STAFF PAPER

12-13 November 2013

IFRS Interpretations Committee Meeting

Project	**IFRS 10 *Consolidated Financial Statements***
Paper topic	Investment Entities Amendments—Cover note

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Introduction

1. In July 2013, the IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify some issues related to the Investment Entities amendments to IFRS 10, IFRS 12 and IAS 27.

Background

2. The IASB published the amendment in October 2012, to provide an exception to the consolidation requirements in IFRS 10 for investment entities. The revised IFRS 10 defines an investment entity and requires that an investment entity should not consolidate investments in entities that it controls, but measure those investments at fair value, with changes in fair value recognised in profit or loss.

Structure of the Agenda Papers

3. The submission consists of four separate issues. Agenda Papers 9A–9C separately describe the issues as follows:

   (a) Agenda Paper 9A: Investment entity subsidiary that provides investment-related services

   (b) Agenda Paper 9B: The definition of investment-related services or activities

   (c) Agenda Paper 9C: The interaction between the investment entity amendments and the exemption from preparing consolidated financial statements requirements in IFRS 10

Appendix A—Original agenda request

A1. On 16 July 2013 the IFRS Interpretations Committee received a request for clarification on the Investment Entities amendments as follows:

Suggested agenda items: Investment Entities Amendments

It has come to our attention that the Investment Entities amendments to IFRS 10, IFRS 12 and IAS 27 are unclear with respect to a number of issues:

1. The accounting by an investment entity parent for an investment entity subsidiary that also provides investment-related services;
2. The definition of investment-related services;
3. The interaction between the investment entity amendments and the separate financial statements requirements in IFRS 10; and
4. A non-investment entity's application of the equity method for investment entity investees.

We are seeking clarification of these issues by the Committee.

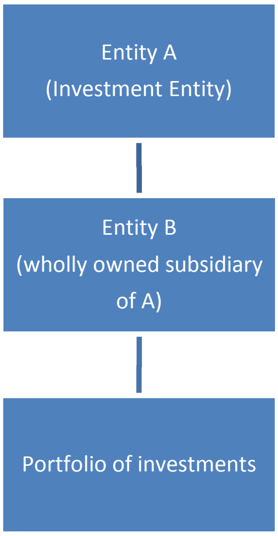
1. The accounting by an investment entity parent for an investment entity subsidiary that also provides investment-related services

The Issue

IFRS 10.31 requires an investment entity to measure its investments in subsidiaries at fair value through profit or loss in accordance with IFRS 9 (IAS 39 for those entities that have not yet adopted IFRS 9). IFRS 10.BC272 explains that this requirement applies to investees who are themselves investment entities. There is one exception to this requirement: in accordance with IFRS 10.32, if a subsidiary provides services that relate to the investment entity's investment activities, as described at IFRS 10.B85C-E, the investment entity shall consolidate that subsidiary.

If an investment entity subsidiary meets the definition of an investment entity and provides investment-related services it is unclear whether the investment entity parent should measure that subsidiary at fair value in accordance with IFRS 10.31 or consolidate it in accordance with IFRS 10.32.

Example



Entity A and Entity B both meet the definition of an investment entity. Entity B is a wholly owned subsidiary of Entity A. Entity B provides financial support to B's investees in order to maximise the investment return of the portfolio; it funds this support through bank loans. This activity is not deemed to represent a separate substantial business activity or source of income. Entity B therefore meets the definition of an investment entity and also performs investment-related activities of the type described in IFRS 10.B85D.

Should Entity A measure Entity B at fair value in accordance with IFRS 10.31 on the basis that Entity B is the subsidiary of an investment entity or should Entity A consolidate Entity B in accordance with IFRS 10.32 on the basis that Entity B performs investment-related activities?

Alternative views

Entity A should measure its investment in Entity B at fair value in accordance with IFRS 10.31.

IFRS 10.32 (and related Application Guidance in paragraphs IFRS 10.B85C-E) is intended to apply to a subsidiary that *only* provides investment-related services. It does not apply when that subsidiary is also an investment entity.

Proponents of this view believe that the definitions of 'investment entity' and of a subsidiary that provides 'investment-related services' are mutually exclusive. An investment entity parent should measure an investment entity subsidiary at fair value, regardless of whether that subsidiary also provides services of the nature described in paragraphs B85C/D.

