ED219 sub 4

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

Exposure Draft 219 *AASB 13 Fair Value Measurement* and *AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13*: Tier 2 Proposals

Dear Mr Stevenson

Ernst & Young Australia is pleased to provide our comments on ED 219. Our responses to the specific questions in the Invitation to Comment and the specific proposals are set out in the Appendix to this letter.

Overall, we agree with the proposals to reduce the fair value disclosure requirements for Tier 2 entities. However, we have some comments relating to the proposed amendments.

Our concerns primarily relate to the proposal to remove disclosures relating to the fair value hierarchy at balance date. These are the same concerns we expressed in our letter *Differential Financial Reporting AASB Consultation Paper and Exposure Draft 192*, in relation to AASB 7 disclosures, dated 23 April 2010.

In that response we supported the removal of the disclosure requirements of AASB 7.27 relating to the methods and assumptions applied in determining fair value. However, we recommended retaining the disclosure requirements of AASB 7.27A, 27B(a) and 27B(d) as we believed disclosure of the fair value hierarchy relevant information for users of financial statements prepared in accordance with the reduced disclosure regime (RDR).

This ED proposes to effectively reinstate the requirements of AASB 7.27, via AASB 13.91(a). However, are concerned that the requirements in AASB 13.91(a) are general principles that in practice may result in "boiler plate" disclosures, unless there is further guidance and context to the extent of judgement that has been applied by an entity when determining fair values. In order to overcome this concern we propose:

- Retaining the fair value hierarchy disclosure requirement of AASB 13.93(b), as we believe it provides context to the extent of judgement that has been applied at minimal marginal cost to preparers; and
- Elevating the last two sentences of the proposed AASB 7.RDR27.1 to an RDR paragraph in AASB 13 and making this applicable to all fair value measurements determined using valuation techniques

Please contact either Lynda Tomkins (lynda.tomkins@au.ey.com or (02) 9276 9605) or Simon Brookes (simon.brookes@au.ey.com or (02) 9248 5335 if you wish to discuss any or the matters raised in our response.

Yours sincerely

Ernst & Young

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Appendix

1. **Whether we agree with the AASB disclosure proposals in relation to entities applying Tier 2 requirements as set out in the Proposed Reduced Disclosure Requirements sections in Parts A and B.**

Part A - AASB 13 proposals requirements to be applied to Tier 2 entities

AASB Proposal	Ernst & Young Comment	Recommendation
To exempt Tier 2 entities from the disclosure requirements of AASB 13.91(b) - disclosing the effects on profit or loss or other comprehensive income arising from level 3 recurring fair value measurements.	AASB 13.91(b) is very specific to level 3 fair value measurements. We agree with removing this requirement for Tier 2 entities as it would be inappropriate in isolation, given the proposal to remove the disclosure requirements of AASB 13.93.	Nil
To exempt Tier 2 entities from the disclosure requirements of AASB 13.93(b)-(i).	We believe that users of Tier 2 financial statements would obtain benefits from disclosure of closing balances (including comparatives) for each of the fair value hierarchy categories (AASB 13.93(b)), as this provides users with information about the extent of management judgement in the application of fair value in the financial statements, at minimal marginal cost to preparers. Other than the concerns noted above we support the removal of AASB 13.93(c)-(i) as we do not believe that users of Tier 2 financial statements would obtain significant additional information value from transfers between categories, or other detailed level 2 and 3 information required by AASB 13.93(c)-(i).	We recommend that AASB 13.93(b) be retained. We also suggest that further clarification be provided as to how AASB 13.91(a) disclosures are to be made without becoming too generic or "boiler plate". For example, we suggest elevating the last two sentences of AASB 7.RDR27.1 to an RDR paragraph in AASB 13 and making it applicable to all fair value measurements determined using valuation techniques.

AASB Proposal	Ernst & Young Comment	Recommendation
To exempt Tier 2 entities from all the requirements of AASB 13.95	We believe that Tier 2 entities should only be exempt from the <u>disclosure</u> requirements of AASB 13.95. That is, a Tier 2 entity should still be required to consistently follow its accounting policy in respect of transfers between levels of the fair value hierarchy.	Given our recommendation that AASB 13.93(b) be retained, we recommend that the shading in AASB 13.95 be amended to read as follows: "An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 93(c) and (e)(iv). The policy about the timing of recognising transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following: (a) the date of the event or change in circumstances that caused the transfer. (b) the beginning of the reporting period. (c) the end of the reporting period.
To exempt Tier 2 entities from the disclosure requirements of AASB 13.97 - fair value information for items not	We support the proposal	Nil

measured at fair value.		
To exempt Tier 2 entities from the disclosure requirements of AASB 13.98 - issuance of liabilities with inseparable third party credit enhancements.	We support the proposal	Nil
To exempt Tier 2 entities from the disclosure requirements of AASB 13.99 - presentation in tabular format.	If AASB 13.93(b) is retained, we do not support the removal of AASB 13.99. We believe AASB 13.93(b) best lends itself to tabular presentation for Tier 2 entities, and that this would also facilitate better comparability.	We recommend AASB 13.99 be retained if the Board concludes that AASB 13.93(b) is retained for Tier 2 entities.

Part B - proposed consequential amendments to other RDR Australian Accounting Standards

Except as noted in the table below, we support the proposed amendments to other RDR Australian Accounting Standards.

AASB Proposal	Ernst & Young Comment	Recommendation
To exempt Tier 2 entities from the disclosure requirements of AASB 3.B64(o)(ii)	We believe that AASB 13 requires the disclosure prescribed by AASB 3.B64(o)(ii) - as such we believe it is appropriate to include the AASB 3 paragraphs to maintain consistency and avoid the risk of omission by preparers.	Retain the disclosure requirements of AASB 3.B64(o)(ii) for Tier 2 entities.
To exempt Tier 2 entities from the disclosure requirements of AASB 7.28.	Part B has left in the introductory text of AASB7.28 but removed all disclosure requirements of paragraph 28. We note that the remaining guidance is already contained in AASB 139 and do not see the relevance of retaining it in AASB 7.28 RDR	We recommend the removal of the guidance in AASB 7.28
Introduce supplemental disclosure for Tier 2 entities - AASB 7.RDR27.1	We believe this disclosure is relevant for all fair value measures and not just financial instruments. As noted above, we believe provides useful guidance for the implementation of AASB 13.91(a).	Elevate the requirements to AASB 13.

2. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of these proposals, particularly any issues relating to:

a. Not-for-profit entities; and

b. Public sector entities.

Ernst & Young Australia are not aware of any significant regulatory or other issues that are likely to affect the implementation of the proposals contained in ED219.

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

Except as discussed above, Ernst & Young Australia believes the proposals would result in financial statements that would be useful to users.

4. Whether the proposals are in the best interests of the Australian economy; and

Other than where noted above, Ernst & Young Australia believe that the proposals are in the best interests of the Australian economy.

5. Unless already provided in response to specific matters above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

Except as noted above, Ernst & Young Australia believe that the cost of implementing the proposals do not outweigh the benefits to users.