Project	**Consolidation**
Topic	**Investment Companies**

Introduction

1 ED 10 *Consolidated Financial Statements* retained the same scope as IAS 27 *Consolidated and Separate Financial Statements*. IAS 27 requires all reporting entities, including investment companies, to consolidate entities that they control. Appendix A reproduces the scope section of the Basis for Conclusions of IAS 27.

2 Many respondents to the ED expressed concerns about the different accounting treatment for investment companies in IFRSs than in other national GAAPs, especially the United States and Canada, which have historically had a scope exemption that allows investment companies to measure interests in entities that they control at fair value.[1] Most respondents that commented on this issue expressed concern for the usefulness of financial statements of investment companies if IFRSs continue to require the consolidation of investments that an investment company controls. Respondents' comments are discussed in greater detail later in the paper.

3 The purpose of this paper is to discuss and address the concerns of respondents and users regarding accounting for investments by an investment company and the implications of consolidation for these entities.

[1] The types of entities that have typically been considered to be investment companies include mutual funds, hedge funds, private equity funds and venture capital funds.

4 This paper discusses the following:

(a) Comments from respondents to ED 10 (paragraphs 5 – 6)

(b) Users' views (paragraphs 7 – 15)

(c) Staff analysis and recommendations (paragraphs 16 – 24)

(d) Staff proposals (paragraphs 31 – 42)

(e) Additional disclosures required when subsidiaries are reported at fair value (paragraphs 43 – 46)

(f) Accounting by a parent for investments held in an investment company subsidiary (paragraphs 47 – 50)

Comments from respondents to ED 10

5 Some respondents to ED 10 commented that the proposed control principle in ED10 was not appropriate for investment companies.[2] These respondents believe that the scope of ED10 should be amended so that when a reporting entity is considered an investment company all of its investments should be measured at fair value, even if a controlling interest is held. These respondents insisted that investment companies invest only for the purpose of income or capital appreciation; they do not access the investee's assets and have no recourse for the investee's debt. Accordingly, consolidated financial statements of these investment companies are not useful for assessing their performance.

6 Those respondents expressed concern that consolidated financial statements provide little, if any, benefit to the users of those financial statements.

> We think that structures that hold controlling interests in other entities for investing, rather than operating, purposes should report those investments at fair value. Reporting the fair value of these investments is appropriate because users make their investment decisions based on the fair value of the investments held,

[2] Several respondents to the Fair Value Measurement exposure draft also commented on this issue; all in favour of fair value measurement for investments held by an investment company, regardless of whether the investments company controls its investments.

> and not based on how the individual assets and liabilities held by each entity are utilized. The investments are managed and financed independently and value will be derived by the entity directly realizing the investment. From our experience, consolidated financial statements of these types of investment companies would be useless because they would exclude information that would affect decisions users make. Therefore, we think that the fair value of controlling interests held in other entities is the most decision useful information about investment companies. [CL 47 *User Advisory Council of the Accounting Standards Board of Canada (AcSB)*]
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> …consolidation should not be required because they [investment companies] manage those investments on a net basis and, in their view, presenting the underlying assets and liabilities of their investments is misleading and uninformative. [CL 43 *CFA UK*]
>
> Based on our discussions with users, preparers and auditors of investment company financial statements, we think that the IFRS consolidation standard should require such entities to report controlling interests in investees at fair value. In these situations, we disagree that the most relevant information is provided by financial statements that consolidate controlled investees. Based on our experience and discussions, such financial statements obscure relevant information. Accordingly, to meet the needs of financial statements users, investment companies should be required to apply a fair value accounting model. [CL 93 *AcSB*]

Users' views

7 As a follow-up to the above comments and others, the staff met with users from the US, Canada and Europe—mostly analysts and one credit rating agency. These users confirmed the concerns of respondents to ED 10 and conveyed a consistent message.

8 All of these users stated that when an investment company holds an investment, regardless of whether it meets the control definition, the most useful information is the fair value of the investment, the changes in its fair value and the resulting changes in profit or loss.

9 Users argued that fair value is the most useful information in these situations because fair value is a critical component of the information used for analysing the performance of this industry. Investment companies base their investment decisions on the basis of the fair value of the investment and will redeem their

investments on the basis of changes in fair value. Accordingly, information related to an investee's underlying assets and liabilities is of little value when evaluating the performance of investment companies. Consolidation obscures the users' ability to assess the investment company's financial position and results because it emphasises the financial position, operations and cash flows of the investee, rather than those of the investment company. Additionally, some of the items consolidated would be measured at historical cost, distorting the performance assessment of the investment company—which is more properly fair value based.

