

AASB Standard

AASB 2013-5
August 2013

Amendments to Australian Accounting Standards – Investment Entities

**[AASB 1, AASB 3, AASB 7,
AASB 10, AASB 12, AASB 107,
AASB 112, AASB 124, AASB 127,
AASB 132, AASB 134 & AASB 139]**



Australian Government

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Level 7
600 Bourke Street
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AUSTRALIA

Postal address:
PO Box 204
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Victoria 8007
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aaasb.gov.au
Website: www.aasb.gov.au

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aaasb.gov.au

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Australian Accounting Standard AASB 2013-5 <i>Amendments to Australian Accounting Standards – Investment Entities</i> is set out in paragraphs 1 – 50. All the paragraphs have equal authority.

PREFACE

Introduction

This Standard makes amendments to the Australian Accounting Standards listed in paragraph 1 of the Standard.

These amendments arise from the issuance of International Financial Reporting Standard *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) by the International Accounting Standards Board in October 2012.

Main Features of this Standard

Application Date

This Standard applies to annual reporting periods beginning on or after 1 January 2014. Earlier application is permitted.

Main Requirements

The amendments define an investment entity and require that, with limited exceptions¹, an investment entity not consolidate its subsidiaries or apply AASB 3 *Business Combinations* when it obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in accordance with AASB 9 *Financial Instruments* in its consolidated and separate financial statements.

The amendments also introduce new disclosure requirements for investment entities to AASB 12 *Disclosure of Interests in Other Entities* and AASB 127 *Separate Financial Statements*.

References to AASB 9

If an entity applies these amendments but does not yet apply AASB 9, any reference in this document to AASB 9 shall be read as a reference to AASB 139 *Financial Instruments: Recognition and Measurement*.

¹ If an investment entity has a subsidiary that provides services that relate to the investment entity's investment activities, it shall consolidate that subsidiary and apply the requirements of AASB 3 to the acquisition of any such subsidiary.

Reduced Disclosure Requirements

Tier 2 investment entities would not be provided with any relief from the disclosures required by this Standard.

ACCOUNTING STANDARD AASB 2013-5

The Australian Accounting Standards Board makes Accounting Standard AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities* under section 334 of the *Corporations Act 2001*.

Dated 14 August 2013

Kevin M. Stevenson
Chair – AASB

ACCOUNTING STANDARD AASB 2013-5

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – INVESTMENT ENTITIES

Objective

- 1 The objective of this Standard is to make amendments to:
- (a) AASB 10 *Consolidated Financial Statements*;
 - (b) AASB 12 *Disclosure of Interests in Other Entities*;
 - (c) AASB 127 *Separate Financial Statements*; and
 - (d) make consequential amendments to:
 - (i) AASB 1 *First-time Adoption of Australian Accounting Standards*;
 - (ii) AASB 3 *Business Combinations*;
 - (iii) AASB 7 *Financial Instruments: Disclosures*;
 - (iv) AASB 107 *Statement of Cash Flows*;
 - (v) AASB 112 *Income Taxes*;
 - (vi) AASB 124 *Related Party Disclosures*;
 - (vii) AASB 132 *Financial Instruments: Presentation*;
 - (viii) AASB 134 *Interim Financial Reporting*; and

- (ix) *AASB 139 Financial Instruments: Recognition and Measurement*;

as a consequence of the issuance of International Financial Reporting Standard *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) by the International Accounting Standards Board in October 2012.

Application

- 2 Subject to paragraph 3, this Standard applies to:**
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act 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 In respect of AASB 107, this Standard applies to:**
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;**
 - (b) general purpose financial statements of each reporting entity; and**
 - (c) financial statements that are, or are held out to be, general purpose financial statements.**
- 4 This Standard applies to annual reporting periods beginning on or after 1 January 2014.**
- 5 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 2014; and**
 - (b) not-for-profit entities to annual reporting periods beginning on or after 1 January 2013 but before 1 January 2014.**

If an entity applies this Standard to an annual reporting period in accordance with paragraph (a) or (b), it shall disclose that fact and

apply AASB 10, AASB 11, AASB 12, AASB 127 and AASB 128 *Investments in Associates and Joint Ventures* at the same time.

- 6 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.**

Amendments to AASB 10

- 7 Paragraphs 2 and 4 are amended as follows (new text is underlined and deleted text is struck through):
- 2 To meet the objective in paragraph 1, this Standard:
- (a) ...
 - (c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; ~~and~~
 - (d) sets out the accounting requirements for the preparation of consolidated financial statements; ~~and~~ and
 - (e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.
- 4 An entity that is a parent shall present consolidated financial statements. This Standard applies to all entities, except as follows:
- (a) ...
 - (c) an investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss.

- 8 After paragraph 26, headings and paragraphs 27–33 are added as follows:

Determining whether an entity is an investment entity

27 A parent shall determine whether it is an investment entity. An investment entity is an entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;**
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and**
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.**

Paragraphs B85A–B85M provide related application guidance.

28 In assessing whether it meets the definition described in paragraph 27, an entity shall consider whether it has the following typical characteristics of an investment entity:

- (a) it has more than one investment (see paragraphs B85O–B85P);
- (b) it has more than one investor (see paragraphs B85Q–B85S);
- (c) it has investors that are not related parties of the entity (see paragraphs B85T–B85U); and
- (d) it has ownership interests in the form of equity or similar interests (see paragraphs B85V–B85W).

The absence of any of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity. An investment entity that does not have all of these typical characteristics provides additional disclosure required by paragraph 9A of AASB 12.

29 If facts and circumstances indicate that there are changes to one or more of the three elements that make up the definition of an investment entity, as described in paragraph 27, or the typical

characteristics of an investment entity, as described in paragraph 28, a parent shall reassess whether it is an investment entity.

