List of Submissions to ED 233 *Australian Additional Disclosures – Investment Entities (proposed amendments to AASB 1054)*

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05 March 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
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Victoria 8007

Dear Sir/Madam

AASB Exposure Draft ED 233 Australian Additional Disclosures – Investment Entities

Industry Funds Management Pty Ltd (IFM), as a substantial provider of financial returns to over 5 million Australians, is pleased to respond to the AASB's ED 233 and to outline our opposition to the proposed consolidated disclosures amendments to the Investment entities exemption.

IFM is an institutional fund manager that specialises in the management of investment products across four asset classes, namely Debt Investments, Listed Equities, Global Infrastructure and Global Private Equity.

IFM is owned by 30 major Australian superannuation funds, many of which are also our clients. This "no conflict" ownership structure aligns the interests of IFM's owners with its clients and allows us to focus on delivering superior long-term investment outcomes. To do this, we adopt a patient, strategic approach to investment management that considers environmental, social and governance factors.

IFM is headquartered in Melbourne and has teams based in Australia, Europe and North America. The firm's clients and investment professionals are located in three of the world's four largest pension markets. As at 31 January 2013, IFM manages A$41.0 billion in global assets, on behalf of 97 clients representing over 5 million members of Australian and US Superannuation/ Pension Funds. As such we compete directly with Fund Managers from around the globe and represent a significant Australian export success.

Across our four asset classes we have one common valuation methodology, which is to provide fund Net Asset Valuations (NAV) at 'fair value', which is the basis for the unit pricing calculations we undertake on a daily or weekly basis, across all of our funds. The AASB's ED 233 additional disclosure requirement goes to the very heart of IFM's daily processes and the informational content of our annual accounts across a wide range of funds, geographies and legal ownership structures.

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IFM as the manager has no legal ownership in the underlying funds or assets, with Industry Funds Management (Nominees) Ltd acting as trustee to the various funds on behalf of the underlying investors, who have full beneficial entitlement to the underlying returns and net assets of the funds.

The particular asset class to which ED 233 is most relevant for IFM is our Global Infrastructure Funds. IFM currently manages assets of over A$12.6b across Australian and International Infrastructure. Australian investors invest through a Pooled Superannuation Trust (PST), while our US, Canadian and UK investors invest via Limited Partnerships into a Caymans registered Master Trust, which is also invested in by the Australian PST. The investments range from minority shareholdings in unlisted assets such as airports, toll roads, PPPs (aged care facilities, water utilities, schools, train stations) seaports and pipelines, up to 100% ownership in some cases. As our assets are unlisted, there are no market data services providing valuations, but IFM requires and sources quarterly independent valuations on every asset in which we invest, regardless of our ownership percentage.

The fair value of a long lived infrastructure asset is based on a discounted cash flow model, taking into account a myriad of market variables. This fair value will most definitely be different to the net book value of the investment entity, essentially reflecting the value to a willing buyer and a willing seller of those future cash flows in the context of a risk adjusted return.

The sum of the portfolio investments at fair value form the net asset value of the fund, which in turn is the numerator for the valuation of an investor's individual unit or ownership interest in the fund. The investment industry expects unit prices to be available within hours of a period end, and our current timelines for weekly and monthly unit prices are by CoB next business day. This is possible because the valuation is a single point estimate sourced specific to that period. It is not, and it would be virtually impossible to be, the sum of individual trail balances from the myriad of underlying operating entities in which we invest.

The concept of Consolidated Accounts is an important one in the context of groups of companies, parents and subsidiaries, but this is not the reality of the investment purpose. The IFM Global Infrastructure Fund is an amalgam of many disparate investment entities, with a wide range of ownership percentages, across a range of industries and geographies. The companies in which we invest are fully autonomous legal entities, running their own operations and Boards, and this is the same whether we own 5% or 100% of the asset. The operating entities prepare their own group accounts and are compliant with accounting standards that apply to them as separate legal corporate structures and this will not change under IFRS 10.

The key point to note is that the IFM Global Infrastructure Funds, as an investment entity under all of the definitions proposed, would be unable to aggregate minority investment positions held at fair value with consolidated accounts for entities in which we have even obvious control of greater than 50%, and still produce a unit price by CoB next business day, as required by the investors we serve.

The final issue to highlight is the lack of informational value to investors in a pooled investment vehicle of consolidated accounts of disparate assets. For example, within the IFM Global Infrastructure Fund we would have a situation whereby we have majority ownership interests in airports and a renewable energy entity. In both cases the fair value of these assets to an investor is substantially higher than the net book value of the corporate entities, due to their future growth potential reflected in the forecast cash flows underlying their independent DCF valuations.

IFM is a very keen supporter of truly global accounting standards. We currently provide financial reporting across four geographies, with investors in the US, UK, Canada and Australia. We find that the variation in accounting standards across these geographies creates additional cost in our business operations and we support the broader adoption of IFRS globally. In this regard, we strongly encourage the AASB to fully comply with the final IFRS standard once it is ratified.

IFM does not support an Australian amendment requiring consolidated disclosures as this would put us at a cost and operational disadvantage relative to our Global Fund Manager competitors in Europe and North America.

If it is appropriate and of benefit to the Board members, IFM would welcome discussing these issues in more detail with you.

Yours faithfully

Philip Dowman CA (Australia and New Zealand), BBS (Hons)
Executive Director – Finance and Operations
Industry Funds Management Pty Ltd
Industry Funds Management (Nominees) Limited

SN	Question	Response and Comments
1	The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted	The proposed Australian additional disclosures are not supported by IFM. We are an Australian company exporting our services to clients in 3 of the 4 largest pension fund markets in the world and the Australian disclosure requirements are at odds to the demand for greater harmonisation of Accounting Standards post the GFC. As an Investment Manager, our client's primary interest is in the fair value of the investments we make and account back to them on. As consolidation information would not fully allow for the fair value accounting of some underlying investments, the resulting financial statements could be misleading at worst and confusing at best to our investor clients.
2	Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information	Fair value for Investment Reporting entities is the most appropriate and also has the more consistent information basis for our clients. Consolidation disclosures would confuse rather than benefit our clients in their understanding of the value of their investments in the IFM Pooled Trusts and Partnerships. AASB 7 disclosures already allow for the appropriate understanding of the investments held and are more appropriate for the investment entity on a non-consolidated basis.
3	If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements	IFM does not believe the proposed Australian disclosure regime is appropriate. We would prefer harmonisation with IFRS and the distinction of a Tier 2 entity is also not of benefit in the Global context.
4	Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to: (a) Not-for-profit entities; and (b) Public sector entities;	The proposed ED 233 specific Australian disclosures will be a significant cost burden and cause Australian firms competing globally to be at an operational disadvantage.

SN	Question	Response and Comments
5	Whether, overall the proposals would result in financial statements that would be relevant to users	For all investors, fair value accounting when applied consistently and transparently is of most relevance. The consolidated disclosure requirements will more likely than not result in increased confusion to users, as fair value measures would be in excess of the consolidated values of the underlying investee entities.
6	Whether the proposals are in the best interests of the Australian economy	The ED 233 proposed amendments are not in the best interest of the Australian economy. As an investor in Infrastructure assets globally, IFM believes it is more important than ever for accounting standards to be harmonised. As IFRS have seen fit to recognise the specialised reporting requirements of Investment entities, then Australian standard setters should conform to their views. IFM is now a recognised global leader in Infrastructure Investment Management and the leading Infrastructure investor in Australia, having recently completed a US$1.4b acquisition of the Manchester Airport Group and through it Stansted Airport in the United Kingdom. This transaction has allowed IFM to draw down investor commitments in the UK, Canada, USA and Australia. It is extremely important that we can report consistent information across our globally diverse investor client base and the AASB proposed variance from IFRS is therefore not in the interests of an expanded global presence by Australian investment entities such as IFM.
7	Unless already provided in response to specific matters for comment 1-6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative	The costs of consolidation, whether by way of disclosure or within the financial statements themselves would have a significant capital (systems) and operational cost impact on IFM. IFM has recently completed a significant investment in a new fund accounting system to accommodate the information needs of our globally diverse client base. Consolidated accounting of investments rather than their fair value accounting would cause a significant rework to our core fund accounting systems. Operationally we would also require more staff to duplicate our fair value based unit pricing processes into a delayed release of consolidated accounting disclosures.

WESTWORTH KEMP
CONSULTANTS

710/2 York Street
Sydney NSW 2000

8 March 2013

The Chairman
AASB
PO Box 204
Collins Street West VIC 8007

By email

Dear Kevin

Re: ED 233 Australian Additional Disclosures – Investment Entities

Westworth Kemp Consultants value the opportunity to provide feedback into the consultative process surrounding the auditor's responsibilities relating to other information in documents containing or accompanying audited financial statements. We are a boutique consultancy specialising in financial reporting, assurance and compliance issues, particularly in the context of litigation and dispute resolution (www.westworthkemp.com.au).

We are writing to express our grave concern with the tenor of this exposure draft. In 2002, the FRC decided that Australia should adopt IFRS, a decision that was implemented by the AASB issuing a "stable platform" of converged Australian standards in 2004, the application of which resulted in compliance with IFRS. At that point, Australia ceded its sovereignty in terms of standard-setting for publicly accountable private sector entities and the role of the AASB became the role of a commentator and lobbyist in an international forum. Shortly after the changeover to AIFRS took place, the few optional treatments permitted under IFRS were reinserted into the standards and many of the remaining Aus paragraphs were removed to ensure, as far as possible, complete convergence. Australian entities then had access to all the accounting treatments permitted under IFRS overseas. To insert significant new Australian disclosure requirements now and to delay the adoption of a standard that was passed by the IASB in October 2012 is in our view a retrograde step. Furthermore Australian investment entities are being prejudiced in an international context by being prevented from early-adopting the October 2012 amendments.

We understand that control based consolidation has been a key feature of Australian financial reporting for a long time and has stood Australia in good stead, but in our view there are circumstances where the nature of the investor relationship is better portrayed by accounting for the investment at fair value.

Furthermore, we object to the implicit encouragement in BC 19 of ED 233 to present the additional disclosures on the face of the primary financial statements. In our view, this treatment is potentially misleading as it would result in financial statements that appeared not to comply with IFRS and is also out of synchronisation with the views of ASIC presented in their paper on *Disclosing non-IFRS Financial Information*, RG 230. We note paragraph 35: "Any non-IFRS financial information necessary to give a true and fair view of the financial position and performance of the entity should be presented in accordance with the principles in this guide. In particular, it should not be presented in a manner that may mislead or deceive. For example, that information should not be given greater prominence than

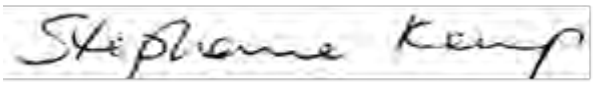
WESTWORTH KEMP
CONSULTANTS

IFRS financial information and it should be clear that it has not been prepared in accordance with accounting standards." These proposals advocate the insertion of non-IFRS financial information by an AASB standard, which is, in our view, an unsatisfactory situation.

We attach hereto our responses to the questions for specific comment. If you wish to discuss any of these matters further, please contact me at chris@westworthkemp.com.au.

Yours faithfully

Chris Westworth, LLB, FCA, FAICD



Stephanie Kemp MA, FCA

Appendix: the AASB's specific questions

The AASB would particularly value comments on the following:

1 the appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted;

As we noted in our covering letter, Australia effectively relinquished standard setting for publicly accountable private sector entities when the decision was made in 2002 to adopt IFRS and the loss of freedom to develop private sector standards was an accepted cost, which would be outweighed by the benefits of direct comparability, such as a lower cost of capital and lower costs for preparers, auditors and users of financial statements[1].

The IASB conducts an extensive due process prior to issuing a standard and national standard setters can lobby for their preferred outcome. From time to time national interests come second to the benefits of global comparability. The IASB has concluded that, for investment entities, consolidation does not convey information that is useful for users. In our view, therefore, to then propose a standard that requires the inclusion of a consolidation is at odds with the requirements established by the IASB.

Because the proposals are so at odds with IFRS, they do not fall within the provisions of AASB 101 (IAS 1) paragraph 15 which allows the inclusion of additional information to allow fair presentation. To run that argument would be to argue that the standards set by the IASB, which specifically exempt investment entities from consolidating, do not give a fair presentation. Such a view undermines the whole principle of international harmonization, achieved by using IFRS as the basis for Australian financial reporting and is at odds with the powers of AASB set out in s227 of the ASIC Act.[2] Consequently, if ED 233 is issued as a standard, Australian companies complying with the standard would therefore not be able to make the unequivocal statement of compliance with IFRS required by AASB 101 (IAS 1) paragraph 16.

If the AASB proceeds with adding these extra disclosures, it is vital that the information be presented in the notes rather than on the face of the financial statements to ensure that readers do not mistake the additional disclosures for the primary IFRS compliant financial statements.

2 whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information;

The AASB appears to have concluded, without explicit justification, that the fair value information required by the IASB's *Investment Entities* amendments is inferior to

[1] AASB presentation http://www.aasb.gov.au/admin/file/content102/c3/IFRS_adoption_in_Australia_Sept_2009.pdf

[2] S227(4) provides AASB with only limited powers to modify international standards "to the extent necessary to take account of the Australian legal or institutional environment and, in particular, to ensure that any disclosure and transparency provisions in the standard are appropriate to the Australian legal or institutional environment"

consolidated information and that its loss has an "adverse impact on decision making". In our view, for the reasons outlined below, this is not the case for investment entities.

The exposure draft contains no substantial argument to support an approach so significantly counter to the one established by IASB, other than a statement of belief that consolidated financial information is useful for users[3]. This does not address the significant arguments put by IASB in its bases for conclusion for the IFRS.

Nor are we convinced that there is empirical evidence to support the views expressed in Alternative View 1 and in particular AV1.3[4]. In our view fair value accounting for investments, while merging assets and liabilities into one fair valued figure, is not the same as off balance sheet accounting.

The IASB's "Amendments to the Basis for Conclusions on IFRS 10 *Consolidated Financial Statements",* which was excluded from the Australian republication in ED 233, sets out (inter alia at BC 215-235) the empiric work undertaken by IASB to consider whether an exception to consolidation was appropriate. In doing so IASB has determined the circumstances in which, for investment entities, the fair value of their investment provides the most relevant information to users in evaluating the investment entity's financial position and operations.

The IASB's approach was based on discussions with respondents and joint deliberations with the FASB, from which it formed the conclusion that fair value rather than consolidation most clearly reflects the purpose of the investment entity – the modus operandi of the investment entity is to buy and sell investments, deriving its benefits from investment income and capital appreciation, rather than from operating the underlying assets (inter alia BC238 in the proposed amendments to the IFRS 10 BC). Therefore the pertinent information is information about the performance of the investments as investments and this information is lost when the assets and liabilities of a variety of investee businesses are merged through a process of consolidation.

Our experience of the past practice of venture capital and private equity entities in Australia is that presenting information in the manner proposed in the IFRS Amendments most fully represents to investors in those entities the activities that formed the basis of their investment decisions namely:

- Because the purpose was to invest in (and develop for sale) discrete investments, the nature of those investments had more affinity with inventory than investments by other entities which are and should be consolidated. Such investments are generally bought at various times and sold at various times during an investment entities life. In such circumstances consolidation masks the value of the investments and their perfomance. By contrast reporting of the fair value of the investments during the period in which they are held measures the manner in which those assets are performing which in our experience is what investors need.

[3] Paragraph 9 of the Basis for Conclusions in ED 233 expresses concern about the impact that "the loss of consolidation information could have on the decision-making of a wide range of users … in order to make informed assessments of an entity's financial position and financial performance."

[4] "the exception to consolidation would require deconsolidation of controlled entities when Australia has been well-served by the control principle and has been relatively free of criticism of off-balance sheet accounting".

- Circumstances can render the provision of consolidated information less useful.

    - Firstly as recognised by IASB in the Basis for Conclusion to the original IASB exposure draft at paragraph BC4, when the investment entity holds controlling stakes in some investments but not in others the quality of the information is further blurred. Without the IFRS Amendment , investments held for the same purpose would be either consolidated or held at fair value, as required by accounting standards, while the purpose of ownership is the same.

    - Secondly there are circumstances where an entity may inadvertently end up controlling an entity that it does not wish to control. This occurred through the operation of clauses in agreements triggered by the violent market movements of the past financial crisis. In such circumstances, for all practical purposes the investor entity will still not exercise control over the investee and seek to escape that position even though for a period it has the capacity to control the investee.

In conclusion, in our view, the decision as to whether investees should be consolidated or not should, as set out in the IASB's *Investment Entity* amendment, depend on the reasons why the investments are held. Investments held by investment entities are held as discrete investments with an ultimate plan for sale. Those that should be consolidated are in broad terms held as operating assets managed and operated more or else collectively.

This distinction between operating and investing assets has already been recognised within accounting standards with the split between operating, financing and investing in AASB 107 (IAS 7) *Cash Flow Statements*. Standard setters perceive a distinction between assets that are being actively managed to generate operating income and those that are being passively held. The use of an entity's business model to determine reporting is seen in AASB 8 (IFRS 8) *Segment Reporting.*

Consequently we do not view the IASB's approach as resulting in a loss of information that users need for decision making.

3 if the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements;

We disagree with the proposed additional disclosure in ED 233 and would therefore support relief for Tier 2 entities if the AASB proceeds with these proposals.

4 whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
(a) not-for-profit entities; and
(b) public sector entities;

If an entity satisfies the definition of an investment entity, it should be permitted to use these amendments regardless of the sector in which it operates. The IASB's

amendments would also be of use to superannuation funds and philanthropic foundations.

The AASB should avoid at all costs setting a standard that appears to conflict with IFRS.

We would also like to register our displeasure at the omission of pages 27 to 57 of the version of the IASB's *Investment Entities* standard that was included in ED 233. This omission deprives Australian constituents of the opportunity of considering fully the IASB's reasoning and undermines the AASB's due process.

5 whether, overall, the proposals would result in financial statements that would be relevant to users;

In our view, for the reasons explained at question 3, the preparation of consolidated information as proposed by investment entities would not result in financial statements that would be relevant to users.

6 whether the proposals are in the best interests of the Australian economy; and

The proposals in ED 233 are not in the best interests of the Australian economy.

They introduce unnecessary differences between Australian standards and IFRS and would result in a lack of comparability with entities overseas. At worst it could result in renewed confusion about the extent to which Australia has adopted IFRS.

7 unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative]

The proposals would result in increased costs to users as investment entities would have to provide two sets of financial information. Australian entities would face a higher cost of compliance than their overseas counterparts.

In addition, if the additional disclosures are shown on the face of the financial statements, the profit figure under consolidation would be different from that under fair value accounting, reducing comparability between Australian and overseas entities and thereby undermining the credibility of Australian financial information and potentially even contributing to an increased cost of capital.

The Chairman
Australian Accounting Standards Board
Po Box 204
Collins Street West
Victoria 8007

11 March 2013

Re: ED233 Investment Entities

Dear Sir,

The Australian Private Equity & Venture Capital Association Limited ("AVCAL") is a national association which represents the private equity ("PE") and venture capital ("VC") industries. AVCAL's members comprise most of the active private equity and venture capital firms in Australia. These firms provide capital for early stage companies, later stage expansion capital, and capital for management buyouts of established companies.

AVCAL, on behalf of its members, strongly opposes the proposal to have investment entities prepare additional consolidated information as if all its controlled entities are consolidated. For private equity and venture capital entities, the purpose is to invest for capital growth and long-term returns for investors (predominantly superannuation or pension funds from Australia and overseas) rather than to generate benefits from synergies with the entities that are acquired. Therefore, the suggested additional consolidated information serves no purpose to our investors who are the users of these financial reports.

As an industry body we support global best practice and we believe that is the approach currently adopted by the IASB. The IASB's deliberation included the types of disclosures that would be relevant for users of these financial statements, and they concluded that it was not necessary to include the additional disclosures being proposed by the AASB. Australian entities gave feedback to the IASB and the IASB crafted a position which we believe is now international best practice. The IASB found no basis or evidence to support the additional consolidated disclosure now suggested in ED233.

As noted in our previous submission on ED220, AVCAL itself has developed reporting guidelines for its members, which were developed in conjunction with investor input as to the types of information they identified as being useful. During that exercise, it was clear that consolidated financial information was not considered relevant, in contrast to information about the value of their investment and how that has changed.

Neither do we agree with Alternative View 1 included in ED233, due to the reasons discussed above, and included in our previous submission on ED220.

In summary we strongly oppose the proposals outlined in ED233 due to the following:

- ED233 is inconsistent with international best practice;

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- ED233 will place Australian entities at an international competitive disadvantage to attract funds. This in turn will have a negative impact on Australian economic activity, employment and GDP;

- ED233 would add cost to our members, for no benefit, and will reduce superannuation returns;

- The investors in private equity (predominantly superannuation funds) have international portfolios and prefer consistent global reporting; and

- We see no evidence, nor has the AASB provided any evidence, that the users of Australian investment entities differ to the rest of the world, such that additional disclosure is warranted.

It would be appreciated if you could note our detailed objections above and amend ED233 accordingly. Thank you.

Kind regards,

Dr Katherine Woodthorpe,
Chief Executive
AVCAL

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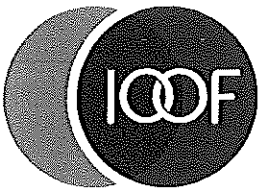

18 March 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

E-mail: standard@aasb.gov.au

Dear Mr Stevenson,

RE: Exposure Draft 233 Australian Additional Disclosures – Investment Entities

The IOOF Group (IOOF) has been helping Australians secure their future since 1846. During that time, we have grown substantially to become a leading provider of quality financial services. We now manage and administer more than $116.4 billion of client monies (as at 31 December 2012), and are listed on the Australian Securities Exchange in the ASX top 200 (ASX:IFL).

