

EFRAG STAFF PAPER FOR PUBLIC MEETING

This paper provides the technical advice from EFRAG TEG to the EFRAG Board, following EFRAG TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

**EFRAG's Draft Letter to the European Commission Regarding
Endorsement of *Investment Entities: Applying the Consolidation
Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)***

Jonathan Faul
Director General, Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Brussels
[Date]

Dear Mr Faul

**Adoption of *Investment Entities: Applying the Consolidation Exception
(Amendments to IFRS 10, IFRS 12 and IAS 28)***

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)* ('the Amendments'), which were issued by the IASB on 18 December 2014. The Amendments were issued as an Exposure Draft on 11 June 2014 and EFRAG published its comment letter on that ~~E~~exposure ~~D~~raft on 1 October 2014.

The objective of the Amendments is to ~~introduce~~ provide clarifications to the requirements when accounting for entities that qualify as investment entities under IFRS 10 Consolidated Financial Statements. The Amendments also provide relief in certain circumstances, which will reduce the costs to preparers of applying IFRS.

Other than for the relief provided, EFRAG considers that the Amendments provide clarity on the application of the amendments to IFRS 10, IFRS 12 and IAS 27 in respect to the accounting for investment entities that were issued by the IASB in 2012 and endorsed in 2013 (the *Investment Entities* amendments). That is, the Amendments clarify the intention of the IASB in issuing the *Investment Entities* amendments.

In EFRAG's view, ~~EFRAG has considered~~ the concerns expressed by some constituents in relation to the potential loss of information for users of financial statements ~~result~~ arise more from the *Investment Entities* amendments than the clarifications made by the Amendments. ~~ing from the confirmed exemption from presenting consolidated financial statements by parent entities, which are also subsidiaries of investment entities. EFRAG notes that this exemption is consistent with the intention of the *Investment Entities* amendments to IFRS 10 published in October 2012.~~ Further, EFRAG understands that only a relatively limited number of ~~additional~~ entities will be affected by the ~~Amendments~~ is change.

Consequently, ~~Consequently,~~ EFRAG has concluded that the ~~Amendments~~ y meet the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that they:

are not contrary to the principle of 'true and fair view' and set out in Article 4 (3) of Council Directive 2013/34/EU meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

~~meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.~~

EFRAG's reasoning is explained in Appendix 2.

Having considered all relevant aspects, EFRAG assesses that adopting the Amendments is conducive to the European public good in reducing costs to preparers by providing either certainty in the application of relevant IFRS or relief without imposing significant additional costs on users. ~~and, a~~ Accordingly, EFRAG recommends their adoption. EFRAG's reasoning is explained in Appendix 3.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Roger Marshall
Acting President of the EFRAG Board

Appendix 1: Summary of the Amendments

Background

- 1 In October 2012, the IASB published *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* (the *Investment Entities* amendments) with an effective date of 1 January 2014. The *Investment Entities* amendments were endorsed for use in the European Economic Area in November 2013.
- 2 The *Investment Entities* amendments require an investment entity to measure its subsidiaries at fair value through profit or loss instead of consolidating them. In the specific case of subsidiaries providing investment-related services, These amendments also introduced an exception to this principle, and IFRS 10 Consolidated Financial Statements requires an investment entity to consolidate rather than fair value those subsidiaries that provide investment-related services or activities.

What has changed?

- 3 The amendments to IFRS 10, IAS 28 *Investments in Associates and Joint Ventures* and IFRS 12 *Disclosure of Interests in Other Entities* ('the Amendments') result from implementation issues caused by a lack of clarity in the *Investment Entities* amendments that were submitted to the IFRS Interpretations Committee in respect to the application of the *Investment Entities* amendments. The Amendments were published by the IASB on 18 December 2014 and are summarised in the paragraphs below.

