards accounting standards has changed from regarding them merely as recommendations during the 1960s to making them mandatory in the 1990s.

The Australian Professional and Ethical Standards Board (APESB) was established in 2006 as an initiative of CPA Australia and the then ICAA (now CAANZ) primarily to develop and issue appropriate professional and ethical standards for their membership. Of these professional standards and ethical standards, *APES 205* 'Conformity with accounting standards' requires members to comply with accounting standards as follows.

- 4.3 Members who are involved in, or are responsible for, the preparation and/or presentation of Financial Statements of a Reporting Entity shall take all reasonable steps to ensure that the Reporting Entity prepares General Purpose Financial Statements.
- 5.1 Members shall take all reasonable steps to apply Australian Accounting Standards when they prepare and/or present General Purpose Financial Statements that purport to comply with the Australian Financial Reporting Framework.
- 5.2 Where Members are unable to apply Australian Accounting Standards pursuant to paragraph 5.1, they shall take all reasonable steps to ensure that any departure from Australian Accounting Standards, the reasons for such departure, and its financial effects are properly disclosed and explained in the General Purpose Financial Statements.
- 5.5 Members in Public Practice shall take all reasonable steps to ensure that Clients have complied with Australian Accounting Standards when they perform an Audit or Review Engagement or a compilation Engagement of General Purpose Financial Statements which purport to comply with the Australian Financial Reporting Framework.

Compliance with *APES 205* is mandatory for members of CPA Australia and the ICAA, and non-compliance represents a breach of the *Code of Professional Conduct* of the accounting bodies. Failure by members to comply with the requirements of *APES 205*

could result in disciplinary proceedings being brought against those members, which could result in a fine or expulsion from the professional body.

Australian Securities and Investments Commission:

Accounting standards issued by the AASB are supported by the *Corporations Act 2001*. This law applies only to those entities required to report under the *Corporations Act 2001*.

Under section 296 of the *Corporations Act 2001*, the governing board of a company is required to comply with AASB accounting standards in preparing financial reports. Failure to comply is an offence under the Corporations Act which could lead to prosecution by ASIC.

Governments:

A standard-setting board cannot issue accounting standards that are legally binding on governments. It is the responsibility of the relevant legislatures to require compliance with accounting standards. Various pieces of legislation require the use of accounting standards in the preparation of financial reports by reporting entities in the public sector. For example, Commonwealth statutory authorities and some Commonwealth departmental authorities are required to comply with accounting standards as a result of guidelines issued pursuant to the *Audit Act 1902*. The various Australian States and Territories have similar pieces of legislation.

- 13 The objective of this question is simply to allow students to observe a practical example of enforcement in action. ASIC regularly issues media releases drawing attention to various restatements of financial statements and other similar issues and so these should be relatively easy for students to find.

For their chosen example, students should clearly identify what is the matter on which ASIC and the relevant company have disagreed and, where sufficient information is available, which accounting treatment the company adopted and which was preferred by ASIC (and why this treatment was preferred).

Students might observe that in the majority of cases the companies concerned may continue to suggest that their treatment was the correct or appropriate one but that they will voluntarily restate their accounts as suggested by ASIC.

Reasons why ASIC may publish these examples is to demonstrate to companies and the community that it is serious about, and active in, monitoring compliance with accounting standards. Such an approach is a much cheaper and less antagonistic form

of regulation compared, say, to ASIC seeking to enforce compliance through the courts.

- 14 (a)** ASIC conducts regular reviews of reporting entities' financial statements to ensure that investors, creditors and other users of those statements are provided with relevant, reliable, and comparable decision useful information. The quality of financial reporting is evaluated by ASIC on the basis of reporting entities' compliance with Australian accounting standards. The reviews assist ASIC in meeting its legislative obligations and signal to financial statement preparers and users that ASIC takes its responsibilities seriously. The reviews can also serve an educative purpose by assisting entities to understand the application and interpretation of reporting regulations.

(b) Accounting for the extractive industries is covered in Chapter 19. However, students can be encouraged to consider how the nature of the mining and renewable energy industries can impact on financial reporting practices. For example, most students are likely to understand that mining is highly risky because of factors such as the uncertainties associated with finding economically recoverable reserves and the fluctuations associated with the market prices for commodities. Consequently, the value of mining companies' assets can be highly sensitive to these risks and so issues of asset carrying value and potential impairment are of considerable importance to mining companies. For instance, during 2016, many Australian entities that mined iron ore and produced steel were forced to undertake significant impairment of their assets as a result of the collapse of the market price for iron.

