

AASB Exposure Draft

ED 205
September 2010

Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation

Comments to AASB by 12 January 2011



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 12 January 2011.
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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 Chairman of the AASB agrees to those submissions being treated as confidential. The latter will only occur if the public interest warrants such treatment.

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ISSN 1030-5882

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STANDARDS TO EXTEND RELIEF FROM CONSOLIDATION,
THE EQUITY METHOD AND PROPORTIONATE CONSOLIDATION**

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[Draft] Australian Accounting Standard AASB 2010-X *Amendments to Australian Accounting Standards to Extend Relief from Consolidation, the Equity Method and Proportionate Consolidation* is set out in paragraphs 1 – 10. All the paragraphs have equal authority.

PREFACE

Background

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.

When appropriate, Australian Accounting Standards 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.

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. 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.

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.

Private sector for-profit entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Many other entities complying with Tier 1 will also simultaneously comply with IFRSs.

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 Standard. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Standards or amendments to existing Standards.

Reasons for Issuing this Exposure Draft

Paragraph 10 of AASB 127 *Consolidated and Separate Financial Statements* provides the following relief from preparing consolidated financial statements:

“A parent need not present consolidated financial statements if and only if:

- (a) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
- (b) the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- (c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- (d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.”

Similarly, investors need not apply the equity method when they meet the four criteria in paragraph 13(c) of AASB 128 *Investments in Associates* and venturers need not apply proportionate consolidation or the equity method when they meet the four criteria in paragraph 2(c) of AASB 131 *Interests in Joint Ventures*. The criteria in paragraph 10 of AASB 127, paragraph 13(c) of AASB 128 and paragraph 2(c) of AASB 131 are similar.

Due to the addition of Aus paragraphs in IFRSs as adopted in Australia, and the introduction of Reduced Disclosure Requirements (RDR), some entities applying Australian Accounting Standards are not IFRS compliant. This means that the relief from consolidation, the equity method and proportionate consolidation provided in paragraph 10 of AASB 127, paragraph 13(c) of AASB 128 and paragraph 2(c) of AASB 131 is not available to subsidiaries of those entities.

The AASB considers that relief from consolidation, the equity method and proportionate consolidation should be available to a parent, investor or venturer if it:

- (a) has a parent higher up in the group that prepares consolidated financial statements available for public use incorporating the information that would otherwise have been reported in the parent's consolidated financial statements or the investor's or venturer's financial statements; and
- (b) meets the relevant criteria in paragraphs 10(a) to 10(c) of AASB 127, paragraphs 13(c)(i) to 13(c)(iii) of AASB 128 and paragraphs 2(c)(i) to 2(c)(iii) of AASB 131.

This is based on the view that financial statement users would be able to satisfy their information needs through the consolidated financial statements prepared by the parent higher up in the group.

Accordingly, the AASB proposes to extend the relief from consolidation, the equity method and proportionate consolidation to parents, investors and venturers that meet particular criteria, including having a parent higher up in the group that prepares consolidated financial statements available for public use that incorporate the information that would otherwise have been reported in the parent's consolidated financial statements or the investor's or venturer's financial statements.

Main Features of this Exposure Draft

This Exposure Draft proposes to:

- (a) add paragraph Aus10.2 to AASB 127 to extend the relief from preparing consolidated financial statements currently provided under paragraph 10 of AASB 127. The relief would be available to a parent that has a parent higher up in the group preparing consolidated financial statements available for public use incorporating the information that would otherwise have been reported in the parent's consolidated financial statements and the parent complies with the other criteria in paragraph 10 of AASB 127;

- (b) add paragraph Aus13.1 to AASB 128 to extend the relief from application of the equity method currently provided under paragraph 13(c) of AASB 128. The relief would be available to an investor that has a parent higher up in the group preparing consolidated financial statements available for public use incorporating the information that would otherwise have been reported in the investor's financial statements and the investor complies with the other criteria in paragraph 13(c) of AASB 128;
- (c) add paragraph Aus2.1 to AASB 131 to extend the relief from application of proportionate consolidation or the equity method currently provided under paragraph 2(c) of AASB 131. The relief would be available to a venturer that has a parent higher up in the group preparing consolidated financial statements available for public use incorporating the information that would otherwise have been reported in the venturer's financial statements and the venturer complies with the other criteria in paragraph 2(c) of AASB 131; and
- (d) make amendments to paragraphs 5 and 13 of AASB 128 and paragraphs 2 and 6 of AASB 131 as a consequence of adding paragraph Aus10.2 to AASB 127.

