

STAFF PAPER

March 2017

IFRS® Interpretations Committee Meeting

Project	IFRS 10 <i>Consolidated Financial Statements</i>		
Paper topic	Investment Entities—Consolidation of subsidiaries		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (the Committee). Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards—only the Committee or the International Accounting Standards Board (the Board) can make such a determination. Decisions made by the Committee are reported in IFRIC® *Update*. The approval of a final Interpretation by the Board is reported in IASB® *Update*.

Introduction

1. The IFRS Interpretations Committee (the Committee) received a request regarding the investment entity requirements in IFRS 10 *Consolidated Financial Statements*, including how an investment entity assesses whether it consolidates a subsidiary applying paragraph 32 of IFRS 10 in specified circumstances. The Committee discussed the following questions:
 - (a) does an entity qualify as an investment entity if it possesses all three elements described in paragraph 27 of IFRS 10, but does not have one or more of the typical characteristics of an investment entity listed in paragraph 28 of IFRS 10? (Question a)
 - (b) does an entity provide investment management services to investors (as specified in paragraph 27(a) of IFRS 10) if it outsources the performance of these services to a third party? (Question b).
 - (c) does a subsidiary provide services that relate to its parent investment entity's investment activities (as specified in paragraph 32 of IFRS 10) by holding an investment portfolio as beneficial owner? (Question c)
 - (d) to what extent can an investment entity provide investment-related services, itself or through a subsidiary, to third parties? (Question d)

2. For all four questions (ie Questions a—d), the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the appropriate accounting in each of the specified circumstances. Consequently, the Committee tentatively decided not to add this issue to its agenda. The November 2016 [IFRIC Update](#) provides further details on the Committee’s conclusions.
3. 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

4. We received three comment letters, which have been reproduced in Appendix B to this paper.
5. Two respondents (Ernst & Young Global Limited and Deloitte) agree with the Committee’s decision not to add this issue to its agenda for the reasons set out in the tentative agenda decision.
6. The other respondent (The Swiss Association of Investment Companies (the SAIC)) expresses some concerns with the Committee’s conclusion on Question a (ie whether an entity is an investment entity if it possesses all three elements described in paragraph 27 of IFRS 10, but does not have one or more of the typical characteristics of an investment entity listed in paragraph 28 of IFRS 10).
7. For Question a, the Committee concluded that an entity that possesses all three elements of the definition of an investment entity in paragraph 27 of IFRS 10 is an investment entity. This is the case even if that entity does not have one or more of the typical characteristics of an investment entity listed in paragraph 28 of IFRS 10. If an

entity does not have one or more of the typical characteristics, it applies additional judgement in determining whether it possesses the three elements of the definition.

8. Paragraph 27 of IFRS 10 states:

A parent shall determine whether it is an investment entity. An investment entity is an entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

9. Paragraph 28 of IFRS 10 states:

In assessing whether it meets the definition described in paragraph 27, an entity shall consider whether it has the following typical characteristics of an investment entity:

- (a) it has more than one investment (see paragraphs B85O–B85P);
- (b) it has more than one investor (see paragraphs B85Q–B85S);
- (c) it has investors that are not related parties of the entity (see paragraphs B85T–B85U); and
- (d) it has ownership interests in the form of equity or similar interests (see paragraphs B85V–B85W).

The absence of any of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity. An investment entity that does not have all of these typical characteristics provides additional disclosure

required by paragraph 9A of IFRS 12 *Disclosure of Interests in Other Entities*.

