



To:	AASB Members	Date:	24 February 2010
From:	Jessica Lion	Agenda Item:	4.1
Subject:	<i>AASB 127 Consolidated and Separate Financial Statements</i>	File:	

Action

For the Board to consider adding an Aus paragraph to AASB 127, in relation to providing relief from preparing consolidated financial statements for certain entities (as described below).

Background

Paragraph 10 of AASB 127 provides the following relief from preparing consolidated financial statements:

“A parent need not present consolidated financial statements if and only if:
(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 ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.
Aus10.1 Notwithstanding paragraph 10, 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.”

Staff have become aware of an issue that arises in Australia on application of paragraph 10(d) to not-for-profit entities. Due to the addition of Aus paragraphs in IFRSs as adopted in Australia, some not-for-profit entities applying Australian Accounting Standards are not IFRS compliant. This means that an intermediate parent, (a subsidiary of a group that is also itself a parent of a group), of a not-for-profit group may not be able to use the exemption in paragraph 10 of AASB 127. This issue will be compounded further if Australia adopts the Reduced Disclosure Regime (RDR); if the parent of a group applies the RDR, then one could argue it is not IFRS compliant and hence any intermediary subsidiaries would not be able to use the exemption in relation to preparing consolidated financial statements in paragraph 10 of AASB 127.

A similar issue was considered by the FRSB in December 2008. This was in relation to the requirement in paragraph 10(d) of NZ IAS 127 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, and hence when a parent of a group is not required to submit their financial statements, any intermediary subsidiaries are unable to use the paragraph 10 exemption. The FRSB decided to insert the following text into NZ IAS 27:

“NZ 3.1 Entities which qualify for differential reporting concessions in accordance with the Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime (2005) are not required to comply with paragraph 10(d) which permits a parent not to present consolidated financial statements if “the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with New Zealand equivalents to International Financial Reporting Standards”. In order to qualify for the exemption not to present consolidated financial statements, qualifying entities must still comply with all the other conditions in paragraph 10.”

New Zealand inserted a similar exemption into NZ IAS 28 *Investments in Associates* (in respect of paragraph 13) and NZ IAS 31 *Interests in Joint Ventures* (in respect of paragraph 2), which both contain a comparable consolidation exemption.

Staff propose that the AASB considers inserting the following Aus paragraph into AASB 127 to allow intermediate parents that have a parent that is not IFRS compliant, but meet all the other exemption criteria listed in paragraph 10, exemption from preparing consolidated financial statements:

“Aus10.2 If the ultimate or any intermediate parent of an entity produces consolidated financial statements available for public use, that do not comply with International Financial Reporting Standards, because either the parent has applied the Reduced Disclosure Regime, or the parent is a not-for-profit entity that has applied Aus paragraphs, that entity can still qualify for the exemption in paragraph 10 not to present consolidated financial statements, if it complies with all of the other conditions in paragraph 10.”

We note that a similar exemption will also need to be inserted into AASB 128 *Investments in Associates* (paragraph 13) and AASB 131 *Interests in Joint Ventures* (paragraph 2).

Question for the Board

- 1) Do you agree with the staff proposal?
- 2) Should this be done in one stage (i.e. after Australia adopts the RDR) or in two (i.e. solve the not-for-profit issue first)?

If the Board does agree staff propose consulting with our New Zealand colleagues on a converged solution.