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05 March 2013

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

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.