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

Our ref Submission - ED 233 Investment  
Entities

28 March 2013

Dear Kevin

### **Submission - ED 233 Investment Entities**

We are pleased to have the opportunity to comment on Exposure Draft 233 – *Australian Additional Disclosures – Investment Entities (proposed amendments to AASB 1054)* ('ED 233').

#### **Executive Summary**

We do not support the proposal for additional disclosure requirements contained in ED 233. KPMG encourages the AASB to approve the IASB amendments with no additional disclosure requirements as promptly as possible to allow entities to early adopt if wanted.

In our view, the Australian legal and regulatory environment is not sufficiently different from the international environment to warrant Australia imposing additional disclosure requirements, which would effectively negate the benefits of the exemption provided internationally. When the IASB considered the needs of users and other stakeholders, feedback strongly suggested that fair values provided the most useful information.

Whilst we acknowledge the AASB has strong conceptual concerns regarding investment entities, we do not see the number of entities impacted or the 'additional information' to be "lost" to be so significant that additional disclosures should be required.

This has for the first time resulted in Australian entities not being able to adopt IFRS amendments at the same time as their international counterparts. In this context we note that IFRS is not perfect and that for Australia the key benefit of international comparability should generally outweigh individual standard concerns.

Please refer to Appendix 1 of this letter for our detailed comments.



*Australian Accounting Standards Board  
Submission - ED 233 Investment Entities  
28 March 2013*

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 sincerely

A handwritten signature in black ink, appearing to read 'M McGrath'.

Martin McGrath  
Partner In Charge, Department of Professional  
Practice

**Appendix 1 – ED 233 Australian Additional Disclosures – Investment Entities  
(proposed amendments to AASB 1054)**

***Question 1 – Appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted?***

We do not support the proposal for additional disclosure requirements contained in ED 233. KPMG encourages the AASB to approve the IASB amendments with no additional disclosure requirements as promptly as possible to allow entities to early adopt if wanted.

ED 233 is not consistent with IFRS as it requires additional disclosures that the IASB did not consider necessary when it issued its investment entity amendments.

*AASB compromise/IASB conclusions*

We acknowledge the AASB discussion within the basis of conclusion to the proposed amendments in ED 233 including the various concerns held by some AASB members over the IASB investment entity amendments.

However, in issuing the investment entity amendments the IASB acknowledged all the arguments put forward by AASB members. Further, the IASB noted that the exception to consolidation was introduced in response to comments from users that the most useful information for an investment entity is the fair value of its investments. The IASB also commented that consolidated financial statements of an investment entity may hinder users' ability to assess an investment entity's financial position and results, because it emphasises the financial position, operations and cash flows of the investee, rather than those of the investment entity.

In summary, the IASB consider that their amendments will provide improved information about the fair values of investments and the way in which the fair value is measured. Such information could reduce the cost of analysis by providing information more directly relevant to users of financial statements.

KPMG considers that the needs of users and other stakeholders of the investment entity community are not significantly different in Australia from other jurisdictions. Therefore the IASB investment entity amendments should be adopted unchanged. Further, there should be no need for a 'compromise' solution in Australia as there is no potential harm in not presenting consolidated information.

Similarly the AASB needs to ensure that all Australian for-profit entities can continue to be in a position to comply with IFRS, i.e. the option to not issue the IASB amendments in any form should not be considered.

We note that IFRS is not perfect and that for Australia, the key benefit of international comparability should generally outweigh individual standard concerns.

#### *Financial Reporting Council ('FRC')*

Under a broad strategic direction from the FRC, the AASB has adopted IFRSs for application by entities reporting under the Corporations Act 2001 for annual reporting periods beginning on or after 1 January 2005. This is to ensure that general purpose financial statements, prepared by for-profit entities in accordance with AASB standards, will also be in accordance with IFRSs.

If the IASB amendments are not adopted this would be a departure from the 2002 FRC strategic direction to the AASB requiring the adoption of pronouncements issued by the IASB.

#### *Cost/benefit*

If the AASB proposals are adopted unchanged, significant additional costs will be imposed on Australian investment entities relative to their international counterparts.

The additional Australian only disclosures add to business compliance costs which is contrary to the Government's policy to reduce un-necessary "red tape".

#### *User confusion*

The AASB proposed amendments do not specify in what part of the financial report the above information is required to be disclosed. If the proposals proceed, preparers will need to consider the placement in the financial report so as to not confuse readers between the financial statements that comply with IFRS and the additional Australian disclosure of consolidated financial statements.

