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Date : Amsterdam, December 27th 2011
Re : **Comment on the Exposure Draft Investment Entities**

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to comment on your draft comment letter to the IASB regarding Exposure Draft Investment Entities (the 'ED').

While we are highly supportive of the IASB's proposed exclusion of investment entities from consolidation we have some concerns which we have summarised in this letter.

Your draft comment letter is a good summary of the proposals and includes many comments with which we concur, although we have different or alternative views in respect of questions 4 and 8. Our detailed responses to the questions as well as our responses to your specific questions to constituent are included in annex 1 of this letter.

Our main concerns to the ED relate to:

Accounting in the consolidated financial statements of a non-investment entity parent

We believe that the exclusion from consolidation should be retained by a non-investment entity parent of an investment entity if the criteria to be an investment entity are strictly defined in such way that abuse will be eliminated. In that respect we believe that having an exit strategy is at least a criterion that should be added to the proposed criteria as listed in paragraph 2 of the ED.

Single investor approach

If the IASB decides to follow its proposal in the ED that a non-investment entity parent can not apply the exclusion from consolidation, we do not agree with the 'single investor' approach as drafted in the ED. In our view this topic has not been explained appropriately. An entity with a single unrelated investor should be eligible to qualify as an investment entity

as this is the actual practice in the industry. For example, when a new investment entity is launched and initially a single investor provides all the capital with the possibility to attract new or additional investors that might take a considerable time. However, if the IASB decides that the exclusion from consolidation can be retained by a non-investment entity parent of an investment entity, we believe it is reasonable that the single investor criteria should be strict in order to avoid abuse.

Scope exclusion in IAS 28 Investments in Associates

We do not agree that IAS 28 should be amended so that the mandatory measurement exemption would apply only to investment entities. It would be better not to prohibit entities that are currently using fair value from doing so and not amend IAS 28 without proper field testing to analyse the impact of such amendment. This impact assessment should include the alignment with venture capital organisations, or mutual funds, unit trusts and similar entities. If the IASB decides to follow its proposals in the ED (i.e. a non-investment entity parent cannot retain fair value accounting on consolidation), we believe that the parent should be allowed to have a choice as to whether to measure investments in joint ventures and associates at fair value.

Transition

We do not agree to apply the proposals prospectively only for investment entities as this is inconsistent with the transition provisions of (the remainder of) IFRS 10. We have also serious concerns that a retrospective application of the proposals will result in difficulties as the accounting of these proposals has to start already as per 1 January 2012 or even as per 1 January 2011 for entities which have to prepare two years comparatives. We ask the IASB to consider amending the effective date of IFRS 10 to a later effective date than 1 January 2013 to enable full retrospective application of IFRS 10 including the proposals of the ED.

We will be pleased to give you any further information that you may require.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

Annex 1 – Comments to the EFRAG letter and responses to specific questions

Question 1
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 agree with EFRAG's response to support the exclusion from consolidation because this aligns with the business models of investment entities.

Question to constituents

a) Do you believe that rather than applying the exclusion from consolidation at an entity level, individual investments should be excluded from consolidation if they are managed to maximise income or capital gains? If so, please explain why.

b) If you believe the exclusion should be applied at the level of individual investments, which criteria do you believe such investments should meet to qualify for the exclusion in order to make the exception robust?

We have sympathy for this thought since we believe that this might be applicable for venture capital organisations, although in our view such proposal should be sustained by field-testing to analyse the impact and to set the criteria as we cannot oversee the consequences of such exclusion. In addition, the terms 'maximise income' and 'capital gains' should be defined and/or aligned with the ED.

Question 2
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 agree with EFRAG's response including the comment that an exit strategy should be placed more prominently in the standard. We note, however, that criterion (b) and (d) of paragraph 2 include the wording 'investors' and – with reference to question 4 – we have some concerns whether this should be more investors or can also be one investor.

