



3 August 2018
Ms Kris Peach
Chair
Australian Accounting Standards Board
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Dear Kris

Re: ITC 39 CONSULTATION PAPER Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

QBE Insurance Group Limited (QBE) is an Australian-based public company listed on the Australian Securities Exchange. QBE is Australia's largest international insurance and reinsurance company with operations in over 30 countries and territories. We are also one of the top 20 global insurers and reinsurers as measured by net earned premium.

QBE welcomes the opportunity to comment on ITC 39 CONSULTATION PAPER Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems which was issued by the AASB in May 2018. We appreciate that developing an appropriate framework for application of accounting standards is a significant and complex task and a long-term project that requires coordinating the efforts of a range of stakeholders including the preparers and users of financial statements, regulators that oversee financial reporting and government policy-makers.

QBE's main interest in this topic, and the focus of its submission, is financial reporting by subsidiary entities of a listed Group, including intermediate holding companies.

In the attached response, we set out our concerns regarding the adequacy of the research undertaken to support the AASB's proposed changes. We note that the AASB acknowledges concerns around consolidation and equity accounting in that it "does not have data to understand the impact of this requirement (i.e. the number of entities that would need to prepare consolidated or equity accounted financial statements that are currently not doing so, is not known. The AASB will conduct further research and undertake outreach activities to better understand the extent of this requirement and constituent views."

We believe that changes should not be made to the level of reporting required until the impact of the changes on preparers is fully understood and this can be properly balanced against clearly identified benefits for users. This should not be resolved by transitional relief but requires a more sustainable and thoughtful solution which does not disadvantage Australian companies in a global market.

We urge the AASB to do more work on distinguishing between the different types of entities that are currently preparing and lodging Special Purpose Financial Statements (SPFS) to identify appropriate, cost-effective solutions for each group. For example, we consider the following situations to be very different and needing different solutions:

- (a) A large proprietary company preparing unconsolidated financial statements and there is no alternative source of consolidated information for users.
- (b) A wholly-owned subsidiary preparing unconsolidated financial statements and there is an alternative source of consolidated information for users available in the form of fully-IFRS compliant Group General Purpose Financial Statements (GPFS).



Before embarking on such a major change to the current reporting framework, we suggest that the AASB should consider the following key factors:

- (a) Australia currently applies IFRS requirements broadly and this distinguishes the Australian financial reporting landscape from other jurisdictions where IFRS application is generally limited to listed entities i.e. IFRS is not necessarily applied to unlisted entities. It is difficult to make valid comparisons when Australia appears to have applied IFRS with a much broader scope than we see in other major jurisdictions. The approach in Australia has added a significant economic cost to Australian companies requiring more compliance activity, and we urge the AASB to consider whether the approach put forward for SPFS is not simply adding to the economic burden at the expense of our global competitiveness.
- (b) The risk that some entities may inappropriately apply SPFS concepts does not necessarily indicate that the concepts are flawed and should be phased out entirely. This would effectively penalise a majority for the behaviour of a minority.
- (c) The research used to support the AASB proposals in ITC 39 is helpful; however, it does not clearly set out user needs or whether users are able to, and do, access the information outside financial statements. In addition, the AASB notes it has not researched the extent of the impact on preparers regarding consolidation and equity accounting which would add considerable cost burden. The research on such an important area of Australian financial reporting must be conducted in a robust, systematic and thorough manner so that the results are clear and any proposed changes to reporting requirements that are based on those results can be well-accepted by the financial reporting community.
- (d) The AASB should not act in isolation and ITC 39 refers to consulting with government regulators who also have a crucial role in determining which entities should lodge what level of financial statements. It is currently not clear how and when those regulators might act and the way in which their actions might impact on the AASB's standards.

We therefore consider the Phase 2 proposals to be premature at this stage. Without the necessary research, it is not feasible to know how the existing reporting requirements might most usefully be changed to best serve the needs of users and to ensure Australian preparers are not unduly burdened economically.

We have responded to the AASB request for comment on Phase 1. As we see that the two Phases are inextricably linked, we have included preliminary comments on Phase 2 and we will revisit our responses to Phase 2 by the November timeline. Our responses are included in Appendices as follows:

- Appendix 1 - Specific matters for comment on Phase 1
- Appendix 2 - General matters for comment on Phase 1
- Appendix 3 - Preliminary comments on Phase 2

We would be happy to discuss and further clarify the point raised in this letter. Please contact Anne Driver on anne.driver@gbe.com for coordination of further input.

Yours sincerely,

Inder Singh
Chief Financial Officer



Appendix 1 - Specific matters for comment on Phase 1

Q1 – Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia? That is, do you agree that the RCF should be applicable for publicly accountable for-profit entities that are required to prepare Tier 1 GPFS and other entities that are voluntarily reporting compliance with IFRS, and the existing Framework should continue to be applicable to other entities in the short term until the medium term solution is implemented? Please indicate reasons for your response and if you disagree, please provide suggestions for an alternative approach for the AASB to consider.

Yes - however, we do not agree with the AASB's reasoning set out in ITC 39. We are raising this in the context of Phase 1, because agreeing with some of the logic used for Phase 1 might be seen as agreeing with its use in forming the Phase 2 proposals about which we have serious concerns. Please refer to our preliminary comments on Phase 2 in Appendix 3.

Q2 – Do you agree that the short-term approach should be made applicable to both publicly accountable for-profit private sector and public sector entities? That is, do you agree that the RCF should be applicable for publicly accountable public sector entities that are required to prepare GPFS in accordance with Tier 1 reporting requirements (who are currently claiming compliance with IFRS) as well?

No comment.

Q3 – Are you aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS that would have implications under the AASB's short-term approach? If so please provide specific examples including why these entities are not currently applying AASB 1053 and preparing Tier 1 GPFS although they would otherwise meet the definition of public accountability.

In relation to Q3, we are not aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS subject to the following:

- (a) the proposed amendments to the definition of 'public accountability' being made (refer Q4); and
- (b) depending on what is meant by 'holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses'.

If the definition of 'public accountability' per Q4 were not amended, the answer to Q3 would be changed to 'yes'. For example, there are intermediate holding companies and other wholly-owned subsidiaries of listed insurance Groups where the Group applies IFRS and its GPFS include all the relevant information for users but the intermediate holding companies and other subsidiaries do not issue debt or equity securities to the public and have no users for their financial statements and therefore currently prepare SPFS. Based on our knowledge of users of these financial statements we do not see any value in requiring GPFS for these entities.

Q4 – Do you agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard (refer to Appendix A)? Please indicate reasons for your response and if you disagree, please provide suggestions for the AASB to consider.

We support the proposed amendments to the definition of 'public accountability'.

Depending on what is meant by 'holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses', there may some life insurance entities that would be captured by the need to provide full IFRS reports when they currently prepare SPFS. For example, intermediate life insurance holding companies and other wholly-owned life insurance subsidiaries of listed insurance Groups selling investment-style contracts may be caught by the requirements apply IFRS and prepare GPFS where the Group also applies IFRS and its GPFS include all the relevant information for users. This would seem an inappropriate use of resources.

Q5 – Do you agree with the proposed amendments to SAC 1 Definition of the Reporting Entity and the following Australian Accounting Standards, as set out in the Appendix A?

- (i) **AASB 9 Financial Instruments;**
- (ii) **AASB 14 Regulatory Deferral Accounts;**
- (iii) **AASB 101 Presentation of Financial Statements;**
- (iv) **AASB 1048 Interpretation of Standards;**



- (v) AASB 1053 Application of Tiers of Australian Accounting Standards; and***
- (vi) AASB 1057 Application of Australian Accounting Standards.***

We can accept the proposed amendments, subject to the satisfactory resolution of the matters raised in relation to Q3 and Q4.



Appendix 2 - General matters for comment on Phase 1

Q6 – Whether the AASB's For-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in Phase 1.

ITC 39 seems to be based on the logic that there is an inconsistency between Australia's existing financial reporting framework and the RCF and this leads the AASB to a particular set of proposals. We are not clear why this is the case and note the following:

- (a) The RCF is not mandatory and its release in Australia is not necessarily a trigger for changing the applicability of standards in Australia.
- (b) The fact that there is a unique reporting entity definition in Australia is not necessarily a problem:
 - (i) Every jurisdiction has its own way of determining the application of accounting standards – as shown by the research for ITC 39, there is no universal approach. Multiple definitions for the same term is not a new issue and has, to-date, not been regarded as a problem. For example, 'contract' is defined differently in IFRS 15 *Revenue from Contracts with Customers* and IAS 32 *Financial Instruments: Presentation*. Provided the purpose of each definition is made clear (for example via the Glossary), two uses of the term 'reporting entity' can coexist. This is particularly the case since its use in the Conceptual Framework is general in nature, rather than being used to direct the application of IFRS versus other types of reporting. The IASB's focus in respect of IFRS is on entities reporting to investors who participate in global capital markets (e.g. listed entities) [IFRS Foundation *Constitution*, paragraph 2], not some wider set of entity types for which the AASB is responsible.
 - (ii) As far as we can determine, Australia's approach to using IFRS as the basis for reporting requirements across a wide range of entities (including modified when necessary for not-for-profit entities) is unique. Assuming the AASB remains satisfied with this approach, we see no reason why 'uniqueness', of itself, is a basis for change particularly when we are not aligning to a more broadly accepted approach.
- (c) The fact that special purpose financial reporting is not a feature in other jurisdictions does not invalidate this approach and nor does it automatically mean there is a problem to be fixed for all types of entities that prepare SPFS.

