



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

Our ref Submission - ED 207

28 February 2011

Dear Sir

Submission - ED 207 - Amendments to AASB 7: Tier 2

We are pleased to have the opportunity to comment on the Tier 2 AASB Exposure Draft ED 207 - *Amendments to AASB 7: Tier 2*.

Executive Summary

We broadly agree with the reduced disclosures proposed by ED 207 for entities applying Tier 2. Please refer to Appendix 1 of this letter for our detailed comments.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (02) 9335 7630, or Michael Voogt on (02) 9455 9744.

Yours faithfully

A handwritten signature in black ink, appearing to read 'M McGrath', is written over the typed name.

Martin McGrath
Partner In Charge, Department of Professional
Practice

Appendix 1 – Tier 2 AASB Exposure Draft ED 207 - Amendments to AASB 7: Tier 2

Whether you agree with the AASB disclosure proposals for Tier 2 set out in the attached analysis as underlined text, in particular:

- (a) paragraphs 10, 11, 20(a)(i), 42A, 42B, 42C, 42D, 42E, 42F, 42G, 42H, B1, B5, B10(a), B22, B27, B29, B32, B33, B34, B35, B36, B37, B38, and B39 of AASB 7; and*
- (b) paragraphs 82(aa) and 82(ca) of AASB 101*

We have the following comments in respect of the AASB disclosure proposals for Tier 2 as underlined in ED 207:

- We do not agree with the AASB proposal to exempt entities applying Tier 2 from paragraph 42D(c), which requires “*a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity’s use of the transferred assets*”.

We note that:

- Paragraph 42B(a), which applies to Tier 2 entities, requires an entity to disclose information that enables users of its financial statements “*to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities*”
- The other sub-paragraphs of 42D that are required disclosures for Tier 2 entities do not require disclosure around the *relationship* between transferred financial assets and the associated liabilities.

Therefore, there is an apparent inconsistency between the exemption given over compliance with 42D(c), and the requirement to adhere to 42B(a), by entities applying Tier 2.

In our view, providing entities applying Tier 2 with an exemption to paragraph 42D(c) and not to 42B(a) could lead to:

- confusion on the part of the entities applying Tier 2;
- more disclosure than that envisioned by 42D(c) as entities attempt to comply with 42B(a).
- We do not agree with the AASB proposal not to exempt entities applying Tier 2 from paragraph 10(a), which requires disclosure of “*the amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability...*”, where the entity is required to present the effects of changes in that liability’s credit risk in other comprehensive income.

We note that:

- Paragraph 10A(a), which does not apply to Tier 2 entities, requires disclosure of the effects of changes in that liability’s credit risk in profit or loss, (as opposed to in other comprehensive income).

There does not appear to be a basis for this apparent inconsistency between providing an exemption where recognition is in profit or loss, versus no exemption where recognition is in other comprehensive income.

If an exemption is given for paragraph 10(a) (as suggested above) only sub-paragraphs (c) and (d) of paragraph 10 would remain. In this context we note that entities applying Tier 2 would be permitted, in accordance with paragraph 4.2.2 of AASB 9, to designate a financial liability as at fair value through profit or loss. Accordingly the disclosures in sub paragraph 10(c) and 10 (d) have relevance and there is no apparent reason for them to be exempted.

However in line with the AASB *Tier 2 Disclosure Principles*, the extent to which the users of the financial statements of Tier 2 entities would utilise the disclosures provided by 10(c) and 10(d) should be considered. The cost of providing such disclosures may well outweigh the benefit these Tier 2 users might obtain.