Application Date

It is proposed that this Standard be applicable to annual reporting periods beginning on or after 1 July 2011 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 July 2011.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 12 January 2011. 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 proposal, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical. The AASB regards supportive and critical comments as essential to a balanced review of the issue.

Specific Matters for Comment

The AASB would particularly value comments on whether:

- (a) extending relief from:
 - (i) preparing consolidated financial statements to circumstances specified in proposed paragraph Aus10.2 of AASB 127 is appropriate;
 - (ii) application of the equity method to circumstances specified in proposed paragraph Aus13.1 of AASB 128 is appropriate;
 - (iii) application of proportionate consolidation or the equity method to circumstances specified in proposed paragraph Aus2.1 of AASB 131 is appropriate; and
- (b) the proposed relief addresses all the relevant circumstances;
- (c) overall, the proposals would result in financial statements that would be useful to users; and
- (d) the proposals are in the best interests of the Australian and New Zealand economies.

ACCOUNTING STANDARD AASB 2010-X
AMENDMENTS TO AUSTRALIAN ACCOUNTING
STANDARDS TO EXTEND RELIEF FROM
CONSOLIDATION, THE EQUITY METHOD AND
PROPORTIONATE CONSOLIDATION

Objective

- 1 The objective of this Standard is to amend AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures* to extend the relief from consolidation, the equity method and proportionate consolidation to parents, investors and venturers that meet particular criteria, including having a parent higher up in the group that prepares consolidated financial statements available for public use incorporating the information that would otherwise have been reported in the parent's consolidated financial statements or the investor's or venturer's financial statements.

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 July 2011.**
- 4 **This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2011 provided AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments* is also adopted early for the same period. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.**

- 5 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard or an Interpretation, 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.

Amendment to AASB 127

- 6 Paragraph Aus10.2 is added as follows:

Aus10.2 Notwithstanding paragraph 10(d), a parent that meets the criteria in paragraphs 10(a), 10(b) and 10(c) need not present consolidated financial statements if its ultimate or any intermediate parent produces consolidated financial statements available for public use and its ultimate or any intermediate parent:

- (a) and the parent are:
 - (i) both entities complying with Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements; or
 - (ii) both not-for-profit entities complying with Tier 1: Australian Accounting Standards; or
- (b) is a not-for-profit entity complying with Tier 1 and the parent is an entity complying with Tier 2.

Amendments to AASB 128

- 7 Paragraphs 5 and 13 are amended as follows (new text is underlined and deleted text is struck through):

5 Entities that are exempted in accordance with paragraphs 10, ~~and Aus10.1 and Aus10.2~~ of AASB 127 *Consolidated and Separate Financial Statements* from consolidation ...

13 An investment in an associate shall be accounted for using the equity method except when:

- (a) ...
- (b) the exception in paragraph 10, as modified by paragraphs Aus10.1 and Aus10.2, of AASB 127

allowing a parent that also has an interest in an associate not to present consolidated financial statements, applies; or

(c) all of the following apply:

...

(iv) the ultimate Australian or any intermediate parent of the investor produces consolidated financial statements available for public use that comply with ~~Australian equivalents to IFRSs~~ International Financial Reporting Standards.

8 Paragraph Aus13.1 is added as follows:

Aus13.1 Notwithstanding paragraph 13(c)(iv), an investor that meets the criteria in paragraphs 13(c)(i), 13(c)(ii) and 13(c)(iii) need not apply the equity method in accounting for an interest in an associate if its ultimate or any intermediate parent produces consolidated financial statements available for public use and its ultimate or any intermediate parent:

(a) and the investor are:

- (i) both entities complying with Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements; or
- (ii) both not-for-profit entities complying with Tier 1: Australian Accounting Standards; or

(b) is a not-for-profit entity complying with Tier 1 and the investor is an entity complying with Tier 2.

