



Department of Treasury and Finance

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Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
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Dear Mr Stevenson

ED 224 Transition Guidance (proposed amendments to AASB 10)

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on the Exposure Draft 224 *Transition Guidance (proposed amendments to AASB 10)*.

HoTARAC supports ED 224 and welcomes the increased clarity from the revisions to transition requirements for AASB 10.

HoTARAC notes that the AASB is considering modifications to AASB 10 *Consolidated Financial Statements* for application to the not-for-profit (NFP) sector and early adoption of AASB 10 is not permitted for the NFP sector. HoTARAC also notes that the planned AASB 10 implementation guidance for the NFP sector is not expected to be completed until Quarter 3 2012. With AASB 10 becoming effective for reporting periods beginning on or after 1 January 2013, HoTARAC believes it is important that any proposed modifications for the NFPs are issued prior to the beginning of the first comparative period, which for most HoTARAC jurisdictions would be 1 July 2012.

Comments by HoTARAC on questions from the exposure draft are attached.

If you have any queries regarding HoTARAC's comments, please contact Steve Mitsas from the Victorian Department of Treasury and Finance on (03) 9651 2645.

Yours sincerely

A handwritten signature in black ink, appearing to read 'G Hehir', written in a cursive style.

Grant Hehir

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY

COMMITTEE

20 February 2012

Encl

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. 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;**

HoTARAC notes that the AASB is considering modifications to AASB 10 *Consolidated Financial Statements* for application to the not-for-profit (NFP) sector and early adoption of AASB 10 is not permitted for the NFP sector. HoTARAC observes that paragraph C3 is amended to clarify that comparatives are not required where the consolidation conclusions under IFRS 10 *Consolidated Financial Statements* are the same as under IAS 27 *Consolidated and Separate Financial Statements/SIC-12 Consolidation – Special Purpose Entities*. HoTARAC also observes that AASB 127 *Consolidated and Separate Financial Statements* includes Aus paragraphs specific to the consolidation of public sector entities and these may be inconsistent with the eventual modifications to AASB 10 for application to the NFP sector. Consequently, consolidation conclusions for public sector entities may be different under AASB 10 and AASB 127. HoTARAC requests the AASB consider the implications of any differences in consolidation conclusions arising from changes in the NFP/public sector guidance between AASB 127 and AASB 10 in the application of the amended paragraph C3 to the NFP and public sectors.

HoTARAC also notes that the planned AASB 10 implementation guidance for the NFP sector is not expected to be completed until Quarter 3 2012. With AASB 10 becoming effective for reporting periods beginning on or after 1 January 2013, HoTARAC believes it is important that any proposed modifications for the NFPs are issued prior to the beginning of the first comparative period, which for most HoTARAC jurisdictions would be 1 July 2012.

HoTARAC cannot comment on issues related to other not-for-profit entities.

2. whether, overall, the proposals would result in financial statements that would be useful to users;

HoTARAC agrees the clarification of the transitional requirements will assist the preparation of comparable financial statements, which is likely to help users in having a better understanding of the information included in those financial statements.

3. whether the proposals are in the best interests of the Australian economy;

HoTARAC has no comment.

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

HoTARAC considers the amendments to be beneficial overall. In particular, the ED provides partial exemption in certain circumstances. Although a cost to assess the partial exemption will occur, it is likely that it will be less than having to restate the comparatives if it is not necessary. As a result, the proposal should facilitate the audit process and reduce potential cost in preparing comparatives were the exemption to apply.

HoTARAC Response to IASB ED/2011/7 *Transition Guidance* (*proposed amendments to IFRS 10*)

Question 1:

The Board proposes to clarify the ‘date of initial application’ in IFRS 10. The date of initial application for IFRS 10 would be ‘the beginning of the annual reporting period in which IFRS 10 is applied for the first time’. The Board also proposes to make editorial amendments to paragraphs C4 and C5 of IFRS 10 to clarify how an investor shall adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different under IAS 27/SIC-12 and IFRS 10. Do you agree with the amendments proposed? Why or why not? If not, what alternative do you propose?

HoTARAC generally supports the above amendments to IFRS 10 as it reduces ambiguity and ensures consistent accounting for transactions on initial application of IFRS 10.

HoTARAC also supports the decision from IASB to include a definition of ‘date of initial application’ in proposed paragraph C2A for IFRS 10. HoTARAC notes that the proposed definition of ‘date of initial application’ is consistent with HoTARAC’s understanding of how this term is used in other IFRSs.

However, HoTARAC notes that paragraph C5 of IFRS 10 refers to “when the investor became involved with, or lost control of, the investee”. The timeframe when an investor became involved with an investee would likely be significantly different to when control over an investee is lost. Given this difference in timeframe, HoTARAC recommends that the amendments to IFRS 10 also clarify this wording in terms of the extent to which retrospective application is required in those circumstances (bearing in mind that the earlier retrospective application is expected, the greater the practical difficulties that may be encountered).

Question 2:

The Board proposes to amend paragraph C3 of IFRS 10 to clarify that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same under IAS 27/SIC-12 and IFRS 10. As a result, the Board confirms that relief from retrospective application of IFRS 10 would apply to an investor’s interests in investees that were disposed of during a comparative period such that consolidation would not occur under either IAS 27/SIC-12 or IFRS 10 at the date of initial application. Do you agree with the amendments proposed? Why or why not? If not, what alternative do you propose?

HoTARAC agrees with the Board’s reasoning in paragraph BC5 and supports relief from retrospective application of IFRS 10 for an investor’s interest in investees that were disposed of during a comparative period such that consolidation would not occur under either IAS 27/SIC-12 or IFRS 10 at the date of initial application.

Editorial comments

HoTARAC understands that the intention of paragraphs C4(a) and C4(b) is to prescribe retrospective application when the consolidation conclusion reached at the date of initial application is different under IAS 27/SIC-12 and IFRS 10 – an investor is required to adjust retrospectively its comparative periods as if the requirements of IFRS 10 had always been applied, with any adjustments recognised in opening retained earnings (if practicable). However, the phrase ‘on that date’ in paragraphs C4(a) and C4(b) is potentially confusing as it seems to indicate that investor shall measure the amount of assets, liabilities and non-controlling interests at the date of initial application for the purpose of adjusting the opening balance of the relevant comparative period. Unless there is a specific reason for retaining that phrase, HoTARAC recommends the words ‘on that date’ be deleted.

Additionally, some HoTARAC members are of the view that intention of the sentence beginning “The investor shall adjust comparative periods unless ...” to the end of paragraph C5A has already been captured in paragraph C5. These HoTARAC members suggest deleting this part of paragraph C5A.

HoTARAC also suggests that the proposed words “beginning of” be deleted from –

- the second last sentence of proposed paragraph C4A; and
- the second sentence of proposed paragraph C5A.