Q7 – Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

We are not aware of other regulatory issues beyond those included in ITC 39. We do think there is an opportunity for the AASB to work with regulators and legislators to remove requirements to prepare and lodge financial statements for entities that have Group entities preparing and lodging information that satisfies all relevant user needs. Whilst the AASB notes this is a longer term project, we see that it has the merit of streamlining requirements of regulators and legislators with the production of financial statements which could lead to a more efficient and streamlined regulator reporting function.

Q8 – Whether, overall, the proposals would result in financial statements that would be useful to users.

Bearing in mind the significant potential consequences for preparers of financial statements from a broadening of the application of IFRS, we are concerned that there has not been adequate research to support the current AASB proposal. Our concern is based on AASB comments, as follows:

- (a) Paragraph 8 of ITC 39 says: "Preliminary discussions with users, including lenders and insolvency practitioners, indicate that their needs for information about liquidity, solvency, cash flows, commitments and contingencies are currently not being provided for in most SPFS and in some instances GPFS." Paragraph 53 refers to 'anecdotal evidence' relating to data aggregators. Given that the whole rationale for financial reporting is the needs of users, we do not believe 'preliminary discussions' and 'anecdotal evidence' are a sufficient basis for the proposals in ITC 39. We consider that a more targeted research with an identified set of relevant users must be performed and published to ensure that there is appropriate balance between the needs of users and their ability to access information and the economic costs associated with significantly extending disclosure obligations for Australian entities.



- (b) Paragraph 55(a) of ITC 39 says; “Removing the ability for entities to self-assess as non-reporting entities and elect to prepare SPFS would result in: (a) improved transparency and comparability amongst similar types of entities for users”. That is a view which seems, as yet, untested through research. For example, it is possible that companies with the same types of roles in a Group structure are already preparing comparable financial reports. It is also possible that many or most of the companies preparing SPFS have no users, or that they have users and the SPFS are meeting their needs. Again, without the research, this remains conjecture.

We note that Research reports No 1 and No 7 are helpful; however, they do not specifically identify user needs (other than in a theoretical sense) and do not provide sufficiently granular analysis to necessarily enable useful conclusions to be drawn about each type of company in the total population. For example:

- (i) Research Report No 1 separately identifies large proprietary companies and unlisted public companies etc., but the sample does not identify whether the companies are part of another reporting company. Accordingly, it is difficult to draw any conclusions about the extent to which recognition and measurement requirements are applied by companies that serve particular purposes – such as wholly-owned subsidiaries or intermediate holding companies.
- (ii) Research Report No 7 outlines reporting in a number of jurisdictions and demonstrates the wide variation in arrangements. Each jurisdiction is unique because financial statement lodgement requirements are the result of many different factors and stakeholders and the institutional arrangements for setting reporting requirements differ across jurisdiction. Accordingly, there is no one jurisdiction we can necessarily use as a model, or a direct comparison, for Australia. It is not clear what can be learned from that benchmarking. It is also not clear why the North American models of reporting, which seem to limit reporting to cases where there are clearly-identifiable users, are not appropriate in Australia. The North American approach would have the benefit of minimising compliance only work where there is no user benefit.

The research on such an important area of Australian financial reporting must be conducted in a robust, systematic and thorough manner so that the results are clear and any proposed changes to reporting requirements that are based on those results can be well-accepted by the financial reporting community.

Q9 – Whether the proposals are in the best interests of the Australian economy.

We consider Phase 1 proposals are in the interest of the economy such that preparers producing general purpose reports can continue to claim IFRS compliance. This is relevant for access to global capital markets.

We have significant concerns around phase 2 proposals as any approach which requires increased levels of reporting without appropriate costs/benefit will be detrimental to Australia.

