



# Board Meeting Summary Paper

**Subject:** AGS 1032 *The Audit Implications of Accounting for Investments in Associates*

**Date:** 7 July 2009

<b>AUASB AGENDA ITEM NO. 16(b)</b>
<b>Meeting Date: 20-21 July 2009</b>

**Action Required**

**For Information Purposes Only**

## Agenda Item Objectives

To update the AUASB on the current position of AGS 1032 and present a first read through of the revised GS XXX *The Audit Implications of Accounting for Investments in Associates* for comment.

## Background

AGS 1032 was last updated and reissued by the former AuASB in July 2002. Since that time the Accounting Standard AASB 128 *Investments in Associates* has been amended in compiled form for changes and amended up to and including 28 June 2007. The amended accounting standard was issued by the AASB on 27 October 2007. The objective of the changes was to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements.

The key changes made to AASB 128 at this time are summarised below:

- Scope exclusion: investments in associates held by venture capital organisations, mutual funds, unit trusts and similar entities
  - AASB decided that investments held by the above entities should be excluded from the scope of IAS 28 and IAS 32 when they are measured at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*
  - Exclusion from scope of IAS 28, should only be when these entities recognise changes in fair value of their investments in associates in profit or loss in the period in which those changes occur
  - AASB looked to limit the scope exclusion to situations in which well established industry practise existed.
- Application of the equity method

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- Temporary significant influence: The AASB decided to retain an exemption from applying the equity method when there is evidence that an associate is acquired with the intention to dispose of it within twelve months and that management is actively seeking a buyer
- The AASB removed the exemption from applying the equity method for an associate that previously applied when severe long-term restrictions impaired an associate's ability to transfer funds to the investor. It did so because such circumstances may not preclude the investor's significant influence over the associate.
- Recognition of losses
  - The AASB widened the base against which losses are to be recognised; the Board also clarified the application of the impairment provisions of IAS 39 to the financial assets that form part of the net investment.
- Loss of significant influence over an associate
  - The AASB concluded that the accounting guidance on the loss of control of a subsidiary should be extended to events, transactions or other changes in circumstances in which an investor loses significant influence over an investee. Thus, when an investor loses significant influence over an associate, the investor measures any retained investment at fair value. Any difference between the carrying amount of the associate when significant influence is lost, the disposal proceeds (if any) and the fair value of any retained interest is recognised in profit and loss.

## **Matters to Consider**

The above changes have been considered and included where appropriate in the drafting of the revised GS XXX *The Audit Implications of Accounting for Investments in Associates*.

In addition consideration has been given to the application of the new suite of ASAs and more specifically ASA 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* and ASA 330 *The Auditor's Procedures in Response to Assessed Risk*.

In the past the topic of equity accounting has proven to be somewhat complex with the areas of fair value and impairment losses also needing to be considered. Further off balance sheet investments continue to be closely scrutinised which further supports the need for audit guidance in this area.

## **Staff Recommendations**

The AUASB Technical Group recommends that AGS 1032 be updated and reissued as a new Guidance Statement GS XXX taking into account where appropriate the changes noted above.

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## **Material Presented**

- Agenda Item 16(b) Board Meeting Summary Paper
- Agenda Item 16(b).1 GS XXX *The Audit Implications of Accounting for Investments in Associates*
- Agenda Item 16(b).2 AGS 1032 *The Audit Implications of Accounting for Investments in Associates* [Electronic Version only]
- Agenda Item 16(b).3 AASB 128 *Investments in Associates* [Electronic Version only]

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## **Action Required**

<b>No.</b>	<b>Action Item</b>	<b>Deliverable</b>	<b>Responsibility</b>	<b>Due Date</b>	<b>Status</b>
1.	Read and comment on the initial draft of GS XXX <i>The Audit Implications of Accounting for Investments in Associates</i> .	Comments from AUASB	AUASB	20-21 July	

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