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Mr. Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Melbourne, VIC, 8007  
(By Electronic Submission: [standard@asb.gov.au](mailto:standard@asb.gov.au))

27 March 2013

Dear Mr Stevenson,

**AASB Exposure Draft ED 233 - *Australian Additional Disclosures – Investment Entities***

We are responding to Exposure Draft ED 233: *Australian Additional Disclosures – Investment Entities* issued by the Australian Accounting Standards Board (AASB). Our responses to the questions included within the consultation document are provided in the attached Appendix.

We disagree with the proposal for investment entities to provide consolidated information disclosures additional to those required by the amendment issued by the International Accounting Standards Board (IASB). The IASB has already followed due process to seek the global views of users, preparers and the accounting profession (users), and they did not require such disclosures in their final amendment. We agreed with the IASB's underlying rationale (consolidated information is not useful to users) for requiring investment entities to carry all of their investments at fair value by providing an exemption to consolidation. We consider the AASB proposal to disclose additional consolidated information to be contrary to the fundamental tenant of the amendment.

We are further concerned that providing additional consolidated information could be misleading for users. The AASB has not mandated where such disclosure is to be located, and therefore alternative presentation or disclosure formats could develop in practice (including additional columnar information alongside the primary financial statements). We consider some formats have the potential to mislead users by implying fair values do not faithfully represent the financial position of the investment entity.

Since the introduction of IFRS in Australia in 2005, we consider the Australian community's role is to actively participate in the consultation process undertaken by the IASB when it develops new and amended standards. The Australian community already had the opportunity to contribute to the development of this IASB amendment, of which Macquarie participated. We do not consider there to be any unique Australian reason for issuing an amendment that is different to that issued by the IASB. We consider the AASB's additional disclosures unnecessarily increase, and in this case significantly, the financial reporting burden for Australian investment entities compared to international peers reporting in other jurisdictions. When Australia made the decision to adopt IFRS,

international comparability and reduced costs were key benefits identified, and this Australian modification would be inconsistent with maintaining these benefits.

Further, we are concerned that if the AASB requires additional consolidated information then it may subsequently remove them at a later date as has occurred on a number of occasions since the introduction of IFRS in 2005. When Australia adopted IFRS, the AASB excluded some options that existed in IFRS and maintained additional Australian disclosures. Later, the AASB introduced those options, and removed most of the additional disclosures so Australian standards were identical to IFRS as issued by the IASB. The AASB proposals in this exposure draft are inconsistent with the direction it has been taking on these other matters.

We strongly encourage the AASB to issue the same amendments as that issued by the IASB, without the proposed additional consolidated information.

If you have any questions in relation to this submission, please do not hesitate to contact me at +61 2 8232 5193.

Yours sincerely



Frank Palmer  
Accounting Policy & Advisory Team Leader  
Macquarie Group Limited

## **About Macquarie Group**

Macquarie Group is a global financial services provider. It acts primarily as an investment intermediary for institutional, corporate and retail clients and counterparties around the world.

Macquarie has built a uniquely diversified business. It has established leading market positions as a global specialist in a wide range of sectors, including resources, agriculture and commodities, energy and infrastructure, with a deep knowledge of Asia-Pacific financial markets.

Alignment of interests is a longstanding feature of Macquarie's client-focused business, demonstrated by its willingness to both invest alongside clients and closely align the interests of shareholders and staff.

Macquarie's diverse range of services includes corporate finance and advisory, equities research and broking, funds and asset management, foreign exchange, fixed income and commodities trading, lending and leasing and private wealth management.

Macquarie Group Limited is listed in Australia (ASX:MQG; ADR:MQBKY) and is regulated by APRA, the Australian banking regulator, as the owner of Macquarie Bank Limited, an authorised deposit taker. Macquarie also owns a bank in the UK, Macquarie Bank International Limited, which is regulated by the FSA.

Founded in 1969, Macquarie employs more than 13,400 people in 28 countries. At 30 September 2012, Macquarie had assets under management of \$A341 billion.