Amendment 1 - Exemption from presenting consolidated financial statements

- 4 IFRS 10 provides an exemption¹ from presenting consolidated financial statements for a parent entity that meets all of the following conditions:
 - (a) it is a wholly-owned subsidiary or is a partially owned subsidiary and all its other owners have been informed about, and do not object to, the parent not presenting consolidated financial statements;
 - (b) debt or equity shares are not publicly traded;
 - (c) the entity has not filed or is not in the process of filing its financial statements to regulators; and
 - (d) the ultimate or intermediate parent produces consolidated financial statements that comply with IFRS and are available for public use.
- 5 With the introduction of the *Investment Entities* amendments, an investment entity might measure all its subsidiaries at fair value, rather than consolidating them, parent does not always prepare consolidated financial statements by applying consolidation techniques, and would therefore not prepare consolidated financial statements. This has led to a lack of clarity as to whether under IFRS 10, meaning that, in such cases, a subsidiary of such as investment entity, which is itself a parent entity, an intermediate parent entity its intermediate parent entity subsidiaries could no longer apply the exemption in IFRS 10. Such a subsidiary is referred to throughout this document as an intermediate parent entity.
- 6 Amendment 1 clarifies confirms that the exemption in IFRS 10 is continues to be available to an intermediate parent entity, even if its ultimate or intermediate parent

¹ This exemption has existed for many years and has been carried forward from the previous version of IAS 27 *Consolidated and Separate Financial Statements* to IFRS 10, when IFRS 10 was issued in May 2011 and replaced IAS 27.

is an investment entity which measures all its subsidiaries at fair value ~~and prepares separate financial statements under IAS 27 *Separate Financial Statements* as its only financial statements.~~

- 7 ~~A consequential amendment to IAS 28 has~~ **also been amended to provide a similar clarification** ~~been made to confirm that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity, even if the investment entity parent measures all its subsidiaries at fair value.~~

Amendment 2 - Accounting for a subsidiary that is an investment entity and provides investment-related services

- 8 Paragraph 31 of IFRS 10 requires an investment entity to measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. ~~Further~~ **As an exception to this**, paragraph 32 of IFRS 10 requires an investment entity to consolidate a subsidiary that provides services related to the investment entity's investment activities **(investment-related services)**.
- 9 However, it was not clear whether an investment entity should consolidate a subsidiary that is itself an investment entity and additionally provides investment-related services or whether **the subsidiary should be it should** measured ~~it~~ at fair value. Amendment 2 ~~addresses this uncertainty and~~ clarifies that an investment entity should consolidate a subsidiary **that only if it** is not an investment entity itself, and its main purpose and activities is to provide services that relate to the investment entity's investment activities.

*Amendment 3 - Application of the equity method by a non-investment entity ~~investor that has an interest in to an investment entity investee~~ **associate or joint venture that is an investment entity***

- 10 ~~An s explained above, an~~ investment entity associate or joint venture would, as a general principle, measure its subsidiaries at fair value. However, it was not clear whether a non-investment entity would need to unwind the fair value **measurement accounting** and apply consolidation procedures when applying the equity method under IAS 28 to its investment in ~~the an investment entity~~ **associate or joint venture that is an investment entity**.
- 11 ~~Furthermore, IAS 28 requires an investor to use uniform accounting policies and adjust the associate's or joint venture's financial statements for accounting policies should they differ from those of the reporting entity.~~
- 12 ~~11~~ Amendment 3 modifies IAS 28 ~~requirements to permit (but not require)~~ a non-investment entity ~~investor~~ to retain the fair value measurement applied by ~~its an~~ investment entity associate or joint venture, to its interests in subsidiaries. This accounting policy choice was introduced mainly to address concerns about the practical ability and associated costs of unwinding the fair value **measurement accounting** applied by the investment entity associate or joint venture to its subsidiaries.

Amendment 4 - Disclosures requirements

- 13 ~~12~~ Currently IFRS 12 *Disclosure of Interests in Other Entities* states that it does not apply to an entity's separate financial statements. However, IAS 27 states that IFRS 12 is applicable to investment entities that prepare separate financial statements as their only financial statements. Amendment 4 ~~aims to resolve this potential inconsistency and~~ clarifies that an investment entity that measures all of its subsidiaries at fair value should provide the disclosures required by IFRS 12 applicable to investment entities.

