Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Financial Reporting Framework**	**Meeting:**	M214
Topic:	**Redeliberation – Subsidiaries and notable relationship entities**	**Agenda Item:**	4.2
		Date:	29 July 2025
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		Decision-Making:	High
		Project Status:	Project redeliberations

Objective of this paper

1 The objective of this staff paper is for the Board to decide how to finalise the proposed requirements exposed in ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* regarding Section 8 *Notable Relationships and Consolidated and Separate Financial Statements*.

2 The Board's decisions to date regarding the proposed other topics for address in a Tier 3 Standard are summarised in the Not-for-Profit Financial Reporting Framework project summary and in Agenda Paper 4.0.

Structure of this paper

3 This paper is set out as follows:

(a) summary of staff recommendations – paragraph 4;

(b) background and reasons for bringing this paper to the Board – paragraphs 5 – 7;

(c) summary of the exposed Tier 3 requirements for subsidiaries, joint arrangements and associates – paragraphs 8 – 12;

(d) subsidiaries and notable relationship entities: summary of feedback received – paragraph 13 and Table 1;

(e) subsidiaries and notable relationship entities: analysis of stakeholder comments – paragraphs 14 – 16, including Table 2.

Summary of staff recommendations

4 As set out in paragraph 16 below, staff recommend that the Board finalise, subject to any redrafting necessary to improve the clarity of the requirements, the Tier 3 requirements regarding subsidiaries and notable relationship entities as exposed in Section 8 of ED 335. In particular, Section 8 should be amended to clarify:

(a) the intended operation of the Section and its requirements, including to clarify the interaction between Section 8 and Section 13;

(b) that separate financial statements have the same meaning as in Tier 1 and Tier 2 reporting requirements;

(c) that the fair value through other comprehensive income election is made for the first notable relationship entity, and thereafter applies to all notable relationship entities; and

(d) the relationship between power and the right to appoint key management personnel.

Background and reasons for bringing this paper to the Board

5 The Board decided at its 1 May 2025 meeting to proceed with developing a Tier 3 Accounting Standard with simplified recognition, measurement, and disclosure requirements for smaller not-for-profit (NFP) private sector entities, and commence redeliberations of the proposals in ED 335.[1]

6 At the May 2025 board meeting, the Board considered the summarised feedback on ED 335 and a proposed categorisation of the extent of the Board's re-deliberation efforts. This paper presents the staff analysis and recommendations for the identified Category B topic pertaining to the accounting for subsidiaries and notable relationship entities. The Category B topics are proposals where stakeholders provided mixed feedback or expressed substantive concerns on one or more particular aspects of the proposals.[2]

7 The primary objective of this paper is for the Board to, in respect of the topic covered, decide whether to make any substantive changes to the proposals exposed in ED 335. Staff have not included any revised drafting in this paper. Consistent with the approach taken to the redeliberated topics to date, staff plan to present the revised drafting collectively in November 2025, as per the project timeline outlined in Agenda Paper 4.0. This approach will allow the Board to first consider all decisions on matters of principle, ensuring a comprehensive view of the overall draft Standard.

Summary of the exposed Tier 3 requirements for subsidiaries, joint arrangements and associates

8 The proposals for the accounting for subsidiaries, joint arrangements and associates are primarily specified in Section 8 *Notable Relationships and Consolidated and Separate Financial Statements*, Section 13 *Investments in Associates and Joint Arrangements* and Section 17 *Entity Combinations* of the draft Tier 3 Standard (ED 335). <u>For ease of reference, the summarised requirements set out in paragraphs 9 – 12 below are repeated in Agenda Papers 4.3 and 4.4.</u>

9 At a high level, ED 335 made the following key proposals regarding the accounting for subsidiaries, joint ventures and joint operations, and associates:

(a) subsidiaries, joint ventures and joint operations, and associates may be treated as a single class of assets ('investments in notable relationship entities'). This class of assets must be measured at cost, fair value, or using the equity method of accounting in the financial statements of the entity (paragraph 8.5 of ED 335).

