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

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

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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