IOOF would like to provide this submission with respect to the invitation for comments on Exposure Draft 233 Australian Additional Disclosures – Investment Entities (ED 233).

IOOF's primary concern with ED 233 is that it fails to fully align the accounting treatment of Investment Entities with the International Financial Reporting Standards (IFRS). IOOF supports the view that the AASB should adopt the IFRS's investment entity requirements unamended. The potential of not adopting the International Accounting Standard Board's (IASB) issued standard and thus having Australian investment entities not compliant with IFRS is considered unacceptable given the global nature of the investment management industry.

Through the IASB's submission and comment process, users have been consulted regarding their requirements from investment entities financial reports. The use of fair value information for controlled investments rather than consolidation has been determined to be the required information. IOOF's contact with users of our own investment entities' financial reports supports this determination.

Alternative View 2's additional disclosures would create confusion for the users of the investment entities' financial reports. The preparation of non-consolidated financial reports, while including consolidated numbers either on the face of the statements or in the notes, would lead to confusion regarding the reasons for having the consolidated numbers in the financial reports. The proposal would also raise questions as to why additional disclosures are required when compared to other countries investment entities financial reports.

Other observations and answers to the questions posed directly in ED 233 are contained in the main body of this response below.

If there are any questions on this response or if the Board would like to discuss any of the matters raised in more detail, please do not hesitate to contact either myself or Vincent Rossitto, Head of Investment & Accounting Services on 03 8614 4741 or vincent.rossitto@ioof.com.au.

Yours sincerely,

Michael Gaspert
Fund Statutory Reporting Manager
IOOF Holdings Limited

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1. *the appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted;*

IOOF's position is that the AASB should fully support the IASB's exemption in its entirety and not add any additional disclosures. The additional disclosures, preparing non-consolidated financial reports but including consolidated information, would lead to confusion amongst users of the investment entities financial reports.

IOOF supports the AASB in remaining fully compliant with the International Financial Reporting Standards. By failing to adopt the Investment Entity exemption in its entirety, the AASB is distancing Australian Reporting Standards from convergence with the International Reporting Standards.

Creating additional disclosure requirements that are in addition to the international reporting requirements can lead to confusion when international users read Australian investment entities' financial reports. This would raise questions as to why additional disclosures are required when compared to other countries investment entity financial reports.

2. *whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information;*

IOOF asserts that full compliance with the international exemption would be in the best interest of the users of the financial reports as that is the information they are using/requesting. There would be no adverse impact on decision-making if investment entities were not required to consolidate.

Rather than providing consolidated financial reports, users would find disclosures detailing financial instruments in the investment entity at a more granular level more informative for making decisions. This more granular information could include listing all financial instruments, top 10 financial instruments by portfolio weighting or disclosure of the interest/holding the investment entity has in that financial instrument.

3. *if the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements;*

IOOF has no strong view on the disclosure proposals.

4. *whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:*
    a. *not-for-profit entities; and*
    b. *public sector entities;*

IOOF has no strong view on the disclosure proposals.

5. *whether, overall, the proposals would result in financial statements that would be relevant to users;*

IOOF cannot accept that the proposals as drafted would result in financial statements that would be relevant to users. Users have already advised the IASB that they prefer fair value recognition of controlled investees rather than consolidation accounting. Further, our contact with users, both professional and regulatory, has confirmed their interest in the investment entities is at an investment entity level.

Investment Managers when reading financial reports do not look at the consolidated numbers, they view the parent financials with a view to looking at the fair value of financial instruments and the performance of the investment entity over the period.

Regulators require investment entities to comply with the AASB's, do not collect this information for their prudential requirements. All statutory/regulatory returns submitted by IOOF to regulators require the investment entity's parent information only.

Investors are primarily focused on performance returns of the investment entity. For unitised investment entities, performance returns are directly attributable to the movement in unit price over the period of the calculated return. The truest reflection of the unit price, and thus the input into performance reporting, is the fair value measurement of the financial instruments in the investment entity.

6. *whether the proposals are in the best interests of the Australian economy; and*

The disclosures described in the ED only impose greater costs on investment entities to comply with reporting standards. These additional costs would place Australian Investment Entities at a disadvantage when compared to international counterparts.

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A WHK Group Firm

18 March 2013

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Dear Mr Stevenson

Invitation to comment – ED 233 Australian Additional Disclosures – Investment Entities

Crowe Horwath Sydney is pleased to provide the Australian Accounting Standards Board with its comments on Exposure Draft ED 233 ("ED").

Crowe Horwath provides a complete range of accounting, advisory, tax and wealth management services. Our team includes more than 800 principals, professionals and support staff located in Australia and New Zealand. Crowe Horwath is part of the national WHK Group, which is listed on the Australian Securities Exchange and is the fifth largest accounting services group in Australia, and is a member of the global Crowe Horwath International network.

We have a number of reservations regarding the International Accounting Standards Board's decision to issue the Investment Entities amendments to IFRS 10, IFRS 12 and IAS 27. Specifically, we have concerns regarding the decision to apply an exception to consolidation on the basis of the type of entity rather than the underlying relationship between an investor and investee. In our opinion that decision is contrary to the basic principle that an entity should account for all of its assets, liabilities, income and expenses.

Nevertheless, having made such amendments, we believe that the Australian Accounting Standards Board should only depart from the equivalent International Financial Reporting Standard if there are specific local regulatory issues or other compelling reasons arising in the Australian environment that will affect the implementation of those proposals.

Since Australia's convergence with IFRS in 2005, we note that the Australian Accounting Standards Board has actively attempted to remove differences between Australian Accounting Standards and IFRS. For example, AASB 1054 states, in part:

> "the Boards utilised the following principles in removing the differences between the Australian and New Zealand Standards:
>
> (a) eliminate differences from IFRSs, where possible; and

(b) in cases where a disclosure requirement additional to IFRSs is of such importance that it should be retained, the additional disclosure requirement has been harmonised with the equivalent requirement in the other jurisdiction to the extent possible and relocated to a new Standard.

At the conclusion of Phase 1, the Boards decided to issue the following for each jurisdiction:

(a) an amending standard containing the necessary amendments to the jurisdiction's Standards; and
(b) a standard containing the jurisdiction-specific disclosures that are in addition to IFRSs. In reaching their decision on the location of additional disclosures, the Boards placed emphasis on bringing the wording of Australian and New Zealand Standards closer to IFRSs". (emphasis added)

AASB 101 *Presentation of Financial Statements* requires financial statements to present fairly the financial position, financial performance and cash flows of an entity. The application of IFRS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation. The inclusion of alternative primary statements proposed by ED 233 not only has the potential to confuse readers of the financial report as to the which is the 'true' presentation of the entity's financial position and performance, but infers that compliance with IFRS does not achieve fair presentation as is stated in paragraph 15 of AASB 101.

Furthermore, we express significant concerns regarding the Board's suggestion in BC 19 that the disclosure of the proposed consolidated information could be presented in a format "other than in the notes to the financial statements". We interpret this statement as a suggestion by the Board that entities could include additional columns on the face of the primary financial statements. Such a proposition raises unaddressed questions whether such an approach is consistent with both paragraph 24 of AASB 101 *Presentation of Financial Statements* and paragraphs .26 and .32 of ASIC Regulatory Guide RG 230 *Disclosing Non-IFRS Financial Information*. Namely, that an alternative basis of presenting financial information is necessary "to make informed assessments of an entity's financial position and financial performance" .

Consequently, we do not support the proposals contained in ED 233, which will:

- reduce any cost savings for Australian reporting entities relative to their IFRS-reporting peers that would have resulted from the application of the IASB's Investment Entities exception,
- increase differences between IFRS and Australian Accounting Standards without compelling reasons;
- is contrary to the AASB's previously held view of minimising, and eliminating where possible, differences in the disclosure requirements between Australian Accounting Standards and IFRS; and
- add to complexity in financial reporting rather than reducing complexity.

We are supportive of Alternative View 2 of ED 233 except for the position expressed paragraph AV2.4 as we do not support the Australian additional disclosures proposed in the Exposure Draft.

Crowe Horwath

Our detailed comments of the specific matters requested in ED 233 are included in the attached Appendix.

We would be pleased to discuss any aspect of our submission with you further at your convenience.

Sincerely,

Martin Olde

Martin Olde
Partner

Crowe Horwath

APPENDIX A

Specific matters for comment

1. *The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted*

   For the reasons discussed above, in our opinion, the additional Australian disclosures proposed in ED 233 are inappropriate and unwarranted.

   We are supportive of Alternative View 2 of ED 233 except for the position expressed paragraph AV2.4. We do not support the Australian additional disclosures proposed in the Exposure Draft.

2. *Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information*

   In making the Investment Entities amendments to IFRS 10 the IASB contemplated the consequences of the loss of consolidated information. We note that the IASB provided additional disclosures in paragraphs 19A to 19G of IFRS 12 to overcome these effects.

   In our opinion it is inappropriate and burdensome to relieve a parent entity from having to prepare consolidated financial statements while simultaneously requiring additional disclosures that would, in the main, reinstate that information.

3. *If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements*

   If the AASB's proposals proceed, we believe that relief **should be** provided to Tier 2 entities from any of the proposed Australian additional disclosure requirements.

   Paragraph BC19 of AASB 1053 *Application of Tiers of Australian Accounting Standards* states:

   > "The Board decided to introduce a second Tier (Tier 2) of requirements to substantially reduce the burden of financial reporting for other entities in both the private and public sectors in their preparation of general purpose financial statements. Tier 2 retains the recognition, measurement and presentation requirements of full IFRSs as adopted in Australia, but requires disclosures that are substantially reduced when compared with those required under full IFRSs as adopted in Australia."

   In our opinion, it would be inappropriate and contrary to the stated objective of the Reduced Disclosure Regime to require Tier 2 entities from providing more disclosure information than listed entities complying with IFRS.

4. *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:*
(a) not-for-profit entities; and
(b) public sector entities

Refer previous comments at (3), above.

We have concerns that the proposed additional disclosures are contrary to the stated intention and guidance contained in ASIC Regulatory Guide RG 230.

> "Financial information prepared other than in accordance with accounting standards must not be included in financial statements. Such information may only be included in the notes to the financial statements in the rare circumstances where such disclosure is necessary to give a true and fair view of the financial position and performance of the entity." RG 230.8

It could be suggested the inclusion of pro forma consolidated information that is measured and presented on an alternative basis to AASB 10 may only confuse readers as to which are the 'right numbers'. Unless the Board believes that the inclusion of the additional pro forma information is considered necessary in order to show a true and fair view of the financial position and performance of the reporting entity, it should not be mandated.

5. *Whether, overall, the proposals would result in financial statements that would be relevant to users;*

Refer previous comments

6. *Whether the proposals are in the best interests of the Australian economy*

In our opinion, the proposals are not in the best interests of the Australian economy.

7. *Unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.*

Refer previous comments.

MMC
FUND ADMINISTRATION

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Email: standard@aasb.gov.au

19 February 2013

Dear Sir,

Australian Additional Disclosures – Investment Entities (proposed amendments to AASB 1054)

MMC Limited ("MMC") is pleased to make a submission on the Australian Accounting Standards Board (AASB) Exposure Draft 233 (ED 233), Australian Additional Disclosures – Investment Entities.

This submission focuses on the impact to our business of the existing International Financial Reporting Standards (IFRS) and the changes proposed by the International Accounting Standards Board (IASB) through amendments to IFRS 10, IFRS 12 and IAS 27.

MMC strongly supports the IASB proposal to exempt investment entities from consolidating entities; instead allowing those qualifying entities to fair value them. The new IASB proposal will in our view, make financial reporting more useful for decision making purposes than consolidated accounts.

If you would like to clarify any point made in the submission, please do not hesitate to contact Paul Bishop on +64 9 307 9911.

Yours sincerely,

Robert Moss
Managing Director
MMC Limited

www.mmcnz.co.nz

MMC Limited
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fax: (09) 309 8927

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Auckland City

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Auckland 1143

Introduction

1.1 MMC Limited is an outsourced service provider of fund administration services to New Zealand Investment Managers.

1.2 MMC provides services to 30 clients with funds under management of in excess of $10bn and spanning more than 300 investment funds. Currently, MMC produces approximately 150 sets of financial statements each year.

1.3 New Zealand's Financial Reporting Standard 44 (FRS 44) - New Zealand Additional Disclosures, sets out New Zealand specific disclosures for entities that have adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and **supports the objective of harmonising financial reporting standards in Australia and New Zealand.**

1.4 Therefore, as preparers of financial statements that comply with NZ IFRS, MMC has an active interest in the standard setting in Australia and its likely impact on our own financial reporting regime – particularly those standards impacting investment entities.

1.5 The following are submissions for the AASB ED 233, Australian Additional Disclosures – Investment Entities.

- **Appropriateness of the proposed Australian additional disclosures**

2.1 The AASB has asked for comment on the appropriateness of the proposed disclosures – that is the disclosure of consolidated financial statements comprising:

- a consolidated financial statement of profit or loss and other comprehensive income
- a consolidated statement of financial position
- a consolidated statement of changes in equity
- a consolidated statement of cash flows.

2.2 In our experience the vast majority of investment entities that we deal with are unit trusts or superannuation schemes. This means that their objectives are simple – to pool investors' money, make investments in order to provide capital appreciation and investment income and measure and evaluate performance on a fair value basis.

2.3 We believe that including consolidated financial statements hampers and does not help user's ability to make financial decisions for the following reasons:

- The definition of control is somewhat theoretical in the investment funds industry particularly where control can change daily where investments in an open ended investment funds are concerned.

- Where an investment fund invests into multiple open ended investment funds, there may be inconsistency of accounting treatment whereby some underlying investments are fair valued while others are consolidated.

- Information is presented of investees rather than the investment fund itself.

- Information flowing from investees is often slow and unreliable thus impacting the usefulness of financial information in terms of timeliness and reliability.

2.4 Control:

Currently, MMC consolidates investment fund investees where the ownership interest exceeds 75%. This threshold is based on the Unit Trust Act which allows unit holders to have the power by resolution at a meeting of unit holders to direct the trustee as they think proper, provided that not less than three quarters of the interests in the unit trust agree to it.

As fund administrators to numerous investment funds, MMC observes changes in control of underlying funds by virtue of ownership thresholds changing on a regular, if not daily basis. This is mainly seen where investments are made in other open ended investment funds whose offering documents permit the daily buying and selling of units. At its extreme, investment funds may control an underlying investment fund one day, lose it the next and regain it again a day or so later. This is all possible because other investors may buy and sell at their own notion without any consultation or restriction.

The flow on impact to the financial statements is that an entity may control underlying investments for part periods. How is it possible for an investor to understand the financial position and financial performance of an investment which is consolidated one day and not the next, all through the actions of other unit holders?

2.5 Inconsistency:

MMC has a number of fund of funds investments – an investment mechanism whereby investment funds invest into other investment funds. The fund of fund structure has not been established as a method of control but to gain efficiencies primarily for the benefit of unit holders. Efficiencies exist whereby direct investments can be held in 5-6 single sector funds, rather than each and every investment fund holding its own portfolio of direct investments covering a wide range of investment options. Administration and compliance costs are reduced, thus saving money for investors.

When preparing financial statements for retail funds, underlying investments may include 5-6 single sector investment funds. It is common to observe such funds consolidating those underlying investment funds where ownership is greater than 75% but fair valuing other investments (for example less than 75% ownership). In our view this is confusing to investors as treatments differ depending on the level of ownership of an underlying investment, when in practice there is no real differentiation between the 5-6 investments especially if ownership levels vary by only for example 5% (the difference between say 75% and 70%).

2.6 Investee information:

Consolidated financial statements focus on the financial position, performance and cash flows of the whole group entity rather than the investment fund itself. With the growth of Kiwisaver in New Zealand, many Kiwisaver schemes offered to the New Zealand public are of such size now that underlying wholesale investment funds that are used as fund of fund vehicles are subject to consolidation rules. This means that regularly mum and dad investors are now presented with financial statements of a group rather than the single fund they invest in. Whilst it is important to explain the nature of investments and their objectives, it adds complexity to the way an investor reads and understands their investment.

For example, one Kiwisaver scheme invests into multiple wholesale funds, who in turn invest into multiple external and internal investment funds. The group presentation is very complex and time-consuming to prepare and understand and adds little to what readers need to evaluate their investment choice. In fact, without additional reconciliation's or disclosures, the net asset position of a consolidated entity in the financial statements, often bears little resemblance to a unit price struck at year end.

MMC believes that the focus of the accounting standards should be on what information is useful to users of the investment entities financial statements.

In our view some meaningful information to readers of the financial statements, which can be considered for disclosure are:

- name and country of incorporation of the controlled investment fund
- investment objectives, risks and types of securities held during the financial period
- size of the investment in relation to the size of the total investment portfolio;
- investment balance at year end and income derived for the period
- percentage holding held in the controlled investment fund by the investment entity; and
- the controlled entity's redemption restrictions.

Separate disclosure of the controlled subsidiary will provide the user with an understanding of the concentration of the investment in the unconsolidated entities in relation to the entity's overall investment portfolio. This will also provide an understanding of the significance of this investment in relation to the entity as a whole from a quantitative perspective.

The percentage holding will provide an indication to the user of the total size of the unconsolidated controlled entities as well as the level of influence the investment entity has over the unconsolidated subsidiary.

Further narrative disclosure will provide the user of the investment entity with an indication of the financial risks associated with the investment such as liquidity, geographic and industry risk including the potential risks associated with controlled entity's investment objectives.

In our view, the main focus of an investor in an investment will be the performance and position of the fund it invests into (that is the entity controlling the other investments) as well as any significant risks associated with its investments.

In regards to the Consolidated Statement of Cash Flows, the information presented provides little value to investors other than an indication of stock turnover and unit holder movements for the group entity. In our view the consolidated cash flows result will be even more meaningless as the users are not interested in the cash flow movements of an underlying investment entity.

2.7 Information flow

We currently experience consolidation issues around underlying investments which are managed and administered externally (including internationally) and that have different balance sheet dates. More often than not, the timing of information can be 4-5 months following the year end meaning that filing with regulators and communicating with investors occurs around 6 months after the year has finished.

Furthermore, where investments have differing balance sheet dates, the information used is based on management type accounts that usually relate back to the underlying funds unit price and not NZ IFRS compliant financial statements. This impacts investors by not having timely and in some cases reliable information for reporting purposes due to the current consolidation rules.

3 Summary

We agree that with the amendments made to NZ IFRS 10, there is a potential risk that some meaningful information might get lost in relation to investments in unconsolidated subsidiaries. We do not agree that consolidated financial statements need to be disclosed for investment entities. It is important that careful consideration should be given as to what essential additional information users of an investment entity's financial statements will be interested in with respect to investments in controlled entities that is not currently required under International Financial Reporting Standards.

These are:

- name and country of incorporation of the controlled investment fund
- investment objectives, risks and types of securities held during the financial period
- size of the investment in relation to the size of the total investment portfolio;
- investment balance at year end and income derived for the period
- percentage holding held in the controlled investment fund by the investment entity; and
- the controlled entity's redemption restrictions.

GROUP OF 100

20 March 2013

The Group of 100 Incorporated
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Mr K Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Dear Mr Stevenson

ED 233 'Australian Additional Disclosures – Investment Entities

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 is pleased to respond to the issues raised in ED 233.

Q1. *The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted.*

The G100 supports the approach that IFRSs adopted for use in Australia should be as drafted by the IASB. However, in the rare and exceptional circumstances where changes are made by the AASB, in response to matters which are peculiar or specific to Australia, those changes should be included in a separate standard.

The G100 considers that the proposed disclosures are not justified. We do not consider that the consolidated information proposed for disclosure provides relevant information for decision making relating to the investments of the entity because investment entities measure the performance of their investments and emphasize the use of information on current values. In addition, in deciding to provide the exemption the IASB was responding to the concerns of users of financial statements who expressed a preference for fair value information.

Although investment entities currently consolidate controlled investments, compliance with AASB 10 is likely to result in more investments being regarded as controlled and as such investment entities would be required to incur additional costs to satisfy the Australian disclosure requirement and on a continuing basis to determine whether such investments are controlled for the purposes of the Standard.

However, if the AASB proceeds with the proposals we agree, as outlined in BC 18, that the form of the disclosures is best left to directors to determine in the light of the particular circumstances of the entity.

Q2. *Whether there are any alternative approaches/disclosure strategies that can be employed to minimize the adverse impact on decision-making of the loss of consolidation information.*

The G100 disagrees with the AASB's presumption that there is an adverse impact on the decision-making from the removal of consolidated information. As noted in the response to Q1 above, fair values and distributions are generally the principal information used by fund investors. Removal of less relevant clutter from the financial statements can improve decision-making by allowing users to more easily focus on the relevant information.

In addition, inclusion of consolidated financial information in the notes to the financial statements makes Australian fund accounts less comparable with foreign funds and is potentially confusing to users who understand IFRS but are not familiar with the specific AASB requirements.

Q3. *If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements.*

The G100 believes that if the proposed additional disclosures are so important that it is necessary to depart from the requirements of an IFRS as drafted by the IASB then, if the AASB proceeds with the proposals, there should be no relief for Tier 2 entities.

Q4. *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:*

a. Not-for-profit entities; and
b. Public sector entities

No comment.

Q5. *Whether, overall, the proposals would result in financial statements that would be relevant to users.*

The G100 does not believe that the proposed disclosures would result in relevant information to users. Rather, information based on fair values provides useful information for management and investor decisions relating to the investments of these entities.