- 30 A parent that either ceases to be an investment entity or becomes an investment entity shall account for the change in its status prospectively from the date at which the change in status occurred (see paragraphs B100–B101).

Investment entities: exception to consolidation

31 Except as described in paragraph 32, an investment entity shall not consolidate its subsidiaries or apply AASB 3 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with AASB 9.²

32 Notwithstanding the requirement in paragraph 31, if an investment entity has a subsidiary that provides services that relate to the investment entity’s investment activities (see paragraphs B85C–B85E), it shall consolidate that subsidiary in accordance with paragraphs 19–26 of this Standard and apply the requirements of AASB 3 to the acquisition of any such subsidiary.

33 A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

- 9 In Appendix A, a new definition is added after the definition of ‘group’ as follows:

investment entity An entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns

² Paragraph C7 of AASB 10 *Consolidated Financial Statements* states “If an entity applies this Standard but does not yet apply AASB 9, any reference in this Standard to AASB 9 shall be read as a reference to AASB 139 *Financial Instruments: Recognition and Measurement*.”

from capital appreciation, investment income, or both; and

- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

- 10 In Appendix B, headings and paragraphs B85A–B85W are added as follows:

Determining whether an entity is an investment entity

B85A An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. An entity that possesses the three elements of the definition of an investment entity set out in paragraph 27 is an investment entity. Paragraphs B85B–B85M describe the elements of the definition in more detail.

Business purpose

B85B The definition of an investment entity requires that the purpose of the entity is to invest solely for capital appreciation, investment income (such as dividends, interest or rental income), or both. Documents that indicate what the entity’s investment objectives are, such as the entity’s offering memorandum, publications distributed by the entity and other corporate or partnership documents, will typically provide evidence of an investment entity’s business purpose. Further evidence may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees); for example, an entity may present its business as providing medium-term investment for capital appreciation. In contrast, an entity that presents itself as an investor whose objective is to jointly develop, produce or market products with its investees has a business purpose that is inconsistent with the business purpose of an investment entity, because the entity will earn returns from the development, production or marketing activity as well as from its investments (see paragraph B85I).

B85C An investment entity may provide investment-related services (eg investment advisory services, investment management, investment support and administrative services), either directly or through a subsidiary, to third parties as well as to its investors, even if those activities are substantial to the entity.

B85D An investment entity may also participate in the following investment-related activities, either directly or through a subsidiary, if these activities are undertaken to maximise the investment return (capital appreciation or investment income) from its investees and do not represent a separate substantial business activity or a separate substantial source of income to the investment entity:

- (a) providing management services and strategic advice to an investee; and
- (b) providing financial support to an investee, such as a loan, capital commitment or guarantee.

B85E If an investment entity has a subsidiary that provides investment-related services or activities, such as those described in paragraphs B85C–B85D, to the entity or other parties, it shall consolidate that subsidiary in accordance with paragraph 32.

Exit strategies

B85F An entity's investment plans also provide evidence of its business purpose. One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Because equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity shall have an exit strategy documenting how the entity plans to realise capital appreciation from substantially all of its equity investments and non-financial asset investments. An investment entity shall also have an exit strategy for any debt instruments that have the potential to be held indefinitely, for example perpetual debt investments. The entity need not document specific exit strategies for each individual investment but shall identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments. Exit mechanisms that are only put in place for default events, such as a breach of contract or non-performance, are not considered exit strategies for the purpose of this assessment.

B85G Exit strategies can vary by type of investment. For investments in private equity securities, examples of exit strategies include an initial public offering, a private placement, a trade sale of a business, distributions (to investors) of ownership interests in investees and sales of assets (including the sale of an investee's assets followed by a liquidation of the investee). For equity

investments that are traded in a public market, examples of exit strategies include selling the investment in a private placement or in a public market. For real estate investments, an example of an exit strategy includes the sale of the real estate through specialised property dealers or the open market.

B85H An investment entity may have an investment in another investment entity that is formed in connection with the entity for legal, regulatory, tax or similar business reasons. In this case, the investment entity investor need not have an exit strategy for that investment, provided that the investment entity investee has appropriate exit strategies for its investments.

Earnings from investments

B85I An entity is not investing solely for capital appreciation, investment income, or both, if the entity or another member of the group containing the entity (ie the group that is controlled by the investment entity's ultimate parent) obtains, or has the objective of obtaining, other benefits from the entity's investments that are not available to other parties that are not related to the investee. Such benefits include:

- (a) the acquisition, use, exchange or exploitation of the processes, assets or technology of an investee. This would include the entity or another group member having disproportionate, or exclusive, rights to acquire assets, technology, products or services of any investee; for example, by holding an option to purchase an asset from an investee if the asset's development is deemed successful;
- (b) joint arrangements (as defined in AASB 11) or other agreements between the entity or another group member and an investee to develop, produce, market or provide products or services;
- (c) financial guarantees or assets provided by an investee to serve as collateral for borrowing arrangements of the entity or another group member (however, an investment entity would still be able to use an investment in an investee as collateral for any of its borrowings);
- (d) an option held by a related party of the entity to purchase, from that entity or another group member, an ownership interest in an investee of the entity;

- (e) except as described in paragraph B85J, transactions between the entity or another group member and an investee that:
 - (i) are on terms that are unavailable to entities that are not related parties of either the entity, another group member or the investee;
 - (ii) are not at fair value; or
 - (iii) represent a substantial portion of the investee's or the entity's business activity, including business activities of other group entities.

B85J An investment entity may have a strategy to invest in more than one investee in the same industry, market or geographical area in order to benefit from synergies that increase the capital appreciation and investment income from those investees. Notwithstanding paragraph B85I(e), an entity is not disqualified from being classified as an investment entity merely because such investees trade with each other.

Fair value measurement

B85K An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a fair value basis, because using fair value results in more relevant information than, for example, consolidating its subsidiaries or using the equity method for its interests in associates or joint ventures. In order to demonstrate that it meets this element of the definition, an investment entity:

- (a) provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is required or permitted in accordance with Australian Accounting Standards; and
- (b) reports fair value information internally to the entity's key management personnel (as defined in AASB 124), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.

B85L In order to meet the requirement in B85K(a), an investment entity would:

- (a) elect to account for any investment property using the fair value model in AASB 140 *Investment Property*;
- (b) elect the exemption from applying the equity method in AASB 128 for its investments in associates and joint ventures; and
- (c) measure its financial assets at fair value using the requirements in AASB 9.

B85M An investment entity may have some non-investment assets, such as a head office property and related equipment, and may also have financial liabilities. The fair value measurement element of the definition of an investment entity in paragraph 27(c) applies to an investment entity's investments. Accordingly, an investment entity need not measure its non-investment assets or its liabilities at fair value.

Typical characteristics of an investment entity

B85N In determining whether it meets the definition of an investment entity, an entity shall consider whether it displays the typical characteristics of one (see paragraph 28). The absence of one or more of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity but indicates that additional judgement is required in determining whether the entity is an investment entity.

More than one investment

B85O An investment entity typically holds several investments to diversify its risk and maximise its returns. An entity may hold a portfolio of investments directly or indirectly, for example by holding a single investment in another investment entity that itself holds several investments.

B85P There may be times when the entity holds a single investment. However, holding a single investment does not necessarily prevent an entity from meeting the definition of an investment entity. For example, an investment entity may hold only a single investment when the entity:

- (a) is in its start-up period and has not yet identified suitable investments and, therefore, has not yet executed its investment plan to acquire several investments;
- (b) has not yet made other investments to replace those it has disposed of;
- (c) is established to pool investors' funds to invest in a single investment when that investment is unobtainable by individual investors (eg when the required minimum investment is too high for an individual investor); or
- (d) is in the process of liquidation.

More than one investor

B85Q Typically, an investment entity would have several investors who pool their funds to gain access to investment management services and investment opportunities that they might not have had access to individually. Having several investors would make it less likely that the entity, or other members of the group containing the entity, would obtain benefits other than capital appreciation or investment income (see paragraph B85I).

B85R Alternatively, an investment entity may be formed by, or for, a single investor that represents or supports the interests of a wider group of investors (eg a pension fund, government investment fund or family trust).

B85S There may also be times when the entity temporarily has a single investor. For example, an investment entity may have only a single investor when the entity:

- (a) is within its initial offering period, which has not expired and the entity is actively identifying suitable investors;
- (b) has not yet identified suitable investors to replace ownership interests that have been redeemed; or
- (c) is in the process of liquidation.

Unrelated investors

B85T Typically, an investment entity has several investors that are not related parties (as defined in AASB 124) of the entity or other members of the group containing the entity. Having unrelated investors would make it less likely that the entity, or other

members of the group containing the entity, would obtain benefits other than capital appreciation or investment income (see paragraph B85I).

B85U However, an entity may still qualify as an investment entity even though its investors are related to the entity. For example, an investment entity may set up a separate 'parallel' fund for a group of its employees (such as key management personnel) or other related party investor(s), which mirrors the investments of the entity's main investment fund. This 'parallel' fund may qualify as an investment entity even though all of its investors are related parties.

Ownership interests

B85V An investment entity is typically, but is not required to be, a separate legal entity. Ownership interests in an investment entity are typically in the form of equity or similar interests (eg partnership interests), to which proportionate shares of the net assets of the investment entity are attributed. However, having different classes of investors, some of which have rights only to a specific investment or groups of investments or which have different proportionate shares of the net assets, does not preclude an entity from being an investment entity.

B85W In addition, an entity that has significant ownership interests in the form of debt that, in accordance with other applicable Australian Accounting Standards, does not meet the definition of equity, may still qualify as an investment entity, provided that the debt holders are exposed to variable returns from changes in the fair value of the entity's net assets.

- 11 In Appendix B, a heading and paragraphs B100–B101 are added as follows:

Accounting for a change in investment entity status

B100 When an entity ceases to be an investment entity, it shall apply AASB 3 to any subsidiary that was previously measured at fair value through profit or loss in accordance with paragraph 31. The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from the deemed acquisition. All subsidiaries shall be consolidated in accordance with paragraphs 19–24 of this Standard from the date of change of status.

B101 When an entity becomes an investment entity, it shall cease to consolidate its subsidiaries at the date of the change in status, except for any subsidiary that shall continue to be consolidated in accordance with paragraph 32. The investment entity shall apply the requirements of paragraphs 25 and 26 to those subsidiaries that it ceases to consolidate as though the investment entity had lost control of those subsidiaries at that date.

12 In Appendix C, paragraph C1B is added as follows:

C1B AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended paragraphs 2, 4, C2A, C6A and Appendix A and added paragraphs 27–33, B85A–B85W, B100–B101 and C3A–C3F. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2014. Early application is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in AASB 2013-5 at the same time.

13 In Appendix C, paragraph C2A is amended as follows (new text is underlined):

C2A Notwithstanding the requirements of paragraph 28 of AASB 108, when this Standard is first applied, and, if later, when AASB 2013-5 is first applied, an entity need only present the quantitative information required by paragraph 28(f) of AASB 108 for the annual reporting period immediately preceding the date of initial application of this Standard (the ‘immediately preceding reporting period’). An entity may also present this information for the current reporting period or for earlier comparative reporting periods, but is not required to do so.

14 In Appendix C, paragraphs C3A–C3F are added as follows:

C3A At the date of initial application, an entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at that date. If, at the date of initial application, an entity concludes that it is an investment entity, it shall apply the requirements of paragraphs C3B–C3F instead of paragraphs C5–C5A.

