



24 November 2014

Kris Peach
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Via email: standard@asb.gov.au

Dear Kris

Exposure Draft 255: Financial Reporting Requirements for Australian Groups with a Foreign Parent

CPA Australia welcomes the opportunity to comment on the above Exposure Draft. CPA Australia is one of the world's largest accounting bodies and represents the diverse interests of more than 150,000 members in public practice, industry, commerce, government, not-for-profits and academia in 121 countries throughout the world.

CPA Australia supports the proposal to require the ultimate Australian parent of an entity to apply the equity method in accounting for interests in Associates and Joint Ventures, if either or both the parent and the group is a reporting entity. We note this proposal aligns the requirements of AASB 128 *Investments in Associates and Joint Ventures* with the requirements of AASB 10 *Consolidated Financial Statements*.

If you require further information on any of our views expressed in this submission, please contact Ram Subramanian by email at ram.subramanian@cpaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Eva Tsahuridu', written over a light blue horizontal line.

Dr Eva Tsahuridu

Manager, Accounting Policy

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Kris Peach
The Chair
Australian Accounting Standards Board
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Victoria 8007
24 November 2014

Dear Kris

Exposure Draft ED 255 – Financial Reporting Requirements for Australian Groups with a Foreign Parent

Deloitte Touche Tohmatsu Limited is pleased to respond to the Australian Accounting Standards Board's (the Board) Exposure Draft *Financial Reporting Requirements for Australian Groups with a Foreign Parent* ('the exposure draft').

We support the Board's effort to improve financial reporting; however, we are not supportive of the exposure draft.

Our preferred approach would be to retain the wording in AASB 128 (2011) paragraph 17 (d) without amendment and to delete paragraph Aus4.2 from AASB 10, such that the AASB standards are more aligned with those of the IFRS standards.

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.

We believe that the time and costs involved in implementing the additional reporting obligations on Australian intermediate parent entities is not justified or supported by the benefits of such additional reporting obligations.

Inversely, we believe that significant costs and time would be saved by the Australian economy by aligning the AASB reporting requirements with those of the IFRS reporting requirements and we believe that alignment with the IFRS standards should be the objective of the Board.

We believe that there is no current need by the Australian economy to warrant differential reporting obligations different to those which are required under the IFRS standards in this regard. IFRS

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reporting requirements continue to adequately address the needs of users of the financial statements and continue to be applied by a number of jurisdictions.

Whilst we are not supportive of the exposure draft, we are supportive of obtaining a position where AASB 10 and AASB 128 are consistent in relation to this particular topic.

Our detailed responses to the questions in the exposure draft are included in the Appendix to this letter.

Yours sincerely

A handwritten signature in black ink that reads "Alison White". The signature is written in a cursive, flowing style.

Alison White
Partner – Accounting Technical
Deloitte Touche Tohmatsu

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Appendix

Question 1: Do you agree with the proposal to require the ultimate Australian parent entity to apply the equity method in accounting for an interest in an associate or joint venture:

Response: No we do not agree for the reasons stated above. Our preferred approach would be to retain the wording in AASB 128 (2011) paragraph 17 (d) without amendment and to delete paragraph Aus4.2 from AASB 10, such that the AASB standards are more aligned with those of the IFRS standards.

Question 2: Do you agree with the proposed transitional provisions and the application date:

Response: Not applicable, given that we are not in support of the exposure draft, however should the exposure draft be approved and become an effective amendment to the standard, we have no objection to the proposed transitional provisions and proposed application date.

Question 3 Do you believe that there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- (a) **Not-for-profit entities; and**
- (b) **Public sector entities, including GAAP/GFS implications;**

Response: We are not aware of any such issues.

Question 4 Do you think that overall the proposals would result in financial statements that would be useful to users:

Response: Yes, but we believe as stated above that the reporting requirements of the IFRS standards sufficiently supports the needs of the users.

