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Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

28 January 2022

AASB Exposure Draft 315 *Extending Transition Relief under AASB 1*

Dear Dr Kendall

Ernst & Young is pleased to comment on the above Exposure Draft. We welcome the opportunity to contribute to the future of financial reporting in Australia.

We support extending the transition relief in AASB 1 to allow subsidiaries to apply the exemption in AASB 1 where its parent has adopted either Australian Accounting Standards (AAS) or International Financial Reporting Standards (IFRS).

We are concerned with the scoping of the other amendments in AASB 1053 as they are unnecessarily restricted to when an entity transitioning did not previously prepare consolidated financial statements solely because neither the entity nor its parent was a reporting entity. There can be other situations where an entity becomes a first-time adopter for its separate financial statements at different dates than its consolidated financial statements, and in such situations an entity should also be required to apply AASB 1.

Please refer to our detailed responses on the above and other questions raised in the Exposure Draft in the appendix to this letter.

We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact Frank Palmer on (02) 9248 5555 or Kalaselvi Kandiah on (03) 9288 8034.

Yours sincerely

Ernst + Young

Ernst & Young

Appendix A

Responses to Specific matters for comment

1. **Do you agree with the proposed amendments to AASB 1 and AASB 1053? If you disagree, please explain why.**

   AASB 1

   We agree with the proposed amendments to AASB 1. However, we think that similar reference to IFRS should also be made to paragraph D13A of AASB 1 (as amended by AASB 2020-3), where it refers to transition to AAS as per extract below:

   > "…a subsidiary that uses the exemption in paragraph D16(a) may elect, in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Australian Accounting Standard…"

   We also consider that it would be helpful to clarify, by adding an Australian specific paragraph, that the "..carrying amounts as in the financial statements of the subsidiary.." mentioned in paragraph D17 of AASB 1 can be AAS or IFRS compliant. If not clarified, given the definition of *first-time adopter* refers to AAS, paragraph D17 would be limited to parents with subsidiaries that applied AAS.

   AASB 1053

   We do not consider that a specific amendment is required. The proposed amendment, particularly paragraph 20A(b), is too narrow as it appears to limit the application of AASB 1 to situations where an entity did not present consolidated financial statements because neither the parent nor the group was a reporting entity. We think there may be other situations where an entity becomes a first-time adopter for its consolidated financial statements later than its separate financial statements. For example, a parent might have availed itself of the exemption under paragraph 4 of AASB 10 from preparing consolidated financial statements and only prepared separate financial statements under AAS. Subsequently, the parent may cease to be entitled to the exemption or may choose not to use it, and we consider that the entity should be required to apply AASB 1 in its first AAS compliant consolidated financial statements as noted in EY iGAAP 2021, Chapter 5, section 5.9.4 (refer Appendix B).

   However, to be helpful, the Board could explain in its Basis for Conclusions that an entity should apply AASB 1 for the first-time adoption of its separate financial statements and, if at different dates, then also for its consolidated financial statements.

2. **Do you think any unintended consequences might arise from the proposed amendments? If yes, please explain what they are.**

   Refer to our responses to Question 1.

3. **Do you have any other comments on the proposals?**

   No.

Responses to General matters for comment

4. **Whether the *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-for-Profit Entity Standard-Setting Framework* have been applied appropriately in developing the proposals in this Exposure Draft?**

   Generally, yes. However, refer to our responses to Question 1 on the specific amendments proposed.

5. **Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?**

   Other than the issues raised in our responses to Question 1, we are not aware of any regulatory or other issues that may affect the implementation of the proposals.

6. **Whether the proposals would create any auditing or assurance challenges?**

   We do not see any audit or assurance challenges arising out of the proposals.

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

   We believe the proposals in the ED will result in financial statements that will be useful to users, subject to our responses to Question 1.

8. **Whether the proposals are in the best interests of the Australian economy?**

   We consider the proposals are in the best interest of the Australian economy.

9. **Costs and benefits of the requirements relative to current requirements, whether quantitative (financial or non-financial) or qualitative?**

   We consider that the proposed amendments in ED 315 would result in cost savings for some first-time adopters.

Appendix B

EY iGAAP 2021 Extract, Chapter 5 First-time adoption

5.9.4 Adoption of IFRSs on different dates in separate and consolidated financial statements

An entity may sometimes become a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements. Such a situation may arise, for example, when a parent avails itself of the exemption under paragraph 4 of IFRS 10 from preparing consolidated financial statements and prepares its separate financial statements under IFRSs (see Chapter 6 at 2.2). [IFRS 10.4]. Subsequently, the parent may cease to be entitled to the exemption or may choose not to use it and would, therefore, be required to apply IFRS 1 in its first IFRS consolidated financial statements.

Another example might be that, under local law, an entity is required to prepare its consolidated financial statements under IFRSs, but is required (or permitted) to prepare its separate financial statements under local GAAP. Subsequently the parent chooses, or is required, to prepare its separate financial statements under IFRSs.

If a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it must measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments. [IFRS 1.D17]. As drafted, the requirement is merely that the 'same' amounts be used, without being explicit as to which set of financial statements should be used as the benchmark. However, it seems clear from the context that the IASB intends that the measurement basis used in whichever set of financial statements first comply with IFRSs must also be used when IFRSs are subsequently adopted in the other set.