

AASB Standard

AASB 2011-5
July 2011

**Amendments to Australian
Accounting Standards –
Extending Relief from
Consolidation, the Equity
Method and Proportionate
Consolidation**

**[AASB 127, AASB 128 &
AASB 131]**



Australian Government

**Australian Accounting
Standards Board**

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ISSN 1036-4803

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ACCOUNTING STANDARD

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Australian Accounting Standard AASB 2011-5 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* is set out in paragraphs 1 – 20. All the paragraphs have equal authority.

PREFACE

Standards Amended by AASB 2011-5

This 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 this Standard

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.

This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2011, provided AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments* is also adopted for the same period.

AASB 2007-4 made amendments to a range of Standards as a result of the AASB's decision that, in principle, all options available under IFRSs should be included in Australian Accounting Standards. Consequently, AASB 2007-4 inserted the option for parent entities not to present consolidated financial statements in certain circumstances into AASB 127. It also inserted relief from the equity method and proportionate consolidation into AASB 128 and AASB 131.

ACCOUNTING STANDARD AASB 2011-5

The Australian Accounting Standards Board makes Accounting Standard AASB 2011-5 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* under section 334 of the *Corporations Act 2001*.

Dated 20 July 2011

Kevin M. Stevenson
Chair – AASB

ACCOUNTING STANDARD AASB 2011-5

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – EXTENDING RELIEF FROM CONSOLIDATION, THE EQUITY METHOD AND PROPORTIONATE CONSOLIDATION

Objective

- 1 The objective of this Standard is to make amendments to:
 - (a) AASB 127 *Consolidated and Separate Financial Statements*;
 - (b) AASB 128 *Investments in Associates*; and
 - (c) AASB 131 *Interests in Joint Ventures*;to extend the circumstances in which an entity can obtain relief from consolidation, the equity method or proportionate consolidation.

Application

- 2 **This Standard applies to:**
 - (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
 - (b) **general purpose financial statements of each other reporting entity; and**
 - (c) **financial statements that are, or are held out to be, general purpose financial statements.**

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STANDARD

- 3 This Standard applies to annual reporting periods beginning on or after 1 July 2011.
- 4 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2011, provided AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments* is also adopted for the same period.¹ When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.
- 5 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.

Amendments to AASB 127 (March 2008, as amended)

- 6 Paragraph Aus10.1 is renumbered as paragraph Aus10.2, and amended as follows (new text is underlined):
- Aus10.2** Notwithstanding paragraphs 10 and Aus10.1, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities.
- 7 A new paragraph Aus10.1 is added as follows:
- Aus10.1** Notwithstanding paragraph 10(d), a parent that meets the criteria in paragraphs 10(a), 10(b) and 10(c) need not present consolidated financial statements if its ultimate or any intermediate parent produces consolidated financial statements available for public use and the parent and its ultimate or intermediate parent are both not-for-profit entities complying with Australian Accounting Standards.
- 8 In paragraphs 8, 11, 39 and 42, ‘paragraph 10’ is amended to ‘paragraphs 10-Aus10.2’.

¹ AASB 2007-4 is not required to be adopted in relation to AASB 127 when a version of AASB 127 (March 2008) is applied to the period, as such versions already incorporate the effect of the AASB 2007-4 amendments.

9 Paragraph 9 is amended as follows (new text is underlined):

9 A parent, other than a parent described in paragraph 10 or Aus10.1, as modified by paragraph Aus10.2, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.

10 Australian application guidance is added to accompany AASB 127 as follows:

AUSTRALIAN APPLICATION GUIDANCE

This guidance accompanies, but is not part of, AASB 127.

Exemption from Presenting Consolidated Financial Statements

AG1 The following table summarises the circumstances in which the exemption from presenting consolidated financial statements set out in paragraphs 10-Aus10.2 of this Standard may be available to a parent entity. The exemption is available only if the requirements of those paragraphs are satisfied. For example, the exemption is not available to a parent entity if it is a disclosing entity.

Same type of entity		
Ultimate or Intermediate Parent	FP	NFP
Parent	FP	NFP
Exemption for the parent	Available*	Available

Different type of entity		
Ultimate or Intermediate Parent	FP	NFP
Parent	NFP	FP
Exemption for the parent	Available*	Not available^

FP = For-profit entity

NFP = Not-for-profit entity

* The exemption would not be available by reference to the intermediate parent when it is a for-profit public sector entity unable to claim compliance with IFRSs – see paragraph Aus16.2 of AASB 101 *Presentation of Financial Statements*.

^ When the parent entity's NFP ultimate or intermediate parent is able to claim compliance with IFRSs, the exemption is available.

