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Project	**Investment Entities/Investment Companies**		
Paper topic	IASB Exposure Draft Feedback Summary		
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Objective of this paper

1. This paper summarises the feedback received in response to the IASB's exposure draft *Investment Entities* ('the IASB ED') which was published for public comment in August 2011. This includes feedback obtained from:

   (a) The 170 comment letters received by the IASB in response to the IASB ED;

   (b) Five public roundtables held in early 2012 in Toronto, London, Norwalk and Kuala Lumpur, attended by over 70 interested organisations; and

   (c) Multiple outreach meetings in which the staff and boards met with interested organisations.

2. The four-month comment period for the IASB ED ended on 5 January 2012. At the time of writing this paper, the board had received 170 comment letters which are summarised in Appendix A by type of respondent and geographic region.

3. The objective of this paper is to provide the boards with a summary of significant feedback received on the IASB ED. The staff plans to provide detailed feedback and recommendations received as it discusses each topic during the redeliberations process.

4. Agenda paper 11A/FASB Memo no. 45 summarises the feedback received in response to the FASB's proposed Accounting Standards Update, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements* ('the FASB ED').

Structure of the paper

5. The feedback summary is structured as follows:
   (a) General feedback on the proposals
   (b) Form of the proposed guidance
   (c) Feedback on the proposed criteria and scope of the guidance
   (d) Investment entity accounting for controlled investees
   (e) Accounting by a non-investment entity parent for an investment entity subsidiary
   (f) Other measurement issues
   (g) Disclosures
   (h) Reassessment
   (i) Transition
   (j) IAS 28 *Investments in Associates and Joint Ventures* consequential amendments

General feedback regarding the proposals

6. The IASB ED proposes an exception from the consolidation requirements in IFRS 10 *Consolidated Financial Statements* for investment entities. The IASB ED requires that investment entities measure their interests in controlled investees at fair value through profit or loss instead of consolidating those investees.

7. The majority of constituents were supportive of the IASB ED's proposal to provide an exception from consolidation for investment entities. These constituents offered the following reasons for their support:

(a) Investment entities manage all of their investments on a fair value basis and use fair value information to evaluate their performance. This is true whether an investment entity has a 1%, 20%, 50% or 100% interest in an investment. Requiring consolidation of an investment entity's controlled investments would not reflect the way in which those investments are managed.

(b) Fair value information is the most relevant and useful information for the investors of investment entities. Investors in investment entities focus on the fair value of an investment entity when assessing the performance of that entity and making their buy/hold/sell decisions. Requiring consolidation of controlled investees would obscure the financial statements of an investment entity and would not result in the most relevant and useful information for investors.

(c) US GAAP and other local GAAPs have historically contained specialised accounting guidance for entities similar to investment entities, including an exception from consolidating controlled operating entities. This guidance has worked well in these jurisdictions. Moreover, there has been evidence of investment entities actively choosing not to adopt IFRSs in order to retain fair value accounting for all of their investments, including controlled investments. Introducing an exception to consolidation in IFRSs would increase convergence with US GAAP and would have the potential to encourage increased adoption of IFRSs.

(d) Current IFRS guidance has negatively influenced business practice, with investment entities deliberately avoiding majority holdings or non-investment entity parents selling off investment entity subsidiaries in order to avoid consolidation requirements.

(e) The clarification of the concept of control in IFRS 10 makes it even more important that an exception from consolidation is introduced for investment entities. Without an exception, many investment entities will have to consolidate minority holdings where they have de facto control.

(f) Consolidating controlled investees would involve significant time, cost and complexity for preparers of investment entity financial statements, with limited (if any) perceived benefits.

(g) Control is an important conceptual principle but should not override all other considerations in setting accounting standards, especially when fair value information may provide more relevant information.

8. A minority of constituents disagreed with the IASB ED's proposal and argued that an exception from consolidation should not be provided for any controlled investees, including the controlled investees of investment entities. These constituents also offered a variety of arguments to support their views:

(a) Many of these constituents agreed with the Alternative Views presented in the Exposure Draft, which argued that the principle of consolidating controlled investees is 'fundamental to the preparation and presentation of financial statements' and that an exception to that principle would deprive financial statement users of information about the activities of controlled investees and the economic effects of the relationships between an investment entity and its controlled investees.

(b) Many of these constituents did not think a strong enough argument had been presented for why an investment entity should qualify for an exception from consolidation. These constituents argued that the proposals lack a strong conceptual basis and are too rules-based.

(c) Many of these constituents were also concerned with the introduction of industry-specific guidance into IFRSs. These constituents felt that the introduction of a rules-based, industry-specific exception would encourage abuse and structuring to avoid consolidation.

9. Some constituents would prefer that the IASB ED's proposals not be described as an 'exception to consolidation' but rather be described as the provision of different accounting guidance for a class of entities with a different business model than normal operating entities. These constituents would prefer that the IASB provides more comprehensive accounting guidance for investment entities.

10. Finally, as described in this paper, there are many areas of difference between the IASB ED and FASB ED/current U.S. GAAP. Many constituents strongly urged the boards to arrive at a converged answer in all of these areas and encouraged the boards to deliberate the remainder of the project jointly in order to have the best chance of arriving at converged guidance for investment entities.