Question 5 Do you believe that the proposals are in the best interests of the Australian economy:

Response: Yes, however we believe that IFRS requirements are also in the best interest of the Australian economy and that there is no warranted reason to apply differentiated reporting obligations in addition to those required by IFRS in this regard. By adopting the exposure draft, the Australian economy is not positioned in a significantly better or stronger position than without adopting the standard.

We believe that it is within the Australian economy's best interest to further align with the reporting requirements under IFRS.

Question 6: Provide comment around the costs and benefits of the proposals relative to the current requirements, whether quantitative or qualitative. In relation to quantitative financial costs, particularly the nature and estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Response: We do not believe that the costs that would be involved in implementing this additional reporting obligation upon Australian intermediate parent warrants the benefit thereof for reasons stated earlier. We believe that a favourable cost benefit outcome would be better achieved through retaining the wording in AASB 128 (2011) paragraph 17 (d) without amendment and to delete paragraph Aus4.2 from AASB 10, such that the AASB standards are more aligned with those of IFRS.

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Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
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24 November 2014

Invitation to comment on AASB Exposure Draft Financial Reporting Requirements for Australian Groups with a Foreign Parent (ED 255)

Dear Ms Peach

Ernst & Young Australia is pleased to provide comments on the AASB's Exposure Draft 255 *Financial Reporting Requirements for Australian Groups with a Foreign Parent* (the 'ED').

Ernst & Young is supportive of the proposal in ED 255 to align the exemption from applying the equity method of accounting in AASB 128 *Investments in Associates and Joint Ventures* with the exemption from preparing consolidated financial statements in AASB 10 *Consolidated Financial Statements*.

While we support the AASB's proposal to align the exemption requirements of AASB 128 and AASB 10, we consider that the proposed drafting of the amendment to AASB 128 in the ED is open to differences in interpretation and could result in instances where the exemption requirements of the two Standards are applied in an inconsistent manner.

Our detailed responses to specific questions in the invitation to comment are set out in the Appendix to this letter.

We support the AASB's stated intention to conduct further research before deciding whether to undertake a project to reconsider whether to limit the exemptions in AASB 10 and AASB 128 from presenting consolidated financial statement or applying the equity method of accounting to parent entities other than the ultimate Australian parent.

We would be pleased to discuss our comments further with you. Please contact Charles Feeney (charles.feeney@au.ey.com or (02) 9248 4665) or Sian Morgan (sian.morgan@au.ey.com or (02) 92485873) if you wish to discuss any of the matters in this response.

Yours sincerely



Ernst & Young

APPENDIX 1: Response to questions

The AASB has requested responses to the following matters:

- 1. Whether you agree with the proposal to require the ultimate Australian entity to apply the equity method in accounting for an interest in an associate or joint venture.**

Ernst & Young is supportive of the proposal in ED 255 to align the exemption from applying the equity method of accounting in AASB 128 *Investments in Associates and Joint Ventures* with the exemption from preparing consolidated financial statements in AASB 10 *Consolidated Financial Statements*.

While we support the AASB's proposal to align the exemption requirements of AASB 128 and AASB 10, we consider that the proposed drafting of the amendment to AASB 128 in the ED is open to differences in interpretation and could result in instances where the exemption requirements of the two Standards are applied in an inconsistent manner.

The ED proposes to amend AASB 128 as follows:

Aus17.2 Notwithstanding paragraphs 17 and Aus17.1, the ultimate Australian parent of the entity shall apply the equity method of 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.

Paragraph 4 of AASB128 refers to the definition of parent in Appendix A of AASB 10. Parent is defined in that Standard as "An entity that controls one or more entities". In the context of AASB 128, entity is used to refer to the investor in an associate or joint venture.

The proposed wording contained in the ED would limit the exemption from applying the equity method of accounting contained in paragraphs 17 and Aus17.1 of AASB 128 so that it is not available to the ultimate Australian parent entity. To this extent the requirements are aligned with the limitation of the exemption from applying consolidated financial statements contained in AASB 10.

