

28 March 2013

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board (AASB)
PO Box 204
Collins Street VIC 8007

Via e-mail: standard@aab.gov.au

Dear Kevin

Exposure Draft 233: Australian Additional Disclosures – Investment Entities

Thank you for the opportunity to comment on the Exposure Draft 233: Australian Additional Disclosures – Investment Entities (ED). CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the ED and our comments are set out below.

CPA Australia and the Institute represent over 200,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

After considering the proposed ED, and canvassing opinions from members and other stakeholders we do not consider that the AASB has made a compelling case to require Australian amendments to that already made by the International Financial Reporting Standards Board (IASB) to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*.

Our rationale for our view is summarised as follows:

- additional cost to Australian business compared to international counterparts
- increasing complexity of financial statements
- not consistent with existing AASB policies and procedures for adoption of IFRSs
- potential confusion amongst users when being presented with two sets of financial statements
- potential impact on Australia's ability to attract foreign investment.

We recommend the AASB issue without alteration the amendments to IFRS 10, IFRS 12 and IAS 27 as soon as possible thereby enabling Australian investment entities to early adopt the exemptions currently available to their international counterparts.

Our views on the specific questions posed together with more detail on our rationale follow in the Appendix.

Representatives of the Australian Accounting Profession



cpaaustralia.com.au



Institute of
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If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alex Malley', with a large loop at the top and a horizontal stroke at the bottom.

Alex Malley
Chief Executive Officer
CPA Australia Ltd

A handwritten signature in black ink, appearing to read 'Lee White', with a large loop at the top and a horizontal stroke at the bottom.

Lee White
Chief Executive Officer
Institute of Chartered Accountants Australia

APPENDIX – Comments on specific questions

Question 1

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

CPA Australia and the Institute do not believe the AASB has made a compelling case to require additional Australian disclosures over and above the international requirements.

Our communications with preparers and investors in the Australian investment entity industry have identified that measuring the subsidiaries of investment entities at fair value provides more relevant information than consolidating those subsidiaries. These findings are consistent with those of the IASB concerning global industry participants. Given there are no known circumstances specific to the Australian industry or economy that would require the AASB to produce an accounting standard that is different from IFRS, we do not believe that additional consolidation disclosures for Australian entities is warranted.

We understand the AASB's concerns about departing from the principle that entities consolidate the assets and liabilities they control. However departure from this concept in the case of these very narrowly defined investment entities would appear warranted given the users' needs. We also agree with alternative view 2 articulated in ED 233 that there are other mitigating factors that are relevant to this issue, such as the small number of entities intended to be covered by the exception to consolidation and any ultimate parent that is still not itself an investment entity must still consolidate investment entities and consequently any controlled investees.

While we appreciate the AASB's concerns about creating exceptions to principles, we would point out that the IASB was also reluctant to create an exception to the control principle. However, the IASB was persuaded by the due process that was undertaken which provided a consistent message from investors that for this type of entity, measuring all of its investments at fair value provided the best information. The ED has not presented a compelling case in our view, for a different approach in Australia.

Prior to 2006, the AASB approach to standard setting involved the adoption of IFRS, with some modifications restricting optional treatments available in IFRS, and to require additional disclosures in some instances, particularly where these were already required under standards that pre-dated the adoption of IFRS. Since 2006, the AASB moved to minimise differences between IFRS and Australian Accounting Standards. This move was for a number of reasons including increased comparability internationally, removing barriers to international capital flows, reducing financial reporting costs for Australian multinationals and improving the quality of financial reporting in Australia to international best practice. This practice has been incorporated in the *AASB Policies and Procedures* statement issued in 2011. Paragraph 9 of this statement says:

'The AASB acknowledges that, as one of many participants in the international standard setting process, the outcomes of the process may differ from the preferred positions advanced by the AASB. However, in the interests of developing a single set of high-quality accounting standards for international use there is a presumption that IFRSs should be adopted for use in Australia unless to do so would not be in the best interests of the Australian economy.'

Given the above policy and procedures statement, CPA Australia and the Institute have not identified any basis within the ED 233 proposals that would require the AASB to depart from IFRS in order to meet its obligations to produce outcomes that are in the best interests of the Australian economy.

Australian businesses need to continue to attract foreign investment to grow our economy. Differences in the Australian accounting standards to those used internationally, could potentially impact those investment decisions, due to the potential confusion that such differences may send to the global community. Further, the proposed Australian additional disclosures would increase the cost of doing business in Australia over their international counterparts. We cannot see a compelling case where such increased costs and potential confusion is warranted.

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

CPA Australia and the Institute do not believe that there is a need for any additional disclosures. We believe the October 2012 amendments made to IFRS 10, IFRS 12 and IAS 27 made by the IASB have addressed the needs of users of investment entity financial statements through an exception based, fair value presentation of investments in controlled entities. Measurement of subsidiaries at fair value through profit and loss provides appropriate information for investor decision-making. We supported these amendments when they were proposed by the IASB in ED 2011/4 *Investment Entities* for this reason. As set out in our comment letter to the IASB we consider that when an entity's primary objective in making an investment in an entity is to obtain capital appreciation and/or investment income (such as dividends or interest) rather than to obtain benefits through control, the information needs of users are not effectively met by the presentation of consolidated financial statements.

Further support for the conclusion that fair value provides the most relevant information to users in these circumstances is contained in the IASB's amendments to the Basis of Conclusions on IFRS 10 *Consolidated Financial Statements* which was excluded from the Australian republication in ED 233 at BC 215-235.

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

CPA Australia and the Institute do not support the Australian additional disclosures for 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**

CPA Australia and the Institute do not support the proposals. That said, we are not aware of any regulatory or other issues arising in the Australian environment that would affect implementation of the proposals.

Question 5

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

CPA Australia and the Institute do not believe that the ED 233 proposals would be relevant to users, as mentioned in Question 1 above. We are also concerned about the potential for confusion amongst users locally and overseas whereby they will be presented with two sets of financial statements – one on the face of the primary financial statements and one in the notes to those financial statements.

Question 6

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

Given our comments expressed in the questions above, CPA Australia and the Institute do not believe that the ED 233 proposals are in the best interests of the Australian economy.

The proposed Australian additional disclosures would increase the cost of doing business in Australia and we cannot support the imposition of unwarranted additional costs for Australian investment entities over their international counterparts.

Further, additional disclosures proposed in the financial statements will add to the complexity debate that has already been progressed within the Financial Reporting Council (FRC). We recommend that the AASB is cognisant of the FRC's recommendations on 'Managing complexity' in finalising any Australian amendments for investment entities.

Some may also be concerned that the delay in adopting the IASB amendments and subsequent proposals for Australian disclosures additional to IFRS could signal a waver in the AASB's commitment to IFRS adoption in Australia.

Question 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.

CPA Australia and the Institute do not support the additional costs for Australian entities of having to prepare the additional disclosures. Further, before the ED proposals are progressed, a Regulatory Impact Statement should be provided for public comment.

Users of investment entities have stated their preference for fair value presentation based on their needs for this information in contrast to consolidated information, therefore there would seem to be no benefit –quantitative or qualitative, and there are very likely to be some negative consequences as set out above.