

Collation of comments and staff recommendations

ED 233 *Australian Additional Disclosures – Investment entities*

Introduction and Background

1. The IASB amended IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosures of Interest in Other Entities* and IAS 27 *Separate Financial Statements* (“IASB amendments”) in October 2012 to provide an exception to consolidation for entities that meet the definition of an ‘investment entity’ and to require them to present their controlled entities at fair value through profit and loss.
2. In December 2012 the AASB issued Exposure Draft 233 *Australian Additional Disclosures – Investment Entities* (ED 233) proposing to introduce the IASB amendments and to require Australian additional disclosures for Australian entities that meet the IASB’s definition of an investment entity. Comments on the ED were requested by 29 March 2013.
3. This agenda paper summarises the comments received on ED 233 and provides staff analysis and recommendations for consideration by the Board. Staff have used judgement in interpreting and summarising the comments received in this paper – it is not a substitute for reading the full text of the submissions provided in Agenda Paper 7.3.
4. This paper is structured as follows:
 - (a) Submissions received
 - (b) Feedback from targeted outreach
 - (c) Staff analysis and recommendations:
 - (d) Process
- (a) Submissions received**
5. 29 submissions were received in response to ED 233. The submissions are included in Agenda Paper 7.3. Below is a list of the respondents, presented in the order of receipt:

Abbreviation	Organisation	Type
1. IFM	Industry Funds Management	Fund manager
2. WestKemp	Westworth Kemp Consultants	Consultants
3. AVCAL	The Australian Private Equity & Venture Capital Association	Member organisation
4. IOOF	The IOOF Group	Financial services company
5. CH	Crowe Horwath	Accounting firm
6. MMC	MMC Limited	Fund administrator
7. G100	The Group of 100	Organisation of CFOs
8. AMP	AMP Limited	Wealth management company
9. Willie Ooi	Willie Ooi	Individual
10. ANZ	Australia and New Zealand Banking Group	Bank
11. Unity	Unity Administration	Fund administrator
12. Macquarie	Macquarie Group	Financial services provider
13. Equity	Equity Trustees	Wealth management company
14. KPMG	KPMG (Australia)	Accounting firm
15. BDO	BDO Australia	Accounting firm
16. QIC	Queensland Investment Corporation	Fund manager
17. AICD	Australian Institute of Company Directors	Member organisation
18. Deloitte	Deloitte Touche Tohmatsu	Accounting firm
19. Vanguard	Vanguard Investments Australia ltd	Fund manager
20. NAB	National Australia Bank	Bank
21. GT	Grant Thornton Australia	Accounting firm
22. PwC	PricewaterhouseCoopers	Accounting firm
23. FRS	Financial Reporting Specialists	Consultants
24. E&Y	Ernst & Young	Accounting firm
25. ICAA & CPAA	Institute of Chartered Accountants in Australia and CPA Australia	Professional bodies
26. INTACCAUD	The International Accounting and Auditing Institute	Consulting firm
27. Zurich	Zurich Australia Ltd	Financial services provider
28. ASIC	Australian Securities & Investments Commission	Regulator
29. FSC	Financial Services Council	Representative of fund managers

Type	Number of respondents
Accounting firm	7
Fund manager or representative of fund manager	6
Financial services provider	3
Consultants or consulting firm	3
Fund administrator	2
Bank	2
member organisation	2
Regulator	1
Joint Professional bodies	1
Individual	1
Organisation of CFOs	1

6. One respondent¹ expresses agreement with requiring the Australian additional disclosures proposed in ED 233 and urges the AASB to require even further note disclosures that would have been provided had all controlled investments been consolidated. This respondent believes that Australian entities should remain IFRS compliant but is concerned that adopting the IASB amendments without Australian additional disclosures would result in a loss of transparency and important information for users.
7. Another respondent² expresses support for Alternative View 1³ in ED 233. This respondent views the IASB amendments as providing a loophole and incentive for avoiding consolidation and considered that all controlled entities should be consolidated.
8. The remaining 27 respondents do not support the ED 233 proposals and express a view that the AASB should adopt the IASB amendments unchanged. These respondents do not consider the proposed Australian additional disclosures to be appropriate, warranted, nor in the best interest of the Australian economy, for the reasons summarised (and grouped) below:

¹ ASIC

² The International Accounting & Auditing Institute (INTACCAUD)

³ IASB amendments that provide an exception to consolidation for investment entities are a violation of the basic principle of control and would lead to inconsistency in reporting between similar entities.

