

# **Explanatory Statement**

**Accounting Standard AASB 2012-11**  
***Amendments to Australian Accounting***  
***Standards – Reduced Disclosure***  
***Requirements and Other Amendments***

**December 2012**



**Australian Government**

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**Australian Accounting  
Standards Board**

## EXPLANATORY STATEMENT

### Introduction

AASB 2012-11 *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments* makes amendments to the Australian Accounting Standards listed in paragraph 1 of the Standard.

The amendments made by the Standard to existing reduced disclosure requirements for entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements arise from editorial corrections. The corrections to AASB 1 *First-time Adoption of Australian Accounting Standards* result in part from the proposals that were included in Tier 2 Supplement to ED 206 *Severe Hyperinflation*.

The amendments to AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* extend relief from consolidation and the equity method for entities complying with Australian Accounting Standards – Reduced Disclosure Requirements. These amendments reflect those made previously to now-superseded Standards in AASB 2011-6 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements*.

The editorial correction to AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* ensures that AASB 124 *Related Party Disclosures* has the same wording for all entities required to apply that Standard. The correction does not change any of the requirements.

### Main Features of the Standard

#### Reduced Disclosure Requirements

The Standard makes various editorial corrections to Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2). These corrections ensure that the Standards reflect decisions of the AASB regarding the Tier 2 requirements. For example, Tier 2 entities are required to comply with the disclosure requirements in paragraph 31C of AASB 1 concerning severe hyperinflation, when they are relevant. Consequently, paragraph Aus1.6 of AASB 1 is amended so that it does not include paragraph 31C as a paragraph that does not apply to Tier 2 entities.

## **Extending Relief from Consolidation and the Equity Method**

Paragraph 4(a) of AASB 10 provides relief from preparing consolidated financial statements if the parent entity meets all the following conditions:

- (i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all 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;
- (ii) its 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);
- (iii) it 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
- (iv) its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with International Financial Reporting Standards (IFRSs).

A similar option is available in paragraph 17 of AASB 128 for entities to obtain relief from applying the equity method of accounting when accounting for investments in associates or joint ventures.

AASB 10 and AASB 128 also provide relief where the parent, investor or joint venturer and the ultimate or intermediate parent are both not-for-profit entities and therefore might not have complied with IFRSs.

With the introduction of the Australian Accounting Standards – Reduced Disclosure Requirements, ultimate or intermediate parents applying Tier 2 reporting requirements are not able to produce financial statements that are IFRS compliant. In these circumstances, relief from consolidation and the equity method is not available under the existing AASB 10 and AASB 128 requirements without the amendments in AASB 2012-11.

The AASB considers that the relief from consolidation and the equity method should also be available when the parent, investor or joint 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 (even as a not-for-profit entity) or with Australian Accounting Standards – Reduced Disclosure Requirements; and

- (c) meets the criteria in paragraphs 4(a)(i) to 4(a)(iii) of AASB 10 or paragraphs 17(a) to 17(c) of AASB 128.

Accordingly, AASB 2012-11 extends the relief from consolidation and the equity method by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent to be IFRS compliant in those circumstances.

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**

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

The 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 applied 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.

The amendment to AASB 2011-4 cannot be applied early because that Standard cannot be applied early.

### **Consultation Prior to Issuing the Standard**

No consultation was necessary in respect of the editorial corrections made by AASB 2012-11, given their non-substantive nature. In relation to the more substantive amendments, the AASB undertook public consultation on its proposals to extend relief from consolidation and the equity method for entities complying with Australian Accounting Standards – Reduced Disclosure Requirements by issuing Exposure Draft ED 205 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* (September 2010). The AASB received six submissions on that Exposure Draft, which were generally supportive of the proposals. The AASB considered the comments it received in finalising AASB 2011-6. However, the Standards amended by AASB 2011-6 have since been superseded by AASB 10 and AASB 128. Accordingly, AASB 2012-11 makes amendments to AASB 10 and AASB 128 to extend the relief from consolidation and the equity method previously provided by AASB 2011-6 in relation to now-superseded Standards.

A Regulation Impact Statement has not been prepared in connection with the issue of the Standard as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature or clarify existing requirements.

### **Statement of Compatibility with Human Rights**

AASB 2012-11 is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

The Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.