



<b>To:</b>	<b>AASB Members</b>	<b>Date:</b>	24 January 2010
<b>From:</b>	<b>Siva Sivanantham</b>	<b>Agenda Item:</b>	3.1
<b>Subject:</b>	<b>Control in the NFP Sector and Consolidation</b>	<b>File:</b>	–

## Action

(a) Receive a progress report on:

- (i) the AASB/FRSB joint project on Control in the NFP Public and Private Sectors; and
- (ii) the IASB's projects on consolidation and joint arrangements; and

(b) Consider constituent comments on AASB Exposure Draft ED 205 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* and agree on the manner in which to progress the AASB's proposals.

## Background

### (a) Progress Report

In relation to the Board's project on Control in the NFP Public and Private Sectors, at its December 2010 meeting, the Board noted that the IASB expects to issue IFRS 10 *Consolidated Financial Statements* in the first quarter of 2011, with an expected effective date of 1 January 2013 (with early adoption allowed). IFRS 10 will replace the consolidation requirements in IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities*. The Board also decided to issue AASB 10 (incorporating IFRS 10) as soon as possible after IFRS 10 is issued, but with early adoption by NFP entities not permitted until the Board has addressed relevant NFP sector issues.

In addition, the Board considered the approach it would take to modifying IFRS 10 to address NFP sector issues. In particular, the Board considered a revised draft of the AASB/FRSB Joint Project Plan, comprising a number of phases. The Board decided the Plan should reflect its aspiration to issue a Standard by December 2011 (which would represent the completion of Phase 2 of the project) after following a full due process that addresses as many potential application issues identified in Phase 1 as possible and appropriate. The Board noted that this timeframe would provide entities with sufficient time to prepare for adopting any new requirements before the expected effective date.

The Board also noted that:

- (a) its ability to meet the timeframe would depend on the number and nature of the issues to be addressed; and
- (b) it is conceivable that some issues might lead the Board to consider whether some of the principles in IFRS 10 are suitable in a NFP sector context. In that regard, the Board decided that, as the project progresses, it would consider whether there are any issues with solutions that might conflict with the principles in IFRS 10 and whether those issues should be resolved in Phase 2 or deferred to a later phase.

Since December, project staff have made substantial progress in incorporating the subcommittee members' comments on the working draft of a paper relating to Part 1 of Phase 1 of the project *Identification of current issues arising from the application of control in the public sector*. Accordingly, we now have a reasonably comprehensive list of application issues pertaining to the definition of control in AASB 127 *Consolidated and Separate Financial Statements*. In addition, staff have identified potential interviewees for Part 2 of Phase 1 of the project *Identification of current issues arising from the application of control in the NFP private sector* and are currently in the process of organising interviews. These interviews are expected to take place during February and March 2011 and will seek interviewees' comments on application issues arising from the definition of control in AASB 127, and application issues they anticipate arising from the new definition of control likely to be included in IFRS 10. Work is also underway on the paragraph-by-paragraph review of the IASB staff draft of IFRS X *Consolidated Financial Statements* identifying potential areas for domestic NFP/public sector paragraphs, and, consistent with the Board's December 2010 decision, is now the high priority focus of our work.

In relation to developments at the IASB, it is worth noting that at the January 2011 IASB meeting, the staff presented a summary of the forthcoming IFRS 11 *Joint Arrangements*, reviewing and summarising how the technical decisions the IASB has made have been incorporated in the Standard and related amendments. No technical decision were made at this meeting.

At the January 2011 meeting, the IASB also considered a sweep issue arising from its projects on consolidation and joint arrangements. When reviewing the preballot draft of IAS 28 *Investments in Associates* (which is subject to consequential amendments), some IASB Board members had questioned whether the wording of paragraph 8 and 9 of IAS 28 regarding potential voting rights when assessing significant influence should be changed consistent with IFRS 10.