Having two consolidated statements of financial position, statements of profit and loss and other comprehensive income etc., one which is IFRS compliant and one of which is not, may be confusing for users. In the worst case users may not be in a position to comprehend the basis of preparation of each set of statements and why they are different.

#### ***Question 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?***

No, as we believe that users and other stakeholders have provided overwhelming feedback to the IASB that fair vales are the most useful information with little to no additional value received from consolidated information.

Again, KPMG encourages the AASB to approve the IASB amendments with no additional disclosure requirements as promptly as possible to allow entities to early adopt if wanted.

#### ***Question 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?***

KPMG does not support the additional disclosure requirements for either Tier 1 or Tier 2 entities.

***Question 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 Australian legal and regulatory environment as is not sufficiently different from the international environment to warrant additional Australian specific disclosures. We therefore do not support the additional disclosure requirements for not-for-profit entities, public sector entities and for-profit entities.

***Question 5 – Whether, overall, the proposals would result in financial statements that would be relevant to users?***

No.

KPMG considers that the needs of users and other stakeholders of the investment entity community are not significantly different in Australia from other jurisdictions. In these other jurisdictions the overwhelming feedback, received by the IASB, is that fair values provide the most useful information with little to no additional value received from consolidated information.

If the AASB proposals are adopted unchanged, significant additional costs will be imposed on Australian investment entities relative to their international counterparts.

We note that IFRS is not perfect and that for Australia, the key benefit of international comparability should generally outweigh individual standard concerns.

***Question 6 – Whether the proposals are in the best interests of the Australian economy?***

No. Refer to collective comments in the above questions.



## Agenda for pre- ASAF discussion – 28.3.2013 – Conceptual Framework

1. Discuss our views/concerns and what we would like the DP to cover for the following areas:
  - Measurement
  - Performance and OCI
  - Uncertainty components of elements
  - other issues
2. Discuss AOSSG CF WG questions (see below) and our responses

### Appendix: AOSSG CF WG questions:

#### Measurement

##### **1. Do you agree with the following proposed measurement principles? If not, why?**

- (a) Principle 1: the objective of measurement is to represent faithfully the most relevant information about the economic resources of the reporting entity, the claims against the entity, and how efficiently the entity's management and governing board have discharged their responsibilities to use the entity's resources.
- (b) Principle 2: although measurement generally starts with an item in the statement of financial position, the relevance of information provided by a particular measurement method also depends on how it affects the statement of comprehensive income and if applicable, the statements of cash flows and of equity and the notes to the financial statements.
- (c) Principle 3: the cost of a particular measurement must be justified by the benefits of reporting that information to existing and potential investors, lenders, and other creditors.

##### **2. Do you agree that the most relevant measurement method will depend on (a) how the value of the asset will be realized, and (b) how the obligation will be fulfilled or settled? If not, why?**

#### Presentation in the statement(s) of profit and loss and comprehensive income

##### **3. Do you agree with the following principles for determining whether a recognized item of income or expense should be presented in profit or loss or in OCI? If not, why?**