When do the Amendments become effective?

~~14~~13 The Amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

~~15~~14 The Amendments shall be applied retrospectively. Entities need only present limited quantitative information for the annual period immediately preceding the date of initial application of IFRS 10. This information is permitted but not required for the current or for earlier comparative periods.

Appendix 2: Assessing whether the Amendments meet the technical requirements for endorsement

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) ('the Amendments').

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the technical criteria for the European endorsement, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Does the accounting that results from the application of the Amendments meet the technical criteria for EU endorsement?

- 1 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002, in other words that the Amendments:
 - (a) are not contrary to the principle of 'true and fair view' set out in Article 4(3) of Council Directive 2013/34/EU; and
 - (b) meet the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.
- 2 In the following analyses, EFRAG has considered each issue from both usefulness for decision-making and for assessing the stewardship of management. In all cases, EFRAG has concluded that the information resulting from the application of the Amendments is appropriate both for making economic decisions and assessing the stewardship of management.

Relevance

- 3 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.
- 4 EFRAG considered whether the Amendments would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.

Amendment 1 – Exemption from presenting consolidated financial statements

- 5 Amendment 1 clarifies ~~is intended to ensure~~ that the existing exemption ~~for an intermediate parent entity not to prepare consolidated financial statements~~ is available to all intermediate parent ~~entities where~~ ~~regardless of whether their~~ ~~its~~ intermediate or ultimate parent ~~entity presents~~ ~~presents consolidated~~ financial statements ~~that comply with the requirements of IFRS 10 Consolidated Financial Statements~~, and the intermediate parent entity complies with the remaining

- ~~'exemption' conditions in IFRS 10~~ or separate financial statements as its only financial statements. Consequently, Amendment 1 is not focused on enhancing the relevance of information provided to users of the intermediate parent entity's financial statements.
- 6 ~~Nonetheless, EFRAG believes that an investment entity's subsidiaries, that are also intermediate parent entities, are fairly represented in the investment entity parent's financial statements at fair value as it reflects the underlying substance of the activities of the entity and how it is managed.~~ Furthermore, EFRAG notes considers that the carrying amounts of interests in subsidiaries of an investment entity parent are supplemented by disclosure of the ~~combination of information provided by the disclosures~~ required by IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 13 *Fair Value Measurement* and IAS 24 *Related Party Disclosures*. These Standards provide relevant information for users of the intermediate parent entity ~~investment entity parent's~~ financial statements, including information about the composition of the group and commitments or intention to provide financial support to/between group entities.
- 7 EFRAG acknowledges that some constituents have raised concerns that Amendment 1 may result in a loss of relevant line-by-line information for some groups of users of the intermediate parent's financial statements. ~~These include for example banking groups and real estate investment funds that are subsidiaries of an investment entity. These users, in particular creditors and lenders, might neither have the possibility to require entities to provide information directly to them nor have the opportunity to object to the parent not presenting consolidated financial statements. These constituents argue that the disclosure requirements in IFRS might not be sufficient to compensate for the loss of consolidated information.~~
- 87 However, EFRAG notes that the exemption from presenting consolidated financial statements is already available to intermediate parent entities ~~subsidiaries of investment entity parents that are themselves parent entities, when the investment entity parent that meet the 'exemption' presents consolidated financial statements, and the other~~ conditions in IFRS 10 ~~Consolidated Financial Statements are met~~. Amendment 1 only affects non-listed intermediate parent entities, that are allowed or required under their local laws to prepare IFRS-compliant financial statements, and whose intermediate or ultimate parent entity measures all its subsidiaries at fair value ~~and presents separate financial statements as its only financial statements~~. Consequently, Amendment 1 is likely to affect only a small population of European entities. ~~Furthermore, the exemption is optional and does not preclude an entity from presenting additional information, including consolidated information if it believes that this information will benefit users.~~
- 98 EFRAG also considers that the exemption already existing in IFRS 10 does not protect stakeholders, such as creditors and other lenders, ~~that are not protected by the conditions in IFRS 10~~ because they ~~are not owners and~~ do not have the opportunity to object to not presenting consolidated financial statements. These stakeholders are likely to be interested in 'legal entity' financial information, ~~presented in separate financial statements,~~ rather than in consolidated financial statements. Furthermore, EFRAG is aware that ~~thinks that it would not be uncommon for~~ providers of finance may ~~to~~ require the presentation of consolidated financial statements as a condition of lending, and would therefore not be affected by Amendment 1.
- 109 EFRAG therefore assesses that Amendment 1 satisfies the relevance criterion.
- 110 EFRAG's assessment is that the consequential amendment made to IAS 28 *Investments in Associates and Joint Ventures* meets the relevance criterion for similar reasons as those stated above in respect to the 'exemption from presenting consolidated financial statements'.

