



Australian Government

Australian Accounting Standards Board

# AASB Due Process Framework for Setting Standards

September 2019



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## 1. Purpose of the AASB Due Process Framework for Setting Standards

- 1.1 This Due Process Framework sets out the minimum steps the Australian Accounting Standards Board (AASB) must take to ensure that the accounting and external reporting standards and guidance it develops, issues and maintains are principle-based, meet the needs of external report users and are capable of being assured and enforced.<sup>1</sup>
- 1.2 In accordance with the Financial Reporting Council's broad strategic directions, the AASB sets standards that:
  - (a) enable 'publicly accountable' private sector entities to maintain IFRS compliance; and
  - (b) for others, use IFRS Standards (where they exist), and transaction neutrality (modified as necessary), or develop Australian-specific standards and guidance.
- 1.3 The Due Process Framework covers Australian Standards based on the International Accounting Standards Board (IASB) Standards (IFRS Standards) and those developed domestically.
- 1.4 The AASB Due Process Framework operates in conjunction with the *AASB and AUASB Board Charter* (Charter),<sup>2</sup> *The AASB's For-Profit Entity Standard-Setting Framework*<sup>3</sup> and *The AASB's Not-for-Profit Entity Standard-Setting Framework*.<sup>4</sup> The Standard-Setting Frameworks set out the principles to determine the content of standards, and the Due Process Framework sets out principles for how the standards are set.
- 1.5 The Due Process Framework is depicted below and follows the principles of strategic international influence, transparency, appropriate consultation and accountability.

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1 See the [AASB and AUASB Strategy 2017-2021](#).

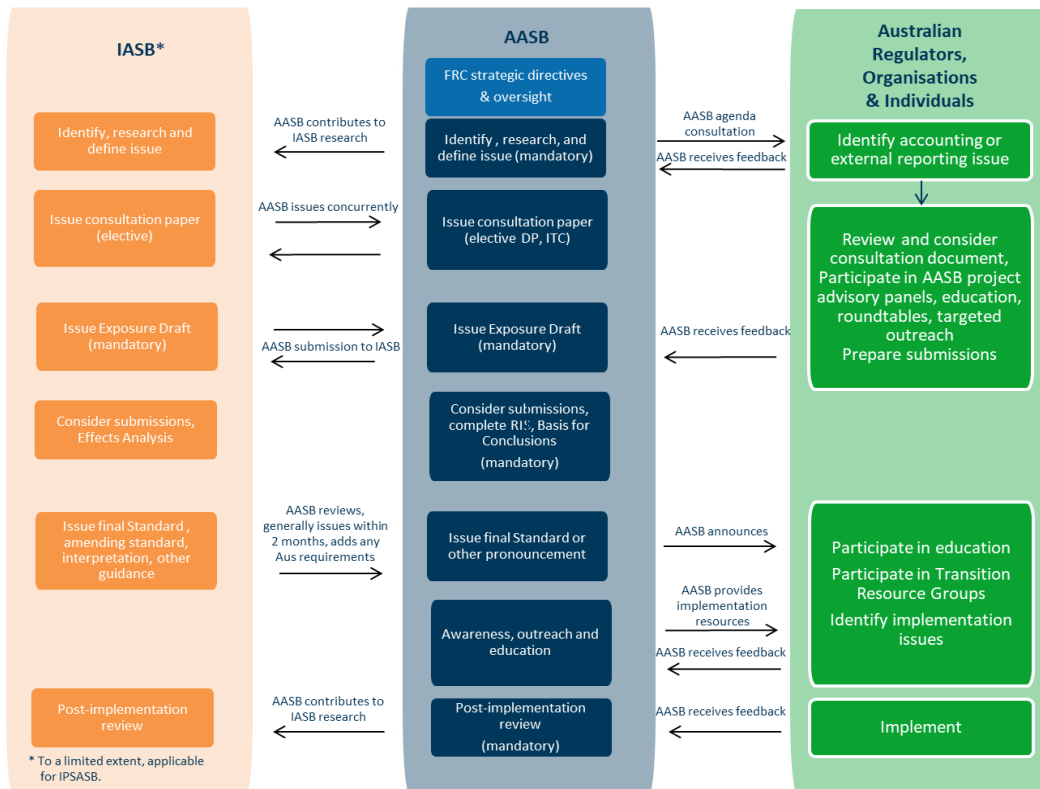
2 See the [AASB and AUASB Board Charter](#).

3 See [The AASB's For-Profit Entity Standard-Setting Framework](#).

4 See [The AASB's Not-for-Profit Entity Standard-Setting Framework](#).



## AASB Due Process Framework for Setting Standards



## 2. AASB's Legislative Requirements

2.1 Part 12 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) requires the AASB when making and formulating accounting standards to:

- (a) comply with the Financial Reporting Council's broad strategic directions:<sup>5</sup>
  - (i) work towards the adoption of accounting standards that are the same as those issued by the IASB, for Corporations Act entities with accounting periods beginning on or after 1 January 2005 (Direction approved 5 September 2002); and
  - (ii) pursue the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting (Direction approved 12 December 2002 and subsequently amended to apply only to Governments and their General Government Sectors);
- (b) have regard to the suitability of a proposed standard for different types of entities;
- (c) ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards;

<sup>5</sup> ASIC Act, s232.



- (d) comply with a Ministerial direction about the role of international accounting standards in the Australian accounting standard-setting system;
- (e) where appropriate, draft standards:
  - (i) to be of general or limited application;
  - (ii) to differ according to differences in time, place or circumstance;
  - (iii) to require the inclusion of comparatives for earlier periods; or
  - (iv) by modifying the text of an international accounting standard to the extent necessary to take account of the Australian legal or institutional environment and, in particular, to ensure that any disclosure and transparency provisions are appropriate; and
- (f) carry out a cost/benefit analysis before issuing a standard, regardless of whether it is based on an international standard.

### 3. Types of Pronouncements Issued by the AASB

3.1 The AASB issues the following types of pronouncements and guidance:

<b>Pronouncements</b>	<b>Authority</b>	<b>Issued by</b>
Accounting Standards, Interpretations and application guidance addressing financial reporting issues	Mandatory	AASB Board
Reporting Standards and Interpretations that address matters integral to financial reporting <sup>6</sup> (eg Guide to applying the Board of Taxation’s Voluntary Tax Transparency Code)	May be mandatory or non-mandatory	AASB Board
Conceptual framework documents	Non-mandatory	AASB Board
Practice statements	Non-mandatory	AASB Board
Agenda decisions	Supportive material	AASB Board
<b>Guidance</b>		
Frequently Asked Questions (FAQs), Staff articles, presentations, newsletters and other educational materials	Supportive material	AASB staff

6 ASIC Act, s224(a) – a standard that requires the provision of financial information that allows users to make and evaluate decisions about allocating scarce resources, assists directors to discharge their obligations in relation to financial reporting and is relevant to assessing performance, financial position, financing and investment.