- 15 (a)** Non-IFRS financial information refers to financial information that has not been prepared in accordance with Australian accounting standards. Other names for non-IFRS financial information include 'non-statutory profits' and 'underlying profits'. IFRS financial information (sometimes also called 'statutory profits') is financial information prepared in accordance with Australian accounting standards. Typically, non-IFRS financial information is prepared by converting IFRS financial information to what an entity's management believes is a more appropriate measure of financial performance. Non-IFRS financial information often excludes unusual write-offs and fair value adjustments. The general objective of these adjustments is to provide the users of the financial statements with information about the 'true' (as perceived by management) operational performance of the entity. It has become increasingly common for entities to report both IFRS and non-IFRS financial information in their annual reports.

(b) As managers determine what items are included in non-IFRS financial information, there is the potential for them to overstate the performance of the entity or to 'dress up' performance to represent whatever picture management desires. Usually, profit disclosed using non-IFRS financial information is higher than under IFRS. In addition,

managers across entities are likely to make different choices about how non-IFRS financial information is determined and this risks reducing the comparability of financial information across entities. As noted in the ASIC Regulatory Guide 230, ASIC has been concerned that some entities have given undue prominence to their non-IFRS financial information over the IFRS financial information which has the potential to mislead financial information users.

(c) The most significant item of concern to ASIC was the labelling of some items in non-IFRS profit as 'extraordinary items'. Such terminology is not part of IFRS (although it was used many years ago). Extraordinary items implies that the specific revenue or expense referred to is in some way very unusual in its size or that it occurs highly infrequently. As such, the implication is that extraordinary items should not be considered by financial statement users as being representative of the entity's performance or financial position. ASIC is right to be concerned because often items that are labelled as 'extraordinary' are items such as impairments which are really a common type of expense. The other concern expressed in the media release is that entities should be careful to ensure that non-IFRS financial information is clearly distinguished from IFRS financial information. The reasons for this concern were noted in the answer to (b) above.

16 (a)

Continuous disclosure obligations require the Company to keep the market fully informed of information which may have a material effect on the price or value of the company's securities and to correct any material mistake or misinformation in the market. The Company discharges these obligations by releasing information to the ASX in the form of an ASX release or disclosure in other relevant documents (for example, the Company's Annual Report).

ASX Listing Rule 3.1 is key to the continuous disclosure regime: it stipulates that 'once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell ASX that information' (ASX Listing Rule 3.1).

There are some exceptions from continuous disclosure that include:

- A reasonable person would not expect the information to be disclosed.
- The information is confidential and ASX has not formed the view that the information has ceased to be confidential.
- One or more of the following applies:
 - It would be a breach of law to disclose the information.
 - The information comprises matters of supposition or is insufficiently definite to warrant disclosure.

- The information concerns an incomplete proposal or negotiation.
- The information is generated for internal management purposes.
- The information is a trade secret.

More recently the ASX has issued Guidance Note 8 to clarify its position on continuous disclosure. GN 8 makes the following clarifications:

- Material information relates to market movements in price rather than earnings;
- Immediately means promptly and without delay;
- Confidentiality is lost if the share price moves or trading volume increases;
- De-emphasise the ‘reasonable person’ test that provides an exception to disclosure.

(b)

This question is answered using the compliance report prepared for the month of February 2017. In this period, the ASX made 15 price queries and 21 ‘other continuous disclosure’ queries. A price query is made by the ASX if it detects unusual movements in a listed entity’s security price or trading volume. An ‘other’ query is made when the ASX has concerns that an entity is not in compliance with continuous disclosure requirements following events such as a media report or an announcement lodged with the ASX.

(c)

The ASX will refer a matter to the ASIC if it has reason to suspect that a person has contravened, is contravening, or is about to commit a significant contravention of the ASX Group Operating Rules or the Corporations Act.

It does not automatically follow that because a matter has been referred to ASIC that (1) a contravention has occurred and/or (2) ASIC will take enforcement proceedings in relation to it.

The February 2017 *Monthly Activity Report* shows only one continuous disclosure referral was made to the ASIC.

