IFRS

STAFF PAPER

March 2017

IFRS® Interpretations Committee Meeting

Project	**IAS 28 *Investments in Associates and Joint Ventures***
Paper topic	Fund manager's significant influence over a fund

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Introduction

1. The IFRS Interpretations Committee (the Committee) received a request to clarify whether and, if so, how a fund manager assesses significant influence over a fund that it manages and in which it has an investment. In the scenario described in the submission, the fund manager applies IFRS 10 *Consolidated Financial Statements* and determines that it is an agent, and thus does not control the fund. The fund manager has also concluded that it does not have joint control of the fund.

2. The Committee observed that a fund manager assesses whether it has control, joint control or significant influence over a fund that it manages applying the relevant IFRS Standard, which in the case of significant influence is IAS 28 *Investments in Associates and Joint Ventures*.

3. The Committee noted that, unlike IFRS 10 in the assessment of control, IAS 28 does not contemplate whether and how decision-making authority held in the capacity of an agent (agency rights) affects the assessment of significant influence. Developing any such requirements could not be undertaken in isolation of a comprehensive review of the definition of significant influence in IAS 28.

4. The Committee also observed that paragraph 7(b) of IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose information about significant

judgements and assumptions it has made in determining that it has significant influence over another entity.

5. The Committee concluded that it would be unable to resolve the question efficiently within the confines of existing IFRS Standards. Consequently, it tentatively decided not to add the issue to its agenda.

6. The purpose of this paper is to:

   (a) analyse the comments received on the tentative agenda decision; and

   (b) ask the Committee if it agrees with the staff recommendation to finalise the agenda decision.

Comment letter summary

7. We received four comment letters, reproduced in Appendix B to this paper.

8. Deloitte agrees with the Committee's decision not to add the issue to its agenda. Similarly, the Accounting Standards Board of Japan (ASBJ) agrees with the Committee's decision not to add this issue to its agenda because a comprehensive review of the definition of significant influence would be necessary to address the issue. Ernst & Young Global Limited (EY) also agrees with the Committee that IAS 28 does not include any requirements on how agency rights affect a fund manager's assessment of significant influence.

9. However, all respondents express concern about the wording of the tentative agenda decision. EY says that a fund manager is still required to assess whether it has significant influence over a fund if it does not have control or joint control of the fund. Deloitte is concerned that the wording in the tentative agenda decision which states that IAS 28 'does not contemplate' agency rights could be interpreted as suggesting the agent/principal concept should necessarily be disregarded in an assessment of significant influence. Similarly, the ASBJ says that the wording of the agenda decision could be read to imply that a fund manager does not consider any agency

rights when assessing significant influence. Deloitte suggests revising the agenda decision to indicate that IAS 28 'does not address whether, or how decision-making authority held in the capacity of an agent affects the assessment of significant influence'.

10. The Accounting Standards Committee of Germany (ASCG) does not fully agree with the Committee's decision and some of the findings. The ASCG says that, when assessing significant influence, a fund manager must implicitly consider agency rights. The ASCG says that when assessing significant influence, the fund manager includes the participation in financial and operating policy decisions that it undertakes on behalf of, and for the benefit of, others.

11. Further, the ASCG thinks that the Committee should develop a solution for this issue if it acknowledges that IAS 28 does not contain sufficient requirements to enable a fund manager to determine the appropriate accounting.

12. We have analysed the concerns raised by respondents in the following section.

Staff analysis

Wording of the agenda decision

13. We agree with EY that a fund manager is still required to assess whether it has significant influence over a fund if it does not have control or joint control of the fund.

14. The tentative agenda decision states:

> The Interpretations Committee observed that a fund manager assesses whether it has control, joint control or significant influence over a fund that it manages applying the relevant IFRS Standard, which in the case of significant influence is IAS 28 *Investments in Associates and Joint Ventures*.

15. We also acknowledge Deloitte's and the ASBJ's comments that the wording of the tentative agenda decision that says '…IAS 28 does not contemplate whether and how

decision-making authority held in the capacity of an agent affects the assessment of significant influence…' might be read in isolation to imply that a fund manager that is an agent is not required to assess whether it has significant influence over a fund.

16. To address these concerns, we recommend amending the wording of the tentative agenda decision that reads 'IAS 28 does not contemplate whether and how decision-making authority held in the capacity of an agent affects the assessment of significant influence' to read as 'IAS 28 does not address ~~contemplate whether, and~~ how decision-authority held in the capacity of an agent affects ~~the~~ a fund manager's assessment of significant influence'.

17. We think that removing the reference to 'whether' together with adding a specific reference to a 'fund manager's' assessment of significant influence removes the potential to read the sentence in a way that might imply that a fund manager that is an agent is not required to assess whether it has significant influence over a fund.

