

European Financial Reporting Advisory Group
AISBL - IVZW
35 Square de Meeus
B-1000 Brussels
Belgium

16 December 2011

Dear Sir/Madam

Subject: EFRAG draft comment letter on IASB Exposure Draft on *Investment Entities*

I attach the comments of the Accounting Standards Committee of the Institute of Certified Public Accountants of Cyprus on the EFRAG draft comment letter on the IASB Exposure Draft on *Investment Entities*.

Should you require any additional information or clarifications please do not hesitate to contact us.

Yours sincerely



Lina Lemessiou
Senior Officer

From:	Accounting Standards Committee Institute of Certified Public Accountants of Cyprus
Subject:	EFRAG draft comment letter on IASB Exposure Draft on <i>Investment Entities</i>

Replies to request for Comments

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 should not consolidate controlled entities and instead measure them at fair value through profit or loss? Why or why not?

Comments on EFRAG's response

We agree with EFRAG's response supporting the exception to consolidation for investment entities. We also consider that the exclusion from consolidation should be applied at an entity level and not at the level of individual investments. This is based on our view that the exclusion from consolidation is provided to investment entities because of the nature of their investment activities, business purpose and shareholder structure.

Question 2 – Criteria for determining whether an entity is an investment entity (paragraphs 2 and B1-17)

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?

Comments on EFRAG's response

We agree with EFRAG's response regarding the criteria for determining whether an entity is an investment entity and support the view that the existence of an exit strategy should be placed more prominently and be one of the main criteria for classification as an investment entity. The existence of an exit strategy is one of the key criteria applied in the application guidance of the Exposure Draft and hence should be one of the criteria described in paragraph 2 of the Exposure Draft. We also consider that all the criteria proposed in the Exposure Draft are necessary in order to define an investment entity. We do not consider that the criteria in the Exposure Draft would prevent entities from applying the consolidation exception as we consider that only entities that meet all of the criteria are investment entities in nature.

Question 3 – ‘Nature of the investment entity’ (paragraphs 2(a) and B1-B6)

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?

Comments on EFRAG’s response

We support EFRAG’s view that if an investment entity provides investment services to its own investment business then this should not affect the investment entity classification. Based on this, an investment entity should consolidate all activities related to the management of their portfolio regardless of whether they are carried out by the entity itself or a subsidiary. Also, we support EFRAG’s comment that an entity that operates a significant business that provides services to entities outside its group would not be an investment entity.

Question 4 – ‘Pooling of funds’ (paragraph 2(d) and B14-B16)

- (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 would you propose to address the concerns raised by the Board in paragraph BC16?**

Comments on EFRAG’s response

We are in agreement with EFRAG’s response that it is appropriate to require that an investment entity has more than one investor who are unrelated and who collectively hold significant ownership in the entity as this will ensure that the objectives of the investment entity are aligned with those of its investors, rather than just those of its parent.

Question 5 – Measurement guidance (paragraphs 6 and 7)

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 to financial assets, as defined in IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement? Why or why not?

Comments on EFRAG’s response

We support EFRAG’s view that it 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.

Question 6 – Accounting in the consolidated financial statements of a non-investment parent (paragraph 8)

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?

Comments on EFRAG’s response

We are in agreement with EFRAG’s view that it is not in favour of requiring that a parent, which is not an investment entity itself, to consolidate the controlled entities that it holds through subsidiaries that are investment entities. We share the view that the application of the investment entity exception at the subsidiary level results in fair value information that is more decision-useful than consolidated information and hence such fair value information would also be relevant in the financial statements of the ultimate parent entity.

Question 7 – Disclosures (paragraph 9 and 10)

- (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?**

Comments on EFRAG’s response

We support EFRAG’s view of agreement with the disclosure objective as stated and its concern about the level of detailed narrative that has been included to explain the objective. We share the view that the disclosure requirements in IFRS 7, IFRS 12, IFRS 13 and the disclosure proposals of the ED would result in duplication and consider that it would be more appropriate for the IASB, as a standard setter, to provide guidance to preparers in order to avoid such duplication.

Question 8 – Transition (paragraph C2)

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?

Comments on EFRAG’s response

We are in agreement with EFRAG’s comment that the requirements should be applied retrospectively, unless impracticable as this would avoid inconsistencies with the transitional provisions of IFRS 10 and result in information that is more comparable.

We share EFRAG’s concerns that the proposals for prospective application would result in serious issues regarding the comparability of the current period and the comparative period(s). That is, in the first year of application of the standard, an investment entity would measure its controlled investees at fair value whilst in the comparative period it would consolidate the underlying net assets of its controlled investees. This, in our view, would seriously impair the usefulness of the financial statements in the year in which these proposals are first adopted.

Question 9 – Scope exclusion in IAS 28 (as amended in 2011)

- (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?**

Comments on EFRAG’s response

We consider that the alternative proposed under (b) above would be an appropriate solution as it would not affect existing preparers such as venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds who have applied the scope exclusion in IAS 28 and in addition make it mandatory for investment entities who have investments in associates to apply the measurement exemption for investment.