



Project:	Conceptual Framework for Financial Reporting	Meeting	M167
Topic:	Phase 1 Submissions – Listed, unquoted securitisation trusts	Agenda Item	4.1
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		Decision-Making:	High
		Project Status:	Deliberating Phase 1 submissions received – Part 1

OBJECTIVE OF THIS PAPER

- 1 The objective of this paper is to provide the Board with a summary of feedback received on a key issue identified during the AASB's consultation on Phase 1: Short-term approach (Phase 1) of Invitation to Comment ITC 39 [*Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*](#) (ITC 39).
- 2 The issue identified in this paper relates to the potential impact of the Phase 1 proposals on Australian securitisation trusts, that have asset-backed securities (ABS) and debt notes listed (yet unquoted) on the Australian Securities Exchange (ASX) (referred to throughout this Staff Paper as 'securitisation trusts'). Staff understand that these securitisation trusts are currently preparing special purpose financial statements (SPFS) as they have self-assessed as non-reporting entities. Staff also note however that there are divergent views within the sector regarding whether or not these securitisation trusts have public accountability¹. Constituents in this sector have raised major concerns about the Phase 1 proposals of ITC 39 and Staff consider that this issue should be considered by the Board at this meeting.
- 3 Staff will provide a detailed analysis of all other concerns raised in the Phase 1 submissions at the November 2018 Board meeting. This is because, although the comment period for Phase 1 of ITC 39 closed on 9 August 2018, a third of the 22 submissions received on Phase 1 of ITC 39, were received on or after 16 August. Given the timing of the September Board meeting (and mail out dates) coupled with the importance of ensuring constituents' views are understood and their concerns are shared with the Board, Staff consider that more time is

¹ Public accountability is defined in Appendix A of AASB 1053 *Application of Tiers of Australian Accounting Standards* as 'accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs.'

A for-profit private sector entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.'

required to perform a detailed analysis of the other concerns raised to provide informed recommendations to the Board.

ATTACHMENTS

- 4.2.1 Full written submission received from the Australian Banking Association (ABA) on ITC 39².
- 4.2.2 Full written submission received from the Australian Securitisation Forum (ASF) on ITC 39².
- 4.3 For noting: ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*.

STRUCTURE

4 This Staff Paper is set out as follows:

- (a) Background (paragraphs 5-7)
- (b) Summary of Staff recommendations (paragraph 8)
- (c) Listed, unquoted securitisation trusts (paragraphs 9-40)
- (d) [Appendix A – Listed and unquoted securitisation trusts](#) (paragraphs 41-44)
- (e) [Appendix B - Extracts of key matters raised by the ABA in their submission on ITC 39](#) (paragraph 45)
- (f) [Appendix C - Extracts of key matters raised by the ASF in their submission on ITC 39](#) (paragraph 46)
- (g) [Appendix D – IFRS for SME's Q&A](#)

BACKGROUND

- 5 The AASB's preferred approach under Phase 1: Short-term approach of ITC 39, proposes to operate with two conceptual frameworks in Australia to maintain IFRS compliance for publicly accountable for-profit entities. This involves:
- (a) the IASB's revised *Conceptual Framework for Financial Reporting* (RCF) being applied by publicly accountable for-profit entities and other entities voluntarily reporting compliance with International Financial Reporting Standards (IFRS) to enable them to maintain IFRS compliance;
 - (b) all other entities continuing to apply the existing *Framework for the Preparation and Presentation of Financial Statements* (CF), enabling them to continue using the 'Australian reporting entity concept'; and
 - (c) amendments being made to the definition of 'public accountability' in AASB 1053 to align with the revised IASB definition in IFRS for Small and Medium-sized Entities (IFRS for SMEs)³.

² Refer to ITC 39 submissions from the ABA (Agenda paper 4.2.1_ITC39_sub20_ABA_M167) and the ASF (Agenda paper 4.2.2_ITC39_sub17_ASF_M167).

³ As part of ITC 39, the AASB is also proposing additional guidance as per IFRS for SMEs to clarify the term 'fiduciary capacity', as specified in IFRS for SMEs.

- 6 The Phase 1 proposals were developed on the expectation that any entity meeting the definition of public accountability would also meet the definition of a reporting entity in accordance with Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*, and therefore such entities should already be preparing Tier 1 general purpose financial statements (GPFS) in accordance with AASB 1053 and also claiming compliance with IFRS.
- 7 The key concern raised during the consultation period indicates that the assumption that entities meeting the definition of public accountability would already be preparing Tier 1 GPFS may not be valid. The focus of this paper is assessing the validity of this assumption and the extent of the issue, if valid, that need to be addressed.

SUMMARY OF STAFF RECOMMENDATIONS

- 8 With respect to Staff's analysis on listed, unquoted securitisation trusts (refer to paragraphs 9-40), does the Board agree with Staff's recommendations that:

Question 1: The AASB should not assess whether listed, unquoted securitisation trusts are publicly accountable or not as that would require interpretation of facts and circumstances and such an assessment does not meet the due process requirements in the AASB's Interpretations and Improvements Model? If no, what does the Board recommend?

Question 2: As the number of securitisation trusts which may be affected by Phase 1 is limited to 126 entities, the impact is not considered to be significant enough to delay the implementation of Phase 1 and that no specific transitional relief would be required for these securitisation trusts? If no, what does the Board recommend?