C3B Except for any subsidiary that is consolidated in accordance with paragraph 32 (to which paragraphs C3 and C6 or paragraphs C4–C4C, whichever is relevant, apply), an

investment entity shall measure its investment in each subsidiary at fair value through profit or loss as if the requirements of this Standard had always been effective. The investment entity shall retrospectively adjust both the annual reporting period that immediately precedes the date of initial application and equity at the beginning of the immediately preceding reporting period for any difference between:

- (a) the previous carrying amount of the subsidiary; and
- (b) the fair value of the investment entity's investment in the subsidiary.

The cumulative amount of any fair value adjustments previously recognised in other comprehensive income shall be transferred to retained earnings at the beginning of the annual period immediately preceding the date of initial application.

- C3C Before the date that AASB 13 *Fair Value Measurement* is adopted, an investment entity shall use the fair value amounts that were previously reported to investors or to management, if those amounts represent the amount for which the investment could have been exchanged between knowledgeable, willing parties in an arm's length transaction at the date of the valuation.
- C3D If measuring an investment in a subsidiary in accordance with paragraphs C3B–C3C is impracticable (as defined in AASB 108), an investment entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraphs C3B–C3C is practicable, which may be the current period. The investor shall retrospectively adjust the annual period that immediately precedes the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. If this is the case, the adjustment to equity shall be recognised at the beginning of the current period.
- C3E If an investment entity has disposed of, or has lost control of, an investment in a subsidiary before the date of initial application of this Standard, the investment entity is not required to make adjustments to the previous accounting for that subsidiary.
- C3F If an entity applies AASB 2013-5 for a period later than when it applies AASB 10 for the first time, references to 'the date of initial application' in paragraphs C3A–C3E shall be read as 'the beginning of the annual reporting period for which

AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, is applied for the first time.’

- 15 In Appendix C, paragraph C6A is amended as follows (new text is underlined and deleted text is struck through):
- C6A Notwithstanding the references to the annual reporting period immediately preceding the date of initial application (the ‘immediately preceding period’) in paragraphs ~~C3B~~~~C4~~–C5A, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the ‘immediately preceding period’ in paragraphs ~~C3B~~~~C4~~–C5A shall be read as the ‘earliest adjusted comparative period presented’.

Amendments to AASB 12

- 16 Paragraph 2 is amended as follows (new text is underlined and deleted text is struck through):
- 2 To meet the objective in paragraph 1, an entity shall disclose:
- (a) the significant judgements and assumptions it has made in determining:
 - (i) the nature of its interest in another entity or arrangement; ~~and in determining~~
 - (ii) the type of joint arrangement in which it has an interest (paragraphs 7–9);
 - (iii) that it meets the definition of an investment entity, if applicable (paragraph 9A); and
 - (b) ...
- 17 After paragraph 9, a heading and paragraphs 9A–9B are added as follows:

Investment entity status

- 9A When a parent determines that it is an investment entity in accordance with paragraph 27 of AASB 10, the investment entity shall disclose information about significant judgements and assumptions it has made in determining that**

it is an investment entity. If the investment entity does not have one or more of the typical characteristics of an investment entity (see paragraph 28 of AASB 10), it shall disclose its reasons for concluding that it is nevertheless an investment entity.

- 9B When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including:
- (a) the total fair value, as of the date of change of status, of the subsidiaries that cease to be consolidated;
 - (b) the total gain or loss, if any, calculated in accordance with paragraph B101 of AASB 10; and
 - (c) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

- 18 After paragraph 19, a heading and paragraphs 19A–19G are added as follows:

Interests in unconsolidated subsidiaries (investment entities)

- 19A An investment entity that, in accordance with AASB 10, is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss shall disclose that fact.
- 19B For each unconsolidated subsidiary, an investment entity shall disclose:
- (a) the subsidiary's name;
 - (b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary; and
 - (c) the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.

- 19C If an investment entity is the parent of another investment entity, the parent shall also provide the disclosures in 19B(a)–(c) for investments that are controlled by its investment entity subsidiary. The disclosure may be provided by including, in the financial statements of the parent, the financial statements of the subsidiary (or subsidiaries) that contain the above information.
- 19D An investment entity shall disclose:
- (a) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity; and
 - (b) any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, including commitments or intentions to assist the subsidiary in obtaining financial support.
- 19E If, during the reporting period, an investment entity or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated subsidiary (eg purchasing assets of, or instruments issued by, the subsidiary or assisting the subsidiary in obtaining financial support), the entity shall disclose:
- (a) the type and amount of support provided to each unconsolidated subsidiary; and
 - (b) the reasons for providing the support.
- 19F An investment entity shall disclose the terms of any contractual arrangements that could require the entity or its unconsolidated subsidiaries to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).
- 19G If during the reporting period an investment entity or any of its unconsolidated subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated, structured entity that the investment entity did

not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity shall disclose an explanation of the relevant factors in reaching the decision to provide that support.

19 After paragraph 21, paragraph 21A is added as follows:

21A An investment entity need not provide the disclosures required by paragraphs 21(b)–21(c).

20 After paragraph 25, paragraph 25A is added as follows:

25A An investment entity need not provide the disclosures required by paragraph 24 for an unconsolidated structured entity that it controls and for which it presents the disclosures required by paragraphs 19A–19G.

21 In Appendix A, a term is added as follows (new text is underlined):

The following terms are defined in AASB 127 (August 2011), AASB 128 (August 2011), AASB 10 and AASB 11 *Joint Arrangements* and are used in this Standard with the meanings specified in those Standards:

- associate
- ...
- group
- investment entity
- joint arrangement
- ...

22 In Appendix C, paragraph C1B is added as follows:

C1B AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended paragraph 2 and Appendix A, and added paragraphs 9A–9B, 19A–19G, 21A and 25A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in AASB 2013-5 at the same time.

