

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street
West Victoria 8007

24 November 2014

Invitation to comment on AASB Exposure Draft Financial Reporting Requirements for Australian Groups with a Foreign Parent (ED 255)

Dear Ms Peach

Ernst & Young Australia is pleased to provide comments on the AASB's Exposure Draft 255 *Financial Reporting Requirements for Australian Groups with a Foreign Parent* (the 'ED').

Ernst & Young is supportive of the proposal in ED 255 to align the exemption from applying the equity method of accounting in AASB 128 *Investments in Associates and Joint Ventures* with the exemption from preparing consolidated financial statements in AASB 10 *Consolidated Financial Statements*.

While we support the AASB's proposal to align the exemption requirements of AASB 128 and AASB 10, we consider that the proposed drafting of the amendment to AASB 128 in the ED is open to differences in interpretation and could result in instances where the exemption requirements of the two Standards are applied in an inconsistent manner.

Our detailed responses to specific questions in the invitation to comment are set out in the Appendix to this letter.

We support the AASB's stated intention to conduct further research before deciding whether to undertake a project to reconsider whether to limit the exemptions in AASB 10 and AASB 128 from presenting consolidated financial statement or applying the equity method of accounting to parent entities other than the ultimate Australian parent.

We would be pleased to discuss our comments further with you. Please contact Charles Feeney (charles.feeney@au.ey.com or (02) 9248 4665) or Sian Morgan (sian.morgan@au.ey.com or (02) 92485873) if you wish to discuss any of the matters in this response.

Yours sincerely



Ernst & Young

APPENDIX 1: Response to questions

The AASB has requested responses to the following matters:

- 1. Whether you agree with the proposal to require the ultimate Australian entity to apply the equity method in accounting for an interest in an associate or joint venture.**

Ernst & Young is supportive of the proposal in ED 255 to align the exemption from applying the equity method of accounting in AASB 128 *Investments in Associates and Joint Ventures* with the exemption from preparing consolidated financial statements in AASB 10 *Consolidated Financial Statements*.

While we support the AASB's proposal to align the exemption requirements of AASB 128 and AASB 10, we consider that the proposed drafting of the amendment to AASB 128 in the ED is open to differences in interpretation and could result in instances where the exemption requirements of the two Standards are applied in an inconsistent manner.

The ED proposes to amend AASB 128 as follows:

Aus17.2 Notwithstanding paragraphs 17 and Aus17.1, the ultimate Australian parent of the entity shall apply the equity method of accounting for interests in associates and joint ventures in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities.

Paragraph 4 of AASB128 refers to the definition of parent in Appendix A of AASB 10. Parent is defined in that Standard as "An entity that controls one or more entities". In the context of AASB 128, entity is used to refer to the investor in an associate or joint venture.

The proposed wording contained in the ED would limit the exemption from applying the equity method of accounting contained in paragraphs 17 and Aus17.1 of AASB 128 so that it is not available to the ultimate Australian parent entity. To this extent the requirements are aligned with the limitation of the exemption from applying consolidated financial statements contained in AASB 10.

The drafting of the amendment refers to an ultimate Australian parent and therefore the limitation of the exemption would not extend to a reporting entity which holds an investment in an associate or joint venture which does not meet the definition of a parent. Consequently, an Australian non-parent reporting entity may be able to rely on the exemption from applying the equity method of accounting on the basis that an ultimate or intermediary foreign parent prepares consolidated financial statements in accordance with IFRS.

In the Basis of Conclusions for ED 255, it is noted that the superseded AASB 128 *Investments in Associates* (July 2004) included relief from applying the equity method in accounting for an interest in an associate or joint venture but limited the relief to parent entities other than the ultimate Australian parent entity. BC4 states that the proposed amendment is consistent with the limitation of relief previously available to entities under the superseded AASB 128. We note that due to the drafting of the exemption in the superseded AASB 128, a non-parent investor in an associate or joint venture would not have been entitled to the relief if they did not possess an Australian parent, this is inconsistent with the proposed amendment in ED 255.

We consider that a reporting entity which is the ultimate Australian investor in an associate or joint venture but which does not meet the definition of a parent should be unable to rely on the consolidated accounts of a foreign parent in order to avail itself of the relief from applying the equity method of accounting if the exemption limitations of AASB 10 and AASB 128 are to be aligned.

We consider the AASB should assess whether it is appropriate to extend the proposed limitation to the exemption requirements of AASB 128 to non-parent Australian reporting entities if they do not possess an Australian parent.

2. Whether you agree with the proposed transitional provisions and application date.

We agree with the proposed application date.

3. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(a) Not-for-profit entities; and

(b) Public sector entities, including GAAP/GFS implications

We are not aware of any current regulatory issues that may affect the implementation of these proposals for public sector and not-for-profit entities.

4. Whether, overall, the proposals would result in financial statements that would be useful to users.

We consider that the alignment of the relief from preparing consolidated financial statements and applying the equity method of accounting would result in financial statements that would be more useful to users. We refer however to our response to matter 1, above, which highlights our concern as to the drafting of the amendment.

5. Whether the proposals are in the best interests of the Australian economy.

We consider the proposals are generally in the best interests of the Australian economy.

6. Unless already provided in response to specific matters for comment 1-5 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

We do not expect costs to be significantly impacted by the proposals given that the information required for the application of the equity method of accounting will be required for the consolidated financial statements of an ultimate or intermediate parent of the reporting entity. Our expectation is that in the majority of cases the information would be readily available for preparers at minimal additional cost.