Issue I – Application of paragraphs 27 and 28 of IFRS 10

10. The SAIC agrees with the Committee’s assessment of the definition of an investment entity. However, it says that an entity that is a wholly owned subsidiary of a parent investment entity should not conclude that it is an investment entity if it meets the three elements in paragraph 27 of IFRS 10 without further analysis. Instead, the SAIC suggests that an entity should be allowed to place more significance on the characteristics listed in paragraphs 28(b) and (c) of IFRS 10.
11. The SAIC says that important information about the underlying investments held by a wholly-owned subsidiary of a parent investment entity is hidden when both the parent entity and its subsidiary are investment entities. This is because the parent investment entity recognises and measures its investment entity subsidiary at fair value, rather than consolidating it and therefore reflecting each underlying investment of that subsidiary at fair value. The SAIC says that allowing entities to place more significance on the characteristics listed in paragraph 28(b) and (c) of IFRS 10 could allow a parent investment entity to consolidate any operating subsidiaries that act as extensions of the parent. Accordingly, the parent investment entity would reflect any underlying investments of the subsidiary at fair value even if the subsidiary would otherwise meet the three criteria in paragraph 27 of IFRS 10.

Issue II – Unit of account for assessing an investment entity

12. As explained in paragraph 11 above, the SAIC says that important information required by users of financial statements about the underlying investments held by a wholly-owned subsidiary of a parent investment entity is hidden when both the parent entity and its subsidiary are investment entities. The SAIC says that this outcome has led the Regulatory Board of the Swiss Stock Exchange to issue disclosure requirements that are applicable in such instances.

13. To address this issue, the SAIC says that the parent entity and the subsidiary should not assess whether they are investment entities separately. Instead, the parent entity together with any operating subsidiaries that act as extensions of the parent entity should be considered as one unit of account when applying paragraph 27 of IFRS 10. This would ensure that regardless of whether an investment entity operates through a single parent structure or through a more complex sub-holding structure, it would recognise and measure underlying portfolio investments individually at fair value rather than together as a single line item. The SAIC acknowledges that this change in definition of an investment entity may be more in the scope of a post-implementation review of IFRS 10.
14. We have analysed the concerns raised by SAIC in the following section.

Staff analysis

Issue I – Application of paragraphs 27 and 28 of IFRS 10

15. The SAIC’s view—that an entity should not conclude that it is an investment entity if it meets the three elements in paragraph 27 of IFRS 10 without further analysis—does not align with the requirements in IFRS 10.
16. As outlined in paragraph 14 of [Agenda Paper 5](#) of the Committee’s November 2016 meeting, the presence of the typical characteristics in paragraph 28 of IFRS 10 is not intended to constitute additional criteria that entities must meet in order to qualify as an investment entity. This is stated in paragraph 28, which emphasises that the absence of any of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity. Instead, an entity considers these characteristics when assessing whether it meets the three elements of the definition of an investment entity in paragraph 27 of IFRS 10. Further, paragraph B85A of IFRS 10 states:

An entity that possesses the three elements of the definition of an investment entity set out in paragraph 27 is an investment entity.

Issue II – Unit of account for assessing an investment entity

17. The SAIC says that the parent entity and the subsidiary should not assess whether they are investment entities separately. Instead, the parent entity together with any operating subsidiaries that act as extensions of the parent entity should be considered as one unit of account when applying paragraph 27 of IFRS 10. This suggestion reflects the SAIC's view that important information is hidden about the underlying portfolio investments in a subsidiary when a parent entity recognises its investment in the subsidiary at fair value, rather than consolidating the subsidiary.
18. The Board explicitly considered this issue both when developing the requirements for investment entities in 2012, and again when it amended these requirements in 2014.
19. In October 2012, the Board issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 *Disclosure of Interest in Other Entities* and IAS 27 *Separate Financial Statements*), which provided an exception to consolidation for investment entities. During the development of this exception, the Board considered views similar to those expressed by the SAIC in paragraph 17 of this paper (ie that important information about the underlying portfolio investments is hidden when a parent entity recognises its investment in a subsidiary that is itself an investment entity at fair value. Nonetheless, the Board decided to confirm the requirement to measure all subsidiaries that are themselves investment entities at fair value, including those that are wholly-owned. Paragraph BC272 of IFRS 10 states:

BC272 The *Investment Entities* ED proposed that an investment entity would measure all of its subsidiaries at fair value (except for those subsidiaries providing investment-related services), even those investees who were themselves investment entities. Some respondents questioned this

proposal and suggested that at least some investment entity subsidiaries should be consolidated (for example, wholly-owned investment entity subsidiaries that are created for legal, tax or regulatory purposes). However, the Board thinks that fair value measurement of all an investment entity's subsidiaries (except for those subsidiaries providing investment-related services or activities) would provide the most useful information and therefore decided to retain this proposal. The Board considered requiring an investment entity to consolidate only those investment entity subsidiaries that are formed for legal, tax or regulatory purposes, but decided against this because there is no conceptual basis for distinguishing between different investment entity subsidiaries. Moreover, the Board thinks that it would be very difficult to distinguish between an investment entity subsidiary formed for a specific legal, tax or regulatory purpose and those that are set up only for other business reasons.

20. The Board also decided not to require entities to provide information about the underlying portfolio of any investment entity subsidiary by attaching the financial statements of that subsidiary to the consolidated financial statements. Paragraphs BC273 and BC274 of IFRS 10 state:

BC273 The Board considered whether it should require certain investment entity parents to attach the financial statements of their investment entity subsidiaries to the parent's financial statements. Some respondents argued that it would be essential for users of the financial statements of an investment entity parent to have information about the underlying investments of its investment entity subsidiary, particularly when the investment entity parent has only one investment entity subsidiary (eg 'master-feeder funds').

BC274 However, the Board decided against requiring financial statements of an investment entity subsidiary to be attached to the financial statements of an investment entity parent. The Board believed that it would be difficult to define which types of structures should be covered by such a requirement. Moreover, the Board thought that such a requirement would be inconsistent with the proposal that fair value information is always the most relevant information for investment entities.

21. Further, in December 2014, the Board amended IFRS 10 to clarify which subsidiaries an investment entity consolidates, instead of measuring them at fair value. The Board amended paragraph 32 of IFRS 10 to confirm that a parent investment entity does not consolidate a subsidiary that is itself an investment entity. Paragraphs BC 240C—BC240E state:

BC240C Some respondents to the *Consolidation Exception ED* suggested that requiring an investment entity to measure each investment entity subsidiary at fair value as a single item results in a loss of information about each subsidiary's underlying investments and the activities of that subsidiary. They suggested that an investment entity parent should be able to apply a 'dual-model' of consolidation, which would allow an investment entity parent to show its directly and indirectly held investments at fair value while consolidating other activities. This is similar to the asset-based approach previously rejected by the Board (see paragraph BC226).

BC240D The Board acknowledged some of the potential benefits of an asset-based approach. In particular, this approach may better avoid some structuring issues, particularly in multi-layer groups in which different types of subsidiaries are held at different levels within the group. However, the Board decided that developing a broader principle-based approach, together with guidance to enable

consistent application, would be too difficult to achieve within the limited scope of the consolidation exception clarification project. In addition, the Board decided that such an approach and related guidance could not be developed within the short time frame that was needed to provide the necessary clarification before the end of 2014. These decisions were, in part, based on the variety of suggestions provided by respondents to the *Consolidation Exception ED* about which activities should be consolidated and which should be measured at fair value.

BC240E The Board noted that the requirement in paragraph 32 of IFRS 10 to consolidate particular subsidiaries of an investment entity was intended to be a limited exception, capturing only operating subsidiaries that support the investment entity parent's investing activities as an extension of the operations of the investment entity parent. It was not intended to capture subsidiaries that are themselves investment entities...

22. The Board plans to initiate a post-implementation review of IFRS 10 in the second half of 2017. As noted on the [project website](#), 'the post-implementation review will also assess the effects of the investment entities requirements'.
23. On the basis of our analysis, we do not think the Committee should address the concern raised by the respondent. This is because:
 - a. the Board specifically considered this issue when developing the requirements for investment entities (and again when it amended these requirements); and
 - b. the Board will assess the effects of the requirements applicable to investment entities when it performs a post-implementation review of IFRS 10.

