

This Agenda paper discusses issues in relation to the disclosure of a difference between the fair value of a subsidiary and the net assets of the subsidiary in the parent's consolidated financial statements under the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds*

[Paragraphs omitted from observer notes.]

Background

1. At its December 2009 meeting, the Board tentatively decided, among other things, that the replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* should, consistent with the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds*, require a parent superannuation plan or parent approved deposit fund (ADF) to prepare and present consolidated financial statements.
2. However, in contrast to the proposal in ED 179, the Board also decided that a parent plan's or parent ADF's consolidated financial statements should be prepared in accordance with AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*, although the Board affirmed that all recognised assets and liabilities except for:
 - (a) tax assets and tax liabilities;
 - (b) obligations for defined contribution members' benefits;
 - (c) assets and liabilities arising from insurance contracts issued by a plan or ADF; and
 - (d) goodwill;should be measured at their fair values at the end of each reporting period.
3. In addition, at its February 2009 meeting, the Board decided that the replacement standard for AAS 25 should require defined benefit members' accrued benefits to be measured in accordance with the approach under AASB 119 *Employee Benefits* for defined benefit obligations.
4. Accordingly, in preparing consolidated financial statements under the replacement Standard for AAS 25, a parent plan or parent ADF would:
 - (a) recognise all of the identifiable but not recognised assets and liabilities of a subsidiary at the subsidiary's acquisition date. Consequently, a parent plan or parent ADF would, for instance, recognise an internally generated intangible asset held by a subsidiary at the subsidiary's acquisition date when the asset:
 - (i) meets the definition of an asset; and
 - (ii) is identifiable, that is, is separable or arises from contractual or other legal rights;
 - (b) recognise all of the assets and liabilities recognised by the subsidiary at the end of the reporting period in accordance with Australian Accounting Standards. Consequently, a parent plan or parent ADF would not, for instance, recognise any internally generated intangible assets, internally generated goodwill, contingent assets or contingent liabilities attributable to a subsidiary subsequent to acquisition by the parent;
 - (c) measure all assets and liabilities except:
 - (i) tax assets and tax liabilities;
 - (ii) obligations for defined contribution and defined benefit members' benefits;

- (iii) assets and liabilities arising from insurance contracts issued by a plan or ADF; and
 - (iv) goodwill;
- at their fair values at the end of each reporting period;
- (d) measure goodwill in accordance with AASB 3 [i.e., the difference between: (a) the acquisition date fair value of the consideration transferred *plus* the amount of any non-controlling interests in the subsidiary; and (b) the net of the acquisition date amounts of the subsidiary's identifiable assets acquired and liabilities assumed in the acquisition]; and
 - (e) measure non-controlling interests in accordance with AASB 3 [i.e., either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets] at the subsidiary's acquisition date and in accordance with AASB 127 [i.e., at the amount of non-controlling interests at acquisition date plus non-controlling interests' share of changes in equity since acquisition) at the end of each subsequent reporting period.
5. The Board's tentative decisions at its December 2009 meeting differ in some respects from the proposals in ED 179. In particular, ED 179 proposed that any goodwill or remeasurement gain recognised on consolidation would comprise movements in the values of a number of assets and/or liabilities that would not otherwise be recognised in accordance with other Australian Accounting Standards, including:
- (a) internally generated brands, mastheads, publishing titles, customer lists and items similar in substance;
 - (b) internally generated goodwill;
 - (c) contingent assets; and
 - (d) contingent liabilities;
- that are attributable to the subsidiary and have arisen subsequent to the subsidiary's acquisition by its parent plan or parent ADF. Appendix A to this Agenda paper provides selected paragraphs outlining the proposals in ED 179 for preparing and presenting consolidated financial reports.
6. During its December 2009 meeting, the Board noted that advocates of 'full fair value' reporting by superannuation entities argue that the preparation of consolidated financial statements under AASB 3 and AASB 127 can lead to different net asset figures being reported in the parent and consolidated columns of a consolidated statement of financial position. Consequently, consolidated financial statements could potentially mislead users, particularly in circumstances where parent superannuation entities consolidate subsidiaries that comprise material internally generated goodwill.
7. In light of such views, the Board decided at its February 2010 meeting to give further consideration to how any difference between:
- (a) the fair value of a subsidiary; and
 - (b) the carrying amount of the net assets of the subsidiary that would be recognised by the parent superannuation plan or parent ADF in the consolidated financial statements;

might be disclosed in the parent's consolidated financial statements, whether or not there is a non-controlling interest in the subsidiary.

Potential causes of a difference between the fair value of a parent's interest in a subsidiary and the carrying amount of the subsidiary's net assets recognised in the parent's consolidated financial statements

8. A difference between the fair value of a parent's interest in a subsidiary and the carrying amount of the subsidiary's net assets recognised in the parent's consolidated financial statements could arise in a number of circumstances, including:
 - (a) some or all of the subsidiary's assets and/or liabilities are being measured for reporting purposes on a basis other than fair value;
 - (b) the subsidiary is holding assets and/or liabilities that do not meet the relevant recognition criteria in Australian Accounting Standards; and/or
 - (c) equity in the subsidiary is trading at a 'discount' to its recognised net assets.
9. As noted in paragraphs 2-4 of this Agenda paper, the Board has tentatively decided that most of the assets and liabilities of a plan or ADF should be measured at fair value. In addition, subsidiaries of superannuation entities are unlikely to hold any assets or liabilities other than tax assets and tax liabilities that would not be required to be measured at fair value under the replacement Standard for AAS 25. Accordingly, staff do not anticipate that measurement differences as described in paragraph 8(a) above would give rise to significant differences between the fair value of a subsidiary and the carrying amount of its reported net assets under the replacement Standard for AAS 25. On this basis, the remainder of this Agenda paper focuses on the disclosure of information in the circumstances described in paragraph 8(b) and (c).

