



ED/2011/4

Investment Entities

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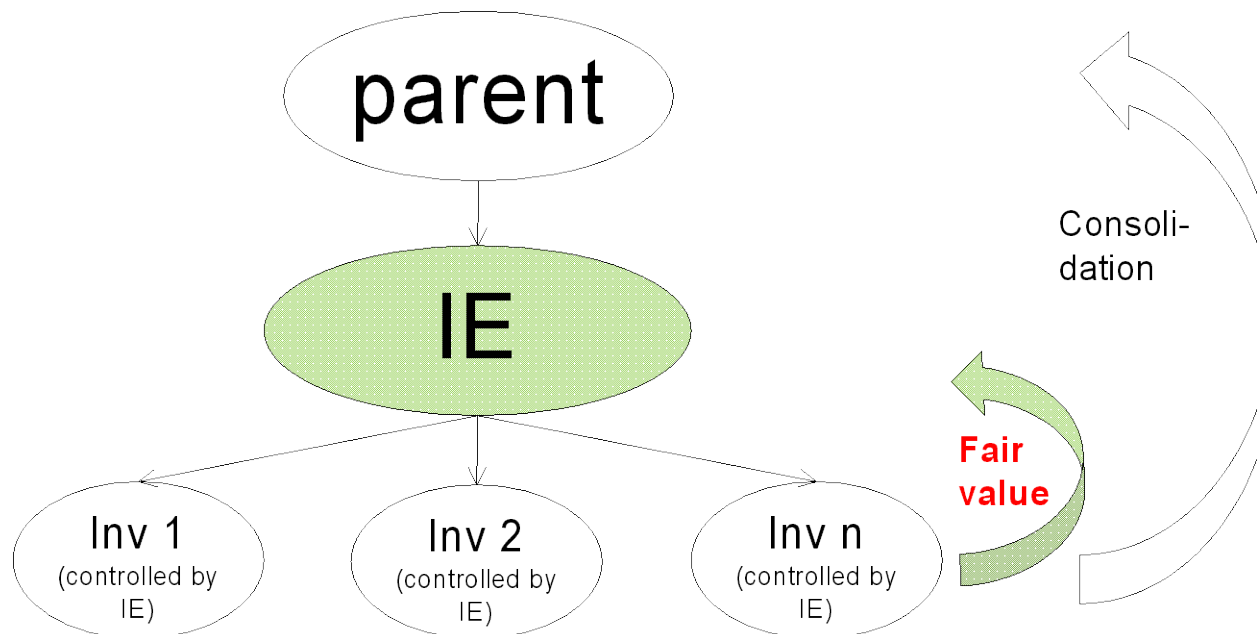


1. Background and objective

- Respondents to ED 10 *Consolidated Financial Statements* (December 2008) questioned decision usefulness of financial statements of investment entities if IFRSs require the consolidation of entities that an investment entity controls
 - February 2010: IASB and FASB decide to jointly work on proposal to exclude investment entities from consolidation
- IASB: ED/2011/4 of 25. August 2011
- **FASB: not yet published**
- End of comment period: 5. January 2011

2. Exclusion from consolidation: IASB approach

- Investment entities are excluded from requirement to consolidate entities that it controls
- Objective: Increase decision usefulness of financial statements of investment entities





2. Exclusion from consolidation: IASB approach

- Definition of investment entities (ED/2011/4 par. 2)
 - a) nature of the investment activity
 - b) business purpose
 - c) unit ownership
 - d) pooling of funds
 - e) fair value management
 - f) disclosures



2. Exclusion from consolidation: IASB approach

- Nature of investment activity (ED/2011/4 B1-B6)
 - No substantive activities other than its investing activities
 - Exception e.g.: IE provides (or holds an investment in an entity that provides) services that relate only to the investment entity's own investment activities
 - Multiple investments
 - Earnings from investments: investing for the purpose of capital appreciation, investment income (such as dividends or interest), or both



2. Exclusion from consolidation: IASB approach

- Business purpose (ED/2011/4 B7-B11)
 - Explicit commitment to a group of investors or potential investors that the purpose of the entity is investing for capital appreciation, investment income (such as dividends or interests), or both
 - Exit strategy



2. Exclusion from consolidation: IASB approach

- Pooling of funds (ED/2011/4 B14-B16)
 - Entity must have investors that are unrelated to the entity's parent (if any), and they must in aggregate hold a significant ownership interest in the entity
 - Exceptions (e.g. master-feeder-fund structures)



3. Exclusion from consolidation: GASB approach

- General agreement with IASB's proposal to exclude certain entities from being consolidated
- **But:** decision usefulness of financial statements regarding consolidation or fair value measurement of controlled investments does not depend on the characteristics of the investing entity, but on the characteristics of the investment itself
- **Exception would not be limited to investment entities**
- Instead relevance of specific characteristics of the investment
 - Only purpose of investing is – as defined by the IASB – to earn capital appreciation, investment income (such as dividends or interest), or both and
 - Intention (at the date of the acquisition) to dispose of that investment



3. Exclusion from consolidation: GASB approach

- **Extension of this approach** to accounting for investments in associates:

Decision usefulness of the information does not depend on the specific characteristics of the investing entity, but on the specific characteristics of the investment

- No limitation to investment entities regarding the fair value measurement of investments in associates



4. IASB's invitation to comment

Question 1 – Exclusion of investment entities from consolidation

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?