Amendments to AASB 127

- 23 Paragraphs 5–6 are amended as follows (new text is underlined):
- 5 The following terms are defined in Appendix A of AASB 10 *Consolidated Financial Statements*, Appendix A of AASB 11 *Joint Arrangements* and paragraph 3 of AASB 128 *Investments in Associates and Joint Ventures*:
- associate
 - control of an investee
 - group
 - investment entity
 - joint control
 - ...
- 6 Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method, other than in the circumstances set out in paragraphs 8–8A. Separate financial statements need not be appended to, or accompany, those statements.
- 24 After paragraph 8, paragraph 8A is added as follows:
- 8A An investment entity that is required, throughout the current reporting period and all comparative reporting periods presented, to apply the exception to consolidation for all of its subsidiaries in accordance with paragraph 31 of AASB 10 presents separate financial statements as its only financial statements.
- 25 After paragraph 11, paragraphs 11A–11B are added as follows:
- 11A If a parent is required, in accordance with paragraph 31 of AASB 10, to measure its investment in a subsidiary at fair value through profit or loss in accordance with AASB 9, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.

- 11B When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:
- (a) when an entity ceases to be an investment entity, the entity shall, in accordance with paragraph 10, either:
 - (i) account for an investment in a subsidiary at cost. The fair value of the subsidiary at the date of the change of status shall be used as the deemed cost at that date; or
 - (ii) continue to account for an investment in a subsidiary in accordance with AASB 9.
 - (b) when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with AASB 9. The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.

26 After paragraph Aus16.1, paragraph 16A is added as follows:

16A When an investment entity that is a parent (other than a parent covered by paragraphs 16–Aus16.1) prepares, in accordance with paragraph 8A, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by AASB 12.

27 Paragraph 17 is amended as follows (new text is underlined and deleted text is struck through):

17 When a parent (other than a parent covered by paragraphs 16–16A or ~~Aus16.1~~) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall identify the financial statements prepared in accordance with AASB 10, AASB 11 or AASB 128 (August 2011) to

which they relate. The parent or investor shall also disclose in its separate financial statements:

(a) ...

28 After paragraph 18, paragraphs 18A–18I are added as follows:

18A AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended paragraphs 5, 6, and 17, and added paragraphs 8A, 11A–11B, 16A and 18B–18I. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in AASB 2013-5 at the same time.

18B If, at the date of initial application of AASB 2013-5 (which, for the purposes of this Standard, is the beginning of the annual reporting period for which those amendments are applied for the first time), a parent concludes that it is an investment entity, it shall apply paragraphs 18C–18I to its investment in a subsidiary.

18C At the date of initial application, an investment entity that previously measured its investment in a subsidiary at cost shall instead measure that investment at fair value through profit or loss as if the requirements of this Standard had always been effective. The investment entity shall adjust retrospectively the annual reporting period immediately preceding the date of initial application and shall adjust retained earnings at the beginning of the immediately preceding period for any difference between:

- (a) the previous carrying amount of the investment; and
- (b) the fair value of the investor's investment in the subsidiary.

18D At the date of initial application, an investment entity that previously measured its investment in a subsidiary at fair value through other comprehensive income shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income shall be transferred to retained earnings at the beginning of the annual reporting period immediately preceding the date of initial application.

18E At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a

subsidiary that it had previously elected to measure at fair value through profit or loss in accordance with AASB 9, as permitted in paragraph 10.

- 18F Before the date that AASB 13 *Fair Value Measurement* is adopted, an investment entity shall use the fair value amounts previously reported to investors or to management, if those amounts represent the amount for which the investment could have been exchanged between knowledgeable, willing parties in an arm's length transaction at the date of the valuation.
- 18G If measuring the investment in the subsidiary in accordance with paragraphs 18C–18F is impracticable (as defined in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraphs 18C–18F is practicable, which may be the current period. The investor shall adjust retrospectively the annual reporting period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the subsidiary is earlier than the beginning of the immediately preceding period, the investor shall adjust equity at the beginning of the immediately preceding period for any difference between:
- (a) the previous carrying amount of the investment; and
 - (b) the fair value of the investor's investment in the subsidiary.

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to equity shall be recognised at the beginning of the current period.

- 18H If an investment entity has disposed of, or lost control of, an investment in a subsidiary before the date of initial application of AASB 2013-5, the investment entity is not required to make adjustments to the previous accounting for that investment.
- 18I Notwithstanding the references to the annual reporting period immediately preceding the date of initial application (the 'immediately preceding period') in paragraphs 18C–18G, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any

earlier periods, all references to the ‘immediately preceding period’ in paragraphs 18C–18G shall be read as the ‘earliest adjusted comparative period presented’. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

Consequential Amendments to Other Standards

Amendments to AASB 1

29 Paragraph 39T is added as follows:

39T AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended paragraphs D16, D17 and Appendix C and added a heading and paragraphs E6–E7. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2014. Earlier application of AASB 2013-5 is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in AASB 2013-5 at the same time.

30 The rubric to Appendix C is amended as follows (new text is underlined):

This appendix is an integral part of AASB 1. An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to Australian Accounting Standards. This appendix should only be applied to business combinations within the scope of AASB 3 Business Combinations.

31 In Appendix D, paragraphs D16–D17 are amended as follows (new text is underlined):

D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

- (a) the carrying amounts that would be included in the parent’s consolidated financial statements, based on the parent’s date of transition to Australian Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as

defined in AASB 10, that is required to be measured at fair value through profit or loss); or

(b) ...

D17 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Notwithstanding this requirement, a non-investment entity parent shall not apply the exception to consolidation that is used by any investment entity subsidiaries. Similarly, ...

32 In Appendix E, after paragraph E5, a heading and paragraphs E6–E7 are added as follows:

Investment entities

E6 A first-time adopter that is a parent shall assess whether it is an investment entity, as defined in AASB 10, on the basis of the facts and circumstances that exist at the date of transition to Australian Accounting Standards.