Issues in relation to the disclosure of information about a difference between the fair value of a parent's interest in a subsidiary and the carrying amount of the subsidiary's net assets recognised in the parent's consolidated financial statements

Users' information needs

10. Paragraph 21 of the *Framework for the Preparation and Presentation of Financial Statements* states that:

“Financial reports also contain notes and supplementary schedules and other information. For example, they may contain **additional information that is relevant to the needs of users about the items in the balance sheet and income statement**. They may include disclosures about the risks and uncertainties affecting the entity and **any resources and obligations not recognised in the balance sheet** (such as mineral reserves). Information about geographical and industry segments and the effect on the entity of changing prices may also be provided in the form of supplementary information.” (emphasis added)
11. Accordingly, the *Framework* acknowledges that an entity might provide information in relation to:
 - (a) the fair value of its investment in a subsidiary; and

- (b) identifiable items held by a subsidiary that do not meet the relevant recognition criteria under IFRS, such as internally generated goodwill, internally generated intangible assets, contingent assets and contingent liabilities.

However, paragraph 21 of the *Framework* also suggests that information in relation to such items would only be disclosed in the notes if it is relevant to the needs of users.

12. The decision usefulness of information in relation to a difference between the fair value of a subsidiary and the net carrying amount of the recognised assets and liabilities of the subsidiary was raised by constituents in response to the Board's Consultation Paper *Consolidation of Subsidiaries by Superannuation Entities*.
13. During 2007, the Board considered a number of different ways in which a parent plan or parent ADF could treat a subsidiary, including:
 - (a) a full fair value model that involves all assets and liabilities, whether recognised or unrecognised in separate financial statements of parent superannuation entities or their subsidiaries, being measured at their fair values in consolidated financial statements;
 - (b) the approach currently required under AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, whereby all assets and liabilities recognised by a subsidiary would be measured at their fair values when fair value measurement is required or permitted under the relevant Australian Accounting Standard;
 - (c) the approach described in (b) above with the addition, when applicable, of a balancing item (excess of market value over net assets or 'EMVONA') in relation to subsidiaries [similar to the approach previously required under AASB 1038 *Life Insurance Business* (1998)]. The balancing item would comprise any acquired goodwill (to the extent that it remains at the reporting date), changes in internally generated goodwill attributable to the subsidiaries and measurement differences; and
 - (d) the approach under AASB 3 and AASB 127, whereby goodwill is recognised as the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.
14. To assist the Board in its deliberations, the Consultation Paper was issued for public comment in September 2007. The AASB also held roundtable meetings in relation to the consolidation of subsidiaries by superannuation entities.
15. Seven written responses were received on the Consultation Paper. As noted in paragraph BC99 of ED 179, the majority of respondents:
 - (a) expressed a preference for a full fair value model (although many respondents expressed significant reservations with the proposal to measure defined benefit members' accrued benefits at fair value); and
 - (b) indicated that the consolidation approach under AASB 3 and AASB 127 was the least preferred of the four approaches identified in the Consultation Paper.

16. Of significance to those respondents expressing dissatisfaction with the approach under AASB 3 and AASB 127 was the potential for some parent plans and parent ADFs to recognise a difference in the net assets figures reported in their separate and consolidated statements of financial position.
17. Respondents noted that members' entitlements are calculated on the basis of the net assets reported in the parent plan's or parent ADF's separate financial statements. Accordingly, where material internally generated goodwill, internally generated intangible assets and/or contingent items are identifiable but not recognised, the amount of net assets recognised in the parent's consolidated financial statements that are attributable to a subsidiary may differ from the fair value of the investment in the subsidiary recognised in the parent's separate financial statements. In such circumstances, members' perceptions about their entitlements may be altered by the apparent 'surplus or 'shortfall' in the reported amount of the plan's net assets.

Cost-benefit considerations

18. Counterbalancing users' information needs are the constraints on relevant and reliable information identified in paragraph 44 of the *Framework*, in particular cost-benefit considerations.
19. With respect to the potential costs that would be imposed on parent entities if the replacement Standard for AAS 25 were to require the separate recognition of the components of 'fair value' goodwill or remeasurement gain on consolidation, paragraph BC102 of ED 179 states that:

"However, the AASB concluded that requiring a parent superannuation plan or parent approved deposit fund to recognise and measure at fair value adjusted for transaction costs at the end of each reporting period items such as internally generated brands, customer lists and items similar in substance, internally generated goodwill and contingent items that are attributable to the subsidiary and arise subsequent to the subsidiary's acquisition may be difficult to apply in practice and impose significant preparation costs on some parent plans and parent funds."¹
20. In addition, paragraph BC103 of ED 179 states, in part, that:

"The AASB noted that the potential benefits derived by users from a parent superannuation plan or parent approved deposit fund separately recognising all of a subsidiary's assets and liabilities may not exceed the costs of providing such information. For example, the separate recognition and measurement of all assets of a subsidiary would involve identifying and measuring internally generated intangible assets at the end of each reporting period..."

Other considerations

21. As noted in Agenda paper 6.2 to the Board's December 2009 meeting, five of the respondents to ED 179 provided detailed comments on the proposal to separately

¹ At its December 2009 meeting, the Board tentatively decided not to permit the carrying amounts of assets and liabilities measured at fair value to be adjusted for transaction (anticipated selling) costs.

recognise components of any goodwill or remeasurement gain on consolidation. Two of these respondents expressed support for the proposal whereas the remaining three expressed disagreement with the proposal. The respondents expressing disagreement with the proposal raised a number of concerns, including:

- (a) the likelihood that the resulting information would be misunderstood by users; and
- (b) the proposed approach is inconsistent with the approach under IFRSs and that there are arguably no justifications for superannuation entities being treated differently from other reporting entities in this respect.