	Reason	Respondent
Relevance		
1	The proposed Australian additional disclosures are not relevant and provide little or no value to users of financial statements of investment entities ⁴ .	All 27 respondents that did not support ED 233
2	For an investment entity, fair value information about its investments (whether controlled or not) is the most useful and relevant information for users and investors; an investment entity's strategy is generally the same for all its investments regardless of the significance of the investments.	All 27 respondents that did not support ED 233
3	Control is somewhat theoretical in open-ended funds, changes in control of underlying funds can take place regularly, if not daily, by virtue of investors buying and selling without restriction.	MMC
Complexity and comparability		
4	The proposed Australian additional disclosures would increase complexity in financial statements of Australian investment entities with the potential to confuse or even mislead users to focus on information that is not relevant to decision making.	IFM, IOOF, CH, MMC, ANZ, NAB, G100, FSC, Unity, Macquarie, Equity, KPMG, BDO, QIC, AICD, Deloitte, PwC, Vanguard, FRS, ICAA & CPA, Zurich.
5	The proposed Australian additional disclosures would reduce comparability between Australian investment entities and their international counterparts who are IFRS compliant and do not have to present the additional disclosures.	WestKemp, G100, AMP, KPMG, PwC,
Disclosures		
6	IFRS 12 disclosure requirements (as amended by IASB) are sufficient to meet the needs of users of investment entity financial statements. IFRS 12 disclosures would convey the judgement exercised by management in determining that an entity meets the definition of an investment entity and the risks associated with controlled investments.	Macquarie, Deloitte, PwC, EY, ICAA & CPA, Zurich
7	The disclosures required by AASB 7 <i>Financial Instruments: Disclosures</i> (for example about determining fair value and market risks etc) are sufficient and would provide more relevant and useful information on controlled investments that are fair valued compared to consolidation information.	IFM, Equity, Deloitte, PwC
8	Investment entities would voluntarily disclose consolidation information if users and investors demand it.	QIC
9	The proposed Australian additional disclosures appear to be inconsistent with the guidance in ASIC Regulatory Guide 230 <i>Disclosing Non-IFRS Financial Information</i> .	WestKemp, CH, FRS
Cost benefit		
10	Australian investment entities would incur higher costs of compliance relative to their international counterparts for little or no additional benefits, resulting in a competitive disadvantage for them.	All 27 respondents that did not support ED 233

⁴ AMP expressed the view that although consolidation information was not relevant for decision making in most types of funds, it was relevant for property funds.

	Reason	Respondent
11	Preparing the Australian additional disclosures may cause time pressure and delays in financial statement preparation. There may be practical difficulties in preparing the Australian additional disclosures, particularly if an Australian investment entity has controlled investment entities overseas that are IFRS compliant and do not prepare the information needed to make the additional disclosures.	IFM, Unity, QIC, Macquarie, Equity, AICD, Zurich
IFRS adoption		
12	The proposals, if adopted, could lead to a perception internationally that Australian investment entities are not IFRS compliant.	WestKemp, BDO, PwC,
13	The proposals are a retrograde step from the objective of international harmonisation of accounting standards. They would increase the differences between Australian Accounting Standards and IFRS and would not be in line with the AASB policies and procedures for adopting IFRS.	IFM, WestKemp, CH, QIC, Unity, PwC, FRS, ICAA & CPAA,
14	The issuance of AASB 1054 was a positive step by the Board in bringing Australian and New Zealand Standards closer to IFRSs and to eliminate differences from IFRS, where possible. The proposals in ED 233 diverge from to this.	CH, FRS
Consistency with other IFRS		
15	Fair value measurement for controlled investments is consistent with the measurement of associates and joint ventures by investment entities	Macquarie
16	The IASB amendments are consistent with the distinction between operating and investing cash flows in IAS 7 <i>Cash Flow Statements</i> and the use in IFRS 8 <i>Segment Reporting</i> of an entity's business model to determine segment reporting.	WestKemp
Due process		
17	The AASB has not provided any evidence or clear basis for proposing the Australian additional disclosures. There appears to be no specific Australian reason or user need to warrant the additional disclosures.	WestKemp, AVCAL, AMP, Unity, Macquarie, KPMG, BDO, AICD, Deloitte, PwC, EY, ICAA & CPAA, FSC
18	The AASB has not provided any cost/benefit analysis to justify proposing the Australian additional disclosures for Australian investment entities. This is required under the ASIC Act 2001 section 231(2).	BDO, Deloitte, GT, PwC
Structuring opportunities		
19	The IASB definition of 'investment entity' is sufficiently robust to minimise structuring opportunities; IASB's conclusion not to allow investment entity accounting for a non-investment entity parent would substantially mitigate the risk of misuse.	PwC, EY