E7 A first-time adopter that is an investment entity, as defined in AASB 10, may apply the transition provisions in paragraphs C3C–C3D of AASB 10 and paragraphs 18C–18G of AASB 127 if its first Australian Accounting Standards financial statements are for an annual reporting period ending on or before 31 December 2014. The references in those paragraphs to the annual reporting period that immediately precedes the date of initial application shall be read as the earliest annual reporting period presented. Consequently, the references in those paragraphs shall be read as the date of transition to Australian Accounting Standards.

Amendments to AASB 3

33 Paragraph 2A is added as follows:

2A The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in AASB 10 *Consolidated*

Financial Statements, of an investment in a subsidiary that is required to be measured at fair value through profit or loss.

- 34 Paragraph 7 is amended as follows (deleted text is struck through)
- 7 The guidance in AASB 10 *Consolidated Financial Statements* shall be used to identify the acquirer ...
- 35 Paragraph 64G is added as follows
- 64G AASB 2013-5, issued in August 2013, amended paragraph 7 and added paragraph 2A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2014. Earlier application of AASB 2013-5 is permitted. If an entity applies these amendments earlier it shall also apply all amendments included in AASB 2013-5 at the same time.

Amendments to AASB 7

- 36 Paragraph 3 is amended as follows (new text is underlined and deleted text is struck through):
- 3 **This Standard shall be applied by all entities to all types of financial instruments, except:**
- (a) **those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with AASB 10 *Consolidated Financial Statements*, AASB 127 *Separate Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*. However, in some cases, AASB 10, AASB 127 or AASB 128 require or permits an entity to account for an interest in a subsidiary, associate or joint venture using AASB 139; in those cases, entities shall apply the requirements of this Standard and, for those interests measured at fair value, the requirements of AASB 13 *Fair Value Measurement*. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in AASB 132;**
- (b) ...
- 37 Paragraph 44X is added as follows:

- 44X AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended paragraph 3. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2014. Earlier application of AASB 2013-5 is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in AASB 2013-5 at the same time.

Amendments to AASB 107

- 38 Paragraph 40A is added as follows:
- 40A An investment entity, as defined in AASB 10 *Consolidated Financial Statements*, need not apply paragraphs 40(c) or 40(d) to an investment in a subsidiary that is required to be measured at fair value through profit or loss.
- 39 Paragraphs 42A and 42B are amended as follows (new text is underlined and deleted text is struck through):
- 42A Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in AASB 10, and is required to be measured at fair value through profit or loss.
- 42B Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see AASB 10 *Consolidated Financial Statements*), unless the subsidiary is held by an investment entity and is required to be measured at fair value through profit or loss. Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17.
- 40 Paragraph 58 is added as follows:
- 58 AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended paragraphs 42A and 42B and added paragraph 40A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2014. Earlier application of AASB 2013-5 is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in AASB 2013-5 at the same time.

Amendments to AASB 112

41 Paragraphs 58 and 68C are amended as follows (new text is underlined):

58 Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

(a) ...

(b) **a business combination (other than the acquisition by an investment entity, as defined in AASB 10 Consolidated Financial Statements, of a subsidiary that is required to be measured at fair value through profit or loss)** (see paragraphs 66 to 68).

68C As noted in paragraph 68A, the amount of the tax deduction (or estimated future tax deduction, measured in accordance with paragraph 68B) may differ from the related cumulative remuneration expense. Paragraph 58 of the Standard requires that current and deferred tax should be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from (a) a transaction or event that is recognised, in the same or a different period, outside profit or loss, or (b) a business combination (other than the acquisition by an investment entity of a subsidiary that is required to be measured at fair value through profit or loss). If the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, the excess of the associated current or deferred tax should be recognised directly in equity.

42 Paragraph 98C is added as follows:

98C *AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended paragraphs 58 and 68C. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2014. Earlier application of AASB 2013-5 is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in AASB 2013-5 at the same time.

Amendments to AASB 124

- 43 Paragraphs 4 and 9 are amended as follows (new text is underlined):
- 4 Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intragroup related party transactions and outstanding balances are eliminated, except for those between an investment entity and its subsidiaries measured at fair value through profit or loss, in the preparation of consolidated financial statements of the group.
- 9 **The terms 'control' and 'investment entity', 'joint control', and 'significant influence' are defined in AASB 10, AASB 11 *Joint Arrangements* and AASB 128 *Investments in Associates and Joint Ventures* respectively and are used in this Standard with the meanings specified in those Standards.**
- 44 Paragraph 28B is added as follows:
- 28B AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended paragraphs 4 and 9. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2014. Earlier application of AASB 2013-5 is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in AASB 2013-5 at the same time.

Amendments to AASB 132

- 45 Paragraph 4 is amended as follows (new text is underlined and deleted text is struck through):
- 4 **This Standard shall be applied by all entities to all types of financial instruments except:**
- (a) **those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with AASB 10 *Consolidated Financial Statements*, AASB 127 *Separate Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*. However, in some cases, ~~AASB 10, AASB 127 or AASB 128~~ require or permits an entity to account for an interest in a subsidiary, associate or joint venture using AASB 139; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply**

this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures;

(b) ...

46 Paragraph 97O is added as follows:

97O AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended paragraph 4. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2014. Earlier application of AASB 2013-5 is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in AASB 2013-5 at the same time.

Amendments to AASB 134

47 Paragraph 16A is amended as follows (new text is underlined and deleted text is struck through):

16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on an annual reporting period-to-date basis.

(a) ...

(i) **the effect of changes in the composition of the entity ... disclose the information required by AASB 3 *Business Combinations*; ~~and~~**

(j) **for financial instruments, the disclosures about fair value required by paragraphs 91–93(h), 94–96, 98 and 99 of AASB 13 *Fair Value Measurement* and paragraphs 25, 26 and 28–30 of AASB 7 *Financial Instruments: Disclosures*; ~~and~~**

(k) **for entities becoming, or ceasing to be, investment entities, as defined in AASB 10 *Consolidated Financial Statements*, the disclosures in AASB 12 *Disclosure of Interests in Other Entities* paragraph 9B.**

48 Paragraph 54 is added as follows:

- 54 AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended paragraph 16A. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2014. Earlier application of AASB 2013-5 is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in AASB 2013-5 at the same time.