User feedback

11. The majority of users who provided feedback on the IASB ED were very supportive of the proposed guidance for investment entities. These users confirmed investment entities' assertions that fair value was the most relevant information for them in their assessment and analysis of investment entities. Users stated that fair value information and the related disclosures formed the basis for their investing decisions. The majority of these users also stated that they would ignore a consolidated balance sheet of an entity in order to focus on fair value information. Many users also requested more consistency in investment entity reporting and supported the proposals to the extent that they would encourage such consistency and greater adoption of IFRSs.

12. A minority of users disagreed with the proposals, stating that there should not be exceptions to the consolidation principle and that they were concerned with the potential structuring that could arise from such an exception.

Form of the proposed exception

13. The IASB ED proposed that, in order to qualify as an investment entity, an entity must meet six specific criteria (for reference, these criteria are reproduced in Appendix B). Therefore, the exception to consolidation is given at an entity level.

14. Some constituents did agree with the IASB's proposed approach of introducing an entity level exception to consolidation that would be limited by providing six criteria that must be met to qualify as an investment entity. These constituents thought that the proposed criteria generally appropriately defined the population of investment entities (subject to concerns about specific criteria, discussed later in the paper).

15. However, many constituents who supported the general idea of an exception to consolidation expressed concerns about this approach and the six criteria. In particular they stated that the proposed criteria:

    (a) are inappropriately strict and focus on the structure of an investment entity rather than its business model, encouraging structuring to qualify or avoid qualifying as an investment entity;

    (b) do not leave sufficient room for the application of professional judgement in determining whether an entity should qualify as an investment entity and do not enable preparers to look at the total body of evidence when making that determination; and

    (c) do not adequately describe the nature of an investment entity or explain why different accounting is appropriate for investment entities.

16. A number of constituents suggested the following alternative approaches:

    (a) A principle-based approach;

    (b) An asset-based approach; and

    (c) A fair value option

Principle-based approach

17. Some constituents argued that there should be a more general principle or description of an investment entity that should be used as the primary test of whether an entity would qualify as an investment entity. These constituents suggested that some of the proposed criteria (mainly the 'nature of investment

activities', 'business purpose', and 'fair value management' criteria) be combined to come up with the principle or definition.

18. Of the constituents that advocated a principle or general description of investment entities be introduced, views were mixed as to what additional guidance should be provided for determining whether an entity is an investment entity. Some constituents suggested that some mandatory criteria should be provided in addition to a principle, while others suggested some investment entity 'indicators' (based on the criteria about the structure of an investment entity) should be provided. These indicators would not be mandatory but would be taken into account when making the investment entity assessment.

Asset-based approach

19. Other constituents recommended that the IASB follow an asset-based approach to the exception to consolidation. Under an asset-based approach, an entity would determine whether a controlled investment should be consolidated or measured at fair value based upon the nature and characteristics of each individual controlled investment. Constituents supporting an asset-based approach recommended using elements of the nature of investment activities, business purpose, and fair value management criteria to come up with the appropriate criteria for the asset-based approach. Constituents supporting an asset-based approach argued that such an approach:

   (a) was more principled and more consistent with the rest of the asset- or transaction-based guidance in IFRSs;

   (b) would address the needs of entities that would not qualify as investment entities but hold some of their controlled investments for capital appreciation or investment income; and

   (c) would avoid some of the problems associated with an entity-based approach such as:

      (i) creating industry-specific guidance;

(ii) trying to capture particular structures in the proposed criteria; and

(iii) the question of non-investment entity parent accounting for the controlled investments of investment entity subsidiaries (discussed in paragraphs 59-67).

Fair value option

20. A minority of constituents recommended that an entity that qualifies as an investment entity is given an irrevocable option to measure their all of controlled investments at fair value. These constituents recommended that a fair value option be used because they felt that an implicit option was already given by some of the criteria (for example, the 'business purpose' and 'fair value management' criteria) that an entity could simply choose to meet or not meet in order to fall in or out of the scope of the guidance. Additionally, some constituents felt that the scope of the proposed guidance was unclear and that providing an option would address the concerns of some entities (such as real estate investment trusts or holding companies) who felt that they inappropriately qualified as investment entities.

Feedback on proposed criteria and scope of guidance

21. In addition to the general feedback on the investment entity criteria described above, constituents also raised a number of concerns regarding the specific criteria. The following sections summarise this feedback.

Nature of investment activities criterion

22. The IASB ED requires that an investment entity's 'only substantive activities are investing in multiple investments for capital appreciation, investment income (such as dividends or interest), or both.' The majority of constituents agreed with this criterion. Some constituents suggested that the criterion be strengthened by providing more examples of activities that would and would not constitute

‘investing activities.’ Constituents also had a number of other specific suggestions about this criterion.

Day-to-day management

23. The IASB ED does not explicitly state whether being involved in the day-to-day management or operational decisions of an investee would constitute an allowable ‘investing activity’ for an investment entity. Many respondents requested more clarification regarding this point. Some respondents noted that the FASB ED is explicit in allowing an investment entity to be involved in the day-to-day management of its controlled investees. The FASB explicitly rejected a prohibition from being involved in day-to-day management in their ED and those respondents who agreed with the FASB did so for the reasons stated in their Basis for Conclusions. Other constituents argued that involvement in the day-to-day management of investees should be prohibited for investment entities.