Q6. *Whether the proposals are in the best interests of the Australian economy.*

The G100 does not consider that best interests are achieved by imposing disclosure requirements which do not meet an information need of investors.

Consolidated financial information is not generally used for any other purposes (such as unit pricing and performance reporting) and, as such, would need to be prepared solely for the purpose of preparing the note disclosure proposed in the ED. There does not appear to be any significant benefit to users of this information which would justify imposing this cost and impact adversely on the competitiveness of Australian investment entities.

Yours sincerely
Group Of 100 Inc

Terry Bowen
President

AMP

21 March 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007

Dear Sir,

Response to the AASB's Exposure Draft (ED 233) *Australian Additional Disclosures - Investment Entities*

This letter sets out the response from AMP Limited (AMP) to the Australian Accounting Standards Board's (AASB's) Exposure Draft (ED 233) *Australian Additional Disclosures – Investment Entities* dated December 2012.

It is AMP's view that:

1- It is inappropriate to have Australian Specific requirements for this matter, as there are no significant Australian specific circumstances which support divergence from the IFRS treatment;
2- Comparability for Australian Funds in international markets is reduced by having Australian specific disclosures; and
3- The proposed disclosure requirements for investment entities in most cases are not relevant to the users of the statutory accounts. We consider the fair value to be more relevant to users than the net assets in most cases.

We provide further details on these matters on the attached Appendix, which sets out AMP's responses to the specific questions for respondents included in the ED.

AMP would like to thank the AASB for this opportunity to provide input on the changes proposed in the ED. We would appreciate any further opportunity to assist the AASB in further developing its final standard.

Further discussion
Please do not hesitate to contact either myself or Graham Duff (Head of Accounting Policy and Advice) at graham_duff@amp.com.au or on (02) 9257 6784 if you would like to discuss any of the matters in this document.

Yours sincerely

Simon Hoole
Finance Director

Appendix: Specific matters for comment

1) **The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted;**

   It is AMP's view that:
   - *Australian specific disclosures should be limited to circumstances which are specific to Australia. In the case of investment entities we do not believe that there are any circumstances that would warrant an Australian specific disclosure.*
   - *These additional disclosures will reduce comparability of Australian funds financial information when compared to other funds in international markets.*
   - *These disclosures are not information that would generally be useful to the users of the accounts.*

2) **Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision making on the loss of consolidation information;**

   Given investment decisions of most fund investors are made based on fair value information there would not be a significant adverse impact on decision-making due to the removal of consolidated financial information on investment entities. In funds where investment decisions are not made based on fair value information (e.g. property funds) fund investors would be able to elect not to adopt this exemption and continue to present consolidated financial information. Therefore, there would not necessarily be a loss of consolidation information.

3) **If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements;**

   No comment.

4) **Whether there are any regulatory issues or other issues in the Australian environment that may affect the implementation of the proposals, particularly any issues relation to:**

   (a) Not-for-profit entities; and
   (b) Public sector entities.

   We have not identified any regulatory issues or other issues arising in the Australian environment that might affect the implementation of the proposals.

5) **Whether, overall, the proposals would result in financial statements that would be relevant to users;**

   We believe that the proposed additional disclosure requirements for investment entities in most cases are not relevant to the users of the accounts and this would result in financial statements that would not necessarily be relevant to the users. Except for property funds, where consolidated information would be relevant, fair value is more relevant to investors than net assets.

6) **Whether the proposals are in the best interests of the Australian economy;**

   The proposed additional disclosures are almost a full set of consolidated financial statements. Therefore, it is our view that this would be detrimental to the Australian economy, as it would result in:

   a) Higher costs for many Australian funds while adding limited value; and

b) *The Australian funds financial statements being less comparable with those financial statements of funds domiciled in other jurisdictions.*

7) **Unless already provided in response to specific matters for comments 1- 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.**

It is our view that in most cases these disclosures do not add value to the users of the accounts and create an unnecessary cost to Australian funds. Therefore, on a cost-benefit analysis we believe these disclosures are detrimental to most Australian funds.

From: Willie Ooi [mailto:wkwooi@gmail.com]
Sent: Friday, 22 March 2013 4:27 PM
To: AASB Mailbox
Subject: ED 233

Dear AASB,

I do not support the exposure draft and departure from adoption of international accounting standards. The rationale for the amendments for investment entries based on fair value is sound. I do not see the rationale for additional consolidation by way of notes and additional value for users of financial reports. In addition departures from international accounting standards is a dangerous precedent especially when the grounds for such departure are not compelling.

Regards

William Ooi FCA
Financial Controller
WA Trucks and Machinery

26 March 2013

Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

Dear Mr Stevenson,

Re: Exposure Draft 233 Australian Additional Disclosures – Investment Entities (the ED)

Australia and New Zealand Banking Group Limited (ANZ) is listed on the Australian Securities Exchange. Our operations are predominately based in Australia, New Zealand and the Asia Pacific region. Our most recent annual results reported profits before tax of US$5.9 billion and total assets of US$672 billion.

There will be no impact to the ANZ Consolidated financial statements as ANZ does not fall under the definition of an investment entity as set out in the ED. However, through our wealth management division ANZ has registered and unregistered schemes which are expected to fall under the definition of an investment entity and this ED will apply to those entities.

We support the Board in its endeavours to ensure users of financial statements have adequate information to support decision making. However, it is our preferred approach that the Australian Accounting Standards and the International equivalents mirror one another unless there is a significant concern to justify a departure and warrant any additional costs being incurred by Australian entities relative to their international counterparts. It is our view that allowing investment entities to account for their investments at fair value provides relevant and consistent information to users of these financial statements who are accustomed to assessing their investments on a fair value basis. As such, we do not believe that the proposed Australian additional disclosures are necessary to support users in their decision making and do not justify a departure from the International equivalent standard.

Furthermore, it is our belief that the International Accounting Standard on Investment Entities, which proposed that investment entity be permitted to account for investees that it controls at fair value through profit or loss is a preferable outcome given the nature of the investment entities. We believe that this provides meaningful information as the fair value approach provides consistency in accounting for a range of investments held by the investment entity. This is preferable to the existing approach where certain investments are accounted for at fair value and certain investments are consolidated.

Should you have any queries on our comments, please do not hesitate to contact me at shane.buggle@anz.com.

Yours sincerely

Shane Buggle
Deputy Chief Financial Officer

Appendix: Detailed comments on the questions raised by the AASB on the ED

Question 1
The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted.

We do not believe the Australian additional disclosures are appropriate or warranted for investment entities as defined in the ED.

Since investors in investment entities manage their investments primarily on a fair value basis we believe the inclusion of consolidated financial information in the financial reports of the investment entity is of little value to the investor. This is evidenced by the fact that the IASB proposal was issued in response to comments from users of financial statements who prefer to receive information regarding the fair value of their investments.

In addition, we believe that this could be misleading as it presents information which is not in line with how management manages and evaluates performance of these investments or discusses the results of the overall performance of the investments.

Question 2
Whether there are any alternative approaches / disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information.

It is our view that allowing investment entities to account for their investments at fair value provides relevant and consistent information to users of financial statements who are accustomed to assessing their investments on a fair value basis. As such, we do not believe that the proposed Australian additional disclosures or any other alternative disclosures are necessary to support users in their decision making to justify a departure from the International equivalent standard.

Question 3
If the AASB's proposals proceed whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements.

We do not support the AASB's proposals for either Tier 1 or Tier 2 entities.

Question 4
Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly issues relating to:
a. not-for-profit entities; and
b. public sector entities

We do not have any comment.

Question 5
Whether, overall, the proposals would result in financial statements that would be relevant to users

We do not believe the proposals will result in financial statements that are more relevant to users than financial statements prepared under the IASB approach.

The primary users of financial statements of investment entities are investors who are accustomed to assessing their investments on a fair value basis and we believe information regarding the fair value of their investment is more relevant to investors than consolidated financial information. Furthermore, this approach aligns external reporting with how the investments are reported and managed for internal management reporting.

Question 6
Whether the proposals are in the best interests of the Australian economy.

Additional costs will be incurred in order to produce consolidated financial information for the entities impacted by the Australian additional disclosures. The costs are incremental as is not how the businesses are viewed and managed for internal reporting.

In addition to the costs of obtaining the information required to present the disclosure, largely a manual process, preparers would also incur additional costs associated with detailed and ongoing assessments of whether an entity would require consolidation under AASB 10 'Consolidated Financial Statements' for no purpose other than meeting the disclosure obligations.

Question 7
Unless already provided in response to specific matters for comment 1 - 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

We do not believe that the additional costs to Australian entities to produce this disclosure would justify the marginal benefits to investors in investment entities.

UNITY ADMINISTRATION

The Chairman

Australian Accounting Standards Board

PO Box 204

COLLINS STREET WEST VIC 8007

25 March 2013

Dear Mr Stevenson

EXPOSURE DRAFT 233 AUSTRALIAN ADDITIONAL DISCLOSURES – INVESTMENT ENTITIES

Thank you for the opportunity to allow us to comment on Exposure Draft 233 Australian Additional Disclosures – Investment Entities (ED 233).

Unity Administration is a provider of fund administration, accounting and tax services to the funds management industry. We service the boutique manager end of the market and currently provide investment administration, fund accounting, registry services or taxation services to over 60 funds across almost 20 investment managers, covering:

- Hedge funds;
- Australian and International equity funds;
- FX funds;
- Property funds;
- Fund of funds; and
- Managed Investment Schemes – both registered and unregistered.

In our role as fund administrator, we are currently responsible for the preparation of financial statements for the bulk of our clients' funds, a number of which are currently prepared and all of which have the potential (barring mandate/risk limitations) to at some point be prepared on a consolidated basis in accordance with Australian Accounting Standards and accordingly we have interest in the proposals outlined in ED 233.

On review of ED233, we are not supportive of the AASB's proposal to mandate the disclosure of consolidated information by Australian investment entities. We cannot see any valid reason why such disclosures should be required. We note that two of the world's largest standard setting bodies, the IASB and the FASB, based on extensive considerations and discussions with diversified groups of constituents, have not identified such information as being required in the context of an investment entity. Being an indirect but equally affected, representative of the Australian investment industry, we share this understanding and don't see any specifics of the Australian market that would justify such additional disclosure requirement. We are concerned that the requirement to disclose consolidated information would result in users being provided with information that is not useful and not directly comparable with international peers and will come at potentially a significant cost of generating such information. We don't think that the unavoidable delays in the preparation of financial statements due to the need to obtain and audit consolidated information is in the best public interest. We are

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concerned that investment flows into Australia may be impacted through Australia's potential non-conformance with IFRS.

We are comfortable supporting the adoption of the amendments to IFRS 10 *Consolidated Financial Statements* (IFRS 10 amendments) as issued by the IASB. Fair value information is most meaningful to the users of the financial statements of an investment entity. It is the key indicator of the performance of an investment entity and as such serves best the information needs of both the management of the investment entity and the funds' investors and unitholders.

We strongly disagree with the view of some AASB members that the IFRS 10 amendment be not adopted at all. In our view, and we understand this is shared by others, there is no rational justification to expose the Australian economy to the consequences of such action. We believe that it is essential for Australian investment entities to be able to declare their compliance with IFRS. Equally it is important that the users of the financial statements of Australian investment entities are provided with equally relevant, comparable and useful information as provided by other investment entities reporting under the IFRS framework.

It is very concerning for the Australian economy as a whole that some AASB members are opposed to the adoption of IFRS guidance and willing to sacrifice the compliance with IFRS for little rational reason.

For further detailed discussion and also our responses to the Specific Matters for Comment, please refer to the Appendix to this letter.

Should you have any questions regarding our comments, please do not hesitate to contact us.

Lyndon Catzel

Managing Director

Unity Administration Pty Limited

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APPENDIX - AASB Specific Matters for Comment

1. The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted

We feel that the proposed Australian additional disclosures are not appropriate and are not warranted because:

(a) Fair value information is most relevant and meaningful;
(b) Consolidated information is inconsistent with other information on an investment entity's performance – which forms the basis on which management and investors base their decisions;
(c) Consolidated information could potentially misrepresent performance of an investment entity and the risks to which it is exposed;
(d) Preparation of consolidated information is time consuming and costly, which will ultimately need to be borne by investors; and
(e) The proposal to impose additional disclosure requirements on Australian investment entities, or worse the suggestion not-to adopt the IFRS 10 amendment at all, is inconsistent with the AASB's commitment to create a high quality accounting framework in Australia, as well as the AASB's commitment to harmonisation; as highlighted below.

(a) Fair value information is most relevant and meaningful

Investment entities manage their activities based on fair value. Fair value information is used for internal reporting purposes, investment decisions and performance measurement. Information most relevant to the management of an investment entity is also most relevant to third parties interested in the performance of the investment entity, e.g. its investors.

The management of an investment entity will fundamentally not be involved in the operating decisions of the investees, irrespective of whether the percentage interest in the investee is 5%, 30% or greater than 50% as in almost all cases, their investment would be on a passive basis. With regard to ownership interests which could give the investor significant influence over the investee it is acknowledged not only the IASB but also the AASB that such investments are best reflected at fair value in the financial statements of a venture capital organisation, mutual find, unit trust or a similar entity. With their recent amendment to IFRS 10 the IASB acknowledged the fact that this argument is equally valid for investments of over 50% held by investment entities and now requires all investment entities to account for their investments in a consistent manner that reflects the business model, as well as best meets investors' information needs, i.e. at fair value. We consider this to be equally valid and relevant in the context of the Australian market.

Investors of an investment entity base their decisions on the expected performance of the investment entity, i.e. fair value as a forward looking measure which incorporates all available information on assets, liabilities, current results and cash flows but also the resulting implications for the future. Accordingly investors are most interested in fair value information.

(b) Consolidated information is inconsistent with other information on investment entity's performance on which management and investors base their decisions

As discussed above investors are most interested in fair value information. Investment entities are able to meet these information requirements by providing fair value information in product disclosure statements, prospectus, other offering documents and communication which is addressed at both current and future investors. This is the information on which the investors base their investment decisions. It would benefits investors most if audited financial statements of an investment entity provided equally relevant, consistent and understandable information, i.e. fair value information.

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(c) Consolidated information may misrepresent performance of an investment entity and the risks to which it is exposed

Measurement of an investment at fair value best reflects the current expectations with regard to future return on the investment and also triggers the respective risk disclosures, as currently required under AASB 7 *Financial Instruments: Disclosures*.

Consolidated financial information that has been proposed by the AASB would show current and previous period assets, liabilities, results and cash flows. Such information may actually not necessarily be indicative of the future performance, and as much has the potential to be misleading to the users of financial statements, if they are concerned with future returns.

(d) Preparation of consolidated information is time consuming and costly – the cost of which will need to be ultimately borne by investors

Investment entities currently manage their activities based on fair values of the underlying investments. Respective measures are obtained on a regular basis for investment decisions as well as issues and redemptions of units. Accordingly fair value information is obtained on a regular basis and using such information for external reporting purposes does not create additional cost.

Investment entities don't obtain consolidated information for purposes other than financial reporting. Accordingly consolidated information is not readily available (investees do not prepare and provide such information on a regular basis) and generating such information would generate additional costs (and for which we believe no additional benefit) for users / investors.

Given the relevance of fair value measures for the operations of an investment entity, such information has historically been and is currently prepared with a great level of accuracy and care and the audit of such information is considered to be both necessary and value-adding. In contrast, consolidated information is not useful to either internal or external purposes and as such, the cost and time associated with the audit of such information is considered unnecessary and not value-adding.

(e) The proposal to impose additional disclosure requirements on Australian investment entities, or worse the suggestion not-to adopt the IFRS 10 amendment at all, is inconsistent with the AASB's commitment to create a high quality accounting framework in Australia and the AASB's commitment to harmonisation

We believe the AASB should be acting in the best interest of the users of financial statements and the Australian market. We are very concerned with the view being adopted by some of the AASB members that Australia should (despite public commitment to harmonisation with IFRS) not adopt a part of IFRS guidance, based on purely theoretical arguments. As I understand, this would be the first time that Australia would be departing from IFRS and this of great concern as it may in fact open up precedence, which, in my opinion, would be to the detriment of the Australian market as a whole.

Non-compliance of Australian investment entities with IFRS could have severe negative consequences on their ability to attract international investors and accordingly their position and competitiveness in the international market. Australian investment entities have a sufficiently difficult time obtaining investment from offshore and this non harmonisation could potentially put a further roadblock in their way. This naturally has consequences not only for investment entities but their service providers too.

The requirement of additional consolidated disclosures would impose unnecessary cost on Australian investment entities with no benefit flowing to the users/investors. Such a situation would disadvantage

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Australian investment entities in the global market, as their direct competitors reporting under IFRS or US GAAP will be able to provide their users with financial information at lower cost and in a timelier manner than Australian entities.

2. Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information

The loss of consolidated information has no adverse impact on decision-making.

As discussed in our response to item 1 above, neither the management of the investment entity itself nor the investors, rely on consolidated information in their decision making. We are not aware of any group of stakeholders who would need consolidated information for their decision-making.

The market in which Investment entities operate is highly competitive. Investment entities need to attract investors and continuously meet all their information needs in order to retain them. Provided information needs to be timely, accurate and useful. We note that the accounting framework allows provision of additional information if it is relevant and not misleading. If the users of investment entities' financial statements required consolidated information, I suspect that market pressure could easily force/demand investment entities to prepare and present such information.

3. If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements

Consolidated information should not be prepared by either Tier 1 or Tier 2 investment entities.

4. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to not-for-profit entities and public sector entities.

We are not aware of any regulatory requirements for investment entities to report consolidated information.

5. Whether, overall, the proposals would result in financial statements that would be relevant to users

The proposals to include consolidated information in financial statements of investment entities would not result in the financial statements being any more relevant to users, than if consolidated information was not provided.

As discussed in our response to item 1 above:

(a) value information is most relevant and meaningful;
(b) Consolidated information is inconsistent with other information on an investment entity's performance – which forms the basis on which management and investors base their decisions;
(c) Consolidated information could potentially misrepresent performance of an investment entity and the risks to which it is exposed; and
(d) Preparation of consolidated information is time consuming and costly, which will ultimately need to be borne by investors.

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6. Whether the proposals are in the best interests of the Australian economy

The proposals to require additional consolidated information are harmful to the Australian economy.

We feel that the requirement to prepare consolidated information will impose unnecessary cost on Australian investment entities and to the supporting industries such as fund administrators, taxation and audit practices, which rely on their custom.

Neither the management of investment entities nor the users their financial statements require consolidated information as it is meaningless. Accordingly this is an unjustified cost that will be initially borne by the investment entity and ultimately passed on to its investors through higher administration cost and lower returns.

The requirement to prepare consolidated information will also unnecessarily delay the availability of audited financial statements to the public. Investors may consider such delays, the cause of which is the requirement to prepare information which is not useful, unwarranted.

Considering that both, higher cost and inability to provide timely audited financial information, will apply solely to Australian investment entities, the requirement to prepare consolidated information is likely to have a negative impact on their ability to attract investors both locally and offshore and as such limit their competitiveness in the international market.

In addition, the requirement to prepare consolidated information may actually restrict the investment entities investment opportunities (or the terms on which they are struck) as foreign investees may prefer sources of capital offered by investors not imposing on them the additional reporting burden.

Please also see our response to item 1 above, in particular the discussion on the preparation of consolidated information being time consuming and costly.

For the outlined reasons we believe that **it is in the best interest of the Australian economy that the IFRS 10 amendments are adopted without additional disclosure requirements.**

7. The costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative

Relative to the current requirements:

- **The proposals would result in additional benefits at the same cost as current reporting**
  Investment entities prepare fair value information for internal and external purposes and accordingly the requirement to include investments at fair value will not create any additional cost.
  Investment entities are currently required to prepare consolidated financial statements and as such the requirement to provide consolidated disclosures will not create additional cost.
  Accounting for all investments held by an investment entity at fair value will provide most relevant and useful information and as such benefit the users more than current financial reporting.

- **The Alternative View 1 outlined in the ED 233 would result in no additional benefit and no additional cost as compared to the current reporting requirements BUT would result in significantly less benefit and significantly higher cost as compared to the requirements applicable to investment entities reporting under IFRS or US GAAP**

  As outlined in our responses to item 1 and 3 the non-adoption of the IFRS 10 requirement would come at a significant cost to not only the investment entities but also the Australian economy as a whole and would result in the financial statements of Australian investment entities being less useful to users.

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- **The Alternative View 2 outlined in the ED 233 would result in additional benefit and cost reductions as compared to the current reporting requirements AND also result in same benefits and cost as compared to the requirements applicable to investment entities reporting under IFRS or US GAAP**
  Investment entities prepare fair value information for internal and external purposes and accordingly the requirement to include investments at fair value will not create any additional cost.

  Investment entities are currently required to prepare consolidated financial information, the removal of the requirement will reduce the cost and time associated with obtaining and auditing such information.

  Accounting for all investments held by an investment entity at fair value will provide the most relevant and useful information and as such enhance the benefits for users in comparison with current financial reporting.

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Mr. Kevin Stevenson
Chairman
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(By Electronic Submission: standard@aasb.gov.au)

27 March 2013

Dear Mr Stevenson,

AASB Exposure Draft ED 233 - *Australian Additional Disclosures – Investment Entities*

We are responding to Exposure Draft ED 233: *Australian Additional Disclosures – Investment Entities* issued by the Australian Accounting Standards Board (AASB). Our responses to the questions included within the consultation document are provided in the attached Appendix.

