AASB Exposure Draft **ED 233**
December 2012

Australian Additional Disclosures – Investment Entities

(proposed amendments to AASB 1054)

Comments to the AASB by 29 March 2013

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 29 March 2013.
Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@aasb.gov.au

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

This Exposure Draft is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this Exposure Draft are available by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aasb.gov.au
Postal address:
PO Box 204
Collins Street West Victoria 8007

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aasb.gov.au

ISSN 1030-5882

CONTENTS

[Draft] Australian Accounting Standard AASB 10XX *Proposed amendments to AASB 1054* is set out in paragraphs 1 – 6. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

(a) entities required by the *Corporations Act 2001* to prepare financial reports;

(b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and

(c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and

(d) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition, measurement and presentation requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian

Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Reasons for Issuing this Exposure Draft

Through IFRS *Investment Entities*, the IASB has amended IFRS 10, IFRS 12 and IAS 27 to provide an exception to consolidation. The exception to consolidation requires an investment entity to measure its controlled investees at fair value through profit or loss rather than consolidating those investees. This Exposure Draft proposes Australian additional disclosure requirements for Australian entities that meet the IASB's investment entity criteria. Without the proposed Australian additional disclosures, the AASB has not been able to achieve sufficient votes to adopt the IASB's exception to consolidation.

A number of AASB members are concerned about the impact that a loss of consolidation information would have on decision-making by users of financial statements. The majority of AASB members (including those who would have preferred to issue the investment entity requirements unamended) agreed that issuing the amendments with Australian additional disclosures would be an acceptable compromise to achieve continued IFRS compliance whilst minimising what some perceive as the potential harm to decision-making arising from not consolidating subsidiaries of investment entities.

The proposed disclosures would be additional to those that are required by the IASB in IFRS 12 *Disclosure of Interests in Other Entities*. The proposed disclosures would be included in AASB 1054 *Australian Additional Disclosures*.

Main Features of this Exposure Draft

This Exposure Draft proposes that an investment entity be required to disclose information in the form of:

(a) consolidated financial statements comprising:

   (i) a consolidated statement of profit or loss and other comprehensive income;

   (ii) a consolidated statement of financial position;

   (iii) a consolidated statement of changes in equity; and

   (iv) a consolidated statement of cash flows;

   prepared in a manner consistent with the definition of consolidated financial statements in Appendix A of AASB 10 *Consolidated Financial Statements*; and

(b) consistent with paragraph 10(e) of AASB 101 *Presentation of Financial Statements*, a summary of the significant accounting policies used in preparing those consolidated financial statements that are not otherwise disclosed in accordance with AASB 101.

The note disclosures that would normally accompany the above statements, with the exception of (b) above, are not required.

Reduced Disclosure Requirements

The AASB considers the nature of the proposed disclosures to be fundamental to the needs of users in decision-making and, accordingly, that it would not be appropriate to reduce the level of disclosures in respect of general purpose financial statements of Tier 2 entities. The Board is therefore not proposing any relief from the disclosure requirements proposed in this Exposure Draft in respect of general purpose financial statements of Tier 2 entities.

Application Date

It is proposed that the application date of this Standard coincide with the application date of the IASB's exception to consolidation (that is, applicable to annual reporting periods beginning on or after 1 January 2014 with early adoption permitted for annual reporting periods beginning on or after 1 January 2013).

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 29 March 2013. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the major issues. The AASB regards supportive and critical comments as essential to a balanced review of the issues and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on the following:

1 the appropriateness of the proposed Australian additional disclosures and whether such disclosures are warranted;

2 whether there are any alternative approaches/disclosure strategies that can be employed to minimise the adverse impact on decision-making of the loss of consolidation information;

3 if the AASB's proposals proceed, whether you agree with not providing relief to Tier 2 entities from any of the proposed Australian additional disclosure requirements;

4 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;

5 whether, overall, the proposals would result in financial statements that would be relevant to users;

6 whether the proposals are in the best interests of the Australian economy; and

7 unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

ACCOUNTING STANDARD AASB 10XX

PROPOSED AMENDMENTS TO AASB 1054

Objective

1 The objective of this Standard is to make amendments to AASB 1054 *Australian Additional Disclosures* to specify Australian additional disclosure requirements for the general purpose financial statements of investment entities, as [to be] defined by AASB 10 *Consolidated Financial Statements*, with a view to providing users with information useful for decision-making.