Amendments to AASB 127 (July 2004, as amended)

- 11 These amendments to AASB 127 (July 2004, as amended) are relevant only if this Standard (AASB 2011-5) is applied early to an annual reporting period beginning on or after 1 January 2005 but before 1 July 2009, and a version of AASB 127 (July 2004) is applied to the period. As required by paragraph 4 of this Standard, the amendments to AASB 127 by AASB 2007-4 would also be applied to the period. Accordingly, the subject paragraphs below already reflect the impact of AASB 2007-4.
- 12 Paragraph Aus10.1 is renumbered as paragraph Aus10.2, and amended as follows (new text is underlined):
- Aus10.2 Notwithstanding paragraphs 10 and Aus10.1, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities.**
- 13 A new paragraph Aus10.1 is added as follows:
- Aus10.1 Notwithstanding paragraph 10(d), a parent that meets the criteria in paragraphs 10(a), 10(b) and 10(c) need not present consolidated financial statements if its ultimate or any intermediate parent produces consolidated financial statements available for public use and the parent and its ultimate or intermediate parent are both not-for-profit entities complying with Australian Accounting Standards.**
- 14 In paragraphs 8, 11, 38 and 41, ‘paragraphs 10 and Aus10.1’ is amended to ‘paragraphs 10-Aus10.2’.
- 15 Paragraph 9 is amended as follows (new text is underlined and deleted text is struck through):
- 9 A parent, other than a parent described in paragraph 10 or Aus10.1, as modified by paragraph ~~Aus10.1~~ Aus10.2, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.**
- 16 Australian application guidance is added to accompany AASB 127 as set out in paragraph 10 of this Standard.

Amendments to AASB 128

- 17 Paragraphs 5 and 13 are amended as follows (new text is underlined and deleted text is struck through):
- 5 Entities that are exempted in accordance with ~~paragraphs 10 and Aus10.1~~ paragraphs 10-Aus10.2 of AASB 127 *Consolidated and Separate Financial Statements* from consolidation ...
- 13 **An investment in an associate shall be accounted for using the equity method except when:**
- (a) ...
- (b) **the exception in paragraph 10 or Aus10.1, as modified by paragraph ~~Aus10.1~~ Aus10.2, of AASB 127 allowing a parent that also has an interest in an associate not to present consolidated financial statements, applies; or**
- (c) **all of the following apply:**
- ...
- (iv) **the ultimate Australian or any intermediate parent of the investor produces consolidated financial statements available for public use that comply with ~~Australian equivalents to IFRSs~~ International Financial Reporting Standards.**
- 18 Paragraph Aus13.1 is added as follows:
- Aus13.1 Notwithstanding paragraph 13(c)(iv), an investor that meets the criteria in paragraphs 13(c)(i), 13(c)(ii) and 13(c)(iii) need not apply the equity method in accounting for an interest in an associate if its ultimate or any intermediate parent produces consolidated financial statements available for public use and the investor and its ultimate or intermediate parent are both not-for-profit entities complying with Australian Accounting Standards.**

Amendments to AASB 131

- 19 Paragraphs 2 and 6 are amended as follows (new text is underlined and deleted text is struck through):
- 2 A venturer with an interest in a jointly controlled entity is exempted from paragraphs 30 (*proportionate consolidation*) and 38 (*equity method*) when it meets the following conditions:
- (a) ...
 - (b) the exception in paragraph 10 or Aus10.1, as modified by paragraph ~~Aus10.1~~ Aus10.2, of AASB 127 *Consolidated and Separate Financial Statements* allowing a parent that also has an interest in a jointly controlled entity not to present consolidated financial statements is applicable; or
 - (c) all of the following apply:
 - ...
 - (iv) the ultimate Australian or any intermediate parent of the venturer produces consolidated financial statements available for public use that comply with Australian equivalents to IFRSs International Financial Reporting Standards.
- 6 Entities that are exempted in accordance with ~~paragraphs 10 and Aus10.1~~ paragraphs 10-Aus10.2 of AASB 127 from consolidation ...
- 20 Paragraph Aus2.1 is added as follows:
- Aus2.1** Notwithstanding paragraph 2(c)(iv), a venturer that meets the criteria in paragraphs 2(c)(i), 2(c)(ii) and 2(c)(iii) need not apply proportionate consolidation or the equity method in accounting for an interest in a jointly controlled entity if its ultimate or any intermediate parent produces consolidated financial statements available for public use and the venturer and its ultimate or intermediate parent are both not-for-profit entities complying with Australian Accounting Standards.

BASIS FOR CONCLUSIONS

The Basis for Conclusions accompanies, but is not part of, AASB 2011-5.

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*. 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 this limitation 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 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 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; 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 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 entity, and the parent, investor or venturer is a for-profit 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 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 entity

would be able to claim compliance with IFRSs in that the relief is within the scope of the relief available under IFRSs.

For-Profit Public Sector Entities

- BC14 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 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.
- BC15 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

- BC16 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'.
- BC17 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.