



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,

A handwritten signature in black ink that reads 'Wayne Andrews' in a cursive script.

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.