

AASB Exposure Draft

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September 2014

Financial Reporting Requirements for Australian Groups with a Foreign Parent

Comments to the AASB by 24 November 2014



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 24 November 2014.
Comments should be addressed to:

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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

This Exposure Draft is available on the AASB website: www.aasb.gov.au.
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[Draft] Australian Accounting Standard AASB 2014-X *Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent* is set out in paragraphs 1 – 6. All the paragraphs have equal authority.

PREFACE

Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian

Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Reasons for Issuing this Exposure Draft

The proposals in this Exposure Draft align the relief available from the requirements of AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* in respect of an Australian parent.

Main Features of this Exposure Draft

This Exposure Draft proposes amendments to AASB 128 in the form of a draft amending Standard. This Exposure Draft proposes that, notwithstanding paragraphs 17 and Aus17.1 of AASB 128, the ultimate Australian parent of an entity shall apply the equity method in accounting for interests in associates and joint ventures if either the parent or the group is a reporting entity or both the parent and group are reporting entities.

Application Date

It is proposed that this Standard be applicable to annual reporting periods beginning on or after 1 January 2015. This Standard may be early adopted by:

- (a) for-profit entities for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2015; and
- (b) not-for-profit entities for annual reporting periods beginning on or after 1 January 2013 but before 1 January 2015.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 24 November 2014. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on the following:

- 1 whether 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;
- 2 whether you agree with the proposed transitional provisions and 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;
- 4 whether, overall, the proposals would result in financial statements that would be useful to users;

- 5 whether the proposals are in the best interests of the Australian economy; and
- 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. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

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ACCOUNTING STANDARD AASB 2014-X

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – FINANCIAL REPORTING REQUIREMENTS FOR AUSTRALIAN GROUPS WITH A FOREIGN PARENT

Objective

- 1 The objective of this Standard is to amend AASB 128 *Investments in Associates and Joint Ventures* to require the application of the equity method by an ultimate Australian parent in accounting for an interest in an associate or joint venture if either the parent or the group is a reporting entity or both the parent and the group are reporting entities.

Application

- 2 **This Standard applies to:**
 - (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;**
 - (b) **general purpose financial statements of each other reporting entity; and**
 - (c) **financial statements that are, or are held out to be, general purpose financial statements.**
- 3 **This Standard applies to annual reporting periods beginning on or after 1 January 2015.**
- 4 **This Standard may be applied by:**
 - (a) **for-profit entities to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2015; and**
 - (b) **not-for-profit entities to annual reporting periods beginning on or after 1 January 2013 but before 1 January 2015.**

If an entity applies this Standard to such an annual reporting period, it shall disclose that fact and apply AASB 128 at the same time.

Commencement

- 5 This Standard commences on the day this Standard is made by the Australian Accounting Standards Board.**

Amendment to AASB 128

- 6 Paragraph Aus17.2 is added as follows:

Aus17.2 Notwithstanding paragraphs 17 and Aus17.1, the ultimate Australian parent of the entity 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.

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 2014-X.

Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in the Exposure Draft. Individual Board members gave greater weight to some factors than to others.
- BC2 In September 2014, the Board identified that the requirements of AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* in relation to the requirement for an Australian parent entity to apply the requirements of AASB 10 and/or AASB 128 when either the parent or the group is a reporting entity, or both the parent and the group are reporting entities, were not aligned. Specifically, AASB 10 requires the ultimate Australian parent to prepare consolidated financial statements, even where the entity has a foreign parent that prepares consolidated financial statements that comply with IFRSs, when either the parent or the group is a reporting entity or both the parent and the group are reporting entities. AASB 128 does not include a similar requirement in relation to the application of the equity method of accounting for the ultimate Australian parent.
- BC3 The Board noted that this difference arose in issuing AASB 128 in 2011 in which the Board adopted the IFRS wording in IAS 28 paragraph 17(d) without amendment. The superseded AASB 128 *Investments in Associates* (July 2004) included similar relief for parent entities from applying the equity method in accounting for an interest in an associate or joint venture, but limited that relief to parent entities other than the ultimate Australian parent.
- 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. The proposed

amendment would align the requirements of AASB 10 and AASB 128 in this regard and is consistent with the limitation on the relief previously available to entities under the superseded AASB 128.