As the investments are treated as a single class of asset, it follows therefore that the only assessment of ownership interest that is required is whether or not the holding represents at least an interest in an associate (i.e. at least significant influence in that other entity) vs. an ordinary financial asset. It is not necessary for the investor (the reporting entity) to further consider whether its interest in the acquired entity is that of control or joint control;

(b) alternatively, subsidiaries, joint ventures and joint operations, and associates may be treated as separate classes of assets. In these instances, as per Tier 1 and Tier 2 reporting requirements, the entity must determine whether its interest is that of control, joint control, or significant influence. ED 335 then directs that:

1 Per minutes of the 1 May 2025 AASB meeting

2 Refer Agenda Paper 4.2 of the 1 May 2025 AASB meeting for the categorisation of topics as Category A and Category B.

Where the reporting entity is a parent

(i) consolidated financial statements must be presented, in which subsidiaries must be consolidated (paragraph 8.12 of ED 335) and associates and joint ventures measured using the equity method of accounting (paragraph 13.12 of ED 335). The entity recognises its share of any jointly controlled assets, liabilities, revenues and expenses of its interests in a joint operation (paragraph 13.19 of ED 335); and

(ii) when separate financial statements are presented together with the consolidated financial statements, these subsidiaries, associates and joint ventures are measured, by class, at either cost, fair value, or using the equity method of accounting (paragraph 8.37); and

Where the reporting entity is not a parent (i.e. there are no subsidiaries)

(i) associates and joint ventures are measured respectively at either cost, fair value, or using the equity method of accounting (paragraph 8.37). The entity recognises its share of any jointly controlled assets, liabilities, revenues and expenses of its interests in a joint operation (paragraph 13.19 of ED 335); and

(ii) when separate financial statements are presented together with those financial statements (e.g. in addition to equity-accounted financial statements), associates and joint ventures are measured respectively at either cost, fair value, or using the equity method of accounting (paragraph 8.37).

10 The proposed disclosures for subsidiaries, associates and joint arrangements depend on whether the investments are treated as a single class (notable relationship entities) or as separate classes of assets. Section 13 contains no specified disclosures for joint operations.

11 At a high level Section 17 of ED 335 made the following proposals about the acquisition of a subsidiary in consolidated financial statements, and for other entity combinations:

(a) the carrying amounts of the assets, liabilities and items of equity of the entity to be combined, adjusted to conform with the reporting entity's accounting policies, and the fair values of material assets and liabilities that do not have an existing carrying amount recorded in accordance with Australian Accounting Standards, are to be recognised at the 'deemed combination date'. The deemed combination date is the beginning of the reporting period during which the entity combination occurred (paragraphs 17.5, 17.6 and 17.8 of ED 335); and

(b) any difference between the carrying amount of the consideration paid and the carrying amount of the net assets recorded in the combination is recognised directly in equity (paragraph 17.7 of ED 335).

12 In relation to the equity method of accounting, at a high level, the equity method proposed in ED 335 is largely consistent to that specified by AASB 128 *Investments in Associates and Joint Arrangements*. However, there are several key differences:

(a) consistent to the book value method proposed for subsidiaries, the investment is measured on Day 1 at the investor's share of the carrying amounts of the net assets of the investee. This may be different to the consideration paid for the investee, and is the result of the interaction between paragraph 13.16 and 13.16(c) of ED 335;[3]

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3 In contrast, AASB 128 and the *IFRS for SMEs* specify that the investment is initially measured at its transaction price (including transaction costs). The initial measurement is increased by the amount of any gain on bargain purchase so that the investment reflects the investor's share of the fair value of the net assets of the investee.

(b) the consideration/transaction price of the acquisition is measured by reference to the carrying amounts of the investor's net assets given up in exchange (i.e. book values of the buyer), rather than their fair values (refer paragraph 13.16 of ED 335);[4]

(c) the difference between the transaction price[5] and the investor's share of the carrying amounts of the net assets of the investee is recognised directly in equity (paragraph 13.16(c) of ED 335);[6] and

(d) while an investor should adjust the financial statements of the investee to reflect the effect of different accounting policies, it need not do so if this would be impracticable (paragraph 13.16(g) of ED 335).

Subsidiaries and notable relationship entities: Summary of feedback received

13 Specific Matter for Comment (SMC) 14 in ED 335 sought stakeholder views regarding the proposed accounting for subsidiaries and notable relationship entities in Tier 3-compliant general purpose financial statements. Per Agenda Paper 4.3 of the 1 May 2025 Board meeting, of the 18 comment letters that responded directly to ED 335 and the total participants who attended a virtual/ in-person outreach session, 10 submissions and 27 respondents provided a response to SMC 14. Table 1 below provides an overview of the responses received.

