

Explanatory Statement

**Accounting Standard AASB 2011-
6 *Amendments to Australian Accounting
Standards – Extending Relief from
Consolidation, the Equity Method and
Proportionate Consolidation – Reduced
Disclosure Requirements***

July 2011



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2011-6

The Standard makes amendments to the following Australian Accounting Standards:

1. AASB 127 *Consolidated and Separate Financial Statements*
2. AASB 128 *Investments in Associates*
3. AASB 131 *Interests in Joint Ventures*.

These amendments result from the proposals that were included in Exposure Draft ED 205 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements*.

Existing Relief from Consolidation, the Equity Method and Proportionate Consolidation

Paragraph 10 of AASB 127 provides relief from preparing consolidated financial statements if, and only if, the parent entity satisfies the following criteria:

- (a) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
- (b) the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- (c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- (d) the parent entity's ultimate parent or an intermediate parent of the parent entity produced consolidated financial statements that are compliant with International Financial Reporting Standards (IFRS).

A similar option is available in paragraph 13(c) of AASB 128 for investors to obtain relief from applying the equity method of accounting when accounting for investments in associates and in paragraph 2(c) of AASB 131 for

venturers to obtain relief from the equity method and proportionate consolidation when accounting for interests in joint ventures.

AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation extended this relief to not-for-profit entities in certain circumstances.

With the introduction of the Australian Accounting Standards – Reduced Disclosure Requirements (RDR), entities applying RDR are not able to produce financial statements that are IFRS compliant. In these circumstances, relief from consolidation, the equity method and proportionate consolidation is not available under the existing requirements.

Main Features of AASB 2011-6

The amendments made by this Standard (AASB 2011-6) are amendments to AASB 127, AASB 128 and AASB 131 as already amended by AASB 2011-5.

Extending the Relief

The AASB considers that the relief from consolidation, the equity method and proportionate consolidation should also be available in certain circumstances to a parent entity, investor or venturer where the ultimate or any intermediate parent entity prepares consolidated financial statements that are not compliant with IFRS as a result of applying Australian Accounting Standards – Reduced Disclosure Requirements. Therefore, this Standard extends that relief provided that the parent entity, investor or venturer:

- (a) is an entity complying with Australian Accounting Standards – Reduced Disclosure Requirements;
- (b) has an ultimate or intermediate parent that prepares consolidated financial statements in accordance with Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements; and
- (c) meets the relevant 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.

Accordingly, this Standard extends the relief from consolidation, the equity method and proportionate consolidation by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent entity to be IFRS compliant, provided that the parent entity, investor or venturer and the ultimate or intermediate parent entity

comply with Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements, as stated above.

This approach is based on the view 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.

Application Date

This Standard applies to annual reporting periods beginning on or after 1 July 2013.

This Standard may be applied to annual reporting periods beginning on or after 1 July 2009 but before 1 July 2013, provided that AASB 1053 *Application of Tiers of Australian Accounting Standards* is also adopted early for the same period. The date limitation on early application reflects the limitation on the early application of the reduced disclosure requirements under AASB 1053.

Consultation Prior to Issuing AASB 2011-6

In September 2010, the AASB issued Exposure Draft ED 205 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation*.

The AASB received a total of six submissions from constituents. Submissions received were generally supportive of the extension of relief to not-for-profit and Tier 2 entities as proposed by the AASB.

A Regulation Impact Statement has not been prepared in connection with the issuance of this Standard as the amendments made do not have a substantial direct or indirect impact on business or competition, and extend relief from the specified accounting requirements in certain circumstances.