Staff recommendation

24. On the basis of our analysis, we recommend confirming the tentative agenda decision as published in the IFRIC Update in [November 2016](#) with no substantial 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 (deleted text is struck through)

IFRS 10 Consolidated Financial Statements —Investment entities and subsidiaries

The IFRS Interpretations Committee (~~the Committee~~) received a request regarding the investment entity requirements in IFRS 10, including how an investment entity assesses whether it consolidates a subsidiary applying paragraph 32 of IFRS 10 in specified circumstances. The ~~Interpretations~~ Committee discussed the following questions:

- (a) does an entity qualify as an investment entity if it possesses all three elements described in paragraph 27 of IFRS 10, but does not have one or more of the typical characteristics of an investment entity listed in paragraph 28 of IFRS 10? (Question a)
- (b) does an entity provide investment management services to investors (as specified in paragraph 27(a) of IFRS 10) if it outsources the performance of these services to a third party? (Question b).
- (c) does a subsidiary provide services that relate to its parent investment entity’s investment activities (as specified in paragraph 32 of IFRS 10) by holding an investment portfolio as beneficial owner? (Question c)
- (d) to what extent can an investment entity provide investment-related services, itself or through a subsidiary, to third parties? (Question d)

Question a

Paragraph 27 of IFRS 10 lists the three elements an entity must possess to qualify as an investment entity. Paragraph B85A of IFRS 10 emphasises the importance of considering all facts and circumstances when assessing whether an entity is an investment entity, and notes that an entity that possesses the three elements of the definition of an investment entity in paragraph 27 is an investment entity.

Paragraphs B85B-B85M then describe the elements of the definition in more detail.

Paragraph 28 of IFRS 10 lists typical characteristics that an entity considers in assessing whether it possesses all three elements in paragraph 27, and says that the absence of any of these characteristics does not necessarily disqualify an entity from being an investment entity. Paragraph B85N of IFRS 10 clarifies that the absence of one or more of the typical characteristics of an investment entity listed in paragraph 28 of IFRS 10 indicates that additional judgement is required in determining whether the entity is an investment entity.

Accordingly, the ~~Interpretations~~-Committee concluded that an entity that possesses all three elements of the definition of an investment entity in paragraph 27 of IFRS 10 is an investment entity. This is the case even if that entity does not have one or more of the typical characteristics of an investment entity listed in paragraph 28 of IFRS 10. If an entity does not have one or more of the typical characteristics, it applies additional judgement in determining whether it possesses the three elements of the definition.

Question b

Paragraph 27(a) of IFRS 10 requires an investment entity to provide investors with investment management services. IFRS 10 does not specify how the investment entity must provide these services, and does not preclude it from outsourcing the performance of these services to a third party.

Accordingly, the ~~Interpretations~~-Committee concluded that an investment entity responsible for providing investment management services to its investors can engage another party to perform some or all of these services on its behalf (ie it can outsource the performance of some or all of these services).

Question c

The ~~Interpretations~~-Committee observed that it had previously discussed a question similar to Question c. At its meeting in March 2014, the ~~Interpretations~~

Committee issued an agenda decision noting its conclusion that a subsidiary does not provide investment-related services or activities if the subsidiary holds investments for tax optimisation purposes and there is no activity within the subsidiary.

Similarly, the ~~Interpretations~~ Committee concluded that an investment entity does not consider the holding of investments by a subsidiary as beneficial owner (and recognised in the subsidiary's financial statements) to be a service that relates to the parent investment entity's investment activities (as specified in paragraph 32 of IFRS 10).

Question d

Paragraph 27(b) of IFRS 10 requires that the business purpose of an investment entity is to invest solely for capital appreciation, investment income, or both. Paragraph B85C of IFRS 10 says that an investment entity may provide investment-related services, either directly or through a subsidiary, to third parties as well as to its investors (even if those activities are substantial to the entity), subject to the entity continuing to meet the definition of an investment entity.

Accordingly, the ~~Interpretations~~ Committee concluded that an investment entity may provide investment-related services, either directly or through a subsidiary, to third parties, as long as those services are ancillary to its core investing activities and, thus, do not change the business purpose of the investment entity.