22. Appendix B to this Agenda paper provides a list of the respondents to ED 179, the response number allocated to them and a description of the respondent. In addition, Appendix C to this Agenda paper provides a description of respondents' comments on the proposal to separately recognise components of any goodwill or remeasurement gain on consolidation. Please note that the material in Appendix C is identical to paragraphs 80-86 of Agenda paper 6.2 and pages 61-62 of Agenda paper 6.3 to the Board's December 2009 meeting.

Examples of disclosures of items that do not meet the relevant recognition criteria in Australian Accounting Standards

23. Staff have identified the following two circumstances under past and current Australian Accounting Standards in which an entity might disclose items that would not otherwise meet the relevant recognition criteria:
- (a) under AASB 1038 (1998), where the net market value recognised in a life insurer's parent entity financial statements exceeded the amount of the parent's interest in the subsidiary's net assets (EMVONA); and
 - (b) under AASB 3 *Business Combinations* (2008), where a parent recognises goodwill on acquisition of a subsidiary that comprises intangible assets that do not qualify for separate recognition under the Standard.

Disclosure of EMVONA by life insurers under AASB 1038 (1998)

24. AASB 1038 (1998) commented that life insurers perceive their subsidiaries to be investments and, therefore, may not attempt to assign particular values to underlying individual assets and liabilities. Accordingly, under AASB 1038 (1998), it was considered that a reliable measure of net market value was determined for the carrying amounts of whole businesses that were investments held by life insurers, with the increments and decrements in carrying amounts recognised as revenues and expenses as they occur. This approach, however, effectively meant the recognition of internally generated goodwill in the consolidated financial statements of some life insurers.
25. In accordance with AASB 1038 (1998), a life insurer recognised in its consolidated financial statements the assets and liabilities relating to its subsidiary at the amounts in the records of the subsidiary. EMVONA could comprise one or more of the following components:

- (a) acquired goodwill, to the extent that it remained at the reporting date. For life insurance business, acquired goodwill often included the value of business in force (VBIF) at the time of the acquisition;
- (b) increments in the value of goodwill associated with a subsidiary subsequent to the acquisition or establishment of the subsidiary. For instance, the value of new business expected to be written in the future (VNB); and
- (c) measurement differences.

26. Paragraph 5.3 of AASB 1038 (1998) states that:

“Any excess of the net market values of an interest in a subsidiary over the net amount of that subsidiary’s assets and liabilities recognised in the consolidated financial report must be recognised in the consolidated financial report of a life insurer as a separate asset.”

27. In addition, paragraph 16.1(d) of AASB 1038 (1998) states that:

“The following assets must be disclosed in the broad order of their liquidity:

...

- (d) any excess net market value asset recognised in accordance with paragraph 5.3, together with the components disaggregated by subsidiary, and explanations of:
 - (i) the factors giving rise to that asset; and
 - (ii) any changes in that asset from the previous financial year.”

28. Staff have reviewed the 2003 and 2004 financial statements of a number of Australian entities with life insurance businesses, including AMP, AXA, IOOF, Challenger, National Australia Bank and Commonwealth Bank, and found that, consistent with the requirements in AASB 1038 (1998), each of the entities disclosed:

- (a) a qualitative description of the nature and components of EMVONA, including the factors giving rise to the asset;
- (b) a description of how EMVONA is treated in the financial statements; and
- (c) any changes in EMVONA from the previous reporting period.

However, from the information disclosed, it might be concluded that entities interpreted paragraph 16.1(d) of AASB 1038 (1998) as requiring the disclosure of the portion of EMVONA attributable to each material or significant subsidiary conducting life insurance business, rather than the disclosure of the underlying assets and liabilities that comprise EMVONA on a subsidiary-by-subsiary basis. This conclusion may be circumstantial in that the main source of EMVONA in those entities could be generally attributed to one or more large subsidiaries. Appendix F to this Agenda paper provides examples of the types of disclosures provided by some of the entities reviewed by staff.

Disclosure of intangible assets that comprise acquired goodwill under AASB 3

29. Paragraph B64(e) of AASB 3 (2008) states that a parent shall disclose the following information for each business combination that occurred during a reporting period:

“a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.”

Similar disclosures were required under paragraph 67(h) of AASB 3 *Business Combinations* (2004).

30. A number of studies have examined the reporting behaviour of parent entities subsequent to the adoption of IFRS 3 *Business Combinations*. For instance, Intangible Business Ltd found relatively few parent entities that were located in the United Kingdom and had acquired subsidiaries in the first year that IFRS 3 was applied provided a description of the factors making up the goodwill recognised.² In a follow-up study examining the reporting behaviours of FT Global 500 companies (including Australian companies),³ Intangible Business Ltd found over half of the financial statements examined provided a description of the factors that made up acquired goodwill.⁴

Example disclosures for a situation where the fair value of a parent plan’s interest in a subsidiary exceeds the carrying amount of the subsidiary’s net assets recognised in the plan’s consolidated financial statements

31. Appendix D to this Agenda paper provides example note disclosures developed by staff for a situation where the fair value of a plan’s investment in a subsidiary exceeds the carrying amount of the subsidiary’s net assets recognised in the parent’s consolidated financial statements. The example has been prepared on the basis that:
- (a) the plan does not present separate financial statements together with its consolidated financial statements;
 - (b) the plan has one subsidiary; and
 - (c) the excess of the fair value of equity in the subsidiary over the carrying amount of the subsidiary’s recognised net assets is material.