We disagree with the proposal for investment entities to provide consolidated information disclosures additional to those required by the amendment issued by the International Accounting Standards Board (IASB). The IASB has already followed due process to seek the global views of users, preparers and the accounting profession (users), and they did not require such disclosures in their final amendment. We agreed with the IASB's underlying rationale (consolidated information is not useful to users) for requiring investment entities to carry all of their investments at fair value by providing an exemption to consolidation. We consider the AASB proposal to disclose additional consolidated information to be contrary to the fundamental tenant of the amendment.

We are further concerned that providing additional consolidated information could be misleading for users. The AASB has not mandated where such disclosure is to be located, and therefore alternative presentation or disclosure formats could develop in practice (including additional columnar information alongside the primary financial statements). We consider some formats have the potential to mislead users by implying fair values do not faithfully represent the financial position of the investment entity.

Since the introduction of IFRS in Australia in 2005, we consider the Australian community's role is to actively participate in the consultation process undertaken by the IASB when it develops new and amended standards. The Australian community already had the opportunity to contribute to the development of this IASB amendment, of which Macquarie participated. We do not consider there to be any unique Australian reason for issuing an amendment that is different to that issued by the IASB. We consider the AASB's additional disclosures unnecessarily increase, and in this case significantly, the financial reporting burden for Australian investment entities compared to international peers reporting in other jurisdictions. When Australia made the decision to adopt IFRS,

international comparability and reduced costs were key benefits identified, and this Australian modification would be inconsistent with maintaining these benefits.

Further, we are concerned that if the AASB requires additional consolidated information then it may subsequently remove them at a later date as has occurred on a number of occasions since the introduction of IFRS in 2005. When Australia adopted IFRS, the AASB excluded some options that existed in IFRS and maintained additional Australian disclosures. Later, the AASB introduced those options, and removed most of the additional disclosures so Australian standards were identical to IFRS as issued by the IASB. The AASB proposals in this exposure draft are inconsistent with the direction it has been taking on these other matters.

We strongly encourage the AASB to issue the same amendments as that issued by the IASB, without the proposed additional consolidated information.

If you have any questions in relation to this submission, please do not hesitate to contact me at +61 2 8232 5193.

Yours sincerely

Frank Palmer
Accounting Policy & Advisory Team Leader
Macquarie Group Limited

About Macquarie Group

Macquarie Group is a global financial services provider. It acts primarily as an investment intermediary for institutional, corporate and retail clients and counterparties around the world.

Macquarie has built a uniquely diversified business. It has established leading market positions as a global specialist in a wide range of sectors, including resources, agriculture and commodities, energy and infrastructure, with a deep knowledge of Asia-Pacific financial markets.

Alignment of interests is a longstanding feature of Macquarie's client-focused business, demonstrated by its willingness to both invest alongside clients and closely align the interests of shareholders and staff.

Macquarie's diverse range of services includes corporate finance and advisory, equities research and broking, funds and asset management, foreign exchange, fixed income and commodities trading, lending and leasing and private wealth management.

Macquarie Group Limited is listed in Australia (ASX:MQG; ADR:MQBKY) and is regulated by APRA, the Australian banking regulator, as the owner of Macquarie Bank Limited, an authorised deposit taker. Macquarie also owns a bank in the UK, Macquarie Bank International Limited, which is regulated by the FSA.

Founded in 1969, Macquarie employs more than 13,400 people in 28 countries. At 30 September 2012, Macquarie had assets under management of $A341 billion.

APPENDIX

Comment 1

The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted;

Macquarie agreed with the IASB when it introduced its investment entity exposure draft to provide a consolidation exemption to these entities, because fair values provide more useful information for decision making by users. We were and continue to be of the view that consolidated financial information does not provide the most useful information for users.

One of the reasons we supported the IASB amendments was that these entities are currently accounting for their investments using a number of different accounting bases (consolidation for subsidiaries and some choose fair value for associates/joint ventures) which makes comparability of the performance difficult across investments (within the entity and across similar entities). The IASB amendments provide a single method to measure investments held by investment entities. The AASB's proposed disclosures effectively requires two sets of financial statements be prepared, which we consider will confuse users of the financial statements.

Comment 2

Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information;

We disagree with the premise that there would be an adverse impact on decision-making from consolidated financial statements not being presented. From our experience in Australia and internationally, the consolidated information currently provided in the financial statements of these entities has limited use in the decision making process due to user requests for other information.

We encourage the AASB to issue an amendment identical to that issued by the IASB, because there are no unique reasons for additional disclosures by Australian investment entities. AASB 12 already requires disclosures for interests in subsidiaries, associates and joint ventures held by an investment entity. We note that the international standard (IFRS 12) was amended in response to the investment entity amendment in order to require similar disclosures as for interests in unconsolidated structured entities. This demonstrates that the IASB has considered the needed disclosures[1].

Comment 3

If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements;

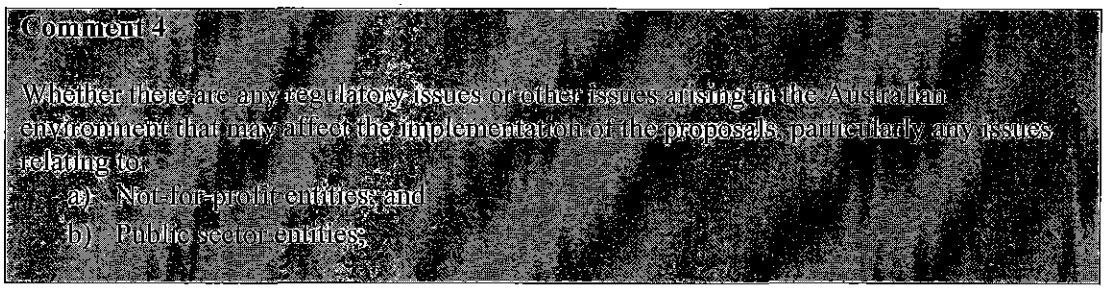
The additional disclosures proposed for investment entities (whether they are classified as Tier 1 or Tier 2 entities) should not be adopted by the AASB.

An objective set out by the AASB for the differential reporting framework in AASB 1053 is "to reduce the burden of disclosure requirements on Australian reporting entities". In

[1] *Investment Entity Amendment IFRS 12 BC61F*

introducing this framework the Board considered some entities by their nature should be relieved of disclosures. Tier 2 entities are not publicly accountable, and as noted in ED233.BC23, an investment entity may meet the Tier 2 classification when it has a single investor. In this case, consolidated financial information would not be beneficial to the single investor particularly as they may already be able to command additional information.

We consider that where a single investor is an intermediate holding company, the proposed disclosures would be especially burdensome. This is because currently such an investor would not normally prepare consolidated financial statements due to the exemption under AASB10.4(a)(i). Tier 2 entities should not be required to provide the additional disclosures.



The proposals may be difficult to implement, because similar entities in other countries complying with IFRS will not be providing consolidated information. Consider an Australian investment entity that invests in foreign investment entities (a subsidiary or associate) that follow IFRS. The Australian parent will have practical difficulties in sourcing the information for Australian disclosure purposes.

As part of the development of the IASB amendments, the IASB undertook significant outreach to determine the views of users. According to the IASB's feedback statement, most respondents supported the proposal for measuring investments at fair value, because it would provide more relevant information and comparability across investments. As noted in the IASB's basis for conclusions[2], users consider consolidated financial statements of an investment entity to not be useful due to the mix of accounting measurements used (consolidate controlled investments and fair value non-controlled investments). This has made comparison of the performance of investments difficult, and therefore users had been seeking other information provided outside the financial statements. The AASB's proposal for additional consolidated information is inconsistent with the fundamental reason for the IASB amendments.

The proposals for additional disclosures will have a negative impact on the Australian economy. As already discussed in Alternative View 2 (AV2.1) of ED233, the additional

[2] *Investment Entity Amendment IFRS 10 BC249, BC301, BC307*

disclosures will impact Australian business through additional compliance costs. Similar disclosures will not be provided by investment entities that operate in foreign jurisdictions, which places Australian investment entities at a disadvantage. Further, the consolidated information provided by Australian investment entities may mislead investors.

Comment 7

Unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

See our comments above.

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27 March 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
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Dear Mr Stevenson

EXPOSURE DRAFT 233 AUSTRALIAN ADDITIONAL DISCLOSURES – INVESTMENT ENTITIES

Thank you for the opportunity to comment on Exposure Draft 233 *Australian Additional Disclosures – Investment Entities* (ED 233).

Equity Trustees Limited is a Melbourne-headquartered ASX-listed provider of wealth management products and services. We have a proud 125 year history as a provider of trustee and wealth management services to the Australian markets.

In terms of our Funds Management/Responsible Entity business, we have approximately $27 billion funds under management and we act as responsible entity for over 150 funds across 57 global and local investment managers. We also provide investment management, administration, registry and custodial services to over 45 of these funds. Our products cover most asset classes, including Australian listed securities, foreign listed securities, direct property, unlisted fixed income, mortgages and derivatives. These are offered to a combination of retail and institutional investors.

We are currently responsible for the preparation of financial statements for over 150 funds, of which 6 are currently prepared on a consolidated basis in accordance with existing Australian Accounting Standards. Accordingly we have significant interest in the proposals outlined in ED 233.

In summary, we:

- **support the adoption of the amendments to IFRS 10 *Consolidated Financial Statements* (IFRS 10 amendments) as issued by the IASB without any additional disclosures and any further delays (i.e. we support Alternative View 2 as presented in the ED 233); we**
- strongly oppose non-adoption of the IFRS 10 amendments in Australia (i.e. Alternative View 1 as presented in ED 233) and we
- do not support the proposal to disclose consolidated financial information.

We agree with the IASB and the other global constituents that fair value information provides the most relevant information to the users of investment entities' financial statements and that consolidated information may be misleading and certainly does not justify the significant cost of obtaining such information. We therefore strongly agree with the IFRS 10 amendments.

With regard to the AASB's considerations of the IFRS 10 amendments, we believe that it is crucial that Australian investment entities are able to continue to state compliance with IFRS and remain competitive in the international market. Additional disclosure of consolidated information, as proposed by the AASB in ED 233, would impose an unjustified burden on Australian investment entities for no benefit to their stakeholders. Our experience to date indicates that unit holders are confused, rather than assisted, when presented with consolidated financial statements.

For more detailed discussion please see our responses to the *AASB's Specific Matters for Comments* included in Appendix A to this letter.

If you have any questions concerning our comments, please do not hesitate to contact us.

Yours faithfully

Robin Burns
Managing Director

Harvey Kalman
Head of Corporate Fiduciary and Fund Services

Appendix – AASB Specific Matters for Comment

1. You have invited us to comment on: **The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted.**

   In our view **the proposed Australian additional disclosures are not appropriate and not warranted** for the following reasons:

   - we believe investment managers and investors base their decisions on fair value information and not consolidated information. Therefore, the presentation of consolidated information in addition to fair value information (the proposal of ED 233) would result in financial statements of an investment entity providing, at best, redundant but potentially even misleading information on the historical and future performance of an investment entity;

   - We believe the presentation of consolidated information only, (Alternative View 1 in the ED 233) would result in financial statements of an investment entity providing no decision-relevant information; and

   - The presentation of fair value information only, with the associated disclosures as they result from existing requirements of AASB 7 *Financial Instruments: Disclosures* (Alternative View 2 in the ED 233) would result in the financial statements of an investment entity providing the most accurate, relevant and decision-useful information. The information presented in the financial statements would be in itself consistent (i.e. all based on fair values), and also consistent with other sources of publicly available information (for example, product disclosure statements, information memorandums, performance reporting, market commentaries etc.)

2. You have invited us to comment on: **Whether there are any alternative approaches or disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information**

   - In our view there is no adverse impact of the non-inclusion of consolidated information and we believe the financial statements are more meaningful without consolidated information for decision-making.
   - We believe that provision of fair value information only, reduces the complexity and enhances the decision-usefulness of an investment entity's financial statements.

3. You have invited us to comment on: **If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements**

   - We don't believe that the AASB's proposals are appropriate or warranted for **any** investment entity.

- We understand that under the Reduced Disclosure Regime, entities are to present the minimum of disclosures necessary for understanding of the entity's financial position, performance and cash flows. With the consolidated information being redundant information for any type of investment entity, Tier 2 entities should not be required to provide such disclosures.

4. You have invited us to comment on: **Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**
   (a) not-for-profit entities; and
   (b) public sector entities;

- We are not aware of any regulatory or other issues arising in the Australian environment that would mandate the preparation of consolidated information.

5. You have invited us to comment on: **Whether, overall, the proposals would result in financial statements that would be relevant to users**

- In our view the **proposal to adopt the IFRS 10 amendment with no additional disclosures, would result in financial statements that would be relevant to users**. The proposal to require the disclosure of consolidated information would not add any value to the users as we believe fair value information is the most useful to users of financial statements.

6. You have invited us to comment on: **Whether the proposals are in the best interests of the Australian economy**

- In our view **the proposal to adopt the IFRS 10 amendment is in the best interest of the Australian economy** so Australian investment entities can remain competitive in the global market and continue to attract investments nationally and internationally. We see the additional cost and time in preparing consolidated information which is not useful for decision making and is potentially misleading, to be detrimental to our global competitiveness.

7. You have invited us to comment on: **The costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.**

We see the benefits of adopting the IFRS 10 amendments without additional disclosure requirements as follows:

- reduced burden on preparers of financials to prepare consolidated information which is only used for external reporting and not for internal management purposes;
- increased decision-usefulness of the financials to the users;
- investment entities remain compliant with IFRS and remain competitive in the international market;

- reduces additional reporting costs on Australian investment entities which impacts on their global competitiveness; and
- financial statements could be available on a more timely basis.

We do not consider there will be any additional costs in not preparing consolidated financials and may see cost reductions for investment entities that are no longer required to prepare consolidated accounts.

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Mr Kevin Stevenson
The Chairman
Australian Accounting Standards Board
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Victoria 8007

Our ref Submission - ED 233 Investment Entities

28 March 2013

Dear Kevin

Submission - ED 233 Investment Entities

We are pleased to have the opportunity to comment on Exposure Draft 233 – *Australian Additional Disclosures – Investment Entities (proposed amendments to AASB 1054)* ('ED 233').

Executive Summary

We do not support the proposal for additional disclosure requirements contained in ED 233. KPMG encourages the AASB to approve the IASB amendments with no additional disclosure requirements as promptly as possible to allow entities to early adopt if wanted.

In our view, the Australian legal and regulatory environment is not sufficiently different from the international environment to warrant Australia imposing additional disclosure requirements, which would effectively negate the benefits of the exemption provided internationally. When the IASB considered the needs of users and other stakeholders, feedback strongly suggested that fair values provided the most useful information.

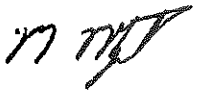
Whilst we acknowledge the AASB has strong conceptual concerns regarding investment entities, we do not see the number of entities impacted or the 'additional information' to be "lost' to be so significant that additional disclosures should be required.

This has for the first time resulted in Australian entities not being able to adopt IFRS amendments at the same time as their international counterparts. In this context we note that IFRS is not perfect and that for Australia the key benefit of international comparability should generally outweigh individual standard concerns.

Please refer to Appendix 1 of this letter for our detailed comments.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (02) 9335 7630, or Michael Voogt on (02) 9455 9744.

Yours sincerely



Martin McGrath
Partner In Charge, Department of Professional Practice

Appendix 1 – ED 233 *Australian Additional Disclosures – Investment Entities (proposed amendments to AASB 1054)*

Question 1 – Appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted?

We do not support the proposal for additional disclosure requirements contained in ED 233. KPMG encourages the AASB to approve the IASB amendments with no additional disclosure requirements as promptly as possible to allow entities to early adopt if wanted.

ED 233 is not consistent with IFRS as it requires additional disclosures that the IASB did not consider necessary when it issued its investments entity amendments.

AASB compromise/IASB conclusions

We acknowledge the AASB discussion within the basis of conclusion to the proposed amendments in ED 233 including the various concerns held by some AASB members over the IASB investment entity amendments.

However, in issuing the investment entity amendments the IASB acknowledged all the arguments put forward by AASB members. Further, the IASB noted that the exception to consolidation was introduced in response to comments from users that the most useful information for an investment entity is the fair value of its investments. The IASB also commented that consolidated financial statements of an investment entity may hinder users' ability to assess an investment entity's financial position and results, because it emphasises the financial position, operations and cash flows of the investee, rather than those of the investment entity.

In summary, the IASB consider that their amendments will provide improved information about the fair values of investments and the way in which the fair value is measured. Such information could reduce the cost of analysis by providing information more directly relevant to users of financial statements.

KPMG considers that the needs of users and other stakeholders of the investment entity community are not significantly different in Australia from other jurisdictions. Therefore the IASB investment entity amendments should be adopted unchanged. Further, there should be no need for a 'compromise' solution in Australia as there is no potential harm in not presenting consolidated information.

Similarly the AASB needs to ensure that all Australian for-profit entities can continue to be in a position to comply with IFRS, i.e. the option to not issue the IASB amendments in any form should not be considered.

We note that IFRS is not perfect and that for Australia, the key benefit of international comparability should generally outweigh individual standard concerns.

Financial Reporting Council ('FRC')

Under a broad strategic direction from the FRC, the AASB has adopted IFRSs for application by entities reporting under the Corporations Act 2001 for annual reporting periods beginning on or after 1 January 2005. This is to ensure that general purpose financial statements, prepared by for-profit entities in accordance with AASB standards, will also be in accordance with IFRSs.

If the IASB amendments are not adopted this would be a departure from the 2002 FRC strategic direction to the AASB requiring the adoption of pronouncements issued by the IASB.

Cost/benefit

If the AASB proposals are adopted unchanged, significant additional costs will be imposed on Australian investment entities relative to their international counterparts.

The additional Australian only disclosures add to business compliance costs which is contrary to the Government's policy to reduce un-necessary "red tape".

User confusion

The AASB proposed amendments do not specify in what part of the financial report the above information is required to be disclosed. If the proposals proceed, preparers will need to consider the placement in the financial report so as to not confuse readers between the financial statements that comply with IFRS and the additional Australian disclosure of consolidated financial statements.

Having two consolidated statements of financial position, statements of profit and loss and other comprehensive income etc., one which is IFRS compliant and one of which is not, may be confusing for users. In the worst case users may not be in a position to comprehend the basis of preparation of each set of statements and why they are different.

Question 2 – Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information?

No, as we believe that users and other stakeholders have provided overwhelming feedback to the IASB that fair vales are the most useful information with little to no additional value received from consolidated information.

Again, KPMG encourages the AASB to approve the IASB amendments with no additional disclosure requirements as promptly as possible to allow entities to early adopt if wanted.

Question 3 – If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements?

KPMG does not support the additional disclosure requirements for either Tier 1 or Tier 2 entities.

Question 4 – Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to: (a) not-for-profit entities; and (b) public sector entities?

The Australian legal and regulatory environment as is not sufficiently different from the international environment to warrant additional Australian specific disclosures. We therefore do not support the additional disclosure requirements for not-for-profit entities, public sector entities and for-profit entities.

Question 5 – Whether, overall, the proposals would result in financial statements that would be relevant to users?

No.

KPMG considers that the needs of users and other stakeholders of the investment entity community are not significantly different in Australia from other jurisdictions. In these other jurisdictions the overwhelming feedback, received by the IASB, is that fair values provide the most useful information with little to no additional value received from consolidated information.

If the AASB proposals are adopted unchanged, significant additional costs will be imposed on Australian investment entities relative to their international counterparts.

We note that IFRS is not perfect and that for Australia, the key benefit of international comparability should generally outweigh individual standard concerns.

Question 6 – Whether the proposals are in the best interests of the Australian economy?

No. Refer to collective comments in the above questions.

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Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO BOX 204,
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28 March 2013

Dear Kevin

EXPOSURE DRAFT ED 233 – AUSTRALIAN ADDITIONAL DISCLOSURES – INVESTMENT ENTITIES (PROPOSED AMENDMENTS TO AASB 1054

BDO Australia Limited (BDO) is pleased to provide the Australian Accounting Standards Board with its comments on ED 233 Australian Additional Disclosures – Investment Entities (proposed amendments to AASB 1054) (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

We do not support the proposed amendments and instead believe that the AASB should immediately issue the October 2012 amendments to IFRS 10, IFRS 12 and IAS 27 that apply to Investment Entities as put forward as Alternative View 2 .(AV2) in the ED

Our reasons are as follows:

(a) ED 233 is not consistent with International Financial Reporting Standards as it requires preparation and disclosure of consolidated financial statements which the International Accounting Standards Board (IASB) did not consider necessary when it issued its Investments Entities standard. The IASB determined that the needs of the users of financial statements being best served by the measurement of investments at fair value rather than consolidation;

(b) These additional Australian only requirements increase costs to Australian organisations

(c) These additional Australian only requirements increase complexity and volume of disclosure to financial statements compared to the requirements of IFRS. The IASB has determined that the needs of the users of financial statements are best served using the fair value of investments rather than consolidation. There would therefore appear to be no justification put forward that the needs of Australian users of investment entity financial statements differ from the needs of international users;

(d) At a time when the users of financial statements are continually questioning the relevance of information contained in them and the volume of disclosure, it is extremely disappointing that the AASB is proposing voluminous and costly information to be required when the IASB has clearly determined that this information is not required.

(e) BDO is of the opinion that there are potentially serious impacts to Australian companies applying Australian equivalents of IFRS (AIFRS) to raise funds in the capital markets if the

international community perceives AIFRS to be anything other than IFRS. If the ED is adopted, this will be a significant deviation from IFRS and will potentially weaken Australia's standing in the IFRS community.

