



**Australian Government**  
**Australian Accounting  
Standards Board**

---

Level 4, 530 Collins Street  
MELBOURNE VIC 3000  
Postal Address  
PO Box 204  
Collins Street West VIC 8007  
Telephone: (03) 9617 7600  
Facsimile: (03) 9617 7608

---

**28 November 2005**

Mr Alan Teixeira  
Senior Project Manager  
The International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Alan

***Amendments to IAS 27 Consolidated and Separate Financial Statements***

The Australian Accounting Standards Board (AASB) is pleased to submit its comments regarding the ED of Proposed Amendments to IAS 27 *Consolidated and Separate Financial Statements* (ED IAS 27).

The AASB sought the views of Australian constituents and has considered the constituent responses received in formulating its comments.

The AASB strongly agrees with the proposed amendments in ED IAS 27.

The AASB's detailed responses to the specific questions accompanying ED IAS 27 are attached.

If you have any queries regarding any matters in this submission, please contact Dean Ardern ([dardern@asb.com.au](mailto:dardern@asb.com.au)) or myself.

Yours sincerely

A handwritten signature in black ink that reads "David Boymal".

David Boymal  
Chairman – Australian Accounting Standards Board

## Amendments to IAS 27 Consolidated and Separate Financial Statements

*Question 1: Draft paragraph 30A proposes that changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as transactions with equity holders in their capacity as equity holders. As a result, no gain or loss on such changes would be recognised in profit or loss (see paragraph BC4 of the Basis for Conclusions).*

*Do you agree? If not, why not and what alternative would you propose?*

Yes.

*Question 2: Paragraph 30D proposes that on loss of control of a subsidiary any non-controlling equity investment remaining in the former subsidiary should be remeasured to its fair value in the consolidated financial statements at the date control is lost. Paragraph 30C proposes that the gain or loss on such remeasurement be included in the determination of the gain or loss arising on loss of control (see paragraph BC7 of the Basis for Conclusions).*

*Do you agree that the remaining non-controlling equity investment should be remeasured to fair value in these circumstances? If not, why not and what alternative would you propose?*

*Do you agree with the proposal to include any gain or loss resulting from such remeasurement in the calculation of the gain or loss arising on loss of control? If not, why not, and what alternative would you propose?*

Yes. In particular, the AASB agrees that when a parent loses control of a subsidiary, amounts recognised directly in equity for the effects of equity transactions with non-controlling interests should be included in the calculation of the gain or loss on the loss of control of the subsidiary. The AASB supports this treatment on the basis that:

- (i) it is consistent with the (IASB) notion that a disposal of a subsidiary is a significant economic event in that the disposal of a subsidiary is effectively a disposal of the underlying assets. Therefore, it is appropriate to recognise in profit or loss all gains or losses associated with the disposal of the underlying assets, and not just the gains and losses associated with the loss of control;
- (ii) classifying transactions with non-controlling interests in a subsidiary as equity transactions is inappropriate when that subsidiary is no longer included in the consolidated equity; and
- (iii) failure to reclassify these amounts from consolidated equity would give rise to a perpetual consolidation adjustment. Because the effects of equity transactions with non-controlling interests have been recognised in the parent entity's profit or loss, a consolidation adjustment would otherwise be required to transfer these amounts to consolidated equity.

**Question 3:** *As explained in Question 1, the Exposure Draft proposes that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control should be treated as transactions with equity holders in their capacity as equity holders. Therefore, no gain or loss would be recognised in profit or loss. However, a decrease in the parent's ownership interest resulting in the loss of control of a subsidiary would result in any gain or loss being recognised in profit or loss for the period. The Board is aware that differences in accounting that depend on whether a change in control occurs could create opportunities for entities to structure transactions to achieve a particular accounting result. To reduce this risk, the Exposure Draft proposes that if one or more of the indicators in paragraph 30F are present, it is presumed that two or more disposal transactions or arrangements that result in a loss of control should be accounted for as a single transaction or arrangement. This presumption can be overcome if the entity can demonstrate clearly that such accounting would be inappropriate (see paragraphs BC9-BC13 of the Basis for Conclusions).*

*Do you agree that it is appropriate to presume that multiple arrangements that result in a loss of control should be accounted for as a single arrangement when the indicators in paragraph 30F are present? Are the proposed factors suitable indicators? If not, what alternative indicators would you propose?*

Yes. The proposed factors are suitable indicators that the transactions or arrangements should be accounted for as a single transaction or arrangement.

**Question 4:** *Paragraph 35 proposes that losses applicable to the non-controlling interest in a subsidiary should be allocated to the non-controlling interest even if such losses exceed the non-controlling interest in the subsidiary's equity. Non-controlling interests are part of the equity of the group and, therefore, participate proportionally in the risks and rewards of investment in the subsidiary.*

*Do you agree with the proposed loss allocation? Do you agree that any guarantees or other support arrangements from the controlling and non-controlling interests should be accounted for separately? If not, why not, and what alternative treatment would you propose?*

Yes. The AASB also agrees that any guarantees or other support arrangements from the controlling and non-controlling interests should be accounted for separately.

***Question 5: The transitional provisions in the Exposure Draft propose that all of its requirements should apply retrospectively, except in limited circumstances in which the Board believes that retrospective application is likely to be impracticable.***

Do you agree that proposed paragraphs 30A, 30C and 30D should apply on a prospective basis in the cases set out in paragraph 43B? Do you believe that retrospective application is inappropriate for any other proposals addressed by the Exposure Draft? If so, what other proposals do you believe should be applied prospectively and why?

The AASB agrees with the application of paragraphs 30A, 30C and 30D on a prospective basis.