UNITY ADMINISTRATION

The Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

25 March 2013

Dear Mr Stevenson

EXPOSURE DRAFT 233 AUSTRALIAN ADDITIONAL DISCLOSURES – INVESTMENT ENTITIES

Thank you for the opportunity to allow us to comment on Exposure Draft 233 Australian Additional Disclosures – Investment Entities (ED 233).

Unity Administration is a provider of fund administration, accounting and tax services to the funds management industry. We service the boutique manager end of the market and currently provide investment administration, fund accounting, registry services or taxation services to over 60 funds across almost 20 investment managers, covering:

- Hedge funds;
- Australian and International equity funds;
- FX funds;
- Property funds;
- Fund of funds; and
- Managed Investment Schemes – both registered and unregistered.

In our role as fund administrator, we are currently responsible for the preparation of financial statements for the bulk of our clients' funds, a number of which are currently prepared and all of which have the potential (barring mandate/risk limitations) to at some point be prepared on a consolidated basis in accordance with Australian Accounting Standards and accordingly we have interest in the proposals outlined in ED 233.

On review of ED233, we are not supportive of the AASB's proposal to mandate the disclosure of consolidated information by Australian investment entities. We cannot see any valid reason why such disclosures should be required. We note that two of the world's largest standard setting bodies, the IASB and the FASB, based on extensive considerations and discussions with diversified groups of constituents, have not identified such information as being required in the context of an investment entity. Being an indirect but equally affected, representative of the Australian investment industry, we share this understanding and don't see any specifics of the Australian market that would justify such additional disclosure requirement. We are concerned that the requirement to disclose consolidated information would result in users being provided with information that is not useful and not directly comparable with international peers and will come at potentially a significant cost of generating such information. We don't think that the unavoidable delays in the preparation of financial statements due to the need to obtain and audit consolidated information is in the best public interest. We are concerned that investment flows into Australia may be impacted through Australia's potential non-conformance with IFRS.

We are comfortable supporting the adoption of the amendments to IFRS 10 *Consolidated Financial Statements* (IFRS 10 amendments) as issued by the IASB. Fair value information is most meaningful to the users of the financial statements of an investment entity. It is the key indicator of the performance of an investment entity and as such serves best the information needs of both the management of the investment entity and the funds' investors and unitholders.

We strongly disagree with the view of some AASB members that the IFRS 10 amendment be not adopted at all. In our view, and we understand this is shared by others, there is no rational justification to expose the Australian economy to the consequences of such action. We believe that it is essential for Australian investment entities to be able to declare their compliance with IFRS. Equally it is important that the users of the financial statements of Australian investment entities are provided with equally relevant, comparable and useful information as provided by other investment entities reporting under the IFRS framework.

It is very concerning for the Australian economy as a whole that some AASB members are opposed to the adoption of IFRS guidance and willing to sacrifice the compliance with IFRS for little rational reason.

For further detailed discussion and also our responses to the Specific Matters for Comment, please refer to the Appendix to this letter.

Should you have any questions regarding our comments, please do not hesitate to contact us.

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APPENDIX - AASB Specific Matters for Comment

1.	The appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted

We feel that the proposed Australian additional disclosures are not appropriate and are not warranted because:

(a) Fair value information is most relevant and meaningful;

(b) Consolidated information is inconsistent with other information on an investment entity's performance – which forms the basis on which management and investors base their decisions;

(c) Consolidated information could potentially misrepresent performance of an investment entity and the risks to which it is exposed;

(d) Preparation of consolidated information is time consuming and costly, which will ultimately need to be borne by investors; and

(e) The proposal to impose additional disclosure requirements on Australian investment entities, or worse the suggestion not-to adopt the IFRS 10 amendment at all, is inconsistent with the AASB's commitment to create a high quality accounting framework in Australia, as well as the AASB's commitment to harmonisation; as highlighted below.

(a) Fair value information is most relevant and meaningful

Investment entities manage their activities based on fair value. Fair value information is used for internal reporting purposes, investment decisions and performance measurement. Information most relevant to the management of an investment entity is also most relevant to third parties interested in the performance of the investment entity, e.g. its investors.

