



To:	AASB Members	Date:	12 April 2010
From:	Jessica Lion	Agenda Item:	11.1
Subject:	<i>AASB 127 Consolidated and Separate Financial Statements</i>	File:	

Action

For the Board to consider issuing an Exposure Draft in relation to providing relief from preparing consolidated financial statements for certain intermediate parent entities (as described below).

Background

This issue was discussed at the last Board meeting.

Paragraph 10 of AASB 127 provides the following relief from preparing consolidated financial statements:

“A parent need not present consolidated financial statements if and only if:

(a) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(b) the parent’s debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

Aus10.1 Notwithstanding paragraph 10, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities.”

Due to the addition of Aus paragraphs in IFRSs as adopted in Australia, some not-for-profit entities applying Australian Accounting Standards are not IFRS compliant. This means that an intermediate parent, (a subsidiary of a group that is also itself a parent of a group), of a not-for-profit group may be precluded from the ‘relief’ provided in paragraph 10 of AASB 127.

At the March 2010 meeting, some concerns were expressed about extending the relief to public sector not-for-profit entities. However, staff note that in Australia this is unlikely to be a significant issue in practice, because most public sector not-for-profit intermediate parent entities only prepare consolidated accounts (not parent accounts) and would continue to do so even if the

exemption were expanded. These entities consolidate to aid consolidation at the whole of government level.

A second issue is whether the paragraph 10 ‘relief’ should be extended to intermediate parents whose parent entity applies the proposed Reduced Disclosure Regime (RDR).

A similar issue was considered by the FRSB in December 2008. The FRSB decided to insert the following text into NZ IAS 27:

“NZ 3.1 Entities which qualify for differential reporting concessions in accordance with the Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime (2005) are not required to comply with paragraph 10(d) which permits a parent not to present consolidated financial statements if “the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with New Zealand equivalents to International Financial Reporting Standards”. In order to qualify for the exemption not to present consolidated financial statements, qualifying entities must still comply with all the other conditions in paragraph 10.”

New Zealand inserted a similar exemption into NZ IAS 28 *Investments in Associates* (in respect of paragraph 13) and NZ IAS 31 *Interests in Joint Ventures* (in respect of paragraph 2), which both contain a comparable consolidation exemption.

Staff recommendation

Staff recommend that the AASB considers issuing a joint ED with the FRSB, which includes the proposed wording for expanding the exemption in AASB 127 for both not-for-profit entities and entities under the RDR. However, staff note that the wording relating to expanding the exemption for entities under the RDR would be proposed subject to the RDR standard being finalised.

Staff propose the following wording be included in the ED:

“If the ultimate or any intermediate parent of an entity produces consolidated financial statements available for public use, that do not comply with International Financial Reporting Standards, because either the parent has applied the Reduced Disclosure Regime, or the parent is a not-for-profit entity that has applied Aus paragraphs, that entity can still qualify for the exemption in paragraph 10 not to present consolidated financial statements, if it complies with all of the other conditions in paragraph 10.”

We note that a similar exemption will also need to be inserted into AASB 128 *Investments in Associates* (paragraph 13) and AASB 131 *Interests in Joint Ventures* (paragraph 2), which should also be included in the ED. Staff will also need to work with New Zealand to ensure a converged solution.

Question for the Board

Do you agree with the staff recommendation?