10 Users argued that consolidating controlled investments reduces the comparability of the different investments reported in the investment company's financial statements. Commonly, an investment company holds non-controlling interests in other entities that are reported at fair value, as well as some controlling interests in other entities which are consolidated according to IFRSs. In the case of investment companies, reporting controlling interests and non-controlling interests in other entities on a different basis hinders the ability of users to compare investments, because both types of investments are held for a similar purpose—capital appreciation, investment income, or both.

11 Analysts that use IFRS financial statements are strongly in support of fair value measurement for all investments held by investment companies. In their view, consolidated information is not useful when value is realized in such investment companies from holding and/or trading investments. According to one analyst, consolidated information in these situations is virtually ignored. Companies currently required to report IFRS financial statements either (a) avoid holding controlling interests in investments; (b) report two sets of accounts to provide fair value information in addition to consolidated information; or (c) provide only a simple net asset value amount in the notes to the financial statements which, in one analyst's opinion, is not as robust as requiring fair value as the primary measurement of the controlled investment.

12 One investment company that reports in accordance with IFRSs confirmed that it is willing to accept a qualified audit opinion—qualified on the grounds that its controlled investments are measured at fair value and not consolidated, rather than consolidate their controlled investments. Users of its financial statements have not objected. In addition, we understand that investment companies that have a choice, eg unlisted European investment companies, generally choose to report their financial statements using non-IFRS GAAP so as not to consolidate controlled investments.

13 IFRSs do allow an entity to disclose fair value information in the notes to the financial statements or in other supplementary material in addition to the consolidated financial statements. However, users consider it unnecessary for investment companies to provide consolidated information. They argue that fair value should be the primary measurement for all investments. In addition, if entities are preparing separate supplementary financial statements reporting investments at fair value, then these statements are not subject to audit.

Additional disclosures

14 Users also noted that as a result of investment companies consolidating their controlled investments, the financial statements do not provide the disclosures related to fair value measurements that would be required if the investments were measured at fair value. IFRS 7 *Financial Instruments: Disclosures* for example, relates only to recognised financial assets and liabilities; there is no requirement to provide the fair value related disclosures for amounts not recognised in the financial statements, which is the case of these investments because it is the underlying assets and liabilities that are recognised. Primarily, users want information about the methodology used and the inputs that would be used for developing fair value.

15 Some also suggested that operating metrics of the investee may provide useful information, for example, revenue, operating margins, leverage, total debt, etc.

These users suggested requiring “condensed” financial statements to supplement the fair value provided.

Staff analysis and recommendations

16 The staff support fair value measurement for all investments of investment companies primarily because of the views of users. Users have indicated that fair value measurement for all investments held by an investment company (regardless of whether the investment meets the definition of control) is necessary to make decisions as capital providers. Users want information about the fair value of the investments held, changes in the fair value and the income (dividends) received. Consolidated financial statements in these situations only serve to distort the information desired by users by, for example, (a) combining the assets of the investment that are not used by the investment company together with the assets of the investment company and (b) eliminating the dividends received from the investment.

17 Furthermore, Chapter 2 (Phase D) of the Conceptual Framework project states in the exposure draft’s ballot draft that consolidated financial statements of a parent and its subsidiaries are **most likely** to provide useful information to the greatest number of capital providers. The boards’ acknowledgement that consolidated financial statements may not provide the most useful information in *all* circumstances and the staff believe that an investment company holding an investment in a subsidiary is one of these instances.

18 Additionally, the SEC’s roadmap for potential convergence (the Roadmap), proposed in 2008, specifically excludes investment companies (as defined under the Investment Company Act of 1940). In the *request for comment*, question 6 asks:

> Is it appropriate to exclude investment companies and other regulated entities filing or furnishing reports with the Commission from the scope of this Roadmap? Should any Roadmap to move to IFRS include these entities within its scope? Should these considerations be a part of the Roadmap? Are there other

classes of issuers that should be excluded from present consideration and be addressed separately?

19 On the basis of responses from some of the large accounting firms, the staff understands that these firms were in not in favour of excluding investment companies from the scope of the Roadmap because the goal should be a single set of standards for *all* entities. Some firms were in favour of exclusion if this issue would delay adoption of IFRSs for US registered companies. Other firms were in favour of excluding investment companies at this time, because of the differences in accounting, but noted that *all* entities should eventually be accounted for under a single set of standards.