The current wording of paragraphs 8 and 9 of IAS 28 is similar to that included in paragraphs 14 and 15 of IAS 27 regarding the consideration of potential voting rights when assessing control. However, it is different from the wording to be included in IFRS 10. This is because the IASB has changed the definition of control in its consolidation project and, consequently, changed the requirements regarding the consideration of potential voting rights when assessing control. Without any change to paragraphs 8 and 9

of IAS 28 regarding potential voting rights, the effect of potential voting rights when assessing control could be different from their effect when assessing significant influence. For example, when assessing significant influence under IAS 28, potential voting rights are considered only when they are currently exercisable but an investor's financial ability to exercise or convert is not considered. When assessing control under IFRS 10, an investor would determine whether potential voting rights are substantive, which includes an assessment of an investor's ability to exercise or convert potential voting rights. Additionally, an investor would consider whether the potential voting rights give it the current ability to direct the relevant activities when decisions about those activities need to be made. Thus, potential voting rights would be considered sometimes when assessing control even though the rights are not currently exercisable.

The IASB Update for the January 2011 meeting has not been published at the time of writing this memo. However, we understand that, given its intentions of a more comprehensive review of IAS 28 in the near future, the IASB has tentatively agreed to wait until a decision has been made in relation to such a comprehensive review rather than amending IAS 28 now, in isolation, in order to be consistent with IFRS 10.

It is also worth noting that the operative dates of IFRS 10, IFRS 11, IFRS 12 *Disclosure of Involvement with Other Entities* and the consequential amendments to IAS 28 might be subject to the outcome of the IASB's Request for Views on Effective Dates and Transition Methods, which is due for comment by 31 January 2011.

## **(b) Proposals in ED 205**

Due to the addition of Aus paragraphs in IFRSs as adopted in Australia, and the introduction of Reduced Disclosure Requirements (RDR), some entities applying Australian Accounting Standards are not IFRS compliant. This means that the relief from consolidation, the equity method and proportionate consolidation provided in paragraph 10 of AASB 127, paragraph 13(c) of AASB 128 and paragraph 2(c) of AASB 131 is not available to subsidiaries of those entities.

The AASB considered this issue at its March, April and July 2010 meetings, and subsequently issued ED 205 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* in September 2010 for comment by 12 January 2011.

The ED proposed to extend the relief from consolidation, the equity method and proportionate consolidation to a parent, investor or venturer if it:

- (a) has a parent higher up in the group that prepares consolidated financial statements available for public use incorporating the information that would otherwise have been reported in the parent's consolidated financial statements or the investor's or venturer's financial statements; and
- (b) meets the relevant criteria in paragraphs 10(a) to 10(c) of AASB 127, paragraphs 13(c)(i) to 13(c)(iii) of AASB 128 and paragraphs 2(c)(i) to 2(c)(iii) of AASB 131.

This was based on the principle that financial statement users would be able to satisfy their information needs through the consolidated financial statements prepared by the parent higher up in the group.

To date, six submissions (HoTARAC, Grant Thornton, Deloitte, KPMG, the Joint Accounting Bodies and Ernst & Young) have been received from Australian constituents on ED 205. All six respondents support the ED proposals. A collation of submissions is provided in Agenda Paper 3.2. Copies of submissions are provided in Agenda Paper 3.3. A copy of ED 205 is provided in Agenda Paper 3.4.

The more substantive issues raised by respondents include:

- (a) implications for for-profit public sector entities;
- (b) whether to include Table A in AASB 127;
- (c) whether to provide an explanation for scenarios where relief is not available;
- (d) concerns with early application paragraphs; and
- (e) concerns about the reference to AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*.

These are addressed in Section 5 *Other matters raised by constituents* in Agenda Paper 3.2.

## Attachments

Agenda Paper 3.2	Collation of submissions on ED 205 to AASB
Agenda Paper 3.3	Constituent submissions on ED 205 to AASB
Agenda Paper 3.4	ED 205 <i>Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation</i>