Multiple investments

24. The IASB ED states that an investment entity must have multiple investments but provides for situations, such as start-up or wind-down of a fund, where a single investment would be allowed. Some constituents agreed that this requirement was appropriate for an investment entity. Other constituents, however, disagreed with the requirement for an investment entity to hold multiple investments, stating that there was no conceptual reason why holding a single investment should disqualify an entity from qualifying as an investment entity. These constituents felt that whether an entity holds multiple investments could be an indicator of an investment entity rather than a requirement. These constituents provided a number of examples of entities holding a single investment that they believed should qualify as investment entities.

Provision of investment-related services

25. Constituents also commented on whether investment entities should be able to provide investment-related services, either internally or externally. Most

constituents agreed with the IASB ED’s proposal that an investment entity would be able to provide services related to its own investing activities.

26. Feedback was more mixed, however, on whether an investment entity should be allowed to provide investment-related services to third parties. Some constituents believed that any provision of services to third parties should be prohibited because those services would constitute activities that are other than investing. Other constituents argued that the provision of external services should be allowed if those activities are minor, ancillary activities, such as IT or recordkeeping services. Some constituents argued that the provision of investment management services to third parties should be allowed. These constituents argued that many investment entities, such as private equity entities, have investment management subsidiaries that provide investment management services both for the reporting entity and for third parties. These constituents did not think that providing such services to third parties should disqualify a reporting entity from investment entity status.

Other suggested clarifications

27. Constituents had other recommended clarifications to the ‘nature of investment activities’ criterion. Some constituents requested that the term ‘substantive’ needed to be clarified to state what level of non-investing activities would represent ‘substantive’ activities. Some constituents, especially insurance companies and private equity companies, felt that the phrase ‘substantive’ represented too high of a threshold and should be replaced with the phrase ‘primary’ currently used in US GAAP to allow insurance investment funds with insurance components or private equity funds with asset management subsidiaries to qualify as investment entities. Other constituents requested that the list of examples of relationships or activities indicating that an entity should not qualify as an investment entity should be expanded to clarify whether other activities would be allowed, for example the provision of guarantees from an investment entity to an investee or transactions between investee portfolio companies.

Business purpose criterion

28. The IASB ED requires that an investment entity 'makes an explicit commitment to its investors that the purpose of the entity is investing to earn capital appreciation, investment income (such as dividends or interest), or both.' The majority of constituents agreed with this criterion, with some stating that this criterion was the most important criterion and recommending that the criterion form part of a principle or general description of an investment entity. Constituents also had other specific suggestions about this criterion.

Suggestions to strengthen criterion

29. Some constituents felt that this criterion as stated in the IASB ED would allow entities to 'opt out' of investment entity accounting by not making the required commitment to investors. Consequently, they recommended it should be strengthened by clarification and elevation of the 'exit strategy' guidance. For example, constituents suggested that the business purpose criterion could be clarified by explaining how an investment entity should demonstrate its business purpose (for example, by demonstrating that it has received investment income, generated capital appreciation, or taken actions to prepare an investment for sale).

Exit strategy

30. In the IASB ED's application guidance, the board states that an investment entity should have an exit strategy documenting how the entity plans to realise capital appreciation of its investments. Many constituents argued that the exit strategy requirement should be made more prominent, either by including the requirement in the business purpose criterion itself or by making it a standalone criterion.

31. Some constituents requested that the IASB include guidance similar to the FASB stating that an exit strategy would not be required for an investment entity whose express business purpose is only investing for returns from investment income.

32. Others constituents requested that the boards provide guidance as to whether:

    (a) the exit strategy requirement could apply at a portfolio or individual investment level;

(b) a feeder fund in a master-feeder structure would need an exit strategy; or

(c) there was a maximum period of time an investment entity could hold an investee.

Unit ownership criterion

33. The IASB ED requires that 'ownership in an [investment] entity is represented by units of investments, such as shares or partnership interests, to which proportionate shares of net assets are attributed.' Many constituents felt this criterion was too focused on the ownership structure of an investment entity and the legal form of its funding structure rather than its business purpose or investing activities. These constituents were also concerned that this criterion was too rules-based and open to structuring and abuse. Some constituents recommended that this criterion be an indicator of an investment entity rather than a requirement.

34. Constituents also had other specific comments and concerns related to the unit ownership criterion:

(a) Some constituents were concerned that the criterion as written would exclude pension funds and insurance investment funds. These constituents requested that the concept of unit ownership be broadened to include a notion of a beneficial ownership interest (in the case of pension funds) or an indirect ownership interest (in the case of insurance investment funds).

(b) Some constituents felt that the criterion and application guidance inappropriately limited the scope of the IASB ED so that only funds with equity interests were able to qualify as investment entities. These constituents requested that the criterion be modified to ensure that funds with debt interests could also meet the unit ownership criterion.

(c) Finally, some constituents were also concerned that the requirement that 'proportionate shares' of net assets be attributed to ownership units would exclude funds where investors could pick which investments of the fund to invest in or funds with waterfall structures.