Amendment 2 - Accounting for a subsidiary that is an investment entity and provides investment-related services

- ~~12~~ EFRAG assesses that Amendment 2 will result in relevant information in some cases (for instance, a horizontal group structure). However, we acknowledge that in other cases, particularly multi-layer group structures, Amendment 2 may limit the relevance of information for users particularly when significant investment-related services, which can include services to a parent entity or third parties, are provided by subsidiaries of investment entities that also qualify as investment entities or subsidiaries of these intermediate subsidiaries (indirect subsidiary of the reporting investment entity). Such services, related expenses and financial position information such as debt and cash balances will be reflected as a single fair value measurement. EFRAG understands that multi-layer vertical structures are not uncommon to investment entity groups particularly in the private equity investment sector.
- ~~13~~¹¹ EFRAG notes that the IASB, when developing the *Investment Entities* amendments, acknowledged (in paragraph BC240C of IFRS 10) a the potential loss of information ~~mentioned above~~. However, the IASB ~~has also~~ explained that allowing an investment entity parent to show measure its ~~directly and indirectly held~~ subsidiaries at fair value while consolidating other activities such as investment related services, ~~provided by a subsidiary that also holds an investment portfolio~~, would be similar to the “asset-based approach” which it had rejected when developing the ~~original~~ *Investment Entities* amendments.
- ~~14~~ EFRAG recognises that the reason for the limitation of line-by-line information on investment services provided and related activities is the lack of a solution to reflect the portfolio of an investment entity at fair value and ‘consolidate’ other activities of its subsidiaries. This stems from the requirement in IFRS 10 for an investment entity to measure each of its subsidiaries at fair value regardless of whether they hold underlying investments (portfolio) and undertake other activities (own or provided through an indirectly held subsidiary servicing company).
- ~~15~~¹² EFRAG ~~We~~ also notes ~~that~~, to qualify as an investment entity, an entity needs to ~~meet several conditions, including~~ demonstrating that its core investment activities are designed for earning capital appreciation, investment income or both. Consequently, the provision of investment-related services to third parties should be ancillary to its core investment activities. ~~Therefore, in EFRAG's view, meeting the definition of an investment entity is important in deciding the type of information that users of investment entity financial statements need, and therefore safeguarding against the loss of relevant information for those users.~~
- ~~16~~¹³ Furthermore, ~~EFRAG notes that~~ IAS 24 requires the reporting investment entity parent to provide information about the nature of its relationship with related parties (including fair valued subsidiaries), information on related party transactions (including amounts, balances, and commitments) which should be helpful to users to obtain quantitative and qualitative information on “~~intra~~er-group” investment-related services and related activities provided by the subsidiaries of the investment entity parent.
- ~~17~~¹⁴ Moreover, EFRAG highlights that IFRS 12 requires investment entities to provide information that will enable users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial statements. This requirement is entrenched within the objective of IFRS 12, which explicitly requires an entity to evaluate the level of detail of information required and necessary to satisfy the disclosure objective, and allows a certain level of flexibility to meet its objective. For example, paragraph, paragraph 19C of IFRS 12 states that an investment entity parent may include in its own financial statements the financial statements of its subsidiaries, in order to meet some of the disclosure requirements in IFRS 12. ~~believes that provision of relevant information~~