Table 1: SMC 14 responses

	Agreed	**Agreed with exception**	**Disagreed**	**Unsure**
Out of 10 comment letters that commented on SMC 14	3 (30%)	5 (50%)	2 (20%)	-
Out of 27 participants who attended a virtual/ in-person outreach session and commented on SMC 14	23 (85%)	-	1 (4%)	3 (11%)

Subsidiaries and notable relationship entities: Analysis of stakeholder comments

14 As noted in Table 1, while a majority of stakeholders responding on this topic agreed with the Board's proposals in ED 335 regarding the accounting for subsidiaries and notable relationship entities, some stakeholders expressed concern or uncertainty with one or more aspects of the proposals. Their concerns and comments are summarised and analysed in Table 2 below:

4 That is, under the proposals, if a fully depreciated asset were transferred as payment for an associate, the transaction price/ consideration paid for the acquisition would be $nil.

5 Staff think the reference to transaction price in paragraph 13.16(c) should have been to the consideration paid, consistent with 13.16. Staff intend to review this drafting in the revised draft Standard (expected November 2025).

6 In contrast, AASB 128 and the *IFRS for SMEs* calculate any goodwill or gain on bargain purchase by reference to the fair values of the net identifiable assets of the investee, and require a gain on bargain purchase to be immediately recognised in profit or loss. Under the *IFRS for SMEs*, any goodwill is amortised over its useful life, and subject to impairment.

Table 2: Analysis of stakeholder comments

<table>
<tr><th>Stakeholder comments</th><th>Staff analysis</th></tr>
<tr><td colspan="2">Drafting and terminology</td></tr>
<tr><td>1. Several stakeholders (2 professional services firms, 1 other, 1 professional body) making a submission, and others in an outreach session, commented on the drafting of Section 8 and recommended it be revisited to improve the clarity of the intended requirements.

Suggestions received included:

(a) relocating explanation of the meaning of ‘separate’ and ‘consolidated’ financial statements;

(b) for consolidation requirements to be specified in a separate section of the Standard;

(c) clarifying when an assessment of control, joint control and significant influence is necessary to be made, and the relationship between Section 8 and Section 13 Investments in Associates and Joint Arrangements;

(d) adding to the Basis for Conclusions to clarify the rationale for the difference between paragraph 8.37 and 8.5 regarding whether a different accounting policy can be selected for subsidiaries vs associates vs joint ventures; and

(e) not depicting a decision whether or not to prepare consolidated financial statements as an accounting policy choice, but to do so similarly to how AASB 10 Consolidated Financial Statements exempts certain intermediate parent entities from consolidation (as otherwise, the requirements for a change in accounting policy choice should apply).</td><td>Having regard to the stakeholder feedback noted to the left of this row and also in other rows of Table 2, and on reflection of ED 335 as drafted, staff agree that the structure and drafting of Section 8 could be improved to clarify the intended requirements and improve the user-friendliness of the document. This could include clarifying the interaction between Section 8 and Section 13 (for example, paragraph 8.1(c) defines notable relationship entities as including instances when an investor has joint control over an operation – this appears to suggest that an interest in a joint operation should be treated consistently to other notable relationship entities, rather than in accordance with paragraph 13.19).

Consequently, staff recommend amending Section 8 (and other Sections of ED 335 as necessary) to clarify the intended operation of the section and its requirements, including to clarify the interaction between Section 8 and Section 13.