Question 3: As part of considering guidance to accompany the public accountability definition (a sub-project within this project) including who would be deemed to be publicly accountable, the AASB should also consider whether it is appropriate to include the Q&A guidance published by the IFRS for SMEs Implementation Group (SMEIG) in AASB 1053? If no, what does the Board recommend?

LISTED, UNQUOTED SECURITISATION TRUSTS

What is the issue?

- 9 The key issue is whether securitisation trusts that are listed but not quoted on the ASX meet the definition of public accountability.
- 10 The ASF and the ABA as well as several other constituents raised concerns about the impact of proposals in ITC 39 on securitisation trusts.
- 11 These securitisation trusts undertake over-the-counter (i.e. unquoted) transactions. Initial settlement payments, subsequent disbursements on notes and any buying/selling of notes are cleared through Austraclear⁴, which holds details of the investor bank accounts. The trustee (a third party) is responsible for maintaining the register of investors, though investment is often made via custodian entities, making the ultimate holder of notes difficult to identify. Austraclear is the primary settlement facility in Australia for debt instruments⁵.

⁴ Austraclear is a licensed Clearing and Settlement facility which provides seamless delivery versus payment settlement, ensuring instant and irrevocable exchange of cash and security ownership.

⁵ Source: ASF Submission

Refer to [Appendix A – Listed and unquoted securitisation trusts](#) for a further description of securitisation trusts.

- 12 Staff understand that these securitisation trusts are all subsidiaries which are consolidated into the Tier 1 GPFS (or Tier 2 GPFS) of their parent (the issuer), and that the securitisation trust's SPFS comply with full recognition and measurement requirements of Australian Accounting Standards (AAS), however they do not include all of the disclosures required by AAS⁶.
- 13 The key issues identified in the submissions are:
- (a) The securitisation trusts are required under their Trust Deed to prepare financial statements in accordance with AAS;
 - (b) These securitisation trusts are currently preparing SPFS to satisfy the Trust Deed's reporting requirements as they have been self-assessed as non-reporting entities under SAC 1; and
 - (c) If SAC 1 is removed these securitisation trusts would need to apply AASB 1053 and may meet the definition of publicly accountable, in which case Tier 1 GPFS would need to be prepared (despite preparers arguing that these trusts do not have users who would rely on GPFS). There is divergence within the sector regarding whether or not these securitisations trusts have public accountability⁷.

Why aren't preparers currently assessing these securitisation trusts for public accountability under AASB 1053?

- 14 As these securitisation trusts are trusts, they fall outside the scope of the Corporations Act 2001. As such, if the securitisation trust is self-assessed to be a non-reporting entity in accordance with SAC 1 and an election is made to prepare SPFS, these securitisation trusts would also fall outside the application (paragraph 2) of AASB 1053⁸. However, the key question remains as to how an entity could meet the definition of public accountability and not by its very nature then be considered a reporting entity.

What is the ASF's view regarding whether securitisation trusts have public accountability?⁹

- 15 The ASF submission states strong support of the AASB's project to ensure compliance with IFRS and to promote comparability and clarity in reporting to markets and users of the financial statements. However, the submission focusses specifically on one issue of concern with respect to securitisation trusts and whether they meet the definition of public accountability.
- 16 Based on analysis conducted by the ASF, the ASF strongly believe that these securitisation trusts do not meet the definition of public accountability because 'the nature of the market

⁶ Source: ASF Submission

⁷ Refer to paragraphs 28-29 for more details.

⁸ AASB 1053 paragraph 2 states "This Standard applies to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
- (b) general purpose financial statements of each reporting entity;
- (c) financial statements that are, or are held out to be, general purpose financial statements; and
- (d) financial statements of General Government Sectors (GGSs) prepared in accordance with AASB 1049 Whole of Government and General Government Sector Financial Reporting."

⁹ Refer to [Appendix C – extracts of key matters raised by the ASF in their submission on ITC 39](#) and the ASF submission for more details.

and its sophisticated, wholesale investors, and in particular the lack of trading via an exchange, given the illiquid unobservable secondary market in the issued notes means that Australian ABS do not meet the definition of publically accountable entities'¹⁰.

- 17 The ASF have asked the AASB to consider transitional relief¹¹ from the requirement to prepare Tier 1 GPFS, if the AASB disagrees with the ASF's assessment that these securitisation trusts are not publicly accountable.
- 18 The ASF note that amending the financial reporting requirements of the trust deeds of existing securitisation trusts is complicated and costly as would be changing the type of financial statements they prepare from SPFS to Tier 1 GPFS should the securitisation trusts be considered publicly accountable.

What is the ABA's view regarding whether securitisation trusts have public accountability? ¹²

- 19 The ABA generally did not support the AASB's proposals in ITC 39.
- 20 Based on the analysis conducted by the ABA, they believe that the debt notes are traded in a public market on the basis that the ASX describe unquoted debt listings as being included in an over-the-counter trading venue settled through Austraclear.
- 21 The ABA note that they expect the costs involved in amending the trust deeds of existing securitisation trusts would be similar to the transition costs noted in paragraph 33. They also note that there would however be no ongoing costs if this approach was taken.