Amendments to AASB 131

9 Paragraphs 2 and 6 are amended as follows (new text is underlined and deleted text is struck through):

2 A venturer with an interest in a jointly controlled entity is exempted from paragraphs 30 (*proportionate consolidation*) and 38 (*equity method*) when it meets the following conditions:

- (a) ...
- (b) **the exception in paragraph 10, as modified by paragraphs Aus10.1 and Aus10.2, of AASB 127 *Consolidated and Separate Financial Statements* allowing a parent that also has an interest in a jointly controlled entity not to present consolidated financial statements is applicable; or**
- (c) **all of the following apply:**
 - ...
 - (iv) **the ultimate Australian or any intermediate parent of the venturer produces consolidated financial statements available for public use that comply with ~~Australian equivalents to IFRSs~~ International Financial Reporting Standards.**

6 Entities that are exempted in accordance with paragraphs 10, ~~and~~ Aus10.1 and Aus10.2 of AASB 127 from consolidation ...

10 Paragraph Aus2.1 is added as follows:

- Aus2.1 Notwithstanding paragraph 2(c)(iv), a venturer that meets the criteria in paragraphs 2(c)(i), 2(c)(ii) and 2(c)(iii) need not apply proportionate consolidation or the equity method in accounting for an interest in a jointly controlled entity if its ultimate or any intermediate parent produces consolidated financial statements available for public use and its ultimate or any intermediate parent:**
- (a) **and the venturer are:**
 - (i) **both entities complying with Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements; or**
 - (ii) **both not-for-profit entities complying with Tier 1: Australian Accounting Standards; or**
 - (b) **is a not-for-profit entity complying with Tier 1 and the venturer is an entity complying with Tier 2.**

BASIS FOR CONCLUSIONS

The Basis for Conclusions accompanies, but is not part of, AASB 2010-X.

Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in ED 205 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation*. Individual Board members gave greater weight to some factors than to others.

Significant Issues

- BC2 Paragraph 10 of AASB 127 *Consolidated and Separate Financial Statements* (in common with IAS 27 *Consolidated and Separate Financial Statements*) provides relief from preparing consolidated financial statements for parents that meet four criteria, including having an ultimate parent or any intermediate parent that prepares IFRS-compliant group financial statements.
- BC3 Due to the addition of Aus paragraphs in IFRSs as adopted in Australia, and the introduction of Reduced Disclosure Requirements (RDR), some entities applying Australian Accounting Standards are not IFRS compliant. This means that a parent that has an ultimate parent or other intermediate parent that is a not-for profit group applying Aus paragraphs or is a group that uses the RDR does not have access to the 'relief' provided in paragraph 10 of AASB 127 even though the criteria in paragraphs 10(a) to 10(c) are met.
- BC4 Similarly, investors need not apply the equity method when they meet the four criteria in paragraph 13(c) of AASB 128 *Investments in Associates* and venturers need not apply proportionate consolidation or the equity method when they meet the four criteria in paragraph 2(c) of AASB 131 *Interests in Joint Ventures*. The criteria in paragraph 10 of AASB 127, paragraph 13(c) of AASB 128 and paragraph 2(c) of AASB 131 are similar.
- BC5 The AASB considered this matter and developed a view that relief from consolidation, the equity method and proportionate consolidation should be available to a parent, investor or venturer if it:
- (a) has a parent higher up in the group that prepares consolidated financial statements available for public use incorporating the information that would otherwise have been presented in the

parent's consolidated financial statements or the investor's or venturer's financial statements; and

- (b) meets the relevant criteria in paragraphs 10(a) to 10(c) of AASB 127, paragraphs 13(c)(i) to 13(c)(iii) of AASB 128 and paragraphs 2(c)(i) to 2(c)(iii) of AASB 131.