9. One respondent⁵ recommends that, if the AASB believed that users of financial statements are concerned about the loss of financial information, the AASB should consult further with users to identify exactly what additional information users would like, if any, rather than proposing additional disclosures in the form of consolidation information.
10. Another respondent⁶, whilst strongly disagreeing with the proposals, says that, if the AASB proceeds with the ED 233 proposals, the form and structure of the disclosures should be at the preparer's discretion.
11. Staff note that as reflected in the table immediately above paragraph 6 above, the submissions received are mainly from accounting firms, fund managers and financial services providers. It is conspicuous that there are no submissions from superannuation entities. Our general understanding based on our consultations on other topics with superannuation entities is that they believe their preference for the IASB amendment (without additional Australian specific disclosures) is on record through comments made in response to ED 179 *Superannuation Plans and Approved Deposit Funds* and ED 223 *Superannuation Entities* (refer to Appendix B of this paper for collation of pertinent comments from roundtables held on ED 223).
12. Staff note that there are no comments specifically made about the implications of the proposals for public sector entities or private sector not-for-profit entities. We understand that the IASB amendments would not be expected to have a significant impact on such entities and certainly no sector specific impacts. In terms of GAAP/GFS harmonisation in the context of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* no implications are expected due to the fact that although the whole of government or GGS might be a parent of an investment entity, the whole of government and GGS would not themselves be investment entities.
13. Respondents do not make specific comments about any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals other than concerns that the proposals may be inconsistent with the guidance

⁵ NAB

⁶ G100

in ASIC’s Regulatory Guide 230 *Disclosing Non-IFRS Financial Information* (RG 230) (reason no.9 in paragraph 8 above).

14. Staff note that RG 230 defines ‘non IFRS financial information’ as “financial information that is presented other than in accordance with all relevant accounting standards” and ‘accounting standards’ as “as defined in s9 of the Corporations Act (also referred to as Australian Accounting Standards)”. Based on these definitions, staff do not consider that the proposed Australian additional disclosures would be inconsistent with the guidance in RG 230 if they were incorporated in an Australian Accounting Standard, and we have confirmed this view with the ASIC.
15. Two of the respondents that, although they do not support ED 233, suggested alternative disclosures that could be considered by the AASB to minimise the adverse impact on decision-making of the loss of consolidation information. The suggested alternative disclosures are:

Alternative disclosures suggested	Respondent
More granular information about financial instruments in the investment entity including: <ol style="list-style-type: none"> 1. a listing of all [relevant] financial instruments; 2. top 10 financial instruments by portfolio weighting; or 3. disclosure of the interest/holding the investment entity has in that financial instrument. 	IOOF
<ol style="list-style-type: none"> 4. Name and country of incorporation of a controlled investment fund; 5. investment objectives; 6. risks and type of securities held during the financial period; 7. size of the investment in relation to the size of the total investment portfolio; 8. investment balance at year end and income derived in the period; 9. percentage held in the controlled investment fund; and 10. the controlled entity’s redemption restrictions. 	MMC

16. The disclosures suggested in 1 – 3 above appear to be for financial instruments generally and would not appear to be the type of disclosures that would compensate for loss of consolidation information. The disclosures 4, 9 and 10 above are already required in IFRS 12 *Disclosure of Interests in Other Entities* (as amended by IASB for investment entities) (refer to Appendix A of this paper for investment entity disclosure requirements in IFRS 12). Disclosures 5, 6 and 8 would generally be addressed via the disclosure requirements in AASB 7 *Financial Instruments: Disclosures*, although it

may not be at an individual investment level. Disclosure 7 is not specifically required in the accounting standards but staff consider that the disclosures requirements in IFRS 12 and AASB 7 would indirectly provide for the information required in disclosure 7.

