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

8 December 2011

Dear Mr Stevenson

Exposure Draft 216 AASB 12 *Disclosures of Interests in Other Entities*: Tier 2 proposals

Ernst & Young Australia is pleased to provide our comments on the AASB's Exposure Draft ED 216 AASB 12 *Disclosure of Interests in Other Entities*: Tier 2 proposals (the "Exposure Draft").

We agree with the overall direction of the AASB's proposals in the Exposure Draft. However we note that some of the proposed exclusions are inconsistent with other disclosure requirements under current Tier 2 or are inconsistent with the disclosures within the proposed Exposure draft. Our detailed responses to specific questions in the invitation to comment are set out in the Appendix to this letter.

Please contact Lynda Tomkins (lynda.tomkins@au.ey.com or (02) 9276 9605) if you wish to discuss any of the matters included in this letter.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Lynda Tomkins'.

Ernst & Young

Appendix

The AASB has requested comments on the following questions:

Question 1: Whether you agree with the AASB disclosure proposals regarding paragraphs 1-31 and B1-B26 of AASB 12 in relation to Tier 2 entities as set out in the Proposed Reduced Disclosure Requirements as detailed in the Exposure Draft?

We agree with excluding the following disclosures from the financial statements prepared by Tier 2 entities when applying the reduced disclosure requirements.

- Paragraph 9(d) and (e). We note that this is consistent with current exclusions in the RDR versions of AASB 127 *Consolidated and Separate Financial Statements* and AASB 128 *Investments in Associates*.
- Paragraphs 10(a)(ii), 10(b)(i)(iii)(iv), 11(b) and 12. We note that these are also broadly consistent with current exclusions in the RDR versions of 127 *Consolidated and Separate Financial Statements* and AASB 128 *Investments in Associates*.
- Paragraphs 13(a)(ii) and 13(b). We note that there are no similar disclosures in the existing standards. We believe that these should be excluded in line with the 'user need' principles applied by the IASB in developing its IFRS for SMEs.
- Paragraphs 14, 15, 16, 17, 24(b), 25 and 29. We note that these are consistent with the exclusion of other risk related disclosures seen in the RDR versions of standards (e.g., AASB 7).
- Paragraphs 18 and 19. We note that this is consistent with current exclusions in the RDR versions of AASB 127 *Consolidated and Separate Financial Statements*.
- Paragraph 21(a)(ii), (b)(ii) and (c). We note that the exclusions are consistent with current exclusions in the RDR versions of AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.
- Paragraphs 27 and 28. We note that these are consistent with the reasons for the exclusion of paragraph 29.
- Paragraphs B10 to B17. We note that these exclusions are largely consistent with the existing exemptions in AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.
- Paragraphs B25 and B26. We note that these relate to risk disclosures and their exclusion under Tier 2 is consistent with the treatment of similar disclosures in other standards applicable to Tier 2 entities.

We disagree with the following exclusions as we consider the disclosures to be relevant to users, if such risks exist within an entity.

- Paragraph 9 (a). We believe that the disclosure of why an interest in an entity with more than half of the voting rights is not consolidated is decision useful information for users, as this is an outcome that is not generally expected; hence a description of the reasons enables a user to more fully understand the entities financial position. This paragraph also complements the requirement of paragraph 9(b).

- Paragraph 22 (c). We believe that the unrecognised losses of a joint venture or associate are relevant to users, and there would be no additional cost or effort required in obtaining the information if equity accounting has been adopted.
- Paragraph 10 (b) (ii). We believe a general discussion of the nature of, and changes in, the risks associated with interests in consolidated structured entities, is decision-useful information for Tier 2 entities. The proposal to exclude this disclosure requirement is also inconsistent with not removing paragraph 20(b).
- Paragraph 22 (a). Excluding this paragraph (relating to significant restrictions on the ability of joint ventures or associates in transferring funds) is inconsistent with the required disclosures of paragraph 13(a) relating to restrictions on the parent or its subsidiaries to transfer cash or other assets within the group. We believe that the information is decision useful information for Tier 2 entities.
- Paragraph 30. This paragraph requires Tier 2 entities to disclose financial or other support provided to unconsolidated structured entities during the reporting period. We agree with this being a relevant disclosure for Tier 2 entities. However similar risk disclosure in paragraph 15 in respect of consolidated structured entities has been removed. We recommend that paragraph 15 be retained as we consider the information around the provision of financial and other support to a consolidated structured entity to be relevant.
- Paragraph 31. This paragraph requires Tier 2 entities to disclose current intentions to provide financial or other support provided to unconsolidated entities. We agree with this being a relevant disclosure for Tier 2 entities. However, we note that similar risk disclosure relating to consolidated entities in paragraph 17 has been removed. We recommend that paragraph 17 is retained as we believe that the information would be relevant to users.

Question 2: Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of these proposals, particularly any issues relating to:

- a) not-for-profit entities; and
- b) public sector entities?

We are not aware of any current regulatory issues that may affect the implementation of these proposals for public sector and not-for-profit entities.

We do note the recent formation of the Australian Charities and Not-for-Profits Commission (ACNC). The ACNC will be the main regulatory body for all Not-for-profits (NFPs) and their activities officially start from 1 July 2012. In moving towards a consistent manner of reporting, the ACNC may look at gathering entity specific information directly or look to influence disclosures in the financial statements. We recommend that the AASB work with ACNC to assess the user information needs of NFPs.

Question 3: Whether, overall, these proposals would result in financial statements that would be useful to users?

We believe that these proposals for Tier 2 reporting would result in financial statements that would be useful to users.

Question 4: Whether these proposals are in the best interest of the Australian economy?

We believe the proposals are generally in the best interest of the Australian economy.

Question 5: Unless already provided in response to specific matters for comment 1-4 above, the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative. Whether these proposals are in the best interest of the Australian economy?

We agree that the current proposals for AASB 12 *Disclosure of Interests in Other Entities*: Tier 2 will significantly reduce the costs of preparing financial statements compared to those applying full disclosures under Tier 1 reporting, and therefore is in the best interest of the Australian economy.