~~may also depend on investment entities providing voluntary disclosure particularly when the group structures are complex and investment-related services are provided at different levels of the group and by different subsidiaries. This would be consistent with meeting the objective of IFRS 12 that requires entities to disclose information to enable users to evaluate the nature of, and risks associated with, its interests in other entities, and effects on its financial position, financial performance and cash flows, and with the requirements in IAS 1 *Presentation of Financial Statements* which provides an opportunity for an entity to present information it deems to be relevant. EFRAG is aware that some large reporting investment entity groups do so.~~

~~18~~¹⁵ ~~As explained above,~~ EFRAG assesses that Amendment 2 will provide relevant information in some cases and result in a limitation of relevant information in other cases. However, EFRAG's assessment is that this limitation arises more from the Investment Entities amendments than from the clarification provided by Amendment 2. EFRAG also assesses that some of the limitations ~~of in~~ the provision of relevant information will be compensated for through disclosures required by IFRS ~~or through voluntary provision of selected consolidated information by investment entities.~~

~~19~~¹⁶ For the reasons given above, EFRAG's assesses that Amendment 2 satisfies the relevance criterion.

Amendment 3 - Application of the equity method by a non-investment entity investor to an investment entity investee that has an interest in an associate or joint venture that is an investment entity

~~20~~¹⁷ Amendment 3 was introduced mainly to address concerns about the practical ability and associated costs of unwinding the fair value accounting applied by an investment entity associate or joint venture, and does not specifically focus on enhancing relevance of information for users.

~~21~~¹⁸ Nonetheless, EFRAG believes that the fair value measurement applied by an investment entity associate or joint venture to its subsidiaries, provides useful information to users of the non-investment parent entity's financial statements. This is because it will reflect, at the level of the ~~ultimate~~ investor, the business model of its ~~direct~~ interest in an investment entity associate or a joint venture, regardless of whether the investor is itself an investment entity.

~~22~~¹⁹ Consequently, EFRAG's assessment is that Amendment 3 results in the provision of relevant information.

Amendment 4 - Disclosure requirements

~~23~~²⁰ When EFRAG assessed the *Investment Entities* amendments it concluded that the information required by IFRS 12 in respect to investment entities would be relevant to users of financial statements.

~~24~~²¹ The objective of Amendment 4 is to resolve conflicting wording in IFRS 12 and IAS 27 *Separate Financial Statements* and clarify that investment entities must provide the disclosures in IFRS 12 applicable to investment entities.

~~25~~²² Consequently, EFRAG assesses that Amendment 4 meets the relevance criterion.

Overall assessment

~~26~~²³ EFRAG's overall assessment is that the Amendments satisfy the relevance criterion.

Reliability

~~27~~²⁴ EFRAG also considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully

what it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

~~28~~²⁵ There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.

~~29~~²⁶ EFRAG notes that Amendments 1-4 do not affect the reliability of information as defined above as they do not introduce any new recognition or measurement requirements.

~~30~~²⁷ Consequently EFRAG's assessment is that the Amendments satisfy the reliability criterion.

Comparability

~~31~~²⁸ The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

~~32~~²⁹ EFRAG has considered whether the Amendments result in transactions that are:

- (a) economically similar being accounted for differently; or
- (b) transactions that are economically different being accounted for as if they are similar.

Amendment 1 - Exemption from preparing consolidated financial statements

~~33~~³⁰ EFRAG acknowledges that accounting options generally result in a loss of comparable information as entities are permitted to account for economically similar situations in a different way. However, EFRAG considers that Amendment 1 will permit a limited number of additional entities to use an existing ~~option not to exemption from~~ presenting consolidated financial statements, and is therefore likely to have a limited ~~impact~~^{consequence} on comparability of information for those entities to which it applies.

