

Basis for Conclusions on AASB 2011-5 and AASB 2011-6

This Basis for Conclusions accompanies, but is not part of, AASB 128. The Basis for Conclusions was originally published with AASB 2011-6 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in AASB 2011-5 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* and AASB 2011-6 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements*. Individual Board members gave greater weight to some factors than to others.

Background

BC2 Paragraph 10 of AASB 127 *Consolidated and Separate Financial Statements* (in common with IAS 27 *Consolidated and Separate Financial Statements*) provides relief from preparing consolidated financial statements for parents that meet four criteria, including having an ultimate parent or an intermediate parent that prepares IFRS-compliant consolidated financial statements (paragraph 10(d)).

BC3 Due to the addition of Aus paragraphs in IFRSs as adopted in Australia, the financial statements of some entities applying Australian Accounting Standards are not IFRS compliant. This means that a parent that has an ultimate parent or other intermediate parent that prepares non-IFRS-compliant consolidated financial statements does not have access to the exemption from consolidation provided in paragraph 10 of AASB 127, even if the criteria in paragraphs 10(a) to 10(c) are met.

BC4 Similarly, investors need not apply the equity method when they meet the four criteria in paragraph 13(c) of AASB 128 *Investments in Associates* and venturers need not apply proportionate consolidation or the equity method when they meet the four criteria in paragraph 2(c) of AASB 131 *Interests in Joint Ventures*. The criteria in paragraph 10 of AASB 127, paragraph 13(c) of AASB 128 and paragraph 2(c) of AASB 131 are similar.

BC5 Consequently, the exemptions from the equity method and proportionate consolidation are also not available under those paragraphs to an investor or a venturer when its ultimate parent or intermediate parent prepares non-IFRS-compliant consolidated financial statements.

BC6 The AASB issued Exposure Draft ED 205 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* in September 2010. The AASB considered the submissions received from constituents and confirmed the principal approach proposed in the Exposure Draft.

New Zealand approach

BC7 During its development of ED 205, the AASB noted that a related issue was considered by the Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants in December 2008. This concerned the requirement in paragraph 10(d) of NZ IAS 27 *Consolidated and Separate Financial Statements* that the parent’s financial statements must be ‘available for public use’. Due to the reporting requirements in New Zealand, not all entities are required to file their financial statements with the Companies Office. Hence, when a parent of a group is not required to submit its financial statements, any intermediate subsidiaries were unable to use the paragraph 10 exemption. As a result, the FRSB inserted paragraph NZ 3.1 into NZ IAS 27 so that entities that qualify for differential reporting concessions were not required to comply with paragraph 10(d). In order to qualify for the exemption not to present consolidated financial statements, qualifying entities were still required to comply with all the other conditions in paragraph 10.

BC8 In addition, the AASB noted that the FRSB had inserted a similar exemption into NZ IAS 28 *Investments in Associates* (paragraph NZ 1.2) and NZ IAS 31 *Interests in Joint Ventures* (paragraph NZ 1.1), extending the relief from application of the equity method by investors and proportionate consolidation or the equity method by venturers.

BC9 The AASB did not follow the FRSB’s specific approach for qualifying entities, given the different issues faced by the two Boards and the different financial reporting framework in New Zealand, including its

differential reporting framework that involves modifications to the recognition and measurement requirements of IFRSs.

Extending the exemptions

- BC10 The AASB considered the limitations on the exemptions and developed a view that relief from consolidation, the equity method and proportionate consolidation should be extended to a not-for-profit or Tier 2 parent, investor or venturer if it:
- (a) has a parent higher up in the group that prepares consolidated financial statements (whether or not IFRS-compliant) that are available for public use and:
 - (i) those consolidated financial statements incorporate the information that would otherwise have been presented in the parent's consolidated financial statements or the investor's or venturer's financial statements; or
 - (ii) the parent, investor or venturer is an entity complying with Australian Accounting Standards – Reduced Disclosure Requirements ('Tier 2'); and
 - (b) meets the criteria in paragraphs 10(a) to 10(c) of AASB 127, paragraphs 13(c)(i) to 13(c)(iii) of AASB 128 or paragraphs 2(c)(i) to 2(c)(iii) of AASB 131, as relevant.
- BC11 This view is based on the principle that financial statement users would be able to satisfy their information needs through the consolidated financial statements prepared by the parent higher up in the group. However, the AASB decided that such relief should not be available in relation to the General Government Sector (GGS) of each Federal, State and Territory Government due to the unique circumstances related to the GGS, its relationship to the whole of government and its macro-economic significance. The AASB also decided that the partial consolidation basis for GGS financial statements required by AASB 1049 *Whole of Government and General Government Sector Financial Reporting* would not be amended.
- BC12 Consistent with IAS 27, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*, the AASB decided that the existing relief provided under paragraph 10 of AASB 127, paragraph 13(c) of AASB 128 and paragraph 2(c) of AASB 131 should be retained. The extension of relief on the basis set out in paragraph BC10 does not change the present requirements for relief when the ultimate or intermediate parent is a for-profit Tier 1 entity – that entity is still required to prepare IFRS-compliant consolidated financial statements.

