

Analysis of Submissions on ED 205 Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation

1. List of Submissions

ID	Respondent
1 – HoTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee
2 – GT	Grant Thornton
3 – Deloitte	Deloitte Australia
4 – KPMG	KPMG Australia
5 – Joint Accounting Bodies	The Institute of Chartered Accountants in Australia, CPA Australia and the National Institute of Accountants
6 – EY	Ernst & Young

2. Approach to analysis of submissions

Any collation of comments on Exposure Drafts is, by its nature, subjective. Accordingly, this collation is not a substitute for reading the original submissions in their entirety, provided in Agenda Paper 3.3.

3. General comments on the proposals

All six respondents expressed support for the Board's proposal to introduce additional relief from consolidation, equity accounting and proportionate consolidation in the circumstances specified in ED 205.

4. Responses to the Specific Matters for Comment

(a) whether extending relief from:

- i. preparing consolidated financial statements to circumstances specified in proposed paragraph Aus10.2 of AASB 127 is appropriate;**
- ii. application of the equity method to circumstances specified in proposed paragraph Aus13.1 of AASB 128 is appropriate;**

iii. application of proportionate consolidation or the equity method to circumstances specified in proposed paragraph Aus2.1 of AASB 131 is appropriate.

Four respondents (Deloitte, KPMG, the Joint Accounting Bodies and EY) commented specifically on this question and all of them agree that the provision of relief in the circumstances proposed is appropriate.

(b) whether the proposed relief addresses all the relevant circumstances.

All four respondents (Deloitte, KPMG, the Joint Accounting Bodies and EY) who commented on this question agree that the relief addresses all relevant circumstances.

While agreeing that the relief addresses all relevant circumstances, the Joint Accounting Bodies note that they would not support the extension of the relief to different situations.

(c) whether overall, the proposals would result in financial statements that would be useful to users.

Three respondents (Deloitte, KPMG and the Joint Accounting Bodies) commented specifically on this question and all three believe the proposals would result in financial statements that would be useful to users.

(d) whether the proposals are in the best interests of the Australian and New Zealand economies.

All three respondents (Deloitte, KPMG and the Joint Accounting Bodies) who commented specifically on this question believe that the proposals are in the best interests of the Australian and New Zealand economies.

Furthermore, the Joint Accounting Bodies note that, as supporters of the convergence work of both the AASB and the FRSB to revise their respective suites of Standards in order to bring the two sets of pronouncements closer together, they would encourage the FRSB to reflect on these proposals as part of its process in determining its approach to differential reporting.

5. Other matters raised by constituents

5.1 Table A in the Basis for Conclusions

5.1.1 Clarification regarding for-profit public sector entities

HoTARAC notes that there appears to be inconsistencies between the current and proposed requirements as described in the ED and AASB 127, and the summary in Table A in the Basis for Conclusions section. Below is an extract from the HoTARAC submission:

“HoTARAC requests that the AASB review Table A in the "Basis for Conclusions" of the Exposure Draft. It is not clear whether it is entirely correct to conclude, in respect of the first scenario in each of Situations 1 - 4, that this exemption is already available under AASB 127 (as implied in the footnote to Table A). Any for-profit public sector entities would arguably not be complying with pure IFRS (as currently required by AASB 127).

Following on from this point, exemptions would still not be allowed under the proposed amendments for the following two scenarios (ignoring the impression that may otherwise be given by Table A) –

	<i>(variant of situation 1)</i>	<i>(variant of situation 2)</i>
<i>Ultimate or intermediate parent</i>	FP public sector – Tier 1	FP public sector – Tier 1
<i>Parent</i>	FP public sector – Tier 1	FP public sector – Tier 2

In both of these scenarios, it would arguably be reasonable to allow an exemption to the lower level parent, for consistency with the principle underlying other scenarios. If the published result is intentional, it is suggested that the “Basis for Conclusions” reflect this.”

Staff View 1: Staff acknowledge the comments made by HoTARAC, particularly in light of paragraph Aus16.2 of AASB 101 *Presentation of Financial Statements*, which states:

“Compliance with Australian Accounting Standards by for-profit entities will not necessarily lead to compliance with IFRSs. This circumstance arises when the entity is a for-profit government department to which particular Standards apply, such as AASB 1004 *Contributions*, and to which Aus paragraphs in various other Australian Accounting Standards apply, and the entity applies a requirement that is inconsistent with an IFRS requirement.”

Consistent with the Board's discussions in developing ED 205, we think relief from consolidation, the equity method and proportionate consolidation should be available to for-profit government departments that comply with Australian Accounting Standards. We don't think it needs to be broader than government departments since other for-profit public sector entities would comply with IFRSs if they apply Australian Accounting Standards.

Given the complexity that would be involved in revising Table A and the proposed paragraphs Aus10.2 of AASB 127, Aus13.1 of AASB 128 and Aus2.1 of AASB 131 to reflect our view, staff have not drafted suggested changes at this stage. We acknowledge that some might be of the view that the issue does not warrant the Board's attention given:

- (a) the relatively few, if any, for-profit government departments that currently exist; and
- (b) the likelihood that government departments are unlikely to avail themselves of the relief in any event.

We also note that the Joint Accounting Bodies stated in their submission that they would not support the extension of the relief to different situations, however they may not have had for-profit government departments in mind. Accordingly, staff seek an in principle decision from the Board as to whether the relief should be extended to for-profit government departments in the scenarios noted in the HoTARAC submission before undertaking further work on the issue. If the Board decides to extend the relief, staff will revise the proposals with input from the AASB sub-committee.

