

EFRAG
Francoise Flores
Square de Meeus 35
1000 Brussels
Belgium

The IASB's Exposure Draft *Investment Entities*

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as by enhancing investor protection.

ESMA has considered through its Standing Committee on Corporate Reporting EFRAG's draft response to the IASB's Exposure Draft (ED) *Investment Entities*. ESMA thanks you for this opportunity to contribute to EFRAG's due process. ESMA is pleased to provide you with the following comments aimed at improving the decision-usefulness of financial statements and the transparency and enforceability of IFRSs.

Overall, ESMA agrees with the proposal for investment entities to measure investments in entities that it controls at fair value through profit or loss in accordance with IFRS 9 – *Financial Instruments: Classification and Measurement* rather than consolidating such investments. ESMA however believes that the Board should further deliberate on how to achieve that objective.

ESMA is generally supportive of EFRAG's draft response but holds different views in the following areas:

- ESMA believes that the Board should introduce a main principle that the general business model of the parent investment company is to invest in investments for capital appreciation, investment income (such as dividends or interest) or both. For an entity to meet this principle ESMA believes that its business model must meet all the criteria identified in paragraph 2 of the ED (except criterion 2f as we believe the assessment should happen irrespective of the status of the entity). We agree with EFRAG to introduce the exit strategy in the criteria;
- We disagree with EFRAG when it objects the requirement that a parent, which is not an investment entity in itself, to consolidate the controlled entities that it holds through subsidiaries that are investment entities. As management's strategy for the whole group is unlikely to be earning all of its



profit through capital appreciation and investment income, the parent company does not fulfil the criteria to apply the exception the consolidation principle. Consequently, the investment entity should be consolidated.

- Whilst ESMA would not be supportive of an overly prescriptive requirement for the format of disclosures, it may be helpful to users of the information to include the proposed schedules (of investments and financial highlights) as a disclosure requirement.

For the detailed comments we refer to our comment letter to the IASB's ED, which we attach to this letter.

I would be happy to discuss all or any of these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Julie Galbo', written over a faint blue line.

Julie Galbo

Chair of ESMA's Corporate Reporting Standing Committee