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23 April 2010

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
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Dear Kevin

Exposure Draft ED 192: Revised Differential Reporting Framework

Thank you for the opportunity to comment on this Exposure Draft (ED).

Overall we do not support the proposed revised differential reporting framework. We are particularly concerned that the need for the proposed disclosures by non-publicly accountable entities has not been adequately justified. We are not aware of, nor have we been provided with, evidence of demand by users or regulators for these disclosures. Accordingly, we are not convinced that users will be significantly better off under the proposals. Rather, we are concerned that this will simply add length, complexity and cost to financial statements of non-publicly accountable entities. However, we are generally supportive of the proposals in respect of publicly accountable entities, pending clarification of certain matters.

Our submission highlights the significant additional costs which will be imposed on our Group in preparing and auditing financial statements for our wholly-owned subsidiaries, the majority of which are non-reporting entities. We consider that current level of disclosure provided by such entities (as non-reporting entities) has been adequate to meet user needs. In the event that the proposals are proceeded with, we suggest that a third tier of financial reporting requirements should be created and that a level of disclosure commensurate with the nature of the activities of these wholly-owned subsidiaries be required (essentially reflecting current practice in the preparation of special purpose accounts).

Detailed comments on select questions raised in the ED are in the attached Appendix to this letter. Should you have any queries on our comments, please contact myself.

Yours sincerely

Robert Goss

ROB GOSS
Head of Accounting Policy, Governance and Compliance

do you think would be more appropriate for differential reporting and why?

We consider that the introduction of a second tier of financial reporting does not adequately distinguish between the circumstances of a standalone entity which not part of a group and that of a wholly-owned subsidiary which is included in th consolidated accounts of a parent (or ultimate parent) entity. To this end a third tier of financial reporting should be introduced which allows wholly-owned subsidiaries (which are not publicly accountable) to provide financial disclosures similar to existing practice for special purpose accounts, with an additional requirement to disclose any matter material to understanding the results of the entity in the manner of guidance already included in AASB 134 *Interim Financial Reporting.*

Question 2

Whether you agree that entities within the second tier should be able to apply th proposed reduced disclosure regime, which retains the recognition and measurement requirements of full IFRSs or would you prefer another approach (e.g. IFRS for SMEs)? If you prefer the IFRS for SMEs, what do you consider to the specific advantages of the individual differences of recognition and measurement requirements in the IFRS for SMEs compared with full IFRSs?

We are supportive of the application of a single set of recognition and measurement requirements to all tiers (including the third tier as suggested in our response to Question 1). It is considerably more practical to maintain the books and records of a large Group on a single accounting basis rather than introducing different recognition and measurement requirements, that would apply to some, but not all, entities within that Group if IFRS for SME's were adopted.

Question 3

The definition of public accountability (which is used to identify those for-profit entities that must apply Tier 1) and whether there are categories of entities in th Australian environment that should be cited as examples of publicly accountable entities other than those already identified in paragraph 26.

We consider that further clarification is required of the definition of public accountability in relation to the following situations:

- Whether all entities holding an Australian Financial Services Licence (AFS would meet the definition of publicly accountable. We consider that some entities holding an AFSL would meet the definition of publicly accountable (such as those which operate a registered scheme) whereas other entities (such as those used to provide financial product advice) would not.

- Whether an entity acting as a trustee for another entity which holds and manages assets for a broad group of outsiders is a publicly accountable entity.

We are strongly of the view that not all entities holding an AFS licence are publicly accountable, for example captive insurers which are APRA regulated, but otherwise have no other users of their financial statements.

Question 4

Whether you would require any other classes of public sector entities, such as Government Departments, Government Business Enterprises or Statutory Authorities, to be always categorised as 'Tier 1' reporting entities and, if so, the basis for your view.

No comment.

Question 5

The clarification of the meaning of GPFSs and modifying the way the reporting entity concept is used.

In concept we are comfortable with the meaning of GPFS but are not clear about the interplay between the reporting entity concept and Tier 1 and 2 entities and how this will be applied by the AASB in practice.

Question 6

The extent and nature of the proposed disclosures under the RDR (Tier 2), including whether the RDR would be effective in reducing sufficiently the disclosure burden on entities in preparing their GPFSs.

We are not supportive of the disclosures for non-publicly accountable entities as it is an increase not a reduction of the level of disclosures required. As noted above, we suggest that a third tier of financial reporting should be created for wholly-owned subsidiaries with no public accountability and that the level of disclosure required of this tier should be similar to existing practice for special purpose accounts, with an additional requirement to disclose any matter material to understanding the results of the entity in the manner of guidance already included in AASB 134 *Interim Financial Reporting*.

Question 7

Any particular disclosure requirements that:

a have been retained in the RDR that you consider should be excluded from the RDR, and your reasons for exclusion;

b. have been excluded from the RDR that you consider should be retained, and your reasons for the retention.

Whilst the limited time frame available to comment on the proposals has not allowed a full analysis of the proposed disclosures, we would particularly like to highlight our objection to the following disclosures:

- Disclosure of total key management personnel (KMP) compensation and related party transactions. The relevance of these disclosures to non-publicly accountable entities is highly questionable given the nature of these entities. For example, related party transactions can merely reflect operational transactions within a group and are not reflective of significant stewardship obligations within a group. Furthermore, the disclosure of KMP compensation for subsidiaries is not particularly useful, given that most KMP are existing Group personnel who are seconded to those roles within the group for no additional direct compensation.
- Reconciliation requirements contained in various standards, such as the requirement to provide a reconciliation of the carrying amount of each class of property, plant and equipment under AASB 116.73(e). In our view this type of disclosure merely adds another mandated disclosure with little obvious benefit to the users of financial statements.

In concept, a long laundry list of disclosure requirements is cumbersome to properly apply by practitioners rather than a principle of disclosing items material to the understanding of the accounts (akin to the requirement in AASB 134) based on existing disclosure requirements in the accounting standards.

Question 8

Transitional provisions for entities applying Tier 1 or Tier 2 for the first time and moving between Tiers;

We have no particular concerns with the transitional provisions.

Question 9

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals;

We note that the ED states that a superannuation plan registered with APRA is a publicly accountable entity whereas the financial reporting provisions of Part 2M.3 of the Corporations Act only apply to disclosing entities, public companies, large proprietary companies and registered schemes (s292). This will create an inconsistency between the proposed requirements in the ED compared to Part 2M.3.

If the proposals in the ED are proceeded with, we consider that the requirements in Part 2M.3 of the Corporations Act need to be re-examined to reflect the various tiers of financial reporting in the ED. This includes the disclosures required in directors' reports, which should be commensurate with the relevant tier.

In addition, assuming the Corporations Act requirement for parent entity financial statements is removed as a result of the enactment of the *Corporations Amendment (Corporate Reporting Reform) Bill 2010*, we consider it fatuous that our subsidiaries will disclose significantly more information than the parent company in our Group.

Question 10

Whether, overall, the proposals would result in reducing the costs of preparing GPFSs that would remain useful to users.

We consider that the proposed changes will considerably increase the ongoing cost of preparing and auditing financial statements without any apparent additional benefit (over and above the one-off cost of any step change, which may be considerable).

Question 11

Whether the proposals are in the best interest of the Australian economy.

We do not consider that the AASB's proposals are in the best interests of the Australian economy because the proposals will lead to a significant increase in costs of preparing and auditing financial statements for non-publicly accountable entities (which, from our perspective, are mainly wholly-owned subsidiaries) which, by definition, do not have public stakeholders.