Public accountability per the IASB Staff and IFRS for SMEs guidance

- 22 The key aspects of the definition of public accountability when determining whether the securitisation trusts are publicly accountable are whether the debt instruments are a) traded and b) if traded, whether they are traded in a public market.
- 23 Staff held a meeting with the IASB on this matter in July 2018. The IASB Staff suggested looking at whether an arrangement is, or has the ability to be, open to a wide group of participants (therefore publicly accountable), or whether the arrangement is closed to a small group of participants that are close to the entity.
- 24 Staff sought further information on this matter from the ASX. An ASX representative noted that wholesale debt issuers would not have access in Austraclear to details of noteholders (i.e. they would have to contact their Austraclear Issuer Representative who would have access). This is consistent with comments made in the ASF's submission (as noted in paragraph 11) that a trustee (a third party) is responsible for maintaining the register of investors, though investment is often made via custodian entities, making the ultimate holder of the notes difficult to identify. AASB Staff understand that other than the practical limitations (for example, the requirement to be registered with Austraclear), there are no restrictions on who can purchase the debt notes other than they need to be a wholesale investor.
- 25 Staff also reviewed guidance that was issued by the SMEIG in December 2011 which provided guidance on 'how broadly should 'traded in a public market' be interpreted'¹³. The SMEIG

¹⁰ Source: ABA submission

¹¹ The ASF suggested a transition period to cover the average life of the securitisation trusts being 5 years.

¹² Refer to [Appendix B – extracts of key matters raised by the ABA in their submissions on ITC 39](#) and the ABA submission for more details.

¹³ Refer [Appendix D](#)

Q&As are intended to support the implementation of IFRS for SMEs by providing non-mandatory and timely guidance on specific accounting questions.

- 26 Staff note that all Q&As issued prior to the issue of the 2015 amendments to the IFRS for SMEs Standard were either incorporated in the IFRS for SMEs Standard as a result of those amendments and/or included in IFRS for SMEs education materials¹⁴. Staff also note that Q&As issued prior to 2015, may not be fully consistent with the new requirements because they were based on the 2009 version of the IFRS for SMEs Standard. Staff have reviewed the 2015 IFRS for SMEs Standard and the IFRS for SMEs education materials, however note that the guidance in the Q&A has not been carried forward.
- 27 Due to the nature of securitisation trusts, Staff are of the view that these trusts meet the 'public market' element of the public accountability definition. Therefore the key issue is whether the debt notes are 'traded'. The following is taken from the SMEIG Q&A (emphasis added):
- “Public market’ is defined in paragraph 1.3 as ‘a domestic or foreign stock exchange or an over-the counter market, including local and regional markets’. A ‘public market’ is not restricted to recognised and/or regulated stock exchanges. It includes **all markets that bring together entities that seek capital and investors who are not involved in managing the entity**. For a market to be public it must be accessible by a broad group of outsiders. If the instruments can only be exchanged between parties involved in the management of the entity, such as the key management personnel or shareholders, the instruments are not traded in a public market.’
- ‘Furthermore, the availability of a published price does not necessarily mean that an entity’s debt or equity instruments are traded in a public market. For example, in some countries over-the-counter shares have a quoted price, **but the market has no facility for trading and so buyers and sellers deal with each other directly. This would not constitute trading in a public market. However, if trading occurs only occasionally in a public market, even only a few times a year, this would constitute trading.**’
- 28 The ASF submission states that they do not believe the debt notes are traded in a public market. While the ASF notes that sales of debt notes do occur, they are infrequent and they do not occur directly through the ASX or another exchange. Instead, sales occur under individual contracts (which the ASF describe as over-the-counter transactions). Price details are not publicly available or disclosed and are instead negotiated between the buyer and seller directly. While Austraclear is used to settle the transaction, the ASF is of the view that this does not constitute trading in a public market because the ‘market’ has no facility for trading – in this case, buyers and sellers deal directly with each other.
- 29 As noted in paragraph 20, the ABA believe that the debt notes are traded in a public market on the basis that the ASX describe unquoted debt listings as being included in an over-the-counter trading venue settled through Austraclear.
- 30 On this basis, Staff note there is divergence with the sector regarding whether or not securitisation trusts have public accountability. Staff do not believe it is appropriate to provide a conclusion regarding whether securitisation trusts are or are not publicly

¹⁴ Source: <https://www.ifrs.org/supporting-implementation/supporting-materials-for-the-ifrs-for-smes/sme-qas/#English>

accountable as to do so would require Staff to interpret facts and circumstances. See paragraph 36 below for further explanation.

- 31 Staff also note that a key component of the reporting entity definition in SAC 1 is whether there are users who cannot command the information they need. This is equivalent to the 'broad group of outsiders' notion employed by the IASB.

What is the extent of the issue?

- 32 Staff have been advised that:

- (a) there are 126 wholesale debt issuers¹⁵ admitted as ASX Debt Listings that are listed but not quoted; and
- (b) each securitisation trust typically has an average life of 5 years¹⁶.