~~34~~³¹ On this basis, EFRAG's ~~assessment~~^{assessment} that Amendment 1 satisfies the comparability criterion.

Amendment 2 - Consolidating a subsidiary that is itself an investment entity and provides parent's investment related activities

~~35~~³² Amendment 2 clarifies the application of current guidance in IFRS 10 and is therefore intended to reduce any existing diversity in practice.

~~36~~³³ A consequence of Amendment 2 is that different accounting outcomes will be driven by the manner in which an investment entity structures its group. However, EFRAG observes that the disclosures required by IAS 24 and IFRS 12 ~~and voluntary disclosures provided in accordance with IAS 4~~ are expected to compensate for any limitation in the provision of information about services, related expenses and activities provided by a subsidiary of an investment entity and help to provide information that is comparable between entities.

~~37~~³⁴ Therefore, EFRAG's assessment is that Amendment 2 satisfies the comparability criterion.

Amendment 3 - Application of the equity method by a non-investment entity ~~investor to an investment entity investee~~ that has an interest in an associate or joint venture that is an investment entity

~~38~~³⁵ Amendment 3 introduces an accounting option for entities that apply the equity method to its associates and joint ventures which qualify as investment entities.

EFRAG acknowledges that accounting options have a negative impact on comparability of information.

[3936](#) However, EFRAG notes that Amendment 3 results from a request from preparers to obtain relief when applying the equity method to associates and joint ventures that qualify as investment entities and measure their subsidiaries at fair value. As a result, EFRAG expects most preparers to decide to use the relief provided.

[4037](#) As a result, EFRAG's assessment is that Amendment 3 satisfies the comparability criterion.

Amendment 4 - Disclosures requirements

[4138](#) Amendment 4 aims to clarify the disclosure requirements in IFRS 12 in respect to investment entities and therefore reduce diversity in practice. Amendment 4 should therefore result in comparable information for users of financial statements.

Overall assessment

[4239](#) EFRAG's overall assessment is that the Amendments satisfy the comparability criterion.

Understandability

[4340](#) The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.

[4441](#) Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

[4542](#) As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of the Amendments is understandable, is whether that information will be unduly complex.

[4643](#) EFRAG notes that the Amendments do not involve new concepts or notions and does not introduce any new complexities that may impair understandability.

[4744](#) EFRAG's overall assessment, therefore, is that the Amendments satisfy the understandability criterion ~~in all material respects~~.

Prudence

[4845](#) EFRAG has assessed that the Amendments do not raise any issues from a prudence perspective. This is because the Amendments do not introduce any new recognition or measurement requirements. The Amendments ~~aim to~~ clarify some situations for which the presentation and accounting requirements in IFRS 10 were not clear, and also introduce an option in IAS 28 to allow a non-investment entity ~~investor~~ to retain the fair value measurement applied by an investment entity associate or joint venture to its interests in subsidiaries.

True and Fair

[4946](#) Information can be relied on to meet the true and fair view principle when it faithfully represents the financial performance and position of an entity. To do so accounting requirements should help provide information that is relevant, reliable, comparable and understandable and leads to prudent accounting. Based on the analysis above, EFRAG's assessment is that the information resulting from the application of the Amendments would not be contrary to the true and fair view principle.

5047 Accordingly, for the reasons set up above, EFRAG's assessment is that the Amendments satisfy the technical criteria for EU endorsement.

