

December 21, 2011

International Accounting Standards Board
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

This letter is the response of the User Advisory Council (the Council) of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Investment Entities" issued in August 2011.

The Council comprises a diverse group of 23 members, including investors and investment professionals, credit granters in financial institutions, equity and credit analysts, and rating agency analysts. Additional information about the Council can be found at www.acsbcanada.org.

The views expressed in this letter are those of the Council members and do not necessarily represent a common view of the Council, the AcSB or staff, nor do the views expressed by the Council members represent the views of their respective organizations. Views of the AcSB are developed only through due process.

The Council appreciates the opportunity to provide comments on the Exposure Draft and would like to thank the IASB and the FASB staff for joining the Council's discussion and responding to member's questions.

The Council agrees that there is a class of entities, commonly thought of as investment entities in nature, that should not consolidate controlled entities and instead measure them at fair value through profit or loss. We reaffirm the view that we expressed in our response to IASB Exposure Draft 10 “Consolidated Financial Statements”:

“From our perspective, we would support accounting for controlling interests in other entities based on the information used by management to run the business. If management evaluates the performance of a controlling interest in an entity based on its fair value, then the investment should be reported at its fair value in the financial statements. If management evaluates the performance of the controlling interest in an entity by assessing the underlying assets, liabilities and operating results of the investee, then the reporting entity should be consolidating the investee.”

Reporting the fair value of an investment entity’s investments is appropriate because users of the entity’s financial statements make their investment decisions based on the fair value of the investments held and not on how the individual assets and liabilities held by each investee are utilized.

However, several Council members are concerned about the potential for entities to structure arrangements so as to avoid providing information about the extent of liabilities held in investees. These members think that multi-level structures can be used to conceal an entity’s exposures. Therefore, these Council members agree that a parent of an investment entity that is not itself an investment entity should be required to consolidate all controlled investees, including those held by controlled investment entities.

A few Council members support the proposal in the FASB’s Exposure Draft to require an investment entity to consolidate controlling interests held in other investment entities (i.e. in fund-of-fund arrangements) in order that users could evaluate the underlying investment positions. In addition, these members would prefer to receive information about the underlying

financial position of controlled investees. However, these members did agree that an entity could, instead, disclose information about material investments held in those investees or underlying funds.

Therefore, the Council recommends that the current disclosure requirements should be reviewed and expanded to provide additional transparency about the holdings and liabilities of controlled investees. Some Council members recommend that the total amount of assets and liabilities of controlled investees should be disclosed.

We would be pleased to elaborate on these points in more detail if you require. If so, please contact me, Peter Martin, Director, Canadian Accounting Standards Board Staff at +1 416 204-3276 (e-mail peter.martin@cica.ca), or Rebecca Villmann, Principal, Canadian Accounting Standards Board Staff at +1 416 204-3464 (e-mail rebecca.villmann@cica.ca).

Yours truly,

A handwritten signature in black ink, appearing to read 'Anthony Scilipoti', with a stylized flourish at the end.

Anthony Scilipoti, CA, CPA
Chair, User Advisory Council