



European Financial Reporting Advisory Group ■

EFRAG's position on the IASB's Exposure Draft Investment Entities

Final comment letter 18 January 2012

EFRAG's overall assessment



	EFRAG position
<i>EFRAG agrees with</i>	<ul style="list-style-type: none">• We agree with the IASB's proposal for an exception to the consolidation principle, because measuring an investment entity's controlled investments at fair value produces more decision-useful information that meets users' needs as it better reflects the entity's business model.
<i>EFRAG has a number of concerns</i>	<ul style="list-style-type: none">• We believe that a non-investment entity parent should retain the fair value measurement of the controlled entities that are held through those investment entity subsidiaries (i.e. the parent would 'roll-up' the accounting of its investment entity subsidiary).• Whilst we agree with the criteria for determining whether an entity is an investment entity, we believe that the existence of an exit strategy should be placed more prominently.• We do not believe that it is necessary to amend IAS 28 and restrict the application of the exception to investment entities only, as the existing fair value option in IAS 28 has not raised any concerns in the past.

Exclusion of investment entities from consolidation (Question 1)



	EFRAG position
<i>Scope exception</i>	EFRAG supports the exception to consolidation because measuring an investment entity's controlled investees at fair value results in information that is more decision-useful as it reflects the entity's business model.

Criteria for determining whether an entity is an investment entity (Question 2)



	EFRAG position
<i>Proposed criteria in the ED</i>	EFRAG agrees with the criteria for determining whether an entity is an investment entity. However, we believe that the existence of an exit strategy should be placed more prominently.

Nature of the investment activity (Question 3)



	EFRAG position
<i>Activities other than its investing activities</i>	EFRAG believes that if an investment entity provides investment services to its own investment business then this should not affect the investment entity classification.

Pooling of funds (Question 4)



	EFRAG position
<i>Qualification of a single investor unrelated to the fund manager as investment entity</i>	EFRAG believes it is appropriate to require that an investment entity has more than one investor.

Measurement guidance (Question 5)

	EFRAG position
<i>Application of the fair value model of IAS 40 to investment properties held by investment entities</i>	EFRAG agrees that an investment entity that manages substantially all of its investments at fair value should measure investment properties and financial assets at fair value.

Accounting in the consolidated financial statements of a non-investment entity parent (Question 6)



	EFRAG position
<i>Roll-up of fair value accounting to the parent company</i>	We believe that a non-investment entity parent should be required to consolidate its investment entity subsidiaries, but that it should retain the fair value measurement of the controlled entities that are held through those investment entity subsidiaries (i.e. the parent would 'roll-up' the accounting of its investment entity subsidiary).

Disclosure (Question 7)



	EFRAG position
<i>Disclosure objective and application guidance</i>	EFRAG agrees with the disclosure objective as stated. However, we are concerned about the level of detailed narrative that has been included to explain the objective.

Transition (Question 8)



	EFRAG position
<i>Prospective application of the proposals</i>	We believe that the requirements should be applied retrospectively, unless impracticable. This would avoid inconsistencies with the transitional provisions of IFRS 10 and result in information that is more comparable.

Scope exclusion in IAS 28 (Question 9)



	EFRAG preliminary position
<i>Replacement of the content of current scope exclusion by a reference to 'investment entity'</i>	We believe that the measurement exemption in IAS 28 should be mandatory for investment entities and voluntary for other venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked funds.