The staff recommendation and question to the Board is presented following paragraph 16 of this paper. If the Board agrees with the staff recommendation, staff will bring a draft Standard with our proposed revisions to a future Board meeting for the Board’s consideration (expected November 2025).</td></tr>
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Stakeholder comments	Staff analysis
2. Several stakeholders (1 regulator) recommended changes in the descriptions/ language employed to better reflect the charity sector: (a) a stakeholder (regulator) suggested using "controlling entity" and "controlled entity" instead of investor and investee, as investor and investee are not commonly used in the charity sector. Relatedly, to emphasize the parent's "relationship" with the subsidiary rather than an "involvement" with the other entity; and (b) a stakeholder (regulator) suggested referring to "variable benefits or impacts" instead of "variable returns".	Staff note that the NFP sector comprises entities that are not necessarily charities as defined. Further, at its 3 July 2025 meeting, the Board considered feedback received recommending that a Tier 3 Standard not unnecessarily depart from established terminology, and noted that in developing ED 335 the Board had decided to retain use of terms such as 'impairment' because substitute terms, even if "more intuitive" would cause problems since all the literature includes 'impairment' and experienced practitioners will be familiar with that term.[7] "Investor" and "investee" are explained in paragraph 8.13 of ED 335. Consequently, having regard to this and the Board's prior decisions, staff think it is not necessary to use the suggested other terminology, which although possibly "plainer English" is not necessarily any more intuitive or clearer than "investor" and "investee". In relation to the use of "variable benefits or impacts" instead of "variable returns" – staff note that the idea of "returns" could be considered more profit-centric. However, staff think that introducing a new description "variable benefits or impacts" might cause confusion for users. Staff also note that the Board has not previously regarded the descriptor "return" to be so problematic for NFP entities as to require AASB 10 and/or the *Conceptual Framework for Financial Reporting* to be modified to provide clarity in this regard. Consequently, **staff recommend** making no change to the descriptions exposed in ED 335 in response to the stakeholder comment.
3. Several stakeholders (1 professional services firms, 1 other) observed the draft Standard does not use 'separate financial statements' consistently, creating confusion. The nuance between individual financial statements and separate financial statements is not clear.	On reflection, staff concur with that the Standard does not appear to be clear regarding whether or not separate financial statements can be presented independently of another set of financial statements. Consequently, **staff recommend** that the Tier 3 Standard be amended to clarify that separate financial statements have the same meaning as in Tier 1 and Tier 2 reporting requirements.[8]

7 Refer [Agenda Paper 5.5] of the 3 July 2025 AASB meeting.

8 Paragraph 6 of AASB 127 states: "Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by AASB 128 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 8–8A".

Stakeholder comments	Staff analysis
	In particular, this might mean that the financial statements prepared by an entity accounting for subsidiaries, associates and joint arrangements as a single class of asset (‘notable relationship entities’) will either: (a) no longer be described as separate financial statements; or (b) continue to be described as separate financial statements, but an additional paragraph added to present this as an exception, similar to paragraph 8 of AASB 127 *Separate Financial Statements*.[9]
Option to avoid consolidating subsidiaries	
4. Two stakeholders (professional services firms) disagreed with not mandating that a parent entity must prepare consolidated financial statements. Similarly, some stakeholders in external outreach (mainly advisors/ auditors) considered that consolidated financial statements should be presented. Stakeholders provided the following reasons for their view: • the preparation of consolidated financial statements is necessary to provide users with a full understanding of the financial performance of an economic entity; • most medium-sized parent entities will opt not to present consolidated financial statements, leading to a loss of financial information. (This stakeholder was in particular concerned about the loss of financial information about the economic groups of indigenous	The Board heard similar arguments against its preliminary decision to allow NFP private sector entities preparing Tier 3-compliant general purpose financial statements not to consolidate as part of the feedback received on the Discussion Paper preceding ED 335.[10] Ultimately, as noted in Basis for Conclusions paragraph BC48 of ED 335, the Board considered that ED 335 should continue to propose a similar requirement for the following reasons: (a) it is generally expected that few Tier 3 entities would be parent entities; (b) separate financial statements, supplemented by disclosures of key information about notable relationship entities, can provide useful information about the reporting entity and its notable relationships; and (c) exceptions to preparing consolidated financial statements already exist in Australian Accounting Standards; where exceptions are utilised, the financial statements nevertheless are referred to as GPFS. Staff note that some of the considerations that the Board had regard to in forming its view included the usefulness of consolidated results for member-based entities and practical issues complicating consolidation procedures such as different year ends or the entity’s ability to obtain financial information about its subsidiaries – these issues impacted the Board’s

9 Paragraph 8 of AASB 127 states “An entity that is exempted in accordance with paragraphs 4(a), Aus4.1 and Aus4.2 of AASB 10 from consolidation or paragraphs 17, Aus17.1 and Aus17.2 of AASB 128 from applying the equity method may present separate financial statements as its only financial statements.”