20 More recently, in the light of the approaching date for adoption of IFRSs in Canada, some Canadian securities regulators have published for public comment a document proposing alternative accounting guidance for investment companies in Canada because of the consolidation requirements in IFRSs.

21 The staff is concerned that if this issue is not resolved it could potentially result in deviations from IFRSs in some jurisdictions.

Staff recommendation

22 The staff recommend that *all* entities apply the requirements of the consolidation standard to assess control of an entity. Only after an entity determines that its relationship with another entity meets the definition of control should it then evaluate if it also meets the criteria of an investment company (to be proposed later) and would therefore be required to measure its investments using fair value, with changes in fair value recognised in profit or loss.

23 The staff does not intend to exempt any entities from the requirement to assess control when it has a relationship with another entity. Users have stressed the importance of disclosures to describe the relationship between a parent and a subsidiary and to simply remove a group of entities from the scope of the standard would be a disservice to the users of their financial statements. Therefore, the staff recommends that even though the investments in an investment company

would be measured at fair value, the reporting entity would be required to comply with the relevant disclosure requirements for when a company controls another entity. [Suggested disclosures are discussed in paragraphs 43 – 46.]

24 If the IASB chooses to follow the staff recommendation, we acknowledge that it would be an exception to the proposed core consolidation principle in ED10—that a reporting entity presents financial statements that consolidate its assets, liabilities, equity, income, expenses and cash flows with those of the entities that it controls. Nonetheless, in the light of users' comments, the staff recommend fair value measurement for all investments held by investment companies, even if a controlling interest is held, because it provides the most useful information for users of those financial statements.

Alternative view

25 Although all of the joint project team support the recommendation, some other IASB staff have concerns.

26 The IASB has considered this matter on several occasions in the last few years. In each case the Board was unanimous in its support for retaining investment companies within the general consolidation requirements—ie no exceptions. The IASB expressed support for the view expressed in the Basis for Conclusions in 2002. At the time, the IASB considered the need of users but concluded that their needs would not be well served if controlling investments were measured only at fair value. The proposals in this paper go some way to addressing informational deficiencies by suggesting supplementary disclosures.

27 However, what is proposed here would be a fundamental shift in thinking for the IASB. Although IFRS 9 *Financial Instruments* uses 'the entity's business model for managing financial assets' as the basis for classifying financial assets, there is a difference between using the business model as the basis for determining measurement and using the business model to decide what assets and liabilities to recognise. The exception being proposed changes what is being recognised from

the carrying value of the underlying assets and liabilities of the investee to the net interest in the investee at fair value.

28 The boards have agreed that an ‘ability to’ model is the appropriate basis for consolidating an entity into its parent. There seems little doubt that in the cases described here that the reporting entity does have the ability to direct the assets and liabilities of the underlying entity. Even though the reporting entity might establish contractual or other constraints to self-impose restrictions on its ability to direct the assets and liabilities it is not always clear that these features cannot be unlocked by the reporting entity if necessary. And if the reporting entity is as constrained as is sometimes implied, these staff question whether the reporting entity actually controls the other entity.

29 There is also the question of precedence. Even though the proposals are not characterised as ‘industry specific guidance’, there is a risk that it will be perceived as such. The IASB has always sought to avoid requirements that are industry specific, focusing instead on transaction types.

30 Having said this, these staff have sympathy for addressing the problem. But these staff are concerned about the implications of creating an exception for the IASB of the nature characterised here. These staff know that this is not a new exception in the FASB literature, but that exception evolved in a different, and specific, regulatory environment.

Question 1 for the IASB
Is the IASB willing to consider that fair value measurement could be the appropriate measurement for all investments held by investment companies and that the current requirements in IAS 27 as carried forward in ED 10 should be amended?

Question 2 for the FASB
If the IASB decides to retain the current scope of ED 10 and IAS 27 (ie no fair value measurement requirement for investment companies), would the FASB consider removing the scope exemption in US GAAP?

Staff proposals

31 As noted in the previous section of the paper, users we met with during our outreach unanimously agreed that investment companies should measure their investments at fair value, even if a controlling interest is held. However, the staff acknowledge the difficulty in drawing a boundary around investment companies to ensure that the requirements are not open to abuse.

