Australian Government
Australian Accounting Standards Board

Cover Memo

Project:	**Australian Financial Reporting Framework**	**Meeting:**	AASB November 2021 (M184)
Topic:	**First-time adoption of AASB 1 by a subsidiary**	**Date of this paper:**	26 October 2021
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		Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Pre-ballot draft Exposure Draft

Objectives of this agenda item

1 The objective of this agenda item is for the Board to **consider** a pre-ballot draft version of Exposure Draft ED 3XX *Application of AASB 1 by an Australian Subsidiary of an Overseas Parent – Transition Relief* and **provide** feedback to staff.

Attachments

Agenda paper 14.2 Pre-ballot Draft: Exposure Draft ED 3XX *Application of AASB 1 by an Australian Subsidiary of an Overseas Parent – Transition Relief*

Background and reasons for bringing this agenda item to the Board

2 From 1 July 2021, certain for-profit-private sector entities can no longer prepare special purpose financial statements (SPFS) following the issue of AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. Instead, entities within the scope of AASB 2020-2 will be required to prepare general purpose financial statements (GPFS). Some of these entities may also be required to prepare consolidated financial statements for the first time if they historically applied the exemption in AASB 10 *Consolidated Financial Statements*.[1]

Optional exemption relating to the measurement of the assets and liabilities of subsidiaries, associates and joint ventures

3 One subset of entities affected by the removal of SPFS is foreign-controlled proprietary companies. In many cases, these entities are subsidiaries of an overseas parent that prepares consolidated financial statements that include information about the entity and comply with IFRS Standards.

4 At the September AASB meeting,[2] the Board discussed the optional exemption in AASB 1 *First-time Adoption of Australian Accounting Standards* paragraph D16(a) that permits a

1 The exemption in AASB 10 paragraph AusCFAus4.2 (as applicable to for-profit private sector entities prior to 1 July 2021) did not require the presentation of consolidated financial statements if neither the ultimate Australian parent entity nor the group were reporting entities.

2 See AASB Action Alert Issue No 210 for a summary of the Board's key decisions at the September AASB meeting.

subsidiary that becomes a first-time adopter later than its parent to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements.[3] The Board discussed whether the optional exemption could be applied where a parent had adopted IFRS Standards instead of Australian Accounting Standards.

5 The Board confirmed the exemption is currently only available where the entity's parent has adopted Australian Accounting Standards and cannot be applied where the parent adopted IFRS Standards instead.

6 However, the ability to use the information included in the parent's IFRS Standards-compliant financial statements on transition is expected to be helpful to subsidiaries in preparing their first Australian-Accounting-Standards financial statements.

7 For example, using this information would save the entity time, as on transition they would not need to:

(a) remeasure their assets and liabilities at the date of transition to Australian Accounting Standards;

(b) apply AASB 1 to any historical business combinations; or

(c) apply Australian Accounting Standards retrospectively where required by certain Australian Accounting Standards (e.g., AASB 16 *Leases*, if a modified retrospective approach to transition is adopted).

Instead, the entity would use the information already included in the overseas parent's consolidated financial statements.

8 Further, the entity would not be required to keep two parallel sets of accounting records (i.e. one based on the parent entity's date of transition to IFRS Standards and one based on the subsidiary's date of transition to Australian Accounting Standards).[4]

9 Accordingly, the Board tentatively decided to propose an amendment to AASB 1 to allow affected entities to apply the exemption in AASB 1 where their parent has adopted either Australian Accounting Standards or IFRS Standards.

<u>Scope</u>

10 Although the initial consideration of when the optional exemption could be applied (i.e. whether the exemption could be applied where a parent has adopted IFRS Standards, instead of Australian Accounting Standards) was in the context of entities transitioning from SPFS following the issue of AASB 2020-2, the scope of the proposed amendment is not limited to for-profit private sector entities. That is, the proposed amendment could be applied by a for-profit or a not-for-profit entity that becomes a first-time adopter of Australian Accounting Standards later than its parent. This is because the objective of the optional exemption applies equally to all types of entities.

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3 The optional exemption in AASB 1 paragraph D16(a) is also available to an associate or joint venture that becomes a first-time adopter later than the entity that has significant influence or joint control over it. Where this is the case, a reference to 'parent' is to be read as a reference to 'investor' and a reference to 'subsidiary' is to be read as a reference to 'associate' or 'joint venture'.