- 33 The ABA's submission quantified that the potential costs¹⁷ associated with the transition would be:

- (a) To transition from SPFS to Tier 1 GPFS, the incremental cost may be up to \$10,621,800 (\$84,300 multiplied by 126 securitisation trusts) and the incremental cost in each subsequent year may be up to \$1,575,000 (\$12,500 multiplied by 126 securitisation trusts).
- (b) To transition from SPFS to Tier 2 GPFS, the cost may be up to \$2,280,600 (\$18,100 multiplied by 126 per securitisation trusts) and the incremental cost in each subsequent year may be up to \$1,373,400 (\$10,900 multiplied by 126 securitisation trusts).

- 34 The ASF submission also notes that 'Issuers have estimated the internal cost to prepare each set of Tier 1 financial reports would take approximately 2.5 days of manpower to prepare and review. Audit firms estimate the additional cost to audit each set of trust financial statements would be approximately \$35k'.

- 35 However, Staff note that the securitisation trusts are not required by legislation to prepare financial statements in accordance with AAS. It is their Trust Deed that requires them to do so. As such, these entities could amend their Trust Deed so that they are not required to prepare financial statements in accordance with AAS.

Staff analysis and recommendations

- 36 In considering whether it is appropriate for the AASB to form a conclusion regarding whether or not securitisation trusts are considered publicly accountable and issue an Interpretation to this effect, the principles of the [AASB's Interpretations and Improvements Model](#) must be met. Issues relating to the interpretation of IFRS would be referred to the International Financial Reporting Interpretations Committee (IFRIC) for their consideration, however prior to this, the AASB would need to assess the issue against specific criteria, the first of which is whether 'the issue is widespread and has practical relevance'. As there are only 126

¹⁵ Source: ASX representative

¹⁶ Source: ASF submission

¹⁷ Refer to [Appendix B](#) for information regarding the ABA's basis for these calculation.

securitisation trusts listed on the ASX, this issue is not considered widespread and therefore would not meet the requirements of the AASB's Interpretations and Improvements Model.

- 37 Staff note that if the preparers of these securitisation trusts assess their securitisation trusts as **not** publicly accountable, then they would not be impacted by the AASB's Phase 1 proposals. These securitisation trusts would however be impacted by the AASB's Phase 2 proposals.
- 38 Staff note, that if the preparers of these securitisation trusts assess their securitisation trusts as publicly accountable, and given the arguments presented in both the ASF and ABA submissions suggest that users of the securitisation trust would not require GPFS, Staff note the following:
- (a) There is no regulator for securitisation trusts. The ASX does not have specific reporting requirements for these trusts, other than to request that any financial statements that are prepared are lodged with them¹⁸.
 - (b) The only requirement to prepare financial statements is contained in the securitisation trust's Trust Deed.
 - (c) Despite the expected difficulty of changing each securitisation trust's Trust Deed or obtaining permission from each note holder, to permit the preparation of the SPFS and/or management reports currently being prepared, this is possible.
 - (d) The trusts have an expected life of five years¹⁹, so any issue is of limited duration. Newly established trusts will be able to ask investors directly what their reporting requirements are, so the Trust Deed is clear²⁰.
 - (e) Preparation of Tier 1 GPFS, if already complying with full recognition and measurement requirements of AAS and the application of materiality to the required disclosures is likely to result in limited disclosures – the ASF and the ABA's argument that the users do not require GPFS disclosures, if valid, should assist the trustees in determining what information is likely to influence an investor's decision.
- 39 In accordance with the [AASB's For-Profit Entity Standard-Setting Framework](#), only in rare and exceptional circumstances will modifications or additions to IFRS Standards be justified. Given there are only 126 securitisation trusts listed on the ASX and the Phase 1 proposals will become effective 1 January 2020, (i.e. 30 June 2021 year-ends) (meaning adequate time to make changes), the additional costs and/or time to transition to the AASB's Phase 1 proposals for publicly accountable for-profit entities does not appear to warrant a deferral of the application date or a modification to the definition of public accountability, should these securitisation trusts be considered publicly accountable (especially given the alternative actions that can be taken by issuers of these securitisation trusts) and the lack of an external regulator.
- 40 Staff also note that the AASB has already agreed to commence a new sub-project to consider the guidance to accompany the public accountability definition, including who is deemed to be publicly accountable by the AASB (e.g. the Corporate Collective Investment Vehicles legislation matters need to be addressed). Staff therefore recommend that the AASB consider

¹⁸ Refer paragraph 44 for discussion regarding the reporting requirements of securitisation trusts.

¹⁹ Source: ASF Submission

²⁰ The ASF note in their submission that they have established an industry working group to ensure that any new ABS do not inadvertently include wording which could be construed to require preparation of full Tier 1 GPFS, and instead reference financial information in a format that is tailored to be appropriate for the users, being the trustee and investors in the specific transaction.

whether it is appropriate to incorporate the SMEIG Q&A guidance outlined in paragraph 27 in AASB 1053 as part of this sub-project.

Question for Board members

Does the Board agree with Staff's analysis and recommendations that:

- Question 1:** The AASB should not assess whether listed, unquoted securitisation trusts are publicly accountable or not as that would require interpretation of facts and circumstances and such an assessment does not meet the due process requirements in the AASB's Interpretations and Improvements Model? If no, what does the Board recommend?
- Question 2:** As the number of securitisation trusts which may be affected by Phase 1 is limited to 126 entities, the impact is not considered to be significant enough to delay the implementation of Phase 1 and that no specific transitional relief would be required for these securitisation trusts? If no, what does the Board recommend?
- Question 3:** As part of considering guidance to accompany the public accountability definition (a sub-project within this project) including who would be deemed to be publicly accountable, the AASB should also consider whether it is appropriate to include the Q&A guidance published by the SMEIG in AASB 1053. If no, what does the Board recommend?