17 (a) Since 1980, there have been many changes to the institutional arrangements for setting accounting standards in Australia. The following developments may be noted by students:

Mid-1978 The Australian Society of Accountants (now CPA Australia) and Institute of Chartered Accountants in Australia decided to reorganise the standard-setting arrangements and the procedures for preparing accounting standards. The Accounting Standards Board (AcSB) was formed under the auspices of the Australian Accounting Research Foundation, a body jointly funded by the professional accounting bodies.

1983 The Public Sector Accounting Standards Board (PSASB) was established.

- 1984 The AcSB and PSASB, joined by the Accounting Standards Review Board (ASRB), established the Ministerial Council for Companies and Securities with wide powers, including the power to: sponsor the development of accounting standards; review accounting standards referred to it; and approve accounting standards.
- 1988 The AcSB merged with the ASRB. It was agreed by the professional accounting bodies and the Ministerial Council for Companies and Securities that the ASRB should be the sole standard-setting body for the private sector.
- 1990 Proposals for the establishment of an independent Foundation, and the merger of the ASRB and the PSASB, in a report prepared by Professor Graham Peirson (*A Report on Institutional Arrangements for Accounting Standard Setting in Australia*).
- 1991 The Australian Accounting Standards Board (AASB) was established to replace the ASRB.
- 2000 The Australian Accounting Standards Board was reconstituted as the sole accounting standard-setting body in Australia, absorbing the role of the PSASB.

It is questionable whether the changes in the institutional arrangements for accounting standard setting in the 1980s and 1990s have improved the quality of the standards and the productivity of the standard setters. However, the changes have demonstrated that accounting standard setting has become very much a political process.

- (b) A review of the institutional arrangements for setting accounting standards by Professor Graham Peirson (*A Report on Institutional Arrangements for Accounting Standard Setting in Australia*, 1990) made recommendations for change. The proposals were designed to overcome some of the perceived disadvantages of the standard-setting arrangements at that time. Under the *Corporations Act 2001*, accounting standards developed by the AASB are valid only to the extent that they are consistent with that Act. As a result there was a constraint on the AASB's ability to issue relevant accounting standards. For example, the accounting standard on consolidated financial reports which was completed by the standard-setting boards in 1989 was not gazetted as an accounting standard (*AASB 1024*) until the legislation was amended in 1991 to make it consistent with the proposed AASB Accounting Standard. This constraint on the AASB's activities would be detrimental to the standard-setting process if it resulted in a tendency towards inflexibility and a lack of responsiveness to the needs of users. With the proposed arrangements, the Accounting Standards Board would be free to issue accounting standards on a timely basis for adoption in all jurisdictions. The onus would then be on the authorities in the respective jurisdictions to adopt the standards.

The AASB's attention was focused on entities required to report under the *Corporations Act 2001* to the exclusion of other reporting entities in the public and non-corporate private sectors that prepare and issue general purpose financial reports. This deficiency has since been rectified. In addition, under the arrangements at the time, there was unnecessary duplication of effort, with the private sector board and the public sector board considering the same issues. This inefficient use of the scarce resources available for standard setting, it was argued, would be avoided with a single standard-setting board. This deficiency has also been rectified.

- (c) The following benefits were expected from the proposed new arrangements:
- i. Accounting standard setting would be independent of interest groups including the accounting profession, business and government and, therefore, the capacity of the proposed AcSB to develop and promulgate accounting standards would not be delayed by any particular interest group or existing legislative requirements.
 - ii. Merging of the AASB and the PSASB would enable more efficient use of the scarce resources available for setting accounting standards. Merging the two boards would also avoid duplication of effort in standard setting. The proposed new arrangements would provide a more cost-effective and efficient mechanism for setting accounting standards.
 - iii. A significant increase in the number of people involved in the standard-setting process was proposed. Users, preparers, auditors and regulators would have the opportunity of being involved in the standard-setting process, particularly as a result of the formation of broadly based consultative groups.
 - iv. There would be a coordinated national approach to setting accounting standards for the public and private sectors. The proposed AcSB would develop accounting standards applicable to all reporting entities.
 - v. Legislative backing for accounting standards would continue through the various jurisdictions responsible for the different groups of reporting entities.
 - vi. The funding of the Foundation would be more broadly based, thereby contributing to its independence. Implementation of broadly based funding was also expected to increase the resources devoted to standard setting with a consequent improvement in the quality and timeliness of accounting standards.