Not-for-profit ultimate or intermediate parent

- BC13 When the ultimate or intermediate parent is a not-for-profit Tier 1 entity, and the parent, investor or venturer is a for-profit Tier 1 entity, the relief is not available where there are differences in the basis of accounting between the not-for-profit and for-profit entities as a result of the not-for-profit entity applying Standards or Aus paragraphs that contain requirements that are inconsistent with IFRS requirements. Extending relief to the for-profit Tier 1 parent, investor or venturer in this case would be beyond the scope of the relief available under IFRSs. However, the relief is available when the not-for-profit entity is not required to apply such inconsistent requirements. This is indicated by footnote to the table in paragraph AG1 of the Australian application guidance added to AASB 127. In this case, the for-profit Tier 1 entity would be able to claim compliance with IFRSs in that the relief is within the scope of the relief available under IFRSs.
- BC14 The AASB considered the extension of relief to a for-profit Tier 2 parent, investor or venturer that has a not-for-profit ultimate or intermediate parent. The table in the Basis for Conclusions in ED 205 proposed that relief should be available to a parent, investor or venturer in these circumstances, which appears to be inconsistent with the circumstances addressed in paragraph BC13. The AASB considered three approaches to addressing the apparent inconsistency:
- (a) amend the table proposed in ED 205 to indicate that the relief would not be available;
 - (b) retain the approach proposed in ED 205, that the relief would be available, and extend the justification in the Basis for Conclusions for this position; or
 - (c) retain the approach proposed in ED 205 with no amendment to the justification.
- BC15 The AASB adopted the approach in paragraph BC14(b), extending the relief, based on its judgement that the relief would be reasonable for Tier 2 parents, investors or venturers despite any differences in the basis of accounting in the consolidated financial statements of the ultimate or intermediate parent that are publicly available. Typically, the not-for-profit ultimate or intermediate parent would not be able to claim compliance with IFRSs, and the Tier 2 parent, investor or venturer could not do so.

For-profit public sector entities

- BC16 The AASB decided that relief would not be available to a parent entity merely because the intermediate parent preparing consolidated financial statements is a for-profit Tier 1 public sector entity unable to claim compliance with IFRSs. This decision was made on the basis that a for-profit public sector entity may apply requirements in particular Standards, such as AASB 1004 Contributions, and Aus paragraphs in other Australian Accounting Standards that are inconsistent with an IFRS requirement. However, relief may be available to the parent entity on another basis permitted by the Standard.
- BC17 Relief is (or is not) available to a for-profit public sector entity as the parent, investor or venturer on the same basis as for any other for-profit parent, investor or venturer.

Other changes

- BC18 The AASB also decided that, consistent with paragraph 10(d) of AASB 127, the references to ‘Australian equivalents to IFRSs’ in paragraph 13(c)(iv) of AASB 128 and paragraph 2(c)(iv) of AASB 131 should be amended to ‘International Financial Reporting Standards’.
- BC19 The AASB decided to include the summary table set out in the Basis for Conclusions in the Exposure Draft as Australian application guidance accompanying, but not part of, the amended AASB 127. Whereas the table in the Exposure Draft addressed relief in relation to both not-for-profit entities and entities applying reduced disclosure requirements under AASB 1053 *Application of Tiers of Australian Accounting Standards*, the table added to the AASB 127 guidance by AASB 2011-5 addresses not-for-profit entities but not reduced disclosure requirements.

Reduced disclosure requirements

- BC20 Exposure Draft ED 205, in addition to addressing relief for not-for-profit entities, also proposed the extension of relief to entities applying Australian Accounting Standards – Reduced Disclosure Requirements under AASB 1053. The AASB decided that relief should be extended to Tier 2 entities, either on the same basis as for not-for-profit entities or as addressed in paragraphs BC14 and BC15. Accounting Standard AASB 2011-6 provides this relief. That Standard also expands the table in the Australian application guidance accompanying AASB 127 to address entities applying reduced disclosure requirements.
- BC21 Whereas AASB 2011-5 applies to annual reporting periods beginning on or after 1 July 2011, AASB 2011-6 applies to annual reporting periods beginning on or after 1 July 2013, being the application date of the reduced disclosure requirements under AASB 1053. Accordingly, two amending Standards were prepared to reflect the different application dates. Early application of each Standard is permitted. Early application of AASB 2011-6 requires early application of AASB 1053.