Pooling of funds criterion

35. The IASB ED requires that 'the funds of [an investment] entity's investors are pooled so that the investors can benefit from professional investment management. The entity has investors that are unrelated to the parent (if any), and in aggregate hold a significant ownership interest in the entity.'

36. As with the unit ownership criterion, many constituents felt that the pooling of funds criterion was too focused on the ownership structure of an entity rather than on its economic activities. These respondents stated that the pooling of funds criterion was too strict and rules-based and seemed to be present only to prevent abuse. These respondents requested that the pooling of funds criterion be removed or become an indicator, rather than a required criterion.

Multiple investors requirement

37. Many respondents criticised the requirement in the pooling of funds criterion that an investment entity would need to have multiple investors, arguing that there is no conceptual reason an investment entity would be required to have multiple investors. These respondents cited multiple specific cases of single-investor entities that they believed should qualify for the IASB ED's proposed accounting.

38. Some of these constituents argued that the multiple investor requirement be eliminated entirely because there is no conceptual reason that an entity having a single investor should not be allowed to qualify as an investment entity. These respondents also mentioned the practicality issues involved with switching in or out of investment entity status when the number of investors increases or decreases.

39. Other respondents recommended changing the wording of the requirement to incorporate notions such as 'acting in a fiduciary capacity' or 'direct or indirect

ownership interests', which would allow some single-investor structures to qualify as investment entities.

40. Some respondents recommended that the IASB follow the FASB guidance in proposed Accounting Standards Update, *Real Estate-Investment Property Entities (Topic 973),* that states that if the parent of an entity is required to measure its investments at fair value or is a not-for-profit entity under Topic 958 that measures its investments at fair value, than the subsidiary would not have to meet the unit-ownership or pooling of funds criteria to qualify as an investment entity.

41. Many of these respondents suggested that either retaining or strengthening the other criteria proposed in the IASB ED, or adding additional criteria would address the boards' concerns of abuse.

42. Some constituents did agree that a multiple investor requirement is necessary to prevent abuse and argued that in most cases investment entities would have multiple investors and that a requirement for multiple investors is necessary to ensure that entity will seek to maximise return of all investors and not just have its objectives aligned with its parent.

Other suggested clarifications

43. Constituents expressed other concerns with the pooling of funds criterion and requested clarifications:

    (a) Many were unsure how to determine whether an investor is 'unrelated' and asked whether the related parties notion in IAS 24 *Related Party Disclosures* should be used.

    (b) Some stated that the requirement for investors to be unrelated should not exclude government-related funds or employee funds.

    (c) Many constituents stated that the paragraph in the IASB ED that explains that the pooling of funds criterion does not need to be met if two funds are formed in conjunction with each other was confusing and needed to be clarified. Additionally, constituents requested that the 'in conjunction with' notion in this paragraph be broadened to include subsidiary funds established after the original formation of an investment entity.

(d) Some constituents requested that the IASB incorporate the guidance in the FASB ED stating that having a single investor during start-up or wind-down of a fund would not fail the pooling of funds criterion.

Fair value management criterion

44. The IASB ED requires that 'substantially all of the investments of [an investment] entity are managed, and their performance is evaluated, on a fair value basis.' Constituents generally agreed that this criterion is very important in the assessment of whether or not an entity qualifies as an investment entity.

45. However, constituents requested the following clarifications:

(a) what 'fair value management' means and if it is required to be done at an investment or portfolio level

(b) whether an investment entity needs to manage its own debt on a fair value basis.

(c) whether holding debt securities to maturity or managing on a yield basis would be consistent with fair value management.

Reporting entity criterion

46. The IASB ED requires that an investment entity 'provides financial information about its investment activities to its investors. The entity can be, but does not need to be, a legal entity.' There were relatively few comments received regarding this criterion. Some constituents requested that the boards clarify what kind of financial information needs to be provided to an investment entity's investors.

Additional suggested criteria

47. Some respondents also suggested additional criteria to strengthen the definition of an investment entity and appropriately limit the population of entities able to qualify as investment entities. These criteria included:

    (a) a prohibition against an investment entity providing financial support (e.g. guarantees) to its investees;

    (b) a prohibition against an investment entity owning investments in any instruments issued by its parent or any affiliates;

    (c) a requirement that an investment entity be managed by a professional asset manager; and

    (d) a prohibition against an investment entity having financial liabilities other than those resulting from its ordinary business.

48. Other constituents noted that the FASB included a criterion in their ED stating that any entities regulated as an investment company under the U.S. Securities and Exchange Commission's Investment Company Act of 1940 would automatically be in the scope of investment company guidance in US GAAP. Some constituents requested that the IASB include a similar reference to existing regulatory requirements in its guidance (that is, allow an entity that is regulated as an investment entity under existing regulatory requirements to fall within the scope of the proposed guidance). Other constituents, however, explicitly cautioned the IASB against following such an approach, stating that global accounting standards should not rely on the regulatory environment and requirements in different jurisdictions.

Other scope concerns

49. Constituents raised a number of other general concerns about the scope of the proposed guidance.

50. Many insurance companies, pension funds and other government-related funds expressed concern that they, or their subsidiaries that they consider to be

investment entities, would not qualify as investment entities under the scope of the proposed guidance. As described above, these entities' concerns mainly centred around the 'unit ownership' and 'pooling of funds' criterion.