Appendix A – Listed and unquoted securitisation trusts

What is a listed, unquoted securitisation trust?

- 41 A listed, unquoted securitised trust is a special purpose vehicle structured through a trust, established to facilitate the issue of asset-backed securities. These securitisation trusts are themselves unlisted, however issue debt instruments which are listed on the ASX and/or another international exchange. In this scenario, the debt instruments are listed however they are not quoted²¹.

What are the current reporting requirements for listed, unquoted securitisation trusts?

- 42 Listed, unquoted securitisation trusts have no statutory or legislative financial reporting requirements (i.e. they are outside the scope of the Corporations Act 2001) – the governing document, the Trust Deed sets out the securitisation trust's financial reporting requirements.
- 43 Staff have been advised that the Trust Deed governing most of these listed, unquoted securitisation trusts, require financial statements to be prepared in accordance with AAS.

What are the ASX listing requirements?

- 44 Staff have met with representatives from the ASX to better understand the ASX reporting requirements for listed, unquoted securitisation trusts. Staff learnt:
- (a) The requirement for lodgement of accounts for ASX Debt Listings (entities admitted under Listing Rule 1.8 – wholesale and retail) can be found at Listing Rule 4.7A. This relates to annual accounts only (no other periodic accounts are required) and requires entities that are required to comply with section 319 of the Corporations Act 2001, or section 601CK of the Corporations Act 2001, to give the ASX a copy of the documents that it lodges with ASIC at the same time that it lodges those documents with the ASIC. Entities not required to comply with those sections of the Corporations Act 2001 are required to lodge a copy of any annual accounts that it lodges with their local regulatory authorities within 10 business days of lodgement; and
 - (b) Even where a wholesale debt issuer does not have a requirement to lodge financial statements with the ASX in accordance with Listing Rule 4.7A, the ASX inform all wholesale debt issuers on admission, that they are still expected to lodge any annual accounts they prepare with ASX and these are available via the ASX Market Announcements Platform. The audit reports of the trusts state in their audit report (the 'Emphasis of matter – basis of preparation and restriction on use and distribution' section) that the financial report has been prepared to assist the relevant trust to meet its financial reporting obligations under the Trust Deed/other transaction documents of the relevant trust, and may not be suitable for other purposes.

²¹ If listed on the ASX, listed but not quoted securities are known as 'Wholesale' and the listing of the debt instruments is considered an 'ASX Debt Listing'.

Appendix B – extracts of key matters raised by the ABA in their submission on ITC 39

- 45 Extracts from the ABA are included below, however refer to Agenda Paper 4.2.1_ITC39_sub20_ABA_M167 for the ABA's full submission.

The proposed approach would result in a number of entities in the finance sector being captured by Phase 1 of the proposals an outcome which we believe is inappropriate and unnecessary as there are no external users of the accounts of these entities. Therefore, we suggest that if the proposed approach is to be implemented, more work will needed on the definition of "publicly accountable" to avoid increasing the reporting burden for these entities.

The ABA is concerned that the AASB's proposals will lead to a significantly increased reporting burden that will ultimately lead to the production of financial statements that do not meet the objective of general purpose financial reporting as described in the revised *Framework*. The resulting flood of unnecessary financial reporting will add to user confusion and curtail efforts to provide more understandable, simplified and direct financial reporting. They will also result in significant extra cost to business.

Entities in the financial sector are subject to rigorous regulatory reporting requirements. We do not believe that regulators are dependent on general purpose financial reporting. Regulators such as the Reserve Bank of Australia (**RBA**) and the Australian Prudential Regulation Authority (**APRA**) require very specific and detailed reporting from our members. In many cases this reporting is prepared on recognition and measurement bases that are not aligned with Australian Accounting Standards so as to satisfy specific regulatory needs. It is highly doubtful that the increased reporting the AASB is proposing will be useful to regulators.

1.1 Securitisation vehicles

Entities in the finance sector establish a range of special purpose entities to facilitate bespoke transactions between a narrow group of investors and the entity that originates the transaction. One such example is when an entity (which may be a bank or other non-banking entity) securitises assets it holds. Such a transaction can be generally analogised to the factoring of receivables in other sectors. In other cases, banks will securitise assets for the sole purpose of having high quality liquid assets available for the RBA to purchase in satisfaction of contingent liquidity regulatory requirements.

In a securitisation a 'sponsor' agrees to sell an equitable interest to future cash flows arising on assets it originated. The purchaser of the equitable interest is a special purpose vehicle (typically a trust) that will issue bonds/notes to fund the acquisition. To facilitate future principal and interest payments the notes are entered on the Austraclear system, which is run by the ASX.

Austraclear is established for the deposit of securities, the safe custody of deposited paper securities, the entry of and facilitation of the settlement of transactions, the transmission of information relating to dealings between participants, the movement of funds between the participating banks of participants, and includes the computer facilities established and operated by Austraclear for those purposes.¹

Participants in the Austraclear system are limited to professional and sophisticated investors as defined in the Corporations Act. Nonetheless, as indicated in the above definition, Austraclear facilitates the entry and settlement of transactions between participants. Therefore, any trade that occurs between participants must occur through the Austraclear system.

