

Comments to the AASB by 30 November 2011



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 30 November 2011. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 5 January 2012. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@asb.gov.au

Respondents to the IASB are asked to send their comments electronically through the 'Open to Comment' page on the IASB website (www.ifrs.org).

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

This AASB Exposure Draft is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this AASB Exposure Draft are available by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@asb.gov.au
Postal address:
PO Box 204
Collins Street West Victoria 8007

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@asb.gov.au

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AASB REQUEST FOR COMMENTS

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating International Financial Reporting Standards (IFRSs) into Australian Accounting Standards, the AASB is inviting comments on:

- (a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and
- (b) the 'AASB Specific Matters for Comment' listed below.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Due Date for Comments to the AASB

Comments should be submitted to the AASB by 30 November 2011. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

In addition to this Request for Comments, the AASB will hold roundtables in [City] in [Month Year] to provide a forum for constituents and Board members to discuss the proposals included in the Exposure Draft. The locations and specific dates will be detailed on the AASB's website at <http://www.aasb.gov.au/News/Upcoming-events.aspx>.

Preface

The AASB has significant concerns with the proposals in this Exposure Draft, many of which are similar to the Alternative Views expressed by three IASB members. In particular, the AASB is concerned about the absence of a conceptual underpinning for the proposals and their rules-based nature.

The basis of IFRSs and Australian Accounting Standards on consolidation is that entities should present the assets and liabilities they control and their revenues and expenses in consolidated financial statements in order to provide useful information to users. This is because users need to know the resources available to an entity, the obligations it must meet, and the revenues it generates and expenses it incurs in order to make informed assessments of an entity's financial position and financial performance. This Exposure Draft does not provide a rationale for over-turning that basis.

In the absence of a principle with a conceptual underpinning, this Exposure Draft proposes criteria and application guidance for identifying an investment entity that are rules which would give rise to inconsistent outcomes. Accordingly, the proposals would mean that controlled entities with substantively the same characteristics could be presented either as:

- (a) investments at fair value through profit or loss; or
- (b) subsidiaries consolidated on a line-by-line basis.

Those different outcomes may be the result of managements deliberately taking the structuring opportunities that would be available under this Exposure Draft or may inadvertently arise due to non-substantive differences between entities.

Reduced Disclosure Requirements

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A separate consultative document will be issued for comment shortly after the issue of this Exposure Draft outlining the AASB's Tier 2 disclosure proposals in respect of this Exposure Draft.

The AASB noted the nature of the proposed disclosures in the Exposure Draft and observed, in the context of the overall project, that it would not be appropriate to reduce those disclosures in respect of general purpose financial statements of Tier 2 entities. The Board is therefore not proposing any relief from the disclosure requirements outlined in the Exposure Draft.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether you agree with the AASB's proposal not to provide relief for Tier 2 entities from the proposed disclosure requirements in paragraphs 9 – 10 and B18 – B20 of this Exposure Draft;
2. 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;
3. whether, overall, the proposals would result in financial statements that would be useful to users;
4. whether the proposals are in the best interests of the Australian economy; and
5. unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

Relationship to Other AASB Projects

Control in the Not-for-Profit Sector Project

The impact these proposals will have on not-for-profit sector entities will need to be considered by the AASB in developing revised not-for-profit sector Aus paragraphs as part of the Control in the Not-for-Profit Sector project.