5.1.2 Suggestion to include Table A in AASB 127

EY notes that Table A is particularly useful in illustrating the application of the proposed relief and suggests that the Table is included as an Australian Appendix to AASB 127.

Staff View 2: We think Table A would provide helpful guidance for entities applying the proposed relief. However, adding Australian guidance to AASB 127 could be perceived by some as contradicting the objective of verbatim adoption of IFRSs in Australia.

On balance, staff support including Table A as an Australian Appendix to AASB 127 on the basis that the guidance is of a domestic nature and it only affects entities subject to NFP and RDR requirements in Australia. Furthermore, there is precedent for including Australian guidance in AASB Standards, for instance AASB 116 *Property, Plant and Equipment*

contains accompanying Australian implementation guidance pertinent to NFP public sector entities and for-profit government departments that hold heritage or cultural assets.

5.1.3 Explanation for scenarios where relief is not available

HoTARAC suggests that the AASB include a note in the “Basis for Conclusions” explaining the rationale for all the five scenarios where the exemption is not available following the amendments.

Staff View 3: Staff note that paragraphs BC5 and BC6 of the ED explain clearly why the relief has been extended in the circumstances specified and the Board’s rationale for extending the relief. We think it is implicit in that explanation as to why certain scenarios are not granted relief. Accordingly, staff think it is not necessary to also explicitly explain all the scenarios where relief is not available.

5.2 Concerns with proposed early application paragraphs

While supporting the proposed relief, EY expresses some concerns regarding proposed early application paragraphs. In particular, EY notes that the requirements regarding the early adoption under ED 205 and AASB 1053 *Application of Tiers of Australian Accounting Standards* are not aligned. This is because ED 205 proposes that its amendments may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2011. However, AASB 1053 does not permit early adoption for annual reporting periods that begin before 1 July 2009. This suggests that entities complying with Tier 2 cannot apply the proposed relief in ED 205 to annual reporting periods that begin *before* 1 July 2009 because it is not possible to apply AASB 1053 prior to that date. Whilst acknowledging that for many entities application to annual reporting periods that begin before 1 July 2009 is unlikely, EY notes that this misalignment may present a source of confusion.

To address this issue, EY suggests that any Amending Standard arising from ED 205 should explicitly state that entities complying with Tier 2 may apply the proposed relief to annual reporting periods on or after 1 July 2009 but before 1 July 2013. Further, EY believes the Amending Standard should clarify that this amendment can only be early adopted if AASB 1053 is early adopted and vice versa.

Staff View 4: Staff acknowledge the concerns raised by EY and note that this concern would be addressed in finalising the proposed amendments, as explained in the following.

Consistent with our usual drafting style and the ‘search by reporting period’ function on the AASB website, staff would prepare two separate Amending Standards for amendments arising from ED 205.

- (a) The first Amending Standard would only include non-RDR related amendments and it would apply mandatorily from 1 July 2011 with early application permitted (from 1 January 2005).
- (b) The second Amending Standard would include the RDR related amendments, applying from 1 July 2013 with early application permitted (from 1 July 2009).

This would ensure that there is no ambiguity as to the mandatory or early application of the resulting amendments and is the approach adopted recently for the Amending Standards arising from the Trans-Tasman Convergence project. Staff would seek the AASB sub-committee’s input in drafting these Amending Standards.

In addition, EY expressed concerns that the reference to the RDR regime in the proposed relief and the misalignment of early adoption requirements for ED 205 and AASB 1053 [noted above] may cause confusion as to whether NFP groups complying with *all* requirements within Australian Accounting Standards (i.e. Tier 1 under the RDR regime) may avail themselves of the proposed relief for annual reporting periods beginning before 1 July 2009.

To alleviate this confusion, EY believes that any amending standard arising from ED 205 should explicitly state that NFP entities complying with *all* requirements within Australian Accounting Standards may apply the proposed relief to annual reporting periods on or after 1 January 2005 but before 1 July 2011.

Staff View 5: Staff note that this concern arises primarily from the misalignment of early application requirements of ED 205 and AASB 1053. If this misalignment is addressed (as recommended in Staff View 4 above), there would be no need to explicitly state that NFP entities complying with *all* requirements within Australian Accounting Standards may apply

the proposed relief to annual reporting periods on or after 1 January 2005 but before 1 July 2011. Such application would merely be an early application of the first Amending Standard (or of the second Amending Standard from 1 July 2009).

5.3 Reference to AASB 2007-4¹

While agreeing with the proposal to also require early adoption of AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*, EY states that “there is no other mention of AASB 2007-4 throughout the ED. Further, AASB 2007-4 is no longer available on the AASB website, making it difficult to obtain the details of this amendment. To assist preparers we believe that any amending standard arising from ED 205 should include commentary on the nature of the amendments that arose from AASB 2007-4”.

Staff View 6: Staff note that all AASB Amending Standards (including AASB 2007-4) are available on the AASB website and that they can be accessed using various search functions (e.g. ‘Search for a specific document’ function in the Pronouncements section). However, staff agree that the Amending Standard could helpfully include a brief commentary in the introduction explaining the nature of amendments that arose from AASB 2007-4.

¹ Amendments in AASB 2007-4 arose as a result of the AASB decision that, in principle, all options that currently exist under IFRSs should be included in Australian Accounting Standards and additional Australian disclosures should be eliminated, other than those considered particularly relevant in the Australian reporting environment. This Standard introduced a number of optional treatments that were already available under IFRSs into Australian Accounting Standards, for instance it inserted the option to use proportionate consolidation for investments in joint venture entities under AASB 131 *Interests in Joint Ventures*. The AASB had proposed these amendments in ED 151 *Australian Additions to, and Deletions from, IFRSs*, which was issued in November 2006.