- 3.2 The extent of compliance required with Standards and Interpretations issued by the AASB is determined by the legislative or regulatory requirements of other regulators, and/or an entity's constituting or other documents, in conjunction with the application paragraphs of Standards and Interpretations set by the AASB. Other guidance issued by the AASB is generally not authoritative (eg Examples and Practice Statements).
- 3.3 Accounting Standards may be issued under section 334 of the Corporations Act for the purposes of the Corporations legislation or for other purposes that provide financial information integral to financial reports (eg standards applying only to public sector entities, remuneration reporting, service performance reporting or management commentary).
- 3.4 The mandatory parts of an Australian Accounting Standard are:
- (a) the principles and the related application guidance, which generally covers:
    - (i) objective of the Standard;
    - (ii) scope (what transactions the Standard applies to);
    - (iii) recognition (when transactions should be recognised for presentation on the face of the financial statements);
    - (iv) measurement (how transactions are measured for presentation on the face of the financial statements or disclosed in the notes);
    - (v) presentation (how transactions are disclosed on the face of the financial statements); and
    - (vi) disclosure (either on the face of the financial statements or in the notes).
  - (b) definitions;
  - (c) effective date and transition; and
  - (d) consequential amendments to other Standards.
- 3.5 Each Standard is also normally accompanied by additional material that is not an integral part of the Standard, such as:
- (a) preface/introduction;
  - (b) illustrative examples;
  - (c) Basis for Conclusions;
  - (d) Regulation Impact Statement or similar document;
  - (e) dissenting opinions;
  - (f) comparison to IASB/IPSASB Standards; and



- (g) comparison to Government Finance Statistics (GFS).

### 3.6 Australian Accounting Standards are either:

- (a) based on IASB materials. These are word-for-word the same for mandatory requirements. Australian amendments are made via “Aus” paragraphs or additional appendices. Other IASB material that is not mandatory is not part of the Australian Standard or Interpretation, due to copyright agreements, unless the AASB considers the material an essential feature of the pronouncement. However, the non-integral IASB material is available to Australian stakeholders through the AASB website; or
- (b) developed by the AASB domestically. These may be based on International Public Sector Accounting Standards Board (IPSASB) Standards, other standard-setter pronouncements or original material.

### 3.7 Bold text states the main principles; non-bold text is generally an explanation of how an entity complies with the principles. However, bold and non-bold text have equal authority.

## 4. Principles for Due Process in Developing Standards, Interpretations and Guidance

### 4.1 The AASB due process requirements are built on the following principles:

- (a) strategic international influence – maximising Australian input and influence with the IASB and when relevant, other international standard-setters such as the International Public Sector Accounting Standards Board (IPSASB);
- (b) transparency – making public the information on which the AASB bases its decisions at the earliest opportunity, including public board papers and meetings, and timely notification of tentative and final decisions. The *AASB and AUASB Board Charter* sets out the AASB’s processes to achieve this principle;
- (c) appropriate consultation – consulting in a genuine and timely way with interested and affected entities, professional bodies, community organisations and individuals, to enhance the quality of the Standards. Consulting with other regulators to avoid creating cumulative or overlapping regulatory burdens (see Section 6); and
- (d) accountability – a cost/benefit analysis is performed for all new and amending Standards, either in the form of a Regulation Impact Statement (RIS)<sup>7</sup> or similar document (for all Standards impacting the private sector), or in the Basis for Conclusions, analysing the potential effects of the proposals on affected parties and explaining the rationale for why decisions were made. All

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<sup>7</sup> A Regulation Impact Statement formalises and documents the steps that have been taken in making government regulation and requires the consideration of seven key questions (the RIS questions).



Standards are periodically reviewed to test their continuing relevance (see paragraphs 7.15.1-7.15.3 on post-implementation reviews).

4.2 The AASB standard-setting process addresses the seven RIS questions of *The Australian Government Guide to Regulation*:

- (a) what is the problem you are trying to solve?
- (b) why is action needed?
- (c) what policy options are being considered?
- (d) what is the likely net benefit of each option?
- (e) who will be consulted about the options and how?
- (f) what is the best option from those considered?
- (g) how will the chosen option be implemented and evaluated?

## 5. Strategic International Influence

5.1 To maximise Australia's input and influence on international accounting standard-setting, the AASB:

- (a) promotes the use of IFRS Standards globally in light of Australia's adoption experience, which may be useful to transitioning jurisdictions;
- (b) builds relationships and influence with significant international stakeholder groups relevant to AASB;
- (c) issues IASB and IPSASB consultation documents concurrently in Australia to seek Australian input and prepares formal submissions on issues likely to be of interest to Australian entities. The AASB takes input received from Australian organisations and individuals into account when forming a view as to the appropriateness of options considered by the IASB or the IPSASB and in preparing its submissions to the IASB or the IPSASB;
- (d) participates in IASB and IPSASB outreach activities and co-hosts outreach activities in Australia when possible;
- (e) establishes Australian transition resource groups, project advisory panels and investor forums to assist in providing relevant Australian input to the IASB, the IPSASB and other relevant international stakeholder groups;
- (f) develops effective working relationships with IASB Board members and staff and with those of other significant international stakeholders to provide direct input on issues of concern to Australia and provides a conduit for Australian stakeholders to raise issues directly with these international stakeholders;





- (g) identifies and promotes the appointment of high-quality Australian representatives on relevant international accounting standards bodies, panels or groups;
- (h) identifies, designates and sufficiently prepares technical staff with appropriate expertise and capacity to represent AASB internationally, and promotes secondments of AASB staff to international bodies;
- (i) communicates outcomes from international engagement to the AASB Board members, technical staff and other stakeholders to assist in identifying major concerns with international proposals;
- (j) participates in the IASB's Accounting Standards Advisory Forum (either directly if Australia is a member, or through the Asian-Oceania Standard-Setters Group (AOSSG) working groups) and the World Standard Setters meeting;
- (k) develops and presents thought leadership material on topics important to Australian stakeholders that are not being addressed by the IASB or the IPSASB at relevant international forums;
- (l) participates in other international standard-setting forums, including relevant regional groupings of national standard-setters such as the Asian-Oceania Standard-Setters Group (AOSSG) and the International Forum of Accounting Standard Setters (IFASS). The AASB participates in the AOSSG Chair Advisory Committee and leads one or more technical working groups;
- (m) works closely with Australian representatives on key international bodies such as the IASB and related interpretation and advisory committees to provide relevant Australian input. For the Australian IPSASB Board member, the AASB provides technical support. Further details on the AASB's relationship with the IPSASB is set out in *The AASB's Approach to International Public Sector Accounting Standards*;<sup>8</sup>
- (n) wherever possible, maintains Trans-Tasman consistent accounting standards for for-profit publicly accountable entities, working closely with the New Zealand Accounting Standards Board (NZASB). The AASB Chair is a member of the NZASB, and the Chair of the NZASB is a member of the AASB. Further detail of the relationship with the NZASB is set out in the Australia & New Zealand Protocol;<sup>9</sup>
- (o) regularly attends (in person or remotely) key meetings and conferences of international financial reporting bodies to ensure adequate analysis and input, and express Australian views; and

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<sup>8</sup> See *The AASB's Approach to International Public Sector Accounting Standards*.