Disclosure of information in relation to impaired assets where the carrying amount of a parent’s interest in a subsidiary is less than the carrying amount of the subsidiary’s net assets recognised in the parent’s consolidated financial statements

32. Under AASB 136 *Impairment of Assets*, an entity is required to:
- (a) assess at the end of each reporting period whether there is any indication that an asset or cash generating unit (CGU) may be impaired;
 - (b) estimate the recoverable amount (the higher of its fair value less costs to sell and its value in use) of an impaired asset or CGU and recognise any excess of the asset’s or CGU’s carrying amount over its recoverable amount as an impairment

2 *IFRS 3: The First Year – The FTSE 100’s reporting of acquired intangible assets*, Intangible Business Ltd (www.intangiblebusiness.com).

3 The FT Global 500 group of companies comprise companies which report under IFRS and are based outside of the United Kingdom, including companies in all European Union countries, Australia, Hong Kong and China, South Africa and Switzerland.

4 *International IFRS 3 – An Analysis of the International Application of IFRS 3, Business Combinations*, Intangible Business Ltd (www.intangiblebusiness.com).

loss (where the asset is carried at its revalued amount, the impairment loss is treated as a revaluation decrease; in other cases the impairment loss is recognised immediately in profit or loss); and

- (c) disclose, among other things, information regarding:
 - (i) impairment losses and reversals of impairment losses recognised during the period attributable to each class of assets and each reportable segment;
 - (ii) each material impairment loss recognised or reversed during the period for an individual asset (including goodwill) or a CGU;
 - (iii) aggregate impairment losses and aggregate reversals of impairment losses recognised during the period for which no information is disclosed under (i) or (ii) above; and
 - (iv) each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that CGU is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

33. Consistent with the approach under AASB 136, a parent might initially assess whether there is any indication that the assets attributable to a subsidiary are impaired by comparing, for instance, the carrying amount of the subsidiary's net assets to the market value of the subsidiary. If the carrying amount of the subsidiary's net assets exceeds the market value of the subsidiary, the parent may recognise impairment losses in respect of some or all of the assets attributable to the subsidiary (including any goodwill). However, under paragraph 59 of AASB 136, an impairment loss would only be recognised if the value in use of an asset attributable to the subsidiary is less than the asset's fair value less costs to sell. Accordingly, an indicator such as the carrying amount of a subsidiary's net assets exceeding the market value of the subsidiary may or may not give rise to the parent recognising impairment losses with respect to some or all of the assets attributable to the subsidiary, depending upon the particular circumstances.

34. In addition, under AASB 136 an entity is only required to disclose information in relation to recognised impairment losses (including revaluation decreases where the asset is carried at its revalued amount). Accordingly, where, for instance, the carrying amount of a subsidiary's net assets is more than the market value of the subsidiary but none of the assets attributable to the subsidiary are themselves considered to be impaired (i.e., value in use is greater than carrying amount which, in turn, is greater than market value), the parent is not required to disclose information in relation to the difference, such as:

- (a) the difference between the carrying amount of the subsidiary's net assets recognised in the parent's consolidated financial statements and the market value of the parent's interest in the subsidiary; and
- (b) the reasons for the difference.

However, to the extent that significant amounts of goodwill or intangible assets with indefinite useful lives are part of the net assets of the subsidiary, disclosures in accordance with paragraphs 134 and 135 [particularly sub-paragraphs 134(f) and 135(f)] of AASB 136 would be required.

35. Staff reviewed recent financial statements of a number of Australian listed investment companies and trusts that hold controlling interests in other entities, including CVC Limited, Agricultural Land Trust, Stockland Trust, The GPT Group, Souls Private Equity Ltd and Charter Pacific Corporation Ltd., and found that, consistent with the requirements in AASB 136, each of the entities disclosed:
- (a) impairment losses attributable to acquired goodwill; and
 - (b) impairment losses attributable to other assets, including loans and receivables, available-for-sale assets, investments accounted for using the equity method and intangible assets;

recognised during the reporting period. However, any difference between the carrying amount of a subsidiary's net assets recognised in the parent's consolidated financial statements and the market value or fair value of the parent's interest in the subsidiary was not disclosed. Appendix G to this Agenda paper provides examples of the types of disclosures provided by some of the entities reviewed by staff.

Example disclosures for a situation where the carrying amount of a subsidiary's net assets recognised in the parent plan's consolidated financial statements exceeds the fair value of the plan's interest in the subsidiary

36. Appendix D to this Agenda paper provides example note disclosures developed by staff in respect of a situation where the carrying amount of a subsidiary's net assets recognised in the parent plan's consolidated financial statements exceeds the fair value of the plan's interest in the subsidiary. The example has been prepared on the basis that:
- (a) the plan does not present separate financial statements together with its consolidated financial statements; and
 - (b) the plan has one subsidiary; and
 - (c) the difference between the fair value of the equity in the subsidiary and the carrying amount of the recognised net assets attributable to the subsidiary is material.

Staff views

Disclosure of non-recognised items by a parent plan or parent ADF

37. While AASB 1038 could have been interpreted as requiring quantitative disclosures regarding the underlying assets and liabilities that comprise EMVONA, paragraph B64(e) of AASB 3 clearly does not require a parent to provide a quantitative description of the factors that make up acquired goodwill. Nevertheless, it appears that, under both Standards, entities have been reticent to disclose a disaggregation of items that do not meet the relevant recognition criteria. There are a number of possible reasons for this, including:
- (a) the inability to reliably measure such items; and/or
 - (b) the cost of preparing and presenting the information is considered to outweigh the benefits to users.

38. A number of constituents, including several respondents to ED 179, have commented that, given the nature of most subsidiaries held by superannuation entities, differences between the fair values of subsidiaries and the carrying amounts of their reported net assets is a relatively rare occurrence. Staff note, however, that it is feasible that these types of assets might become more common amongst parent superannuation entities in the future if the relative proportion of their holdings in 'alternative' assets increases.