We are concerned that adequate research has not been performed to support such a significant change. In particular, there has been no research of the preparer’s perspective to ensure adequate balance of the cost/benefits as identified in paragraph 91 of ITC 39 as follows:

“Concern about consolidation and equity accounting - the AASB does not have data to understand the impact of this requirement (i.e. the number of entities that would need to prepare consolidated or equity accounted financial statements that are currently not doing so, is not known. The AASB will conduct further research and undertake outreach activities to better understand the extent of this requirement and constituent views. A specific matter for comment is included to understand transitional relief needed to minimise the impact of this change.

Anecdotal evidence³⁸ indicates that some entities preparing SPFS are consolidating and equity accounting for the purposes of securing funding. Therefore, preparing consolidated and equity accounted financial statements for parent entities may not be overly onerous.”

As well as highlighting the lack of a user perspective, this approach suggests transitional relief would be an appropriate response to the additional burden on preparers. We disagree with this approach and believe that research is needed to determine if the additional burden on preparers is justified.

Q10 – Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to



know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

The Phase 1 approach will not add costs as it maintains the current approach.

The Phase 2 approach will add a significant cost burden due to the widening scope of general purpose reporting, particularly around the need to produce consolidated accounts for wholly owned subsidiaries – an approach not consistent with other major markets.

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Appendix 3 – Preliminary comments on Phase 2

We consider the Phase 2 proposals to be premature. Without appropriate research on the needs of users of financial statements, it is not clear how the existing reporting requirements should be changed, if at all.

Q11 – Do you agree with the AASB's Phase 2 approach (described in paragraph 166) - Why or why not?

We partially agree with the Phase 2 approach. Reforms may be needed based on the AASB's research, but we do not think it is helpful to combine the release of the RCF with the nature of the reforms. QBE urges the AASB to consider the application of Australian Accounting Standards based solely on serving the best interests of financial statement stakeholders, including users, preparers and regulators. That will involve considering the outcomes that are fit for purpose in the context of cost-benefit constraints to avoid imposing unnecessary economic burden on Australian entities.

QBE's main interest is in ensuring that the financial statement requirements applicable to its subsidiaries are fit for purpose. QBE's Australian subsidiaries are proprietary companies. This same legal category is also used by large and small family businesses that have no Group entity sitting over the top that reports publicly to investors. Accordingly, each legal category of company, even when stratified by size, represents a heterogeneous set of entities with different financial statement stakeholders who have potentially different needs. The advantage of the notion of SPFS has been in achieving either consistent or differential levels of reporting as needed by stakeholders without necessarily having to achieve consistency across each legal entity category. If the AASB wishes to see all entities lodging GPFS, it needs to do more work on identifying relevant Tiers of GPFS and/or more work with regulators to rationalise lodging requirements.

Q12 – Which of the AASB's two GPFS Tier 2 alternatives (described in paragraphs 167-170) do you prefer? Please provide reasons for your preference.

We do not regard either of the proposed Tier 2 alternatives to be suitable for some types of entities that are currently required by regulation to prepare financial statements but regard themselves as not being reporting entities and currently prepare SPFS. This includes intermediate holding companies of listed Groups and other wholly-owned subsidiaries where the Group applies IFRS and the Group's GPFS include all the relevant information for users. The intermediate holding companies and other wholly-owned subsidiaries have no users for their financial statements.

Q13 – Do you agree that we only need one Tier 2 GPFS alternative in Australia (either Alternative 1 GPFS – RDR or the new Alternative 2 GPFS – SDR described in paragraphs 167-170)? Why or why not?

Q16 – What concerns do you have on consolidating subsidiaries and equity accounting associates and joint ventures as proposed in the AASB's medium-term approach? What transitional relief do you think the AASB should apply? Please provide specific examples and information.

Q17 – If the new Alternative 2 GPFS – SDR described in paragraphs 167-170) is applied, do you agree that the specified disclosures would best meet users' needs? If not, please explain why and provide examples of other disclosures that you consider useful.

Q18 – Do you have any other suggested alternative for the AASB to consider as a GPFS Tier 2 and whether this would be applicable for for-profit and not-for-profit sectors? Please explain rationale (including advantages and disadvantages and the costs and benefits expected).

In relation to Q13, Q16, Q17 and Q18, if the current reporting framework is changed to require all lodging entities to prepare GPFS, there needs to be another version of Tier 2 comprising all the IFRS recognition and measurement requirements and minimal presentation and disclosure requirements. Those minimal presentation and disclosure requirements should not include consolidation as this would be a costly exercise for intermediate holding companies for no benefit. While the IFRS recognition and measurement requirements need to be applied by subsidiaries within IFRS-compliant Groups for operational purposes, the same is not true of presentation and disclosure.

Q14, Q15, Q19, Q20 not responded to at this stage.