51. There were also groups of entities that were concerned that they would be inappropriately included in the scope of the proposed guidance. Constituents were unsure whether or not the proposed criteria would apply to particular real estate investment trusts (REITs) and corporate property groups and requested that those entities be outside of the scope of the investment entity guidance. Similarly, some investment 'holding companies' who make long-term controlling investments in multiple unrelated entities in different industries requested that they not qualify as investment entities, arguing that their long-term holdings and involvement in the activities of their investees differentiated them from true investment entities. These entities argued that consolidated information represented more useful and relevant information for their investors.

Second exception from consolidation

52. Some constituents from the insurance industry recommended that a second exception from consolidation be introduced for an insurer's controlled investments in investment entities themselves, using some of the same arguments or reasoning given for providing the exception from consolidation proposed in the IASB ED. These constituents argued that, because of the new guidance in IFRS 10, insurers would be forced to start consolidating many of their investment entity funds, such as mutual funds and other retail funds. These constituents felt that consolidation of these funds results in information that is not relevant to users and is costly and impractical to perform and subsequently assess.

Investment entity accounting for controlled investees

53. The general feedback received regarding how an investment entity should account for its controlled investees has been discussed earlier in this paper in paragraphs 7-8. However, some constituents also provided additional feedback on how

investment entities should account for controlling interests in other investment entities and controlling interests in service subsidiaries.

Controlling interests in other investment entities

54. The IASB ED proposed that an investment entity would measure controlled investees at fair value, regardless of whether that controlled investee is an operating entity or an investment entity (with the exception of consolidating an operating entity that provides services to the investment entity). The FASB ED, on the other hand, proposed that an investment entity would consolidate another controlled investment entity (or an investment property entity) in a fund-of-funds structure[1].

55. The IASB ED did not ask a specific question on the subject of investment entity accounting for controlled investment entity subsidiaries, and relatively few IASB respondents commented on this issue. However, of those constituents that did comment, the majority were supportive of the IASB approach of measuring an investment entity subsidiary at fair value. These constituents argued that measuring all controlled investments at fair value, regardless of their investment entity status, provided a method of accounting that was consistent with the entity's business purpose.

56. These constituents argued that investment entities made investments in other investment entities for the same reason that hey made investments in operating entities: to realise capital appreciation and investment income. These constituents also argued that consolidating controlled investment entities would obscure the financial statements of the parent investment entity by recognising non-controlling interests on the balance sheet. Moreover, there was a concern about the practical issues involved with consolidating controlled investment entities when the level of investment could change as a result of the actions of external investors; that is, entities were worried that they could flip in and out of

[1] A 'fund-of-funds' structure was not specifically defined in the FASB ED. Generally, a fund-of-funds structure is an investment entity that invests in other investment entities.

consolidation. Some of these constituents suggested addressing the need for increased transparency about investment entity subsidiaries and their underlying investments through additional disclosure.

57. Some constituents, however, raised concerns with measuring controlled investment entities at fair value rather than consolidating them. Some constituents argued that wholly owned subsidiaries established for legal, tax or regulatory reasons should be consolidated in order to show transparency into the underlying investments of the wholly owned subsidiary. Others thought that investment entity subsidiaries should be consolidated when the financial statements of the investment entity subsidiary were not publicly available.

Service subsidiaries

58. A few constituents also commented on the proposal in the IASB ED that an investment entity should consolidate a subsidiary that provides services relating to the investment entity's own investing activities. Some supported this proposal, stating that it was conceptually appropriate that service subsidiaries that aid in the operations of an investment entity should be consolidated by that entity. Those that opposed the proposal did so because they believe that all controlled investees owned by an investment entity subsidiary should be consolidated.

Accounting by a non-investment entity parent for an investment entity subsidiary

59. The IASB's ED does not permit a non-investment entity parent to retain the fair value accounting used by an investment entity subsidiary in the non-investment entity parent's consolidated financial statements. Consequently, under the IASB's ED, a non-investment entity parent would consolidate controlled investees held by an investment entity subsidiary. Under both current US GAAP and the FASB ED, however, a non-investment entity parent would retain the specialised accounting used by the investment entity subsidiary in its consolidated financial statements. Many constituents commented on these proposals. The majority of

constituents supported the US GAAP approach. User feedback in this area was generally consistent with the overall feedback; the majority of users supported the US GAAP approach, but a minority supported the IASB ED's proposals.

Arguments in favour of retention of specialised accounting

60. The constituents supporting the US GAAP approach offered several reasons to support their argument:

    (a) the fair value accounting used by an investment entity subsidiary for its investment assets continues to be relevant at a non-investment entity parent level because the nature of the investment entity's activities and the business purpose of the investment entity would not change just because that investment entity is owned by a non-investment entity parent;

    (b) the cost savings and benefits of more relevant reporting would be completely lost in all cases where an investment entity subsidiary is controlled by a non-investment entity parent; and

    (c) retention of the fair value accounting used by an investment entity subsidiary for its investment assets would be consistent with the IASB's proposed accounting by a non-investment entity parent for interests in associates and joint ventures held by an investment entity subsidiary (that is, the fair value used for these interests would be retained at the non-investment entity parent level).