Disclosure of information by a parent plan or parent ADF where the fair value of its interest in a subsidiary is less than the carrying amount of the subsidiary's net assets recognised in the parent's consolidated financial statements

39. While some users of the financial statements of superannuation entities might consider information about any deficiency in the fair value of the plan's interest in a subsidiary over the carrying amount of the subsidiary's recognised net assets to be useful for decision making, presumably users of other investment-type entities would also regard this information as useful. Accordingly, staff are not convinced that the needs of users of superannuation entities are sufficiently unique to warrant such entities being required to make additional disclosures to those provided by other investment-type entities. In addition, staff do not consider the circumstances under which such a deficiency would arise are sufficiently common to warrant specific disclosure requirements, particularly in light of constituent views noted in paragraph 21 of this Agenda paper and Appendix C to this Agenda paper.

Staff views

Staff consider that, on balance, and consistent with the Board's policy of transaction-neutrality:

- (a) the replacement Standard for AAS 25 should not require the disclosure of information in relation to any difference between:
 - (i) the fair value of a subsidiary; and
 - (ii) the carrying amount of the net assets of the subsidiary that would be recognised by the parent plan or parent ADF in its consolidated financial statements; and
- (b) the Basis for Conclusions to the replacement Standard for AAS 25 should note that Australian Accounting Standards do not prevent a parent plan or parent ADF from disclosing information in relation to any difference between the fair value of a subsidiary and the carrying amount of the net assets attributable to the subsidiary if the parent considers that this information would be useful to users of its financial statements.

Appendix A – Selected paragraphs from ED 179 *Superannuation Plans and Approved Deposit Funds*

Preparation and Presentation of Consolidated Financial Statements

- 30 A parent superannuation plan or parent approved deposit fund shall prepare and present consolidated financial statements in accordance with AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*, except that in preparing its consolidated financial statements the parent shall:
- (a) measure all of the assets and liabilities of a subsidiary that are recognised in the statement of financial position (except for tax balances) at their fair values adjusted for transaction costs at the end of the reporting period. Tax balances shall be measured in accordance with AASB 112;
 - (b) recognise any difference between:
 - (i) the sum of the parent's interest and the non-controlling interests in the subsidiary at the end of the reporting period; and
 - (ii) the amount of the net assets of the subsidiary that are recognised by the parent at the end of the reporting period;as goodwill or a remeasurement gain; and
 - (c) present:
 - (i) any goodwill in the statement of financial position at the end of the reporting period; and
 - (ii) any remeasurement gain in the income statement in the period in which it occurs.

...

Preparation and Presentation of Consolidated Financial Statements

- AG41 To comply with paragraph 30 of this Standard, a parent superannuation plan or parent approved deposit fund would prepare and present consolidated financial statements in accordance with paragraphs AG42-AG51 of this Appendix, as well as any requirements in other relevant Australian Accounting Standards.
- AG42 Consistent with AASB 3, the assets and liabilities of a subsidiary that are recognised in the consolidated financial statements of the parent superannuation plan or parent approved deposit fund at fair value adjusted for transaction costs at the end of the reporting period would include:
- (a) all of the assets and liabilities recognised by the subsidiary at the end of the reporting period in accordance with Australian Accounting Standards; and
 - (b) all of the identifiable but not recognised assets and liabilities of the subsidiary at its acquisition date.

Accordingly, a parent superannuation plan or parent approved deposit fund would not separately recognise an intangible asset that had been internally generated by a subsidiary subsequent to the subsidiary's acquisition by the parent plan or parent fund. However, a parent plan or parent fund would separately recognise an intangible asset that was identifiable on the date of the subsidiary's acquisition and measure the intangible asset at its fair value less transaction costs at the end of each reporting period.

- AG43 A parent superannuation plan or parent approved deposit fund measures any goodwill or remeasurement gain as the difference between:
- (a) the aggregate of:
 - (i) the fair value less transaction costs of the parent's interest in the subsidiary at the end of the reporting period; and
 - (ii) the amount of any non-controlling interests in the subsidiary measured:

- (A) in a manner consistent with AASB 127 at the end of the reporting period; or
 - (B) at their fair value of equity at the end of the reporting period; and
- (b) the aggregate of:
- (i) the fair value adjusted for transaction costs of the net assets (excluding tax balances) of the subsidiary that are recognised in the parent's consolidated statement of financial position at the end of the reporting period; and
 - (ii) the subsidiary's net tax assets or liabilities measured in accordance with AASB 112 at the end of the reporting period.

Illustrative Examples C and D of Appendix C to this Standard demonstrate how non-controlling interests in a subsidiary could be measured in accordance with paragraph AG43(a)(ii)(A) and (B) of this Appendix.

AG44 Any goodwill or remeasurement gain recognised on consolidation comprises movements in the values of a number of assets and/or liabilities that would not otherwise be recognised in accordance with other Australian Accounting Standards, including:

- (a) internally generated brands, mastheads, publishing titles, customer lists and items similar in substance;
- (b) internally generated goodwill;
- (c) contingent assets; and
- (d) contingent liabilities;

that are attributable to the subsidiary and have arisen subsequent to the subsidiary's acquisition by its parent.

