



To:	AASB Members	Date:	30 August 2011
From:	Lisa Panetta	Agenda Item:	11.1
Subject:	ED/2011/4 <i>Investment Entities</i>	File:	

Action

Note differences between the pre-ballot ED and ED/2011/4.

To agree on AASB specific questions to be included in the AASB Preface to the ED incorporating IASB ED/2011/4 *Investment Entities*.

Attachments

11.2 IASB Exposure Draft ED/2011/4 *Investment Entities*

11.3 AASB ED XX *Investment Entities* (incorporating ED/2011/4)

Overview

This agenda paper highlights two of the more significant differences between ED/2011/4 and the pre-ballot draft of the ED and some possible implications.

Consistent with the June 2011 pre-ballot ED, ED/2011/4 specifies criteria for determining when an entity is an ‘investment entity’ and proposes that such entities account for investments at fair value through profit or loss (FVTPL) in accordance with IFRS 9 *Financial Instruments* and not consolidate investments in entities it controls. In addition, an investment entity would be required to provide additional disclosures to enable users of its financial statements to evaluate the nature and financial effects of its investment activities.

The IASB proposes that any resulting requirements concerning investment entities would be located in IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*.

Background

At its July 2011 meeting the Board considered the IASB’s pre-ballot ED *Investment Entities* [confidential agenda item 10.2]. Staff provided the Board with a high-level analysis of the pre-ballot ED [confidential agenda item 10.1] highlighting those Australian entities that might be affected by the proposals.

The Board agreed to identify in the AASB Preface to the ED broadly what the contentious issues might be. The Board also decided that the Chairman should raise issues about the ED proposals in an accompanying release.

Furthermore, the Board noted the nature of the proposed disclosures in the pre-ballot draft and observed, in the context of the overall project, that it would not be appropriate to reduce those disclosures in respect of general purpose financial statements of Tier 2 entities. This message is included at page iv of the Preface.

Differences between pre-ballot and final ED

Determining when an entity is an investment entity

Paragraph 3 of the pre-ballot ED stated:

‘The initial determination of whether an entity is an investment entity within the scope of this [draft] IFRS shall be made upon formation of the entity. At each reporting date, if facts and circumstances indicate that there is a change in status the entity shall reassess whether it meets the criteria for an investment entity as set out in this [draft] IFRS.’

These sentences have been replaced in paragraph 3 of the final ED by the following:

‘An entity shall determine whether it is an investment entity by considering the criteria as set out in this [draft] IFRS, and all facts and circumstances existing at the time. The entity shall reassess whether it meets the criteria for an investment entity if facts and circumstances indicates that there are changes to one or more of the criteria as set out in this [draft] IFRS.’

The change seems to indicate that an entity could become, or cease to be, an investment entity at any time, depending on whether the criteria are met, rather than as at each reporting date.

Implications for entities applying the IFRS 9 FVTOCI option

ED/2011/4 does not directly identify the implications of the proposals for entities¹ that have elected to use the FVTOCI option in IFRS 9 *Financial Instruments* (AASB 9) for equity investments in entities that do not give the entity control or significant influence. Such an entity may also have one or more equity interests that give it control or significant influence that it would be required to treat at FVTPL under the ED proposals. It may be that the entity can apply the two different accounting treatments at the same time – FVTOCI for the ‘passive’ equity interests and FVTPL for the other equity interests. However, staff note that, in the context of discussing the impacts of the proposals on accounting for associates and joint ventures, paragraph BC28 comments:

‘In the Board’s view, the proposed amendments will increase consistency within IFRSs by applying the same criteria for identifying an investment entity and requiring the same measurement for all investments of an investment entity.’

This may indicate that those entities currently applying the FVTOCI option might need to change to FVTPL if they have at least one equity investment that gives them control or significant influence.

¹ Such as Australian listed investment companies.

AASB specific questions

Staff propose the following AASB specific questions be included in the AASB Exposure Draft ED XX *Investment Entities*:

The AASB would particularly value comments on the following:

- 1 whether you agree with the AASB's proposal not to provide relief for Tier 2 entities from the proposed disclosure requirements in paragraphs 9 – 10 and B18 – B20 of this Exposure Draft;
- 2 whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
 - (a) not-for-profit entities; and
 - (b) public sector entities;
- 3 whether, overall, the proposals would result in financial statements that would be useful to users;
- 4 whether the proposals are in the best interests of the Australian economy; and
- 5 unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

Questions to the Board

- 1 **Do Board members agree with the AASB specific questions proposed?**
- 2 **Do Board members have any further AASB specific questions they would like included in the AASB ED?**

Comment date

The IASB has asked for comments on ED/2011/4 by 5 January 2012. AASB staff recommend seeking comments from Australian constituents by 30 November 2011 in order that they can be considered by the Board at its meeting on 7 and 8 December 2011 in the context of preparing its own submission to the IASB. This would provide a comment period of approximately 80 days from the date of issue of the AASB ED.

Question to the Board

- 1 **Do you agree with the staff proposal?**