QIC

Address

8 November 2018

Kris Peach
Chair and CEO
Australian Accounting Standards Board

Via website: https://www.aasb.gov.au/Work-In-Progress/Open-for-comment.aspx

Dear Kris

ITC 39 Applying the IASB's Revised Conceptual Framework Phase 2

Thank you for the opportunity to comment on the AASB's consultation paper on 'Applying the IASB's Revised Conceptual Framework and Solve the Reporting Entity and Special Purpose Financial Statement Problems' (ITC 39). We note the significance of this reform and appreciate the AASB's efforts in developing these proposals and its continued engagement with stakeholders to widely discuss them.

QIC is a Queensland Government Owned investment manager that manages over 200 funds for over 100 investors and prepares more than 90 financial statements each year. The majority of these financial statements are prepared as special purpose financial statements to meet the requirements of Trust Deeds, investors and external lenders where relevant. In preparing these special purpose financial statements, QIC complies with all recognition and measurement requirements (except for consolidation and equity accounting) and all disclosure requirements assessed to be useful to the users of the financial statements.

This submission focuses on the proposals set out in Phase 2 of ITC 39, with QIC's comments provided in Appendix A to this letter.

Overall, we are supportive of the AASB's decision to align the definition of a 'reporting entity' under Australian Accounting Standards (AAS) to that under the IASB's Revised Conceptual Framework (RCF). We are also supportive of the AASB's decision to simplify and standardise the Australian Financial Reporting Framework by removing the option to prepare special purpose financial statements and continuing with only two reporting tiers. However, we have some reservations regarding the two Tier 2 alternatives provided in the proposals and whether this would in fact result in more useful financial statements to our users.

We are pleased that the AASB is already considering alternatives in some of these areas. We look forward to further opportunities to engage with the AASB to ensure that reform delivers a fit for purpose financial reporting framework for all its stakeholders.

If you require further information on our views expressed in this submission, please contact Moditha Perera, Accounting Advisory, on +61 7 3360 6659 or at m.perera@qic.com.

Yours sincerely

CMBlake

Claire Blake
CFO

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Appendix A: Specific matters for comment on Phase 2

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

Yes, we agree with the proposal to mandate compliance with RCF for all entities complying with AAS. It provides a more consistent basis for preparing financial statements for the financial statement preparers of all reporting entities and will facilitate greater comparability and transparency of financial reports for its users.

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.

Our view is that neither of the two Tier 2 alternatives specified in the proposal fully meet the requirements of all stakeholders of the financial reporting framework.

QIC provides all its investors quarterly reports with detailed information on their investments as well as tailored additional reporting under RG 97 *Disclosing fees and costs in PDSs and periodic statements* where requested. Therefore, for most funds managed by QIC, preparation of annual financial reports is primarily a compliance requirement. The newly proposed SDR regime (Alternative 2) makes the preparation process somewhat more straight-forward by specifying nine accounting standards to be fully complied with. However, as a responsible investment manager, QIC also ensures that the annual financial reports provide relevant and useful information to users rather than just meeting compliance requirements. In our view, the SDR regime unduly focuses on some accounting standards while inappropriately placing less importance on the requirements of others.

For example, the SDR regime requires that all disclosure requirements under AASB 124 *Related Party Disclosures* are adhered to (in accordance with materiality assessment of the reporting entity). QIC and its managed funds have a variety of intercompany transactions, including but not limited to: manager fees, expense recovery fees, intercompany receivables and payables, related party investments and related party investment returns.

Currently, QIC presents and discloses these transactions according to the nature of the transaction, similar to if the transaction occurred with an unrelated party. We do not then separately re-disclose these transactions as related party transactions as we view this exercise to not only be onerous, but also add little additional value to the financial statement users. The investors are interested in the performance of the investment assets and the fund rather than the source of the expense or income. The related party fees are charged in accordance with the contracts agreed to by the investors, and therefore additional disclosures in the financial statements would not provide any new information. In addition, if investors are interested in obtaining additional information on fees and expenses, they can request and receive this information under RG 97 reporting requirements. QIC does however provide detailed disclosures under AASB 13 *Fair Value* on the fair value methodologies used in estimating the fair value of investments, as we view this information to be useful to the user of the financial statements. We note that the SDR regime does not, for example, consider this standard to be as important to the users.

The existing RDR regime (Alternative 1) while allowing for more flexibility for the financial statements to be prepared with relevant and useful information, still requires more disclosures than what we consider to be useful to the users. This may result in relevant information being obscured by less relevant disclosures which are there purely for compliance requirements.

We propose that a Tier 2 regime that is similar to the current RDR regime, but with less cumbersome disclosure requirements would be the best fit for all stakeholders of the Tier 2 financial reporting framework.

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?

Yes. As mentioned above, it provides a more consistent basis for preparing financial statements for the financial statement preparers of all reporting entities and will facilitate greater comparability and transparency of financial reports for its users.

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.

Yes. As noted in the Consultation Paper, IFRS for SMEs have different recognition and measurement requirements than existing IFRS and AAS which then reduces comparability among entities.

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.

Please refer to our response in Q16 below.

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.

The primary users of the financial statements of QIC's funds are interested in the performance of the funds and their underlying assets. As investors, they are interested in the capital appreciation of the assets and their market value, as opposed to historical cost. To this end, preparing stand-alone financial statements for the fund which carries all its investments designated at fair value (due to being managed on a fair value basis) provides the relevant information to the users. If the fund was to prepare consolidated financial statements, this would not provide relevant or useful information to the users of the financial statements.

We note that AASB 10 *Consolidated Financial Statements* provides an exception to consolidation if the entity meets the 'investment entity' definition. However, we also note that this is a strict definition that has a number of requirements which need to be met in order to qualify as an investment entity. For example, the definition requires documented exit strategies to be in place in order to qualify as an investment entity. Where a fund is created to carry one or few specific investments for one investor, it is unlikely that there would be documented exit strategies in place at the creation of the fund. The fund would be managed on the instructions of the investor, with the view of capitalising on any capital appreciation of the investments when the opportunity arises. Such a fund would not meet the current definition of an 'investment entity'. However, this does not negate the fact that the investor is still interested viewing the performance of the fund and its investment on a fair value basis. Should consolidation and equity accounting be mandated for all entities, not only would the preparation of the financial statements be unduly cumbersome, but they would also not provide relevant or useful information to the users.

We acknowledge that one way of avoiding this unintended impact of the reform is by amending and updating current fund documentation to meet the requirements of an 'investment entity'. This itself would be an expensive and lengthy process. To provide transitional relief, we request that the Board considers the option of grandfathering existing funds to allow them to continue preparing stand-alone financial statements with all investments measured at fair value as they are managed on a fair value basis. Where new funds are created, the new reporting framework will be taken into consideration to ensure that appropriate documentation is in place.

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.

No. Please refer to our response in Q12 above.

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).

Yes. Please refer to our response in Q12 above.

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).

Not applicable – QIC is a for-profit entity.

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 legislation that refers to SPFS that may be impacted by these proposals.