(f) The AASB has not provided a cost/benefit analysis of the impact that ED 233 will have. This is needed under Section 231 (1) of the ASIC Act 2001 before a AASB accounting standard is issued, and Section 231(2) requires this cost/benefit analysis on a draft accounting standard (i.e. ED 233). BDO does not believe that the AASB's reasons for issuing ED 233, i.e. additional disclosures to the IASB's Investments Entities accounting standard, are needed for Australian legal or institutional environment.

If you require any further information or comment, please contact me.

Yours sincerely

BDO Australia Ltd

Tim Kendall
Chairman, National Audit Committee

Dynamic Investment Solutions

QIC

27 March 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Dear Mr Stevenson

Comments on *Exposure Draft 233 – Australian Additional Disclosures – Investment Entities*

Thank you for the opportunity to comment on Exposure Draft 233 ('ED 233'). This letter contains our overall response to the proposals outlined in ED 233, whilst the appendix to this letter contains our response in relation to the specific matters for which the Australian Accounting Standards Board ('AASB') has requested comments.

QIC is a Queensland government-owned corporation and one of the largest institutional investment managers in Australia, with 93 clients and more than $69 billion (at 31 December 2012) in funds under management.

We believe that the majority of the entities managed by QIC and its subsidiaries meet the definition of 'investment entities', as defined in the International Accounting Standards Board's ('IASB') recent amendments to International Financial Reporting Standard 10: *Consolidated Financial Statements* ('IFRS 10'). Accordingly, we have a significant interest in the proposals outlined in ED 233.

QIC does not support the proposals contained in ED 233.

We believe that fair value information is more valuable to the users of an investment entity's financial statements than consolidated information and that consolidated financial statements are not needed by investors for decision making. We therefore consider the IASB's amendments to IFRS 10 to be a desirable change to existing financial reporting requirements, as they would result in financial statements containing information that is more relevant and meaningful to users.

We also believe that the proposals outlined in ED 233 for additional disclosure of consolidated financial information would result in unnecessary cost and operational burden being incurred for the preparation of financial statements. It would also continue to limit the ability of investment entities to provide audited financial statements to users on a timely basis. This is clearly an undesirable outcome for Australian investment entities and would place them at a disadvantage when compared to their global competitors, particularly those in North America and Europe.

The proposals outlined in ED 233 will result in a divergence from IFRS 10. This is in direct conflict with the IASB's global harmonisation project and the AASB's stated policy of only modifying IFRS for not-for-profit entities.

We are also concerned that the proposals may prevent investment entities from stating continued compliance with IFRS. To insert significant new Australian-only disclosure requirements and to delay the adoption of an accounting standard passed by the IASB in October 2012 is an inappropriate outcome and damages the stable platform of IFRS compliant reporting that has been so successfully established.

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The outcomes summarised above could easily harm the global credibility of the Australian accounting profession and the Australian investment management industry.

In summary, we do not support the proposals outlined in ED 233 and strongly urge the AASB to immediately implement IFRS 10 unamended.

Should you have any questions regarding the contents of this letter and its Appendix, please do not hesitate to contact us.

Yours sincerely

Claire Blake
Chief Financial Officer

QIC

APPENDIX – Responses to specific matters for comment

1: Comment on the appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted.

QIC comment: Fair value information is most valuable to users of an investment entity's financial statements.

- We understand that one of the key motivations for retaining consolidated financial information, as outlined in ED 233's 'Alternative View 1', is that information prepared on a consolidated basis potentially provides more useful information to users than financial information that is prepared using fair value. However, this is inconsistent with the statement in 'Alternative View 2' that *'users have advised the IASB that they prefer fair value recognition of controlled investees rather than consolidation accounting for these entities'.*
- Our view is consistent with the general response to the IASB's consultation process: investors typically do not view investment entities as a consolidated group, but rather on a 'look through' basis as a portfolio of investments held at fair value. We believe that the measurement and disclosure of investments at fair value is more reflective of the substance of the arrangement and that fair value is the most relevant information for the purpose of making investment decisions and measuring performance, for both investment entities and their investors.
- This view is supported by market communication and the disclosures typically contained in product disclosure statements and information memoranda. QIC's investment entities are managed on a fair value basis and all internal reporting, whether to management, the Audit and Risk Committee or the Board of Directors, is on a fair value basis.

QIC comment: Information presented in consolidated financial statements by 'investment entities' is not used for decision-making by investors.

- We believe that the primary reason for investors to invest in an investment entity is the belief that the investment manager will earn a better return on the investors' capital than the investors can themselves. We believe that investors make this decision using information that is provided in a prospectus, product disclosure statement, investment memorandum and similar documents, rather than the financial statements.
- Since there is typically a material delay between reporting date and the date that independently attested financial statements are available for investors' use, it is unlikely that investors make capital allocation decisions primarily based on information contained in financial statements, since that information is not timely, nor reflective of the current price at which the investment entity is trading.
- Accordingly, we believe that the preparation of consolidated financial information is of very little use to investors and other stakeholders and it certainly does not provide investors with the requisite information to enable them to determine where or how they best allocate their capital.
- We contend that it would be of more benefit to the users of an investment entity's financial statements to provide audited fair value information within a shorter timeframe than that which would occur if consolidated financial information was also required to be provided.

QIC comment: Consolidated financial information may be misleading.

- We believe that investment managers generate investment returns through acquiring, holding and disposing of investments, rather than through the management of the underlying assets and operations of those investments. Accordingly, the disclosure of the underlying assets and results of operations do not provide users with meaningful information on how well investment managers have managed their portfolio of investments. The measurement and reporting at fair value in financial statements more closely aligns the various sources of information provided to investors in investment entities.
- We are concerned that the provision of information that is superfluous to investors' interests, such as consolidated financial information, could be misinterpreted by the users of these financial statements. The performance of an investment entity, and the risks to which it may be exposed, may be overlooked or clouded by information not directly relevant to the user.
- We are also concerned that providing two sets of financial statements, one using fair value and one containing consolidated information, is likely to be more confusing than informative to users.
- Accordingly, we believe that removing the requirement to consolidate investee entities would produce clearer financial reports that more appropriately reflect the true nature of the activities being undertaken by investment managers.

QIC comment: ED 233 is inconsistent with the IASB's and AASB's commitment to harmonisation.

- We are highly concerned that the proposals outlined in ED 233 may prevent Australian investment entities from stating continued compliance with IFRS. This would result in financial statements for Australian investment entities being out-of-step with those prepared by international counterparts.
- Furthermore, Australia's divergence from IFRS 10 would reduce the global portability and comparability of Australian investment entity reporting. We consider this to be an unnecessary hurdle to global competitiveness, especially in relation to the practicalities of producing timely and relevant financial information for distribution to global investors and regulatory bodies. This would be an undesirable outcome for QIC and the Australian investment management industry in general.
- The proposed divergence from IFRS 10 is contrary to AASB's stated policy of only modifying IFRS for not-for-profit entities. It also conflicts with the principles of regional harmonisation projects, including the Australia and New Zealand harmonisation project.
- We believe that the views expressed in 'Alternative View 1' are essentially theoretical in nature and do not account for the practicalities associated with financial reporting for investment entities. We are concerned that Australia's potential divergence from an IASB standard, largely due to a theoretical argument, could adversely affect the international credibility of the Australian accounting profession.

QIC comment: There are significant practical difficulties of preparing consolidated financial information.

- We note that the preparation of consolidated financial information, especially if subject to independent audit, is often dependent on other parties or processes that are outside of our control. For example, if we are required to prepare financial statements that consolidate other fund-of-fund structures, we will inevitably be dependent on other parties to obtain the relevant financial information for consolidation purposes. The underlying information will often only be made available once it has been audited and the respective responsible entities or trustees have approved the underlying financial statements for issue to investors. This creates significant pressure on the upstream investment entities and their service providers to produce consolidated financial information on a timely basis for audit, approval, lodgement (if required) and release to investors. The logistical pressures pertaining to the preparation of consolidated financial statements is further exacerbated when there are downstream delays, complications or other issues (such as audit qualifications or restatements) and this can extend the timeframe for financial reporting by investment entities to investors.
- This is clearly an untenable situation that puts increased cost and time pressure on service providers and responsible entities, especially as the industry continues to experience growth in financial products and increased complexity.

QIC comment: cost concerns

- We note that it is quite common for investment entities to vary their holdings in underlying investments based on investor cash flows, investment strategy and market movements. Where the underlying investment is in a controlled entity, this can result in multiple consolidation ownership percentages within a short space of time. This makes the preparation of consolidated financial information very unwieldy and inefficient. The requirement to undertake consolidated financial reporting therefore adds to the cost incurred by investment entities and potentially reduces investor returns. This will result in Australian investment entities having a cost disadvantage relative to international counterparts, which is clearly an undesirable outcome.

2: Comment on whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information.

- As previously outlined in our response to item 1, we do not believe there to be an adverse impact on decision-making should consolidated financial information not be provided to the users of an investment entity's financial statements. We argue that an absence of consolidation information will enhance the readability of financial statements.
- We note that investment entities could voluntarily prepare consolidated financial information in addition to fair value information. Users could request such additional financial statement disclosures, if desired. This would be determined on a case-by-case basis by the responsible entity/trustee and investment manager. If consolidated financial information was considered relevant, a resulting market practice would develop, as has been the case for the reporting of fair value information and other information not required by financial reporting standards (for example, unit pricing and performance reporting).
- We believe that the broader investment management market will ultimately determine industry practice. Investors will decide whether the additional information provided by consolidating investee entities is more transparent and valuable to them than fair valuing those entities and, if so, will demand that investment entities provide consolidated information (in addition to the fair value disclosures that would be provided under the IFRS 10 amendments). If the responsible entity, trustee or manager of an investment entity resists these demands, the investor has the option of transferring their capital to another investment entity that does prepare consolidated financial information.

3: If the AASB's proposals proceed, comment on whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements.

- For the reasons outlined previously in this document, we believe that, in the unwelcome scenario that the AASB mandates consolidated information disclosures, relief should be provided to Tier 2 entities under the AASB's 'Reduced Disclosure Regime' ('RDR').
- We understand that the AASB's objective in developing the RDR was to reduce the reporting burden for eligible entities whilst providing sufficient and relevant information to users on a timely basis. Accordingly, we don't believe that the preparation of consolidated financial information by investment entities would meet the objective of the RDR.

4: Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to (a) not-for-profit entities, and (b) public sector entities.

- We are not aware of any Australian regulatory requirements to include additional consolidation disclosures in the financial statements of investment entities. Accordingly, we believe that the full adoption of the IFRS 10 amendments would not have any adverse impacts.

5: Comment on whether, overall, the proposals would result in financial statements that would be relevant to users.

- As previously outlined in this Appendix, we believe that:
  - The additional disclosures proposed in ED 233 would not be useful to users and would therefore provide no benefit to their decision-making. The AASB's full adoption of the IFRS 10 amendments would result in the financial statements of investment entities being more relevant to their users.
  - The provision of consolidated financial information does not provide meaningful information to the users of the financial statements of investment entities because fair value measurement is considered to be an appropriate representation of the manner in which investment entities are managed, marketed and reported to investors from a product perspective (for example, in product disclosure statements, information memoranda, performance reporting and unit pricing). Accordingly, fair value is the predominant basis upon which the users of financial statements of investment entities make their economic decisions.

6: Comment on whether the proposals are in the best interests of the Australian economy

- As previously outlined in this Appendix, we believe that:
  - The requirement to prepare consolidated financial information will impose unnecessary costs on Australian investment entities, which will adversely impact returns to investors, in the event that these costs are borne by the investment entities, or fees earned by the responsible entity/trustee/investment manager, in the event that these costs are not passed on to the investment entities.
  - The delay in providing investors with audited financial statements, due to the practicalities involved in obtaining underlying financial information for the preparation and audit of consolidated financial information, will result in Australian investment managers becoming increasingly uncompetitive, when compared to North American and European competitors, who are not required to prepare audited consolidated financial information.
  - Prior to the IASB amending IFRS 10, Australian investment entities were on a level playing field with other jurisdictions preparing financial statements under IFRS. However, should the proposals contained in ED 233 be adopted, Australian investment entities will be out-of-step with global practice. This is of particular concern, since the amendments to IFRS 10 achieve closer alignment of financial reporting by investment entities under US Generally Accepted Accounting Practice. We believe that it is vital that Australian investment entities do not carry an undue financial reporting burden compared to their competitors in global markets.
- In addition, we believe that the requirement to prepare consolidated financial information could potentially give rise to modified auditor reporting (for example, qualified opinions) for Australian investment entities that are unable to obtain the appropriate underlying financial information for the preparation and audit of consolidated financial statements that incorporate foreign investment entities, for example, in the hedge fund industry.
- Conversely, if the information that is obtained for the purpose of preparing consolidated information is unaudited, preparers of financial statements could request their auditors to perform additional work to obtain the necessary assurance over the underlying financial information, which would only result in increased costs of financial reporting in Australia and further erode returns to investors or profits of responsible entities/trustees/investment managers. This would invariably lead to restricted economic growth by those parties.

7: Comment on the costs and benefits of the proposals relative to current requirements, whether quantitative (financial or non-financial) or qualitative.

- We have already outlined a number of cost considerations in the preceding items 1 to 6. In addition, we believe that the proposal contained in ED 233 would be cost neutral or more costly, due to the requirement to prepare and audit two sets of financial information. However, the adoption of IFRS 10 with no amendment would result in a significant cost reduction for investment entities and this is our preferred option.
- In considering the relative costs of producing fair value disclosures versus consolidated disclosures, it has been our experience that the majority of the information required to prepare fair value disclosures is already produced internally and therefore would not create any significant additional cost or burden on preparers. This is primarily due to investment entities typically being promoted, managed, performance-reported and unit-priced on a fair value basis.
- We reiterate our belief that consolidated information does not provide relevant information to the users, therefore does not provide any benefit for the significant cost that is incurred in preparing it. This includes consideration of the cost of time to obtain data required for disclosure of consolidated financial information, in particular from non-Australian jurisdictions, where such information is not necessarily obtained for local reporting purposes. Such time loss can also result in unnecessary delays in operational processes, such as unit pricing, distribution calculations and performance reporting. Users of financial statements will not benefit from additional unnecessary disclosures at the cost of delays in the availability of audited fair value information.
- We note that our view is consistent with 'Alternative View 2', which states that 'In our view, requiring Australian additional disclosures...only imposes significant additional costs on Australian investment entities relative to their international counterparts'.

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28 March 2013

Kevin Stevenson
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Via e mail: standard@aasb.gov.au

Dear Kevin,

AASB Exposure Draft– ED233: Australian Additional Disclosures – Investment Entities

Thank you for providing us with the opportunity to comment on the Australian Accounting Standard Board Exposure Draft: *ED 233: Australian Additional Disclosure – Investment Entities* (ED 233) issued in December 2012.

The Australian Institute of Company Directors is the second largest member-based director association worldwide, with members from a wide range of corporations, publicly-listed companies, private companies, not-for-profit organisations, charities and government and semi-government bodies. As the principal Australian professional body representing a diverse membership of directors, we offer world class education services and provide a broad-based director perspective to current director issues in the policy debate.

The Australian Institute of Company Directors do not agree with the proposed additional disclosures set out in ED 233, based on the reasons set out below:

a) The additional disclosures that Investment Entities in Australia would be required to prepare will significantly increase the reporting burden on these entities as they would be required to collect additional accounting information in order to perform the consolidation.

b) Additional costs will be incurred by the Investment Entity in order to meet the proposed disclosure requirements. We are not convinced that the benefit of the disclosures would outweigh this cost. We particularly note that some of these investments may have accounting policies or financial year ends that differ to the Investment Entity and this may complicate the preparation of the consolidated financial statements.

c) The additional disclosures set out in ED 233 are not consistent with the International Financial Reporting Standards (IFRS). The International Accounting Standards Board (IASB) consulted broadly when considering the amendments to Investment Entities and included the following statement in their Project Summary and Feedback statement, "The IASB was persuaded by the consistent message from investors that, for this narrowly defined type of entity, measuring all of its investments at fair value provided investors with the best information."

We understand that the AASB did not support the recent changes the IASB has made to accounting for Investment Entities. However, as the IASB has nevertheless made the changes, we believe it is not in the spirit of Australia's adoption of international accounting standards to then require Australian companies to use two methods of accounting for Investment Entities – that is, to require in Australia both the IFRS compliant approach and the approach preferred by the AASB. We have seen no evidence to suggest that Australian investors and users of financial statements have such different needs to their international counterparts that result in justification of additional information in Australia.

d) Since 2006 the AASB has consciously embarked on an exercise to remove all the Australian guidance from the accounting standards. This guidance was confusing to users and increased the debate internationally about Australia's compliance with IFRS. Company Directors do not believe that there is overwhelming evidence to suggest that the proposed changes set out in ED 233 require the AASB to return to the previous regime of including Australian guidance.

e) We note further that ED 233 diverges from the policy set out in paragraph 9 of the AASB Policies and Processes statement issued in 2011, which states: "The AASB acknowledges that, as one of many participants in the international standard setting process, the outcomes of the process may differ from the preferred positions advanced by the AASB. However, in the interests of developing single set of high quality accounting standards for international use in Australia there is a presumption that IFRSs should be adopted for use in Australia unless to do so would not be in the best interests of the Australian economy." We do not believe that the AASB has provided significant evidence of why the proposed amendments set out by the IASB for Investment Entities would have a significant impact on the Australian economy.

We hope that our comments will be of assistance to you. If you are interested in discussing any of our views please do not hesitate to contact me or Nicola Steele on +61 3 8248 6600.

Yours sincerely,

pp.

John H C Colvin
Chief Executive Officer &
Managing Director

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Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
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29 March 2013

Dear Sir,

Exposure Draft 233 Australian Additional Disclosures – Investment Entities

Deloitte is pleased to respond to the Australian Accounting Standards Board (AASB) on Exposure Draft 233 *Australian Additional Disclosures – Investment Entities* (ED 233) (the ED).

We strongly disagree with the ED proposal to include additional consolidated information in the financial statements of Australian investment entities. We are of the view that the AASB should issue the International Accounting Standard Board's (IASB) amendments to IFRS 10 unmodified and without the inclusion of supplementary disclosures.

Our reasons are as follows:

(a) We note that paragraph 9 of the AASB Policies and Process (available on the AASB website) states *"The AASB acknowledges that, as one of many participants in the international standard setting process, the outcomes of the process may differ from the preferred positions advanced by the AASB. However, in the interests of developing a single set of high-quality accounting standards for international use there is a presumption that IFRSs should be adopted for use in Australia unless to do so would not be in the best interests of the Australian economy".*

In our opinion, the AASB has not clearly demonstrated in ED 233 the basis on which it has concluded that the adoption of the amendments to IFRS 10 as issued by the IASB is not in the best interests of the Australian economy. In our opinion, there are no significantly unique factors at play in the Australian economy in respect of investment entities that would warrant users requiring different information to those of their global counterparts.

(b) Furthermore, we note that the process followed by the IASB in developing the amendments to IFRS 10 was both thorough and comprehensive and in addition to inviting comments on the ED included significant global outreach including the hosting of roundtables at which the investor community was represented. The IASB included the following statement in the Project Summary and Feedback statement, *"The IASB was persuaded by the consistent message from investors that, for this narrowly defined type of entity, measuring all of its investments at fair value provided investors with the best information".*

(c) Section 231 (1) of the Australian Securities and Investments Commission Act 2001, states *"The AASB must carry out a cost/benefit analysis of the impact of a proposed accounting standard before making or formulating the standard. This does not apply where the standard is being made or formulated by issuing the text of an international standard (whether or not modified to take account of the Australian legal or institutional environment)".* We note the inclusion of the 'Effects Analysis for Investment Entities' in the

Basis of Conclusions to the IASB amendments to IFRS 10 summarised in BC317 as follows: *" In summary, the cost savings resulting from implementing these amendments are expected to be significant for investment entities and the users of their financial statements. Additionally, the implementation of the investment entities amendments should result in the benefits of increased comparability between entities and across jurisdictions, and more relevant reporting of information used by investors in making economic decisions."* We believe that the AASB should, before proceeding with the issue of its proposed amendments, perform a cost/benefit analysis within the Australian environment given the IASB's conclusions in its cost/benefit analysis as the imposition of additional cost on Australian entities is an important factor in the consideration of the appropriateness of requiring additional disclosures.

(d) Finally, whilst some may argue that requiring Australian entities to include the additional disclosures proposed in ED 233 does not impact the Directors' ability to state that the financial report is in compliance with IFRS, we are concerned with the precedent that is being set by ED 233. We believe that the principle of full IFRS compliance in Australia is well understood by both preparers and users, both within Australia and overseas, and that a departure from this principle requires a robust and significant debate. Use of IFRS globally has continued to increase since Australia adopted Australian equivalents to IFRS in 2005 and the re-introduction of divergence from IFRS as issued by the IASB may have unintended consequences, including imposing additional cost, on Australian entities.

As noted above it is our strong preference that the AASB issue the amendments to AASB 10 on an equivalent and unmodified basis to those made by the IASB to IFRS 10 without the inclusion of supplementary disclosures. However, should the AASB proceed with its proposals our detailed responses to the specific items requested for comment are included in the Appendix to this letter.

Deloitte continues to support the development of a single set of high quality, understandable, enforceable and globally accepted financial reporting standards and believe that IFRS compliance is vital to the Australian accounting environment.

If you have any questions concerning our comments please contact me on 02 9322 7288.

