



Heads Up

Australian Exposure Draft on the proposed consolidation exemption for Australian investment entities

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“In summary”

- Members of the Australian Accounting Standards Board (AASB) have divergent views on the adoption of international amendments to the consolidation accounting requirements for investment entities;
- The AASB has proposed 3 alternatives for the Australian environment:
 - Adopt the international amendment with additional disclosure requirements for Australian investment entities including the presentation of supplementary consolidated financial information;
 - Do not adopt the international amendments and retain the existing control based consolidation model; and
 - Adopt the international amendments unamended with no additional disclosure;
- The AASB is seeking comments on the proposals by 29 March 2013.

Background

AASB 10 Consolidated Financial Statements (AASB 10) was issued in Australia in August 2011 establishing new guidance for control, consistent with its international counterpart IFRS 10 Consolidated Financial Statements (IFRS 10). If control exists under AASB 10, a parent entity is required to consolidate its controlled entities and present consolidated financial statements.

In October 2012, the International Accounting Standards Board (IASB) issued an amendment to IFRS 10 which provides an exemption from consolidation for entities that meet the definition of an ‘Investment Entity’. Controlled entities held by an investment entity shall be measured at fair value through profit and loss (FVTPL).

Following the release of the international amendment the AASB has considered the application of the exemption in the Australian environment and is currently seeking comment on *Exposure Draft 233 Australian Additional Disclosures – Investment Entities (ED 233)* issued in December 2012. This exposure draft proposes additional disclosure requirements to the international equivalent standard, including the requirement to present consolidated financial information as supplementary disclosure. Debate at the AASB was vigorous and there are various alternative views held by Board members, currently reflected in the inclusion of two alternative views in the exposure draft which are discussed further below.

Impact

Who does it apply to?

The Amendments and proposed additional disclosures apply to all entities meeting the definition of an investment entity from 1 January 2014.

What constitutes an 'Investment Entity' under IFRS 10?

The Amendments to IFRS 10 define an investment entity as "an entity that:

- (a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) Measures and evaluates the performance of substantially all of its investments on a fair value basis."

The amendment also includes characteristics that are typical for an investment entity.

Under IFRS 10, an entity meeting the definition of an investment entity is not required to consolidate its controlled entities, but rather measure such investments at fair value through profit or loss.

What are the AASB proposals?

The AASB has proposed that the investment entities amendments to IFRS 10 should be adopted in Australia with the amendments in ED 233. The Australian amendments require an investment entity to disclose consolidated information in the form of a consolidated statement of financial position, consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and summary of accounting policies not otherwise disclosed.

Two alternative views have also been proposed as shown below:

	ED 233	Alternative View 1	Alternative View 2
Proposal	Investment entities exemption adopted with amendments in Australia	Investment entities exemption <u>not</u> adopted	Investment entities exemption adopted
Primary financial statement measurement and presentation	Fair value through profit and loss	Consolidated	Fair value through profit and loss
IFRS compliance	✓		✓
Consolidated disclosures	✓	✓	
Fair value disclosures	✓		✓
Impact on current practice	<ul style="list-style-type: none">• Change to existing measurement basis for investments in the primary financial statements• Changed disclosures*	<ul style="list-style-type: none">• No change to existing measurement and presentation• Australian investment entities could no longer state IFRS compliance	<ul style="list-style-type: none">• Change to existing measurement basis for investments in the primary financial statements• Consolidation no longer required• Changed disclosures*

* Impact depends on existing disclosures

ED 233 is a change from existing practice which requires the primary financial statements to be consolidated. The exemption requires that entities that met the definition of an investment entities to present the primary financial statements on a fair value basis measured in accordance with IFRS 9 and ED 233 proposes that consolidated financial information are provided as additional disclosures above and beyond the IFRS requirements.

Those AASB members supporting alternative view 1 believe that the most relevant information for users is consolidated information for comparability across all industries. However, not adopting an international amendment will create a precedence for non-compliance with IFRS and unwinds the harmonisation process that Australian standard setters have been working towards.

The AASB members supporting alternative view 2 believe that the IFRS 10 amendments are relevant, useful and appropriate and IFRS compliance is an important aspect of Australian Financial Reporting. Notwithstanding the preference of the AASB members supporting alternative view 2, to ensure the international amendments are adopted in Australia, these members are prepared to accept the disclosures proposed in ED 233 to ensure IFRS compliance is maintained.

Deloitte continues to support the development of a single set of high quality, understandable, enforceable and globally accepted financial reporting standards.

When are the changes effective?

Pending issue, the Australian Amendments will be effective for annual reporting periods beginning on or after 1 January 2014 with early adoption permitted consistent with the IFRS amendments.

Action

What should I do?

The AASB is seeking comments on the ED by **29 March 2013**. This provides your business with a window of opportunity to identify the impact of the AASB's proposal on your business and financial reporting requirements and respond to the AASB with your concerns and considerations. Given the alternative views expressed by certain AASB members, it is important that the affected entities express their views to the AASB to ensure that a robust debate is had and that industry preparer and user views are well understood by the AASB.

How can Deloitte help?

Our team of subject matter experts can assist you to identify and understand the impact of the AASB's proposals on your business and its financial reporting requirements. If you require assistance, please contact our team of specialists below.

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