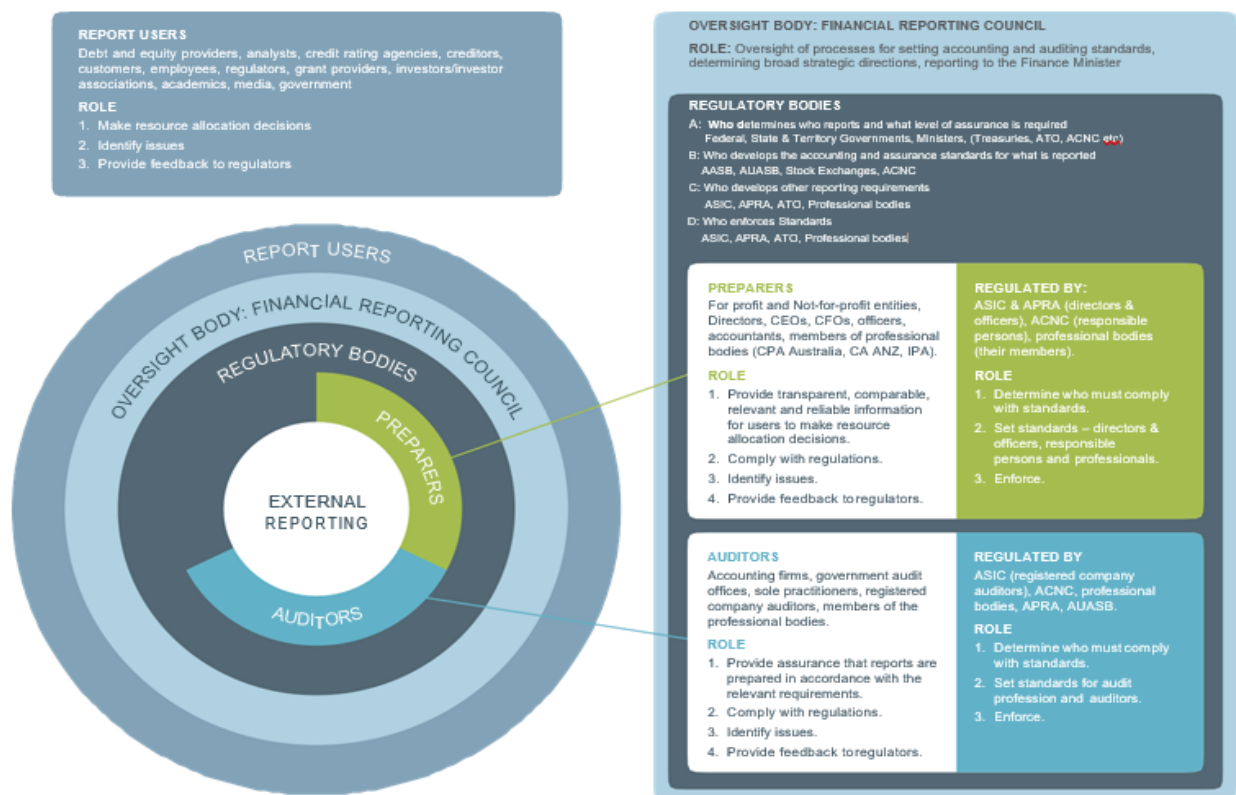
<sup>9</sup> See the *Protocol for Co-operation between the Australian Accounting Standards Board, the Australian Auditing and Assurance Standards Board, the Australian Financial Reporting Council and the New Zealand External Reporting Board*.



- (p) develops effective working relationships with other key national standard setters, including developing joint thought leadership documents, and coalitions to further support key Australian views.

## 6. Appropriate Consultation (RIS question 5)

- 6.1 The AASB’s due process is iterative in nature, with a strong emphasis on consultation at all stages of the process. Feedback and input are constantly evaluated and incorporated in developing Standards and guidance.
- 6.2 The AASB’s key stakeholders and their roles and responsibilities in financial reporting are set out below:



### Consultation processes

- 6.3.1 The AASB encourages stakeholders to participate actively throughout the standard-setting process by:
  - (a) meeting with interested individuals and representatives of organisations on technical issues;
  - (b) issuing media and information releases relating to its activities, including an alert after each meeting to keep stakeholders informed of the AASB’s deliberations, and a periodic newsletter reporting on the AASB’s activities and recent developments;



- (c) maintaining a website on which the AASB publishes Exposure Drafts and other consultative documents, Standards and Interpretations, approved minutes of its meetings and selected Board agenda papers; and
- (d) publishing on its [website](#) its strategy, corporate plan, work program and priorities, and key policy documents such as the For-Profit and Not-for-Profit Standard-Setting Frameworks, its Approach to IPSAS, the AASB Evidence-Informed Standard-Setting Framework and the AASB Education Strategy.

6.3.2 In addition, the AASB undertakes the following types of targeted consultation:

- (a) Project Advisory Panels, Implementation or Transition Resource Groups, User Advisory Committee and Academic Advisory Panel comprising subject matter experts to advise the Board on topics requiring specialist input (see paragraph 8.4.4);
- (b) roundtables and education sessions to seek specific engagement with, and comment from, stakeholders on selected topics; and
- (c) direct consultation with stakeholders, either through site visits or presentations to AASB meetings.

6.3.3 Where appropriate, the AASB arranges for IASB Board members and/or staff to participate in Australian outreach events.