View 1

32 The staff supporting **view 1** have worked closely with several external groups to develop a proposal that draws what the staff supporting this view believes to be the appropriate boundary—ie to capture entities that the staff think should be considered investment companies and exclude those entities that should not be considered investment companies.[3] This view was developed largely from the guidance published by the Canadian Accounting Standards Board (AcSB) for investment companies (AcG 18 – Investment Companies[4]) and the submission provided by the Investment Funds Institute of Canada, British Columbia Investment Management Corporation and Caisse de dépôt et placement du Québec (attached as Appendix B). This view also takes into account submissions from the Private Equity Council and the BVCA working group (attached as Appendices C and D, respectively).

33 Because the definition of control of an entity being developed is an 'ability to' model, an investment company may control some of its investments because of rights attached to the interests that it holds. However, the investment company does not derive benefits from its investments by managing the underlying assets and liabilities of its investees; it derives benefits solely from holding and trading

[3] Respondents' comments and proposals on this issue that were received after the comment letter period ended are available on the IASB website at: http://www.iasb.org/Current+Projects/IASB+Projects/Consolidation/Letters+Received+Outside+the+Comment+Period.htm

[4] AcG-18 is available from the staff on request.

its interests in investees. The criteria included in **view 1** (in paragraphs 34 – 37 below) identify an investment company on the basis of its business model, which is restricted to holding investments in a passive manner.

Proposed core principle

34 The proposed core principle would be:

A reporting entity shall present financial statements that consolidate its assets, liabilities, equity, income, expenses, and cash flows with those of the entities that it controls, except for a reporting entity that meets both of the following conditions:

(a) The reporting entity is a separate legal entity that is limited by contract, regulation, or other legal arrangement to acquiring, holding, and disposing of investments for the expressed purpose of capital appreciation, investment income or both; and

(b) If the reporting entity is obliged to redeem interests in itself, then it does so on the basis of the fair value of its net assets.

A reporting entity that meets these two requirements shall measure all of its investments at fair value, with changes in fair value recognised in profit or loss and shall provide the appropriate disclosures in IFRS 7 *Financial Instruments: Disclosures* and IFRS X *Consolidated Financial Statements* (additional disclosure proposals are set out in paragraphs 43 – 46 of this paper).

The reporting entity is a separate legal entity that is limited by contract, regulation, or other legal arrangement to acquiring, holding and disposing of investments for the expressed purpose of capital appreciation, investment income or both

35 The staff believes that in order to meet the criteria in paragraph 34(a), a reporting entity must have all of the following characteristics:

- the reporting entity does not have substantive activities other than those investing activities.
- the reporting entity evaluates the performance of its investments on a fair value basis, in accordance with documented risk management or investment strategies. Information about investments that is provided to its key management personnel and to external investors is also prepared on a fair value basis.
- the reporting entity does not easily have the ability to change any restrictions on its activities; for example, if an entity is incorporated with the sole purpose of investing for capital appreciation, income or both, its articles of incorporation can only be changed with a super-majority vote of the shareholders.
- the reporting entity is not involved either directly or indirectly in the operations of its investee; for example, this could include providing or assisting the investee in obtaining financing, using or directing the use of the investee's assets, or replacing the investee's management team.
- the reporting entity does not guarantee or is not directly obliged for the repayment of the debt of its investees.
- the reporting entity does not obtain benefits from its investees that would be unavailable to other investors that are not related parties of the investee; for example, receipt of any servicing or financing fees, synergistic returns or cost savings (eg cannot use the assets of the other entity to gain access to liquidity or to settle other liabilities).
- personnel, information systems and other critical resources of investees are not integrated with those of the reporting entity; for example, replacing the investee's management team would be an integration of personnel. Significant intercompany balances or transactions between the reporting entity and its investee typically indicate integration of critical resources.

If the reporting entity is obliged to redeem interests in itself, then it does so on the basis of the fair value of its net assets

36 A reporting entity has an obligation to redeem interests in itself based on the fair value of its net assets when investors or other stakeholders can demand payment at any time, or under circumstances that are certain to arise. For example, a reporting entity could be committed to redeeming issued financial instruments at a specified date or upon the pre-determined windup of the reporting entity.

37 The obligation to redeem interests in the reporting entity based on the fair value of its net assets arises from contractual, regulatory, or other legal requirements, or constructive arrangements with shareholders or other stakeholders.

