

# **Explanatory Statement**

## **Accounting Standard AASB 2011- 5 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation***

**July 2011**



**Australian Government**

**Australian Accounting  
Standards Board**

## EXPLANATORY STATEMENT

### Standards Amended by AASB 2011-5

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*.

### 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.

Due to the addition of Aus paragraphs in IFRSs as adopted in Australia, some entities, particularly not-for-profit entities, may be able to produce financial statements that are not IFRS compliant. In such cases, relief from consolidation, the equity method and proportionate consolidation is not available under the existing requirements.

## **Main Features of 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. Therefore, this Standard extends that relief provided that the parent entity, investor or venturer:

- (a) is a not-for-profit entity complying with Australian Accounting Standards;
- (b) has an ultimate or intermediate parent that is also a not-for-profit entity that prepares consolidated financial statements in accordance with Australian Accounting Standards; 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 are not-for-profit entities that comply with Australian Accounting Standards.

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 2011.

## **Consultation Prior to Issuing AASB 2011-5**

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.