

14 January 2010

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street
West Victoria 8007

Exposure Draft 205 *Extending Relief from Consolidation, the Equity method and Proportionate Consolidation*

Dear Mr Stevenson

Ernst & Young Australia is pleased to provide our comments on the AASB's Exposure Draft 205 *Extending Relief from Consolidation, the Equity method and Proportionate Consolidation* (ED 205).

We believe the provision of relief in the circumstances proposed in ED 205 is necessary and appropriate and therefore support its inclusion in Australian Accounting Standards (AAS). Further, we believe the proposed relief addresses all relevant circumstances.

We also consider Table A to be particularly useful in illustrating the application of the proposed relief and believe such a table should be included in AAS. For example, as an Aus Appendix to, say, AASB 127 *Consolidated and Separate Financial Statements*.

Whilst we are supportive of the proposed relief we have some concerns with the proposed application paragraphs.

Firstly, whilst the proposed relief makes reference to Tier 1 and Tier 2 of the Reduced Disclosure Requirements (RDR) regime, we note that the requirements regarding early adoption under ED 205 and AASB 1053 *Application of Tiers of Australian Accounting Standards* are not aligned.¹ In particular, ED 205 proposes that its amendments may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2011. However, AASB 1053 does not permit early adoption for annual reporting periods that begin before 1 July 2009. This would appear to suggest that entities complying with Tier 2 cannot apply the proposed relief in ED 205 to annual reporting periods that begin before 1 July 2009 because it is not possible to apply AASB 1053 prior to that date. We acknowledge that for many entities application to annual reporting periods that begin before 1 July 2009 is unlikely. However, we believe that the misalignment of early adoption requirements may present a source of confusion for those entities that may want to avail themselves of the proposed relief in ED 205 for

¹ Application paragraphs within ED 205 and AASB 1053 are reproduced in Appendix A.

annual reporting periods that begin *before* 1 July 2009. To alleviate this confusion we believe that any amending standard arising from ED 205 should explicitly state that entities complying with Tier 2 may apply the proposed relief to annual reporting periods on or after 1 July 2009 but before 1 July 2013. This ultimately aligns the application requirements of ED 205 and AASB 1053 such that early adoption of ED 205 for those complying with Tier 2 is not permitted for annual reporting periods that begin before 1 July 2009 - consistent with AASB 1053. Further, we believe that it should be clarified that this amendment can only be early adopted if AASB 1053 is early adopted and vice versa.

Our second concern with the proposed application paragraphs relates to not-for-profit (NFP) entities. Consistent with the objective of ED 205, we believe it is appropriate that relief be provided to a NFP parent, investor or venturer that has an Australian NFP 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 NFP parent's consolidated financial statements or the NFP investor's or venturer's financial statements. However, we are concerned that the reference to the RDR regime in the proposed relief and the misalignment of early adoption requirements for ED 205 and AASB 1053 may cause confusion as to whether NFP groups complying with *all* requirements within AAS (i.e. Tier 1 under the RDR regime) may avail themselves of the proposed relief for annual reporting periods beginning before 1 July 2009. To alleviate this confusion we believe that any amending standard arising from ED 205 should explicitly state that NFP entities complying with *all* requirements within AAS may apply the proposed relief to annual reporting periods on or after 1 January 2005 but before 1 July 2011.

We believe that our concerns above may be best addressed by developing separate early adoption paragraphs for (1) entities complying with Tier 2 and (2) NFP entities complying with all requirements within AAS.

Finally, the proposed application paragraph 4 within ED 205 states:

"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. ..."

Whilst we agree with the proposal to also require early adoption of AASB 2007-4 we note that there is no other mention of AASB 2007-4 throughout the ED. Further, AASB 2007-4 is no longer available on the AASB website, making it difficult to obtain the details of this amendment. To assist preparers we believe that any amending standard arising from ED 205 should include commentary on the nature of the amendments that arose from AASB 2007-4.

We would be pleased to discuss our comments further with you. Please contact either Lynda Tomkins (lynda.tomkins@au.ey.com or (02) 9276 9605) or Tony Donnelly (tony.donnelly@au.ey.com or (03) 9288 8522) if you wish to discuss any of the matters raised in this response.

Yours sincerely



Ernst & Young

Appendix A: Application paragraphs within ED 205 and AASB 1053

ED205 proposes the following application paragraphs:

- 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.

AASB 1053 contains the following in relation to its application:

- 3 This Standard applies to annual reporting periods beginning on or after 1 July 2013.
 - 4 This Standard may be applied to annual reporting periods beginning on or after 1 July 2009 but before 1 July 2013. When an entity applies this Standard to such an annual reporting period it shall disclose that fact.
- BC95 However, the Board decided to allow early adoption of Tier 2 requirements for those entities that want to avail themselves of the reduced disclosure requirements under that Tier before the mandatory application date of 1 July 2013. Early adoption is permitted for annual reporting periods that begin on or after 1 July 2009 but before 1 July 2013. *The Board decided not to permit early adoption for annual reporting periods that begin before 1 July 2009 due to the difficulty of identifying relevant Standards applying to those earlier periods and making consistent judgments as to which disclosures in those Standards would be applicable under Tier 2.* (Italicised for emphasis)