Yours faithfully
Deloitte Touche Tohmatsu

Caithlin Mc Cabe
Partner

Appendix – AASB Specific Matters for Comment

1. The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted

The fair value of the subsidiaries and the related disclosures around the nature and extent of risks relating to those investments as required by AASB 7 *Financial Instruments: Disclosures* as well as the additional disclosures around investment entities required by the amendments to AASB 12 *Disclosure of Interest in Other Entities* is more meaningful to users of the financial statements of an investment entity than the additional consolidated information disclosure requirements being proposed by the AASB. In the light of the additional cost of creating such additional consolidated information it is not warranted.

For investment entities measurement of investments at fair value is the most faithful representation of the relationship between the entity and its investee. The performance of such entities is driven by their investment decisions which in turn are made based on the fair value of the underlying investments.

In addition to management making their decisions based on fair values of the investments, investors also typically make their decisions based upon fair value of the underlying investments. In many cases, the unit capital (or similar in-substance ownership interests) of an investment entity is puttable back to an investment entity at fair value. Consolidated information does not necessarily reflect the fair value of the underlying investments and is therefore less relevant to the user.

Measurement at fair value through profit or loss also ensures a consistent measurement basis for holdings in various ownership positions irrespective of the size of the holding. For investment entities this is meaningful as the size of the holding in each investee may differ but the investment strategy is likely to be the same. For instance, an investment fund may hold 51% of the ordinary shares of one investee while holding 21% of the ordinary shares of another investee and still have the same investment strategy. Also the size of the holding in the investments can fluctuate during any one reporting period between control and non-control. Applying a consistent policy for measuring its investments is preferable to consolidating some and not others when the objectives of holding all investments and the management thereof is identical and investors demand the same fair value information for all investments.

Existing accounting standards on investments in associates and joint ventures already introduce the concept that it may be more relevant for certain entities such as venture capitalist and unit funds to fair value certain investments that other entities might be required to account for on a different basis.

We note that the IASB has undergone an extensive due process in their consideration of investment entities accounting and related disclosures before finalising the amendment. We don't see any support for the assumption that in a globalised market the information needs of users with regard to investment entities domiciled in Australia are any different to the information needs with regard to all other IFRS compliant investment entities. The AASB has also acknowledged in its reasons for issuing the ED that requiring the additional information is merely a compromise as a result of a *perception* of some Board members of the potential harm that could be created from not consolidating subsidiaries. No cost benefit analysis has been performed.

The proposed Australian additional disclosures create an unnecessary burden for Australian investment entities without providing meaningful financial information for the users. We believe this is not in the best interests of the Australian economy as discussed further in item 6 below.

2. Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information

We do not believe that there are any adverse impacts of the loss of consolidated information as a result of the IFRS 10 amendments.

The users of investment entity financial statements understand the purpose of an investment entity is to make investments to maximise the return, either through income or capital appreciation, to the investor. As a result, the

user is interested in the fair value, as the best current and future performance indicator of the investment entity's investments and is not required to "see through" to the underlying assets, liabilities, current period results and cash flows of the investment entity's investments.

By way of example, disclosures required by AASB 7, if applied to investments measured at fair value, provide a more meaningful understanding of the nature and risks associated with the investments than consolidated information. If the investees were consolidated and not incorporated at fair value, the AASB 7 disclosures would relate solely to the financial instruments held by the investee (and exclude all non-financial components). The overall risk resulting from holding the investment with all its underlying assets, and liabilities, including non-financial assets and obligations would not be captured by any measure or disclosure within the consolidated information. This could result in a distorted picture of the overall risk exposure of an investment entity and does not provide decision-useful information. In contrast, where the investments are measured at fair value in the primary financial statements, the carrying amount and the related disclosures fully capture all risks and uncertainties, therefore the inclusion of consolidated information does not provide any additional benefit.

The fair value of the subsidiaries and the related disclosures around the nature and extent of risks relating to those investments as required by AASB 7 *Financial Instruments: Disclosures* as well as the additional disclosures around investment entities required by the amendments to AASB 12 *Disclosure of Interests in other Entities*, is more than adequate to meet the needs of users of the financial information. In fact consolidated information may not give the user the fair value information that they require.

Also, if the AASB believed the users' needs would only be met if investment entities were providing additional consolidated information, they should have requested views and comments in this regard at the time the IFRS 10 amendment was open for comment and not subsequent to the amendment being issued and available for adoption. Current AASB considerations on whether and what additional disclosures could be useful come at a significant cost to the industry not being able to adopt the IFRS amendments immediately.

3. If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements

We do not agree with the proposals and therefore believe the requirement for Tier 2 entities to produce consolidated information is also unnecessary.

Furthermore, we do not believe that there will be many entities which will meet the definition of an investment entity but will not have public accountability and therefore could be relieved from full disclosure and prepare Tier 2 financial statements. We believe any such entities are limited to wholly owned entities within a corporate or managed fund. As with all other investment entities the preparation of consolidated information by these entities would create an unnecessary burden costing significant time and resources for no benefit.

4. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
(a) not-for-profit entities; and
(b) public sector entities;

We are not aware of any regulatory issues arising from the adoption of the IFRS 10 amendments that would result in the need for consolidated information.

5. Whether, overall, the proposals would result in financial statements that would be relevant to users

The proposals to include additional disclosure of consolidated information would not result in financial statements that would be relevant to users.

The adoption of the IFRS amendment as issued by the IASB would result in financial statements that are most relevant and meaningful to users. Following the outreach performed by the IASB, it was concluded, as disclosed in the amendments to IFRS 10, paragraph B85K, that an investment entity:

(a) provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is required or permitted in accordance with IFRSs; and

(b) reports fair value information internally to the entity's key management personnel (as defined in IAS 24), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.

It was therefore determined by the IASB that using the fair value measurement basis in the primary financial statements would best reflect the substance of the activities of the investment entity, and the related disclosures, would be most meaningful to users. The amendments mean that financial instruments disclosures required by AASB 7 *Financial Instruments: Disclosures* will be prepared with regard to all investments held by an investment entity (i.e. at investment level) as discussed in item 2 above.

Providing redundant information, as in the case of consolidated information, increases complexity and reduces understandability and usefulness of financial statements. It bears the risk that information relevant to the understanding of the performance of an investment entity and the risks to which it is exposed, i.e. fair value information, is misinterpreted and users make their decisions based on such wrong understanding.

As discussed in item 1 above, consolidated information does not provide more relevant information to the users of an investment entity's accounts.

6. Whether the proposals are in the best interests of the Australian economy

The proposed additional disclosures are not in the best interests of the Australian economy.

The proposal to adopt the IFRS 10 amendments for fair value measurement and also require disclosure of consolidated information creates an additional reporting requirement for Australian investment entities that does not apply to other investment entities operating around the globe.

We believe that the requirement to prepare consolidated information creates an unnecessary burden and cost to both the preparer and the user. The preparer incurs the cost of generating information which is not useful to internal or external users; the user incurs the cost of extracting the relevant information from the growing quantum of unnecessary information. The user is provided with unnecessary information at the additional cost of time for the information to be generated and audited – an often very time consuming procedure for no benefit.

Imposing the requirement to provide consolidated information on Australian investment entities may also hinder domestic entities' ability to invest in foreign markets. Investees knowing that an Australian investor would require full information for the consolidation of its investments may choose a foreign investor that does not require such information to reduce their own information gathering and reporting procedures and to avoid the associated cost thereof. As a result, Australian investment entities may be restricted in the entities in which they can invest. The implication of such a restriction impacts a much wider community than the users of the financial statements of the Australian investment entity.

We strongly believe it is imperative that Australian investment entities retain IFRS compliance in order to be able to retain and attract international investors. The loss of international investors could have a significant impact on the Australian economy.

7. Unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative

The proposal for investment entities to prepare financial statements on a fair value basis and include consolidated information does not create significant additional cost to the current requirement to produce consolidated financial statements. This is because we believe investment entities already prepare fair value information for internal reporting and management purposes.

The proposal to adopt the IFRS 10 amendment and prepare fair value financial statements creates significant additional benefit to the user compared to the existing requirement for consolidated financial statements. However, the proposal to require consolidated information in addition to the fair value information required by the IFRS 10 amendments involves significant cost in comparison to entities applying the IASB standard without benefit to the user, including:

- cost of obtaining / generating consolidated information by the preparer
- cost of extracting the relevant fair value information and related disclosures from the unnecessarily large volume of the overall information by the user
- cost of time to both, preparer and user, as audited financial information could be prepared and made available to the market significantly earlier if consolidated information would not need to be generated
- cost to the economy, as the need to prepare consolidated information imposes an unnecessary burden on Australian entities, weakening their competitiveness in the international market and also may have an adverse effect on their ability to invest

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27 March 2013

The Chairman
Australian Accounting Standards Board
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AUSTRALIA

By email to: standard@aasb.gov.au

Dear Chairman

Re: ED 233 Australian Additional Disclosures – Investment Entities

We appreciate the opportunity to provide feedback on ED 233. Vanguard Investments Australia Ltd is an investment fund manager specialising in index fund management. We are a preparer of financial statements for an investment entity and we will be directly impacted by the proposed changes.

Vanguard supports adoption of the IASB amendments to relieve investment entities from consolidating their subsidiaries with no additional disclosures for Australian investment entities (consistent with alternative view 2 in ED 233 AV2.1-3).

Vanguard's view is consistent with the view expressed by the many preparers and investors who responded to the IASB issued ED *Investment Entities* that consolidating the subsidiaries of investment entities does not result in useful information for investors. Given the nature of the investor relationship in investment entities and the fact that management make decisions based on the fair value of their investments (not consolidated information), the fair value through profit and loss recognition is preferred as it results in information that is more relevant to the users of our financial statements.

Further, the onerous task of providing two sets of financial statements imposes additional cost to Australian investment entities with little benefit to users for the reasons stated above. Two sets of financials may be confusing for some readers as there is no guidance for them to determine which set of reports they should use for decision-making. It will also reduce comparability to the full IFRS compliant financial statements of investment entities in other countries where the needs of users are not considered significantly different to the needs of users of investment entities in Australia.

Pease contact me if you wish to discuss any of the matters in more detail.

Yours faithfully,

Daniel Shrimski
Chief Financial Officer

National Australia Bank

National Australia Bank Limited
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AUSTRALIA

28 March 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
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Victoria 8007

To the Chairman of the Board

Exposure Draft 233 Australian Additional Disclosures – Investment Entities

We are pleased to have the opportunity to provide our comments on Exposure Draft 233 *Australian Additional Disclosures – Investment Entities*. Our comments on the specific questions in the exposure draft are addressed in the Appendix.

National Australia Bank is one of the four major banks in Australia. Our operations are predominantly based in Australia, New Zealand, the United Kingdom, the United States and Asia. In our most recent annual results we reported net profit after tax of $4.1 billion and total assets of $763 billion. Through our wealth management division, we provide investment, superannuation and insurance solutions to corporate and institutional customers. As at 30 September 2012 we had $125 billion of funds under management in our wealth management division, and 87 registered managed investment schemes and 93 unregistered schemes that we have established.

National Australia Bank does not fall under the definition of an investment entity in IFRS 10 *Consolidated Financial Statements*, however the registered and unregistered schemes in our wealth management division are expected to fall under the definition of an investment entity and the proposals in this exposure draft would impact these entities.

We support the Board in its endeavours to ensure users of financial statements have adequate information to support their decision making. We however do not believe the proposed Australian additional disclosures will provide relevant and useful information to users of investment entity financial statements. In our opinion, the investment entity requirements under International Financial Reporting Standards should be adopted unamended in Australia.

Having investment entities account for their investments in controlled entities at fair value provides relevant information to users of financial statements who are accustomed to assessing their investments on a fair value basis. We believe that adequate disclosure will be required under IFRS 13 *Fair Value Measurement* in respect of how fair value is determined and potential sensitivity of fair value measurements. In addition, the proposed requirements would result in additional compliance costs, both in terms of preparation and audit, which has the potential to reduce our competitiveness compared to our international peers. This cost is partly due to the complexity of the on-going control assessment required by IFRS 10, and the expectation that more entities will be controlled under the new consolidation model.

Should you have any queries regarding our comments please do not hesitate to contact Marc Smit, Head of Group Accounting Policy at marc.smit@nab.com.au.

Yours sincerely,

Stephen Gallagher
General Manager, Group Finance

Appendix – Specific Matters for Comment

Question 1
Comment on the appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted.

We do not believe that the proposed Australian additional disclosures are warranted, as we do not see a demand from users (in particular investors) for such information. Since investors in investment entities manage their investments primarily on a fair value basis, we believe the inclusion of consolidated financial information in the financial reports of the investment entity is of little value to the investor. This is evidenced by the fact that the International Accounting Standards Board received feedback from users of financial statements who prefer to receive information regarding the fair value of their underlying investments.

The amendment to IFRS 10 represents a simplification of financial reports which we believe can only be to the benefit of users of financial statements and assist in their interpretation of financial results.

In addition, we believe that adequate disclosure will be required under IFRS 13 *Fair Value Measurement* in respect of how fair value is determined and potential sensitivity of fair value measurements.

Question 2
Comment on whether there are any alternative approaches / disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information.

We believe that the investment entity requirements under International Financial Reporting Standards should be adopted without modification in Australia, and we do not consider any additional Australian disclosures to be relevant or necessary.

If the Australian Accounting Standards Board believe that users of financial statements are concerned about the loss of financial information, we recommend that an outreach exercise be performed to identify exactly what additional information investors would like (such as the defaults or breaches by the controlled entity in respect of loans payable), if any, rather than introducing the proposed extensive consolidated financial statement disclosures.

Question 3
Comment on whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements if the AASB's proposals proceed.

If the AASB's proposals proceed, we question whether requiring the additional disclosure requirements for Tier 2 entities is in the spirit of "substantially reduced disclosure requirements" for Tier 2 entities in AASB 1053 *Application of Tiers of Australian Accounting* Standards.

Question 4
Comment on whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly issues relating to:
(a) not-for-profit entities; and
(b) public sector entities.

We do not have any comments in relation to these types of entities.

Question 5
Comment on whether, overall, the proposals would result in financial statements that would be relevant to users.

We do not believe the proposals will result in financial statements that are more relevant to users than financial statements prepared under the International requirements (unamended).

The primary users of financial statements of investment entities are investors and in our experience, information regarding the fair value of their investment is more relevant to investors than consolidated financial information.

The consolidation process which requires recognition of 100% of the net assets of a subsidiary and the recognition of outside equity interests in those net assets does not necessarily give investors a clear picture of their interest. In the preparation of consolidated financial statements we often received feedback that the inclusion of investment assets and outside equity interests from the investment funds in the wealth management division is a confusing way of presenting the financial position of the group.

The consolidation process for investment entities does not necessarily bring on balance sheet the underlying investment assets and liabilities, for example in a group structure where control does not exist all the way through to the entities which hold the underlying assets and liabilities.

For internal management reporting, the performance of investment funds is monitored on a fair value basis. We note that in many cases financial statements for investment entities are only prepared to comply with statutory reporting obligations, with very little interest in these financial statements from investors. The time period between the end of a reporting period and the finalisation of financial statements also reduces the relevance of the financial information supplied to users via the financial statements, as in most cases investors have access to up to date unit prices which reflect the value of their investment.

We also note that the application of IFRS 10 is very judgemental, and there is likely to be different interpretations of whether an entity is controlled, and therefore a lack of consistency in the application of the proposed disclosures.

Question 6
Comment on whether, overall, the proposals are in the best interests of the Australian economy.

Additional costs will be incurred in order to produce consolidated financial information for entities impacted by the proposed Australian additional disclosures, and have this information subject to audit at a materiality level applicable to the investment entity. This is partly due to the introduction of IFRS 10 and the expectation that more investment funds will control entities in which they have an ownership interest compared to the current consolidation model, and the requirement for on-going reassessment of the control decision. The production of consolidated financial statements is likely to be a manual and labour intensive process since management information systems are primarily set up to report on a fair value basis.

As an extra cost to the bank, this would result in a lower return to investors of the funds and / or shareholders. We do not believe this additional cost is justified on the basis of any offsetting benefit to investors or shareholders.

One of the key benefits of IFRS is that it should allow financial statements to be comparable across different jurisdictions and requiring such substantial onerous disclosure requirements for Australian investment entities is expected to reduce our competitiveness compared to our international peers.

Question 7
Comment on the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

We struggle to identify benefits of the proposals from the perspective of users of financial statements. If there were identifiable benefits, the AASB should be expecting additional investment into Australian investment entities from investors who value this information, and are unable to obtain such information from our international peers. We do not expect this to be the case.

We have not quantified the expected additional cost, in terms of preparation and audit, and have outlined our thoughts on the additional costs in response to question 6.

Grant Thornton

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
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28 March 2013

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Dear Kevin

Exposure Draft ED 233 – Australian Additional Disclosures – Investment Entities (proposed amendments to AASB 1054)

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on ED 233 Australian Additional Disclosures – Investment Entities (proposed amendments to AASB 1054) (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations (NFPs). This submission has benefited with input from our clients, Grant Thornton International, and discussions with key constituents.

We do not support the proposed amendments and instead believe that the AASB should immediately issue the October 2012 amendments to IFRS 10, IFRS 12 and IAS 27 that apply to Investment Entities.

Our reasons are as follows:

(a) ED 233 is not consistent with International Financial Reporting Standards as it requires additional disclosures that the International Accounting Standards Board (IASB) did not consider necessary when it issued its Investments Entities standard;

(b) These additional Australian only disclosures increase costs to Australian organisations and in Grant Thornton's view (and the IASB that has responsibility for IFRS) are not needed, and hence add to increased Red Tape business compliance costs which is contrary to the Government's policy to reduce un-necessary Red Tape;

(c) The AASB has not provided a cost/benefit analysis of the impact that ED 233 will have and this is needed under Section 231 (1) of the ASIC Act 2001 before a AASB accounting standard is issued, and Section 231 (2) requires this cost/benefit

analysis on a draft accounting standard (i.e. ED 233). Grant Thornton does not believe that the AASB's reasons for issuing ED 233 which require additional disclosures to the IASB's Investments Entities accounting standard are needed for Australian legal or institutional environment. We also note that form Grant Thornton's review of the 15 submissions made on ED 220 that dealt with the then draft amendments to Investment Entities issued by the IASB (ED 2011-14), 14 of the submissions specifically commented on whether there should be additional Australian disclosures and 11 (79%) were opposed to such additional disclosures. On that basis we find it surprising that the AASB made no attempt to justify additional disclosures on a cost/benefit basis before releasing ED 233 for comment; and

(d) If the AASB issues ED 233 as a AASB accounting standard, and we note that a majority of AASB members approved the issue of ED 233, or the AASB does not issue the IASB's October 2012 approved Investment Entities amendments, we would support the Government directing the AASB under Section 233 of the ASIC Act to adopt international accounting standards issued by the IASB. Grant Thornton believes that this is necessary to ensure that Australian Investment Entities are able to be IFRS complaint without any additional and un-necessary Australia only disclosures which the IASB does not consider necessary.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

A.
AASB invitation to comment questions

Question 1

The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted;

Grant Thornton does not believe that the proposed disclosures are appropriate or warranted. The IASB has determined that there should be an exemption from consolidation in certain instances for Investment Entities and has determined that the Australian proposed disclosures are not needed. There is therefore no reason why Australian businesses should be subject to additional disclosures that are at a cost.

Question 2

Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information;

Grant Thornton does not believe that the there is a need for any additional disclosures as the IASB has determined that the Investment Entities amendments are appropriate as is.

Question 3

If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements;

Grant Thornton does not support the additional requirements for either Tier 1 or Tier 2 entities.

Question 4

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(a) not-for-profit entities; and

(b) public sector entities

As detailed in the covering letter, Grant Thornton does not support the ED 223 proposals and is not aware of any particular Australian regulatory or environmental issues that would support such disclosures.

Question 5

Whether, overall, the proposals would result in financial statements that would be relevant to users.

As detailed in the covering letter, Grant Thornton does not believe that the ED 223 proposals would have any relevance users.

Question 6

Whether the proposals are in the best interests of the Australian economy.

As detailed in the covering letter, Grant Thornton is strongly of the view that the ED 233 proposals are not in the best interests of the Australian economy.

Question 7

Unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

Given the comments in the covering letter, Grant Thornton is surprised that the AASB is seeking a cost/benefits analysis when the AASB has not undertaken such a process. Any additional disclosures come at a cost and as such disclosures are not required by the AASB, Grant Thornton sees no benefit in such disclosures.

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

28 March 2013

Dear Mr Stevenson,

Invitation to comment on AASB Exposure Draft 233 Australian Additional Disclosures - Investment entities

We are responding to your invitation to comment on the above Exposure Draft (ED) on behalf of PwC.

We have read the exposure draft, along with the basis for conclusions and alternate views, and welcome the AASB's approach to adopt the International Standards Accounting Board's (IASB) guidance to allow qualifying investment entities to fair value their subsidiaries. However, we do not support the proposed additional Australian disclosures ('proposals').

We would support an approach whereby the IASB's guidance is issued in Australia unamended and with no additional Australian specific disclosure requirements, for the following reasons:

- Fair value provides users with the most useful information for decision making. Fair value accounting for the underlying investments also generally provides the basis for the net asset values at which many investors acquire and dispose of their investments in these entities.
- An investment entity, as defined, reports fair value information internally to its key management personnel ('KMP') and is used by them in making decisions concerning the allocation of scarce resources. Consolidated financial information is not used by management for decision making and therefore is not useful information for users.
- The proposals are likely to lead to user confusion and lack of comparability. Users may question which primary statements are more relevant.
- Maintaining IFRS compliance is paramount. The proposals could lead to a perception that Australian investment entity financial statements are no longer IFRS compliant.
- Compliance with IFRS is presumed to achieve fair presentation of financial information. The proposals represent a significant additional burden and cost to preparers that is not required to achieve a fair presentation and which will be of limited benefit to users.
- The Australian environment is not sufficiently differentiated from the global environment to warrant such onerous additional disclosures. We note other IFRS-compliant territories have adopted the IASB's guidance without amendment.
- We believe the IASB's definition of investment entities is sufficiently robust to minimise structuring opportunities. Furthermore, the IASB's conclusion not to allow roll-up investment entity accounting at a non-investment entity parent level will mitigate substantially the risk of misuse.