The drafting of the amendment refers to an ultimate Australian parent and therefore the limitation of the exemption would not extend to a reporting entity which holds an investment in an associate or joint venture which does not meet the definition of a parent. Consequently, an Australian non-parent reporting entity may be able to rely on the exemption from applying the equity method of accounting on the basis that an ultimate or intermediary foreign parent prepares consolidated financial statements in accordance with IFRS.

In the Basis of Conclusions for ED 255, it is noted that the superseded AASB 128 *Investments in Associates* (July 2004) included relief from applying the equity method in accounting for an interest in an associate or joint venture but limited the relief to parent entities other than the ultimate Australian parent entity. BC4 states that the proposed amendment is consistent with the limitation of relief previously available to entities under the superseded AASB 128. We note that due to the drafting of the exemption in the superseded AASB 128, a non-parent investor in an associate or joint venture would not have been entitled to the relief if they did not possess an Australian parent, this is inconsistent with the proposed amendment in ED 255.

We consider that a reporting entity which is the ultimate Australian investor in an associate or joint venture but which does not meet the definition of a parent should be unable to rely on the consolidated accounts of a foreign parent in order to avail itself of the relief from applying the equity method of accounting if the exemption limitations of AASB 10 and AASB 128 are to be aligned.

We consider the AASB should assess whether it is appropriate to extend the proposed limitation to the exemption requirements of AASB 128 to non-parent Australian reporting entities if they do not possess an Australian parent.

2. Whether you agree with the proposed transitional provisions and application date.

We agree with the proposed application date.

3. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(a) Not-for-profit entities; and

(b) Public sector entities, including GAAP/GFS implications

We are not aware of any current regulatory issues that may affect the implementation of these proposals for public sector and not-for-profit entities.

4. Whether, overall, the proposals would result in financial statements that would be useful to users.

We consider that the alignment of the relief from preparing consolidated financial statements and applying the equity method of accounting would result in financial statements that would be more useful to users. We refer however to our response to matter 1, above, which highlights our concern as to the drafting of the amendment.

5. Whether the proposals are in the best interests of the Australian economy.

We consider the proposals are generally in the best interests of the Australian economy.

6. Unless already provided in response to specific matters for comment 1-5 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

We do not expect costs to be significantly impacted by the proposals given that the information required for the application of the equity method of accounting will be required for the consolidated financial statements of an ultimate or intermediate parent of the reporting entity. Our expectation is that in the majority of cases the information would be readily available for preparers at minimal additional cost.

**The Group of 100 Incorporated**

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24 November 2014

Ms K Peach
Chairman
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PO Box 204
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Dear Ms Peach

ED 255 Financial Reporting Requirements

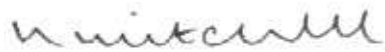
The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comment on this Exposure Draft.

1. *Do you agree with the proposal to require the ultimate Australian parent entity to apply the equity method in accounting for an interest in an associate or joint venture?*
The G100 agrees with the proposal to achieve consistency between AASB 10 'Consolidated Financial Statements' and AASB 128 'Investments in Associates and Joint Ventures'.
2. *Do you agree with the proposed transitional provisions and application date?*
The G100 agrees with the proposed application date and the availability of early adoption.
3. *Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:*
 - a. *not-for-profit entities; and*
 - b. *public sector entities, including GAAP/GFS implications.***No comment.**
4. *Whether, overall, the proposals would result in financial statements that would be useful to users?*
As far as practicable it is beneficial that the Australian requirements are consistent with those adopted by the IASB.

5. *Are the proposals in the best interests of the Australian economy?*

Removing differences between standards and achieving consistency with IFRSs is generally in the best interests of the Australian economy.

Sincerely
Group of 100 Inc.



Neville Mitchell
President