The definition of public accountability in AASB 1053 *Application of Tiers of Australian Accounting Standards* includes entities that have debt instruments traded in a public market (including an over-the-counter market). The IASB's Q&A 2011/03 *Interpretation of 'traded in a public market' in applying the IFRS for SMEs* provides further guidance that even if trades only occur a few times a year, the instruments would still cause the entity that issued them to be publicly accountable. Accordingly, securitisation entities will meet the definition of public accountability. This is further supported by the ASX describing unquoted debt listings as being included in an over-the-counter trading venue settled through Austraclear.² The ABA is aware of differing interpretations in the industry, which in itself highlights that the definition of public accountability introduces a key area of judgement. As a result, the AASB's proposals are at risk of introducing divergence in practice where there previously was none.

1.1.1 Continued application of Australian Accounting Standards

To ascertain the potential costs that would be imposed, the ABA obtained estimates from its members and also with auditors to identify incremental costs for transition and ongoing application of the proposals. The table below outlines the estimated impact on entities in the securitisation sector⁴:

Activity	Transition (\$'000)	Ongoing (\$'000)
Review disclosures, in particular:	68.4 – 75.6	-
<ul style="list-style-type: none"> - AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> - AASB 7 <i>Financial Instruments: Disclosures</i> - AASB 13 <i>Fair Value Measurement</i> - AASB 124 <i>Related Party Disclosures</i> 		
The transition impact is based on an average of 1 FTE (internal or contractor) required for 6 months at a manager experience level. This FTE will be required to assess the changes required to financial reporting templates per entity. ⁴		
Transition audit, calculated as a third of current average audit expense per issuance (each issuance prepares individual financial statements). ⁴	7.9 – 8.7	-
Ongoing preparation effort for all but AASB 1 identified above. Calculated based on an average of 0.1 FTE (internal or contractor at manager level) required for 2 months every year to prepare / review financial statements. This cost will be incurred for each issuance.	-	2.3 – 2.5
Ongoing audit fee increase (SPFR vs Tier 1 GPFR). This is based on the one exception noted previously where a securitisation vehicle prepares Tier 1 GPFR and consultation with auditors. Expectation is an average 40% increase in audit fees for each issuance.	-	10.0
Incremental cost arising from AASB proposals	76.3 – 84.3	12.3 – 12.5

1.1.2 Amend trust deeds to stipulate applicable accounting framework

Securitisation trust deeds could be amended to specify the framework to be applied to financial statements prepared for each issuance. We expect the costs involved in specifying the framework, obtaining agreement from auditors and engaging legal advice to make the amendments would be similar to the transition costs noted for the continued application of Australian Accounting Standards. Under this approach there would be no incremental impact to ongoing costs.

1.1.3 Overall

The ABA is strongly of the view that the above incremental costs do not provide any user benefit. Therefore, the ABA strongly urges the AASB to consider amendments to the definition of public accountability to avoid this unintended consequence. Such an amendment could be tied to whether the financial statements of an entity are made publicly available or otherwise lodged with a regulator.

In addition, the ABA notes that APRA-regulated entities are prohibited from entering into deeds of cross guarantee⁵ and therefore all subsidiaries of those regulated entities are unable to obtain ASIC relief from preparing financial statements.

The table below sets out an estimate of resources that would be required to transition to Tier 2 GPFS from current SPFS reporting. Given the CP is proposing two high-level options for the future of Tier 2 we are unable to provide accurate cost estimates for the lack of specific proposals.

The expected costs below are **per entity**.

Activity	Transition (\$'000)	Ongoing (\$'000)
Review disclosures. The transition impact is based on an average of 0.1 FTE (internal or contractor) required for 6 months at a manager experience level. This FTE will be required to assess the changes necessary to financial reporting templates. Furthermore, members will be required to assess impact on related party transaction questionnaires that directors are required to complete in order to populate related party disclosures.	6.8 - 7.6	-
Transition audit, calculated as a quarter of current average audit expense (each subsidiary would prepare individual financial statements in compliance with Tier 2 GPFS requirements). ⁴	9.5 - 10.5	-
Ongoing preparation effort for all Standards identified above. Calculated based on an average of 0.1 FTE (internal or contractor at manager level) required for 2 months every year to prepare / review financial statements.	-	2.3 - 2.5
Ongoing audit fee increase (SPFR vs Tier 2 GPFR). Expectation is an average 20% increase in audit fees.	-	7.6 - 8.4
Incremental cost arising from AASB proposals	16.3 – 18.1	9.9 - 10.9

Appendix C – extracts of key matters raised by the ASF in their submission on ITC 39

46 Extracts from the ASF are included below, however refer to Agenda Paper 4.2.2_ITC39_sub17_ASF_M167 for the ASF's full submission.

ASF submission

The ASF is confident that ABS trusts do not meet the definition of Disclosing Entities under the Corporations Act, nor are Reporting Entities, nor Publically Accountable entities, and are not therefore required to apply Tier 1 general purpose financial reporting. Currently most ABS trusts prepare special purpose financial reports on this basis. If these interpretations or requirements were to change, there would be considerable additional cost and effort incurred, particularly for those entities who are wholly reliant on securitisation funding.