The management of an investment entity will fundamentally not be involved in the operating decisions of the investees, irrespective of whether the percentage interest in the investee is 5%, 30% or greater than 50% as in almost all cases, their investment would be on a passive basis. With regard to ownership interests which could give the investor significant influence over the investee it is acknowledged not only the IASB but also the AASB that such investments are best reflected at fair value in the financial statements of a venture capital organisation, mutual find, unit trust or a similar entity. With their recent amendment to IFRS 10 the IASB acknowledged the fact that this argument is equally valid for investments of over 50% held by investment entities and now requires all investment entities to account for their investments in a consistent manner that reflects the business model, as well as best meets investors' information needs, i.e. at fair value. We consider this to be equally valid and relevant in the context of the Australian market.

Investors of an investment entity base their decisions on the expected performance of the investment entity, i.e. fair value as a forward looking measure which incorporates all available information on assets, liabilities, current results and cash flows but also the resulting implications for the future. Accordingly investors are most interested in fair value information.

(b) Consolidated information is inconsistent with other information on investment entity's performance on which management and investors base their decisions

As discussed above investors are most interested in fair value information. Investment entities are able to meet these information requirements by providing fair value information in product disclosure statements, prospectus, other offering documents and communication which is addressed at both current and future investors. This is the information on which the investors base their investment decisions. It would benefits investors most if audited financial statements of an investment entity provided equally relevant, consistent and understandable information, i.e. fair value information.

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(c) Consolidated information may misrepresent performance of an investment entity and the risks to which it is exposed

Measurement of an investment at fair value best reflects the current expectations with regard to future return on the investment and also triggers the respective risk disclosures, as currently required under AASB 7 *Financial Instruments: Disclosures*.

Consolidated financial information that has been proposed by the AASB would show current and previous period assets, liabilities, results and cash flows. Such information may actually not necessarily be indicative of the future performance, and as much has the potential to be misleading to the users of financial statements, if they are concerned with future returns.

(d) Preparation of consolidated information is time consuming and costly – the cost of which will need to be ultimately borne by investors

Investment entities currently manage their activities based on fair values of the underlying investments. Respective measures are obtained on a regular basis for investment decisions as well as issues and redemptions of units. Accordingly fair value information is obtained on a regular basis and using such information for external reporting purposes does not create additional cost.

Investment entities don't obtain consolidated information for purposes other than financial reporting. Accordingly consolidated information is not readily available (investees do not prepare and provide such information on a regular basis) and generating such information would generate additional costs (and for which we believe no additional benefit) for users / investors.

Given the relevance of fair value measures for the operations of an investment entity, such information has historically been and is currently prepared with a great level of accuracy and care and the audit of such information is considered to be both necessary and value-adding. In contrast, consolidated information is not useful to either internal or external purposes and as such, the cost and time associated with the audit of such information is considered unnecessary and not value-adding.

(e) The proposal to impose additional disclosure requirements on Australian investment entities, or worse the suggestion not-to adopt the IFRS 10 amendment at all, is inconsistent with the AASB's commitment to create a high quality accounting framework in Australia and the AASB's commitment to harmonisation

We believe the AASB should be acting in the best interest of the users of financial statements and the Australian market. We are very concerned with the view being adopted by some of the AASB members that Australia should (despite public commitment to harmonisation with IFRS) not adopt a part of IFRS guidance, based on purely theoretical arguments. As I understand, this would be the first time that Australia would be departing from IFRS and this of great concern as it may in fact open up precedence, which, in my opinion, would be to the detriment of the Australian market as a whole.

Non-compliance of Australian investment entities with IFRS could have severe negative consequences on their ability to attract international investors and accordingly their position and competitiveness in the international market. Australian investment entities have a sufficiently difficult time obtaining investment from offshore and this non harmonisation could potentially put a further roadblock in their way. This naturally has consequences not only for investment entities but their service providers too.

The requirement of additional consolidated disclosures would impose unnecessary cost on Australian investment entities with no benefit flowing to the users/investors. Such a situation would disadvantage

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Australian investment entities in the global market, as their direct competitors reporting under IFRS or US GAAP will be able to provide their users with financial information at lower cost and in a timelier manner than Australian entities.

2. Whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information

The loss of consolidated information has no adverse impact on decision-making.

As discussed in our response to item 1 above, neither the management of the investment entity itself nor the investors, rely on consolidated information in their decision making. We are not aware of any group of stakeholders who would need consolidated information for their decision-making.

