Investment Entities Amendments—the definition of investment-related services or activities (IFRS 10 *Consolidated Financial Statements*)―March 2014

The Interpretations Committee received a request to clarify the definition of ‘investment-related services or activities’ as it relates to subsidiaries that act as intermediate holding companies ('intermediate subsidiaries') and are established for ‘tax optimisation’ purposes.

An investment entity is permitted to provide investment-related services or activities, either directly or through a subsidiary. If an investment entity provides investment-related services or activities through a subsidiary, the investment entity shall consolidate that subsidiary.

Some investment entities establish wholly-owned intermediate subsidiaries in some jurisdictions, which own all or part of the portfolio of investments in the group structure. The sole purpose of the intermediate subsidiaries is to minimise the tax paid by investors in the ‘parent’ investment entity. There is no activity within the subsidiaries and the tax advantage comes about because of returns being channelled through the jurisdiction of the intermediate subsidiary. The submitter asked whether the ‘tax optimisation’ described should be considered investment-related services or activities.

The Interpretations Committee noted that, according to paragraph BC272 of IFRS 10, the IASB thinks that fair value measurement of all of an investment entity’s subsidiaries would provide the most useful information, except for subsidiaries providing investment-related services or activities. In addition, the Interpretations Committee noted that the IASB had considered requiring an investment entity to consolidate investment entity subsidiaries that are formed for tax purposes, but had decided against this.

The Interpretations Committee noted that one of the characteristics of ‘tax optimisation’ subsidiaries described in the submission is “that there is no activity within the subsidiary”. Accordingly, the Interpretations Committee considers that the parent should not consolidate such subsidiaries, because they do not provide investment-related services or activities, and do not meet the requirements to be consolidated in accordance with paragraph 32 of IFRS 10. The parent should therefore account for such an intermediate subsidiary at fair value.

On the basis of the analysis above, the Interpretations Committee considered that in the light of the existing IFRS requirements, neither an interpretation nor an amendment to a Standard was necessary and consequently decided not to add the issue to its agenda.