The ~~Interpretations~~ Committee observed that an investment entity assesses whether the investment management services provided by a subsidiary, including those provided to third parties, relate to the investment entity's investment activities. If so, the investment entity includes these services in assessing whether the investment entity itself possesses the element of the investment entity definition in paragraph 27(b) of IFRS 10.

The ~~Interpretations~~ Committee also noted that, applying paragraph 32 of

IFRS 10, an investment entity consolidates any non-investment entity subsidiaries whose main purpose and activities are providing services that relate to the investment entity’s investment activities.

For all four questions (ie Questions a—d), the ~~Interpretations~~ Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for ~~to enable~~ an entity to determine the appropriate accounting in each of the specified circumstances.

In the light of the existing requirements in IFRS Standards, the ~~Interpretations~~ Committee {determined} that neither an IFRIC Interpretation nor an amendment to a Standard was necessary. Consequently, the ~~Interpretations~~ Committee {decided} not to add this issue to its agenda.

Appendix B—Copies of comment letters

International Financial Reporting Standards Interpretations
Committee
30 Cannon Street
London
EC4M 6XH

07 December 2016

Dear IFRS Interpretations Committee members,

Invitation to comment - Tentative Agenda Decision: IFRS 10 Consolidated Financial Statements - Investment entities and subsidiaries (IFRIC Update 08 November 2016 - Agenda Paper 05)

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 support the conclusions reached by the IFRS IC on all four of the questions presented in this staff paper. We confirm that we have always read paragraph 32 of the standard in the same way and our view is consistent with that of the IFRS IC in this regard.

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

27 January 2017

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

Dear Sir


Tentative agenda decision – IFRS 10 Consolidated Financial Statements: Investment entities and subsidiaries

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 various aspects of the investment entity requirements of IFRS 10, including how an investment entity assesses whether it consolidates a subsidiary in accordance with paragraph 32 of the Standard.

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



Veronica Poole
Global IFRS Leader

Swiss Association of Investment Companies (SAIC)

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Director of Implementation Activities, IASB
First Floor
30 Cannon Street
London
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United Kingdom

25 January 2017

Dear Ladies and Gentlemen

Tentative agenda decision: IFRIC 10 Consolidated Financial Statements – Investment entities and subsidiaries

We are responding to the invitation to comment on behalf of the Swiss Association of Investment Companies (“SAIC”) / Schweizer Verband der Investmentgesellschaften (“SVIG”) on the above Tentative Agenda Decision, published in the November 2016 edition of IFRIC Update.

The SAIC is an association under Swiss law registered in the commercial register of the Canton of Zug, Switzerland and which was founded in the beginning of March 2004. According to its articles of association, it pursues the goal of safeguarding the interests of the Swiss based and the out of Switzerland operating investment companies and related investment management companies. A large majority of all exchange listed and a number of not listed investment companies as well as asset management companies of investment companies are members of the SAIC. In particular with respect to market capitalisation, the members organized under the SAIC represent with 10 out of 12 the vast majority of all investment companies listed under the Investment-Index of the SIX Swiss Exchange.

IFRS 10 was amended in 2012 requiring an investment entity as defined to fair value certain of its subsidiaries rather than consolidating them. A further amendment was published in December 2014, requiring investment entity subsidiaries of a parent investment entity to no longer be consolidated.

The business model of an investment entity, unlike other entities, is to manage all of its investments on a fair value basis, whether they are simple investments, associates or controlled entities. Investment entities provide fair value information to users as this information is considered more useful for decision making than consolidated information. To ensure that users of investment entity financial information have the necessary visibility of fair value information required to make useful decisions, it is vital that the definition of an investment entity be consistently and appropriately applied. On 8th November 2016, the IFRIC was asked to consider whether an entity would qualify as an investment entity if it possesses all three elements described in IFRS 10 p27, but does not have the typical characteristics of an investment entity as listed in IFRS 10 p28. The IFRIC concluded in their draft

rejection wording that if an entity were to possess all three elements of the definition of an investment entity as set out in IFRS 10 p27, this entity would be an investment entity. This would be the case even if the entity does not possess one or more of the characteristics of an investment entity as set out in IFRS 10 p28. If the entity does not possess one or more of the characteristics of an investment entity as set out in IFRS 10 p28, then it applies additional judgement to determine whether it possesses the three elements of the definition of an investment entity.