It is clear from IFRS 10.BC272 that the exception from consolidation is intended to apply to a subsidiary that is itself an investment entity. By definition an investment entity will provide investment management services to its investor (paragraph 27(a)) and paragraph B85C lists investment management as an example of investment-related services. Therefore all investment entity subsidiaries provide what paragraph B85C describes as 'investment-related services'. If indeed paragraph B85C includes the basic investment management services necessary to meet the definition of an investment entity, this would result in an investment entity parent consolidating all of its investment entity subsidiaries. This would contradict the general principle of the investment entity amendment as well as the specific conclusion in respect of investment entity subsidiaries in paragraph BC272.

Accordingly, paragraph IFRS10.32 should only be applied to a subsidiary that has been established solely for the purpose of providing investment-related services or activities for the entity. Such subsidiaries are consolidated on the basis that the services they provide are an extension of the operations of the investment entity parent.

Proponents of this view would exercise judgement to guard against the potential for abuse. For example, they do not believe that a subsidiary that provides significant investment-related services should be deemed an investment entity (and measured at fair value) just because it may also hold an immaterial level of investments.

Under this view Entity A would measure its investment in Entity B at fair value. This valuation would reflect both the fair value of the underlying investment portfolio held by B and also the fair value of the third party debt.

Entity A should consolidate Entity B in accordance with IFRS 10.32.

IFRS 10.32 (and related Application Guidance at B85C-E) is intended to apply to any subsidiary that provides investment-related services, notwithstanding that the subsidiary may also be an investment entity.

Proponents of this view believe that a subsidiary providing more than insignificant investment-related services should be consolidated regardless of whether the subsidiary meets the definition of an investment entity. That is, the specific requirements of IFRS 10.32 take precedence over the more general requirements of IFRS 10.31.

IFRS 10.B85C/D state that an investment entity may provide investment-related services or certain investment-related activities. It is therefore clearly possible for an entity to be both an investment entity and to provide investment-related services. Nevertheless, IFRS 10 does not clearly state that such subsidiaries are exempted from the requirement in IFRS 10.32 and the application guidance does not specify that, for this to be the case, the subsidiary must *only* provide such investment-related services/activities.

Further, IFRS 10.B85E states that a subsidiary of an investment entity that provides investment-related services or activities to the investment entity or other parties shall be consolidated. Accordingly, the recipient of such services would not be limited to A’s investors in this case. This is consistent with a view that providing investment management services to A is economically not different to providing such services directly to A’s investors.

Proponents of this view believe that the services described in IFRS 10.B85C/D should be understood as being investment-related services that are additional to the basic investment management services that by definition an investment entity must provide.

Under this view Entity A would consolidate Entity B. This would have the result that Entity A would recognise each of Entity B’s investments at fair value and the third party debt held by Entity B at amortised cost in its consolidated financial statements.

Entity A should measure its investment in Entity B at fair value in accordance with IFRS 10.31.

IFRS 10.32 is not intended to apply to an investment entity subsidiary that provides investment-related services/activities on its own account (rather than on behalf of its investment entity parent).

Entity A should measure its investment in Entity B at fair value. IFRS 10.32 applies to a subsidiary that is also an investment entity, if it provides investment-related services that relate to the investment entity parent’s (Entity A’s) investment activity (see paragraphs IFRS 10:B85C–B85E). In this case the investment-related services provided by Entity B to its investees are not services that relate to Entity A’ s investment activities. Accordingly IFRS 10.32 does not apply in this case.

Entity B may provide investment related services/activities for:

- Entity B’s investees
- Entity A’s investors
- Entity A’s investees
- Other third parties

The last three of these types of services/activities are identified in paragraphs B85C-B85E. However, given that Entity B is itself an investment entity, it is not clear that services or activities related to its investees should also be considered to be services or activities of its investment entity parent, Entity A.

2. The definition of investment-related services

The Issue

An investment entity is permitted to provide investment-related services either directly or through a subsidiary. IFRS 10.B85C provides examples of investment-related services which include investment advisory services, investment management, investment support and administrative services.

In order to manage their investments in the most tax efficient way, some investment entities establish one or more wholly-owned intermediate subsidiaries in certain jurisdictions, which own the portfolio of investments in the group structure. The sole purpose of the intermediate subsidiary/(ies) is to minimise the tax paid by investors in the 'parent' investment entity on their investments. There is no activity within the subsidiary and the tax advantage comes about simply by virtue of returns being channelled through the jurisdiction of the subsidiary.