(b) Feedback from targeted outreach

17. Staff are in the process of contacting users of financial statements of investment entities to discuss their views on the types of disclosures that might be helpful to make decisions about controlled investments. At the time of writing this paper, we have consulted with two security analysts.
18. Both the users highlighted their holistic approach to analysing information about potential investment opportunities. In particular, they identified quality of management, the nature of the business and the funding model for the business as key background matters that need to be considered.
19. In the context of the relief from consolidation for investment entities potentially offering structuring opportunities, they consider that (as a sophisticated investor) they would be able to identify cases where inadequate information is being provided about underlying business activities and distinguish those from cases where management genuinely manages subsidiaries on a fair value basis. Their view is that there are cases where the management at the parent level is seeking to obtain control of the cash flows in an underlying business compared with controlling at the investment level. We note that in theory, the definition of investment entities should exclude cases where management is controlling cash flows in the businesses of subsidiaries.
20. For one user, off-balance-sheet financing remains a concern generally (not just in the context of investment entities) and although the user did not express a view on the ED 233 proposals, the user considered that if the AASB were to require additional Australian disclosures, perhaps information about the amount and structure of liability exposures in subsidiaries of investment entities would be relevant. More generally, on the issue of whether there should be additional disclosures required of investment entities about unconsolidated subsidiaries, this user noted that such disclosures would be more important where the general purpose financial statements of the investees are not available.

21. This user also considers that consolidating subsidiaries of investment entities that are not wholly-owned may not provide the relevant information for decision making because the recognition of minority interests obscure the actual stake in the underlying investment.
22. Staff also contacted a respondent that expressed a view that consolidation information was relevant for property funds⁷ but not for most other types of funds. The respondent highlighted that managers of, and investors in, property funds would look at financial information (including fair values) relating to the underlying properties held by the funds in making investment decisions about the funds and would be less focused on the fair value of the units or shares held in the funds.

Accordingly, it appears, at least from the input of one respondent, that users of financial statements of property funds may need additional disclosures to supplement the IASB amendment for decision making. It is possible that a similar situation may exist for users of other types of funds or investment entities depending on the classes of assets involved. Staff consider that grouping investment entities into different categories with different additional disclosures to supplement the fair value information required by the IASB amendments would result in undue complexity in determining which additional disclosures would apply. This could also exacerbate any perception that may exist internationally that Australian investment entities are not IFRS compliant.

⁷ AMP

(c) Staff analysis and recommendations

23. Staff consider that there are three approaches available to the AASB in respect of addressing the IASB's amendments for investment entities in the Australian context.
- A. **Adopt the IASB amendments without Australian additional disclosures**
 - B. **Adopt the IASB amendments with the Australian additional disclosures proposed in ED 233**
 - C. **Adopt the IASB amendments with Australian additional disclosures that are reduced compared to the ED 233 proposals, in particular disclosures about unconsolidated subsidiary's total assets, total liabilities and total comprehensive income.**
24. Staff have not considered the approach of not adopting the IASB's amendments for Australian investment entities as this would result in Australian investment entities not being able to assert IFRS compliance, an outcome that would be contrary to the AASB's strategy of having "...Tier 1 for-profit entities being IFRS compliant"⁸.
25. Although there may be other disclosures or combinations of disclosures that the AASB could require, the additional disclosures that staff have considered for Approach C are an unconsolidated subsidiary's total assets, total liabilities and comprehensive income for the reasons outlined below.
26. Staff consider that these additional disclosures, which would be significantly reduced compared with the ED 233 proposals and without consolidation adjustments, would be able to help address concerns about loss of transparency and enable users to better evaluate the financial risks of the parent investment entity and the relationship between the fair values of unconsolidated subsidiaries and their underlying assets and liabilities if considered together with the disclosures required in IFRS 12.
27. Staff analysis of the advantages and disadvantages of Approaches A – C are outlined in the table below.

⁸ AASB Policy Statement Policies and Processes March 2011, paragraph 7

Approach		Advantages	Disadvantages
A	Adopt the IASB amendments without the Australian additional disclosures	<ul style="list-style-type: none"> - would clearly mean that Australian investment entities are IFRS compliant. - maintains comparability of financial information between Australian investment entities and their foreign counterparts that are IFRS compliant. - provides fair value information on controlled investments for users of investment entity financial statements - Australian investment entities would not have to incur the costs of consolidating their controlled investments, similar to their foreign counterparts that are IFRS compliant - no further due process required as the AASB has conducted a comprehensive due process on the IASB's amendments and the responses received are overwhelmingly in favour of the IASB amendments. 	<ul style="list-style-type: none"> - concerns about adverse impact due to loss of transparency and consolidation information for evaluating the underlying financial position and performance of the parent together with the assets, liabilities, revenue and expenses of its controlled investees would remain unaddressed - contrary to the core accounting principle of reporting on the items a parent controls
B	Adopt the IASB amendments with the Australian additional disclosures proposed in ED 233	<ul style="list-style-type: none"> - IFRS compliant - provides fair value information on controlled investments for users of investment entity financial statements - would address to some extent concerns about adverse impact due to not consolidating controlled investments - due process already conducted through the ED 233 proposals 	<ul style="list-style-type: none"> - comparability (or at least the perception of comparability) of financial information between Australian investment entities and their foreign counterparts who are IFRS compliant may be impaired - the additional information would increase complexity in financial statements of Australian investment entities and may confuse users as to which information (fair value or consolidation) is more relevant for decision making - Australian investment entities would have to incur additional compliance costs compared to their foreign counterparts that are IFRS compliant. - there may be delays and practical difficulties in obtaining the relevant information from foreign unconsolidated subsidiaries that are