Appendix 3: Assessing whether the Amendments are conducive to the European public good

Introduction

- 1 The IAS Regulation states that an international accounting standard can only be adopted if it is conducive to the European public good.
- 2 EFRAG has considered, based on an assessment of whether *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)* ('the Amendments') are likely to improve the quality of financial reporting, and on a cost-benefit analysis [and on evidence brought to its attention by constituents], whether it would be conducive to the European public good to adopt the Amendments.
- 3 For the purpose of this appendix, the Amendments are summarised as follows:
 - (a) Amendment 1 – Exemption from presenting consolidated financial statements;
 - (b) Amendment 2 – Accounting for a subsidiary that is an investment entity and provides investment-related services;
 - (c) Amendment 3 – Application of the equity method by a non-investment entity investor to an investment entity investee that has an interest in an associate or joint venture that is an investment entity; and
 - (d) Amendment 4 – Disclosures requirements under IFRS 12 *Disclosure of Interests in Other Entities*.

EFRAG's evaluation of whether the amendments are likely to improve the quality of financial reporting

- 4 EFRAG notes that the Amendments are designed to clarify some aspects of existing IFRS literature in respect to the exemption from consolidation in IFRS 10 *Consolidated Financial Statements* and thereby decrease diversity in practice.
- 5 EFRAG understands that there is a concern that some entities, permitted to apply IFRSs on an optional basis, may be encouraged by Amendment 1 to adopt IFRS in order not to present consolidated financial statements. This may mean that users will need to incur additional costs to obtain relevant information from alternative sources.
- 6 However, EFRAG notes that IFRS contains extensive recognition, measurement, presentation and disclosure requirements. Therefore, financial information provided in accordance with those requirements is expected to reduce users' costs in ~~to~~ seeking for an alternative sources of information. Moreover, no evidence has been brought to EFRAG's attention that the exemption from presenting consolidated financial statements, already provided by IFRS 10, has led entities to adopt IFRS.
- 7 EFRAG also acknowledges that the application of Amendment 2 may result in different accounting outcomes depending on how ~~driven by the manner in which~~ an investment entity structures its group. However, EFRAG observes that required disclosures in IFRS, ~~together with voluntary disclosures that investment entities may provide~~, are likely to reduce the impact on comparability of information provided by an investment entity parent affected by Amendment 2, and therefore not expected to affect the quality of information for users of financial statements.

- 8 EFRAG has therefore concluded that the clarifications provided by the Amendments are likely to improve financial reporting.

EFRAG's assessment of the costs and benefits of the Amendments

- 9 EFRAG has carried out an assessment of the costs and benefits expected to arise for preparers and for users from implementing the Amendments, both in year one and in subsequent years. The results of EFRAG's assessment can be summarised as follows:

- (a) Costs – EFRAG's assessment is that the Amendments will result in insignificant one-off costs for preparers and users, a reduction of ongoing costs for preparers and, on balance, an insignificant impact on ongoing costs for users.
- (b) Benefits – EFRAG's assessment is that preparers will benefit from the reduced ongoing costs and, users are likely to benefit from the clarifications made by the Amendments.

~~Details of EFRAG's assessment of the costs and benefits of the Amendments~~

~~10 Based on its analysis [and constituents' views on that analysis], EFRAG's detailed final analysis of the costs and benefits of the Amendments is presented below.~~

Costs for preparers

~~11~~10 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendments.

One-off costs

~~12~~11 EFRAG notes that the Amendments aim to clarify the requirements introduced by, or affected by, the *Investment Entities* amendments and do not introduce new ~~accounting~~ concepts ~~to be applied by preparers~~.

~~13~~12 EFRAG understands that some preparers may be required to restate the comparative ~~information~~ figures in respect to Amendment 2. In this regard, an investment entity required to de-consolidate a subsidiary and measure it at fair value, would typically manage all its subsidiaries on a fair value basis and have the fair values readily available.

~~14~~13 Therefore, EFRAG believes that for preparers the Amendments will result in insignificant one-off costs of implementation.

Ongoing costs

~~15~~14 EFRAG notes that Amendments 1 and 3 provide cost-relief to preparers from tracing or collecting information that may be costly and burdensome to obtain.