### **Types of consultative documents**

6.4 The typical consultative documents issued include:

- (a) *Discussion Papers and Consultation Papers* – Discussion Papers (DP) and Consultation Papers (CP) usually outline a wide range of possible accounting policies on a particular topic. They are typically used to refine the number of options being considered as the solution to an issue. Discussion Papers and Consultation Papers may be issued by the AASB, the IASB, the IPSASB or other standard-setters. The AASB may choose to issue international documents in Australia for comment, sometimes with an Australian Preface added to explain the context;
- (b) *Invitations to Comment* – Invitations to Comment (ITC) precede or accompany a Discussion Paper or Exposure Draft and set out matters on which the AASB is seeking feedback;
- (c) *Exposure Drafts* – an Exposure Draft (ED) typically is a draft of a proposed Standard (or other pronouncement) or a draft amendment to a Standard. An ED is issued when there is a specific proposal, includes a basis for conclusions, and if relevant, alternative views. An ED is a mandatory due process step. A Fatal-Flaw Review draft is a form of ED;
- (d) *Draft Interpretations* – a Draft Interpretation is a draft of a proposed Interpretation of a Standard and is the equivalent of an ED for a Standard. A Draft Interpretation is a mandatory due process step; and



- (e) *Request for information* – consultation on a specific aspect of one of the AASB’s projects. It normally helps the AASB to prepare an ED or finalise a pronouncement.

**Mandatory due process steps**

6.5 To ensure appropriate consultation, the due process steps that are mandatory for both IASB-related and domestic proposals for new Standards, amending Standards, Interpretations or other guidance are:

- (a) identifying the accounting or external reporting issue to be addressed, the scope of the issue and the rationale for needing a standard-setting solution. A formal agenda consultation process is held at least once every 5 years;
- (b) debating proposals in one or more public meetings;
- (c) using an evidence-informed approach to standard-setting to ensure regulatory action is warranted, including completing before finalisation a Regulation Impact Statement or similar assessments in the Basis for Conclusions;
- (d) exposing for public comment a draft of any proposals as follows:

<b>Pronouncement</b>	<b>Consultation document</b>	<b>Comment period</b>
Standard (including amending Standards)	Exposure Draft	IASB-related Standard – generally, the IASB gives a 120-day comment period, but the AASB’s comment period usually ends 4-6 weeks before the IASB due date to enable the AASB to consider submissions. If narrow in scope and urgent, no less than 30 days.  Domestic Standard – generally a 90-day comment period; but if narrow in scope and urgent, no less than 30 days.
	Fatal-flaw review draft	Domestic Standard only – generally a 4-week comment period; but if narrow in scope and urgent, no less than 2 weeks.
Interpretation	Draft Interpretation	IASB-related Interpretation – generally, the IASB gives a 90-day comment period, but the AASB’s comment period usually ends 4-6 weeks before the IASB due date to enable the AASB to consider submissions. If narrow in scope and urgent, no less than 30 days.  Domestic Interpretation – generally 60 days; if narrow in scope and urgent, no less than 30 days.



- (e) making public submissions received, summaries of outreach events and other targeted consultations;
- (f) considering in a timely manner the feedback received from comment letters and other outreach events and addressing in the Basis for Conclusions of any final pronouncement how the feedback has been addressed;
- (g) considering whether the proposals should be exposed again; and
- (h) reporting to the Financial Reporting Council on the due process followed.

**Comply or explain due process steps**

6.6 Other due process steps that the AASB considers, and if determines not necessary, documents its reasons, include:

- (a) publishing a discussion document before an Exposure Draft is developed, with a minimum comment period of:

<b>Consultation document</b>	<b>Minimum comment period</b>
Discussion Paper, Consultation Paper, Invitation to Comment, research paper, agenda consultation	IASB-related – generally, the IASB gives a 120-day comment period, but the AASB’s comment period usually ends 4-6 weeks before the IASB due date to enable the AASB to consider submissions. Domestic – generally 120 days
Other requests for information (eg agenda decisions)	IASB-related – generally, the IASB gives a 60-day comment period, but the AASB’s comment period usually ends 4 weeks before the IASB due date to enable the AASB to consider submissions. Domestic – generally 60 days

- (b) establishing a project advisory panel, implementation or transition resource group or other type of specialist advisory group, ensuring broad representation of relevant stakeholders, with at least one Board member;
- (c) holding roundtables and education sessions to solicit feedback; and
- (d) undertaking fieldwork.

**7. The Standard-Setting Process**

7.1 The AASB standard-setting processes used to achieve the principles of strategic international influence, transparency, appropriate consultation and accountability (including the RIS requirements) are set out below.



## Identify, research and define the issue (RIS questions 1 and 2)

- 7.2.1 Australian Standards, Interpretations and other guidance are developed only when necessary to improve the operations of the Australian economy, including its capital markets.
- 7.2.2 A formal agenda consultation process is held with stakeholders at least once every five years to identify issues that need resolution.
- 7.2.3 Once an accounting or external reporting problem is clearly identified by the AASB, the IASB, the IPSASB or the AASB stakeholders, evidence is sought to determine the nature and extent of the issue.<sup>10</sup> In prioritising individual projects on its work plan and allocating resources to them, the AASB considers various factors, including:
- (a) the importance of the issue to those who use financial reports, including the range and extent of those to whom the issue might apply, and whether it impacts for-profit and not-for-profit entities;
  - (b) the urgency of addressing the issue, considering input of other relevant regulators and evidence of the impact of not addressing the issue;
  - (c) interactions with other current or possible projects;
  - (d) the complexity and breadth of the problem to be resolved, and the feasibility of possible solutions being developed;
  - (e) the capacity of stakeholders to respond to proposals, both as individual proposals and across the work program as a whole;
  - (f) the overall balance of the work plan and the overall balance in the pipeline of research projects that may ultimately come forward to the standards-level work program, including a balance of not-for-profit, public sector and other projects; and
  - (g) the availability of sufficient staff resources.
- 7.2.4 When an issue has been added to the agenda, the AASB reviews available evidence of the nature and extent of the issue and discusses agenda papers prepared by AASB staff. The agenda papers identify the issue, the scope of the issue, alternative approaches to solving the issue, staff recommendations and timing of outputs. Evidence typically includes a review of existing academic literature and may draw upon relevant material from other standard-setters, including the IASB, the IPSASB and the NZASB, or from other organisations.<sup>11</sup>

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<sup>10</sup> The *AASB Evidence-Informed Standard-Setting Framework* is employed to gather evidence related to the issue.

<sup>11</sup> Some issues may be considered jointly with the NZASB where they are of significance in each country, in order to develop comparable requirements.





### *IASB-based*

7.2.5 The IASB has its own rigorous due process. The AASB presumes that where a technical issue is identified as significant enough to make the IASB standard-setting work program, similar problems exist in Australia, and standard-setting action is required. The AASB considers whether there are additional Australian-specific issues that need to be addressed as part of the IASB project. The AASB contributes to the work undertaken by the IASB to research and consider issues and may also bring technical issues to the attention of the IASB.