61. These constituents also made suggestions to address the IASB's concern about the possibilities for abuse that would arise if a non-investment entity parent were to retain the fair value accounting used by an investment entity subsidiary. Many of these constituents argued that these concerns could be addressed by strengthening the existing criteria that need to be met to qualify as an investment entity. Some constituents also believed that the IASB's concerns about abuse were somewhat overstated. They noted that there has not been a history of abuse in jurisdictions where a non-investment entity parent has been allowed to retain the fair value

accounting used by an investment entity subsidiary, such as US, Canada and Japan. Other constituents stated that they did not believe the IASB should be setting standards on an anti-abuse basis.

62. Constituents also commented on the IASB's concern about some accounting issues that would arise if a non-investment entity parent retained the fair value accounting used by an investment entity subsidiary.

(a) In the case of an investment entity subsidiary holding an investment in the non-investment entity parent, constituents suggested that the IASB could either use the same solution for own equity that they are using in the insurance project (that is, to recognise an investment entity subsidiary's investment in its non-investment entity parent as an asset in the non-investment entity parent's financial statements) or address the issue through additional disclosures. Moreover, constituents suggested that this case would be very rare and should not direct the IASB's decision making.

(b) In the case of a non-investment entity parent and an investment entity subsidiary holding investments in the same entity but accounting for those investments differently, constituents suggested the issue could be solved by prohibiting an investment entity from making an investment in the same entity as its non-investment entity parent or by accepting that a non-investment entity parent and an investing entity subsidiary are investing for different reasons and should therefore use different measurement bases to account for their investments.

63. Some constituents also disagreed with the IASB's statement that in most cases, investment entity subsidiaries would not have non-investment entity parents. These constituents offered many examples of investment entities subsidiaries controlled by non-investment entity parents, describing cases where insurance companies, asset managers, banks and government entities own investment entity subsidiaries.

64. Some constituents supporting the retention of fair value accounting by a non-investment entity parent suggested various criteria that should be met by a non-investment entity parent in order to be able to retain the fair value accounting used by an investment entity subsidiary. These constituents mentioned that similar criteria are being used in other local GAAPs, such as Canadian GAAP and Japanese GAAP, and might be used to allay the IASB's concerns about structuring and abuse.

Arguments against retention of specialised accounting

65. A minority of constituents agreed with the IASB's proposal to prohibit a non-investment entity parent company from retaining the fair value accounting used by an investment entity subsidiary. These constituents argued that the exception to consolidation proposed in the IASB ED is effectively based on an entity's business model and that, since a non-investment entity parent has a different business model than an investment entity subsidiary, it would be inappropriate for the non-investment entity parent to retain the fair value accounting.

66. These constituents were also concerned with the potential abuse and structuring that could occur from allowing a non-investment entity parent to retain the fair value accounting used by an investing entity subsidiary, focusing on the ability of a non-investing entity parent to hide leverage by moving highly leveraged investments to an investing entity subsidiary.

67. These constituents were also concerned about different measurement bases being used for the same investment depending on whether that investment is being held at a non-investment entity parent or investment entity subsidiary level. They suggested that non-investment entity parents of investment entity subsidiaries be required to disclose fair value information to address the needs of investors.

Other measurement issues

68. Constituents also commented on other measurement issues that they believe the IASB should clarify or provide additional guidance. These issues included:

(a) whether an investment entity should be required to measure all of its investments (or all of its assets) at fair value;

(b) whether measuring financial assets at fair value through OCI should be allowed;

(c) whether an investment entity should have a choice (consistent with IAS 40 *Investment Property*) to measure its investment properties at fair value or cost;

(d) whether liabilities should be allowed to be measured at amortised cost;

(e) whether transaction costs should be capitalised (consistent with IAS 40) or expensed (consistent with IFRS 9 *Financial Instruments* and IFRS 13 *Fair Value Measurement*) when arriving at fair value;

(f) whether net asset value should be allowed as a practical expedient when measuring the fair value of an interest in an investment entity (consistent with US GAAP).

Disclosures

69. Constituents had a number of comments regarding the proposed disclosure guidance. The IASB ED proposed a disclosure objective, examples of how to meet that objective, and a few specific disclosure requirements. Many constituents were generally supportive of the proposed disclosure guidance. However, some constituents were concerned that the guidance would unnecessarily increase the volume of disclosures and that shorter and more targeted disclosure guidance would result in more high quality and relevant disclosures. Constituents also mentioned that there are different industry-specific disclosures that investment entities often make and suggested that the IASB reference those disclosures if possible.

70. Regarding the disclosure objective, some constituents agreed that the objective and related list of examples was sufficient to ensure appropriate disclosures. However, some constituents felt the proposed objective was too general and

should be expanded to include factors like the activities and purpose of the investment entity, the nature of its investments, and its relationships with its investors. Other constituents felt that there were too many examples required to explain the disclosure objective. Still other constituents felt that the IASB should simply provide a list of requirements, similar to US GAAP.