10 Refer Agenda Paper 5.2 of 29-30 November 2023 AASB meeting.

Stakeholder comments	Staff analysis
corporations with associated trusts and other controlled entities); • there will be a lack of transparency for funding providers, which could result in funders overfunding a group since they lack a complete picture of the total funding received by the group. (This stakeholder considered that the potential for information loss might be higher for organisations that have multiple subsidiary entities operating below regulatory reporting thresholds); • not requiring the preparation of consolidated financial statements contradicts the direction taken by the Board in regard to Tier 1/ Tier 2 requirements for ultimate Australian parent entities in the for-profit sector. (This stakeholder recommended that an ultimate Australian parent entity that is required by legislation or regulation to prepare financial statements be required to present consolidated financial statements, except where the relevant legislation or regulation requires otherwise); • the mechanics of preparing consolidated financial statements are not complex for NFP entities; and • once the 'power' criterion has been established to exist, the remaining criteria that must be present for control to exist are usually straightforward to determine. If the cost/benefit analysis for providing a non-consolidation choice focuses on the difficulties in identifying subsidiaries, the guidance in paragraphs 8.13 – 8.23 appears to provide a succinct set of	cost/benefit analysis but do not relate to difficulties with identifying subsidiaries. Rather, they comment to the simplicity of the mechanics of preparing consolidated financial statements. Consequently, noting the above and the broad support otherwise received for the Board's proposals in this regard, **staff recommend** making no change to the proposed requirement exposed in ED 335 allowing entities a choice regarding the consolidation of subsidiaries.

Stakeholder comments	Staff analysis
principles for Tier 3 entities to identify subsidiaries more easily. Relatedly, some stakeholders in external outreach were unsure whether to support the Board's proposal regarding consolidation. These stakeholders observed that some legislation may require that an NFP entity's financial reporting requirements be based on consolidated revenue, while other legislation may specify these obligations be determined based on the relevant amounts for the single entity. These stakeholders considered that the Board's proposal regarding consolidation could add complexity to interpreting these regulatory requirements, and also that the benefit is minimised if entities still need to, for regulatory purposes, determine their reporting size based on either single entity or consolidated revenue.	
5. A stakeholder in external outreach noted that NFP entities may still consider the identification of notable relationships entities complex given the complex structures (e.g. native titles and discretionary trusts) that NFP entities may operate.	Staff note the stakeholder concern but observe that this is not a matter for the proposed Tier 3 accounting standards to resolve, and that the proposed requirements are already a simplification from Tier 2 reporting requirements. Therefore, **staff recommend** making no change to the proposed requirements exposed in ED 335 in this regard.
Accounting for notable relationship entities	
6. Two stakeholders (professional bodies) disagreed with allowing investments in notable relationships entities to be measured using the equity method. These stakeholders considered that making available this measurement basis would be inconsistent with the decision not to consolidate, as well as introduce known complexities around the fundamental principles that underlie equity accounting.	Staff think that while the equity method of accounting employs some consolidation procedures (and might colloquially be referred to as 'para consolidation' or 'one-line consolidation'), it is not the same as consolidation. Staff also think that some of the application complexities/rules of applying the equity method of accounting are reasons why it is not the same as consolidation. Therefore, staff consider that allowing notable relationship entities to be accounted for using the equity method of accounting is not inconsistent with the Board's decision about consolidation.

