

27 October 2011

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

Dear Mr. Stevenson

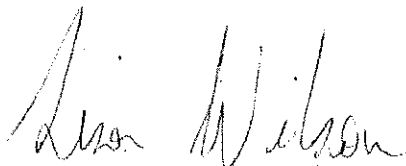
AASB ED 220 Investment Entities (incorporating IASB Exposure Draft ED/2011/14 Investment Entities)

Thank you for the opportunity to comment on the AASB Exposure Draft ED 220 *Investment Entities*. We have considered the AASB's specific questions in light of our industry and clients and our responses to those matters are included in the appendix attached.

Please note that this submission is on behalf of J.P. Morgan Australia, and therefore specifically with respect to the implications of the proposals on our Australian clients. Any submission to the IASB or FASB will be made by our global colleagues.

Should you require any additional financial information, please call me on (02) 9250 4628.

Yours sincerely,



Lisa Wilson
Head of Investment Analytics and Accounting
J.P. Morgan Australia

Appendix - AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

- 1. Whether you agree with the AASB's proposal not to provide relief for Tier 2 entities from the proposed disclosure requirements in paragraphs 9 – 10 and B18 – B20 of this Exposure Draft;**

Yes, we agree that Tier 2 entities should not be provided relief from the proposed disclosure requirements of this Exposure Draft.

- 2. 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;**

We are not aware of any regulatory or other issues in the Australian environment, relating to either not-for-profit or public sector entities that would impede the implementation of the proposals.

- 3. Whether, overall, the proposals would result in financial statements that would be useful to users;**

The majority of our clients are involved in investment activities, most commonly investment management and superannuation fund clients. In most cases, where consolidation is required, it is because they are passive investors in another investment entity, in many cases another fund managed by the same investment manager.

In our experience, consolidated financial statements are prepared for clients of J.P.Morgan for the sole purpose of complying with the prevailing accounting standards; but serve little purpose from a performance assessment perspective. We recognise the governance and accountability benefits of preparation and audit of financial statements for our clients, however we query whether the preparation of consolidated financial statements provides any additional benefit over the preparation of single entity financial statements, where investments are accounted for at fair value.

For our clients, the measure of an investment fund's performance is centred around the fair value of the investments it holds – investors in such investment vehicles (e.g. unit trusts, private equity or real estate funds, etc.) are primarily concerned with the changes in the market value of investments and the resultant impact on both the distribution of income to unitholders, and the unit price for the application and redemption of units.

For entities meeting the definition of an “investment entity”, as well as entities which do not meet the definition (such as some superannuation entities), a significant component of the value of investments, regardless of whether controlling or non-controlling interests are held, is the value to be derived from realising those investments (capital appreciation). The current requirements result in a discord between the accounting for controlled investments (which are consolidated) and non-controlled investments (which are held at fair value), despite the fact that both are likely held for similar purposes. It is very difficult to explain to a trustee the difference in accounting between one fund they hold passively and have a 45% interest in, and another fund that they hold passively and have a 53% interest in.

Consequently, the fair value measurement disclosures which would apply where a subsidiary is held at fair value through profit or loss would provide far more decision useful information than is currently available in consolidated financial statements. Thus, we believe that the proposals contained in ED/2011/14 would enhance the usefulness of financial statements to users for those of our clients to which they apply.

We note that as currently drafted, the proposals would likely apply to the majority of our investment management clients, but it appears they may not apply to all our superannuation fund clients. We are aware that the AASB is currently reviewing accounting for superannuation funds. We would suggest that under the AASB’s policy of transaction neutrality, if the proposals in ED/2011/14 are converted into a standard, then similar requirements should be implemented in Australia for superannuation funds via the AASB’s proposed revised superannuation standard.

4. Whether the proposals are in the best interests of the Australian economy; and

The proposals are in the best interests of the Australian economy for the reasons outlined in points 3 and 5.

5. Unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

Apart from the improvement to the comparability of financial statements as noted in point 3, the time and effort saved from the elimination of consolidated financial statements is a significant benefit to be derived from the implementation of the proposals. That saving would be significant, without, in our view, any significant loss of information value.