Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB members**	**Date:**	10 December 2013
From:	**Kala Kandiah**	**Agenda Item:**	5.2 (M135) (tabled)
Subject:	**Proposed amendments to AASB 127**	**File:**	

Action

Consider key issues relating to the proposals in IASB ED/2013/10 *Equity Method in Separate Financial Statements* and decide on an approach for finalising the AASB's comment letter to the IASB.

Attachments

Agenda paper 5.2.1 – AASB ED 246 *Equity Method in Separate Financial Statements* (which incorporates IASB ED/2013/10)

Background

1. Prior to the revision in 2003 of IAS *27 Consolidated and Separate Financial Statements* and IAS 28 *Investments in Associates*, the equity method was one of the options available to an entity for measuring investments in subsidiaries and associates in the entity's separate financial statements. IAS 31 *Interests in Joint Ventures*, however, was silent on the methods to account for interests in jointly controlled entities in the venturer's separate financial statements.

2. In 2003 (prior to Australian entities adopting IFRSs), the equity method was removed from the options and the IASB decided to require the use of cost or IAS 39 *Financial Instruments: Recognition and Measurement* for all investments in subsidiaries, jointly controlled entities and associates included in the separate financial statements. The IASB noted that the information provided by the equity method is reflected in the investor's economic entity financial statements and that there was no need to provide the same information in the separate financial statements.

3. Some respondents to the IASB's 2011 *Agenda Consultation* said that the laws of some countries require listed companies to prepare separate financial statements in accordance with local regulations, which require the use of the equity method to account for investments in subsidiaries, joint ventures and associates. These respondents also noted that, in most cases, the use of the equity method would be the only difference between the separate financial statements prepared in accordance with IFRSs and those prepared in accordance with local regulations.

4. These respondents strongly supported the inclusion of the equity method as one of the options for measuring investments in subsidiaries, joint ventures and associates in the separate financial statements of an entity.

5. In Australia the Corporations Act was amended in 2010 to remove the requirement to present parent entity financial statements (i.e. separate financial statements) when entities have to

present consolidated financial statements in accordance with the Australian Accounting Standards in their financial report. These amendments effectively prohibit the inclusion of parent entity financial statements in the financial reports of entities that present consolidated financial statements. The Australian Securities and Investments Commission (ASIC) released Class Order 10/654 to allow the inclusion of parent entity financial statements in financial reports of entities that present consolidated financial statements.

6. AASB staff consider that entities in Australia that decide to take advantage of ASIC Class Order 10/654 and include parent entity financial statements in their financial report would be required to prepare them in accordance with the Australian Accounting Standards. AASB staff also note that section 335 of the Corporations Act states that, Chapter 2M–Financial reports and audit, does not prevent accounting standards from incorporating equity accounting principles.

Overview of proposals

7. Based on the feedback from constituents on the IASB's 2011 *Agenda Consultation*, the IASB issued ED/2013/10 in December 2013, proposing to allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. An entity that elects to use the equity method would be required to apply the proposed amendment to IAS 27 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

8. The IASB also proposes to amend paragraph 25 of IAS 28 in order to avoid a conflict with the principles of IFRS 10 *Consolidated Financial Statements* in situations in which an entity loses control of a subsidiary but retains an ownership interest in the former subsidiary that gives the entity significant influence or joint control, and the entity elects to use the equity method to account for the investments in its separate financial statements.

9. The IASB expects the proposed changes will reduce compliance costs for many entities, while providing information helpful to an assessment of the investor's net assets and profit or loss.

10. AASB ED 246 incorporates IASB ED/2013/10. Comments on ED 246 are due by 24 January 2014. Comments to the IASB on ED/2013/10 are due by 3 February 2014. This is shorter than the normal comment period, reflecting the importance of this change to several jurisdictions.

Preliminary staff views

11. AASB staff acknowledge the proposed amendments would increase the options available to entities in accounting for their subsidiaries, joint ventures or associates in their separate financial statements, which in turn may increase diversity in practice. However, AASB staff can accept the proposed amendments on the basis that it would help reduce compliance costs for entities in some jurisdictions. AASB staff do not consider that the proposed amendments would significantly increase compliance costs in Australia.

Process for finalising Board submission

12. Staff recommend that, subject to the nature of any responses subsequently received, the submission be finalised out-of-session via the Chairman.

Questions to Board members:

1. Do you agree with staff's preliminary views on IASB ED/2013/10?

2. Do you agree to finalise AASB's submission to the IASB out-of-session via the Chairman?