Stakeholder comments	Staff analysis
(*Staff note:* These stakeholders made a similar comment in response to SMC 21 about Section 13 *Investments in Associates and Joint Arrangements* – refer stakeholder comment #3 in Agenda Paper 4.4)	Further, for the following reasons, **staff recommend** continuing to specify the equity method as a possible measurement basis for notable relationship entities: (a) consistency with the accounting policies permitted under Tier 1 and Tier 2 reporting requirements in respect of separate financial statements; and (b) it is one of three possible measurement bases available to the entity, and it could be expected that Tier 3 entities will be less likely to select the equity method as their accounting policy for their investments in notable relationship entities.
7. Paragraph 8.5 of ED 335 specifies that an entity applies the same accounting policy to all its investments in notable relationship entities, while paragraph 8.5(b) specifies that an entity can make an irrevocable election at the initial recording of a particular investment measured at fair value to present the changes in fair value in other comprehensive income. A stakeholder (professional services firm) sought clarification whether or not this meant that: (a) some notable relationship entities may be measured at fair value through profit or loss (FVTPL), and others at fair value through other comprehensive income (FVTOCI); or (b) the election made regarding the first notable relationship entity must be applied to all notable relationship entities. That is, all notable relationship entities measured at fair value must be measured at fair value through profit or loss (FVTPL), or all at fair value through other comprehensive income (FVTOCI).	Staff note that consistent measurement (all investments at FVTPL or FVTOCI) would be internally consistent with the requirement in paragraph 10.7(a) of ED 335, which specifies that "… Changes in the fair value of such financial assets shall be presented in profit or loss, unless the entity elects irrevocably, on initial recording of the first asset in a class of financial assets, to present changes in the fair value of that class in other comprehensive income". However, staff think paragraph 8.5 could be read as suggesting, for notable relationship entities, that the fair value election can be made on an asset-by-asset basis without being driven by an earlier decision in respect of another notable relationship entity, because: (a) of the use of different text to that in Section 10, including the absence of the direction that the decision must be made on the recognition of the first asset in the class; and (b) in recognition of the fact that the 'investments in notable relationship entities' class may be broader, and that different notable relationship entities may be held for different purposes, than a class of financial asset determined in accordance with Section 10. Staff's understanding is that the Board had intended to require the consistent measurement of all notable relationship entities.[11] Therefore, **staff recommend** amending paragraph 8.5 to clarify the intended requirements in this regard. (*Staff note:* Staff identified a similar ambiguity regarding the measurement of associates and joint ventures. The staff analysis thereto is included in Agenda Paper 4.4 of this meeting – refer stakeholder comment #13.)

11 Refer Minutes of the 29-30 November 2023 AASB meeting

Stakeholder comments	Staff analysis
Some stakeholders attending an outreach session similarly found these requirements to be unclear. (However, these stakeholders also considered that smaller NFP entities typically do not hold investments in associates or joint ventures, or participate in joint operations; as such, they were not concerned with the proposals as drafted.)	
Control and consolidation procedures	
8. A stakeholder (professional services firm) considered that the language in paragraphs 8.13 – 8.23 (subsection "assessing control of an investee") could be significantly simplified, consistent with the Board's development objectives for the Tier 3 Standard, and could highlight the application of the control assessment in typical arrangements in the NFP private sector where a parent entity has the right to appoint the majority of the board of a subsidiary. Separately, another stakeholder (other) observed that paragraph 8.22 appears very for-profit focused. The paragraph concerns potential voting rights and financial instruments that give rise to potential voting rights.	As noted in the staff recommendation against stakeholder comment #1 and #2 above, staff intend to review the drafting of Section 8 to provide more clarity about the proposed requirements. Staff will consider whether the exposed language should be further simplified (simplification of expression/language) as part of this review and bring its recommendations to a future meeting as part of a draft Standard. Staff note that in developing the draft Tier 3 Standard, care was taken not to interpret IFRS, consistent with AASB policy, or to develop guidance that equally applies to NFP private sector entities complying with Tier 2 reporting requirements but which was not included in the relevant applicable accounting standards, as a type of 'boundary' to the simplification. Several of the illustrative examples in Appendix E of AASB 10 *Consolidated Financial Statements* include fact patterns where a parent entity has the right to appoint the majority of the board of a subsidiary. In our recommendation to stakeholder comment #9 below, staff have recommended against extending a Tier 3 Standard to incorporate the examples and principles relevant to NFP private sector entities in Appendix E of AASB 10. However, staff think that paragraph 8.16 and/or 8.21 of ED 335 could, for example, be extended consistent with paragraph B12 and B15 of AASB 10 in view of the stakeholder comment for the subsection to be made more relevant and in absence of including these illustrative examples.[12] This would be a minimal addition to the Standard and does not impact Tier 3 consistency with

12 Paragraph B12 of AASB 10 states "Examples of decisions about relevant activities include but are not limited to: … (b) appointing and remunerating an investee's key management personnel or service providers and terminating their services or employment".
Paragraph B15 of AASB 10 states: "Examples of rights that, either individually or in combination, can give an investor power include but are not limited to: … (b) rights to appoint, reassign or remove members of an investee's key management personnel who have the ability to direct the relevant activities …".

