

## AASB staff issues paper

### Feedback received on ED 255 *Financial Reporting Requirements for Australian Groups with a Foreign Parent*

#### Purpose

- 1 The purpose of this paper is to provide the Board with feedback received on ED 255 *Financial Reporting Requirements for Australian Groups with a Foreign Parent* (Agenda Paper 22.4) with a view to seeking final Board decisions on the proposed amendments, to enable staff to prepare a ballot draft of an Amending Standard for out-of-session Board voting.
- 2 At the time of writing this paper we have received four comment letters with respect to the ED<sup>1</sup>. The comment letters are included as Agenda Paper 22.3.
- 3 This paper is organised as follows:
  - (a) Key feedback received on ED 255 (paragraphs 4-5)
  - (b) AASB staff analysis (paragraphs 6-17)
  - (c) Transition and effective date (paragraph 18)
  - (d) Due process (paragraphs 19-20)

#### Key feedback received on ED 255

- 4 Four comment letters<sup>2</sup> are supportive of the proposals in the ED, and one comment letter<sup>3</sup> is not supportive of the proposals in the ED. Of the four comment letters supporting the proposals, one respondent<sup>4</sup> expressed concern that the proposed drafting of the amendment is open to differences in interpretation and could result in instances where the exemption requirements in AASB 10 and AASB 128 are not applied in a consistent manner.
- 5 The concerns raised in the comment letters are discussed further below.

#### AASB staff analysis

##### *Not supportive of ED*

- 6 The respondent who is not supportive of the proposals in the ED<sup>5</sup> expresses a preferred approach to retain the wording in AASB 128 (2011) paragraph 17(d) without

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<sup>1</sup> CPA Australia, Deloitte, EY, Group of 100 and PwC

<sup>2</sup> CPA Australia, EY and Group of 100

<sup>3</sup> Deloitte

<sup>4</sup> EY

<sup>5</sup> Deloitte

amendment, and to delete paragraph Aus4.2 from AASB 10, such that the Australian Accounting Standards are more aligned with IFRS Standards. The respondent notes the following in support of their view:

*We believe that the Board's initial concerns around limiting the impact of the IFRS scope exclusion (where the concern was that it seemed inappropriate for the reporting obligations of an ultimate Australian Group to depend on the type of reporting done by its foreign parent) is in fact not sufficiently significant to warrant an additional reporting burden on Australian intermediate parent entities, compared to intermediate parent entities in other IFRS jurisdictions.*

- 7 The respondent also notes that, although they are not supportive of the ED, they are supportive of obtaining a position where AASB 10 and AASB 128 are consistent in relation to the issue. Staff have clarified with the respondent that they would prefer the Board to proceed with the ED proposals rather than retain the status quo; that is, inconsistency between the Standards.

#### AASB staff analysis

- 8 At its September meeting the Board decided not to delete AASB 10 paragraph Aus 4.2 and directed staff to undertake further outreach on the AASB 10 scope exclusion, as noted in the Basis for Conclusions to ED 255 (BC4):

*The Board decided to conduct further research before deciding whether to undertake a project to reconsider whether to limit the exceptions in AASB 10 and AASB 128 from presenting consolidated financial statements or applying the equity method of accounting to parent entities other than the ultimate Australian parent. In the interim, the Board decided to propose amending AASB 128 to reinstate the requirement that the ultimate Australian parent apply the equity method of accounting for an interest in an associate or joint venture, to be consistent with the requirement in AASB 10 for the ultimate Australian parent to present consolidated financial statements when either the parent or the group is a reporting entity or both the parent and the group are reporting entities.*

- 9 Staff consider that the views expressed by the respondent reflect a view on the second phase of the project to conduct further research before deciding whether to undertake a project to reconsider the exemptions in AASB 10 and AASB 128.
- 10 Accordingly, staff recommend the Board reconfirms its previous decision in September to not delete AASB 10 paragraph Aus4.2 at this stage.

#### **Question 1 to the Board**

Does the Board agree with the staff recommendation in paragraph 10 above for the Board to reconfirm its previous decision in September to not delete AASB 10 paragraph Aus4.2 at this stage.

### *Proposed redrafting of amendment*

- 11 As noted in paragraph 4 above, one respondent<sup>6</sup> expressed concern that the proposed drafting of the amendment is open to differences in interpretation and could result in instances where the exemption requirements in AASB 10 and AASB 128 are not applied in a consistent manner.
- 12 The concern raised by the respondent notes that the proposed amendment only limits the exemption to a parent reporting entity that holds an investment in an associate or joint venture; whereas the limitation on the exemption in the superseded AASB 128 related to all Australian investors, not only parent-entity investors.
- 13 Accordingly, the proposed drafting in ED 255 is inconsistent with the exemption previously available to entities under the superseded AASB 128.

### AASB staff analysis

- 14 Staff have analysed the requirements of both the previous exemption and the proposals in ED 255 and agree with the view expressed by the respondent that the drafting of the two exemptions are not consistent in respect of non-parent reporting entities.
- 15 Staff note that the focus of Board discussion in developing the proposals was on the reporting requirements of the ultimate Australian parent. However, staff understand the intention of the Board was to be consistent with the limitation on the relief previously available to entities under the superseded AASB 128.
- 16 Accordingly, staff recommend re-drafting the proposed AASB 128 paragraph Aus17.2 to make it clear that the requirement to apply the equity method of accounting extends to ultimate Australian non-parent investors.

### **Question 2 to the Board**

Does the Board agree with the staff recommendation in paragraph 10 above to re-draft the proposed AASB 128 paragraph Aus17.2 to make it clear that the requirement to apply the equity method of accounting extends to Australian non-parent investors?

### *Proposed redrafting*

- 17 If the Board agrees with the staff recommendation in Question 2 to the Board above, staff propose drafting paragraph Aus17.2 as follows (changes marked up from the proposals in ED 255, new text underlined and deleted text struck through):  
  
Aus17.2 Notwithstanding paragraphs 17 and Aus17.1, the ultimate Australian ~~parent of the entity~~ with joint control of, or significant influence over, an investee shall apply the equity method in accounting for interests in associates and joint ventures 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.

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<sup>6</sup> EY

**Question 2 to the Board**

Does the Board agree with the staff drafting of proposed AASB 128 paragraph Aus17.2?

**Transition and effective date**

- 18 ED 255 proposed an effective date of 1 January 2015 and did not propose any specific transitional provisions. No respondents commented on the proposed effective date or transition.
- 19 Subject to confirmation from the Office of Best Practice Regulation in relation to the requirement to the prepare a Regulatory Impact Statement, staff anticipate being able to provide the Board with a ballot draft following the December Board meeting.

**Question 3 to the Board**

Does the Board agree to retain the effective date of 1 January 2015 and to not propose any specific transitional provisions?

**Due process**

- 20 Staff do not think the proposed amendments to the proposed paragraph Aus17.2 outlined in paragraph 17 above are significant enough to warrant re-exposure of the proposals.
- 21 Accordingly, staff do not think any further due process is necessary prior to proceeding to a ballot draft of an Amending Standard for voting by Board members out-of-session.

**Question 4 to the Board**

Does the Board agree to proceed to a ballot draft of an Amending Standard for voting by Board members out-of-session?