### *Domestic*

7.2.6 Domestic Standards, Interpretations or other guidance are developed when the AASB identifies an issue or a gap in financial reporting that is not addressed by IFRS-based Standards. Once a technical issue has been identified, the AASB develops a project proposal. A project proposal contains relevant evidence of the issue, including the extent of the issue, and an assessment of the potential benefits of undertaking the project, the costs of not undertaking it, the resources available and the likely timing.

7.2.7 The AASB reviews the project proposal and decides whether the project should be placed on its work program. If the Board decides not to add a topic to the agenda, the Board may decide to formally report the decision as a Board Agenda Decision, sometimes called “items not taken onto the agenda” or “agenda rejection statements”. The minutes of meetings record the decisions made and whether or not a formal Board Agenda Decision is issued.

### **Consider options available (RIS question 3)**

7.3.1 The AASB considers the following options available to address an issue.

7.3.2 For Standards/amendments to Standards issued by the IASB:

- (a) issue the Standard/amendment unaltered. Ensures for-profit ‘publicly accountable’<sup>12</sup> entities remain IFRS compliant;
- (b) modify the Standard/amendment. Options available to the AASB include modifications that are:
  - (i) additional requirements to address Australian-specific issues that do not prevent IFRS compliance for for-profit publicly accountable entities;
  - (ii) changes to the requirements that prevent IFRS compliance for publicly accountable entities; and
  - (iii) changes to the requirements for not-for-profit specific issues; and

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12 The term ‘public accountability’ is defined in AASB 1053 *Application of Tiers of Australian Accounting Standards* as “an entity has public accountability if: (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.”



- (c) not issue the Standard/amendment. Entities are not able to claim IFRS compliance.

7.3.3 For AASB domestic issues:

- (a) status quo. Not an issue that can be addressed through a new Standard or amendment to financial reporting requirements; and
- (b) issue a new or amended pronouncement to address the issue.

7.3.4 Once the AASB has determined the appropriate option, it also determines the appropriate form of consultation as set out in Section 6.

7.3.5 Consultative documents set out the recommended proposals, as well as other options considered.

7.3.6 A decision to retain the status quo is noted in Board meeting minutes, formal agenda decisions which are exposed for comment or other communications, depending on the importance and urgency of the issue.

**Issue consultative document (RIS question 4, 5 and 6)**

7.4.1 For all proposed pronouncements, the AASB prepares an ED with its proposals to solve the issue and accompanying explanatory material that highlights the evidence supporting its development, the options considered, the likely net benefit of each option considered and any alternative views that AASB members hold.

7.4.2 In some instances where the AASB has not determined the most appropriate option to resolve an issue, or evidence is at a preliminary stage, a consultative document may be issued prior to an ED, such as a Discussion Paper or an Invitation to Comment.

7.4.3 When the IASB issues an ED, the AASB reissues the ED in Australia along with Australian-specific commentary, if necessary. Such EDs are typically approved for issue by the AASB Chair, under delegated authority from the AASB. Not-for-profit specific issues may be considered at this time, or developed later and issued by way of a separate ED.

7.4.4 A domestic ED is issued only after the AASB votes to issue the ED. However, the Chair or a sub-committee of the AASB may be delegated authority to approve the ED.

7.4.5 The AASB staff may host a webinar or another form of education session on significant ED proposals.

7.4.6 All consultative documents are freely available on the AASB's website.

**Consider feedback (RIS questions 6 and 7)**

7.5.1 The feedback on consultation documents received from stakeholders through submissions and from outreach activities is considered in public. All written submissions on consultation documents will be placed on the public record unless the





AASB Chair agrees to those submissions being treated as confidential. The latter will only occur if the public interest warrants such treatment.

- 7.5.2 AASB staff prepare an overview of the comments received, major points raised, and recommendations as to whether the project should continue.
- 7.5.3 Results of fieldwork undertaken are provided to the AASB. Fieldwork includes asking users and preparers to:
- (a) provide specific examples for AASB staff to apply the proposals to;
  - (b) complete surveys; and
  - (c) apply proposals.
- 7.5.4 When the AASB has reached a general agreement on the technical matters in the project and considered the likely impact of the pronouncement, including the Regulation Impact Statement or similar document (see paragraph 7.8.5), the AASB staff present a paper to the AASB:
- (a) summarising the steps taken by the AASB in developing the pronouncement;
  - (b) setting out how the ‘comply or explain’ due process elements set out in paragraph 6.6 have been addressed;
  - (c) assessing whether the proposals can be finalised or whether they should be re-exposed either fully through a new consultation process (see paragraph 7.7.1) or partially through a “fatal flaw” limited exposure (see paragraph 7.6.7); and
  - (d) recommending whether the pronouncement should be issued under section 334 of the Corporations Act or otherwise.
- 7.5.5 The AASB determines whether to proceed to a pre-ballot draft of the pronouncement.

### **Completion of deliberations**

#### ***IFRS-based***

- 7.6.1 Once an IFRS Standard has been issued by the IASB, the AASB considers the final document and whether there are any further modifications required under either the For-Profit or Not-for-Profit Entity Standard-Setting Frameworks that have not already been considered during the prior consultation processes.
- 7.6.2 Generally, not-for-profit amendments are subject to a separate due process. The application of IFRS-based Standards may be limited to for-profit entities until the not-for-profit amendments are determined.
- 7.6.3 Any Australian specific modifications from IFRS Standards are clearly identified in ‘Aus’ paragraphs.



- 7.6.4 Once any Australian specific modifications are decided, AASB staff prepare a ballot draft to be voted on by the AASB members.<sup>13</sup> In rare instances, for example where significant changes are required in Australia, a pre-ballot draft may first be voted on by the members.
- 7.6.5 Once finalised, the AASB staff provide a summary of the due process followed to the FRC.

### ***Domestic***

- 7.6.6 Domestic pronouncements are finalised in the same manner as IFRS-based Standards. However, domestic pronouncements are typically subject to both pre-ballot and ballot draft voting rounds.
- 7.6.7 Where there is some change from the ED but not enough to warrant re-exposure, a ‘fatal-flaw review’ version of a pronouncement may also be issued for a short period for public comment as a final opportunity to identify any further unintended consequences of the proposals, prior to voting by the Board.