Approach		Advantages	Disadvantages
			<p>investment entities themselves and do not have to prepare consolidation information.</p> <ul style="list-style-type: none"> - if the unconsolidated subsidiaries have different financial year-ends from the parent investment entity, then the additional information about the unconsolidated subsidiaries' underlying assets, liabilities and comprehensive income may not be as relevant for decision making - an overwhelming number of respondents to ED 233 did not support this approach
C	<p>Adopt the IASB amendments with Australian additional disclosures that are reduced compared to the ED 233 proposals, in particular disclosures about unconsolidated subsidiary's total assets, total liabilities and total comprehensive income</p>	<ul style="list-style-type: none"> - IFRS compliant - provides fair value information on controlled investments for users of investment entity financial statements - maintains comparability between Australian investment entities and their foreign counterparts that are IFRS compliant would be largely maintained as the additional disclosures would not be as extensive as the ED 233 proposals - costs of preparing the additional information would be marginal compared to the ED 233 proposals - information about the liabilities, assets and comprehensive income of unconsolidated subsidiaries together with the disclosures required in IFRS 12 would help mitigate concerns about loss of transparency and enable users to better evaluate the financial risks of the parent investment entity and the relationship between fair value and the underlying assets and liabilities of unconsolidated subsidiaries 	<ul style="list-style-type: none"> - Australian investment entities would still have more disclosures compared to their foreign counterparts who are IFRS compliant. - if the unconsolidated subsidiaries have different financial year-ends from the parent investment entity, then the additional information about the unconsolidated subsidiaries' underlying assets, liabilities and comprehensive income may not be as relevant for decision making. - for a structure with layers of unconsolidated subsidiaries, there may still be practical difficulties in obtaining the additional information. - further due process may be needed before the reduced additional disclosures could be incorporated into an Australian amending standard, which would delay the adoption of the IASB amendments in Australia.

28. Based on the responses received (and arguments presented) to ED 233 and feedback on user needs in relation to investment entities, staff could accept the adoption of the IASB amendment without additional disclosures. However, if the Board considers that Australian additional disclosure requirements should accompany the IASB amendment for adoption in Australia, staff recommend Approach C as it would enable Australian investment entities to be IFRS compliant and help address concerns about loss of transparency and off balance sheet financing with Australian additional disclosures that would be significantly reduced compared to the ED 233 proposals. Approach C might also generally alleviate respondents' concerns about complexity in financial statements, higher costs of compliance and lack of comparability with other foreign investment entities.

Questions to Board members:

- 1) Does the Board consider it appropriate to adopt the IASB amendments for investment entities in Australia without additional disclosures?
- 2) If no, does the Board consider Approach C (with the additional disclosures considered by staff) as an acceptable approach to adopt the IASB amendments in Australia?
- 3) If no, what other alternative approach would the Board consider appropriate?

(d) Due process

29. If the Board decides to adopt the IASB amendments without Australian additional disclosures, staff consider that no further due process is needed as the AASB has conducted a comprehensive due process on the IASB's amendments and the responses received are overwhelmingly in favour of the IASB amendments.
30. If the Board decides on Approach C or another similar approach that would have less onerous additional disclosures, staff consider that, on balance, further due process would still be needed as formal views from Australian constituents have not been sought on these approaches.

Question to Board members:

- 1) Does the Board agree with staff comments on due process in paragraph 29 and 30 above?