Appendix B - Table of Respondents

Table of Respondents

Response number	Respondent	Constituent Group
1	Unisuper	Preparer of financial statements
2	Ernst & Young (E&Y)	Accountant and auditor
3	Mercer	Actuary, consultant, administrator and preparer of financial statements
4	AXA Australia (AXA)	Preparer of financial statements
5	Qsuper	Preparer of financial statements
6	KPMG	Accountant and auditor
7	The Association of Superannuation Funds of Australia Limited (ASFA)	Representative body
8	Watson Wyatt (WW)	Actuary, consultant and administrator
9	Australian Institute of Superannuation Trustees (AIST)	Representative body
10	Corporate Super Association (CSA)	Representative body
11	Vision Super Pty Ltd (Vision)	Preparer of financial statements
12	CPA Australia Ltd, the Institute of Chartered Accountants and the National Institute of Accountants (CPA, ICA and NIA)	Professional accounting bodies
13	Grant Thornton	Accountant and auditor
14	Dr Isabel Gordon	Academic
15	Institute of Actuaries of Australia (IAA)	Professional actuarial body
16	Sharyn Long Chartered Accountants (SLCA)	Accountant
17	AustralianSuper	Preparer of financial statements
18	Confidential submission	
19	National Australia Bank (NAB)	Asset custodian, consultant and administrator
20	PricewaterhouseCoopers (PwC)	Accountant and auditor

APPENDIX C – ED 179 respondent views on Specific Matter for Comment (i) – whether a parent superannuation plan or parent approved deposit fund should be permitted or required to separately recognise any internally generated intangible assets, internally generated goodwill, contingent assets or contingent liabilities that are attributable to a subsidiary and have arisen subsequent to the subsidiary’s acquisition by the parent plan or parent fund when such items are reliably measurable.

1. ED 179 proposes that a parent plan or parent ADF:
 - (a) measure an investment in a subsidiary at its fair value less transaction costs;
 - (b) recognise all of the assets and liabilities recognised by the subsidiary at the end of the reporting period in accordance with Australian Accounting Standards and measure most, if not all, of these assets and liabilities at fair value adjusted for transaction costs; and
 - (c) recognise all of the identifiable but not recognised assets and liabilities of the subsidiary at its acquisition date and measure most of these assets and liabilities⁵ at fair value adjusted for transaction costs.

2. Accordingly, under ED 179, any goodwill or remeasurement gain recognised on consolidation comprises movements in the values of a number of assets and/or liabilities that would not otherwise be recognised in accordance with other Australian Accounting Standards, including:
 - (a) internally generated brands, mastheads, publishing titles, customer lists and items similar in substance;
 - (b) internally generated goodwill;
 - (c) contingent assets; and
 - (d) contingent liabilities;that are attributable to the subsidiary and have arisen subsequent to the subsidiary’s acquisition by the parent.

3. Five of the respondents provided detailed comments on the proposal to separately recognise components of any goodwill or remeasurement gain on consolidation. Two of these respondents expressed support for the proposal whereas the remaining three expressed disagreement with the proposal.

4. The two respondents that expressed support for the proposal indicated that:
 - (a) separate recognition would provide more useful and reliable information to users in relation to, for instance, the amounts of any acquired and internally generated goodwill. In addition, any remeasurement gain recognised in the income statement should be segregated into gains or losses on externally acquired goodwill and gains or losses on internally generated goodwill; and

⁵ For instance, ED 179 proposes that income tax items be measured in accordance with AASB 112 *Income Taxes*.

- (b) internally generated intangible assets that are material should be measured at fair value and disclosures in relation to the valuation basis, including any judgements and assumptions, should be provided.
5. The three respondents that expressed disagreement with the proposal indicated that:
- (a) the proposed approach is too complicated and has the potential to produce information that could be misunderstood by users;
 - (b) any movement in the fair value of a subsidiary that is not attributable to the recognised assets and liabilities of the subsidiary should be recognised as a 'remeasurement gain' or similarly named item in the consolidated balance sheet, rather than being included in goodwill, because under IFRS goodwill is an acquisition amount and not subject to fair value remeasurement;
 - (c) fair value remeasurements attributable to investments in subsidiaries should be recognised as unrealised gains or losses, consistent with the treatment of other items measured at 'fair value through profit or loss' under AASB 139; and
 - (d) the proposed approach is inconsistent with the approach under IFRS and that there are arguably no justifications for superannuation entities being treated differently from other reporting entities.
6. Table 1 below provides respondents' detailed comments in relation to the proposal to separately recognise components of any goodwill or remeasurement gain on consolidation.

TABLE 1 - ED 179 respondent views on Specific Matter for Comment (i)

Respondent	Comments
E&Y	“We agree that any material contingent assets or liabilities attributable to a subsidiary should be disclosed in the notes to the financial statements. For internally generated intangible assets that are material such as brand names, patents and licenses, measurement at fair value would need to be considered. We agree that, if material, separate recognition of internally generated intangible assets is required with adequate disclosure on valuation basis including use of judgement and assumptions.”
CPA, ICA and NIA	“As stated previously we question the relevance of consolidated financial statements, but accept it in the interests of applying IFRS to superannuation plans. However, the proposed methodology in the standard, fair valuing internally generated intangible assets, internally generated goodwill or contingent items that are attributable to the subsidiary and have arisen subsequent to the subsidiary’s acquisition by the plan or fund is overcomplicated and has the potential to produce information misunderstood by the users of the financial statements. Movement in the fair value of a subsidiary that is not attributable to the recognised assets and liabilities in the subsidiary should be recognised as a ‘remeasurement gain’ or similar named balance in the balance sheet, rather than being included as goodwill. Goodwill according to IFRS is an acquisition amount and is not subsequently revalued to fair value. Users are likely to be confused by applying a concept of goodwill that differs from IFRS purely for superannuation plans and approved deposit funds.”
SLCA	“As discussed above this only has relevance if consolidation is applicable. We have not comment on the proposed methodology to account for this movement.”
NAB	“We do not support the recognition of movement in the fair value of a subsidiary as internally generated goodwill. We believe it would be more appropriate to recognise it as ‘unrealised gain/(loss)’ in the same way as any other assets or investments that are designated as ‘fair value through profit or loss’ in accordance with AASB 139. Typically, the parent’s investment in subsidiary is accounted for at fair value through profit or loss in accordance with AASB 139 where any movement in its fair value is taken to profit or loss.”
PwC	“Parent entities should not be permitted to recognise internally generated intangible assets, internally generated goodwill and contingent assets or contingent liabilities that have arisen subsequent to the acquisition, even if they are reliably measurable. Such recognition is not permitted under IFRS and we cannot see any justification why superannuation plans should be treated any different to other reporting entities. The recognition and measurement of the assets and liabilities in the group subsequent to acquisition should comply with the relevant accounting standard that deals with the particular asset or liability.”