### **Re-exposure criteria**

- 7.7.1 (a) In considering whether there is a need for re-exposure, the AASB uses criteria similar to the IASB:
- (i) extent of new substantive issues not considered during the initial consultation (eg new requirements, terminology and/or examples);
  - (ii) extent of change to original proposals (structural changes excluded);
  - (iii) extent of input from interested parties and whether any key stakeholders have not provided input; and
  - (iv) any new evidence on the extent and nature of the issue being addressed.
- (b) The more extensive and fundamental the changes from the ED and current practice, the more likely the proposals should be re-exposed, albeit with a shortened exposure period. However, the AASB also considers the costs of delaying improvements to financial reporting and the urgency of the need for change.
- (c) More weight is given to changes in recognition and measurement requirements than to disclosures in assessing whether to re-expose.
- 7.7.2 Re-exposed EDs are subject to the same general principles regarding comment periods and submission processes as applicable to ordinary EDs.

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<sup>13</sup> The voting requirements are set out in the *AASB and AUASB Board Charter*.



***IASB-related***

- 7.7.3 The AASB forms its own view on whether the IASB has complied with the IASB's due process, and if not satisfied makes a submission to the IASB to request re-exposure.

**Completing the Basis for Conclusions and the Regulation Impact Statement (RIS questions 4 and 6)**

- 7.8.1 A Basis for Conclusions is prepared for each pronouncement which outlines:
- (a) reasons for reaching the conclusions in the final issued pronouncement;
  - (b) evidence and key factors considered in arriving at the decisions;
  - (c) consultation processes followed;
  - (d) AASB responses to comments received from consultation processes;
  - (e) a detailed consideration of the various options available to address the identified issue or problem, including both regulatory and non-regulatory options, together with the likely benefits and costs to stakeholders under each option for compliance with the RIS requirements;
  - (f) cost/benefits analysis;
  - (g) a clear statement of the conclusions reached, the recommended option, a review of that option and a plan for implementation; and
  - (h) dissenting views.
- 7.8.2 The AASB's consultative process satisfies ASIC Act section 231 and the Commonwealth Office of Best Practice Regulation (OBPR) requirements as it is considered a 'RIS-like' process. This enables the AASB's Basis for Conclusions to address the RIS questions in lieu of a standard RIS.

***IASB-related***

- 7.8.3 The AASB reviews the IASB Basis for Conclusions and completes an assessment to ensure that the seven RIS questions are answered and satisfied. Where satisfactory and there are no additional Australian issues that should be addressed, the AASB does not issue a separate Basis for Conclusions.

***Dissenting views***

- 7.8.4 The AASB does not operate as a consensus body. AASB members who disagree with a pronouncement are required to explain why they have a dissenting opinion. The dissenting opinion is published with the Basis for Conclusions. This process ensures that rigorous discussion and consideration is given to alternative options in arriving at the best option.



### *Cost/benefit analysis*

- 7.8.5 The AASB assesses from a public interest perspective whether the costs of implementing the pronouncement would exceed the benefits to be derived from its implementation. In assessing the impact of the proposed pronouncement, the AASB considers the parties affected by the proposal and the costs, benefits and risks to those parties. The AASB also considers whether further consideration is needed for certain parties – eg for the not-for-profit sector.
- 7.8.6 Although costs are typically incurred by preparers of financial statements, the costs can extend in various direct and indirect ways to the users of the financial statements. Consequently, in assessing the costs of financial information, the AASB considers the comparative advantage preparers have in developing information, compared with the costs users of financial statements would incur to develop surrogate information. The AASB recognises that the costs of implementing a new standard might not be borne evenly by participants in the financial reporting system. However, the AASB also considers that both the users of financial statements and preparers of the financial statements benefit from the improvements in financial reporting that facilitate the functioning of capital markets, including improved access to credit and the efficient allocation of resources in the economy.
- 7.8.7 The AASB assesses the likely impact of its proposals throughout the development of a new pronouncement. However, the estimated costing of a proposal is not performed until the final proposals are known due to the difficulty in assessing such costs for multiple options.
- 7.8.8 In assessing costs and benefits, the AASB considers similar factors to those used in the IASB's Effects Analysis:
- (a) impact on how activities are reported in the financial statements;
  - (b) improvements expected in the comparability between different entities and consistency from period to period for a particular entity;
  - (c) improvements expected in user ability to assess future cash flows and management accountability;
  - (d) improvements expected in economic decision making;
  - (e) compliance costs for preparers, both initially and ongoing;
  - (f) likely costs of analysis for users;
  - (g) improvements in the ability to audit or provide assurance over requirements;
  - (h) ability for other regulators to more effectively enforce requirements; and
  - (i) impact on financial stability and the Australian economy.
- 7.8.9 As set out in *The AASB's For-Profit Entity Standard-Setting Framework*, in making an Australian Accounting Standard that incorporates an IFRS Standard, the AASB



considers the costs and benefits of the individual requirements as well as the broader perspective of maintaining IFRS compliance when assessing whether adopting the IFRS Standard is in the best interests of the Australian economy.

- 7.8.10 In accordance with the *Australian Government Guide to Regulation*, a quantification of all regulatory costs is estimated for private sector entities required to comply with the requirements, whether arising from new regulations or changes to existing regulation. The regulatory costs and the associated offsetting regulatory savings are estimated using the Regulatory Burden Measure (RBM), consistent with the Regulatory Burden Measurement framework. The resulting RBM report provides a summary estimate of compliance costs for businesses and the community and is approved by the Office of Best Practice Regulation (OBPR)<sup>14</sup> prior to the AASB voting to make a Standard.
- 7.8.11 The AASB does not consider there is a universally accepted methodology for quantitatively measuring costs and benefits of information presented in financial reports and is therefore guided by the feedback received from stakeholders as to the range and nature of costs that may be involved in implementing new and revised accounting requirements, and the benefits that may accrue from using the information reported in accordance with those requirements. When seeking feedback from stakeholders, the AASB often specifically invites stakeholders to provide quantitative and/or qualitative information on the costs and benefits of the proposals. The AASB clearly outlines the assumptions used in determining estimates of quantitative costs.
- 7.8.12 As an alternative to preparing a RIS, the AASB is able to prepare a letter certifying for the OBPR that the AASB's due process in respect of a Standard is equivalent to a RIS process. The AASB's due process ensures that the seven RIS questions are appropriately considered. Those questions normally would be addressed in the Basis for Conclusions accompanying the Standard. The certification letter is provided to the OBPR prior to the AASB voting to make a Standard.
- 7.8.13 The AASB Chair also prepares a summary of the due process followed for new Standards or significant amending Standards, which is provided to the Financial Reporting Council Chair and published on the AASB's website.

