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28 March 2013

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

To the Chairman of the Board

**Exposure Draft 233 Australian Additional Disclosures – Investment Entities**

We are pleased to have the opportunity to provide our comments on Exposure Draft 233 *Australian Additional Disclosures – Investment Entities*. Our comments on the specific questions in the exposure draft are addressed in the Appendix.

National Australia Bank is one of the four major banks in Australia. Our operations are predominantly based in Australia, New Zealand, the United Kingdom, the United States and Asia. In our most recent annual results we reported net profit after tax of \$4.1 billion and total assets of \$763 billion. Through our wealth management division, we provide investment, superannuation and insurance solutions to corporate and institutional customers. As at 30 September 2012 we had \$125 billion of funds under management in our wealth management division, and 87 registered managed investment schemes and 93 unregistered schemes that we have established.

National Australia Bank does not fall under the definition of an investment entity in IFRS 10 *Consolidated Financial Statements*, however the registered and unregistered schemes in our wealth management division are expected to fall under the definition of an investment entity and the proposals in this exposure draft would impact these entities.

We support the Board in its endeavours to ensure users of financial statements have adequate information to support their decision making. We however do not believe the proposed Australian additional disclosures will provide relevant and useful information to users of investment entity financial statements. In our opinion, the investment entity requirements under International Financial Reporting Standards should be adopted unamended in Australia.

Having investment entities account for their investments in controlled entities at fair value provides relevant information to users of financial statements who are accustomed to assessing their investments on a fair value basis. We believe that adequate disclosure will be required under IFRS 13 *Fair Value Measurement* in respect of how fair value is determined and potential sensitivity of fair value measurements. In addition, the proposed requirements would result in additional compliance costs, both in terms of preparation and audit, which has the potential to reduce our competitiveness compared to our international peers. This cost is partly due to the complexity of the on-going control assessment required by IFRS 10, and the expectation that more entities will be controlled under the new consolidation model.

Should you have any queries regarding our comments please do not hesitate to contact Marc Smit, Head of Group Accounting Policy at [marc.smit@nab.com.au](mailto:marc.smit@nab.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to be "S. Gallagher", written over a horizontal line.

Stephen Gallagher  
General Manager, Group Finance

## Appendix – Specific Matters for Comment

### Question 1

Comment on the appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted.

We do not believe that the proposed Australian additional disclosures are warranted, as we do not see a demand from users (in particular investors) for such information. Since investors in investment entities manage their investments primarily on a fair value basis, we believe the inclusion of consolidated financial information in the financial reports of the investment entity is of little value to the investor. This is evidenced by the fact that the International Accounting Standards Board received feedback from users of financial statements who prefer to receive information regarding the fair value of their underlying investments.

The amendment to IFRS 10 represents a simplification of financial reports which we believe can only be to the benefit of users of financial statements and assist in their interpretation of financial results.

In addition, we believe that adequate disclosure will be required under IFRS 13 *Fair Value Measurement* in respect of how fair value is determined and potential sensitivity of fair value measurements.

### Question 2

Comment on 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 believe that the investment entity requirements under International Financial Reporting Standards should be adopted without modification in Australia, and we do not consider any additional Australian disclosures to be relevant or necessary.

If the Australian Accounting Standards Board believe that users of financial statements are concerned about the loss of financial information, we recommend that an outreach exercise be performed to identify exactly what additional information investors would like (such as the defaults or breaches by the controlled entity in respect of loans payable), if any, rather than introducing the proposed extensive consolidated financial statement disclosures.

### Question 3

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

If the AASB's proposals proceed, we question whether requiring the additional disclosure requirements for Tier 2 entities is in the spirit of "substantially reduced disclosure requirements" for Tier 2 entities in AASB 1053 *Application of Tiers of Australian Accounting Standards*.

### Question 4

Comment on whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly issues relating to:

- (a) not-for-profit entities; and
- (b) public sector entities.

We do not have any comments in relation to these types of entities.

**Question 5**

Comment on whether, overall, the proposals would result in financial statements that would be relevant to users.

We do not believe the proposals will result in financial statements that are more relevant to users than financial statements prepared under the International requirements (unamended).

The primary users of financial statements of investment entities are investors and in our experience, information regarding the fair value of their investment is more relevant to investors than consolidated financial information.

The consolidation process which requires recognition of 100% of the net assets of a subsidiary and the recognition of outside equity interests in those net assets does not necessarily give investors a clear picture of their interest. In the preparation of consolidated financial statements we often received feedback that the inclusion of investment assets and outside equity interests from the investment funds in the wealth management division is a confusing way of presenting the financial position of the group.

The consolidation process for investment entities does not necessarily bring on balance sheet the underlying investment assets and liabilities, for example in a group structure where control does not exist all the way through to the entities which hold the underlying assets and liabilities.

For internal management reporting, the performance of investment funds is monitored on a fair value basis. We note that in many cases financial statements for investment entities are only prepared to comply with statutory reporting obligations, with very little interest in these financial statements from investors. The time period between the end of a reporting period and the finalisation of financial statements also reduces the relevance of the financial information supplied to users via the financial statements, as in most cases investors have access to up to date unit prices which reflect the value of their investment.

We also note that the application of IFRS 10 is very judgemental, and there is likely to be different interpretations of whether an entity is controlled, and therefore a lack of consistency in the application of the proposed disclosures.

**Question 6**

Comment on whether, overall, the proposals are in the best interests of the Australian economy.

Additional costs will be incurred in order to produce consolidated financial information for entities impacted by the proposed Australian additional disclosures, and have this information subject to audit at a materiality level applicable to the investment entity. This is partly due to the introduction of IFRS 10 and the expectation that more investment funds will control entities in which they have an ownership interest compared to the current consolidation model, and the requirement for on-going reassessment of the control decision. The production of consolidated financial statements is likely to be a manual and labour intensive process since management information systems are primarily set up to report on a fair value basis.

As an extra cost to the bank, this would result in a lower return to investors of the funds and / or shareholders. We do not believe this additional cost is justified on the basis of any offsetting benefit to investors or shareholders.

One of the key benefits of IFRS is that it should allow financial statements to be comparable across different jurisdictions and requiring such substantial onerous disclosure requirements for Australian investment entities is expected to reduce our competitiveness compared to our international peers.

**Question 7**

Comment on the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

We struggle to identify benefits of the proposals from the perspective of users of financial statements. If there were identifiable benefits, the AASB should be expecting additional investment into Australian investment entities from investors who value this information, and are unable to obtain such information from our international peers. We do not expect this to be the case.

We have not quantified the expected additional cost, in terms of preparation and audit, and have outlined our thoughts on the additional costs in response to question 6.