71. Constituents also had specific concerns about the examples provided of how an entity would meet the disclosure objective. Some constituents were concerned that the examples would be viewed as requirements and cautioned against this, stating that the examples provided were not relevant in all jurisdictions, that it would be extremely costly and impractical for all investment entities to prepare all of the example disclosures, and that some of the example disclosures would be calculated differently in different jurisdictions (for example, the per share disclosures).

72. Constituents also had comments about the specific disclosure requirements that were included in the proposed guidance. Some constituents felt that existing IFRS disclosure requirements were sufficient and that the IASB should not require any other specific disclosures. Others stated that the IASB should clarify which specific disclosure requirements in other standards should be followed by investment entities rather than providing a blanket statement that disclosure requirements in other IFRSs should be provided. There was also confusion about the applicability of IFRS 12 *Disclosure of Interests in Other Entities* disclosure requirements to investment entities; some constituents requested specifically that investment entities not be required to provide the summarised financial information disclosures required by IFRS 12. There were also requests to amend IFRS 7 *Financial Instruments: Disclosures* to create disclosure requirements that are more appropriate for investment entities.

73. Additionally, a number of constituents made requests for specific disclosure requirements, including:

(a) an explanation of the fact that the entity qualified as an investment entity and the related exception from consolidation has been used;

(b) increased disclosures about controlled investees, or an investment entity's most significant investees, including consolidating information and a clarification of whether these disclosures should be made at an individual or portfolio level;

(c) a schedule of investments and schedule of financial highlights, similar to the schedules required in US GAAP;

(d) information about significant transactions between the investment entity and its investees;

(e) a description of the investment entity investment strategy;

(f) a requirement that master financial statements be attached to feeder financial statements in a master-feeder structure;

(g) increased disclosures about controlled interests in other investment entities (eg underlying investments and debt held by investment entity subsidiary and expenses incurred by the investment entity subsidiary).

74. Finally, some constituents had concerns with disclosing specific information, such as names or fair values, of individual investees. These constituents argued that this information represents proprietary information and they would be at a competitive disadvantage by disclosing it.

Reassessment

75. The IASB ED requires an entity to reassess whether it meets the criteria to be an investment entity if facts and circumstances indicate that there are changes to one or more of the criteria. The FASB ED requires an entity to reassess whether it is an investment entity if the purpose and design of that entity change. Few constituents commented on this issue, although some constituents did express concern that the requirement to continuously reassess whether facts and circumstances are changing would be too onerous and stated that they preferred the 'purpose and design' approach. Some constituents also stated that they would like more transition guidance regarding a change in investment entity status.

Transition

76. The IASB ED proposed prospective transition and early adoption. Some constituents agreed with prospective transition, stating that retrospective transition was too onerous and would not provide useful information.

77. Many constituents, however, supported limited retrospective transition, consistent with the transition guidance provided in IFRS 10. These constituents argued that retrospective application would result in comparable and useful financial information and disagreed with assertions that retrospective application would be too onerous. They noted that to qualify as an investment entity, an entity would have to be managing its investments on a fair value basis and would be likely to have the fair value information required for retrospective application.

78. Many of these constituents stressed that consistency with the transition provisions in IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12 was very important. Most constituents would be would be applying all of these standards, including the investment entity amendments, for the first time as a package. Correspondingly, many constituents requested that the investment entities amendments have the same effective date as IFRSs 10-12, with some suggesting that the effective date of IFRSs 10-12 be deferred to allow time for the investment entity guidance to be finalised. Additionally, since IFRS 10 contains limited retrospective transition provisions with practicability exceptions, constituents suggested similar practicability exceptions are used for the investment entities amendments. The suggested practicability exceptions included:

    (a) a relief from retrospective transition when an entity does not have fair value information for prior periods

    (b) a relief from determining whether an entity changed investment entity status in prior periods

    (c) a relief from providing IFRS 13-compliant fair value information in prior periods when an entity has fair value information it believes is a close approximation of IFRS 13 fair value.

79. Finally, the majority of constituents were supportive of allowing early adoption.

IAS 28 consequential amendments

80. The IASB ED proposed that IAS 28 would be amended to remove the existing fair value option for the interests in associates of venture capital organisations, mutual funds, unit trusts and similar entities. This fair value option would be replaced with a fair value requirement for an investment entity's interests in associates and joint ventures.

81. The majority of constituents supported the proposed fair value requirement for investment entities' interests in associates and joint ventures, stating that this would be consistent with the other proposed guidance for investment entities.