### **Final Pronouncement (RIS questions 6)**

#### ***Effective dates, early adoption and transition requirements***

- 7.9.1 The AASB seeks to have the same effective date for each IFRS Standard in Australia as that determined by the IASB. Under Australian legislative practice, the AASB is unable to issue Standards that impose new or revised requirements where the effective date precedes the date on which the Standard is made. However, the AASB is able to specify the effective date as reporting periods 'ending on or after' a future date, rather than reporting periods 'beginning on or after' a historic date.
- 7.9.2 When determining the effective date of Standards, the AASB seeks to ensure that stakeholders have adequate time to prepare for their implementation. Typically, the

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14 See the Regulatory Burden Measurement Framework.



AASB will issue a Standard with at least 2 years before its effective date (eg a year before the beginning of the comparative reporting period) and generally permits entities to apply those requirements early should they wish to do so.

- 7.9.3 In determining transitional relief, the AASB considers user needs for comparability, and may include the option of full retrospective application, with a modified transition approach that provides practical relief to determining the required adjustments as at the beginning of the earliest comparative period presented or, in some circumstances, as at the beginning of the current period. Where providing a solution is urgent, or the effect of the change is limited and can be explained adequately by way of note, the transitional relief may include relief from amending the statement of financial performance and/or statement of financial position comparatives. Typically, the transitional relief does not permit the use of hindsight in determining modifications to full retrospective application.

### **Practice statements and other non-authoritative guidance**

- 7.10 The AASB may produce non-authoritative guidance if it considers that doing so would improve financial reporting and follows the same procedures for the development of an authoritative pronouncement. The application of such non-authoritative guidance is then subject to other regulators determining whether its use remains voluntary.

### **Amending pronouncements**

- 7.11.1 Accounting Standards require amendment for a variety of reasons, such as consequential amendments from other Standards (eg changes to references to other Standards or conceptual frameworks, or to be consistent with new recognition and measurement requirements), improvements or clarifications identified through Interpretations or post-implementation reviews, or updating references to other legislation or to documents that are not legislative instruments (eg a reference in a Standard to such documents means the document as it was in force at the time the Standard was made – subsequent changes to that document are not automatically incorporated). Amending Standards also provide an efficient way of processing amendments which affect a number of Standards without reissuing all the Standards affected.
- 7.11.2 As accounting Standards are legislative instruments, amendments are made via amending Standards, which are also legislative instruments, and subject to the same due process as the ‘principal’ Standard that is being amended.

### **Legislative instruments**

- 7.12.1 Standards that are made under the Corporations Act are registered on the Federal Register of Legislation (FRL). All others (for example, Standards not made under the Corporations Act, Interpretations and Practice Statements) need not be registered. However, all documents issued by the AASB are available on the AASB website.
- 7.12.2 As delegated legislation, Accounting Standards made under the Corporations Act section 334 are disallowable instruments and therefore are tabled in Parliament for potential disallowance.





- 7.12.3 The legal status, authoritative status and enforceability of pronouncements not made under section 334 of the Corporations Act depends on the relevant legislative requirements or other documents that require their use.

### **Compilations**

- 7.13.1 Compilations reflect the content of a Standard taking all amendments that have become effective into account. For example, a Standard might have a principal version issued in 2015 amended by amending Standards that become effective, one each year, from 2016. Therefore, in 2020 the compilation of the Standard will reflect the amendments effective from 2016 through 2020, but not those that will become effective in 2021 or later.
- 7.13.2 Compilations are published periodically on the AASB's website.

### **Awareness, outreach and education**

- 7.14.1 A feedback statement may be published for a new domestic Standard, to summarise the feedback received and the way the Board has addressed the feedback.
- 7.14.2 Following the implementation of a Standard, the AASB undertakes education, awareness, and outreach activities to facilitate stakeholders' knowledge and compliance with the new requirements. Generally, the AASB conducts more of such activities for domestic Standards, and particularly for those relevant to the not-for-profit sector.
- 7.14.3 The AASB may establish a Transition Resource Group (TRG) of interested parties and subject matter experts to assist with identifying and resolving implementation issues prior to the effective date of a new pronouncement. Any proposed amendments to the pronouncement are the subject of a separate consultation process. The AASB Chair determines an appropriate Chair for the TRG, meetings of the TRG are held in private to avoid inadvertent and/or inappropriate interpretations of Standards that have not been through due process. Topics discussed at such meetings, and papers or submissions to be made to the IASB as a result, are made public.
- 7.14.4 The AASB may establish an Implementation Group of interested parties and subject matter experts to assist with identifying implementation issues specific to Australia identified after a Standard has been implemented. The AASB Chair determines an appropriate Chair for the Implementation Group, and meetings are held in private to avoid inadvertent and/or inappropriate interpretations of Standards that have not been through due process. Topics discussed at such meetings, and papers or submissions to be made to the IASB as a result, are made public.

### **Post-implementation review (RIS question 7)**

- 7.15.1 The AASB performs a post-implementation review (PIR) of each new domestic Standard or Interpretation or major amendments to such a pronouncement. A PIR normally begins after the new requirements have been applied for two years.



#### 7.15.2 A PIR involves:

- (a) review of any relevant research including that by AASB staff and academics;
- (b) collation of any issues notified to the AASB prior to the PIR commencing;
- (c) consultation seeking implementation issues and views on the pronouncement;
- (d) consideration of any feedback received;
- (e) publication of the findings of the PIR; and
- (f) any recommendations for changes to the pronouncement follow a separate consultation process.

#### *IASB-related*

7.15.3 The IASB commences its PIR with a Request for Information (RFI) which sets out the initial identification and assessment of the matters to be examined. The AASB issues the RFI at the same time as the IASB and contributes to the IASB's process where the issues are considered significant to Australian entities.

## **8. Interpretations**

8.1 Australian Interpretations are treated as 'external documents' by the *Acts Interpretation Act 1901* (and also by the *Legislation Act 2003*) and so are not legislative instruments in their own right. AASB 1048 *Interpretation of Standards* is a service Standard that provides Australian Interpretations with authoritative status. Issuing a service Standard preserves the status of Australian Interpretations as 'external documents' referred to in a Standard, with the contents fixed in time to that existing when the Standard is made by the AASB. It does not treat the Interpretations as delegated legislation or confer ambulatory (automatic update) status on the references to them. Those references are updated by reissuing the service Standard to include references to the updated Interpretations.

8.2 The AASB provides guidance to Australian stakeholders on interpretation issues by:

- (a) issuing in Australia Interpretations issued by the IASB, having regard to not-for-profit issues;
- (b) informing the IFRS Interpretations Committee of issues raised by Australian stakeholders for it to consider for inclusion on its work program;
- (c) issuing domestic Interpretations relating to not-for-profit entities; and
- (d) in rare and exceptional circumstances, issuing a domestic Interpretation relating to an IFRS Standard adopted in Australia.