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Our detailed reasoning and responses to the specific questions of the ED are outlined in Appendix A and B respectively.

We would welcome the opportunity to elaborate on our views if you wish. Please contact Jan McCahey on (03) 8603 3868 or me on (02) 8266 8099 if you would like to have a discussion.

Yours sincerely,

Wayne Andrews
Partner
Assurance

Appendix A: Detailed reasoning

Fair value provides the most useful information for decision making

For many years, a significant number of preparers and investors have stated that measuring subsidiaries of investment entities at fair value provides more relevant information than consolidation for decision making.

Fair value information is often used by investors to make decisions concerning the performance of an investment entity, and what action (if any) they will take with regard to their holdings (that is, buy, sell or hold). Many investment entities perform a similar analysis of their investments to determine the composition of their portfolio. The size of holding, whether it is 1%, 20%, 60% or 100% will often not have an impact on the analysis performed by the investment entity itself.

In order for an entity to meet the definition of an investment entity, it must report fair value information internally to its KMP, and use this as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions. Fair value information must, therefore, be more useful to users of the accounts on the basis that management make decisions using the same information.

The general industry practice to include both parent and consolidated financial statements on the face of the accounts for investment entities (despite the *Corporations Act 2001* providing relief from disclosing parent information) also supports the message that fair value provides the most useful information for decision making. The consolidated financial statements are generally prepared solely for the purpose of complying with accounting standards but are not used to assess performance. The parent information is prepared on a fair value basis and essentially translates to the accounting proposed under the investment entities exception. Preparers and users of investment entity accounts have repeatedly indicated that the fair value information provided in the parent accounts is more relevant and provides more useful information for decision making.

Feedback from the 170 comments letters received by the IASB's exposure draft also reflected this sentiment, with the majority of constituents supporting the exception to allow investment entities to fair value their subsidiaries. The comment letters represented a broad spectrum of stakeholders, including preparers, users, regulators, standard-setters and other interested parties.

Whilst we acknowledge that the IASB's guidance creates an exception to the consolidation principle, the use of fair value results in relevant and useful information, which is a fundamental qualitative characteristic outlined in the Conceptual Framework.

User confusion and comparability

We are concerned that the proposals may lead to confusion amongst users as to which primary statements are more relevant. The lack of direction as to where the additional information shall be presented will also lead to inconsistency and reduce comparability between investment entities in Australia. We envisage there may be circumstances where the order of the primary statements is changed year on year so as to portray the investment entity in the best light.

We do not believe the inclusion of two sets of primary financial statements prepared using significantly different accounting policies results in understandable information as required by the Conceptual Framework or AASB 101 paragraph 17(c).

Maintaining IFRS compliance

In our view, it is of utmost importance that the AASB continue to maintain IFRS compliance in Australia by aligning Australian Accounting Standards with those of the IASB. Significant divergence

from IFRS requirements, as proposed, could lead to a perception that investment entity financial statements are no longer IFRS compliant, as well as encourage other standard setters to create exceptions to IFRS standards.

The proposals also seem to counter the recent efforts by the AASB to bring further alignment between Australian Accounting Standards and IFRS, as part of the Trans-Tasman Convergence Project.

Achieving a true and fair view

The AASB's view that the application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation is outlined in AASB 101 paragraph 15. We agree that compliance with IFRS is presumed to achieve fair presentation of financial information.

We do not believe that the inclusion of two primary statements for each of the statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows represents only "additional disclosure" as is implied in AASB 101 paragraph 15. Instead, the proposed requirement is significant and fundamental and has the potential to create confusion in the mind of users and is not required to achieve a fair presentation.

Cost / benefit analysis

Preparers of financial statements have noted that preparing consolidated financial information is time-consuming, costly and provides little benefit, because investors are more interested in non-consolidated, fair value information. In some cases, in order to avoid this burden, investment entities have previously structured their portfolios such that consolidation would not be required. For example, by not having a majority holding or investing through a number of separate vehicles. The additional Australian disclosure requirements, would therefore, negate any potential cost savings or efficiency gains that would be introduced by the IASB's guidance.

The ASIC Act requires the AASB to 'carry out a cost/benefit analysis of the impact of a proposed accounting standard before making or formulating the standard' which should take the form of a regulatory impact statement. The AASB should complete this analysis prior to deliberating the proposals further, and specifically consider the significant costs for preparers in requiring the additional disclosures, coupled with the limited benefits for users from having consolidated information available to them. We recommend the analysis also be made in light of the fact that the IASB concluded that the disclosure objectives suffice and consolidated information is not required.

Competitiveness of Australian investment entities globally

The Asia Region Funds Passport is an example of the increasing globalisation of the investment entity industry, which the Australian Government and the Financial Services Council both support. The program facilitates cross-border investment within the region – bringing with it significant economic, industry and consumer benefits by providing investors with access to new markets and diversification in a more efficient manner and at a lower cost, while also supporting the growth and liquidity of regional capital markets. Increasing the costs and reporting burden of Australian investment entities compared with their regional and global peers unfairly disadvantages them from a competitiveness perspective and goes against the objective of harmonising product offerings across borders.

From discussions with preparers and users, it is our understanding that they are becoming increasingly frustrated with standard setters and feel hampered by additional Australian disclosure requirements given there are no discernible differences between the Australian environment and that of its global counterparts that would warrant or necessitate additional disclosure.

Concerns regarding structuring

We understand one of the primary drivers for the proposals is to minimise the impact of any structuring opportunities that may arise from the introduction of the investment entity guidance. Alternate view 1 outlined in the exposure draft indicates that some of the Board do not support the IASB guidance as it creates an exception to a principle. They also believe that the approach towards defining investment entities was not rigorous and that this may lead to uncertainty in application of the definition and inconsistency of reporting between similar entities.

We understand one of the IASB's primary objectives was to arrive at a robust definition of an investment entity. A significant portion of their due process, including the exposure draft and comment letter phase, was focussed on finding an appropriate definition of an investment entity. We also believe the IASB's conclusion not to allow roll-up investment entity accounting at a non-investment entity parent level will mitigate substantially the risk of misuse of the exception.

Adoption of the exception globally

We understand that other IFRS-compliant territories have adopted the investment entity exception without amendment. One example is the European Financial Reporting Advisory Group ('EFRAG'), which most recently endorsed the IASB's guidance on investment entities with no additional amendments. In their media release, the EFRAG noted that the guidance is "*not contrary to the principle of 'true and fair' view"* and it meets *"the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management."*

AASB policies and processes

The AASB's policies and processes document outlines a number of key considerations that are required to be made as part of the standard setting process. We note that this document outlines:

- The AASB is required to facilitate the development of accounting standards that require the provision of financial information that allows users to make and evaluate decisions about allocating scarce resources and results in financial information that is relevant, reliable, facilitates comparability and is readily understandable
- The development of accounting standards will consider the competitiveness of Australian entities in the global economy, and that maintains investor confidence in the Australian economy
- As a participant in the international standard setting process, there may be occasions where the outcome differs from the preferred positions of the AASB. However "*in the interests of developing a single set of high-quality accounting standards for international use there is a presumption that the IFRSs should be adopted for use in Australia unless to do so would not be in the best interests of the Australian economy."*
- The AASB will adopt the Framework, Standards and Interpretations as issued by the IASB, such that entities complying with Tier 1 requirements will be simultaneously in compliance with IFRSs, and therefore be able to make an unreserved statement of compliance with IFRSs

We note that our reasoning of why we do not support the AASB's proposals is largely consistent with the considerations required as part of the AASB's standard setting process.

Appendix B: Specific matters for comment

1. **the appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted;**

   As outlined in the body of our letter and Appendix A, we do not believe the additional Australian disclosures are either necessary or warranted.

   We believe the proposal is excessive in light of the requirements in AASB 7 *Financial Instruments: Disclosures* (AASB 7) and AASB 12 *Disclosure of Interests in Other Entities* (AASB 12). AASB 7 enables users to evaluate the nature and extent of risks arising from financial instrument to which the entity is exposed, and how the entity manages those risks. AASB 12 specifically requires disclosures regarding significant restrictions on an unconsolidated subsidiary to transfer funds as well as any commitments or intentions to provide financial support to an unconsolidated subsidiary. The disclosures required by these standards are sufficient to convey the judgement management has exercised to determine the entity meets the definition of an investment entity, and secondly to disclose the risks associated with its investment in subsidiaries.

2. **whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information;**

   This question is predicated on the assumption that the loss of consolidation information will have an adverse impact on users of investment entity financial statements. As outlined earlier, discussions with constituents indicates that fair value information is more useful and relevant than consolidated financial information in this context. As a result, we do not consider that there should be an adverse impact on decision-making.

3. **if the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements;**

   We do not agree with requiring either Tier 1 or Tier 2 entities to comply with the additional disclosures for the reasons indicated earlier. The proposals would also counter the overall objective to substantially reduce disclosures for those entities not considered to be publicly accountable.

4. **whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

   (a) not-for-profit entities; and

   (b) public sector entities;

   We are not aware of any specific regulatory or other issues arising in the Australian environment in respect of the abovementioned entities that should be considered as part of the proposals. We are also not aware of any regulatory or legal issues that would warrant a different approach between Australian private sector entities and that of their global counterparts.

5. **whether, overall, the proposals would result in financial statements that would be relevant to users;**

   As outlined earlier, we do not believe the proposed additional Australian disclosures are relevant to users. Both preparers and users of investment entity financial statements have indicated that fair value information is the most relevant information when making investment decisions.

6. **whether the proposals are in the best interests of the Australian economy;**

   We do not believe the proposals are in the best interests of the Australian economy. We also refer to the AASB's policies and processes relating to the international standard setting process, where the AASB acknowledges there may be occasions where the outcome differs from its preferred position. However "in the interests of developing a single set of high-quality accounting standards for international use there is a presumption that the IFRSs should be adopted for use in Australia unless to do so would not be in the best interests of the Australian economy." We believe the presumption that the IFRSs should be adopted for use in Australia holds. Adoption of the exception unamended is in the best interests of the Australian economy.

7. **unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative.**

   Whilst the investment entity exception as approved by the IASB results in the loss of consolidated financial information, we believe it will lead to more relevant and useful financial information provided to users of investment entity financial statements by way of fair value information.

   No benefit will be gained by Australian investment entities, where consolidated financial information is required to be retained. The additional Australian disclosures, however, will reduce the competitiveness of the investment entities with their global counterparts, increase confusion amongst users of the financial statements, and still potentially lead to structuring of portfolios to ensure consolidation is not required.

   As a result, we believe the proposed additional Australian disclosures are unnecessary and onerous and represent an additional unnecessary burden on preparers of the financial statements.

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28 March 2012

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
P O Box 204
Collins Street West
VIC 8007

By email to **standard@aasb.gov.au**

Dear Mr Stevenson

AASB Exposure Draft 233: *Australian Additional Disclosures – Investment Entities*

Financial Reporting Specialists ('FRS') are pleased to provide the Australian Accounting Standards Board ('AASB' or 'Board') with comments on Exposure Draft 233: *Australian Additional Disclosures – Investment Entities* ('ED 233') (bring the proposed amendments to AASB 1054 *Australian Additional Disclosures*).

FRS experienced professionals compile high quality annual and interim financial statements in a cost effective, efficient and pro-active manner for many private and public entities in the for-profit and not-for-profit sectors (www.frsgroup.com.au). FRS acts as a bridge between the CFO and the auditors. FRS are also the authors of Pinnacle Financial Statements (http://ifrssystem.com/store/books/), a valuable resource material that provides 30 illustrative examples of financial statements covering a wide range of entities.

As preparers of financial statements we do not support the proposed amendments as set out in ED 233 due to the following reasons:

- The proposals will add significant additional costs, complexity and undue burden for Australian Investment Entities, relative to their international peers. Australian Investment Entities would be required to effectively prepare two sets of consolidated financial statements, the fair value financial statements as required by the International Financial Reporting Standards ('IFRS') and the AASB consolidated financial statements note as proposed by ED 233.

- The International Accounting Standards Board ('IASB') has already considered the needs of users of investment entity financial statements as part of its due process when issuing the October 2012 amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* and AASBs should not depart from the IFRS equivalents, unless required by local regulatory reasons. In this particular instance, there are no regulatory reasons for such a departure.

- Critics have questioned the impaired use of financial statements due to excessive detail, complexity and clutter. In an era where the Australian Financial Reporting Council, IASB and standard setters in other jurisdictions are looking to address complexity of financial statements, the proposed disclosures in ED 233 would only add to the problem by confusing users with two sets of financial statements – on the face and in the notes.

- Since the adoption of IFRS in 2005, the Board has attempted to eliminate differences between AASBs and IFRSs, by removing Australian specific paragraphs and reinstating alternative optional treatments that were permitted under IFRS. The issuance of AASB 1054 in May 2011 was another positive step by the Board in bringing Australian and New Zealand Standards closer to IFRSs. The proposals in ED 233 would be a divergence to this and therefore be a retrograde step.

We further note that paragraph BC19 of ED 233 states that the additional consolidated information could be presented in the notes or in other formats. This implies that such information could be in the primary statements, which we believe is not in compliance with IFRS. Not only could this be misleading, it goes against the ASIC Regulatory Guidance RG 230 *Disclosing non-IFRS Financial Information* relating to the presentation of non-IFRS information in financial statements.

We acknowledge the Boards significant concern about the impact that the loss of consolidation information could have on the decision-making of users. However, the departure in this instance is justifiable given the needs of users of investment entity financial statements would be better served by the use of fair value exception as permitted by the IASB October 2012 amendments relating to investment entities.

Therefore we agree with alternative view 2 being the issuance of the IASB's investment entity requirements unamended immediately, with the exception of paragraph AV2.4, as we do not support any additional disclosures proposed.

Finally, since the IASB had already deliberated on the exception to the control principal and accepted that the exception was warranted for Investment Entities, we see no compelling local reasons for divergence.

We attach our responses to the questions for specific comment. Should you wish to discuss the matter further, please do not hesitate to contact me on 02 9943 0201 or by email, vik.bhandari@frsgroup.com.au.

Yours sincerely

Vik Bhandari
Director and Partner

APPENDIX – Specific matters for comment

1. ***The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted***

   As stated in our covering letter, the proposed additional disclosures are not appropriate and unwarranted.

2. ***Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information***

   We do not believe that there are any additional disclosures required. Fair value of investment entity subsidiaries provides appropriate information for investor decision making. Furthermore the IASB amendments to IFRS 12, paragraphs 19A to 19G addresses some of the concern.

3. ***If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements***

   Notwithstanding that we do not support the Australian additional disclosures, if they were to proceed, relief should be provided to Tier 2 entities, as the objective of the Reduced Disclosure Regime was to reduce the burden such entities.

4. ***Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:***
   (a) not-for-profit entities; and
   (b) public sector entities

   As stated in our covering letter, the proposed Australian additional disclosures goes against ASIC Regulatory Guidance RG 230, specifically paragraph 8 which states that non-IFRS information should not be included in the financial statements, except in the rare circumstance where such disclosure is required to give a true and fair view

5. **Whether, overall, the proposals would result in financial statements that would be relevant to users.**

   We do not believe that the proposals in ED 233 would be relevant to the users. They add clutter the financial statements and presenting two sets of financial statements – face and notes, could be confusing to users.

6. **Whether the proposals are in the best interests of the Australian economy**

   We do not believe the proposals are in the best interest of the Australian economy. Specifically they add additional burden and costs to Australian entities.

7. **Unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.**

   As mentioned above, we do not support the additional costs for Australian entities of having to prepare two sets of financial statements.

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1 April 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
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West Victoria 8007

Invitation to comment on AASB Exposure Draft Australian Additional Disclosures – Investment Entities (ED 233)

Dear Mr Stevenson

Ernst & Young Australia is pleased to provide comments on the Australian Accounting Standard Board's ('AASB') Exposure Draft 233 *Australian Additional Disclosures – Investment Entities* ('ED 233').

We oppose the proposed Australian additional disclosures for investment entities as outlined in ED 233 and instead believe that the AASB should immediately issue the amendments to IFRS 10, IFRS 12 and IAS 27, as issued by the IASB.

In summary, our reasons are as follows:

- The Investment Entities ('IE') amendments issued by IASB have undergone due process, of which Australia was a part. This due process included an assessment of disclosures to meet the user needs.

- AASB has not provided any reasons in ED 233 as to why and how the Australian user needs are different from their international counterparts. Neither is there evidence that adoption of the IE amendments without additional disclosure will harm the Australian economy.

- Australian investment entities will be at a competitive disadvantage to their international counterparts, as costs of 'compliance' and preparation of financial statements will be higher than IE elsewhere.

We discuss these in further detail in Appendix A.

We would be pleased to discuss our comments further with you. Please contact Lynda Tomkins (lynda.tomkins@au.ey.com, or (02) 9276 9605) if you wish to discuss any of the matters in this response.

Yours sincerely

Ernst & Young

APPENDIX A

SPECIFIC MATTERS FOR COMMENT

1) **Appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted**

We do not believe the proposed Australian additional disclosures are appropriate or warranted.

In 2003, Australia decided to adopt IFRS effective 1 January 2005. A major motivation for the adoption to IFRS was the belief it would be a significant step to improve financial reporting. This included the notion that it would enhance Australian companies' access to global capital, reduce borrowing costs and bring simplification to global groups that had different accounting platforms.

As a result of this decision the AASB prepared its Policies and Procedures document which set how it would go about setting standards. In particular, paragraph 21 states:

> 'Australian Accounting Standards include requirements that are specific to Australian entities. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. In developing requirements for public sector entities, the AASB considers the requirements of IPSASs, as issued by the IPSASB.'

These paragraphs establish the criteria by which the AASB should assess international standards for adoption in Australia and whether additional disclosure is appropriate.

In proposing the additional disclosures in ED 233, we do not believe that the Basis for Conclusion provides adequate evidence that the additional disclosures are necessary to address a domestic, regulatory or other issue.

The reasons provided in paragraphs BC8 and BC9 express Board member concern about the loss of consolidated information generally – reflective of a concern that the final standard issued by the IASB does not reflect the preferred position of the Board. However, there is no evidence provided as to how the users in the Australian environment are different to international users, to warrant additional disclosures, nor evidence that the Board has engaged with the user community to obtain first-hand knowledge as to their needs.

It is our understanding from discussion with those that qualify as investment entities and the investor community that users of the financial statements do not use nor see any benefit in having consolidated information, due to the purpose of these entities and the purpose for which the investments are made.

Paragraph BC8 indicates that the amendment by the IASB only requires disclosures about the exception to consolidation rather than '...addressing the loss of consolidated information...'. We do not agree with these statements.

Additional disclosure was added to IFRS 12 by the IASB, namely paragraphs 19A – 19G. These paragraphs require disclosures about the investee and any arrangements that affect the distribution of the income and therefore the cash flows reflected in the fair value measurement of the investee.

Further, paragraphs BC61F-BC61H of the amendments to IFRS 12 discuss the Boards' logic for requiring these disclosures and restrictions and how this related to the needs of users. The reason IFRS 10 was amended was to reflect the way in which IE's conduct their business and how users evaluate their performance – on a fair value basis and not using consolidated financial information. We therefore do not believe it is necessary to 'address the loss of consolidated information' if that information is not relevant to the user.

The proposed additional disclosure is harmful

We believe that requiring additional disclosures for Australian reporters would put Australian entities at a competitive disadvantage compared with their international counterparts. The time and costs involved in preparing and auditing the additional consolidated information (even without the detailed notes) are not insignificant. Such costs would not be incurred by international IE's. This means that the overall returns available to the users are lower, attracting less international investors and reducing the attractiveness for local investors.

We do not support Alternative view 1

Paragraph 9 of the AASB policies and procedures states:

> 'The AASB acknowledges that, as one of many participants in the international standard setting process, the outcomes of the process may differ from the preferred positions advanced by the AASB. However, in the interests of developing a single set of high-quality accounting standards for international use there is a presumption that IFRSs should be adopted for use in Australia unless to do so would not be in the best interests of the Australian economy.'

We do not believe that the supporters of Alternative View 1 have provided evidence that the Australian environment differs to the international environment such that the amendment would not be in the best interests of the Australia economy.

Rather, the arguments expressed in paragraph AV1.1 are disagreeing with the amendment put forward by the IASB. In particular, the IASB have acknowledged that this is an exception to a principle, but believe that the user needs support the need for the exception. We agree with this focus on the user needs to support the exception.

Additionally, paragraph AV1.2 expresses concern with the application of the logic employed in the exception. It states that '...a single company holding assets for capital appreciation or dividends should only report its share price...' We do not agree that this is an outcome that would result from applying the logic.

Paragraph AV1.4 expresses concern that '...the approach towards defining investment entities is [not] rigorous.' We do not agree with this summary. The definition of an investment entity is a principles-based definition that reflects the way in which an entity conducts its business. The application guidance and characteristics that are included in the amendment establish a significant hurdle for entities to achieve to illustrate that they are an investment entity. While this may give rise to different reporting by similar entities in some cases, this reflects the different manner in which similar entities conduct their business, much the same way that similar financial instruments may be treated differently by entities, due to the business model that is used.