Application

2 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

3 This Standard applies to annual reporting periods beginning on or after 1 January 2014.

4 This Standard may be early adopted for annual reporting periods beginning on or after 1 January 2013 but before 1 January 2014. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.

5 The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Amendments to AASB 1054

6 After paragraph 16 of AASB 1054, the following heading and paragraph 17 are added.

Disclosure of Consolidated Financial Information by Investment Entities

17 An entity that meets the definition of an investment entity in AASB 10 *Consolidated Financial Statements*, shall disclose information in the form of:

(a) consolidated financial statements[1] comprising:

(i) a consolidated statement of profit or loss and other comprehensive income;

(ii) a consolidated statement of financial position;

(iii) a consolidated statement of changes in equity; and

(iv) a consolidated statement of cash flows;

prepared in a manner consistent with the definition of consolidated financial statements in Appendix A of AASB 10 that include controlled investees despite the exception to consolidation requirements provided in AASB 10; and

(b) consistent with paragraph 10(e) of AASB 101 *Presentation of Financial Statements*, a summary of the significant accounting policies used in preparing those consolidated financial statements required by (a) that are not otherwise disclosed in accordance with AASB 101.

1 The note disclosures that would normally accompany the consolidated financial statements, with the exception of a summary of the significant accounting policies used, are not required.

BASIS FOR CONCLUSIONS

Background

BC1 The AASB issued Exposure Draft ED 220 *Investment Entities* (AASB ED 220) in September 2011 (incorporating IASB ED/2011/4 *Investment Entities*), which proposed that an investment entity be required to account for investees that it controls at fair value through profit or loss, rather than consolidate them.

BC2 AASB members expressed a number of concerns with the ED/2011/4 proposals, including:

(a) the exception to consolidation goes against the application of the well-established accounting concept of control, which is designed to result in the presentation of all the assets, liabilities, income and expenses of the group, and the proposals will result in a loss of important information for users of financial statements;

(b) the basis of the exception to consolidation is the type of entity, rather than the underlying relationship between investors and investees; and

(c) there are no clear principles underpinning the classification of entities as investment entities and the proposed criteria for identifying investment entities are rule-based and open to opportunistic behaviour.

BC3 As evident from the responses to AASB ED 220, views were divided among Australian constituents. Some expressed concerns similar to those of the AASB members. However, others expressed broad support for requiring some types of entities to account for controlled investees at fair value through profit or loss, rather than having them consolidate such entities.

BC4 The AASB expressed its concerns in its submission to the IASB.

BC5 The IASB received 169 comment letters and conducted a number of roundtable discussions on the proposals in ED/2011/4. The feedback was considered by the IASB at various meetings throughout 2012, and the proposed requirements were redrafted in light of the feedback received. The IASB issued the final requirements for the exception to consolidation for investment entities on 31 October 2012 and they are attached to Exposure Draft ED 233 *Australian Additional Disclosures – Investment Entities*.

AASB deliberations on the investment entity amendments

BC6 This Basis for Conclusions summarises the AASB's considerations in proposing Australian additional disclosures for investment entities. Individual AASB members gave greater weight to some factors than to others.

BC7 In considering the approach it should take in respect of the IASB's investment entity requirements in the Australian context, the AASB discussed the amendments made to the IASB's investment entity requirements at its meetings in September 2012 and October/November 2012, and considered the potential impact on Australian entities in the public and private sectors. In particular, the AASB considered the types of disclosures that would be required of investment entities under the amendments.