## APPENDIX

**Comment 1**

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

Macquarie agreed with the IASB when it introduced its investment entity exposure draft to provide a consolidation exemption to these entities, because fair values provide more useful information for decision making by users. We were and continue to be of the view that consolidated financial information does not provide the most useful information for users.

One of the reasons we supported the IASB amendments was that these entities are currently accounting for their investments using a number of different accounting bases (consolidation for subsidiaries and some choose fair value for associates/joint ventures) which makes comparability of the performance difficult across investments (within the entity and across similar entities). The IASB amendments provide a single method to measure investments held by investment entities. The AASB's proposed disclosures effectively requires two sets of financial statements be prepared, which we consider will confuse users of the financial statements.

**Comment 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;

We disagree with the premise that there would be an adverse impact on decision-making from consolidated financial statements not being presented. From our experience in Australia and internationally, the consolidated information currently provided in the financial statements of these entities has limited use in the decision making process due to user requests for other information.

We encourage the AASB to issue an amendment identical to that issued by the IASB, because there are no unique reasons for additional disclosures by Australian investment entities. AASB 12 already requires disclosures for interests in subsidiaries, associates and joint ventures held by an investment entity. We note that the international standard (IFRS 12) was amended in response to the investment entity amendment in order to require similar disclosures as for interests in unconsolidated structured entities. This demonstrates that the IASB has considered the needed disclosures<sup>1</sup>.

**Comment 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;

The additional disclosures proposed for investment entities (whether they are classified as Tier 1 or Tier 2 entities) should not be adopted by the AASB.

An objective set out by the AASB for the differential reporting framework in AASB 1053 is "to reduce the burden of disclosure requirements on Australian reporting entities". In

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<sup>1</sup> *Investment Entity Amendment IFRS 12 BC61F*

introducing this framework the Board considered some entities by their nature should be relieved of disclosures. Tier 2 entities are not publicly accountable, and as noted in ED233.BC23, an investment entity may meet the Tier 2 classification when it has a single investor. In this case, consolidated financial information would not be beneficial to the single investor particularly as they may already be able to command additional information.

We consider that where a single investor is an intermediate holding company, the proposed disclosures would be especially burdensome. This is because currently such an investor would not normally prepare consolidated financial statements due to the exemption under AASB10.4(a)(i). Tier 2 entities should not be required to provide the additional disclosures.

#### Comment 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:

- a) Not-for-profit entities; and
- b) Public sector entities;

The proposals may be difficult to implement, because similar entities in other countries complying with IFRS will not be providing consolidated information. Consider an Australian investment entity that invests in foreign investment entities (a subsidiary or associate) that follow IFRS. The Australian parent will have practical difficulties in sourcing the information for Australian disclosure purposes.

#### Comment 5

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

As part of the development of the IASB amendments, the IASB undertook significant outreach to determine the views of users. According to the IASB's feedback statement, most respondents supported the proposal for measuring investments at fair value, because it would provide more relevant information and comparability across investments. As noted in the IASB's basis for conclusions<sup>2</sup>, users consider consolidated financial statements of an investment entity to not be useful due to the mix of accounting measurements used (consolidate controlled investments and fair value non-controlled investments). This has made comparison of the performance of investments difficult, and therefore users had been seeking other information provided outside the financial statements. The AASB's proposal for additional consolidated information is inconsistent with the fundamental reason for the IASB amendments.

#### Comment 6

Whether the proposals are in the best interests of the Australian economy;

The proposals for additional disclosures will have a negative impact on the Australian economy. As already discussed in Alternative View 2 (AV2.1) of ED233, the additional

<sup>2</sup> *Investment Entity Amendment IFRS 10 BC249, BC301, BC307*

disclosures will impact Australian business through additional compliance costs. Similar disclosures will not be provided by investment entities that operate in foreign jurisdictions, which places Australian investment entities at a disadvantage. Further, the consolidated information provided by Australian investment entities may mislead investors.

**Comment 7**

Unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

See our comments above.