18. We have not suggested including in the agenda decision the ASCG's view that, in assessing significant influence, a fund manager 'shall include the participation in financial and operating policy decisions that it undertakes on behalf of, and for the benefit of, others'. This is because we think this would go beyond the requirements of IAS 28. Although a fund manager that acts in the capacity of an agent assesses significant influence, IAS 28 does not contain any requirements on how these agency rights affect the fund manager's assessment of significant influence. We reiterate that the Board did not change the definition of significant influence in IAS 28 when it issued IFRS 10. Accordingly, IFRS 10 did not require any change to how a fund manager assesses whether it has significant influence over a fund.

Should the Committee undertake a project to develop requirements for fund managers in assessing significant influence?

19. Although acknowledging the absence of requirements in IAS 28 regarding the decision-making authority of a fund manager, we continue to think that the Committee would not be able to undertake a narrow-scope project to develop

requirements in this respect. This is because, as outlined in paragraphs 22 and 23 of Agenda Paper 11 of the Committee's November 2016 meeting:

> 22. In our view, such a project would not be a narrow-scope project. This is because we think that such requirements could not be developed in isolation of a comprehensive review of the definition of significant influence in IAS 28. The principal versus agent requirements in IFRS 10 were developed as an integral part of developing a new definition of control that applies to all investees.
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> 23. We think it would not be an easy task to develop requirements for decision makers when assessing significant influence. When the existing definition of significant influence was developed by the Board's predecessor, the International Accounting Standards Committee (IASC), some considerable time ago, it would appear that the IASC did not give any consideration to how that definition might be applied by a decision maker who has decision-making authority delegated to it. In addition, it is highly likely that any such project would also involve consideration of the scope of application of the equity method, on the grounds that the main effect of concluding that an entity has significant influence is often to require measurement of any investment using the equity method rather than at fair value.

20. If the Committee agrees with our recommendation, we will report this issue to the Board at a future Board meeting. The Board will then decide whether to add this issue as a project or to an existing project, for example the equity method research project, assessing the priority of the issue.

Staff recommendation

21. On the basis of our analysis, we recommend confirming the tentative agenda decision as published in the IFRIC Update in November 2016 with some drafting changes. Appendix A of this paper sets out the draft wording for the final agenda decision.

Question for the Committee
Does the Committee agree with the staff recommendation to finalise the agenda decision set out in Appendix A to this paper?

Appendix A—Proposed wording for final agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through)

IAS 28 *Investments in Associates and Joint Ventures*—Fund manager's assessment of significant influence

The IFRS Interpretations Committee (the Committee) received a request to clarify whether, and, if so, how, a fund manager assesses significant influence over a fund that it manages and in which it has an investment. In the scenario described in the submission, the fund manager applies IFRS 10 *Consolidated Financial Statements* and determines that it is an agent, and thus does not control the fund. The fund manager has also concluded that it does not have joint control of the fund.

The ~~Interpretations~~ Committee observed that a fund manager assesses whether it has control, joint control or significant influence over a fund that it manages applying the relevant IFRS Standard, which in the case of significant influence is IAS 28 *Investments in Associates and Joint Ventures*.

The ~~Interpretations~~ Committee noted that, unlike IFRS 10 in the assessment of control, IAS 28 does not ~~contemplate whether and~~ address how decision-making authority held in the capacity of an agent affects ~~the~~ a fund manager's assessment of significant influence. Developing any such requirements could not be undertaken in isolation of a comprehensive review of the definition of significant influence in IAS 28.

The ~~Interpretations~~ Committee also observed that paragraph 7(b) of IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose information about significant judgements and assumptions it has made in determining that it has significant influence over another entity.

The ~~Interpretations~~ Committee concluded that it would be unable to resolve the question efficiently within the confines of existing IFRS Standards. Consequently, it ~~[~~decided~~]~~ not to add the issue to its agenda.

Appendix B—Copies of comment letters

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INVESTOR IN PEOPLE

International Financial Reporting Standards Interpretations Committee
30 Cannon Street
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07 December 2016

Dear IFRS Interpretations Committee members,

Invitation to comment – Tentative Agenda Decision: IAS 28 *Investments in Associates and Joint Ventures* – Fund manager's assessment of significant influence (IFRIC Update 08 November 2016 - Agenda Paper 11)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above Tentative Agenda Decision (TAD) discussed by the IFRS Interpretations Committee (the IFRS IC) in November 2016.