Question to constituents

a) The ED sets detailed criteria that an entity must meet in order to qualify as an investment entity, which has given rise to the question whether all of the criteria are necessary. In particular, the need for the criteria in paragraphs 2(a) and 2(d) of the ED and the requirement to have an exit strategy were challenged in the course of EFRAG TEG discussions. Do you believe that all the criteria proposed in the ED are necessary in order to define an investment entity or do you believe that not all of the criteria mentioned above need to be met? If so, please explain and provide examples.

b) Do you believe that the criteria in the ED would prevent entities from applying the exception even though you consider them to be investment entities?

We understand that the IASB proposes that an entity must meet to all criteria as it would be difficult to conclude when entity is an investment entity if only one or a few criteria would be sufficient. Since most of the investment entities will – driven by the actual practise – will meet to all criteria we have concerns how this will impact investment entities with one investor. We refer to our answer to question 4.

Question 3
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 agree with EFRAG's response.

Question 4
(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.

Yes. We do not agree with EFRAG's response as the response only includes the fact whether an entity has more than one investor although the question and the introduction to the question are more complicated.

If the IASB decides to follow its proposal in the ED that a non-investment entity parent can not apply the exclusion from consolidation, we do not agree with the 'single investor' approach as drafted in the ED. In our view this topic has not been explained appropriately. An entity with a single unrelated investor should be eligible to qualify as an investment entity as this is the actual practice in the industry. For example, when a new investment entity is launched and initially a single investor provides all the capital with the possibility to attract new or additional investors that might take a considerable time.

However, if the IASB decides that the exclusion from consolidation can be retained by a non-investment entity parent of an investment entity, we believe it is reasonable that the single investor criteria should be strict in order to avoid abuse.

We note that Question 4, the application guidance (B14-B16) and the Basis for Conclusions (BC15-BC16) are unclear formulated. Question 4 includes 'a single investor unrelated to the fund manager', while B14 and B16 include 'investors unrelated to the entity's parent' and BC16 includes 'investors unrelated to the entity'. In addition, we understand that the IASB did propose a requirement that an investment entity has a minimum number of investors but we note that the proposal describes that such an entity would have significant external 'investments' (although probably assumed 'investors') without an indication what significant is in this respect. Furthermore, we do not understand how the question will work out when, for example, there is:

- one investor that is related to the investment entity and one investor that is unrelated to the investment entity;
- only one investor unrelated to the investment entity;
- one investor that is related to the investment entity and only two investors that are unrelated to the investment entity; or
- only two investors unrelated to the investment entity.

We also wonder how this will work out when the percentages of shareholding between the investors will differ.

Question 5
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?

We agree with EFRAG's response.

Question 6
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?

We agree with EFRAG's response.

Question 7
(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 agree with EFRAG's response. In addition, we note that in paragraph 10 (b) information shall be provided is required about 'financial support or other support'. We do not understand what the IASB is proposing with 'other support' and to what extent such disclosure such be provided since the proposed application guidance and the basis for conclusions do not cover this.

Question 8
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 do not agree to apply the proposals prospectively only for investment entities as this is inconsistent with the transition provisions of (the remainder of) IFRS 10. We have also serious concerns that a retrospective application of the proposals will result in difficulties as

the accounting of these proposals has to start already as per 1 January 2012 or even as per 1 January 2011 for entities which have to prepare two years comparatives. We ask the IASB to consider amending the effective date of IFRS 10 to a later effective date than 1 January 2013 to enable full retrospective application of IFRS 10 including the proposals of the ED.

Question 9
(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 do not agree that IAS 28 should be amended so that the mandatory measurement exemption would apply only to investment entities. It would be better not to prohibit entities that are currently using fair value from doing so and not amend IAS 28 without proper field testing to analyse the impact of such amendment. This impact assessment should include the alignment with venture capital organisations, or mutual funds, unit trusts and similar entities.

If the IASB decides to allow both an investment entity parent and a non-investment entity parent to retain fair value accounting on consolidation, it is reasonable to require the parent to use fair value accounting for the investment entity's investments in joint ventures and associates. However, if the IASB decides to follow its proposals in the ED (i.e. a non-investment entity parent cannot retain fair value accounting on consolidation), the parent may be allowed to have a choice as to whether to measure investments in joint ventures and associates at fair value.