Stakeholder comments	Staff analysis
	the control guidance in AASB 10. Consequently, **staff recommend** amending Section 8 to clarify the relationship between power and the right to appoint key management personnel. Alternatively, as the Board has not received any similar feedback from other stakeholders, the Board could decide not to make any changes to paragraphs 8.13 – 8.23 in address of the stakeholder feedback to highlight the application of the control assessment in arrangements where a parent entity has the right to appoint the majority of the board of a subsidiary: the current guidance remains sufficient.
9. A stakeholder (professional services firm) considered that the Tier 3 Standard should include the illustrative examples and principles relevant to NFP private sector entities in Appendix E of AASB 10 *Consolidated Financial Statements* (as amended by the Board's Post-Implementation Review of Appendix E of AASB 10).	Staff note that adding further examples to the proposed Tier 3 Standard or material published together with the Standard will further lengthen the pronouncement. This is not desirable especially as there has not been strong stakeholder feedback recommending the inclusion of such guidance. Staff note that this is consistent with the sentiment that many smaller NFP private sector entities electing to prepare Tier 3-compliant general purpose financial statements will not consolidate their subsidiaries. In accordance with the notable relationship entity proposals in Section 8, such entities will not be required to identify whether their interest is that of a parent/subsidiary relationship: resultantly, the guidance in Appendix E of AASB 10 becomes less important to include. In addition, staff note that the Board's proposals do not prevent an entity from referring to the guidance in Appendix E of AASB 10 in deciding whether or not control exists. Consequently, having regard to the observations above, **staff recommend** <u>not</u> adding the illustrative examples and principles relevant to NFP private sector entities in Appendix E of AASB 10 to a Tier 3 Standard in response to the stakeholder comment. Relatedly, staff note that at its 1 May 2025 meeting, the Board decided not to propose any amendments to AASB 10 following its post-implementation review of Appendix E of AASB 10, but to undertake further research to better understand the significance, prevalence and magnitude of the implementation challenges identified by stakeholders. Hence, it is unlikely that the guidance in Appendix E of AASB 10 will be reconsidered again prior to the Board's proposals to limit the ability of NFP private sector entities to prepare special purpose financial statements becoming effective. The Board's Post-Implementation Review of Appendix E of AASB 10 is mostly complete and a feedback statement is currently being prepared to conclude that project (expected Q3 2025).

Stakeholder comments	Staff analysis
10. A stakeholder (professional services firm) observed that, while the circumstance is rare, the proposals could result in significant application issues where a subsidiary complies with Tier 2 reporting requirements, as paragraph 8.27 of ED 335 requires the subsidiary's financial statements to be adjusted to reflect the same accounting policies as the parent (who prepares Tier 3-compliant financial statements).	Staff concur that under the proposals, the proposed consolidation procedures would require a Tier 3 parent entity to adjust the Tier 2-compliant financial statements/records of its subsidiary to reflect the application of Tier 3 accounting policies. Staff expect that instances where an adjustment would be required will be limited. Further, staff think that where there are substantive differences between the accounting policies of the entities, this might indicate that the Tier 3 parent should be reassessing whether Tier 3-compliant general purpose financial statements provide its users with an appropriate level of useful financial information. Having regard to the above, **staff recommend** making no change to the ED 335 proposals in response to the stakeholder comment.
Disclosures	
11. A stakeholder (professional services firm) disagreed with the proposed requirement in paragraph 8.6(d) of ED 335 for the entity to disclose whether the financial statements of its notable relationship entities are audited or reviewed. The stakeholder considered these disclosures to be unnecessary, and noted that Tier 2 reporting requirements do not require similar disclosure. The stakeholder further observed that it might be difficult to obtain such information where the entity only has significant influence or joint control over the notable relationship entity.	In developing ED 335, the Board heard feedback from its NFP Project Advisory Panel about assurance concerns with including unaudited summarised financial information about the notable relationship entity in the reporting entity's financial statements. Having regard to this, the Board decided that disclosure of whether a notable relationship entity's financial information is sourced from audited financial statements would be useful to users. Staff note the stakeholder observation that AASB 1060 does not require similar disclosure. Hence, the Tier 3 Standard appears to require more information than that if Tier 2 financial statements were presented. However, the circumstances are not equivalent as Tier 2 reporting requirement require subsidiaries, associates and joint ventures to be consolidated/equity accounted. Therefore, a specific disclosure is not necessary because these financial statements already implicitly communicate such information to users. Staff note the concern raised by the professional services firm stakeholder that it might be difficult to obtain information where the entity only has significant influence or joint control over the notable relationship entity. However, staff think that confirmation of whether or not the notable relationship entity's financial statements are audited or reviewed should be something that could be expected to be obtainable by an investor that has significant influence or joint control over that other entity. Consequently, having regard to the above, **staff recommend** making no change to the specified disclosures exposed in ED 335 in response to the stakeholder comment.

