

8 November 2018
Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204, Collins Street West
Melbourne, Victoria, 8007

Dear Kris

Re: ITC 39 CONSULTATION PAPER Phase 2 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 supplement its earlier submission on ITC 39 dated 3 August 2018. Our main interest in Phase 2 of this topic, and the focus of our submission, is financial reporting by subsidiary entities of a listed Group.

QBE is comfortable with the current framework for financial reporting which allows for special purpose financial statements (SPFS). The advantage of the concept of SPFS is the ability to achieve either consistent or differential levels of reporting as needed by stakeholders without necessarily having to achieve consistency across each legal entity category.

QBE's preferred approach for wholly-owned subsidiaries of listed Groups is to require application of full recognition and measurement requirements of IFRS and minimal disclosure requirements consistent with the current approach. Any requirements for these entities in excess of minimal disclosure, where there are no external users will add a significant cost burden to preparers and, by definition, does not provide benefits for users. We consider that the more extensive disclosures proposed in the Tier 2 alternatives identified in ITC 39 at the subsidiary level would have no relevance to the Group's users.

QBE understands from discussion with AASB staff that the concern we expressed in our earlier Phase 1 response (i.e. that the ITC 39 proposals could lead to intermediate holding companies having to present consolidated financial statements) has been addressed insofar as the ITC 39 proposals, if implemented, would not remove the existing exception from presenting consolidated financial statements in paragraph 4 of AASB 10 *Consolidated Financial Statements*.

We would appreciate the AASB confirming our understanding that any changes expected to emerge from the ITC 39 process would not affect the existing intermediate holding company exception in AASB 10.4 from the requirement to present consolidated financial statements.

If there is to be a change to the framework for Australian reporting we remain of the view that further transparent research is required to distinguish between the different types of entities that are currently preparing and lodging SPFS in order to identify the most appropriate and cost-effective solutions for each type. A more robust long-term solution could be achieved by the AASB working with legislators to remove requirements to prepare and lodge financial statements for individual entities within a Group that prepares and lodges financial statements that satisfies all the relevant user needs.

Bearing in mind the significant economic burden for Australian preparers of financial statements from a broadening of the application of IFRS disclosures, we consider further research is needed to support the current AASB proposals regarding Tier 2 reporting. Should the AASB proceed with reforms based on the Phase 2 proposals, QBE considers there should be a Tier 2 alternative for subsidiaries in a consolidated Group where the Group applies full IFRS and its GPFS include all the relevant information

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for users and the subsidiaries do not issue debt or equity securities to the public and have no users for their financial statements.

Appendix 1 contains our responses to the specific matters for comment on Phase 2 and Appendix 2 contains our responses on general matters for comment 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@qbe.com for coordination of further input.

Yours sincerely,

Inder Singh
Chief Financial Officer



Appendix 1 – Specific matters for comment on Phase 2

As noted in our covering letter, without clarity over the types of entities preparing SPFS and the needs of their users, and given the need to balance this with costs of compliance for preparers, it is not clear how the existing reporting requirements should be changed, if at all. Our specific responses to the Phase 2 questions are set out below.

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

We prefer the AASB consider the application of Australian Accounting Standards based solely on serving the best interests of financial statement stakeholders, including users, preparers and regulators, rather than seeing the IASB revised Conceptual Framework for Financial Reporting (RCF) as a trigger to instigate reforms. As noted in our covering letter we consider Option 2 a potentially viable approach which has the benefit of retaining the current SPFS.

If Option 1 is adopted, we consider further work is required to identify all the relevant groups of entities and the expected needs of their users to allow the AASB to develop relevant Tiers of GPFS for each type of lodging entity or to make recommendations to regulators on the rationalisation of lodging requirements to achieve cost-beneficial outcomes. This is particularly relevant in Australia where we have very broad application of IFRS.

For example, QBE’s Australian subsidiaries are proprietary companies, a legal category also used by large and small family businesses that have no Group parent entity that reports publicly to investors. When stratified by size this legal grouping therefore represents a heterogeneous set of entities with different financial statement stakeholders who have potentially different needs and would require different Tiers for reporting.

QBE’s focus is on ensuring that the financial statement requirements applying to its Australian subsidiaries continue to be appropriate to the size, complexity and user requirements of these entities.

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.

In relation to Q12, we do not regard either of the proposed Tier 2 alternatives to be suitable for entities currently required to prepare financial statements and which regard themselves as not being reporting entities and currently prepare SPFS. This includes wholly-owned subsidiaries of listed Groups where the Group applies IFRS and the Group’s GPFS include all the relevant information for users. These wholly-owned subsidiaries (which do not issue debt or equity securities to the public) have no users for their financial statements. As noted in the covering letter and Q13 below we believe an additional Tier 2 alternative is required for these entities.

Furthermore, it is not clear what will be specifically required by Alternative 2 currently proposed by the AASB. Until the AASB clarifies what would be required in Alternative 2 based on the consultation noted in footnote 50 of ITC 39 among users, which should be rigorous and transparent, it is difficult for us to express a preference for either Alternative 1 or Alternative 2.

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?

No – if wholly-owned subsidiaries of listed Groups are to be required to prepare GPFS then a further alternative is needed that involves all recognition and measurement requirements but no or minimal disclosures. These wholly-owned subsidiaries (which do not issue debt or equity securities to the public) have no users for these subsidiary financial statements and their preparation would be a compliance exercise only. Accordingly, it is important to minimise the cost of their preparation. [Please refer to our response to Q18.]