### **Domestic Interpretations of an IFRS Standard**

- 8.3.1 Before issuing a domestic Interpretation of an IFRS Standard, the AASB refers the issue to the IFRS Interpretations Committee (IFRS IC).
- 8.3.2 In the event that the IFRS IC declines to address the issue and the agenda decision does not provide adequate guidance, the AASB proceeds with a domestic Interpretation if and only if:
- (a) the issue relates to Australian-specific legislation or circumstances; and
  - (b) the issue is widespread, with diversity in practice.

### **Domestic Interpretations and agenda decisions**

- 8.4.1 Stakeholders are encouraged to advise the AASB of application issues with its pronouncements.
- 8.4.2 The Board adds an interpretation issue to its agenda when:
- (a) the issue is widespread, and there is diversity in practice;
  - (b) it is not necessary to change or amend an existing pronouncement to address the issue; and
  - (c) the issue can be resolved efficiently within the confines of the existing pronouncements (including the Conceptual Framework).
- 8.4.3 The due process for an Interpretation is the same as for a Standard, except that the consultation document is a Draft Interpretation and the timeframes are typically shorter.
- 8.4.4 Where the issue is complex, the AASB may form an Advisory Panel. An Advisory Panel would typically comprise the Chair, one other Board member and other people with a range of relevant skills and experience to provide different perspectives on the topic. Existing Advisory Panels may be used where relevant, or a specific Advisory Panel established. Feedback from an Advisory Panel is provided to the AASB.

### **Agenda decisions**

- 8.5 Agenda decisions of the IFRS Interpretations Committee are linked from the AASB Board Agenda Decisions page on the website.<sup>15</sup> The link is in the explanatory material before the list of the AASB's own Agenda Decisions.

## **9. Supporting Consistent Application**

- 9.1 The AASB may issue material that does not have the status of Standards or Interpretations and cannot add or change requirements in the mandatory

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<sup>15</sup> See [Board Agenda Decisions](#).



pronouncements. However, the material is expected to improve the consistency of application of the pronouncements.

### **Agenda Decisions**

- 9.2.1 If the AASB decides not to add a project to its work program to address a submitted question, where the issue has resulted in diversity in practice, it explains why in a tentative Agenda Decision in its Action Alert and on the AASB website. Comments are requested. After considering the comments, the AASB will confirm its decision and publish an Agenda Decision or add a project to its agenda.
- 9.2.2 Where the reason for not adding a project is that the principles and requirements in the pronouncement are considered adequate, the Agenda Decision typically includes examples and other explanatory material that should be seen as helpful, informative and persuasive.
- 9.2.3 The process for publishing an Agenda Decision might result in explanatory material that from a preparer's perspective provides new or clarifying information. While no formal transitional relief is provided in such circumstances, it is expected that the preparer will have sufficient time to implement any changes.

### **Staff FAQs and other educational material**

- 9.3.1 The AASB Education Strategy<sup>16</sup> will contribute to the rigour and consistency with which the Standards are applied, by supporting stakeholders, including preparers, auditors, users and academics. The AASB's education initiatives are not its primary focus. Accordingly, the focus is to partner with those that are better placed to develop and deliver financial reporting-related education to better target their education initiatives.
- 9.3.2 The AASB or its staff may publish educational material related to pronouncements on the website, including webcasts, podcasts, articles, presentations for conferences, training materials and Staff Frequently Asked Questions. These materials do not have authoritative status and cannot add or change requirements in the pronouncements.
- 9.3.3 Such materials are not developed in public meetings and are not subject to the same public scrutiny as pronouncements. However, these materials are subject to quality assurance processes to ensure they do not add or change requirements in the pronouncements and are clearly distinguished from pronouncements.
- 9.3.4 These quality assurance processes may include obtaining input from relevant Advisory Panels, Board committees and/or the AASB Chair. Targeted consultations may also be conducted. All such educational material must be approved by the AASB Technical Director, and where such materials include a significant new example demonstrating how the requirements might apply to a particular fact pattern, are reviewed at a minimum by the AASB Chair and at least one other Board member.

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<sup>16</sup> See the *AASB Education Strategy*.



9.3.5 Research Reports, Discussion Papers, bulletins and other educational materials are subject to review as follows:

- (a) if the material interprets pronouncements – the AASB Board reviews the material prior to finalisation;
- (b) illustrative examples – the AASB Chair and at least one other Board member; and
- (c) in any other case – the AASB Chair.

## 10. Other

### Annual improvements and editorials

10.1.1 As the Standards are generally legislative instruments, annual improvements and editorials must be made through another legislative instrument, ie amending Standards. Some proposed amendments to pronouncements are sufficiently minor or narrow in scope that they can be packaged together in one ED or pronouncement, even though the amendments are unrelated. Such amendments may be called annual improvements. Such amendments are limited to changes to clarify wording or to correct minor unintended consequences, oversights or conflicts between existing requirements.

10.1.2 AASB technical staff may make editorial corrections to pronouncements (other than Standards to be registered on the FRL) after voting by the AASB and prior to publication on the AASB website to remedy drafting errors, provided the corrections do not alter the technical meaning of the text. Editorial corrections normally fix spelling errors, grammatical mistakes or incorrectly marked consequential amendments.

10.1.3 For Standards to be registered on the FRL, such editorials are corrected via an amending Standard. Where the AASB decides that the proposed amendments are editorial in nature and appropriate, the amending Standard is approved by the Board without further due process.

## 11. Protocols for Perceived Breaches of Due Process

11.1 Where a formal complaint regarding a breach of due process is advised to either the AASB Chair or the Financial Reporting Council Chair, the alleged breach will be assessed via the reporting process set out in this section.

11.2 A formal complaint, together with the name and affiliation of the complainant, is posted on the AASB's website.

11.3 AASB staff prepare a report in response to the complaint. The report is provided to the FRC Chair and the AASB members, and is posted on the AASB's website. The FRC



response to the report, typically in the form of a letter to the complainant, is also posted on the AASB website.

- 11.4 A breach of due process does not invalidate a pronouncement issued by the AASB.
- 11.5 If the FRC considers that the AASB has breached its due process, the FRC will request that the AASB takes action to remedy the breach either within the current phase of the project to which the breach relates or by taking some additional steps in a future phase of that project, such as the post-implementation review.
- 11.6 The FRC is not permitted under the ASIC Act to raise technical accounting considerations as evidence of a breach of due process.<sup>17</sup>

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<sup>17</sup> Under ASIC Act s225(5), the FRC does not have the power to direct the AASB in relation to the development, or making, of a particular Standard.