View 2

38 The staff supporting **view 2** believe that the current US GAAP requirements in Topic 946 of the Codification (formerly the AICPA Investment Company guide) is appropriate for identifying which entities are considered investment companies. Topic 946 includes four criteria that need to be met in order for an entity to qualify as an investment company. The criteria are as follows:

a. *Investment activity.* The investment company's primary business activity involves investing its assets, usually in the securities of other entities not under common management, for current income, appreciation, or both.

b. *Unit ownership.* Ownership in the investment company is represented by units of investments, such as shares of stock or partnership interests, to which proportionate shares of net assets can be attributed.

c. *Pooling of funds.* The funds of the investment company's owners are pooled to avail owners of professional investment management.

d. *Reporting entity.* The investment company is the primary reporting entity.

Further, an investment company (other than a separate account of an insurance company as defined in the Investment Company Act of 1940) must be a separate legal entity to be within the scope of the Financial Services—Investment Companies Topic. That is, the guidance in this Topic should be applied only if the investment is held by an investment company that is a separate legal entity. Though many aspects of venture capital investment companies, including small business investment companies and business development companies, differ from aspects of other types of investment companies, the provisions of this Topic generally apply.

39 The staff supporting **view 2** believe that the term 'investment company' is generally understood in the US and the guidance has been the established practice for many years. However, the staff supporting this view also note that there is currently an issue that is being addressed by the Emerging Issues Task Force (EITF) with regards to whether certain real estate funds are considered investment companies as it is unclear as to whether their "primary business activity involves investing its assets".

40 The staff supporting **view 2** are also concerned that **view 1** would result in some entities that currently are considered investment companies no longer qualifying. This is based on the requirement under **view 1** that replacing the investee's management team would result in the reporting entity failing to meet the criteria in paragraph 34(a) .

41 The staff supporting **view 2** is also concerned that moving to **view 1** from the current US GAAP requirements could be perceived to go against the FASB's views on other projects to increase the use of fair value when measuring financial instruments, ie the deliberations in the FASB's financial instruments project, rather than restrict its use.

Comparison of view 1 and view 2

42 The following table illustrates how the staff believe some types of investment funds would generally be analysed under the different views. It is important to note that the criteria for an investment company in both views are based on the characteristics of the reporting entity and the relationship between the reporting

entity and its investments. Therefore the table is only an indication of the accounting that would generally be applied by these types of entities.

Type of Entity	View 1	View 2
Mutual funds	Fair Value	Fair Value
Mutual funds are "open-end" management investment companies that stand ready to redeem outstanding shares, based on the fair value of net assets (or net asset value), at any time. Their primary purpose is to pool capital into a wide range of investments such as stocks, bonds, short-term money-market instruments, or other securities.		
Some private equity funds	Fair Value	Fair Value
Private equity funds typically make investments in companies (known as portfolio companies) with the ultimate goal being to sell or "exit" its investments in portfolio companies for a return in excess of the price paid. They do not have "hands-on" involvement in the management of the companies they invest in.		
Venture capital companies and some private equity funds	Consolidate	Fair Value
Venture capital companies are generally interested in the strategic direction of the companies and industries in which they invest and are likely to devote substantial "hands-on" time with the investee's management to develop strategies for the investee, assess and evaluate results, and make changes accordingly. Private equity funds typically make investments in companies (known as portfolio companies) with the ultimate goal being to sell or "exit" its investments in portfolio companies for a return in excess of the price paid. Some private equity funds may operate more like venture capital companies.		
Hedge funds	Fair Value	Fair Value
Hedge funds pool investors' money and invest those funds in financial instruments in effort to make a positive return. However, hedge funds utilize a greater variety of financial instruments and are typically more flexible in their investment options when compared to those of a mutual fund. Hedge funds typically have a far more rapid exit strategy than that of mutual funds. In addition, hedge funds are not required to register with the SEC and typically issue securities in "private offerings".		
Mortgage REITS (US specific)	Fair Value	Consolidate
Mortgage REITs typically only invest in the mortgage backed debt securities. As Topic 946 of the Codification specifically scopes mortgage REITS out of the Investment Company guide, they do not qualify as investment companies under view 2. However, as the investment manager typically does not actively manage the underlying investments in the portfolio, these entities may be considered investment company under view 1.		
Unit Investment Trusts (UITs) (US specific)	Fair Value	Fair Value
UITs are organized under a trust indenture or similar instrument and registered under the 1940 Act. A UIT issues redeemable units, each representing an undivided interest in a group of securities or in a unit of specified securities. Typically, a UIT invests in securities similar to that of a mutual fund and are known to passively manage their investment portfolio. These funds invest in a relatively fixed portfolio of securities and hold the securities with little or no change for the life of the UIT. Further, these funds have a termination date, on which the UIT will terminate and dissolve. This date is established when the fund is created. Any remaining investment portfolio securities are sold and the proceeds are paid to investors.		
Common trust funds (US specific)	Fair Value	Fair Value
Common (collective) trust funds are open-end investment funds that are established by institutional investors and generally managed by a bank trust department. Generally speaking, a collective trust will be formed for the purpose of engaging in investment deals that involve a large amount of resources and generally invest in high-grade, highly liquid securities similar to that of a money market fund. Further, common trust funds must comply within the rules and regulations of the Office of the Comptroller of the Currency ("the OCC") and the Investment Act of 1940.		

