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5 April 2013

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The Chairman  
Australian Accounting Standards Board  
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Dear Kevin

### **EXPOSURE DRAFT 233 – AUSTRALIAN ADDITIONAL DISCLOSURES – INVESTMENT ENTITIES (“ED 233”)**

Thank you for the opportunity to comment on the abovementioned exposure draft.

This letter contains the formal views of the Australian Securities and Investments Commission. This is a public submission and may be published on the website of the Australian Accounting Standards Board (“AASB”).

#### **Overall comment**

We are highly concerned by the loss of transparency and information for investors and other users of financial reports that would result from adopting the International Accounting Standards Board’s (“IASB”) requirement that investment entities not consolidate their controlled entities, in the absence of additional Australian disclosure requirements. We are also concerned by the restructuring opportunities created by the amendments that would enable investment entities to avoid disclosure of information important to users.

#### **Background**

The IASB has amended its accounting standards to require investment entities to recognise investments in controlled entities as single line investments at fair value rather than to consolidate those entities. While there were other ways to provide the full fair value, such as note disclosure, we understand that recognising the fair values on the balance sheet was seen to be consistent with the way in which equity interests in investment entities are often priced (ignoring any internally generated goodwill or intangible assets at amortised cost held by the entity itself).

These proposed amendments are at odds with ASIC’s publicly stated view that financial reports of managed investment schemes should disclose more information on their underlying investment portfolios.

#### **IFRS compliance**

We do not suggest that the AASB continue to require investment entities to consolidate their controlled entities. While our opposition to the IASB’s proposed amendments for investment entities was reflected in a submission by the International Organisation of Securities Commissions to the IASB, the IASB has made the amendments to IFRS 10 *Consolidated Financial Statements*. We believe that it is important for Australian entities to prepare financial reports that are fully IFRS compliant in the interests of consistent and comparable reporting across borders, international confidence in Australian financial reports, and international capital flows.

## **Loss of information**

However, we are concerned with the loss of important information for investors and other users of financial reports flowing from the IASB amendments. This information includes disclosures relating to:

- (a) financial position, financial performance and cash flows of the group;
- (b) underlying assets, liabilities, equity, revenue and expenses of controlled entities;
- (c) leverage of the group;
- (d) debt maturities;
- (e) key assumptions used in the valuation of, and impairment calculations for, assets;
- (f) credit, market and liquidity risks;
- (g) fair value hierarchy disclosures;
- (h) difficult accounting judgements and sources of estimation uncertainty; and
- (i) contingent liabilities and expenditure commitments.

While the IASB has introduced some additional disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities*, such as the identity of the controlled entity and any financial support for the controlled entity, these disclosures do not include information relating to the underlying assets, liabilities, performance and exposures of the controlled entities.

## **Possible structuring and abuse**

The IASB's amendments create the possibility for investment entities to transfer assets and liabilities to a wholly owned controlled entity to avoid making disclosures such as those noted in paragraphs (a) to (i) above.

## **AASB's proposed additional disclosures**

We strongly support the proposed additional Australian requirement for disclosure of financial statements that consolidate all controlled entities.

## **Further disclosures needed**

In the interests of investors and other users, we strongly urge the AASB to require investment entities to make additional note disclosures of the full information that would have been provided had all controlled entities been consolidated. This includes the type of information outlined in (b) to (i) above.

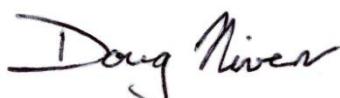
## **Cost/benefit**

We believe that the disclosures proposed by the AASB and further disclosures proposed in this letter are in the best interests of confident and informed markets, investors and other users of financial reports, and the Australian economy as a whole.

There would be no cost to entities from such disclosure requirements given that the disclosures are currently required to be made by entities. There may be some additional cost associated with the disclosure of the new information that excludes the controlled entities, but that is a cost associated with the benefits flowing from IFRS compliance.

Please do not hesitate to contact me on (02) 9911 2079 should you have any questions in relation to this submission.

Yours sincerely



Doug Niven  
Senior Executive Leader, Financial Reporting and Audit