The market in which Investment entities operate is highly competitive. Investment entities need to attract investors and continuously meet all their information needs in order to retain them. Provided information needs to be timely, accurate and useful. We note that the accounting framework allows provision of additional information if it is relevant and not misleading. If the users of investment entities' financial statements required consolidated information, I suspect that market pressure could easily force/demand investment entities to prepare and present such information.

3. If the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements

Consolidated information should not be prepared by either Tier 1 or Tier 2 investment entities.

4. 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 not-for-profit entities and public sector entities.

We are not aware of any regulatory requirements for investment entities to report consolidated information.

5. Whether, overall, the proposals would result in financial statements that would be relevant to users

The proposals to include consolidated information in financial statements of investment entities would not result in the financial statements being any more relevant to users, than if consolidated information was not provided.

As discussed in our response to item 1 above:

(a) value information is most relevant and meaningful;
(b) Consolidated information is inconsistent with other information on an investment entity's performance – which forms the basis on which management and investors base their decisions;
(c) Consolidated information could potentially misrepresent performance of an investment entity and the risks to which it is exposed; and
(d) Preparation of consolidated information is time consuming and costly, which will ultimately need to be borne by investors.

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6. Whether the proposals are in the best interests of the Australian economy

The proposals to require additional consolidated information are harmful to the Australian economy.

We feel that the requirement to prepare consolidated information will impose unnecessary cost on Australian investment entities and to the supporting industries such as fund administrators, taxation and audit practices, which rely on their custom.

Neither the management of investment entities nor the users their financial statements require consolidated information as it is meaningless. Accordingly this is an unjustified cost that will be initially borne by the investment entity and ultimately passed on to its investors through higher administration cost and lower returns.

The requirement to prepare consolidated information will also unnecessarily delay the availability of audited financial statements to the public. Investors may consider such delays, the cause of which is the requirement to prepare information which is not useful, unwarranted.

Considering that both, higher cost and inability to provide timely audited financial information, will apply solely to Australian investment entities, the requirement to prepare consolidated information is likely to have a negative impact on their ability to attract investors both locally and offshore and as such limit their competitiveness in the international market.

In addition, the requirement to prepare consolidated information may actually restrict the investment entities investment opportunities (or the terms on which they are struck) as foreign investees may prefer sources of capital offered by investors not imposing on them the additional reporting burden.

Please also see our response to item 1 above, in particular the discussion on the preparation of consolidated information being time consuming and costly.

For the outlined reasons we believe that **it is in the best interest of the Australian economy that the IFRS 10 amendments are adopted without additional disclosure requirements**.

7. The costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative

Relative to the current requirements:

- **The proposals would result in additional benefits at the same cost as current reporting**
  Investment entities prepare fair value information for internal and external purposes and accordingly the requirement to include investments at fair value will not create any additional cost.
  Investment entities are currently required to prepare consolidated financial statements and as such the requirement to provide consolidated disclosures will not create additional cost.
  Accounting for all investments held by an investment entity at fair value will provide most relevant and useful information and as such benefit the users more than current financial reporting.

- **The Alternative View 1 outlined in the ED 233 would result in no additional benefit and no additional cost as compared to the current reporting requirements BUT would result in significantly less benefit and significantly higher cost as compared to the requirements applicable to investment entities reporting under IFRS or US GAAP**

  As outlined in our responses to item 1 and 3 the non-adoption of the IFRS 10 requirement would come at a significant cost to not only the investment entities but also the Australian economy as a whole and would result in the financial statements of Australian investment entities being less useful to users.

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- **The Alternative View 2 outlined in the ED 233 would result in additional benefit and cost reductions as compared to the current reporting requirements AND also result in same benefits and cost as compared to the requirements applicable to investment entities reporting under IFRS or US GAAP**
  Investment entities prepare fair value information for internal and external purposes and accordingly the requirement to include investments at fair value will not create any additional cost.

  Investment entities are currently required to prepare consolidated financial information, the removal of the requirement will reduce the cost and time associated with obtaining and auditing such information.

  Accounting for all investments held by an investment entity at fair value will provide the most relevant and useful information and as such enhance the benefits for users in comparison with current financial reporting.

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