Question 3
Do the boards agree with the approach for defining an investment company as set out in **view 1 (paragraphs 32 – 37),** a more restrictive approach for requiring fair value measurement for investments, or **view 2 (paragraphs 38 – 41),** the current US GAAP guidance which would require a wider range of entities to apply fair value measurement to their investments? Please give reasons to support your view.

Additional disclosures required when subsidiaries are reported at fair value

43 The staff recommends that when a reporting entity is required to measure all of their investments at fair value, with changes in fair value recognised in profit or loss, it should provide additional disclosures beyond those required by IFRS 7 or Topic 820 of the codification for those investments that meet the definition of a subsidiary.

44 Users are especially interested in disclosures about the valuation methodology used for developing fair value and the underlying inputs. The staff believe that this information will be covered by the requirements in IFRS 7 or Topic 820 when reporting at fair value in accordance with IFRS 9 *Financial Instruments/*IAS 39 *Financial Instruments: Recognition and Measurement* or when reporting in accordance with US GAAP requirements for Investment Companies in Topic 946 of the Codification.

45 A reporting entity should also provide disclosures for investments recognised and measured at fair value that otherwise would have been consolidated.

- The reporting entity shall disclose the fair value for each material investment that it has in another entity that it controls in situations in which it would have otherwise consolidated the other entity.

- The reporting entity shall provide key financial information about those controlled investees, including assets, debt, liabilities other than debt, revenues and earnings results (eg profit or loss).

46 This information should be presented separately for all individually material investments and in aggregate for investments that are individually immaterial to the reporting entity but would be material to the reporting entity on an aggregated basis. These additional disclosures will be developed as part of the disclosure requirements for all controlled entities.

Question 4
Do the boards agree with the additional disclosures for an investment company required to report all of its investments at fair value as set out in **paragraphs 43 – 46**? If not, what would you propose and why?

Accounting by a parent for investments held in an investment company subsidiary

47 The staff would also recommend providing guidance to address when fair value accounting should be retained by the parent of an investment company.

View 1

48 In its consolidated financial statements, a parent of an investment company should retain fair value as the measurement basis for the investment company's investments only if all of the following apply:

(a) the parent and its other subsidiaries are not involved in the operations of the investees;

(b) the parent and its other subsidiaries do not obtain benefits from the investment company's investee that are unavailable to investors that are not related parties of the investee; and

(c) the parent and its other subsidiaries follow established policies that effectively distinguish the nature and type of investments made by the investment company subsidiary from those made by other entities within the group that do not hold investments only for capital appreciation, investment income, or both. These policies prohibit subsidiaries that hold investments only for capital appreciation, investment income, or both from making investments that are similar to investments held by the parent, or another member of the consolidated group, and that are accounted for using the equity method or consolidation.

49 If all of the conditions in paragraph 48(a) – (c) are not met, the ultimate parent should consolidate controlled investments held by subsidiaries that meet the definition of an investment company.

View 2

50 The staff supporting **view 2** in **question 3** above believe that assuming that the specialized industry accounting principles are appropriate at the subsidiary level; those principles should be retained at the parent level. These staff believe that the evaluation is based on the nature of the entity and accordingly, if the entity is considered an investment company, this should not be reassessed at the parent level.

Question 5
Do the boards agree that guidance should be provided to address when fair value accounting should be retained by the parent of an investment company? If so, which view do the boards believe is appropriate and why?