Can 'tax optimisation', as described above, be considered a service for the purposes of IFRS 10.B85C?

Alternative Views

Tax optimisation is not an investment-related service.

Proponents of this view believe that the type of entity described above was discussed by the Board and is referred to at IFRS 10.BC272. The Board's conclusion was that, where a wholly-owned investment entity subsidiary is created for legal, tax or regulatory purposes, this subsidiary should be measured at fair value by the investment entity parent and not consolidated. From this conclusion, it is apparent that 'tax optimisation' does not fall within the definition of investment-related services per IFRS10.85C.

Tax optimisation is an investment-related service.

Proponents of this view do not believe that IFRS 10.BC272 is conclusive on this issue. It states that an investment entity should 'measure all of its subsidiaries at fair value (***except for those subsidiaries providing investment-related services***) even those investees who were themselves investment entities' (emphasis added). IFRS 10.BC272 refers to 'wholly-owned investment entity subsidiaries created for tax purposes' but it is not clear whether the board considers all wholly-owned subsidiaries created for tax purposes to be investment entities. Nor does this paragraph definitively state that 'tax optimisation' is not an investment-related service.

IFRS 10.B85C provides examples of the types of services that might be considered investment-related but the list is not exhaustive. It therefore seems reasonable to conclude that any service which maximises investment return is an investment-related service.

3. The interaction between the investment entity amendments and the separate financial statements requirements in IFRS 10

The Issue

IFRS 10 requires an entity that is a parent to present consolidated financial statements. However, IFRS 10.4 provides some relief from presenting consolidated financial statements in certain situations. More specifically, IFRS 10.4(a)(iv) states that a parent need not present consolidated financial statements if its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with IFRSs.

An issue has arisen with regard to the interaction between the Investment Entities amendments and the exemption from consolidation in IFRS 10.4(a)(iv). The Investment Entities amendments did not change the requirements in IFRS 10.4(a)(iv). However, the amendments introduce an exception from presenting consolidated financial statements. IFRS 10 (as amended) requires investment entities (as defined) to present financial statements with unconsolidated subsidiaries.

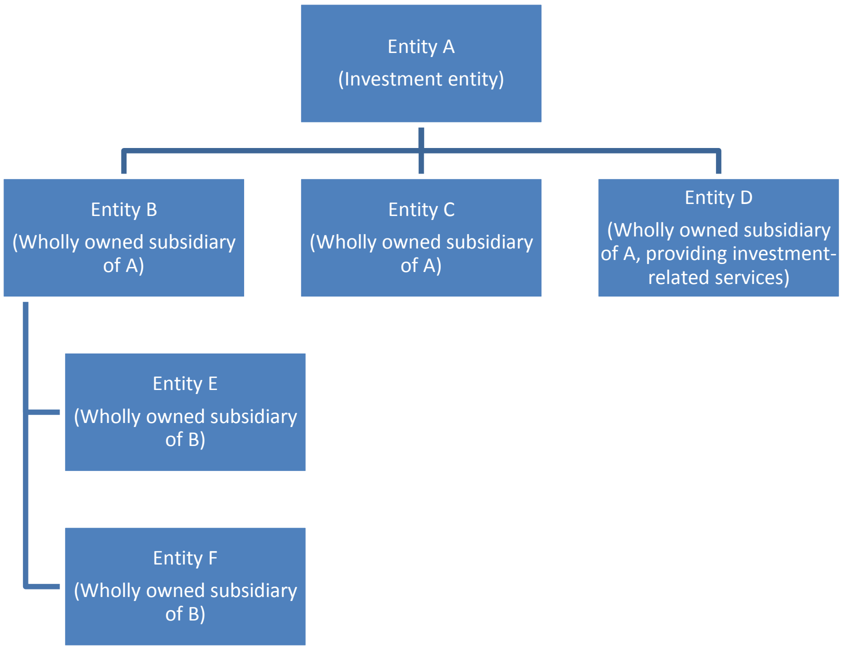
As a consequence, an entity that is required, throughout the current period and all comparative periods presented, to apply the exception to consolidation for <u>all</u> of its subsidiaries in accordance with IFRS 10.31 <u>presents separate financial statements as its only financial statements</u> (emphasis added) (see IAS 27.8A as amended).

