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A WHK Group Firm

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

Dear Mr Stevenson

### **Invitation to comment – ED 233 Australian Additional Disclosures – Investment Entities**

Crowe Horwath Sydney is pleased to provide the Australian Accounting Standards Board with its comments on Exposure Draft ED 233 ("ED").

Crowe Horwath provides a complete range of accounting, advisory, tax and wealth management services. Our team includes more than 800 principals, professionals and support staff located in Australia and New Zealand. Crowe Horwath is part of the national WHK Group, which is listed on the Australian Securities Exchange and is the fifth largest accounting services group in Australia, and is a member of the global Crowe Horwath International network.

We have a number of reservations regarding the International Accounting Standards Board's decision to issue the Investment Entities amendments to IFRS 10, IFRS 12 and IAS 27. Specifically, we have concerns regarding the decision to apply an exception to consolidation on the basis of the type of entity rather than the underlying relationship between an investor and investee. In our opinion that decision is contrary to the basic principle that an entity should account for all of its assets, liabilities, income and expenses.

Nevertheless, having made such amendments, we believe that the Australian Accounting Standards Board should only depart from the equivalent International Financial Reporting Standard if there are specific local regulatory issues or other compelling reasons arising in the Australian environment that will affect the implementation of those proposals.

Since Australia's convergence with IFRS in 2005, we note that the Australian Accounting Standards Board has actively attempted to remove differences between Australian Accounting Standards and IFRS. For example, AASB 1054 states, in part:

"the Boards utilised the following principles in removing the differences between the Australian and New Zealand Standards:

- (a) eliminate differences from IFRSs, where possible; and



- (b) in cases where a disclosure requirement additional to IFRSs is of such importance that it should be retained, the additional disclosure requirement has been harmonised with the equivalent requirement in the other jurisdiction to the extent possible and relocated to a new Standard.

At the conclusion of Phase 1, the Boards decided to issue the following for each jurisdiction:

- (a) an amending standard containing the necessary amendments to the jurisdiction's Standards; and
- (b) a standard containing the jurisdiction-specific disclosures that are in addition to IFRSs. In reaching their decision on the location of additional disclosures, the Boards placed emphasis on bringing the wording of Australian and New Zealand Standards closer to IFRSs". (emphasis added)

AASB 101 *Presentation of Financial Statements* requires financial statements to present fairly the financial position, financial performance and cash flows of an entity. The application of IFRS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation. The inclusion of alternative primary statements proposed by ED 233 not only has the potential to confuse readers of the financial report as to the which is the 'true' presentation of the entity's financial position and performance, but infers that compliance with IFRS does not achieve fair presentation as is stated in paragraph 15 of AASB 101.

Furthermore, we express significant concerns regarding the Board's suggestion in BC 19 that the disclosure of the proposed consolidated information could be presented in a format "other than in the notes to the financial statements". We interpret this statement as a suggestion by the Board that entities could include additional columns on the face of the primary financial statements. Such a proposition raises unaddressed questions whether such an approach is consistent with both paragraph 24 of AASB 101 *Presentation of Financial Statements* and paragraphs .26 and .32 of ASIC Regulatory Guide RG 230 *Disclosing Non-IFRS Financial Information*. Namely, that an alternative basis of presenting financial information is necessary "to make informed assessments of an entity's financial position and financial performance".

Consequently, we do not support the proposals contained in ED 233, which will:

- reduce any cost savings for Australian reporting entities relative to their IFRS-reporting peers that would have resulted from the application of the IASB's Investment Entities exception,
- increase differences between IFRS and Australian Accounting Standards without compelling reasons;
- is contrary to the AASB's previously held view of minimising, and eliminating where possible, differences in the disclosure requirements between Australian Accounting Standards and IFRS; and
- add to complexity in financial reporting rather than reducing complexity.

We are supportive of Alternative View 2 of ED 233 except for the position expressed paragraph AV2.4 as we do not support the Australian additional disclosures proposed in the Exposure Draft.

Our detailed comments of the specific matters requested in ED 233 are included in the attached Appendix.

We would be pleased to discuss any aspect of our submission with you further at your convenience.

Sincerely,



Martin Olde  
Partner



## APPENDIX A

### Specific matters for comment

1. *The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted*

For the reasons discussed above, in our opinion, the additional Australian disclosures proposed in ED 233 are inappropriate and unwarranted.

We are supportive of Alternative View 2 of ED 233 except for the position expressed paragraph AV2.4. We do not support the Australian additional disclosures proposed in the Exposure Draft.

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*

In making the Investment Entities amendments to IFRS 10 the IASB contemplated the consequences of the loss of consolidated information. We note that the IASB provided additional disclosures in paragraphs 19A to 19G of IFRS 12 to overcome these effects.

In our opinion it is inappropriate and burdensome to relieve a parent entity from having to prepare consolidated financial statements while simultaneously requiring additional disclosures that would, in the main, reinstate that information.

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*

If the AASB's proposals proceed, we believe that relief **should be** provided to Tier 2 entities from any of the proposed Australian additional disclosure requirements.

Paragraph BC19 of AASB 1053 *Application of Tiers of Australian Accounting Standards* states:

"The Board decided to introduce a second Tier (Tier 2) of requirements to substantially reduce the burden of financial reporting for other entities in both the private and public sectors in their preparation of general purpose financial statements. Tier 2 retains the recognition, measurement and presentation requirements of full IFRSs as adopted in Australia, but requires disclosures that are substantially reduced when compared with those required under full IFRSs as adopted in Australia."

In our opinion, it would be inappropriate and contrary to the stated objective of the Reduced Disclosure Regime to require Tier 2 entities from providing more disclosure information than listed entities complying with IFRS.

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*

Refer previous comments at (3), above.

We have concerns that the proposed additional disclosures are contrary to the stated intention and guidance contained in ASIC Regulatory Guide RG 230.

“Financial information prepared other than in accordance with accounting standards must not be included in financial statements. Such information may only be included in the notes to the financial statements in the rare circumstances where such disclosure is necessary to give a true and fair view of the financial position and performance of the entity.” RG 230.8

It could be suggested the inclusion of pro forma consolidated information that is measured and presented on an alternative basis to AASB 10 may only confuse readers as to which are the ‘right numbers’. Unless the Board believes that the inclusion of the additional pro forma information is considered necessary in order to show a true and fair view of the financial position and performance of the reporting entity, it should not be mandated.

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

Refer previous comments

6. *Whether the proposals are in the best interests of the Australian economy*

In our opinion, the proposals are not 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 non-financial) or qualitative.*

Refer previous comments.