4. IASB's invitation to comment – GASB's tentative views

- GASB agrees with IASB's proposal to exclude certain entities from being consolidated
- GASB agrees that fair value measurement of certain controlled investments can be more decision useful than consolidating those investments
- **No limitation to investment entities**
- Relevance of specific characteristics of the investment
 - Only purpose of investing is – as defined by the IASB – to earn capital appreciation, investment income (such as dividends or interest), or both and
 - Intention (at the date of the acquisition) to dispose of that investment



4. IASB's invitation to comment

Question 2 – Criteria for determining when an entity is an investment entity (paragraphs 2 and B1-B17)

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?



4. IASB's invitation to comment – GASB's tentative views

IASB

- a) nature of the investment activity
- b) business purpose
- c) unit ownership
- d) pooling of funds
- e) fair value management
- f) disclosures

GASB

- a) -
- b) +
- c) +
- d) -
- e) +
- f) +



4. IASB's invitation to comment

Question 3 – Nature of the investment activity (paragraphs 2(a) and B1-B6)

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?



4. IASB's invitation to comment – GASB's tentative views

- GASB approach:

Substantive activity requirement not relevant

- GASB's evaluation within the IASB approach:

Rejection of the exception for entities who provide (or hold an investment in an entity that provides) services that relate to its own investment activities or investment activities of entities other than the reporting entity (if substantive)



4. IASB's invitation to comment

Question 4 – Pooling of funds (paragraphs 2(d) and B14-B16)

- (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?



4. IASB's invitation to comment – GASB's tentative views

- GASB approach:

Unrelated investors requirement not relevant

- GASB's evaluation within the IASB approach:

No support for the requirement to have unrelated investors that in aggregate hold a significant ownership interest in the entity



4. IASB's invitation to comment

Question 5 – Measurement guidance (paragraphs 6 and 7)

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?



4. IASB's invitation to comment – GASB's tentative views

- GASB approach / IASB approach:

Agree with requirement to measure investment properties at fair value



4. IASB's invitation to comment

Question 6 – Accounting in the consolidated financial statement of a non-investment entity parent (paragraph 8)

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?



4. IASB's invitation to comment – GASB's tentative views

- Rejection of IASB's proposal
- Instead: fair value measurement in parent's financial statements
- Argument to achieve more decision useful information is true also on the level of the parent's financial statements



4. IASB's invitation to comment

Question 7 – Disclosures (paragraphs 9 and 10)

- (a) Do you agree that it is appropriate to use a 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?



4. IASB's invitation to comment – GASB's tentative views

- Agree with the underlying principle
- Improve standardsetting by deleting reference to IFRSs 7, 12 und 13 (par 10) as well as reference to possible duplication of disclosures (B20) – instead list all disclosures that are required elsewhere
- Reduction of per share information; integration into IFRS frame (here: IAS 33) necessary



4. IASB's invitation to comment

Question 8 – Transition (paragraph C2)

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?



4. IASB's invitation to comment – GASB's tentative views

- GASB suggests retrospective application unless impracticable



4. IASB's invitation to comment

Question 9 – Scope exclusion in IAS 28 (as amended in 2011)

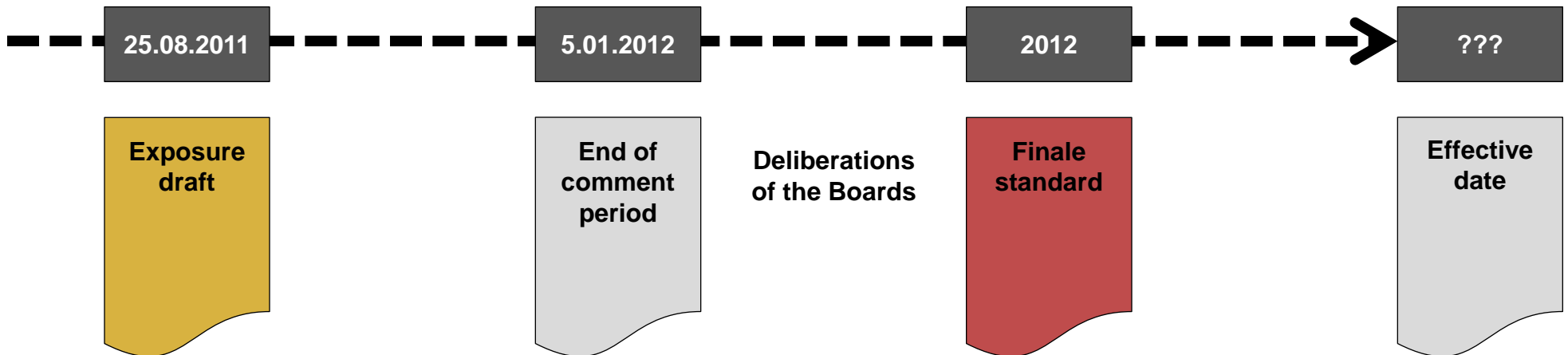
- (a) Do you agree that IAS 28 should be amended so that the measurement exemption would apply only to investment entities as defined in the exposure draft? If not, why not?
- (b) As an alternative, would you agree with an amendment to IAS 28 that would make the measurement exemption mandatory for investment 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?



4. IASB's invitation to comment – GASB's tentative views

- Agree with IASB's proposal to replace references to „venture capital organisations, mutual funds, unit trusts and similar entities“ with „investment entities
- Agree with replacement of measurement option with measurement exception, requiring an investment entity to measure its investments in associates or joint ventures at fair value through profit or loss

5. Next steps



Thank you!

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