STAFF PAPER

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[REG] IASB Meeting

Project	**Investment Entities**
Paper topic	Disclosures: supplementary paper

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Introduction

1. At the IASB meeting on Monday 16 July 2012, the staff were asked to clarify the scope of the disclosure requirements for Investment Entities.

2. The full text of the disclosure requirements proposed in the *Investment Entities* exposure draft ('the ED') is reproduced in Appendix A of Agenda Paper 8E.

Background and staff analysis

3. The objective of the Investment Entities project is to provide an exception to consolidation for the **controlled investees** of investment entities and instead require that investment entities measure those controlled investees at fair value through profit or loss. In addition, the IASB has tentatively decided to introduce a requirement that investment entities measure their investments in associates and joint ventures at fair value through profit or loss[1].

4. However, the disclosure objective proposed in the ED required disclosure of information to enable users of an investment entity's financial statements to evaluate the nature and financial effects of the **investment activities** in which it

[1] Previously such entities had an option to elect to measure these investments at fair value through profit or loss but were not required to do so.

engages. Paragraph B19 of the ED provides examples of additional disclosures that may be appropriate to meet the disclosure objective.

5. As such, there are two potential inconsistencies between the objective of the Investment Entities project and the scope of the disclosure objective for investment entities that was set out in the ED:
   (a) The disclosure objective proposed in the ED would apply to <u>all</u> investment entities rather than just investment entities with investments in subsidiaries, associates or joint ventures.
   (b) The disclosure objective proposed in the ED would apply to <u>all</u> investment activities of an investment entity, rather than just those investment activities relating to an investment entity's subsidiaries, associates, or joint ventures.

Scope: all investment entities or only investment entities with investments in subsidiaries, associates or joint ventures

6. The staff believe it is inconsistent with the overall objective of the Investment Entities project to require all investment entities to meet the disclosure objective proposed in the ED. The project introduces an exception from consolidation and the equity method for investment entities. Consequently, the staff believe the IASB intended the disclosure requirements in the ED to apply only to investment entities with investments in subsidiaries, associates or joint ventures. Therefore, the staff recommend clarifying this point in the final requirements.

Question 1
Does the IASB agree that the disclosure requirements should only apply to investment entities with investments in subsidiaries, associates or joint ventures?

7. If the IASB disagree with the staff recommendation in question 1 (i.e. the IASB believes that the disclosure guidance should apply to all investment entities) then the staff recommend that the disclosure objective and related guidance in the ED be retained (subject to the changes proposed in Agenda paper 8E).

8. The rest of this paper assumes that the IASB agrees with the staff recommendation on question 1 and discusses whether an investment entity with one or more subsidiaries, associates or joint ventures should be required to make disclosures about all its investment activities or only about its subsidiaries, associates or joint ventures.

Require disclosures about all investment activities or subsidiaries, associates and joint ventures only

9. As noted above, the disclosure objective in the ED would require an investment entity to provide information to enable users of its financial statements to evaluate the nature and financial effects of all of the investment activities in which it engages (ie entity-wide disclosures). This would require the entity to provide information about all its investments, not just those investees it controls (or has joint control or significant influence over). Requiring disclosure of information about all an entity's investments could be viewed as inconsistent with the overall objective of the Investment Entities project. Consequently, the following sections discuss whether to require an investment entity with one or more subsidiaries, associates or joint ventures to make disclosures about all its investment activities or only about its subsidiaries, associates or joint ventures.

Alternative 1 – Require disclosure about all investment activities

10. Requiring an investment entity with controlled investees (or investments in associates or joint ventures) to provide information about its investment activities in their entirety would give users a clearer and more complete view of the investment entity's activities. The staff has heard that users are interested in this information regardless of the level of interest the investment entity holds. The staff note that, in practice, investment entities typically provide information at an entity-wide level rather than segregating investments by level of ownership interest or control. The staff also note that constituents were generally supportive of the objective as proposed in the ED.

11. Moreover, it can be argued that providing a disclosure objective that relates to all investments held by investment entities is justifiable and within the scope of the Investment Entities project. The IASB has tentatively decided to provide an

exception from consolidation and the equity method for investment entities. The staff believe it is reasonable to expect investment entities to provide additional useful information to users about the entity's investment activities when an entity uses that exception.

12. A disadvantage of this approach is that it is arguably inconsistent with the IASB's tentative decision to only provide measurement guidance for an investment entity's subsidiaries, associates and joint ventures.

13. The staff also note that an entity would be required to make disclosures about its investment activities only when it has a subsidiary, associate or joint venture. Whether an investment entity has a subsidiary, associate or joint venture could change from period to period resulting in an entity moving in and out of the disclosure requirements.

Alternative 2 – Require disclosures about subsidiaries, associates and joint ventures only

14. The IASB could decide to remove the requirement to provide disclosures about all of an investment entity's investment activities and require disclosures about its subsidiaries, associates and joint ventures only.

15. This approach is arguably more consistent with the IASB's overall approach to the Investment Entities project and results in much simpler disclosure requirements. This approach also aligns the 'trigger' for the disclosure (having a subsidiary, associate or joint venture) and the required disclosures – if an investment entity has to start providing disclosures because it becomes a parent, it is only required to provide disclosures about that new investment rather than being required to provide new information about investments it always held.

16. The staff note that under this approach investment entities would still be required to comply with the disclosure requirements of IFRS 7 *Financial Instruments: Disclosure*, IFRS 13 *Fair Value Measurement* and the disclosure requirements for interests in unconsolidated structured entities in IFRS 12 *Disclosure of Interests in Other Entities.*

Staff recommendation

17. The staff recommend requiring an investment entity with one or more subsidiaries, associates or joint ventures to provide information about all of its investment activities (Alternative 1). The staff think that disclosures about an investment entity's investment activities in their entirety are more useful than disclosures about subsidiaries, associates or joint ventures only. The IASB has decided to provide an exception to consolidation and the equity method for investment entities because fair value is the most relevant information for all investments held by an investment entity. The staff think it is appropriate that, in place of consolidated information and equity accounting, disclosures should be provided about the investing activities of an investment entity.

18. The staff note that, other than the overall disclosure objective, the ED did not propose any specific disclosure requirements that would apply to all investments held by an investment entity. The only requirements proposed relate to the controlled investees of an investment entity. The staff also note that there was widespread support for the proposed disclosure objective in the ED.

Question 2
Does the IASB agree that an investment entity with one or more subsidiaries, associates or joint ventures should provide information about its investment activities?