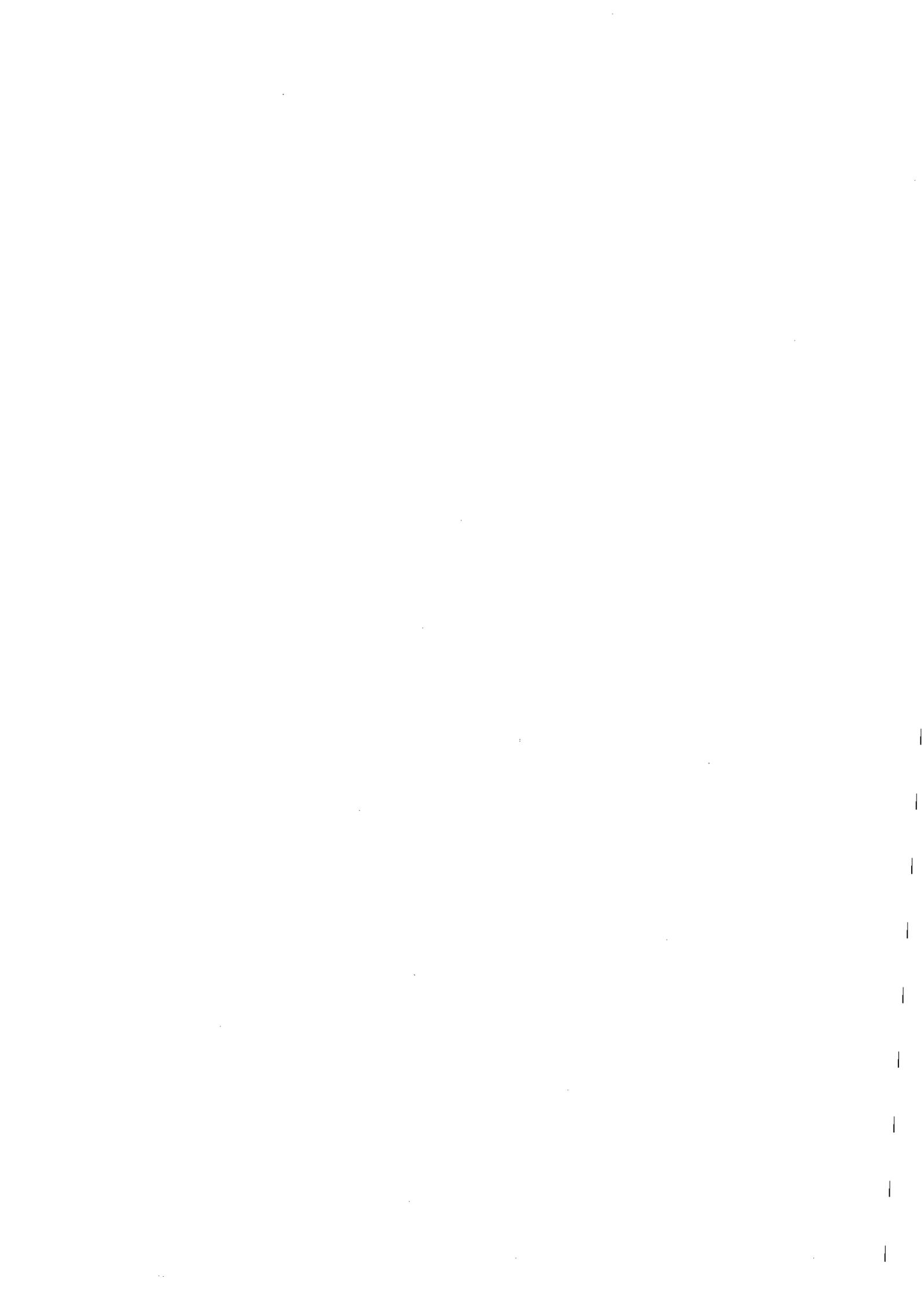
- (a) Principle 1: Items presented in profit or loss communicate the primary picture of an entity's financial performance for a reporting period.
- (b) Principle 2: All items of income and expense should be recognised in profit or loss unless presenting an item in OCI provides a better depiction of financial performance.
- (c) Principle 3: An item that has previously been presented in OCI should be reclassified (recycled) to profit or loss if the reclassification results in relevant information about financial performance in that period.

##### **4. Do you agree that there are two groups of income and expense that would be eligible for presentation in OCI (i.e., (a) bridging items and (b) mismatched remeasurement)? If not, why?**

#### Uncertainty, in the context of definitions and recognition of assets and liabilities

##### **5. Do you agree with removing the term "expected" from the definitions of assets and liabilities?**

NB: In its February Board meeting, the IASB thinks that this will avoid implying that an item will not qualify as an asset or liability if the probability of an inflow or outflow does not reach some minimum threshold. In the IASB's view, as long as an item is capable of producing an inflow or outflow of resources, it can meet the definition of an asset or liability, even if the probability of an inflow or outflow is very low



(eg out of the money options). Removing the reference to ‘expected’ flows from the definition would also remove confusion over how that reference interacts with the reference to probability in the recognition criteria (see below for a discussion of recognition criteria).

**6. Do you agree with removing the term “probable” from the recognition criteria, instead, use the notions of “element uncertainty” and “outcome uncertainty”?**

NB: The IASB’s February 2013 staff paper explains these notions as follows:

(a) Element uncertainty: An entity should not recognise an asset or liability if it is not virtually certain that the entity controls the asset or is bound by the liability. Relevant and understandable information would not result from recognising an asset or liability without a high degree of certainty that an asset or liability of the entity exists.

(b) Outcome uncertainty: The recognition criteria should not include a probability threshold relating specifically to uncertainty of outcome. Including such a threshold could lead to a failure to recognise some items (for example, options) that are undoubtedly assets or liability but are judged, at a particular time, to have a low probability of resulting in an inflow or outflow of economic benefits. Furthermore, some such items may swing above and below the threshold as the probabilities change.

**Others**

**7. Do you have any other specific comments that you think significant for the IASB in its development of the DP? If so, why?**

