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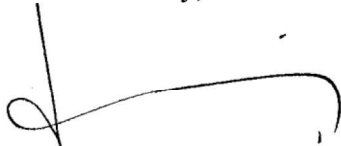
Our ref : RJ-EFRAG-573
Direct dial : Tel.: (+31) 20 301 0391
Date : Amsterdam, 11 September 2014
Re : **Comment on EFRAG draft comment letter on 'ED/2014/2 Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)**

Dear members of the EFRAG Technical Expert Group,

In response to your request for comments on the EFRAG draft comment letter in respect of the Exposure Draft Investment Entities: "Applying the Consolidation Exception – Proposed amendments to IFRS 10 and IAS 28" issued in June 2014 we enclose our recently issued comment letter to the IASB on this subject.

This sets out in detail where we disagree with these proposals as well as the reasons therefore. We would be pleased if the final EFRAG comment letter would reflect some of the concerns expressed by us. We are particularly concerned about the proposed extension of the consolidation exemption. Potentially a significant user group will be disadvantaged by this proposal. In our view the IASB should reconsider the proposed changes.

Yours sincerely,



Hans de Munnik
Chairman Dutch Accounting Standards Board

Enclosed: DASB comment letter to IASB (Response to questions in ED/2014/2)

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Re :**Comment on ‘ED/2014/2 Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)’**

Dear members of International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to appreciates the opportunity to comment on your Exposure Draft Investment Entities: Applying the Consolidation Exception – Proposed amendments to IFRS 10 and IAS 28 issued in June 2014.

We do not agree with all of the proposals. We have detailed our responses to your questions below.

Question 1 - Exemption from preparing consolidated financial statements

The IASB proposes to amend IFRS 10 to confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10 continues to be available to a parent entity that is a subsidiary of an investment entity, even when the investment entity measures its subsidiaries at fair value in accordance with paragraph 31 of IFRS 10. Do you agree with the proposed amendment? Why or why not?

We do not agree with this proposal as it is in our opinion not in the interest of users such as for instance banks, suppliers, customers, employees and government agencies at the level of the parent entity that is a subsidiary of an investment entity. Those users have different interests than the investor users at the investment entity level. We do not think that the disclosures currently required at the investment entity level can substitute for a full set of consolidated financial statements with respect to those users. These disclosures concentrate on the perspective of the investor users and their needs. Users that trade or deal, or consider to do so, with the parent company and its subsidiaries would have a more particular focus on for example the financial condition, bank covenants, cash flows and going concern issues rather than fair value information. The current IFRS 12 disclosure requirements, including any summarised financials,

do not extend to such information and are entirely insufficient to compensate users for the missing information, e.g. information that can be found in the notes to the consolidated financial statements. In the proposed change to IFRS 10 additional disclosure requirements to cover these issues are not considered.

This would potentially provide non-listed groups of companies which are majority-owned by an investment entity, for instance in a buy-out by a private equity company, the opportunity to avoid reporting consolidated financial statements, if they apply IFRS. It is not uncommon for such situations to be highly leveraged, the more reason in our view to consider the needs of users at that level.

In the Netherlands, where such situations exist with respect to a number of large enterprises, that option would not be available under Dutch GAAP. As the Netherlands permit the voluntary use of IFRS, this would give rise to significant and unwarranted reporting differences between enterprises that elect to use the IFRS option and those that do not. We also believe this will create a potential conflict with the consolidation requirements in the EU under the original 7th Directive and now under the new 4th Directive.

We are of the opinion that the requirement of consolidated financial statements at the level of a parent entity that is a subsidiary of an investment entity should remain. Although we agree with the consolidation exemption at the investment entity level, this should not entail that the consolidation requirement is waived throughout a group, if it happens to be held by an investment entity. We currently also assume that this proposed exemption is available to any intermediate holding company further down in the group.

We consider this so potentially detrimental to the users at the parent company (and its subsidiaries) level that the IASB should reconsider this proposal.

A reduction in preparation costs for the parent entity that is a subsidiary of an investment entity does also not outweigh the reduced insight into the performance and financial position of the group for users at that level.

Question 2 – A subsidiary that provides services that relate to the parent’s investment activities

The IASB proposes to amend IFRS 10 to clarify the limited situations in which paragraph 32 applies. The IASB proposes that the requirement for an investment entity to consolidate a subsidiary, instead of measuring it at fair value, applies only to those subsidiaries that act as an extension of the operations of the investment entity parent, and do not themselves qualify as investment entities. The main purpose of such a subsidiary is to provide support services that relate to the investment entity’s investment activities (which may include providing investment-related services to third parties). Do you agree with the proposed amendment? Why or why not?

We agree that an investment entity should consolidate a subsidiary that acts as an extension of the operations of the investment entity parent, and do not themselves qualify as investment entities. However, we believe that this amendment is rather specific and gives room for abuse by restructuring. We would like to see a more conceptual and principle-based paragraph to address such issues instead of a specific rule aimed at a specific situation. The principle should be to require investment entities to consolidate significant service activities which relate to the investment entity's investment activities. We believe that such significant operating activities should be made transparent in the consolidated financial statements. We also refer to the concept of a deemed separate entity included in paragraphs B76 of IFRS 10.

Question 3 - Application of the equity method by a non-investment entity investor to an investment entity investee

The IASB proposes to amend IAS 28 to:

(a) require a non-investment entity investor to retain, when applying the equity method, the fair value measurement applied by an investment entity associate to its interests in subsidiaries; and

(b) clarify that a non-investment entity investor that is a joint venturer in a joint venture that is an investment entity cannot, when applying the equity method, retain the fair value measurement applied by the investment entity joint venture to its interests in subsidiaries.

Do you agree with the proposed amendments? Why or why not?

We agree that a non-investment entity should retain the fair value measurement applied by an investment entity associate to its interests in subsidiaries. However, we question the use of the term equity method in this connection. Fair value now appears to be introduced as an additional measurement base under the equity method. We realise that a discussion is ongoing on the equity method in general, but at least the measurement base was clear. We fail to see why this requirement should be connected to the equity method. In our view, it would be better if the requirement stated fair value as the measurement base in such situations rather than relating it to the equity method.

Moreover, we believe that no difference should be made between associates and joint ventures as proposed by the IASB. Both an investment in an investment entity associate and an investment in an investment entity joint venture should be measured at fair value. In our opinion, having joint control through the joint venture instead of significant influence does not justify a different approach for the joint venture versus the associate. Our view is that at the investment entity level the assessment should be made how the investments should be measured, irrespective of the shareholders' structure.

Yours sincerely,

A handwritten signature in black ink, consisting of a vertical line on the left, a loop at the bottom left, and a long horizontal stroke that curves upwards at the right end.

Hans de Munnik
Chairman Dutch Accounting Standards Board