APPENDIX D – Example note disclosures for a situation where the fair value of an investment in a subsidiary exceeds the carrying amount of the subsidiary’s net assets recognised in the parent’s consolidated financial statements

Note # - Excess of fair value of equity in subsidiaries over the carrying amount of the subsidiaries’ recognised net assets

Under Australian Accounting Standards, the plan is required to measure:

- (a) investments in subsidiaries at their acquisition-date fair values; and
- (b) most of the assets and liabilities of the subsidiaries at their fair values at each reporting date;

in order to prepare consolidated financial statements. Consequently, at each reporting date, the fair value of the plan’s investments in its subsidiaries may differ from the carrying amounts of the subsidiaries’ net assets recognised in the plan’s consolidated financial statements. While some of this difference may be attributable to acquired goodwill, some of it may be attributable to items the subsidiaries hold that are not permitted to be recognised under Australian Accounting Standards, including:

- (a) internally generated brands, mastheads, publishing titles, customer lists and items similar in substance;
- (b) internally generated goodwill;
- (c) contingent assets; and
- (d) contingent liabilities.

The following table provides a description of the components of the excess of the fair value of the parent’s interests in Subsidiary X over the carrying amounts of Subsidiary X’s net assets recognised in the plan’s consolidated financial statements.

	2010	2009
	\$M	\$M
Fair value of equity in Subsidiary X	22	19.3
Less: carrying amount of Subsidiary X’s net assets recognised in the plan’s consolidated financial statements	<u>(19.6)</u>	<u>(18.5)</u>
Excess of the fair value of the parent’s equity interests in Subsidiary X over the carrying amount of Subsidiary X’s net assets	<u>2.4</u>	<u>0.8</u>
Comprising:		
Acquired goodwill (recognised in the consolidated financial statements)	0.6	0.4
Unrecognised assets and liabilities		
Internally generated goodwill	1.2	0.2
Internally generated intangible assets	0.8	0.3
Contingent liabilities	<u>(0.2)</u>	<u>(0.1)</u>
	<u>2.4</u>	<u>0.8</u>

APPENDIX E – Example note disclosures for a situation where the carrying amount of the subsidiary’s net assets recognised in the parent’s consolidated financial statements exceeds the fair value of the investment in the subsidiary

Note # - Excess of the carrying amount of subsidiaries’ recognised net assets over the fair value of equity in subsidiaries

Under Australian Accounting Standards, the plan is required to measure:

- (a) investments in subsidiaries at their acquisition-date fair values; and
- (b) most of the assets and liabilities of the subsidiaries at their fair values at each reporting date;

in order to prepare consolidated financial statements. Consequently, at each reporting date, the fair value of the plan’s investments in its subsidiaries may differ from the carrying amounts of the subsidiaries’ net assets recognised in the plan’s consolidated financial statements. While some of this difference may be attributable to acquired goodwill, some of it may be attributable to items the subsidiaries hold that are not permitted to be recognised under Australian Accounting Standards, including:

- (a) internally generated brands, mastheads, publishing titles, customer lists and items similar in substance;
- (b) internally generated goodwill;
- (c) contingent assets; and
- (d) contingent liabilities.

The following table provides a description of the components of the excess of the carrying amount of Subsidiary X’s net assets recognised in the plan’s consolidated financial statements over the fair value of the plan’s interest in Subsidiary X.

	2010	2009
	\$M	\$M
Fair value of equity in Subsidiary X	6.2	5.8
Less: carrying amount of Subsidiary X’s net assets recognised in the plan’s consolidated financial statements	<u>(6.6)</u>	<u>(5.9)</u>
Excess of the carrying amount of Subsidiary X’s net assets over the fair value of the parent’s equity interests in Subsidiary X	<u>(0.4)</u>	<u>(0.1)</u>
Comprising:		
Internally generated intangible assets	0.2	0.1
Contingent liabilities	<u>(0.6)</u>	<u>(0.2)</u>
	<u>(0.4)</u>	<u>(0.1)</u>

APPENDIX F – Example note disclosures provided by entities under AASB 1038 *Life Insurance Business* (1998) in relation to an excess of the net market value of an interest in a subsidiary over the net amount of the subsidiary's recognised asset and liabilities (EMVONA)

Note 13 to AMP's financial statements for the year ended 31 December 2004

13. Excess of market value over net assets of controlled entities

	CONSOLIDATED		PARENT	
	2004 \$M	2003 \$M	2004 \$M	2003 \$M
AMP Financial Planning Pty Limited	189	189	–	–
Hillross Financial Services Limited ¹	66	55	–	–
Other ²	(1)	11	–	–
Total excess of market value over net assets of controlled entities	254	255	–	–

The excess of market value over net assets of controlled entities represents future benefits expected to be derived from the business which are not reflected in the book values of underlying assets and liabilities of the entities.

Notes:

- 1 The valuation of Hillross Financial Services Limited has increased during 2004 to reflect the changed business arrangements in respect of planner business previously carried on by other parts of the AMP Group.
- 2 Other represents various minor controlled entities of AMP's life insurance funds.