Amendments to AASB 139

- 49 Paragraphs 2 and 80 are amended as follows (new text is underlined and deleted text is struck through):

2 This Standard shall be applied by all entities to all types of financial instruments except:

- (a) **those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with AASB 10 *Consolidated Financial Statements*, AASB 127 *Separate Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*. However, in some cases, AASB 10, AASB 127 or AASB 128 require or permit an entity to account for entities that apply this Standard to an interest in a subsidiary, associate or joint venture that according to AASB 127 or AASB 128 is accounted for under in accordance with some or all of the requirements of this Standard. Entities shall also apply this Standard to *derivatives* on an interest in a subsidiary, associate or joint venture unless the derivative meets the definition of an equity instrument of the entity in AASB 132;**
- (b) ...
- (g) **any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of AASB 3 *Business Combinations* at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction;**

- 80 ... It follows that hedge accounting can be applied to transactions between entities in the same group only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group, except

for the consolidated financial statements of an investment entity, as defined in AASB 10, where transactions between an investment entity and its subsidiaries measured at fair value through profit or loss will not be eliminated in the consolidated financial statements. ...

50 Paragraph 103R is added as follows:

103R AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended paragraphs 2 and 80. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2014. Earlier application of AASB 2013-5 is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in AASB 2013-5 at the same time.

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities.

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB) considerations in issuing AASB 2013-5 *Amendments to Australian Accounting Standard – Investment Entities*. Individual Board members gave greater weight to some factors than to others.

Background

BC2 AASB 2013-5 is the result of the AASB's due process, which began when the AASB issued Exposure Draft ED 220 *Investment Entities* (AASB ED 220) in September 2011 (incorporating International Accounting Standards Board [IASB] ED/2011/4 *Investment Entities*). That Exposure Draft proposed that an investment entity be required to account for investees that it controls at fair value through profit or loss, rather than consolidate them.

BC3 In the material accompanying ED 220, AASB members expressed concerns with the ED/2011/4 proposals, including:

- (a) the exception to consolidation goes against the application of the well-established accounting concept of control, which is designed to result in the presentation of all the assets, liabilities, income and expenses of the group, and the amendments would result in a loss of relevant information for users of financial statements;
- (b) the basis of the exception to consolidation is the type of entity, rather than the underlying relationship between investors and investees; and
- (c) there are no clear principles underpinning the classification of entities as investment entities and the criteria for identifying investment entities are rule-based and open to opportunistic behaviour.

BC4 As evident from the responses to ED 220, views were divided among Australian constituents. Some expressed concerns similar to those of the AASB members. However, others expressed broad support for requiring some types of entities to account for controlled investees at fair value through profit or loss, rather than having them consolidate such entities.

- BC5 The AASB expressed its concerns in its submission to the IASB on IASB ED/2011/4.
- BC6 In October 2012, the IASB amended IFRS *10 Consolidated Financial Statements*, IFRS *12 Disclosures of Interest in Other Entities* and IAS *27 Separate Financial Statements* for investment entities to provide an exception to consolidating particular subsidiaries for investment entities, requiring them instead to measure their investments in unconsolidated subsidiaries at fair value through profit or loss.
- BC7 The AASB noted that its concerns with the ED/2011/4 proposals were not adequately addressed in the IASB amendments. The AASB also considered the disclosures required by the IASB amendments and noted that they require an investment entity to provide information about the exception to consolidation rather than addressing the loss of consolidation information that preparing a complete set of consolidated general purpose financial statements would provide.
- BC8 Because of its concerns with the IASB amendments, the AASB decided to undertake further due process. After considering a number of different possible approaches to the recognition and measurement of controlled investees of investment entities, including (i) consolidation and (ii) fair value measurement with compensating disclosures, the AASB issued ED 233 *Australian Additional Disclosures – Investment Entities* in December 2012. It proposed to introduce the exception to consolidation for investment entities (as per the IASB amendments) and to require Australian additional disclosures for Australian entities that meet the IASB’s investment entity criteria. The Australian additional disclosures proposed in ED 233 were in the form of:
- consolidated financial statements prepared in a manner consistent with the definition of consolidated financial statements in Appendix A of AASB 10 *Consolidated Financial Statements*; and
 - a summary of the significant accounting policies used in preparing those consolidated financial statements that are not otherwise disclosed in accordance with AASB 101 *Presentation of Financial Statements*.
- BC9 ED 233 also specifically asked respondents whether they have any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on the decision-making of the loss of consolidation information.

- BC10 The AASB received 29 submissions on ED 233. The vast majority of respondents did not support the proposed Australian additional disclosures. These respondents expressed support for introducing the IASB amendments without Australian additional disclosures.
- BC11 The AASB staff also conducted targeted outreach with users of financial statements and the limited feedback received indicated that if there were to be Australian additional disclosures required, an example of the information that would be relevant is information about the earnings and liabilities of subsidiaries of investment entities.