However, there is an exception to the exception. IFRS 10.32 (as amended) states that, if an investment entity has a subsidiary that provides services that relate to the investment entity's investment activities, it shall consolidate that subsidiary. In other words, the investment entity will prepare consolidated accounts, consolidating the subsidiary that provides services and measuring all other subsidiaries at fair value.

This raises a question as to the application of the exception in IFRS 10.4(a) to the subsidiary of an investment entity, when that subsidiary is itself a parent. Specifically, is the requirement in IFRS 10.4(a)(iv) met only when the results of the entity have been included by way of consolidation in the parent or intermediate parent consolidated accounts, or can it be met where the entity has been reflected at fair value in the consolidated accounts of the parent or intermediate parent.

Example

Entity A meets the definition of an investment entity in accordance with IFRS 10 (as amended). Entities B, C and D are all wholly owned subsidiaries of Entity A and Entity E and F are wholly owned subsidiaries of Entity B. Entity D is an entity that provides services that relate to the investment activities of Entity A and that is consolidated by Entity A under IFRS 10.32 (as amended). Therefore Entity A produces consolidated financial statements that consolidate Entity D and reflect the investments in Entities B and C at fair value.



Assuming all other conditions in IFRS 10.4 (as amended) are met, can Entity B apply the exception to presenting consolidated financial statements under IFRS 10.4(a)(iv) as a result of Entity A producing *consolidated* financial statements?

Alternative views

No. The intention of IFRS 10.4 is that Entity B should produce consolidated financial statements as its consolidated financial information is not included in the consolidated financial statements of Entity A.

Proponents of this view believe that it is contradictory to the intention of IFRS 10.4 to conclude that a subsidiary (which is also a parent) does not have to present consolidated financial statements if that consolidated information is not reflected in the consolidated financial statements of the parent.

The intention of IFRS 10.4(a)(iv) is to provide relief from providing group accounts for intermediary parent entities when financial information related to that entity is available in the ultimate group consolidated financial information (IFRS 10.BCZ13).

In the example above, Entity A is only required to consolidate Entity D under IFRS 10.32 (as amended). Entities B and C are measured at fair value through profit or loss. Consequently, the consolidated information of Entity B, E and F is not reported. Therefore the requirements of IFRS 10.4(a)(iv) could only be considered to be met in the sense that the financial statements of Entity A are labelled 'consolidated financial statements' and not because information related to the performance of the subsidiaries is available in the consolidated financial statements. Furthermore, as explained below, if IFRS 10.32 was not applicable (i.e. Entity D did not exist in the example above), Entity B would not be able to apply the exception from presenting consolidated financial statements under IFRS 10.4(a)(iv) (as amended). The existence of Entity D should not be relevant to the assessment of whether IFRS 10.4(a)(iv) applies.

Consequently, because the consolidated information of Entities B, E and F is not reported elsewhere, Entity B should present consolidated financial information under IFRS 10.4(a)(iv).

Yes. Entity B can apply the exception to presenting consolidated financial statements as a result of Entity A producing consolidated financial statements, regardless of whether Entity B itself is accounted for under the consolidation method in those financial statements.

Proponents of this view believe that IFRS 10.4(a)(iv) is clear that a parent need not present consolidated financial statements if its ultimate (or any intermediate) parent produces consolidated financial statements that are available for public use and comply with IFRSs.

Entity D (an entity that provides services that relate to the investment activities of Entity A) is consolidated by Entity A in accordance with IFRS 10.32. Consequently, Entity A produces ‘consolidated’ financial statements even though its investments in Entities B and C are measured and presented at fair value through profit or loss in its ‘consolidated’ financial statements.

Consequently, Entity B can elect not to present consolidated financial statements and prepare only separate financial statements in accordance with IFRS 10.4. Under this view, the consolidated financial information of Entities B, E and F will never be reported. Entities B, E and F will prepare only their separate financial statements.

However, if entity D did not exist, the answer would change under this view. This is because Entity A would not be preparing consolidated financial statements if it only held investments in Entity B and Entity C. That is, both investments would be measured at fair value through profit or loss under IFRS 10.31. IAS 27.8A emphasises that if a parent is required to measure all of its subsidiaries at fair value through profit or loss in accordance with IFRS 10.31, the parent entity presents separate financial statements as its only financial statements. Because Entity A (the ultimate parent) would not prepare consolidated financial statements, Entity B fails to meet the condition in IFRS 10.4(a)(iv) and accordingly it would need to present consolidated financial statements.

4. A non-investment entity’s application of the equity method to investment entity investees.

The Issue

IFRS 10.33 states that a parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity. It is therefore clear that when preparing its consolidated financial statements, a non-investment entity parent must ‘unwind’ the fair value accounting of its investment entity subsidiary and consolidate all subsidiaries in the group. As acknowledged by the Board at IFRS 10.BC283 this is inconsistent with the exemption in IAS 28.18 which allows a parent that indirectly holds an investment in an associate/joint venture through a venture capital organisation to measure that portion of the investment at fair value through profit or loss.

Neither IFRS 10 nor IAS 28 provides specific guidance on how a non-investment entity should account for its interest in an associate/joint venture that is an investment entity. In particular, it is not clear whether, in determining its share of profit or loss in the associate/joint venture under the equity method, the non-investment entity should 'unwind' the fair value accounting applied by the investment entity associate/joint venture for its own subsidiaries and prepare consolidated information for the associate/joint venture.

Example

Entity A, a non-investment entity enters into a joint arrangement over an investment entity, Entity I, with another party. The joint arrangement is classified as a joint venture. Each party has a 50% non-controlling interest in Entity I and in accordance with IFRS 11, Entity A accounts for its interest under the equity method of accounting. Entity I meets the definition of an investment entity as defined in IFRS 10. Entity I holds two investments. It owns 80% of Entity B (subsidiary) and 25% of Entity C (associate). As Entity I meets the definition of an investment entity, in its financial statements it applies the exception to consolidation and measures its investment in Entity B at fair value in accordance with IFRS 10.31. In addition, to meet the definition of an investment entity, IFRS 10.B85L requires Entity I to utilise the exemption from applying the equity method in IAS 28 for its investments in associates and joint ventures. Therefore, in its financial statements, Entity I measures its investment in Entity C at fair value.

In determining Entity A's share of Entity I's profit or loss, paragraph IAS 28.18 states that when "an investment in an associate ..… is held indirectly through an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities …., the entity may elect to measure the investments in those associates ... at fair value through profit or loss in accordance with IFRS 9". Accordingly, Entity A may elect to apply the exemption from applying the equity method in IAS 28 for its indirect associate level investment in Entity C (25% held by Entity I), and maintain Entity I's fair value accounting of the underlying investment in Entity C when equity accounting for Entity I. However, IAS 28 does not address how Entity A should account for its indirect interest in Entity B, which is a controlled investee of Entity I but is not a subsidiary of Entity A.

Alternative views

In determining its share of profit or loss of an investment entity associate/joint venture, an entity may retain the fair value accounting applied by that associate/joint venture with respect to its subsidiaries.

Proponents of this view believe that Entity A may determine its share of Entity I's profit or loss based on the amounts reported in Entity I's own financial statements. That is, Entity A would not be required to adjust Entity I's financial statements to reflect the consolidation of Entity B. Rather, for purposes of applying the equity method, the subsidiaries of Entity I would continue to be accounted for at fair value. When determining Entity A's share of Entity I's profit or loss for the period, this would be based on its share of the changes in fair value of Entity I's investees.

Although the Investment Entity amendments in IFRS 10 specifically note that a non-investment entity parent shall consolidate all entities that it controls, including those controlled through an investment company subsidiary, the Board noted that the difference between using the equity method and fair value measurement for investments in associates and joint ventures is smaller than that between consolidation and fair value measurement for investments in subsidiaries (IFRS 10.BC283). This is why IAS 28.28 allows a parent that indirectly holds an investment in an associate through a venture capital organisation, mutual fund, unit trust or similar entity (i.e. a non-investment entity parent that has an interest in an associate through an investment entity subsidiary) to measure that portion of the investment at fair value through profit or loss in accordance with IFRS 9 or IAS 39, whereas a similar treatment is not permitted for subsidiaries indirectly held through an investment entity subsidiary.

In this case Entity A does not control the investees of Entity I (i.e. the subsidiaries of Entity I are not subsidiaries of Entity A). Accordingly, the relationship in this situation is similar to that described in IAS 28.18, rather than the controlling relationship described in paragraph BC 275-BC 283 of IFRS 10.

In addition, BC280 notes that the primary reason for the IASB's decision to prohibit the retention of the investment company exception by a non-investment entity parent in consolidation is that the non-investment entity parent could "achieve different accounting outcomes by holding subsidiaries directly or indirectly through an investment entity". Such structuring opportunities are unlikely to involve joint ventures or associates since this would imply a loss of control by the parent over the subsidiary that would be transferred (held indirectly) to the associate/joint venture. Hence the requirement for a non-investment entity parent to consolidate all subsidiaries, whether held directly or indirectly, should not be considered as necessarily extending to the subsidiaries of an a investment entity joint venture or an associate.

Further, the practical difficulties identified in IFRS10.BC281 regarding an investment entity and its non-investment entity parent investing in the same investee would not be relevant as the non-investment entity is applying the equity method of accounting for its interest in the investment entity rather than consolidation.

Finally, proponents of this view note that it is unlikely that an entity would have sufficient information to be able to adjust the financial statements of an associate to reflect the consolidation of subsidiaries rather than the fair value measurement used by an investment entity associate. Proponents of this view believe that such a requirement is not practicable.

In determining its share of profit or loss of an investment entity associate/joint venture, an entity cannot retain the fair value accounting applied by that associate/joint venture to its subsidiaries.

Proponents of this view believe that the requirements of IFRS 10.33 are most relevant in this scenario. Entity A should therefore determine its share of Entity I's income by "unwinding" the fair value accounting that is applied by Entity I. Specifically, it would be required to prepare consolidated financial statements for Entity I which would then be used to apply the equity method of accounting.

Proponents of this view acknowledge that it may be difficult to obtain the information required to adjust the investment entity associate's financial statements, however they note that IAS 28.35 requires that the financial statements of an investor are prepared using "uniform accounting policies for like transactions and events" for an associate. Entity A is not exempt from applying this principle (as the specific exemption at IAS 28.18 does not apply in this scenario), and therefore it must adjust the financial statements of its associates prior to applying the equity method.

In addition, while structuring opportunities involving joint venture/associate are not as obvious as those noted in IFRS 10.BC280, they may nevertheless exist and a non-investment entity could structure its investment in an investee through a joint venture or an associate. The activities performed by the investee of the joint venture / associate (for example research and development activities) would not be reflected in the non-investment entity parent's financial statements as they are not included in the joint venture or associate's financial statements. That is, the financial statements used to determine the equity method accounting would not include the research and development costs, but rather would include the investee at fair value.

Reason for IFRIC to Address these Issues

We believe that these issues should be addressed in a timely manner. While the Investment Entities amendment has an effective date of 1 January 2014, we are aware of preparers in a number of jurisdictions who wish to adopt these amendments in advance of their effective date so that they are applied at the same time as the rest of IFRS 10. This issue will therefore have a significant impact on the financial statements of many entities from the first quarter of 2013. As noted above, we believe that different views on these issues can be supported, which is likely to result in significant divergence in practice and a lack of consistency and comparability that could be avoided through clarification of these discrete questions.

Appendix B - Questions sent for outreach

B1. We asked IOSCO, ESMA and the members of IFASS for information about this submission. The entire email request is noted below:

Dear all,

In July 2013, the IFRS Interpretations Committee received a request to clarify the issues related to the Investment Entities amendments to IFRS 10, IFRS 12 and IAS 27. The amendment was published in October 2012, to provide an exception to the consolidation requirements in IFRS 10 for investment entities. The revised IFRS 10 defines an investment entity and requires that an investment entity should not consolidate investments in entities that it controls, but measure those investments at fair value, with changes in fair value recognised in profit or loss.

We would like to ask for your assistance in assessing how wide spread these issues are and, consequently, whether there is diversity in practice.

<u>1. Summary of the issue</u>

The submitter claims that the amendments are unclear with respect to the following issues:

1) The accounting by an investment entity parent for an investment entity subsidiary that also provides investment-related services;
2) The definition of investment-related services;
3) The interaction between the investment entity amendments and the separate financial statements requirements in IFRS 10; and
4) A non-investment entity's application of the equity method for investment entity investees.

We summarized below issues contained in the attached submission.