Application of the Corporations Act, ASX Listing Rules and ASIC lodging requirements

The question of whether ABS with listed notes have any legal obligations under the Corporations Act 2001 (the Act) to produce financial statements has been considered by law firms who are members of the ASF. Their conclusion is that ABS do not meet the definition of a Disclosing Entity under the Act, nor is there any obligation under the ASX listing rules for financial reports to be lodged with the ASX for those ABS with listed, not quoted notes. No copies of financial statements are lodged with ASIC as these are not corporate entities, nor registered managed investment schemes, meaning that external agencies are unable to widely access these financial statements.

Does the nature of issuance and/or trading of ABS result in public accountability?

A focus discussion area between the AASB and the ASF has been whether or not ABS with listed notes meet the definition of publically accountable entities. The ASF does not believe that listed notes in ABS result in the issuing vehicle being designated publically accountable, as notes issued

by ABS are not instruments that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

In considering the first aspect of the definition, it is important to understand the process for listing of ABS notes on the ASX (or other international markets) as well as the commercial rationale for listing and the process for any subsequent trading of listed notes. These areas are further explored below.

- Listed, not quoted Notes

Critical to the function of a healthy securitisation market is appetite for ABS notes from investors, both international and domestic. A number of securitisations notes are listed, either on the ASX, international exchanges or both. Not all notes for all deals are listed, as this depends on investor requirements. See Appendix D.1 for an extract from an information memorandum (the document prepared by the Issuer to market the transaction to potential investors) which demonstrates that it is individual notes issued by the ABS, rather than the ABS itself which is listed. For example, the most recent CBA Medallion 2017-2 transaction listed 2 tranches out of a total of 7 issued.

Under the ASX debt listing requirements, there are two types of debt listings – traded and wholesale (also referred to as “Listed Not Quoted”). Securitisation issuers in Australia adopt the wholesale approach. The ASX debt listing guide provides further information¹.

- Price setting and trading of notes post issuance

The price setting process at issuance involves a “roadshow” and “bookbuild” to potential sophisticated investors. These roadshows are co-ordinated by the deal managers (banks), who market the offering directly to their investor client base. Investors receive the following: a term sheet (a summary of the transaction), ratings agency assessment, information memorandum and pool cut with stratifications (summary data about the assets to be securitised). No financial reports are provided. In making their investor decision at the time of issue and subsequent to issue, investors may also analyse the transaction using modelling platforms provided by service providers such as Intex and Bloomberg. Due to the fact that the notes are listed, but not quoted, it is not possible to refer to the ASX for a ‘price’ of a note, or to actively trade via the ASX

Initial settlement payments, subsequent disbursements on notes and any buying/selling of notes are cleared through Austraclear, which holds details of the investor bank accounts. The trustee (a third party) is responsible for maintaining the register of investors, though investment is often made via custodian entities, making the ultimate holder of notes difficult to identify. Austraclear is the primary settlement facility in Australia for debt instruments.

Sale of notes, which are infrequent, do not occur directly through the ASX or another exchange – rather they occur under individual contracts (OTC) and price details are not publicly disclosed. If an investor in a note wishes to enact a sale, any transaction of the notes is negotiated between investors who are registered participants in the Austraclear system. The buyer/seller will negotiate their price, the buyer submits a notification to Austraclear and it is matched to a similar notification Austraclear receives from the seller.

Given the fact that financial statements are produced once a year and the dynamic nature of the assets that would impact the value of a note, the financial statements are not a reference point as part of the negotiation process.

The Issuer is not informed of the price nor necessarily given access to an updated register, although they may be requested to provide access to the investor to the Issuer's reporting data room. This means that at any one point the Issuer does not necessarily know the holder of all of its notes.

As noted above, the ASX does not quote a price for the notes listed thereon. It is not possible to determine a 'market price' for ABS notes via the ASX as there is no traded market with observable prices. The lack of liquidity in the secondary market for these notes and the challenges inherent in pricing and trading them is well known and understood by market participants. Each information memoranda provided to investors includes a section on risk factors potentially impacting investors, and lack of liquidity or a quoted market for trading is noted as a key investor risk therein. See Appendix D.2 for extracts from representative information memoranda.

Given there is no published price, and no facility for market participants to trade via an exchange, whether in Australia or internationally, and applying the spirit of the above Q&A, we believe that listed, but not quoted ABS securitisation transactions do not meet the first part of the definition of public accountability, being an entity whose debt is traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets. We also note that the process for selling notes between investors does not vary between those ABS with publically listed notes and those without, so it would appear unusual if a different reporting framework existed for ABS where the only practical difference between the structures is that one has a note listed on an exchange due to an international investor mandate.

Does an ABS hold assets in a fiduciary capacity for a broad group of outsiders?

The second element of the public accountability definition considers holding assets in a fiduciary capacity for a broad group of outsiders. Whilst ABS arrangements do involve holding assets on behalf of investor, investors in an ABS arrangement are sophisticated wholesale investors and typically each arrangement would involve a limited number of investors. The ASF has canvassed a number of issuers and believes the maximum number of investors in the entire ABS structure (i.e. across all tranches of notes issued, not just those listed) that would be seen in an Australian ABS is circa 30.