BC6 The Board's view is based on the principle that financial statement users would be able to satisfy their information needs through the consolidated financial statements prepared by the parent higher up in the group. The Board decided that such relief should not be available in relation to the General Government Sector (GGS) of each Federal, State and Territory Government due to the unique circumstances related to the GGS, its relationship to the whole of government and its macro-economic significance. Accordingly, the proposals in this Exposure Draft would not amend the partial consolidation basis for GGS financial statements required by AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

BC7 During its deliberations, the AASB noted that a related issue was considered by the Financial Reporting Standards Board of New Zealand (FRSB) in December 2008. This was in relation to the requirement in paragraph 10(d) of NZ IAS 27 *Consolidated and Separate Financial Statements* that the parent's financial statements must be 'available for public use'. Due to the reporting requirements in New Zealand, not all entities are required to file their financial statements with the Companies Office. Hence, when a parent of a group is not required to submit its financial statements, any intermediate subsidiaries were unable to use the paragraph 10 exemption. As a result, the FRSB decided to insert the following paragraph into NZ IAS 27:

"NZ 3.1 Entities which qualify for differential reporting concessions in accordance with the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* (2005) are not required to comply with paragraph 10(d) which permits a parent not to present consolidated financial statements if "the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with New Zealand equivalents to International Financial Reporting Standards". In order to qualify for the exemption not to present consolidated financial statements, qualifying entities must still comply with all the other conditions in paragraph 10."

- BC8 In addition, the AASB noted that the FRSB had inserted a similar exemption in NZ IAS 28 *Investments in Associates* (paragraph NZ1.2) and in NZ IAS 31 *Interests in Joint Ventures* (paragraph NZ1.1), extending the relief from application of the equity method by investors and proportionate consolidation or the equity method by venturers.
- BC9 The AASB has not taken the FRSB's approach given the specific nature of the issue faced by the AASB and the different financial reporting framework in New Zealand, including its differential reporting framework that involves modifications to the recognition and measurement requirements of IFRSs.
- BC10 Consistent with IAS 27, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*, the AASB agreed to keep the existing relief provided under paragraph 10 of AASB 127, paragraph 13(c) of AASB 128 and paragraph 2(c) of AASB 131. The Board also agreed that, consistent with paragraph 10(d) of AASB 127, the references to 'Australian equivalents to IFRSs' in paragraph 13(c)(iv) of AASB 128 and paragraph 2(c)(iv) of AASB 131 should be amended to 'International Financial Reporting Standards'.
- BC11 In developing its principle, the AASB considered and agreed with the accounting treatment in the scenarios outlined in Table A (page 16) in respect of AASB 127.

Table A

Situation 1: Same type of entity – same tier				
Ultimate or Intermediate Parent	FP – Tier 1	FP – Tier 2	NFP – Tier 1	NFP –Tier 2
Parent	FP – Tier 1	FP – Tier 2	NFP – Tier 1 [^]	NFP –Tier 2
Exemption	Available*	Available [#]	Available [#]	Available [#]
Situation 2: Same type of entity – different tier				
Ultimate or Intermediate Parent	FP – Tier 1	FP – Tier 2	NFP – Tier 1	NFP –Tier 2
Parent	FP – Tier 2	FP – Tier 1	NFP – Tier 2 [^]	NFP –Tier 1
Exemption	Available*	Not available	Available [#]	Not available
Situation 3: Different type of entity – same tier				
Ultimate or Intermediate Parent	FP – Tier 1	FP – Tier 2	NFP – Tier 1	NFP –Tier 2
Parent	NFP – Tier 1	NFP – Tier 2	FP – Tier 1 [^]	FP –Tier 2
Exemption	Available*	Available [#]	Not available	Available [#]
Situation 4: Different type of entity – different tier				
Ultimate or Intermediate Parent	FP – Tier 1	FP – Tier 2	NFP – Tier 1	NFP –Tier 2
Parent	NFP – Tier 2	NFP – Tier 1	FP – Tier 2 [^]	FP –Tier 1
Exemption	Available*	Not available	Available [#]	Not available

FP For-profit entity

NFP Not-for-profit entity

* Exemption already available under AASB 127/IAS 27

[^] Where the entity's NFP parent is able to claim compliance with IFRSs the exemption is already available

[#] Proposed new exemption

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