Whilst we agree with your assessment of the definition of an investment entity, we believe that there is still diversity in practice on defining an investment entity, specifically where the investments are acquired through complex sub-holding structures. This diversity stems from how preparers view the wording of the investment entity definition as contained in IFRS 10 p27 and the supporting p28. There are two possible views which are described below and which are leading to diversity in practice and are the likely source of the original request to the IC.

- 1) Some preparers identify the existence of the 3 criteria in IFRS 10 p27, without any reference to IFRS 10 p28 and therefore arrive at a conclusion that a sub-holding entity within the investment entity structure is in itself an investment entity and the Parent would fair value the investments in the Sub Holding Companies. The result would be a loss of valuable information in the reported financial information as well as to dual reporting requirements being triggered by certain regulators / investors. Information on the underlying investments, any debt financing or other financial leverage as well as the various fees incurred would not be visible and shares of the parent held at the sub-holding level would lead to an inflated net asset value (NAV) if both the parent and the sub-holding entities are assessed to be investment entities.
- 2) Alternatively, some preparers identify the 3 criteria in IFRS 10 p27, but acknowledge that there is a single investor and that investor is simply a parent investment company that has in turn multiple investors. They believe that IFRS 10 p28c permits the judgement that the sub-holding does not meet the definition. In effect the accounting views the investment entity as being both the parent together with any additional entities that act as operating extensions of the parent. These preparers would show a consolidated structure holding the underlying investments at fair value. Any resulting fees would also be transparent from this approach. We believe the latter to be the most appropriate as it mirrors the way investment entities manage their business and results in more meaningful information being reflected in the financial statements, regardless of an investment entity's group structure.

Refer to the appendix for an illustration of the two differing views above.

For those preparers who conclude that an individual sub-holding entity in the investment entity structure needs to be assessed and meets the definition of an investment entity in its own right, the result is similar to the Master-Feeder structures as reflected in Example 4 of the Implementation Examples to IFRS 10 (IFRS 10 IE12 – IE 14). We believe this to be misleading as unlike Master-Feeder structures, sub-holding entities are normally held by a single, related-party investor. Additionally, unlike the Master, an investment entity sub-holding entity is usually neither listed nor does it have tradeable units and its risks and investments are also not managed on a

stand-alone basis. Consequently the underlying fair value of the sub-holding entity is not relevant to the users of the financial statements, but rather the users would like to see the fair values of the underlying investments held by combined investment entity structure as well as the management and administrative fees within the sub-holding entity (i.e. a look through view). This information would be lost if the sub-holding entity were seen as itself being an investment entity. With the Master-Feeder structure, there are usually regular subscriptions and redemptions in and out of the Master and therefore the fair value of the Master is easily identifiable (i.e. the NAV per unit of the Master). Further, this is the information that is most useful to the unrelated investors in the Master fund structure.

This diversity in practice has also led the Regulatory Board of the Swiss Stock Exchange (“SIX”) to issue further reporting requirements for investment entities to ensure an adequate level of investor information and transparency. The SIX acknowledged that *“Under certain circumstances, these amendments can have a significant impact on the presentation of the financial statements of the companies concerned. This is because only participations in intermediate companies now appear in investment companies' financial statements, but the underlying capital investments are no longer visible.”*, for further details to the communication issued on 23 June 2016, please refer to below:

https://www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/communiqués-regulatory-board/08_08_01-COM201601_en.pdf

For Swiss listed investment entities, the above additional reporting requirements from the SIX would in effect result in a dual reporting system in cases where both the parent and the sub-holding entities are viewed as investment entities.