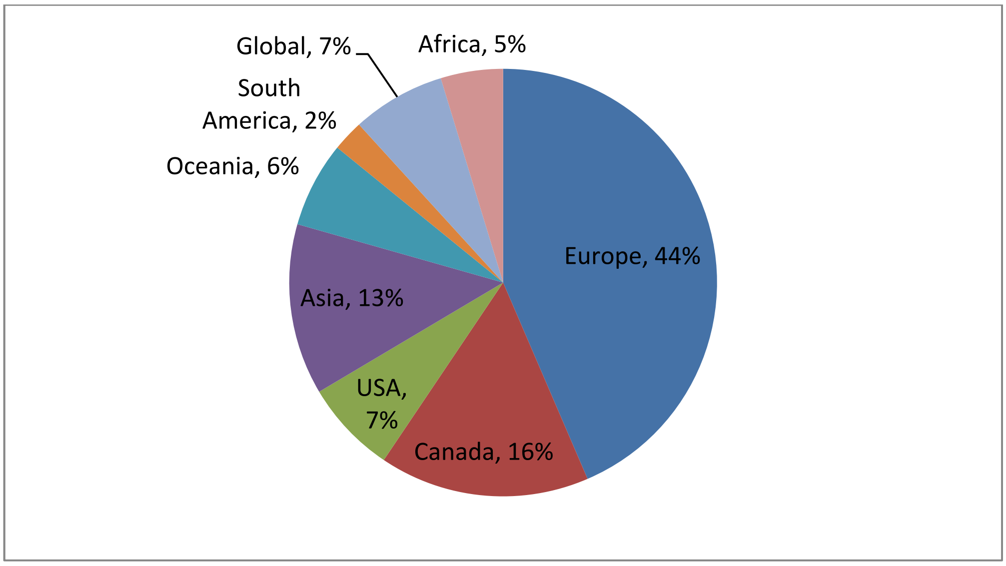
82. Regarding the proposed removal of the existing fair value option in IAS 28, a minority of constituents agreed with this amendment, stating that eliminating the existing fair value option would reduce accounting inconsistencies and would be appropriate given the nature of investment entities.

83. However, many constituents disagreed with the proposed removal of the fair value option in IAS 28. These constituents stated that many non-investment entities use the fair value option in IAS 28 and it is outside of the scope of the investment entities project to change the accounting used by these entities. These constituents provided many examples of entities currently electing the fair value option that would not qualify as investment entities.

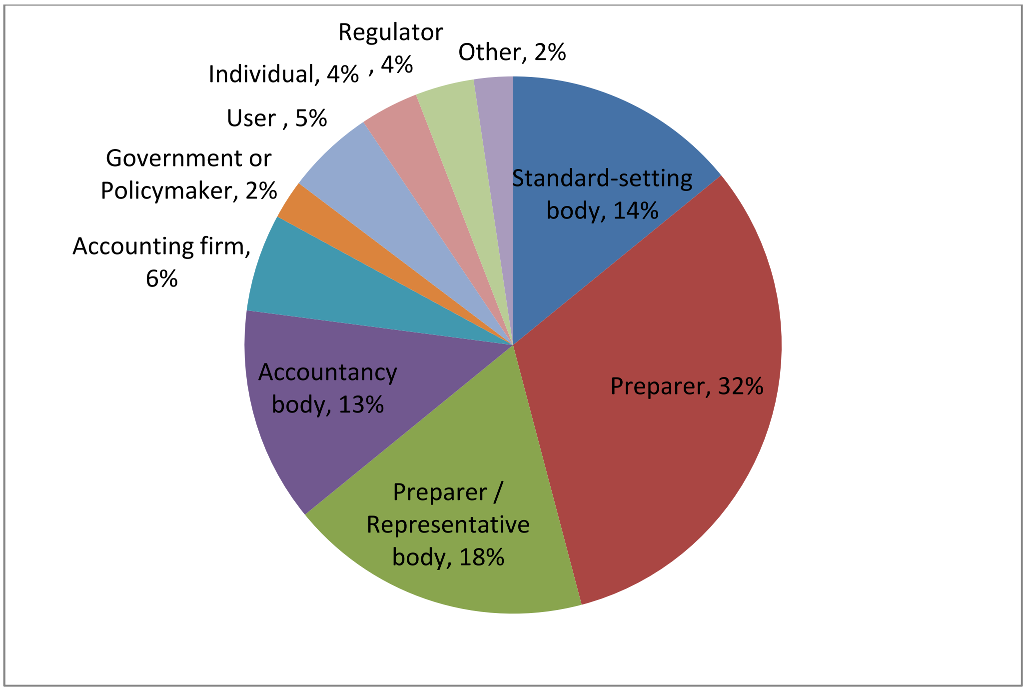
84. These constituents felt that the IASB and staff needed to perform more research to gain a better understanding of the population of entities currently electing the fair value option. Some of these constituents also stated that a full review of the equity method needed to be performed before the existing fair value option was removed.

Appendix A

A1. The following pie chart depicts the geographic split of the 170 comment letter respondents[2]:



A2. The following pie chart depicts the entity split of the 170 comment letter respondents:



[2] For purposes of this analysis, the North America region is split into the USA and Canada as the FASB ED contains some different proposals than the IASB ED.

Appendix B

B1. The IASB proposed the following criteria for an investment entity in the IASB ED:

a) The entity's only substantive activities are investing in multiple investments for capital appreciation, investment income (such as dividends or interest), or both.

b) The entity makes an explicit commitment to its investors that the purpose of the entity is investing to earn capital appreciation, investment income (such as dividends or interest), or both.

c) Ownership in the entity is represented by units of investments, such as shares or partnership interests, to which proportionate shares of net assets are attributed.

d) The funds of the entity's investors are pooled so that the investors can benefit from professional investment management. The entity has investors that are unrelated to the parent (if any), and in aggregate hold a significant ownership interest in the entity.

e) Substantially all of the investments of the entity are managed, and their performance is evaluated, on a fair value basis.

f) The entity provides financial information about its investment activities to its investors. The entity can be, but does not need to be, a legal entity.