Stakeholder comments	Staff analysis
12. A stakeholder (professional services firm) expressed reservations about the usefulness of notable relationship disclosures because they lack financial information about the notable relationship entities. As such, the stakeholder recommended requiring disclosures of financial data including total income, total assets and total liabilities, unless impracticable. (*Staff note*: The stakeholder would prefer a Tier 3 Standard require a parent entity to prepare consolidated financial statements)	In developing ED 335, the Board considered whether to require the disclosure of its notable relationship entities' summarised financial information.[13] As part of its deliberations, the Board had regard to stakeholder feedback on ITC 51 *Post-implementation Review of Not-for-Profit Topics* and from its NFP Project Advisory Panel about difficulties in obtaining such information and the impacts of such proposal on assurance activity, balanced against the risk that absenting the disclosures would result in financial statements that do not meet the needs of users. Ultimately, as noted in Basis for Conclusions paragraph BC51 of ED 335, the Board concluded that specifying such disclosures would likely reduce considerably the cost savings from not preparing consolidated financial statements because the reporting entity would continue to suffer the costs of record-keeping and calculating financial statement elements of its controlled entities. Consequently, staff think that the stakeholder feedback does not provide any new or compelling evidence that should cause the Board to revisit its disclosure proposal exposed in ED 335. Staff further note that paragraphs 8.6(e) and 28.8(b) of ED 335 require disclosure about the entity's transactions and outstanding balances with, and commitments to, its notable relationship entities. This provides users of the Tier 3 financial statements a level of insight into the exposure of the entity to its notable relationship entities. So, **staff recommend** making no change to the extent of disclosures in response to the stakeholder comment.

15 In addition to the stakeholder comments summarised in Table 2, as part of our consideration of Section 8 viz the stakeholder feedback received, staff have identified further possible editorial or minor amendments to Section 8 that have not been raised for the Board's consideration as part of this paper. These include amendments identified as part of staff's review of the third edition of the IFRS for SMEs Accounting Standard (issued in February 2025). As part of that review, staff determined that the IFRS Standard contains no significant substantive changes from the Exposure Draft on which Section 8 was based that impact the Board's proposed recognition and measurement proposals regarding subsidiaries, consolidated financial statements and separate financial statements. However, staff have identified several editorial and other minor differences, including potential deletion of a duplicate disclosure requirement. Staff intend to bring these recommendations, together with the changes resulting from the Board decisions on the matters noted in Table 2, to a future Board meeting for consideration as part of the Board's review of a revised draft Tier 3 Standard (expected November 2025).

13 Refer Agenda Paper 5.2 of the 29-30 November 2023 AASB meeting

Summary of recommendations and Question to the Board

16 Having regard to the majority support for the proposals and staff's analysis of the stakeholder concerns raised, staff recommend that the Board finalise, subject to any redrafting necessary to improve the clarity of the requirements, the Tier 3 requirements regarding subsidiaries and notable relationship entities as exposed in Section 8 of ED 335. In particular, Section 8 should be amended to clarify:

(a) the intended operation of the Section and its requirements, including to clarify the interaction between Section 8 and Section 13;

(b) that separate financial statements have the same meaning as in Tier 1 and Tier 2 reporting requirements;

(c) that the fair value through other comprehensive income election is made for the first notable relationship entity, and thereafter applies to all notable relationship entities; and

(d) the relationship between power and the right to appoint key management personnel.

Question 1 for Board members

Do Board members agree with the staff recommendation in paragraph 16 above for the Board to finalise, subject to any redrafting necessary to improve the clarity of the requirements, the Tier 3 requirements regarding subsidiaries and notable relationship entities as exposed in Section 8 of ED 335. In particular, Section 8 should be amended to clarify:

(a) the intended operation of the Section and its requirements, including to clarify the interaction between Section 8 and Section 13;

(b) that separate financial statements have the same meaning as in Tier 1 and Tier 2 reporting requirements;

(c) that the fair value through other comprehensive income election is made for the first notable relationship entity, and thereafter applies to all notable relationship entities; and

(d) the relationship between power and the right to appoint key management personnel.

If not, what do Board members suggest?