Our view is that the assessment of how to define the “entity” (which is then subject to the guidance) is a key judgement where preparers should be encouraged to consider the individual facts and circumstances as well as taking into consideration the objectives of the original amendment. This would ensure that regardless of whether an investment entity operates through a single parent structure or through a more complex sub-holding structure, the underlying investments would be reflected individually at fair value rather than being only shown as a single line item, any debt or leveraged financing would be visible and own investment holdings would be eliminated thereby matching the business objective of the investment entity and providing the true net asset value. To ensure this, we would like the standard, or the conclusions of the IC, to explicitly allow the unit of account of the “parent” in the investment entity definition to include any operating entities that act as an extension of the parent company. We therefore suggest including a footnote to the word “parent” in the investment entity definition contained in IFRS 10 p27 stating that the term “parent” is used more broadly in this context to mean an entity that has a branch, associate, joint venture, as well as one with a subsidiary. This mirrors the approach applied in IAS 21 (BC 6). We acknowledge that this change in the definition of an investment entity may be more in the scope of a post implementation review for IFRS 10.

In the tentative agenda rejection wording of the IFRIC meeting held in November 2016, it was confirmed that if an entity does not have one or more of the typical characteristics contained in IFRS 10 p28, it applies additional judgement in

Swiss Association of Investment Companies (SAIC)

determining whether it possesses the three elements of the investment entity definition contained in IFRS 10 p27. However, it was also concluded that if an entity possesses all three elements of the investment entity definition as contained in IFRS 10 p27, that entity is an investment entity. The definitive nature of the **bold** definition contained in IFRS 10 p27 in a situation where the investor is a single, related party investor, leads to diversity. An entity should be allowed to place more significance on IFRS 10 p28 b) and c) when applying their judgement in determining whether an entity is in fact an investment entity and not be obliged to stop the analysis once the 3 p27 criteria have been found.

If you have any questions in relation to this letter please do not hesitate to contact Erwin Troxler (+41 41 710 75 77 or erwin.troxler@hbmhealthcare.com).

Kind regards

Swiss Association of Investment Companies (SAIC)

The President:

The Secretary:



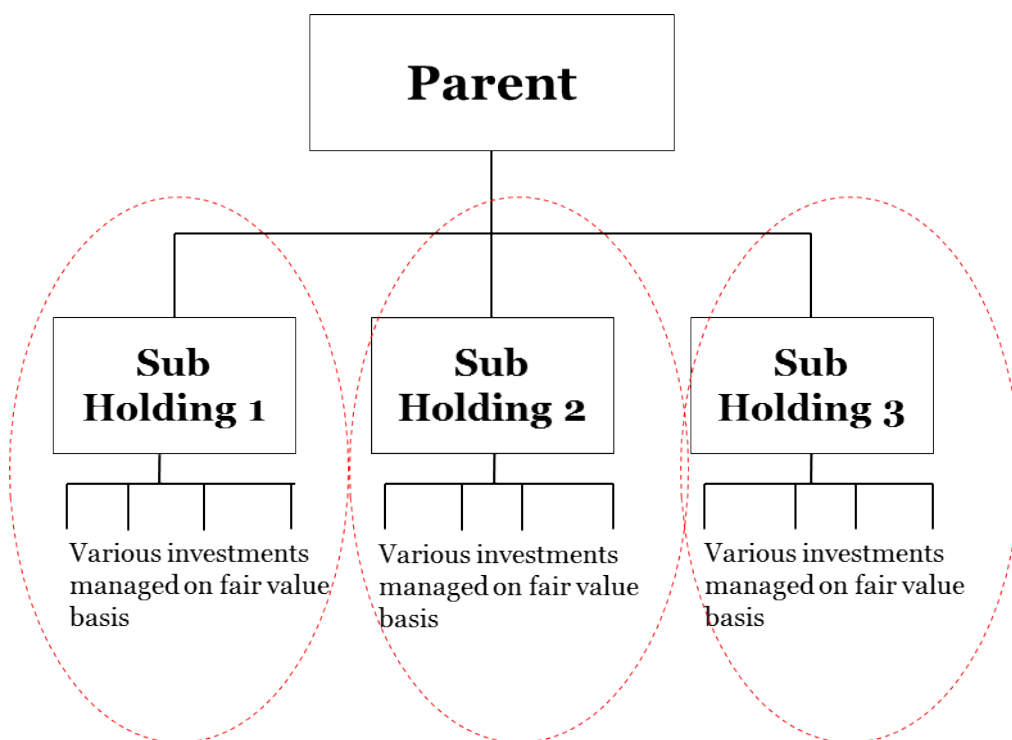
Erwin Troxler

Dr. Alexander Vogel

Illustrative appendix

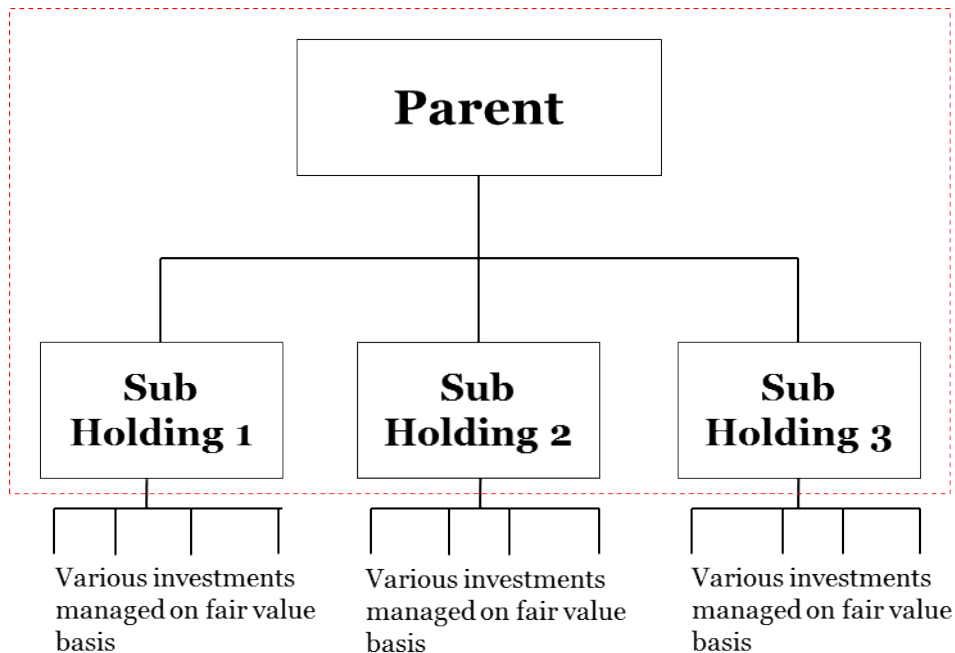
The illustrations below serve to illustrate the diversity in practice. Please note that for illustration purposes, we have included a simplistic parent / sub-holding structure, however, in practice it should be noted that some investment entity structures comprise more complex, multiple layer sub-holding structures.

View 1: Both the parent entity and the sub-holding entities are investment entities:



Each of the red circles in the diagram above will be reflected in the Parent's financial information as 3 individual fair value investment amounts. The visibility into the financing structure and fees would not be distinguishable from the NAV of the underlying investment portfolio of the investment entity. In addition, any shares held by the sub-holding in the parent would not be eliminated and would increase the fair value of the investment line item held by the parent.

View 2: The parent entity is an investment entity and the sub-holding is consolidated as an operating extension to the investment entity:



The red line above represents the unit of account which would be considered to be the investment entity as defined in IFRS 10 p27. In the illustration above, the sub-holdings would be consolidated and their investments would be reflected in the Parent entity's financial statements at fair value. Any interest held by the sub-holding entities in the Parent would be eliminated under normal consolidation principles. View 2 provides more useful information to users to be able to make decisions as to the way the investment entity performs their business.