4 When the IASB included the optional exemption in IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the objective of the exemption was to eliminate the need for subsidiaries to keep two parallel sets of records, which would be burdensome and not beneficial to users. The exemption was also expected to ease some practical problems associated with the transition to IFRS Standards. The IASB was also of the view that the exemption would not diminish the relevance and reliability of the subsidiary's financial statements because it permits a measurement that is already acceptable in accordance with IFRS Standards in the consolidated financial statements of the parent.

Entities transitioning to consolidated Tier 2 – Simplified Disclosures financial statements

11 Another subset of entities affected by the removal of SPFS is entities that were preparing unconsolidated GPFS (Tier 2 – Reduced Disclosure Requirements). That is, the GPFS complied with all the recognition and measurement requirements in Australian Accounting Standards without presenting consolidated financial statements. These entities include some Significant Global Entities (SGEs).

12 SGEs are required to prepare GPFS to comply with their SGE obligations to the Australian Taxation Office. However, some SGEs maintained they were non-reporting entities. Therefore, if a parent entity, they continued to apply the exemption in AASB 10 that did not require the presentation of consolidated financial statements if neither the parent entity nor the group was a reporting entity.

13 However, as the 'reporting entity' definition in Australian Accounting Standards no longer applies to certain for-profit private sector entities, including SGEs, from 1 July 2021, these entities can no longer apply the consolidation exemption in AASB 10. Instead, they will be required to prepare consolidated financial statements for the first time.

14 These entities were not required to present consolidated financial statements in prior periods. Their most recent Tier 2 GPFS complied with all relevant recognition and measurement requirements in Australian Accounting Standards. Therefore, they cannot apply AASB 1 when preparing consolidated GPFS for the first time.

15 At the September AASB meeting, the Board discussed the transition relief in AASB 1053 (paragraph 18A(b)) that allows entities that were preparing SPFS on the same basis (i.e., their SPFS complied with all the recognition and measurement requirements in Australian Accounting Standards, without presenting consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity) to apply AASB 1, including the relief for the first-time preparation of consolidated financial statements set out in Appendix C, to their transition.

16 The Board also discussed the absence of specific guidance provided under Australian Accounting Standards for entities in this situation (i.e. transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS).

17 Therefore, at the September AASB meeting, the Board tentatively decided to propose extending the transition relief to also allow for-profit private sector entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier2 – Simplified Disclosures GPFS to apply AASB 1, when preparing consolidated financial statements for the first time.

<u>Scope</u>

18 As NFP entities are not affected by the removal of SPFS and the reporting entity definition in Australian Accounting Standards at this stage, the proposed transition relief is consistent with the scope of AASB 2020-2. The transition relief is, therefore, limited to certain for-profit private sector entities only.

Proposed effective date

19 Affected entities are those entities required to transition from SPFS/unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS from 1 July 2021 following the issue of AASB 2020-2.

Therefore, at the September meeting, the Board tentatively decided that the proposed amendments should be effective for annual periods ending on or after 30 June 2022.[5]

Questions for Board members

Q1	Do Board members agree with the scope of the proposed amendments as summarised in paragraphs 10 and 18? If not, what do Board members suggest?
Q2	Do Board members have any comments on the pre-ballot draft version of ED 3XX in Agenda Paper 14.2?

Next Steps

20 Subject to Board member agreement with the staff recommendations in this paper, staff suggest the following timeline:

Incorporating any feedback received from Board members at the November AASB meeting, staff will prepare a ballot draft version of the Exposure Draft (for out-of-session approval via the Chair or sub-committee).	Week commencing 15 November 2021
Exposure Draft to be issued	No later than 25 November 2021
Comments on the Exposure Draft due (60-day comment period).	27 January 2022
Staff to analyse feedback received and prepare a pre-ballot draft version of an Amending Standard for consideration at the February AASB meeting.	23/24 February 2022
Staff to finalise a ballot draft version of the Amending Standard, incorporating any feedback received at the February AASB meeting.	Week commencing 7 March 2022
Staff to circulate a ballot draft version of the Amending Standard for out-of-session voting (two-week voting period).	Week commencing 14 March 2022
Comments on the ballot draft version of the Amending Standard are due.	28 March 2022
Staff to finalise and issue the Amending Standard.	Week commencing 11 April 2022

Questions for Board members	
Q3	Do Board members have any comments on the suggested next steps and timeline?

5 Staff note that this date is different to the application date of AASB 2020-2 (periods beginning on or after 1 July 2021). However, the Board is unable to issue an Australian Accounting Standard where the effective date has already passed. Therefore, an application date of periods ending on or after 30 June 2022 is appropriate as that would, in substance, cover the same group of affected entities as most entities with a reporting period ending on or after 30 June 2022 would be expected to have a reporting period that began on or after 1 July 2021.