Federation of European Accountants
Fédération des Experts comptables Européens

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
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Ref.: ACC/AKI/HBL/PPA/SRO

Dear Mr Hoogervorst,

Re: FEE comments on Investment Entities: Applying the Consolidation Exception, Proposed amendments to IFRS 10 and IAS 28 (ED/2014/2)

FEE (the Federation of European Accountants, www.fee.be) is pleased to provide you below with its comments on the IASB Exposure Draft on Investment Entities: Applying the Consolidation Exception, proposed amendments to IFRS 10 and IAS 28.

FEE welcomes the IASB's initiative to clarify how the Investment Entities' consolidation exception should apply in certain instances where the current IFRS 10 and IAS 28 do not provide a clear guidance.

FEE agrees with the first two proposed amendments on the clarification on paragraph 4(a) of IFRS 10 and on the clarification on the exception when the subsidiary entity that provides investment-related services is itself an investment entity.

However, FEE does not agree with the different treatment for investment in associates as compared to investment in joint ventures as introduced in the proposed amendments. From a practical standpoint, a joint venturer is also likely to face significant practical difficulties if it had to restate the financial statements of the joint venture in order to consolidate subsidiaries accounted for at fair value under the investment entities consolidation exception. Further a difference in the application of the equity method to associates and to joint ventures is not desirable. Accordingly, FEE strongly suggests that the exception for investment in associates should apply also to investments in joint ventures.

FEE's responses to the specific questions as well as the proposed amendments to the text of the ED can be found in the attached appendix to this letter.

For further information on this letter, please contact Pantelis Pavlou, Project Manager, from the FEE Team on +32 2 285 40 74 or via e-mail at pantelis.pavlou@fee.be.

Yours sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive

Encl. Appendix – FEE comments on specific questions

Question 1—Exemption from preparing consolidated financial statements

The IASB proposes to amend IFRS 10 to confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10 continues to be available to a parent entity that is a subsidiary of an investment entity, even when the investment entity measures its subsidiaries at fair value in accordance with paragraph 31 of IFRS 10. Do you agree with the proposed amendment? Why or why not?

(1) FEE agrees with the proposed amendments on paragraph 4(a) of IFRS 10.

(2) FEE believes that the subsidiaries of an investment entity are fairly represented in the investment entity's financial statements in which it accounts for its subsidiaries at fair value. Therefore the exception from preparing consolidated financial statements should be available to the intermediate parent of investment entities.

(3) FEE does not agree with the views that some constituents expressed regarding the loss of important information when a line-by-line consolidation is not applied. FEE believes that the disclosure requirements as described in IFRS 12, IFRS 7 and IFRS 13 for investment entities and financial assets measured at fair value provide to the investors adequate and relevant information in order to make their investment decisions with respect to the intermediate parent. From a cost standpoint, the requirement for an intermediate parent to prepare consolidated financial statements solely because it owns an investment-entity subsidiary is therefore not justified.

(4) However, FEE raises the concerns that despite this amendment to IFRS 10 there might a conflict between the IFRS and the national legislation in certain EU countries. In some jurisdictions, Company Law only allows for a parent company to be exempted from the consolidation requirements if the entity itself is a subsidiary and its parent or ultimate parent company prepares consolidated financial statements.

Question 2—A subsidiary that provides services that relate to the parent's investment activities

The IASB proposes to amend IFRS 10 to clarify the limited situations in which paragraph 32 applies. The IASB proposes that the requirement for an investment entity to consolidate a subsidiary, instead of measuring it at fair value, applies only to those subsidiaries that act as an extension of the operations of the investment entity parent, and do not themselves qualify as investment entities. The main purpose of such a subsidiary is to provide support services that relate to the investment entity's investment activities (which may include providing investment-related services to third parties). Do you agree with the proposed amendment? Why or why not?

(5) FEE agrees with the proposed amendments to IFRS 10 regarding subsidiaries that provide support services. FEE believes that the main objective of IFRS 10 is to portrait how the group manages the investment entities (measured at fair value). A subsidiary that provides support services and is not an investment entity itself can be seen as an extension of the parent investment entity.

(6) On the other hand, if a subsidiary which provides support services is itself an investment entity, then the fair value measurement basis provides more relevant and ready to use information to the users. Therefore FEE agrees that the exception for consolidation should apply to investment entities' subsidiaries which themselves qualify as investment entities.

(7) On the other hand, FEE suggests some changes of the final text of the amendment of paragraph 32, since we believe it needs some enhancement. We propose the following change:

*32. Notwithstanding the requirement in paragraph 31, if an investment entity has a subsidiary that ~~provides~~ is not itself an investment entity, **including one which** ~~and whose main purpose~~ ~~is to~~ **primarily provides** services that relate to the investment entity's investment activities (see paragraphs B85C–B85E) […]*

Question 3—Application of the equity method by a non-investment entity investor to an investment entity investee

The IASB proposes to amend IAS 28 to:

(a) require a non-investment entity investor to retain, when applying the equity method, the fair value measurement applied by an investment entity associate to its interests in subsidiaries; and

(b) clarify that a non-investment entity investor that is a joint venturer in a joint venture that is an investment entity cannot, when applying the equity method, retain the fair value measurement applied by the investment entity joint venture to its interests in subsidiaries.
Do you agree with the proposed amendments? Why or why not?

(8) FEE does not agree with introducing two different accounting treatments for the equity method. IFRS 11 states that despite the fact that joint control and significant influence are not similar concepts; the equity method is best suited for both joint venturers and investors that invest in associate entities.

a. The proposed amendments to IAS 28 discuss the difficulties that investors in associates face when they are required to impose uniform accounting policies to investees when they have only a significant influence in the investee. However, the proposal suggests that when the investor has an investment in a joint venture, then it can impose uniform accounting policies. Based on this criterion, i.e. the reduction of the costs of preparers, the amendments propose different accounting treatments. FEE does not share this analysis. From a practical standpoint, a joint venturer is also likely to face significant practical difficulties if it had to restate the financial statements of the joint venture in order to consolidate subsidiaries accounted at fair value under the investment entities consolidation exception.

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(9) FEE disagrees on a conceptual basis. Paragraphs BC301 – BC317 of IFRS 10 discuss the benefits and costs that the exemption for investment entities have for the preparers and users of financial statements. The IASB concluded that the application of the investment entity exception enhances the comparability of financial statements, the usefulness of the information, that it assists management and users in better economic decision makings and that it reduces the costs for preparers and users. Accordingly, the investors of the intermediate parent have relevant information available about its investment entity subsidiaries.

(10) Further a difference in the application of the equity method to associates and to joint ventures is not desirable.

(11) Therefore, FEE suggest that for investors/joint venturers that have investment in associate entities or joint ventures which are investment entities, the investor/joint venture should retain the fair value measurement applied by that investment entity.

(12) Therefore, FEE suggests the following amendment to the text:

36A Notwithstanding the requirement in paragraph 36, if an entity has an interest in an associate <u>or in a joint venture</u> that is an investment entity, the entity shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate <u>or joint venture</u> to its interests in subsidiaries.

~~36B If an entity is a joint venturer in a joint venture that is an investment entity, the entity shall not, when applying the equity method, retain the fair value measurement applied by that investment entity joint venture to its interests in subsidiaries. Instead, the entity shall, in accordance with paragraph 36, make adjustments to the joint venture's accounting policies to conform to the entity's accounting policies, which shall include the consolidation of all subsidiaries.~~