We agree with the IFRS IC that IAS 28 does not include any guidance on how to view significant influence with respect to an agency relationship. However, we are of the view that an assessment would still be required by a fund manager that is an agent (per IFRS 10 *Consolidated Financial Statements*), to determine whether it has significant influence over the fund. The fact that the fund manager does not control the fund does not preclude an assessment of significant influence over the fund.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

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27 January 2017

Chair
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Dear Sir

Tentative agenda decision – IAS 28 *Investments in Associates and Joint Ventures*: Fund manager's assessment of significant influence

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on how a fund manager determined to be acting as agent for the purposes of IFRS 10 *Consolidated Financial Statements* assesses whether it has significant influence for the purposes of IAS 28.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda. However, we are concerned that the wording in the current tentative agenda decision, in stating that IAS 28 "does not contemplate" the notion of a party acting as agent, could be interpreted as suggesting that the agent/principal concept should necessarily be disregarded in an assessment of significant influence. We do not believe this interpretation is consistent with the intent of the Interpretations Committee. For additional clarity, we suggest that the agenda decision be revised to indicate that IAS 28 "does not address whether or how decision-making authority held in the capacity of an agent affects the assessment of significant influence".

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

Yours sincerely

Veronica Poole
Global IFRS Leader

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27 January 2017

IFRS Interpretations Committee
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comments on the Tentative Agenda Decision Relating to IAS 28 *Investments in Associates and Joint Ventures*— Fund Manager's Assessment of Significant Influence

1. The Accounting Standards Board of Japan (the "ASBJ") welcomes the opportunity to comment on the IFRS Interpretation Committee's (the "Committee") tentative agenda decision relating to IAS 28 *Investments in Associates and Joint Ventures*—Fund Manager's Assessment of Significant Influence in the November 2016 IFRIC Update.

2. We agree with the Committee's decision not to add this issue to its agenda because a comprehensive review of the definition of significant influence in IAS 28 would be necessary to address this issue.

3. However, the wording in tentative agenda decision that says "IAS 28 does not contemplate whether and how decision-making authority held in the capacity of an agent affects the assessment of significant influence" could be read as if the decision-making authority should not be considered when assessing significant influence.

4. Our understanding of the Committee's intention was to clarify that the fund manager should assess whether it has significant influence over the fund taking into account all facts and circumstances, including the fund manager's decision-making authority held in the capacity of an agent. Accordingly, we think the Committee should clarify that the decision-making authority in the capacity of an agent should be considered when assessing whether the fund manager has significant influence, but

taking into account all other facts and circumstances the fund manager may or may not have significant influence.

5. We hope our comments are helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Yasunobu Kawanishi
Chairman of the Technical Committee for IFRS Implementation
Accounting Standards Board of Japan

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Berlin, 25 January 2017

Dear Henry,

IFRS IC's tentative agenda decisions in its November 2016 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on two of the tentative agenda decisions, taken by the IFRS Interpretations Committee (IFRS IC) and as published in the November 2016 *IFRIC Update*. Please find our detailed comments in the appendix to this letter.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow
President

Appendix A – Comments on tentative agenda decisions

IAS 28 – Fund manager's assessment of significant influence

We do not fully agree with the IFRS IC's decision and some of the findings. Contrary to the IFRS IC's findings, we consider the question of whether the fund manager acts as a principal or an agent being relevant, even if there is significant influence "only".

If we assume that the fund manager does not control the fund, one would then need to assess whether he has significant influence. Even in this assessment, the fund manager's participation in policy decisions must be considered *implicitly*. Further, we refer to our earlier comments made on the previous tentative agenda decision, taken by the IFRS IC in September 2014, which we have submitted in our comment letter dated 21 November 2014 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 ...."*

Finally, we do not agree with the conclusion and do not understand the reasoning, that (and why) the IFRS IC "is unable to resolve the question efficiently…". Assuming that the IFRS IC takes the view that IFRS 10 and IAS 28 do not provide basis for a clear answer, we believe that the IFRS IC should take up their responsibility in developing possible ways forward. As outlined in other consultations, we do not find it appropriate to state 'consistent application' as the overarching goal on the one hand and to acknowledge (but not react on) existing diversity on the other.

Commodity Loans

We do not fully agree with the IFRS IC's findings and its tentative decision. We agree with the finding that the particular transaction might not be clearly captured within the scope of any specific IFRS; hence, IAS 8 comes into play. We also agree with the conclusion that, given the wide range of transactions involving commodities, any narrow-scope standard setting activity (ie. an amendment or a clarification) would be of limited benefit.

However, the IFRS IC's finding that applying IAS 8.10 et seq. was a sufficient basis for developing an accounting policy to the transaction appears contradictory in itself, since the IFRS IC themselves was not able to provide an answer to the specific issue in the submission by applying IAS 8.10 et seq. Generally speaking, the IFRS IC should at least be able to give answers on basic aspects (e.g. recognition of both an asset and a liability, gross or net presentation, transfer of risks and rewards). Therefore, we strongly urge the IFRS IC to reconsider the wording of its agenda decision.