AASB deliberations on adopting the IASB amendments in Australia without Australian additional disclosures

- BC12 The AASB considered three main approaches to introducing the IASB amendments for investment entities in Australia:
- A. issue the IASB amendments without Australian additional disclosures;
 - B. issue the IASB amendments with Australian additional disclosures as proposed in AASB ED 233; and
 - C. issue the IASB amendments with Australian additional disclosures that are reduced compared with the ED 233 proposals, in particular, disclosures about an unconsolidated subsidiary's total assets, total liabilities and total comprehensive income.
- BC13 The AASB considered and rejected the approach of not adopting the IASB's amendments for Australian investment entities as this would result in Australian investment entities not being able to assert IFRS compliance, an outcome that would be contrary to the AASB's policy of having "... Tier 1 for-profit entities being IFRS compliant"³.
- BC14 The majority of AASB members expressed a preference for, or could at least accept, Approach A, consistent with the AASB's policy of IFRS adoption. Some members consider that the fair value of controlled entities can arguably be regarded as more relevant for users of financial statements of investment entities than consolidation information. Some other members consider that the IASB's criteria for determining investment entities lack rigour and could lead to

³ AASB Policy Statement *Policies and Processes* March 2011, paragraph 7

inconsistent application. However, on balance, the majority of members are willing to accept, in the absence of evidence to the contrary, that the IASB amendments, including the disclosures required of investment entities in accordance with IFRS 12, would be sufficient to meet the needs of users of financial statements of investment entities, consistent with the feedback received from the vast majority of the respondents to ED 233.

- BC15 This majority of AASB members could not accept Approach C as there was insufficient feedback from users to suggest that the reduced disclosures proposed in Approach C would be useful. Those AASB members did not think it appropriate to delay adoption while further input from users is sought.
- BC16 The AASB noted the wide range of arguments put forward by respondents to ED 233 for favouring Approach A including the view that fair value information is most relevant for investors of investment entities in many circumstances; and the cost to Australian preparers of financial statements compared with other jurisdictions of providing Australian additional disclosures. However, despite accepting Approach A, the AASB did not accept all of those arguments. In particular, the AASB did not accept the arguments that requiring Australian additional disclosures would reduce comparability (as distinct from uniformity) between Australian investment entities and their international counterparts or would lead to the perception that Australian investment entities are not IFRS compliant.
- BC17 On balance, the AASB decided to adopt Approach A. This was on the basis that the AASB would monitor the implementation of the IASB amendments for Australian investment entities. This would include monitoring the disclosures made in accordance with AASB 12 *Disclosure of Interests in Other Entities* and AASB 101 *Presentation of Financial Statements* paragraph 17(c)⁴. Such monitoring, which may be via a post-implementation review, would be undertaken with a view to potentially adding Australian additional disclosure requirements at a later stage, if it were to become evident that additional disclosures are warranted, noting that such disclosures might be different from those proposed in ED 233 or Approach C. Monitoring might also lead to the AASB deciding to write to the IASB, informing it of the findings and concerns arising from the Australian experience.

⁴ AASB 101 paragraph 17(c) requires an entity to provide additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

GAAP/GFS Harmonisation

BC18 In adopting Approach A, the AASB considered whether there would be any GAAP/GFS harmonisation implications that it would need to address in the context of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The AASB noted that no such implications are expected to arise because, although the whole of government or general government sector might be a parent of an investment entity, the whole of government and general government sector would not themselves be investment entities.

Application to Tier 2

BC19 The AASB noted that the way in which the IASB has defined an investment entity (including that such an entity need not have more than one investor) could result in there being investment entities that do not have public accountability as defined in Appendix A of AASB 1053 *Application of Tiers of Australian Accounting Standards* and are therefore eligible to present Tier 2 general purpose financial statements.

BC20 In addition, the AASB considered the entities listed in Appendix B of AASB 1053 that are deemed to have public accountability. Whilst many investment entities would fall within the list of deemed entities, there could be a number of investment entities that would not be captured – for example, managed investment schemes that are investment entities but are not registered and therefore, again potentially eligible to present Tier 2 general purpose financial statements.

BC21 The AASB conducted due process on whether Tier 2 investment entities should be provided with any relief from the disclosures required by the IASB amendments through ED 220.

BC22 After considering constituent feedback, the AASB decided the disclosures in the IASB amendments for investment entities should be applied to both Tier 1 and Tier 2 investment entities as it considers those disclosures to be fundamental to the needs of users in decision-making. Accordingly, the AASB decided that it would not be appropriate to exempt those investment entities from any of the disclosures in the IASB amendments.

DISSENTING VIEWS

Dissent of Peter Gibson, Jayne Godfrey, John O'Grady and Kevin M. Stevenson

- DO1 In our opinion the exception to consolidation for investment entities that requires controlled investees to be measured at fair value through profit or loss rather than being consolidated is a violation of the basic principle that an entity should account for all of its assets, liabilities, income and expenses.
- DO2 At the most fundamental level we do not see the provision of fair value information for investments as a substitute for, or an alternative to, consolidated information. Without the detailed consideration of that part of the financial position and financial performance of an entity represented by its controlled entities, fair value movements would not be sufficient for decision-making and offset too much information into a single line item.
- DO3 We regard the exception as fundamentally based on a view that an entity's business model should determine accounting treatments. However, we do not believe that an entity's business model should drive how it accounts for its controlled investees. In our opinion, the business model approach and the IASB's criteria for determining investment entities, which we believe lack rigour, will lead to uncertainty in application and inconsistency of reporting between similar entities. This approach also has the potential to promote structuring opportunities to avoid consolidation. In turn, this would be to the detriment of providing useful, comparable information to users of financial statements.
- DO4 We believe that providing exceptions to principles further complicates accounting, introduces unjustified complexity to financial statements and reduces comparability of entities' financial reports across sectors. It also creates a precedent for further, less rigorous standard-setting.
- DO5 For Australia, the exception to consolidation would require de-consolidation of controlled entities when Australia has been well-served by the control principle and has been relatively free of criticism of off-balance-sheet accounting.
- DO6 Additionally, we have not heard from users of financial statements of investment entities in Australia that consolidation information is not useful or relevant for decision-making.

DO7 Furthermore, if the fair values of controlled investments held by investment entities are relevant, we are of the view that they could be provided as supplementary disclosures in financial statements, consistent with the disclosure requirements in *AASB 7 Financial Instruments: Disclosures* for financial instruments with carrying amounts that differ from their fair value.