- (a) Amendment 1 grants parent ~~entities that are subsidiaries of investment entities~~ entities that are subsidiaries of investment entities an option not to at relief from presenting consolidated financial statements if the conditions in paragraphs 4(a) of IFRS 10 are satisfied.
- (b) Amendment 3 provides a relief for non-investment entities, that have interests in associates and joint ventures qualifying as investment entities, and allows such non-investment entities to retain the fair value accounting applied by their associate and joint venture investees to their respective subsidiaries when applying the equity accounting.

~~46~~¹⁵ EFRAG notes also that Amendments 2 and 4 are not likely to affect the on-going costs of the preparers.

~~47~~¹⁶ Therefore, EFRAG's assessment is that the Amendments may reduce the ongoing costs for preparers.

Overall assessment

~~48~~¹⁷ Overall, EFRAG's assessment is that the Amendments are likely to result in only insignificant one-off implementation costs and a possible reduction of ongoing costs.

Costs for users

~~49~~¹⁸ EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments.

One-off costs

~~20~~¹⁹ EFRAG's assessment is that users may have to incur one-off costs to read and understand the Amendments. However, EFRAG notes that the Amendments do not introduce any new accounting concepts, and therefore any one-off costs that users may incur to read and understand the Amendments are likely to be insignificant.

Ongoing costs

~~24~~²⁰ Under Amendment 1, some preparers will no longer be required to present consolidated financial statements. For those entities, EFRAG notes that the provision of relevant information is safeguarded by the conditions set in paragraph 4 of IFRS 10, and any resulting increased ongoing costs will affect non-primary users (for example some creditors or employees). Given its restricted scope, Amendment 1 is likely to affect only a small number of companies, and consequently any ongoing costs for users are likely to be insignificant.

~~22~~²¹ As mentioned in paragraph 7 above, EFRAG understands that the application of Amendment 2 may result in different accounting outcomes driven by the manner in which an investment entity structures its group and, as a result, reduce comparability of information for users of investment entity financial statements. However, EFRAG observes that this was a consequence of endorsing the *Investment Entities* amendments to IFRS 10, and does not expect Amendment 1 to have a significant impact on-going costs for users.

~~23~~²² EFRAG notes that Amendment 3 introduces an accounting policy option for preparers which inevitably affects the comparability of financial statements between similar entities. However, given the expected reduction in costs for preparers which use the relief provided by Amendment 3, EFRAG expects that the majority of preparers will apply the relief, which will increase comparability. Consequently, EFRAG assesses Amendment 3 to have an insignificant impact on the on-going costs for users.

~~24~~²³ EFRAG assesses that Amendment 4 is unlikely to affect users' ongoing costs as it is intended to ensure the provision of relevant information by preparers.

Overall assessment

~~25~~²⁴ Overall, EFRAG's assessment is that the Amendments will result in only insignificant incremental one-off cost of implementation and some ongoing costs for users which are unlikely to be significant.

Benefits for preparers and users

~~26~~²⁵ EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments.

~~27~~²⁶ EFRAG assessed that preparers are likely to benefit from the reduction of ongoing costs resulting from the reliefs provided by Amendments 1 and 3.

~~28~~²⁷ EFRAG assessed also that users of financial information are likely to benefit from the Amendments 1, 2 and 4 due to the clarifications to the requirements in IFRS 10 and from Amendment 3 because preparers are expected to provide relevant fair value information for most of the subsidiaries of their investment-entity associates and joint ventures.

~~29~~²⁸ EFRAG's assessment is that both preparers and users are likely to benefit from the Amendments.

Conclusion on the costs and benefits of the Amendments

~~29~~ Overall, EFRAG's assessment is that the Amendments are likely to result in cost savings for preparers and benefits for users that will likely outweigh one-off costs for users of understanding and implementing the Amendments and incorporating the new requirements in their analysis and ongoing costs of assessment.

Overall conclusion

30 Based on the assessment that the Amendments are likely to improve financial reporting, together with the likely reduction of costs for preparers, without a significant increase in costs for users, EFRAG concludes that adopting the Amendments is conducive to the European public good.