



Australian Government

The Treasury

THIN CAPITALISATION (AIFRS AND ADIS): MODIFICATION OF THE RULES IN RELATION TO THE APPLICATION OF ACCOUNTING STANDARDS

SUMMARY OF CONSULTATION PROCESS

The Government announced on the 12 May 2009 that it would introduce changes to the thin capitalisation regime for approved deposit taking institutions to adjust for impact of the adoption of the Australian equivalent of International Financial Accounting Standards (AIFRS).

This measure was included in Tax Laws Amendment (2010 Measures No. 3) Bill 2010 which was introduced into Parliament on 26 May 2010.

Consultation process

Consultation on draft legislation was conducted between 17 December 2009 and 15 January 2010. Two submissions were received. Ongoing discussions with industry continued until 13 May 2010.

Submissions can be viewed on the [Treasury website](#).

Summary of key issues

Submissions supported the proposed amendments to the thin capitalisation rules to adjust for the impact of the adoption of AIFRS.

Key Issue

The main issue raised during consultation was the valuation and treatment of business asset known as the excess of market value over net assets (EMVONA). This asset is no longer recognised under AIFRS. Consequently, submissions sought further clarification of the methodology for valuing the asset where it was acquired after the introduction of AIFRS.

Response

The exposure draft legislation and explanatory memorandum were amended to clarify the treatment and valuation of EMVONA for transactions entered into both before and subsequent to the introduction of AIFRS.

Broadly speaking, the amendments allow for actuarial valuations of the relevant component of EMVONA at the time of the acquisition to be used. If no valuation is made at that time, the relevant component of EMVONA is given a nil value.

Suggestions not adopted

One submission suggested the use of a proxy for EMVONA that could be adopted in respect of transactions entered into after the introduction of AIFRS.



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Adoption of the suggested proxy would not accurately reflect the thin capitalisation position of the entity if the transaction had been entered into prior to the introduction of AIFRS. Consequently the suggestion was rejected.

Feedback

Feedback on the consultation process for this measure can be forwarded to consultation@treasury.gov.au . Alternatively, you can contact Amanda Zanardo on (02) 6263 2854.

Thank you to all participants in the consultation process.