The ASF therefore believes that a securitisation ABS is akin to an investment fund, closed to the general public and with only a few specifically selected participants (*IFRS for SMEs* Section 1: Entities that typically have public accountability).

Additionally, the ASF has considered the information used by potential investors into ABS transactions, and whether these could be considered a broad group of outsiders that would require the information contained in the financial statements in order to reach their investment decisions. We have confirmed with a number of investors in the ASF that the information they analyse, prior to any investing post issuance, is the information prepared by the Issuer/trust manager regarding cashflows, income levels, arrears and allocation of cash between parties to the transaction, as well as the excess spread. This information is all cash based, and prepared monthly and provided to potential investors on request. They do not generally ask for financial statements at a Trust level and financial reporting information is not a basis for the judgmental decision as to whether to invest.

As such, the assets held in an ABS are not held for a broad group of outsiders. Hence the second element of the public accountability definition is also not met.

The securitisation industry has historically concluded ABS do not meet the definition of Reporting Entities, as there are not users who rely on the entity's general purpose financial statement for information that will be useful to them for making and evaluating decisions about the allocation of resources. This is due to a limited number of entities being party to ABS transactions (typically the issuer (being the sponsoring entity), the trustee and the external investors); see Appendix B for a typical Australian securitisation structure, and more detailed analysis of the parties to transactions). These parties all have access to more up-to-date, and more relevant detailed cash flow, loan performance and loan data in the form of monthly investor reports than would be provided by a full disclosure set of general purpose financial reports (GPFR). This is supported by the fact that when investors enter into a transaction, no detailed financial reporting information is included in the Information Memoranda, nor are investors regularly seeking access to financial reports post initial issuance. Given the crucial relationship between Issuers and Investors, any additional information requested by Investors is prioritised by Issuers in practice. See Appendix C.

As a result, most Australian ABS currently apply the special purpose reporting framework to their financials, which requires the application of the recognition and measurements requirements of Australian Accounting Standards, but not all the disclosure requirements. In practice such financial statements are usually only made available on request by Investors and requests to obtain a copy of them rare. The requirement to produce financial statements is usually a compliance matter, as most ABS have an obligation to produce financial statements written into the underlying trust documents that govern the operation of the trusts. This is the only obligation to prepare financial statements for ABS.

To the extent that the AASB agrees with our assessment herein, and determine ABS are not publically accountable, and that ABS are not Reporting Entities, the ASF does not believe that subsequent to the removal of SPFR, the preparation of Tier 1 or RDR financial reports would significantly enhance comparability or information available to those in the securitisation industry. As a result, for new trust vehicles, the ASF has established an industry working group to ensure that any new ABS do not inadvertently include wording which could be construed to require preparation of full Tier 1 general purpose financial reports, and instead reference financial information in a format that is tailored to be appropriate for the users, being the trustee and investors in the specific transaction. Many ABS will wind down (call) over the transition period during which the AASB is planning on removing the ability to use special purpose financial reports, and the ASF will work with the industry to enable a practical transition for the remaining ABS given the cost prohibitive practicalities of amending trust deeds for all outstanding ABS.

Most ABS trusts are consolidated into the financial reports of the Issuers. The application of AASB 10 *Consolidation* to a standard ABS structure (similar to that set out in Appendix B) results in a conclusion that the issuer has:

4. power over the trust (the investee) due to its role of Servicer responsible for collections on the underlying assets;
5. exposure or rights to variable returns from its involvement with the investee (due to its holding of residual income units which distribute margins earned, and absorb first losses in the structures); and
6. the ability to use its power over the trust to affect its returns.

This means that the securitisation vehicles are included in the consolidated financial statements and disclosures of the Issuer, to the extent that that Issuer meets the requirements for Tier 1 or Tier 2 reporting. For banks and listed entities, this would include Tier 1 disclosures. For non-bank lenders that are not listed, this will depend on their obligations under the Corporations Act and their determination of Reporting Entity under SAC 1.

- *Cost and effort to prepare Tier 1 GPFR*

The preparation of Tier 1 GPFR by Issuers for each ABS would take considerable time and effort. We acknowledge that on a consolidated basis, the information is already available and disclosed in the Issuers' consolidated financial statements, however the split of this information into trust by trust level data is not usually readily available and would involve analysis of certain aspects of the trusts which are not disclosed in the consolidated financial statements as the junior notes, residual income units and inter-group fees which are usually on consolidation and which would take time to assess, audit and prepare.

Issuers have estimated the internal cost to prepare each set of Tier 1 financial reports would take approximately 2.5 days of manpower to prepare and review. Audit firms estimate the additional cost to audit each set of trust financial statements would be approximately \$35k.

This would disproportionately impact the non-bank lender members of the industry given their large number of trusts (some having up to 20 ABS) and the size of these issuers, which make up approximately 6% of the Australian mortgage market.

The ASF therefore believes that if it were determined by the AASB that general purpose financial reporting was appropriate for ABS, the cost and effort that would be incurred in preparing general purpose financial statements for ABS Issuers could be considerable for certain market participants, without adding additional information, clarity or value to the market and its participants, including investors.

Appendix D – IFRS for SME's Q&A



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