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

Tier 2 Proposal for ED 209 Offsetting Financial Assets and Financial Liabilities

Dear Mr Stevenson

Ernst & Young Australia is pleased to provide our comments on the AASB's Tier 2 Proposal for ED 209 Offsetting Financial Assets and Financial Liabilities (the 'Exposure Draft').

Our response to questions 1 - 5 of the AASB specific matters for comment will be included in our response to the IASB, which has not yet been prepared at this time. Accordingly, this response is focussed on question 6.

Comments on the Exposure Draft

We note that the IASB has not yet issued an equivalent IFRS for SMEs. Consequently, there is no existing benchmark for disclosures that could be applied to Tier 2 entities and accordingly the AASB staff analysis of disclosure requirements proposes excluding all the Exposure Draft disclosure paragraphs from the Tier 2 disclosure requirements.

We support the proposal to exempt Tier 2 entities from applying the proposed disclosures which relate to collateral or amounts which have not actually been offset (paragraphs 12 c-f, 13, 14, and columns iv - vii of the illustrative disclosures in paragraph IE1).

We also believe that the existing AASB 7 disclosures of maximum exposure to credit risk, based on amounts validly offset, are sufficient for Tier 2 entities.

However, we believe that amounts which have been validly offset (paragraphs 12b and 12g, and columns i - iii of the illustrative disclosures in paragraph IE1) should be disclosed, as these are the most relevant to users, and provide useful information about the nature and extent of risk management achieved through offset arrangements. We also expect they involve minimal cost to preparers.

Comments on Tier 2 Exposure Draft Process

Since the IASB has not yet issued an equivalent IFRS for SMEs, it is possible that the IASB will subsequently release an equivalent IFRS for SMEs which contains different disclosures to those in the Exposure Draft. These would need to be considered by the AASB, in terms of applicability to the AASB's Tier 2 reduced disclosure requirements.

We also note that the IASB is engaging in outreach activities - such as Round Tables and an investor survey - after the AASB submission date. Therefore it is possible there will be changes to the Exposure Draft before it is issued as a final standard, which could need further consideration by the AASB, in terms of applicability to the AASB's Tier 2 reduced disclosure requirements.

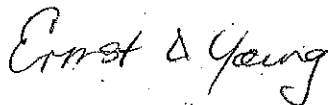
We encourage the AASB to issue its proposals relating to Tier 2 disclosure requirements only after the IFRS (Tier 1 standard) has been finalised by the IASB and there is sufficient clarity on the disclosures in any related IFRS for SME standard.

Further Information

We are happy to provide copies of our letter issued to the IASB on their Exposure Draft should you wish, once finalised. We would also be happy to discuss with the AASB Board or staff our views on the current Tier 2 Exposure Draft process.

Please contact Lynda Tomkins lynda.tomkins@au.ey.com or (02) 9276 9605, or Simon Brookes simon.brookes@au.ey.com or (02) 9248 5335, if you wish to discuss any of the matters raised in our response.

Yours sincerely



Ernst & Young