

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UK

Cc: EFRAG

Oslo, January 5, 2012

Dear Sir/Madam

## **Exposure Draft, ED/2011/4 Investment Entities**

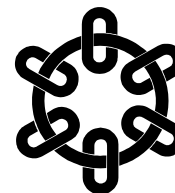
Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to comment on the exposure draft Investment Entities.

We do not agree with the general principle introduced in the ED that some controlled investments should be presented at fair value in consolidated financial statements.

Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal  
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



### **Question 1 - Exclusion of investment entities from consolidation**

*Do you agree that there is a class of entities, commonly thought of as an investment entity in nature, that should not consolidate controlled entities and instead measure them at fair value through profit or loss? Why or why not?*

We do not agree that there is a class of entities as described in Q. 1 that should not consolidate controlled entities and instead measure them at fair value through profit or loss.

We struggle to see the convincing arguments for such entities having a general exemption from IFRS 10. Consequently, we have come to the conclusion that we do not believe that there is a class of entities commonly thought of as investment entities that should not consolidate controlled entities. We are of the opinion that the business model often carried out by what is commonly thought of as investment entities is a general business model that is also carried out within entities commonly not thought of as “pure” investment entities.

The underlying basis for our view is that we have not found a convincing argument that non-consolidation will provide more relevant and faithfully representative information. Furthermore we do not see how, in a principle based manner that satisfies the qualitative characteristic of comparability, to separate investment entities from entities that are to consolidate controlled entities.

We disagree with the notion of introducing entity-specific accounting principles and therefore ask the Board not to proceed with the proposal in the exposure draft.

### **Question 2 - Criteria for determining when an entity is an investment entity**

*Do you agree that the criteria in this exposure draft are appropriate to identify entities that should be required to measure their investments in controlled entities at fair value through profit or loss? If not, what alternative criteria would you propose, and why are those criteria more appropriate?*

We do not agree that the criteria proposed in this exposure draft are appropriate to identify entities that should be required to measure their investments in controlled entities at fair value through profit or loss. We are seriously concerned that exposure draft is proposing entity specific rule based accounting solutions. We do not see that the concept of control in IFRS 10 is proved to be flawed. Further we consider that the case made in the exposure draft is not sufficiently persuasive to warrant a highly arbitrary and rule based exception. When deciding upon how to account for a (net) asset of an entity the Board ought to focus on characteristics of the asset or the management of the asset and not on characteristics of the financing structure of the entity holding the asset.

If the Board is to proceed with the exposure draft, we would ask the Board to clarify why they believe characteristics related to an entity as opposed to characteristics of an activity should be a determining factor in deciding whether consolidation should be performed or not.

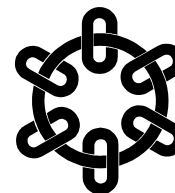
### **Question 3 - Nature of the investment activity**

*Should an entity still be eligible to qualify as an investment entity if it provides (or holds an investment in an entity that provides) services that relate to:*

*(a) its own investment activities?*

*(b) the investment activities of entities other than the reporting entity?*

*Why or why not?*



We believe that the two issues identified by the Board will only be the first of a very long series of questions that will have to be sorted out if the Board is to continue with the proposed rule-based consolidation exception. Nevertheless we have the following two comments:

(a) If the Board were to base its regulation on a business model approach we see strong support for own investment activities carried out in a subsidiary to be included by it.

(b) If the Board were to base its regulation on a business model approach the crucial question would be whether or not the services provided to investment activities of entities other than the reporting entity are or are not managed on a fair value basis.

#### **Question 4 - Pooling of funds**

*(a) Should an entity with a single investor unrelated to the fund manager be eligible to qualify as an investment entity? Why or why not?*

*(b) If yes, please describe any structures/examples that in your view should meet this criterion and how you would propose to address the concerns raised by the Board in paragraph BC16.*

Introducing the consolidation exception for investment entities will add to the rule based complexity of IFRS. However to the extent that the Board is to proceed with the current exposure draft we are of the strong opinion that the explicit requirement for multiple investors should be abandoned. For example, there are large sovereign wealth funds with business model characteristics and objectives such that they ought not to be separated from the rules proposed by the Board for investment entities.

#### **Question 5 - Measurement guidance**

*Do you agree that investment entities that hold investment properties should be required to apply the fair value model in IAS 40, and do you agree that the measurement guidance otherwise proposed in the exposure draft need apply only to financial assets, as defined in IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement? Why or why not?*

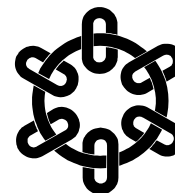
If the Board sticks to its proposition to regulate investment entities as a separate class with consolidation exclusions, we agree that they should not be allowed to use the cost model in IAS 40. We agree that investment entities should measure all its financial instruments within the scope of IFRS 9 including all its financial liabilities at fair value through profit or loss.

#### **Question 6 - Accounting in the consolidated financial statements of a non-investment entity parent**

*Do you agree that the parent of an investment entity that is not itself an investment entity should be required to consolidate all of its controlled entities including those it holds through subsidiaries that are investment entities? If not, why not and how would you propose to address the Board's concerns?*

Even though we do not support the proposed consolidation exception for investment entities we are not convinced by the arguments put forward by the Board for consolidation of an investment entity in the financial statement of its parent. This would mean that the benefits of non-consolidation on a lower level (if there indeed are any) would be wiped out on a higher level. Whether a subsidiary should be consolidated or not should not depend on which holding entity level we are considering.

We also refer to our answer to Q. 3.



### **Question 7 - Disclosure**

*(a) Do you agree that it is appropriate to use this disclosure objective for investment entities rather than including additional specific disclosure requirements?*

*(b) Do you agree with the proposed application guidance on information that could satisfy the disclosure objective? If not, why not and what would you propose instead?*

We observe that the disclosure requirement set forth in paragraph 10(d), while being partly overlapping with the existing requirements of IFRS 12.10 and 13, is of relevance for all entities controlling another entity and thus should be a clarification of the general disclosure requirement in IFRS 12 as opposed to a separate disclosure requirement of an investment entity.

### **Question 8 - Transition**

*Do you agree with applying the proposals prospectively and the related proposed transition requirements? If not, why not? What transition requirements would you propose instead and why?*

We have no objections to the proposed transition requirements.

### **Question 9 - Scope exclusion in IAS 28**

*(a) Do you agree that IAS 28 should be amended so that the mandatory measurement exemption would apply only to investment entities as defined in the exposure draft? If not, why not?*

*(b) As an alternative, would you agree with an amendment to IAS 28 that would make the measurement exemption mandatory for investment entities as defined in the exposure draft and voluntary for other venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds? Why or why not?*

We observe that a number of entities that currently are using the measurement exemptions in IAS 28 (and IAS 31) will not be covered by the proposed definition of an investment entity. We have not received any indications that the current application of the measurement exemptions in IAS 28 (and IAS 31) is in need of change. We therefore do not support the proposed amendment of IAS 28 that would replace any reference to “venture capital organisations, mutual funds, unit trusts and similar entities” with “investment entity”.

We would agree with an amendment to IAS 28 that would make the measurement exemption mandatory for investment entities as defined in the exposure draft and voluntary for other venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds.