

STAFF PAPER

January 2015

IFRS Interpretations Committee Meeting

IFRS IC September 2014

Project	IAS 28 Investments in Associates and Joint Ventures		
Paper topic	Assessment of significant influence: Fund manager acting as agent and holding own investment in the fund		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

Introduction

1. In September 2014, the IFRS Interpretations Committee (‘the Interpretations Committee’) discussed a request to clarify what factors may indicate that a fund manager has significant influence over a fund that it manages and in which it has a direct holding. The submitter described a particular situation in which an assessment of control under IFRS 10 *Consolidated Financial Statements* resulted in the conclusion that a fund manager does not control the fund that it manages and in which it has a direct holding, because it is acting as an agent in accordance with paragraphs B58–B72 of IFRS 10. The submitter raised two questions in respect of this particular situation:
 - (a) whether the fund manager should assess whether it has a significant influence over the fund; and
 - (b) if yes, how should it make that assessment.
2. Our analysis of this issue was included in Agenda Paper 10 of the September 2014 meeting.¹

¹ Agenda Paper 10 of the September 2014 meeting.

3. The Interpretations Committee tentatively decided that it would not add this topic to its agenda, but would instead recommend to the IASB that it should analyse and assess the issue of shared power in its research project on the equity method of accounting. The Interpretations Committee noted that IAS 28 does not address the issue of whether the fund manager should include, in the assessment of whether it has significant influence, its participation in financial and operating policy decisions that it undertakes on behalf of, and for the benefit of, others. The Interpretations Committee thought that this issue would be better considered as a part of the IASB's comprehensive project on the equity method of accounting.
4. The Interpretations Committee's full tentative agenda decision can be found in *IFRIC Update* (September 2014).²

Comment letter summary

5. The comment period for the tentative agenda decision ended on 25 November 2014. We received three responses. These comment letters are attached as Appendix B.
6. One respondent, Deloitte, agrees with the tentative agenda decision for the reasons provided in the agenda decision.
7. Two respondents, KPMG and Accounting Standards Committee of Germany (ASCG), agreed with issuing the agenda decision, but they disagreed with the reasons provided in the tentative agenda decision.

Staff analysis of the comments received

8. The staff considered the comments made by the two respondents.

<http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2014/September/AP10%20-%20IAS%2028%20Fund%20manager.pdf>

² *IFRIC Update* (September 2014)

<http://media.ifrs.org/2014/IFRIC/September/IFRIC-Update-September-2014.html>

It should be clarified that the issuance of IFRS 10 does not affect the assessment of significant influence

9. The tentative agenda decision included the following sentence:

The Interpretations Committee noted that IAS 28 does not address the issue of whether the fund manager should include, in the assessment of whether it has significant influence, its participation in financial and operating policy decisions that it undertakes on behalf of, and for the benefit of, others.

10. One respondent, KPMG, noted that the sentence may inadvertently imply that the assessment of ‘significant influence’ in IAS 28 might be open to interpretation along the lines of the very different model under IFRS 10:

The choice of language in the third paragraph of the agenda decision states that IAS 28 does not address the own/on behalf of benefit issue, inadvertently implying that IAS 28 might be open to interpretation along the lines of the very different model under IFRS 10 (and this would also be difficult to do). We are concerned about that and believe that, instead, the issue should be rejected because IFRS 10 has not made any relevant consequential changes to IAS 28, and therefore one would not expect the interpretation of IAS 28 to be affected by the issue of IFRS 10.

We do not think that the Interpretations Committee had any intention to imply that the assessment of significant influence in IAS 28 might be open to interpretation along the lines of the model under IFRS 10. Accordingly, we would like to propose a revision to the wording of the agenda decision as follows (new text is underlined):

The Interpretations Committee noted that IFRS 10 did not make any consequential amendments to IAS 28 in relation to the assessment of significant influence. Accordingly, the assessment of significant influence was not affected by the issue of IFRS 10. IAS 28 specifies only that, in assessing ~~does not address the issue of whether the fund manager should include, in the assessment of whether it has significant influence,~~ an entity considers only its participation in financial and operating policy decisions of the investee. IAS 28 does not require assessment of whether

that participation is on the entity's behalf or that it undertakes on behalf of,
and for the benefit of, others.

The assessment of significant influence should be affected by the issuance of IFRS 10

11. Contrary to that respondent's view on the paragraph above, another respondent, ASCG, provided a comment that the assessment of significant influence *should be* affected by the issuance of IFRS 10. Their comment was as follows:

Whereas it is appropriate to state that this issue is not *explicitly* addressed by IAS 28, we think that the fund manager's participation in policy decisions, combined with its holding, should *implicitly* be considered when estimating whether the fund manager has significant influence.

This derives from the definition of significant influence in IAS 28.3, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Since – as to the submitted issue – the fund manager is participating in the financial and operating policy decisions of the investee, as a first step, an assessment has to be made whether the fund manager has control (IFRS 10.7) or joint control (IFRS 10.9) of the investee. This assessment by the fund manager shall include all facts and circumstances (IFRS 10.8) including whether it is a principal or an agent (IFRS 10.18). An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (IFRS 10.B58). Therefore, the assessment of control, joint control or, if neither, significant influence by the fund manager shall include the participation in financial and operating policy decisions that it undertakes on behalf of, and for the benefit of, others. As to our knowledge, this understanding is common in practice, with no diversity.

12. We do not agree that the assessment in IFRS 10 should affect the assessment of significant influence in IAS 28, because the IASB had decided not to revisit the definition and assessment of significant influence in IAS 28 as a part of its consolidation project. Consequently, we think that the introduction of IFRS 10 itself should not change the assessment of significant influence.

Staff recommendation

13. We recommend confirming the tentative agenda decision with the change discussed in paragraph 10. We have set out the wording for the final agenda decision in **Appendix A** of this paper for the Interpretations Committee's approval.

Questions for the Interpretations Committee

Questions for the Interpretations Committee

1. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should finalise its decision not to add this issue to its agenda?
2. Does the Interpretations Committee agree with the wording for the final agenda decision shown in Appendix A?

Appendix A—Final agenda decision

A1. We propose the following wording to finalise the agenda decision (deleted text is struck through and new text is underlined):

IAS 28 *Investments in Associates and Joint Ventures*—fund manager’s significant influence over a fund assessment of significant influence: fund manager acting as agent and holding own investment in the fund

The Interpretations Committee received a request to clarify what factors may indicate that a fund manager has significant influence over a fund that it manages and has a direct holding in. The submitter described a particular situation in which an assessment of control under IFRS 10 *Consolidated Financial Statements* resulted in the conclusion that the fund manager does not control the fund that it manages and in which it has a direct holding, because it is acting as an agent in accordance with paragraphs B58–B72 of IFRS 10. The submitter raised two questions in respect of this particular situation:

- (a) whether the fund manager should assess whether it has a significant influence over the fund; and
- (b) if yes, how should it make such an assessment.

The Interpretations Committee noted that a fund manager that concludes it is an agent in accordance with IFRS 10 should assess whether it has significant influence. The Interpretations Committee further noted that a fund manager would need to make that assessment in accordance with the guidance in IAS 28. In particular it should consider:

- (a) its holding in the fund; and
- (b) whether its rights to participate in financial and operating policy decisions, combined with its holding in the fund, constitute significant influence.

The Interpretations Committee noted that IFRS 10 did not make any consequential amendments to IAS 28 in relation to the assessment of significant influence. Accordingly, the assessment of significant influence was not affected by the issue of IFRS 10. IAS 28 specifies only that, in assessing does not address the issue of whether the fund manager should include, in the assessment of whether it has significant influence, an entity considers only its participation in financial and operating policy decisions of the investee. IAS 28 does not require assessment of whether that participation is on the entity’s behalf or that it undertakes on behalf of, and for the benefit of, others. The Interpretations Committee thought that this issue would be better considered as a part of the IASB’s comprehensive project on the equity method of accounting.

Consequently, the Interpretations Committee [decided] not to take the issue onto its agenda but instead to recommend to the IASB that it should analyse and assess the issue of shared power in its research project on the equity method of accounting.

Appendix B—Comment letters received

Wayne Upton
Chairman
IFRS Interpretations Committee
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25 November 2014

Dear Mr Upton

Tentative agenda decision - IAS 28 *Investments in Associates and Joint Ventures*: Fund manager's significant influence over a fund

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for guidance on the factors that may indicate that a fund manager has significant influence over a fund that it manages and has a direct holding in.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



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Global IFRS Leader



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Our ref **MV/288**
Contact **Mark Vaessen**

25 November 2014

Dear Mr Upton

Tentative agenda decision: IAS 28 – Fund manager’s significant influence over a fund

We appreciate the opportunity to comment on the IFRS Interpretations Committee’s tentative agenda decision, *IAS 28 Investments in Associates and Joint Ventures—fund manager’s significant influence over a fund* (IFRIC Update September 2014).

Although we agree that the Committee should not take this issue onto its agenda, we do not agree with the reasons for rejection provided in the tentative agenda decision.

Before IFRS 10, control under IAS 27 was based on the power to direct the ‘significant financial and operating policies’ of the investee. These were at a much less granular level than IFRS 10’s relevant activities, e.g. leading to some entities (and in relation to funds, most entities) being considered to be on autopilot (as per paragraph 34(a) of the agenda paper). In addition, IAS 27 did not distinguish between the exercise of power for own or others’ benefits. The new standard, IFRS 10, has introduced the concept of linkage in order to establish such a distinction.

IAS 28 was the companion standard to IAS 27 and in the same terms as IAS 27. In particular, IAS 28’s definition of significant influence is still based on participation in the ‘significant financial and operating policies’ and there is no concept of linkage; indeed, IAS 28’s associate definition addresses only participation and makes no reference to its leading to benefits. This definition in IAS 28 was not changed by IFRS 10. Therefore, there is no reason to change current practice.

The choice of language in the third paragraph of the agenda decision states that IAS 28 does not address the own/on behalf of benefit issue, inadvertently implying that IAS 28 might be open to interpretation along the lines of the very different model under IFRS 10 (and this would also be difficult to do). We are concerned about that and believe that, instead, the issue should be rejected because IFRS 10 has not made any relevant consequential changes to IAS 28, and therefore one would not expect the interpretation of IAS 28 to be affected by the issue of IFRS 10.



Finally, we note that the agenda paper also observed that there is no significant diversity in practice and that fund managers generally recognise their interests in funds as financial assets. We believe that the main reason for this accounting is the one noted in paragraph 34(a) of the agenda paper – in most cases the significant financial and operating policies of the funds would be largely predetermined.

Please contact Mark Vaessen or Mike Metcalf +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

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Berlin, 21 November 2014

Dear Wayne,

IFRS IC tentative agenda decisions in its September 2014 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on three IFRS IC tentative agenda decisions, published in the September 2014 *IFRIC Update*. Further, we comment on one issue of IFRS IC's work in progress. Please find our detailed comments in appendices A and B to this letter.

If you would like to discuss our views further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President



Appendix A – Comments on recent tentative agenda decisions

IAS 28 – Fund manager's significant influence over a fund

We do not agree with the IFRS IC's abstract view that "IAS 28 does not address the issue of whether the fund manager should include, in the assessment of whether it has significant influence, its participation in financial and operating policy decisions that it undertakes on behalf of, and for the benefit of, others". Whereas it is appropriate to state that this issue is not explicitly addressed by IAS 28, we think that the fund manager's participation in policy decisions, combined with its holding, should implicitly be considered when estimating whether the fund manager has significant influence.

This derives from the definition of significant influence in IAS 28.3, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Since – as to the submitted issue – the fund manager is participating in the financial and operating policy decisions of the investee, as a first step, an assessment has to be made whether the fund manager has control (IFRS 10.7) or joint control (IFRS 10.9) of the investee. This assessment by the fund manager shall include all facts and circumstances (IFRS 10.8) including whether it is a principal or an agent (IFRS 10.18). An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (IFRS 10.B58). Therefore, the assessment of control, joint control or, if neither, significant influence by the fund manager shall include the participation in financial and operating policy decisions that it undertakes on behalf of, and for the benefit of, others. As to our knowledge, this understanding is common in practice, with no diversity.

Beyond that, we deem the tentative agenda decision on this issue being detrimental, as it would create room for judgment and, thus, risk that diversity in practice arises.