Appendix A –New disclosure requirements in IFRS 12 for investment entities

Investment entity status

- 9A** When a parent determines that it is an investment entity in accordance with paragraph 27 of IFRS 10, the investment entity shall disclose information about significant judgements and assumptions it has made in determining that it is an investment entity. If the investment entity does not have one or more of the typical characteristics of an investment entity (see paragraph 28 of IFRS 10), it shall disclose its reasons for concluding that it is nevertheless an investment entity.
- 9B** When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including:
- (a) the total fair value, as of the date of change of status, of the subsidiaries that cease to be consolidated;
 - (b) the total gain or loss, if any, calculated in accordance with paragraph B101 of IFRS 10; and
 - (c) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

After paragraph 19, a heading and paragraphs 19A–19G are added

Interests in unconsolidated subsidiaries (investment entities)

- 19A** An investment entity that, in accordance with IFRS 10, is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss shall disclose that fact.
- 19B** For each unconsolidated subsidiary, an investment entity shall disclose:
- (a) the subsidiary's name;
 - (b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary; and
 - (c) the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.
- 19C** If an investment entity is the parent of another investment entity, the parent shall also provide the disclosures in 19B(a)–(c) for investments that are controlled by its investment entity subsidiary. The disclosure may be provided by including, in the financial statements of the parent, the financial statements of the subsidiary (or subsidiaries) that contain the above information.
- 19D** An investment entity shall disclose:

- (a) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity; and
 - (b) any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, including commitments or intentions to assist the subsidiary in obtaining financial support.
- 19E If, during the reporting period, an investment entity or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated subsidiary (eg purchasing assets of, or instruments issued by, the subsidiary or assisting the subsidiary in obtaining financial support), the entity shall disclose:
- (a) the type and amount of support provided to each unconsolidated subsidiary; and
 - (b) the reasons for providing the support.
- 19F An investment entity shall disclose the terms of any contractual arrangements that could require the entity or its unconsolidated subsidiaries to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).
- 19G If during the reporting period an investment entity or any of its unconsolidated subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated, structured entity that the investment entity did not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity shall disclose an explanation of the relevant factors in reaching the decision to provide that support.

Appendix B – Extract from collation of comments on ED 223 *Superannuation Entities*

This extract from the collation incorporates the views expressed at AASB ED 223 Roundtables on 12 April (Sydney) and 13 April (Melbourne) 2012, as recorded in staff notes.

The AASB did not specifically seek feedback on consolidation via ED 223, but the AASB's ED 220 *Investment Entities* (incorporating the IASB's ED/2011/4 *Investment Entities*) had only recently closed for comment.

5	Consolidation
	<p>ED 223 proposes that consolidated financial statements be required and that parent entity financial statements be permitted [ED 223, paragraphs 11, 12 and AG4]. ED 179 had the same proposals.</p> <p>AASB 127 <i>Consolidated and Separate Financial Statements</i> (and AASB 10 <i>Consolidated Financial Statements</i>) applies in the context of AAS 25.</p> <p>The ED 223 Preface notes:</p> <ul style="list-style-type: none"> * IASB's ED/2011/4 <i>Investment Entities</i>, proposing 'investment entities' account for subsidiaries at fair value through profit or loss, rather than consolidating * if the IASB proceeds with investment entity requirements, the AASB would need to consider the impact on superannuation entities, and it is not known whether the relevant criteria would consistently cover all types of superannuation entities with controlled entities.

Reference Comments

Round- tables	<p>The most relevant information for members, financial advisers, employers and the APRA is information about fair values.</p> <p>The vast majority of subsidiaries of superannuation entities are likely to be investment vehicles and most superannuation entities play no governance role in those vehicles. If a superannuation entity is unhappy with the performance of an investment vehicle, it will withdraw some or all of its members funds and place them in an alternative vehicle (consistent with members' investment choices).</p> <p>Superannuation entities invest in such vehicles to obtain exposure to a particular class of assets based on the investment choices of their members.</p> <p>Getting timely information from subsidiaries of superannuation entities can be difficult. They are generally geared up to provide fair value information, but not information about particular line items for a consolidation.</p> <p>If there are borrowings or other material liabilities within subsidiaries, relevant information could be provided through note disclosure, rather than through consolidation.</p> <p>If there are concerns about asset concentration, that might best be handled through note disclosure.</p>
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Reference Comments

The IASB's ED/2011/4 *Investment Entities* would generally apply to the circumstances of many superannuation entities. Some of the criteria proposed in ED/2011/4 may be problematic for some types of superannuation entities, particularly those that are not unitised.

The relief from consolidation contemplated in ED/2011/4 should be available to all superannuation entities.

The timing of the IASB's investment entities project and the AASB's superannuation entities project might be awkward.