Note 9 to AXA Asia Pacific Holdings Limited's financial statements for the year ended 31 December 2004

9 | Excess of Market Value Over Net Assets of Controlled Entities

As at 31 December (\$ million)	Consolidated		Company	
	2004	2003	2004	2003
AXA China Region Limited ⁽¹⁾	1,140	1,140	–	–
AXA Life Insurance Singapore Pte Ltd ⁽¹⁾	46	46	–	–
SG Holdings Ltd	194	193	–	–
SG Australia Holdings Ltd ⁽²⁾	46	55	–	–
Ipac Securities Ltd ⁽²⁾	228	206	–	–
NMMT Limited ⁽¹⁾	37	37	–	–
Other Controlled Entities	1	8	–	–
Excess of Market Value over Net Assets of Controlled Entities	1,692	1,685	–	–

- (1) In 2001, The National Mutual Life Association of Australasia Limited transferred its interests in National Mutual International Limited (incorporating AXA Life Singapore), AXA China Region Limited and NMMT Limited to the company or other non-life insurance subsidiaries. Prior to transfer, the excess of the market values of the investments in the transferred entities over the net assets of those entities ('excess') was recorded in the consolidated Statement of Financial Position as a separate asset in accordance with AASB 1035 'Life Insurance Business'. In accordance with the requirements of AASB 1024 'Consolidated Accounts', to eliminate the financial impact of transactions within the economic entity, the excess at the time of transfer continues to be recorded in the consolidated Statement of Financial Position. This excess constitutes a permanent consolidation adjustment, subject to impairment testing.

- (2) A review of carrying values at 31 December 2004 resulted in a write-down of excess in SG Australia Holdings Ltd and a write-up of excess in Ipac Securities Ltd

**APPENDIX G – Example note disclosures provided by entities under AASB 136
Impairment of Assets in relation to impairment losses attributable to
subsidiaries**

Extracts from Note 17 to Charter Pacific Corporation Limited's financial statements for the year ended 30 June 2009

17. INVESTMENTS

	CONSOLIDATED		COMPANY	
	2009 (\$)	2008 (\$)	2009 (\$)	2008 (\$)
<i>Current investments</i>				
Listed equity securities held for trading	3,130,356	8,197,279	3,130,356	8,197,279
	3,130,356	8,197,279	3,130,356	8,197,279
<i>Non-current investments</i>				
Investments in subsidiaries	-	-	2,622,486	3,755,252
Listed equity securities available-for-sale	-	1,247,988	-	1,247,988
Investments in associates at recoverable amount	-	-	607,421	1,031,420
	-	1,247,988	3,229,907	6,034,660

Impairment loss

30 June 2009

The recoverable amount of the investment in Monterey Group Limited, an associate of the Company, calculated by reference to the market price of its shares as quoted on the Australian Securities Exchange was less than the carrying value in the Company accounts as at 30 June 2009. An impairment loss of \$141,666 was recorded in the Company accounts (2008:\$1,044,287).

The recoverable amount of the investment in OEM NuTech Pty Ltd, an associate of the Company, was assessed and an impairment loss of \$282,334 was recorded in the Company accounts as at 30 June 2009 (2008:\$nil). The investment was impaired because future estimated cash flows from operations do not support recoverability of the carrying value of the investment.

The recoverable amount of the investment in Charter Pacific Funds Management Limited, a subsidiary of the Company, was assessed and an impairment loss of \$255,252 was recorded in the Company accounts as at 30 June 2009 (2008:\$881,177). The investment was impaired because future estimated cash flows from operations do not support recoverability of the carrying value of the investment.

The recoverable amount of the investment in Charter Pacific Capital Limited, a subsidiary of the Company, was assessed and an impairment loss of \$877,514 was recorded in the Company accounts as at 30 June 2009 (2008:\$1,500,000). The investment was impaired because future estimated cash flows from operations do not support recoverability of the carrying value of the investment.

The recoverable amount of the Group's investment in listed equity securities available-for-sale, calculated by reference to the market price as quoted on the ASX, was less than the carrying value as at 30 June 2009. Accordingly, an impairment loss of \$381,005 and a reduction in the fair value reserve of \$866,983 was recognised (2008:\$nil).

30 June 2008

The recoverable value of the investment in Priority Plus Funds Management Limited was reviewed and an impairment loss of \$2,000,000 was recorded in the Company accounts. The investment was impaired because future estimated cash flows from operations did not support recoverability of the investment balance.

The recoverable value of the investment in Opus Media Limited was reviewed and an impairment loss of \$757,109 was recorded in the Company accounts. The investment was impaired because future estimated cash flows from operations did not support recoverability of the investment balance.

Note 12 from Souls Private Equity Ltd's financial statements for the year ended 31 July 2009

	2009		2008	
	2009	2008	2009	2008

12. INVESTMENTS IN CONTROLLED ENTITIES

Carrying value of shares in controlled entities:

PCP Holdings 1 Pty Limited (PCP 1)	-	-	2,928	2,928
PCP Holdings 2 Pty Limited (PCP 2)*	-	-	2,946	2,946
Cromford Pty Limited **	-	-	8,250	8,250
Soda Brands Limited***	-	-	-	5,446
Food & Beverage Company Limited	-	-	-	-
	-	-	14,124	19,570

These shares are held at cost

* PCP2 was previously named Geoffrey Hill & Associates Pty Limited

** In addition to these shares, loans amounting to \$25,610,000 have been made to Cromford Pty Limited by the parent entity.

*** In line with the impairment methodology described in Note 1(r) (iii), the value-in-use calculation of the investment in Soda Brands Limited gave rise to recognition of an impairment charge of \$5,446,000 under "Impairment Loss on Investments" in the Income Statement of the Parent entity. Growth rates of 3% were used in this calculation.