1) The accounting by an investment entity parent for an investment entity subsidiary that also provides investment-related services

IFRS 10.31 requires an investment entity to measure its investments in subsidiaries at fair value through profit or loss in accordance with IFRS 9 (IAS 39 for those entities that have not yet adopted IFRS 9). IFRS 10.BC272 explains that this requirement applies to investees who are themselves investment entities. There is one exception to this requirement: in accordance with IFRS 10.32, if a subsidiary provides services that relate to the investment entity's investment activities, as described at IFRS 10.B85C-E, the investment entity shall consolidate that subsidiary.

If an investment entity subsidiary meets the definition of an investment entity and additionally provides investment-related services it is unclear whether the investment entity parent should measure that subsidiary at fair value in accordance with IFRS 10.31 or consolidate it in accordance with IFRS 10.32.

2) The definition of investment-related services

An investment entity is permitted to provide investment-related services either directly or through a subsidiary. IFRS 10.B85C provides examples of investment-related services which include investment advisory services, investment management, investment support and administrative services.

In order to manage their investments in the most tax efficient way, some investment entities establish one or more wholly-owned intermediate subsidiaries in certain jurisdictions, which own the portfolio of investments in the group structure. The sole purpose of the intermediate subsidiary/(ies) is to minimise the tax paid by investors in the 'parent' investment entity on their investments. There is no activity within the subsidiary and the tax advantage comes about simply by virtue of returns being channelled through the jurisdiction of the subsidiary.

Can 'tax optimisation', as described above, be considered a service for the purposes of IFRS 10.B85C? The conclusion would affect the accounting whether the investment entity parent measures the subsidiary at fair value or consolidates.

3) The interaction between the investment entity amendments and the separate financial statements requirements in IFRS 10

IFRS 10 requires an entity that is a parent to present consolidated financial statements. However, IFRS 10.4 provides some relief from presenting consolidated financial statements in certain situations. More specifically, IFRS 10.4(a)(iv) states that a parent need not present consolidated financial statements if its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with IFRSs.

An issue has arisen with regard to the interaction between the Investment Entities amendments and the exemption from consolidation in IFRS 10.4(a)(iv). The Investment Entities amendments did not change the requirements in IFRS 10.4(a)(iv). However, the amendments introduce an exception from presenting consolidated financial statements. IFRS 10 (as amended) requires investment entities (as defined) to present financial statements with unconsolidated subsidiaries.

As a consequence, an entity that is required, throughout the current period and all comparative periods presented, to apply the exception to consolidation for all of its subsidiaries in accordance with IFRS 10.31 <u>presents separate financial statements as its only financial statements</u> (emphasis added) (see IAS 27.8A as amended).

This raises a question as to the application of the exception in IFRS 10.4(a) to the subsidiary of an investment entity, when that subsidiary is itself a parent. Specifically, is the requirement in IFRS 10.4(a)(iv) met only when the results of the entity have been included by way of consolidation in the parent or intermediate parent consolidated accounts, or can it be met where the entity has been reflected at fair value in the consolidated accounts of the parent or intermediate parent.

4) A non-investment entity's application of the equity method for investment entity investees

IFRS 10.33 states that a parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity. It is therefore clear that when preparing its consolidated financial statements, a non-investment entity parent must 'unwind' the fair value accounting of its investment entity subsidiary and consolidate all subsidiaries in the group. As acknowledged by the Board at IFRS 10.BC283 this is inconsistent with the exemption in IAS 28.18 which allows a parent that indirectly holds an investment in an associate/joint venture through a venture capital organisation to measure that portion of the investment at fair value through profit or loss.

Neither IFRS 10 nor IAS 28 provides specific guidance on how a non-investment entity should account for its interest in an associate/joint venture that held by investment entity subsidiary. In particular, it is not clear whether the non-investment entity parent should account for the associate / joint venture using equity method accounting or measure at fair value.

Please see the attached file for more detail.

2. Questions

I would very much appreciate your observations in your jurisdiction, regarding the following aspects of the concerns raised:

Q1. How common are each of these issues? If these are common, could you provide us with information that the Interpretations Committee could use to assess how widespread the issues are? Please provide us the comment for each separate issue.

Q2. In your view, is there diversity in practice in interpreting each issue? Please describe the predominant approach that you observe in practice. Please provide us the comment for each separate issue.

If you would like to provide other comments, please feel free to do so.

I would appreciate receiving your input on this issue by **16 October 2013**.