



28 March 2012

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
P O Box 204
Collins Street West
VIC 8007

By email to **standard@aab.gov.au**

Dear Mr Stevenson

AASB Exposure Draft 233: Australian Additional Disclosures – Investment Entities

Financial Reporting Specialists ('FRS') are pleased to provide the Australian Accounting Standards Board ('AASB' or 'Board') with comments on Exposure Draft 233: *Australian Additional Disclosures – Investment Entities* ('ED 233') (bring the proposed amendments to AASB 1054 *Australian Additional Disclosures*).

FRS experienced professionals compile high quality annual and interim financial statements in a cost effective, efficient and pro-active manner for many private and public entities in the for-profit and not-for-profit sectors (www.frsgroup.com.au). FRS acts as a bridge between the CFO and the auditors. FRS are also the authors of Pinnacle Financial Statements (<http://ifrssystem.com/store/books/>), a valuable resource material that provides 30 illustrative examples of financial statements covering a wide range of entities.

As preparers of financial statements we do not support the proposed amendments as set out in ED 233 due to the following reasons:

- The proposals will add significant additional costs, complexity and undue burden for Australian Investment Entities, relative to their international peers. Australian Investment Entities would be required to effectively prepare two sets of consolidated financial statements, the fair value financial statements as required by the International Financial Reporting Standards ('IFRS') and the AASB consolidated financial statements note as proposed by ED 233.
- The International Accounting Standards Board ('IASB') has already considered the needs of users of investment entity financial statements as part of its due process when issuing the October 2012 amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* and AASBs should not depart from the IFRS equivalents, unless required by local regulatory reasons. In this particular instance, there are no regulatory reasons for such a departure.

- Critics have questioned the impaired use of financial statements due to excessive detail, complexity and clutter. In an era where the Australian Financial Reporting Council, IASB and standard setters in other jurisdictions are looking to address complexity of financial statements, the proposed disclosures in ED 233 would only add to the problem by confusing users with two sets of financial statements – on the face and in the notes.
- Since the adoption of IFRS in 2005, the Board has attempted to eliminate differences between AASBs and IFRSs, by removing Australian specific paragraphs and reinstating alternative optional treatments that were permitted under IFRS. The issuance of AASB 1054 in May 2011 was another positive step by the Board in bringing Australian and New Zealand Standards closer to IFRSs. The proposals in ED 233 would be a divergence to this and therefore be a retrograde step.

We further note that paragraph BC19 of ED 233 states that the additional consolidated information could be presented in the notes or in other formats. This implies that such information could be in the primary statements, which we believe is not in compliance with IFRS. Not only could this be misleading, it goes against the ASIC Regulatory Guidance RG 230 *Disclosing non-IFRS Financial Information* relating to the presentation of non-IFRS information in financial statements.

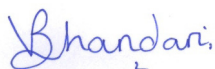
We acknowledge the Boards significant concern about the impact that the loss of consolidation information could have on the decision-making of users. However, the departure in this instance is justifiable given the needs of users of investment entity financial statements would be better served by the use of fair value exception as permitted by the IASB October 2012 amendments relating to investment entities.

Therefore we agree with alternative view 2 being the issuance of the IASB's investment entity requirements unamended immediately, with the exception of paragraph AV2.4, as we do not support any additional disclosures proposed.

Finally, since the IASB had already deliberated on the exception to the control principal and accepted that the exception was warranted for Investment Entities, we see no compelling local reasons for divergence.

We attach our responses to the questions for specific comment. Should you wish to discuss the matter further, please do not hesitate to contact me on 02 9943 0201 or by email, vik.bhandari@frsgroup.com.au.

Yours sincerely



Vik Bhandari
Director and Partner

APPENDIX – Specific matters for comment

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

As stated in our covering letter, the proposed additional disclosures are not appropriate and unwarranted.

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 do not believe that there are any additional disclosures required. Fair value of investment entity subsidiaries provides appropriate information for investor decision making. Furthermore the IASB amendments to IFRS 12, paragraphs 19A to 19G addresses some of the concern.

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*

Notwithstanding that we do not support the Australian additional disclosures, if they were to proceed, relief should be provided to Tier 2 entities, as the objective of the Reduced Disclosure Regime was to reduce the burden such 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:* ***(a) not-for-profit entities; and*** ***(b) public sector entities***

As stated in our covering letter, the proposed Australian additional disclosures goes against ASIC Regulatory Guidance RG 230, specifically paragraph 8 which states that non-IFRS information should not be included in the financial statements, except in the rare circumstance where such disclosure is required to give a true and fair view

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

We do not believe that the proposals in ED 233 would be relevant to the users. They add clutter the financial statements and presenting two sets of financial statements – face and notes, could be confusing to users.

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

We do not believe the proposals are in the best interest of the Australian economy. Specifically they add additional burden and costs to Australian entities.

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.

As mentioned above, we do not support the additional costs for Australian entities of having to prepare two sets of financial statements.