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

Invitation to comment on AASB Exposure Draft Australian Additional Disclosures - Investment Entities (ED 233)

Dear Mr Stevenson

Ernst & Young Australia is pleased to provide comments on the Australian Accounting Standard Board's ('AASB') Exposure Draft 233 *Australian Additional Disclosures - Investment Entities* ('ED 233').

We oppose the proposed Australian additional disclosures for investment entities as outlined in ED 233 and instead believe that the AASB should immediately issue the amendments to IFRS 10, IFRS 12 and IAS 27, as issued by the IASB.

In summary, our reasons are as follows:

- ▶ The Investment Entities ('IE') amendments issued by IASB have undergone due process, of which Australia was a part. This due process included an assessment of disclosures to meet the user needs.
- ▶ AASB has not provided any reasons in ED 233 as to why and how the Australian user needs are different from their international counterparts. Neither is there evidence that adoption of the IE amendments without additional disclosure will harm the Australian economy.
- ▶ Australian investment entities will be at a competitive disadvantage to their international counterparts, as costs of 'compliance' and preparation of financial statements will be higher than IE elsewhere.

We discuss these in further detail in Appendix A.

We would be pleased to discuss our comments further with you. Please contact Lynda Tomkins (lynda.tomkins@au.ey.com, or (02) 9276 9605) if you wish to discuss any of the matters in this response.

Yours sincerely

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

APPENDIX A

SPECIFIC MATTERS FOR COMMENT

1) Appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted

We do not believe the proposed Australian additional disclosures are appropriate or warranted.

In 2003, Australia decided to adopt IFRS effective 1 January 2005. A major motivation for the adoption to IFRS was the belief it would be a significant step to improve financial reporting. This included the notion that it would enhance Australian companies' access to global capital, reduce borrowing costs and bring simplification to global groups that had different accounting platforms.

As a result of this decision the AASB prepared its Policies and Procedures document which set how it would go about setting standards. In particular, paragraph 21 states:

'Australian Accounting Standards include requirements that are specific to Australian entities. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. In developing requirements for public sector entities, the AASB considers the requirements of IPSASs, as issued by the IPSASB.'

These paragraphs establish the criteria by which the AASB should assess international standards for adoption in Australia and whether additional disclosure is appropriate.

In proposing the additional disclosures in ED 233, we do not believe that the Basis for Conclusion provides adequate evidence that the additional disclosures are necessary to address a domestic, regulatory or other issue.

The reasons provided in paragraphs BC8 and BC9 express Board member concern about the loss of consolidated information generally - reflective of a concern that the final standard issued by the IASB does not reflect the preferred position of the Board. However, there is no evidence provided as to how the users in the Australian environment are different to international users, to warrant additional disclosures, nor evidence that the Board has engaged with the user community to obtain first-hand knowledge as to their needs.

It is our understanding from discussion with those that qualify as investment entities and the investor community that users of the financial statements do not use nor see any benefit in having consolidated information, due to the purpose of these entities and the purpose for which the investments are made.

Paragraph BC8 indicates that the amendment by the IASB only requires disclosures about the exception to consolidation rather than '...addressing the loss of consolidated information...'. We do not agree with these statements.

Additional disclosure was added to IFRS 12 by the IASB, namely paragraphs 19A - 19G. These paragraphs require disclosures about the investee and any arrangements that affect the distribution of the income and therefore the cash flows reflected in the fair value measurement of the investee.

Further, paragraphs BC61F-BC61H of the amendments to IFRS 12 discuss the Boards' logic for requiring these disclosures and restrictions and how this related to the needs of users. The reason IFRS 10 was amended was to reflect the way in which IE's conduct their business and how users evaluate their performance - on a fair value basis and not using consolidated financial information. We therefore do not believe it is necessary to 'address the loss of consolidated information' if that information is not relevant to the user.

The proposed additional disclosure is harmful

We believe that requiring additional disclosures for Australian reporters would put Australian entities at a competitive disadvantage compared with their international counterparts. The time and costs involved in preparing and auditing the additional consolidated information (even without the detailed notes) are not insignificant. Such costs would not be incurred by international IE's. This means that the overall returns available to the users are lower, attracting less international investors and reducing the attractiveness for local investors.

We do not support Alternative view 1

Paragraph 9 of the AASB policies and procedures 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.'

We do not believe that the supporters of Alternative View 1 have provided evidence that the Australian environment differs to the international environment such that the amendment would not be in the best interests of the Australia economy.

Rather, the arguments expressed in paragraph AV1.1 are disagreeing with the amendment put forward by the IASB. In particular, the IASB have acknowledged that this is an exception to a principle, but believe that the user needs support the need for the exception. We agree with this focus on the user needs to support the exception.

Additionally, paragraph AV1.2 expresses concern with the application of the logic employed in the exception. It states that '...a single company holding assets for capital appreciation or dividends should only report its share price...' We do not agree that this is an outcome that would result from applying the logic.

Paragraph AV1.4 expresses concern that '...the approach towards defining investment entities is [not] rigorous.' We do not agree with this summary. The definition of an investment entity is a principles-based definition that reflects the way in which an entity conducts its business. The application guidance and characteristics that are included in the amendment establish a significant hurdle for entities to achieve to illustrate that they are an investment entity. While this may give rise to different reporting by similar entities in some cases, this reflects the different manner in which similar entities conduct their business, much the same way that similar financial instruments may be treated differently by entities, due to the business model that is used.

As we have been analysing the types of entities that qualify to meet the definition of an investment entity we have not become aware of entities inappropriately being classified as investment entities, or undertaking structuring to become an investment entity.

2) Whether there are any alternative approaches/ disclosure strategies that can be employed to minimise the adverse impact of decision making on the loss of consolidation information

In light of comments in (1), we do not believe there are adverse impacts on decision making from the loss of consolidation information. As discussed above, consolidation by IEs does not reflect the way in which the investments are managed. For an IE, measurement of investments on a fair value basis provides more meaningful information for decision making purposes. On this basis, the disclosures imposed by the IASB are considered adequate for decision-making by users.

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 that requiring Tier 2 to incur these costs, when there are less users of the financial statements is warranted.

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 which will impact the implementation of the amendment as issued by the IASB, with or without the proposed additional disclosures.

5) Whether, overall the proposals would result in financial statements that would be relevant to users.

As detailed in (1) above, we do not believe the proposed Australian additional disclosures for Investment Entities will result in financial statements that would be relevant to users.

We do however believe that adopting the amendment as issued by the IASB will provide financial statements that are relevant to users.

6) Whether the proposals are in the best interests of the Australian economy

As discussed in (1) above, we do not believe the proposed Australian additional requirements outlined in ED 233 are in the best interests of the Australian economy.

We do however believe that adopting the amendment as issued by the IASB will be in the best interests of the Australian economy, for the reasons stated in (1) above.

7) Unless already provided in responses to specific matters for comments 1-6 above, the cost and benefits of the proposals relative to the current requirements, whether quantitative (financial or non financial) or qualitative.

We have no further observation on the cost and benefit of the proposals on those provided above.