As we have been analysing the types of entities that qualify to meet the definition of an investment entity we have not become aware of entities inappropriately being classified as investment entities, or undertaking structuring to become an investment entity.

2) **Whether there are any alternative approaches/ disclosure strategies that can be employed to minimise the adverse impact of decision making on the loss of consolidation information**

In light of comments in (1), we do not believe there are adverse impacts on decision making from the loss of consolidation information. As discussed above, consolidation by IEs does not reflect the way in which the investments are managed. For an IE, measurement of investments on a fair value basis provides more meaningful information for decision making purposes. On this basis, the disclosures imposed by the IASB are considered adequate for decision-making by users.

3) **If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements**

We do not agree that requiring Tier 2 to incur these costs, when there are less users of the financial statements is warranted.

4) **Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**
   a) **Not for profit entities; and**
   b) **Public sector entities**

We are not aware of any regulatory issues which will impact the implementation of the amendment as issued by the IASB, with or without the proposed additional disclosures.

5) **Whether, overall the proposals would result in financial statements that would be relevant to users.**

As detailed in (1) above, we do not believe the proposed Australian additional disclosures for Investment Entities will result in financial statements that would be relevant to users.

We do however believe that adopting the amendment as issued by the IASB will provide financial statements that are relevant to users.

6) **Whether the proposals are in the best interests of the Australian economy**

As discussed in (1) above, we do not believe the proposed Australian additional requirements outlined in ED 233 are in the best interests of the Australian economy.

We do however believe that adopting the amendment as issued by the IASB will be in the best interests of the Australian economy, for the reasons stated in (1) above.

7) **Unless already provided in responses to specific matters for comments 1-6 above, the cost and benefits of the proposals relative to the current requirements, whether quantitative (financial or non financial) or qualitative.**

We have no further observation on the cost and benefit of the proposals on those provided above.

28 March 2013

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board (AASB)
PO Box 204
Collins Street VIC 8007

Via e-mail: standard@aasb.gov.au

Dear Kevin

Exposure Draft 233: Australian Additional Disclosures – Investment Entities

Thank you for the opportunity to comment on the Exposure Draft 233: Australian Additional Disclosures – Investment Entities (ED). CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the ED and our comments are set out below.

CPA Australia and the Institute represent over 200,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

After considering the proposed ED, and canvassing opinions from members and other stakeholders we do not consider that the AASB has made a compelling case to require Australian amendments to that already made by the International Financial Reporting Standards Board (IASB) to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*.

Our rationale for our view is summarised as follows:

- additional cost to Australian business compared to international counterparts
- increasing complexity of financial statements
- not consistent with existing AASB policies and procedures for adoption of IFRSs
- potential confusion amongst users when being presented with two sets of financial statements
- potential impact on Australia's ability to attract foreign investment.

We recommend the AASB issue without alteration the amendments to IFRS 10, IFRS 12 and IAS 27 as soon as possible thereby enabling Australian investment entities to early adopt the exemptions currently available to their international counterparts.

Our views on the specific questions posed together with more detail on our rationale follow in the Appendix.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au

Yours sincerely

Alex Malley
Chief Executive Officer
CPA Australia Ltd

Lee White
Chief Executive Officer
Institute of Chartered Accountants Australia

APPENDIX – Comments on specific questions

Question 1

The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted

CPA Australia and the Institute do not believe the AASB has made a compelling case to require additional Australian disclosures over and above the international requirements.

Our communications with preparers and investors in the Australian investment entity industry have identified that measuring the subsidiaries of investment entities at fair value provides more relevant information than consolidating those subsidiaries. These findings are consistent with those of the IASB concerning global industry participants. Given there are no known circumstances specific to the Australian industry or economy that would require the AASB to produce an accounting standard that is different from IFRS, we do not believe that additional consolidation disclosures for Australian entities is warranted.

We understand the AASB's concerns about departing from the principle that entities consolidate the assets and liabilities they control. However departure from this concept in the case of these very narrowly defined investment entities would appear warranted given the users' needs. We also agree with alternative view 2 articulated in ED 233 that there are other mitigating factors that are relevant to this issue, such as the small number of entities intended to be covered by the exception to consolidation and any ultimate parent that is still not itself an investment entity must still consolidate investment entities and consequently any controlled investees.

While we appreciate the AASB's concerns about creating exceptions to principles, we would point out that the IASB was also reluctant to create an exception to the control principle. However, the IASB was persuaded by the due process that was undertaken which provided a consistent message from investors that for this type of entity, measuring all of its investments at fair value provided the best information. The ED has not presented a compelling case in our view, for a different approach in Australia.

Prior to 2006, the AASB approach to standard setting involved the adoption of IFRS, with some modifications restricting optional treatments available in IFRS, and to require additional disclosures in some instances, particularly where these were already required under standards that pre-dated the adoption of IFRS. Since 2006, the AASB moved to minimise differences between IFRS and Australian Accounting Standards. This move was for a number of reasons including increased comparability internationally, removing barriers to international capital flows, reducing financial reporting costs for Australian multinationals and improving the quality of financial reporting in Australia to international best practice. This practice has been incorporated in the *AASB Policies and Procedures* statement issued in 2011. Paragraph 9 of this statement says:

> 'The AASB acknowledges that, as one of many participants in the international standard setting process, the outcomes of the process may differ from the preferred positions advanced by the AASB. However, in the interests of developing a single set of high-quality accounting standards for international use there is a presumption that IFRSs should be adopted for use in Australia unless to do so would not be in the best interests of the Australian economy.'

Given the above policy and procedures statement, CPA Australia and the Institute have not identified any basis within the ED 233 proposals that would require the AASB to depart from IFRS in order to meet its obligations to produce outcomes that are in the best interests of the Australian economy.

Australian businesses need to continue to attract foreign investment to grow our economy. Differences in the Australian accounting standards to those used internationally, could potentially impact those investment decisions, due to the potential confusion that such differences may send to the global community. Further, the proposed Australian additional disclosures would increase the cost of doing business in Australia over their international counterparts. We cannot see a compelling case where such increased costs and potential confusion is warranted.

Question 2

Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information

CPA Australia and the Institute do not believe that there is a need for any additional disclosures. We believe the October 2012 amendments made to IFRS 10, IFRS 12 and IAS 27 made by the IASB have addressed the needs of users of investment entity financial statements through an exception based, fair value presentation of investments in controlled entities. Measurement of subsidiaries at fair value through profit and loss provides appropriate information for investor decision-making. We supported these amendments when they were proposed by the IASB in ED 2011/4 *Investment Entities* for this reason. As set out in our comment letter to the IASB we consider that when an entity's primary objective in making an investment in an entity is to obtain capital appreciation and/or investment income (such as dividends or interest) rather than to obtain benefits through control, the information needs of users are not effectively met by the presentation of consolidated financial statements.

Further support for the conclusion that fair value provides the most relevant information to users in these circumstances is contained in the IASB's amendments to the Basis of Conclusions on IFRS 10 *Consolidated Financial Statements* which was excluded from the Australian republication in ED 233 at BC 215-235.

Question 3

If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements

CPA Australia and the Institute do not support the Australian additional disclosures for Tier 1 or Tier 2 entities.

Question 4

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
(a) not-for-profit entities; and
(b) public sector entities

CPA Australia and the Institute do not support the proposals. That said, we are not aware of any regulatory or other issues arising in the Australian environment that would affect implementation of the proposals.

Question 5

Whether, overall, the proposals would result in financial statements that would be relevant to users.

CPA Australia and the Institute do not believe that the ED 233 proposals would be relevant to users, as mentioned in Question 1 above. We are also concerned about the potential for confusion amongst users locally and overseas whereby they will be presented with two sets of financial statements – one on the face of the primary financial statements and one in the notes to those financial statements.

Question 6

Whether the proposals are in the best interests of the Australian economy.

Given our comments expressed in the questions above, CPA Australia and the Institute do not believe that the ED 233 proposals are in the best interests of the Australian economy.
The proposed Australian additional disclosures would increase the cost of doing business in Australia and we cannot support the imposition of unwarranted additional costs for Australian investment entities over their international counterparts.
Further, additional disclosures proposed in the financial statements will add to the complexity debate that has already been progressed within the Financial Reporting Council (FRC). We recommend that the AASB is cognisant of the FRC's recommendations on 'Managing complexity' in finalising any Australian amendments for investment entities.

Some may also be concerned that the delay in adopting the IASB amendments and subsequent proposals for Australian disclosures additional to IFRS could signal a waver in the AASB's commitment to IFRS adoption in Australia.

Question 7

Unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

CPA Australia and the Institute do not support the additional costs for Australian entities of having to prepare the additional disclosures. Further, before the ED proposals are progressed, a Regulatory Impact Statement should be provided for public comment.

Users of investment entities have stated their preference for fair value presentation based on their needs for this information in contrast to consolidated information, therefore there would seem to be no benefit –quantitative or qualitative, and there are very likely to be some negative consequences as set out above.

INTACCAUD

The International Accounting & Auditing Institute

29 March 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

Dear Sir,

SUBMISSION ON ED 233 - Australian Additional Disclosures – Investment Entities (proposed amendments to AASB 1054)

We support the views expressed under Alternative view 1 in relation to the proposed amendment to AASB 1054. In our opinion, failure to require consolidation of controlled entities based on whether or not the controlling entity is deemed to be an "investing entity" provides an unnecessary loophole and incentive for avoiding consolidations under AASB 10. While we understand this is a pragmatic solution being recommended by the IASB to justify existing practices, the distinction between "investing entities" and other types of controlling entities is meaningless. What other reason can there be for gaining control of another entity other than "investing"?

Consider the paragraph B85N from ED 233 –

> In determining whether it *(the controlling entity)* meets the definition of an investment entity, an entity shall consider whether it displays the typical characteristics of one (see paragraph 28). The absence of one or more of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity but indicates that additional judgment is required in determining whether the entity is an Investment entity.

This effectively allows controlling entities to decide whether they qualify as an "investing" entity or not. The distinction is therefore artificial, spurious and unenforceable, and should not be part of an accounting standard. The simple rule must be – if you control it, you consolidate it.

Yours sincerely

Graeme Macmillan - Principal

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The Chairman
Australian Accounting Standards Board
PO Box 204
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To Whom It May Concern;

We appreciate the opportunity to comment on ED 233, "Australian Additional Disclosures – Investment Entities" (the ED or 233). The matters raised in the ED are of importance to us and we feel that they are of equal importance to the users of our fund financial statements. Before we comment on the seven specific requested queries, let me provide an overview of our business and associated financial reporting, along with some high level comments on accounting standards.

Our business consists of a range of financial services businesses, but the focus of this response is in relation to our funds management operation. In relation to funds management, we have 23 registered managed investment schemes. We have total funds under management of $4.16 billion .We are part of the international Zurich Financial Services Australia Ltd group, with our ultimate parent located in Switzerland.

As a business operating within a broader international group, we are particularly concerned with the direction of the Australian Standard setter requiring additional disclosures in relation to investment entities over and above the other key jurisdictions that our business operates. From our group perspective one key benefit of adopting IFRS was to allow consistent, meaningful and robust reporting for our products, regardless of the jurisdiction that the accounts are prepared and lodged. We are very concerned that the additional disclosure requirements suggested by the AASB will reduce comparability with financial statements issued by our international colleagues, increase the cost of local financial statement preparation and, unfortunately, potentially reduce reliance that our investors place on the financial statements (due to additional disclosure of consolidated information when they are purely interested in the fair value of underlying investments).

We do not support alternative view 1 that was included within ED233. We believe, for all of the reasons noted above, that the AASB should adopt the amendments to provide exemption from consolidation for investment entities as outlined by the IASB, without modification.

Let me address each of the specific questions requested for comment in the ED.

1. *The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted*

We can see no basis on which additional disclosure is warranted in the Australian context given the fact that this issue appears to have gone through due process internationally and it was not seen as necessary. We do not see any compelling evidence from the ED to support the need for additional disclosure. In particular, the additional disclosure suggested in the ED is very comprehensive, effectively being consolidated primary statements (profit & loss, balance sheet, cashflows and changes of equity).

In relation to our own funds, our experience has been that investors are particularly interested in the fair value of investments and we are not aware of any users focussed on consolidated information. Evidence of this is the fact that there is very little demand for current financial statements, but there is regular accessing of unit pricing information from our registry system.

2. *Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidated information*

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The thrust of the above query infers that not having consolidated information for an investment entity negatively impacts decision-making of users of the financials. We would caution making that assumption, as our experience at the board, financial planner and ultimate investor perspective has been that consolidated information in managed investments schemes has often confused these key users. In particular, the resulting disclosure of outside equity interest has been very challenging to adequately explain to our users, as they are significantly more focussed on the carrying value of the individual investment units. Our experience has been that the use of a 50% ownership, or some other basis, has historically been quite arbitrary and can vary significantly depending on the actions of other investors.

If there is to be additional disclosure, we strongly believe it would not consist of consolidated primary statements, as that really defeats the purpose of the exemption. We believe that the disclosures proposed by the IASB are sufficient.

3. *If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements.*

As detailed above, we feel strongly that additional disclosure, over and above other IFRS jurisdictions, is not warranted for any reporting entity, so naturally we totally disagree with not providing relief to Tier 2 entities.

4. *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to not-for-profits or public sector entities*

We have no comment to make in relation to the above query.

5. *Whether, overall, the proposals would result in financial statements that would be relevant to users.*

We are afraid that if the proposed disclosures suggested in the ED were adopted, the relevance of the financials to our users would be significantly reduced. Our clients invest in our funds to gain exposure to selected markets and manage their affairs on a fair value basis. Therefore the international investment entity exemption fits very well with their needs. To provide both the fair value basis, along with a gross up of consolidated information, with outside equity interests, would be, we believe, a backward step.

It is perhaps an unfortunate fact, but for most, if not all, of our funds, the users typically focus on the product disclosure statement and the regular unit pricing and benchmarking information that we provide, as opposed to the financial statements. We fear that requiring both the fair value financials, on which effectively our investors do base their decisions, along with consolidated additional disclosure of primary statements will only confuse our investors. That is not desirable from either our perspective or the accounting profession generally.

6. *Whether the proposals are in the best interest of the Australian economy*

We do not believe the proposals are in the best interest of the Australian economy. For some years the Australian government has been stating their desire for Australia to be a key global market in relation to asset management. While this development has yet to fully deliver significant foreign funds into Australia, we do have a concern that if Australia requires additional disclosures there will be a negative reaction from potential foreign clients. Therefore, we feel that the proposals, if adopted, would put Australia at an economic disadvantage because it will cost more to comply with local accounting standards due to the need to obtain consolidated information. That additional disclosure would need to be compiled, reviewed, audited and assessed by our board. This will result in additional time and cost associated with the financial statement close process. This is particularly the case in our group where Australia would be the only country requiring additional disclosure, which will result in challenging discussions within our group as to the efficiency of the Australian operation.

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7. *Costs and benefits of the proposal*

As stated above, we see little, if any, benefits of the proposal for additional disclosure for Australian investment entities. In relation to costs, that is difficult to quantify, but most certainly there would be a substantial cost associated with preparing additional disclosures, having them audited and then reviewed by our board. This would also create greater pressure on already tight time frames of releasing the final statements.

We thank you for the opportunity to comment on ED 233. In summary, we do not support Australia moving away from IFRS and requiring additional consolidated financial information. Our rationale is both philosophical and practical. We strongly believe that if Australia is operating under IFRS then we should be consistent with what other jurisdictions are disclosing and secondly we see no benefit to end users of the proposed additional disclosure. In fact, we actually see the provision of additional material as detriment to decision making for our key stakeholders.

If you have any queries in relation to our submission, please do not hesitate to contact.

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A S I C

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5 April 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007

By Email: standard@aasb.gov.au

Dear Kevin

EXPOSURE DRAFT 233 – *AUSTRALIAN ADDITIONAL DISCLOSURES – INVESTMENT ENTITIES* ("ED 233")

Thank you for the opportunity to comment on the abovementioned exposure draft.

This letter contains the formal views of the Australian Securities and Investments Commission. This is a public submission and may be published on the website of the Australian Accounting Standards Board ("AASB").

Overall comment

We are highly concerned by the loss of transparency and information for investors and other users of financial reports that would result from adopting the International Accounting Standards Board's ("IASB") requirement that investment entities not consolidate their controlled entities, in the absence of additional Australian disclosure requirements. We are also concerned by the restructuring opportunities created by the amendments that would enable investment entities to avoid disclosure of information important to users.

Background

The IASB has amended its accounting standards to require investment entities to recognise investments in controlled entities as single line investments at fair value rather than to consolidate those entities. While there were other ways to provide the full fair value, such as note disclosure, we understand that recognising the fair values on the balance sheet was seen to be consistent with the way in which equity interests in investment entities are often priced (ignoring any internally generated goodwill or intangible assets at amortised cost held by the entity itself).

These proposed amendments are at odds with ASIC's publicly stated view that financial reports of managed investment schemes should disclose more information on their underlying investment portfolios.

IFRS compliance

We do not suggest that the AASB continue to require investment entities to consolidate their controlled entities. While our opposition to the IASB's proposed amendments for investment entities was reflected in a submission by the International Organisation of Securities Commissions to the IASB, the IASB has made the amendments to IFRS 10 *Consolidated Financial Statements*. We believe that it is important for Australian entities to prepare financial reports that are fully IFRS compliant in the interests of consistent and comparable reporting across borders, international confidence in Australian financial reports, and international capital flows.

Loss of information

However, we are concerned with the loss of important information for investors and other users of financial reports flowing from the IASB amendments. This information includes disclosures relating to:

(a) financial position, financial performance and cash flows of the group;

(b) underlying assets, liabilities, equity, revenue and expenses of controlled entities;

(c) leverage of the group;

(d) debt maturities;

(e) key assumptions used in the valuation of, and impairment calculations for, assets;

(f) credit, market and liquidity risks;

(g) fair value hierarchy disclosures;

(h) difficult accounting judgements and sources of estimation uncertainty; and

(i) contingent liabilities and expenditure commitments.

While the IASB has introduced some additional disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities*, such as the identity of the controlled entity and any financial support for the controlled entity, these disclosures do not include information relating to the underlying assets, liabilities, performance and exposures of the controlled entities.

Possible structuring and abuse

The IASB's amendments create the possibility for investment entities to transfer assets and liabilities to a wholly owned controlled entity to avoid making disclosures such as those noted in paragraphs (a) to (i) above.

AASB's proposed additional disclosures

We strongly support the proposed additional Australian requirement for disclosure of financial statements that consolidate all controlled entities.

Further disclosures needed

In the interests of investors and other users, we strongly urge the AASB to require investment entities to make additional note disclosures of the full information that would have been provided had all controlled entities been consolidated. This includes the type of information outlined in (b) to (i) above.

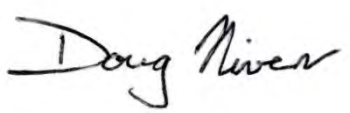
Cost/benefit

We believe that the disclosures proposed by the AASB and further disclosures proposed in this letter are in the best interests of confident and informed markets, investors and other users of financial reports, and the Australian economy as a whole.

There would be no cost to entities from such disclosure requirements given that the disclosures are currently required to be made by entities. There may be some additional cost associated with the disclosure of the new information that excludes the controlled entities, but that is a cost associated with the benefits flowing from IFRS compliance.

Please do not hesitate to contact me on (02) 9911 2079 should you have any questions in relation to this submission.

Yours sincerely



Doug Niven
Senior Executive Leader, Financial Reporting and Audit

FSC FINANCIAL SERVICES COUNCIL

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007

3 April 2013

Dear Chairman

FSC submission – ED233

Thank you for the opportunity to provide a submission on exposure draft.

The Financial Services Council (FSC) represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, private and public trustees. The FSC has over 130 members who are responsible for investing $2 trillion on behalf of more than 11 million Australians.

The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

We write to you in relation to the current consultation on ED 233. As you have noted, the International Accounting Standards Board have issued an amendment to the consolidation principle, such that an investment entity no longer needs to prepare consolidated financial statements but instead can prepare financial statements on a fair value basis.

This Exposure Draft proposes to issue the same relief for investment entities, but continue to require additional disclosures (ie full profit & loss statement, balance sheet, cash flow statement and statement of changes in equity) prepared on a consolidated basis.

This will essentially result in a set of financial statements with two P/Ls, two balance sheets, two cash flow statements and two statements of changes in equity, each prepared on a fair value and also consolidated basis.

We understand the industry is in favour of the relief to prepare accounts only on a fair value basis going forward.

We believe the additional disclosure requirements (to continue to disclose consolidated financial information) are inappropriate for the following reasons:

(1) Fair value is the most useful information for users, as it reflects the value of their investment. Fair value is the basis for investment decisions - both management's decisions and the investment decisions of users. As a result, additional disclosures based on consolidated financial information are not relevant or useful.

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(2) The additional disclosure requirements are likely to confuse users in that it is likely to be unclear which financial information is the relevant financial information on which users should base their decisions.

(3) Significant costs borne by preparers to maintain essentially two books and records (ie fair value and consolidated), with no (or limited) benefit to users

(4) The onerous disclosures required of Australian investment entities are likely to impact on their competitiveness in the global market, and contradicts the efforts made to date to achieve globalisation of the asset management industry. Furthermore, it is not apparent why such onerous disclosures are required specifically of Australian investment entities, when globally the exception appears to have been accepted unamended.

The FSC and members are concerned that these outcomes could increase cost and complexity for Responsible Entities for no obvious benefit and impact Australia's competiveness as a financial centre.

We seek a meeting with you to further discuss our concerns. I can be contacted on 02 9299 3022.

Yours sincerely

ANDREW BRAGG

SENIOR POLICY MANAGER