If wholly-owned subsidiaries of listed Groups (which do not issue debt or equity securities to the public) were exempted from preparing GPFS, then a single Tier 2 alternative may be appropriate. However, there seem to be many different types of entities (in terms of nature and size) that would need to prepare (at least) Tier 2 GPFS under the ITC 39 proposals and we believe there is insufficient data for us to determine whether one Tier 2 GPFS alternative would be adequate.



Q14 – Do you agree with the AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.

We support the AASB approach of having consistent, IFRS-based, recognition and measurement requirements across all Australian GPFS to the extent feasible because it provides a base-line level of comparability and a common ‘language’ across Australian financial reporting. For example, if a publicly-listed Group’s users had the opportunity to make a comparison with the performance of an unlisted entity in the same industry, it is beneficial for the same recognition and measurement requirements to be applied at all levels of general-purpose financial reporting. This also provides a common basis for consolidating entities where necessary. Unfortunately, this benefit will be limited only to Australian-based entities and entities in other countries that might in future adopt a similar reporting framework to the AASB.

Given that there are some variations from IFRS recognition and measurement requirements in the *IFRS for SMEs* (and the potential for more variations in future as IFRS evolve), we would not support using the *IFRS for SMEs* in Australia.

Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.

Provided the exception in paragraph 4 of AASB 10 *Consolidated Financial Statements* still applies we do not see the need for transitional relief.

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.

QBE notes its strong support for retaining the existing exception from presenting consolidated financial statements in paragraph 4 of AASB 10 *Consolidated Financial Statements*. As referred to in the covering letter, we have confirmed with AASB staff that there is no intention to remove this exception. However, we note that sections of the ITC 39 could imply that this exception is subject to review.

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.

If Alternative 2 GPFS – SDR were the only Tier 2 form of reporting available, we consider that the disclosures would be excessive for wholly-owned subsidiaries of listed Groups (which do not issue debt or equity securities to the public).

In respect of wholly-owned subsidiaries of listed Groups (which do not issue debt or equity securities to the public), we suggest requiring only the following:

- ~ the presentation requirements from AASB 101 *Presentation of Financial Statements* and AASB 107 *Statement of Cash Flows*;
- ~ the disclosure requirements from AASB 101.15-26 on compliance with Standards and going concern and from AASB 101.137-138 on legal structure and ultimate parent etc.; and
- ~ the disclosure requirements from AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The AASB 101, AASB 107 and AASB 108 requirements provide the necessary structure for financial statements and essential information about the entity’s accounting policies, its legal form and principal activities and relevant links to the entity’s Group.

We do not consider that the disclosures from AASB 124 *Related Party Disclosures*, AASB 136 *Impairment of Assets*, AASB 15 *Revenue from Contracts with Customers* and AASB 112 *Income Taxes* would be helpful for wholly-owned subsidiaries and they could pose a significant cost burden. In particular:

- (a) related party disclosures could be burdensome due to the number of links the subsidiary might have with other members of its Group, which in isolation could be meaningless; and



- (b) income tax disclosures at the subsidiary level may not be comprehensible in isolation because a subsidiary's tax affairs could be intertwined with those of other members of the Group within a jurisdiction.

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).

If the current reporting framework were changed to require all lodging entities to prepare GPFS, we consider there needs to be another version of Tier 2 comprising all the IFRS recognition and measurement requirements and minimal presentation and disclosure requirements as set out in Q17. Those minimal presentation and disclosure requirements should not include consolidation.

This version of Tier 2 would be available for those entities that are required to prepare GPFS but otherwise have no users. Ordinarily, this would include wholly-owned subsidiaries (which do not issue debt or equity securities to the public) within IFRS-compliant Groups.

Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).

We are unable to comment on this question because we are not familiar with the needs of stakeholders in the not-for-profit private sector in respect of service performance reporting, fundraising and administration cost disclosures.

Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.

We are not aware of any such legislation.



Appendix 2 – General matters for comment on Phase 2

Q21 – Whether The AASB’s Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).

Our comments are confined to *The AASB’s For-Profit Entity Standard-Setting Framework*.

We note the focus of these Frameworks is on developing accounting policies that are, to the extent feasible, the same as IFRS and consistent across all types of entity. We think the due process for a project on fundamentally changing the way Australian entities report must include thorough and transparent research and presentation of findings in order to provide users with the optimal reporting without unduly burdening preparers.

Q22 – 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 currently aware of any further issues but believe it is too early to comment on this question because the specific proposed changes are unclear.

Q23 – Whether, overall, the proposals would result in financial statements that would be useful to users.

Please refer to our comments above about listed Groups and their subsidiary entities, which are based on a sound understanding of the needs of our users.

We are unable to respond to this question more generally because we have limited insight on what is useful to users of the various other types of entities addressed in ITC 39.

Q24 – Whether the proposals are in the best interests of the Australian economy.

Any proposals which increase the cost burden without substantiated benefits would not be considered to be in the interests of the Australian economy.

Q25 – 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.

From a Group reporting perspective, any increase in disclosures relevant to our wholly owned subsidiaries who are currently reporting SPFS would be considered an increased cost with no benefit. We are unable to quantify the likely costs of the proposals until the selected approach is determined.