

EFRAG STAFF PAPER FOR PUBLIC MEETING

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Investment Entities: Applying the Consolidation Exception Compatibility with IFRS as issued by the IASB in case of non- endorsement

Objective

- 1 To provide the EFRAG Board with the advice requested from EFRAG TEG relating to the impact of non-endorsement of the standard *Investment Entities: Applying the Consolidation Exception* issued by the IASB in December 2014.

Background

- 2 On 18 December 2014, the IASB published the standard *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28) (the Investment Entity Amendments). The Investment Entity Amendments are applicable for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- 3 EFRAG TEG considered this request at its meeting in January 2015. EFRAG TEG discussed whether non-endorsement of each of the four amendments within the Investment Entity Amendments would create a conflict with existing IFRS and therefore prevent an entity from stating compliance with IFRS as issued by the IASB.

Summary of the Amendments

- 4 The Amendments are summarised below:
 - (a) Amendment 1 – Clarifies that the exemption (an existing option in IFRS 10 *Consolidated Financial Statements*) permitting an intermediate parent entity not to prepare consolidated financial statements when certain criteria are met, applies to an intermediate parent entity that is a subsidiary of an investment entity.
 - (b) Amendment 2 – Requires an investment entity to measure at fair value through profit or loss a subsidiary that is an investment entity and provides investment related activities to its parent entity.
 - (c) Amendment 3 – Modifies IAS 28 *Investments in Associates and Joint Ventures* to permit an entity that applies the equity method to an investment entity associate or a joint venture to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

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- (d) Amendment 4 – Clarifies that IFRS 12 *Disclosure of Interests in Other Entities* applies to investment entities.

Advice from EFRAG TEG

- 5 EFRAG TEG believes that the non-endorsement of Amendments 1, 3 and 4 will not result in a conflict with IFRS as issued by the IASB.
- 6 EFRAG TEG members believe that Amendment 2 could be interpreted as either a clarification of an existing requirement or an amendment to the requirements relating to the consolidation of entities providing services that relate to the investment entity's investment activities. They consider that either interpretation is possible. They also believe that the consequences of non-endorsement depend on whether Amendment 2 is considered a clarification or an amendment of the Standards to which it applies.
- 7 A summary of the analysis considered by EFRAG TEG is attached to this paper.

Question to EFRAG Board

- 8 Do you require any further analysis of this issue?

Attachment: summary of the analysis considered by EFRAG TEG

Implications of non-endorsement of *Investment Entities: Applying the Consolidation Exception* in relation to IFRS as issued by the IASB

Amendments 1, 3 and 4

- 9 EFRAG TEG believes that the non-endorsement of Amendments 1, 3 and 4 will not result in a conflict with IFRS as issued by the IASB because these amendments are either a clarification or contain an option.
- 10 EFRAG TEG considers the first and third amendment to be an option under IFRS, and believes that the removal of options from IFRS is not generally considered to prevent compliance with IFRS as issued by the IASB. However, non-endorsement of these amendments may impose additional costs on preparers (without necessarily providing commensurate benefits to users) because:
 - (a) Under amendment 1, preparers may consider that they need to prepare financial statements for certain intermediate parent entities; and
 - (b) Under amendment 3, preparers will not be provided with the option to retain fair value measurement for certain associates and joint ventures and will need to apply the equity method.
- 11 The fourth amendment is a clarification of IFRS 12. EFRAG TEG noted that if an investment entity was uncertain about whether the disclosures applied in particular circumstances, it could voluntarily disclose the information and therefore comply with IFRS as issued by the IASB.

Amendment 2 - Consolidating a subsidiary that is itself an investment entity and provides services that relate to the parents' investment activities

- 12 EFRAG TEG members believe that Amendment 2 could be interpreted as either a clarification of an existing requirement or an amendment to the requirements relating to the consolidation of entities providing services that relate to the investment entity's investment activities. They also believe that the consequences of non-endorsement depend on whether Amendment 2 is considered a clarification or an amendment of the Standards to which it applies.
- 13 EFRAG TEG did not reach a decision about whether Amendment 2 is a clarification or an amendment to IFRS and related Standards. In their view, either of these two interpretations is possible.

Clarification of existing requirements

- 14 This view is consistent with the IASB's decision not to distinguish between investment-entity subsidiaries that are established for different purposes. If the IASB's view is accepted, then non-endorsement would not prevent compliance with the change in wording made by Amendment 2.

Amendment of existing requirements

- 15 It could be argued that Amendment 2 has changed the requirement in IFRS 10 and has increased the probability of a subsidiary of an investment entity being measured at fair value through profit or loss.
- 16 If this interpretation is accepted, then non-endorsement would imply that entities that apply IFRS 10 as endorsed in the EU are not in compliance with IFRS 10 as issued by the IASB. EFRAG TEG did not assess the impact of this interpretation.