BC8 In considering the disclosures required by the IASB for an investment entity, the AASB noted that they provide information about the exception to consolidation rather than addressing the loss of consolidation information that preparing a complete set of consolidated general purpose financial statements provides.

BC9 Most AASB members expressed a significant concern about the impact that the loss of consolidation information could have on the decision-making of a wide range of users (in respect of the resources available to an entity, the obligations it must meet, the income it generates and expenses it incurs) in order to make informed assessments of an entity's financial position and financial performance.

BC10 In considering the most suitable approach for addressing the IASB's exception to consolidation in an Australian context, the AASB considered four main alternative approaches:

1. issue the IASB investment entity requirements in Australia unamended;

2. issue the IASB investment entity requirements in Australia and notify constituents that there may be further due process in respect of additional compensating disclosures;

3. delay the adoption of the IASB investment entity requirements until further due process is undertaken in respect of additional compensating disclosures; and

4 do not issue the IASB investment entity requirements in Australia.

BC11 In relation to approach 2, the AASB decided that it would not be appropriate to issue the investment entity amendments in two steps (that is, issue the IASB amendments now, and issue Australian additional disclosure requirements at a later date). In this respect, the AASB noted that it is preferable to avoid multiple changes to accounting standards, and that there should be sufficient time to introduce the changes that need further due process before the relevant mandatory application date for any amended AASB 10. However, AASB members were split between the other three options when considering how best to proceed.

BC12 Some AASB members preferred approach 4 (to not issue the exception to consolidation), expressing concerns that the IASB's amendments to IFRS 10 *Consolidated Financial Statements* go against the key accounting concept of control. Those members believe that transactions should be accounted for consistently between different entities, and that accounting should not be based on the type of entity in question. They do not see the disclosures proposed in ED 233 as a remedy for the impact that the loss of consolidated information will have on decision-making – see Alternative View 1. However, most AASB members consider that the likely impacts of the IASB's exception to consolidation is not a sufficient basis for departing from IFRS compliance for general purpose financial statements of publicly accountable entities.

BC13 Other AASB members prefer approach 3 (to issue the exception to consolidation with Australian additional disclosures to compensate for the loss of consolidated information of the group) – the approach taken in ED 233.

BC14 Some other AASB members expressed support for approach 1 (issuing the IASB requirements unamended). Those members placed relatively more significance on maintaining IFRS compliance for general purpose financial statements of publicly accountable entities. In addition, those AASB members were keen to ensure that the amendments are made available for early adoption for Australian investment entities in line with its availability in IFRS – see Alternative View 2.

BC15 Based on the views expressed at its October/November 2012 meeting, the AASB decided to delay the adoption of the investment entity amendments until after it undertakes due process through ED 233 proposing additional, compensating disclosures (approach 3). The majority of Board members agreed that issuing the amendments with Australian additional disclosures would be an acceptable compromise to achieve continued IFRS compliance whilst minimising the potential harm to decision-making arising from not consolidating controlled investees of investment entities.

BC16 AASB members acknowledge that this process is a departure from the AASB's usual practice, but the majority consider that it is justified in this circumstance given the controversial nature of the amendments, and the significance of the change in requirements in Australia; where consolidation, on the basis of control with no exceptions, has been required for many years.

AASB deliberations on related matters

Investment entity investments in associates and joint ventures

BC17 The AASB decided that the Australian additional disclosures proposed in ED 233 should only be applied to controlled investees of an investment entity, and therefore, should not be applied to associates or joint ventures. This is consistent with the IASB's requirement that in order for an entity to be defined as an investment entity it must elect any available option to measure assets at fair value (and that includes joint ventures and associates).

Format of disclosures

BC18 The AASB decided that ED 233 should not propose a prescribed format for the presentation of the Australian additional disclosures.

BC19 Whilst noting that the disclosures of consolidated information could be presented in the notes to the financial statements of an investment entity, the AASB acknowledges that, in certain circumstances, other formats might be appropriate, and that entities should not be precluded from presenting the Australian additional disclosures in a format other than in the notes to the financial statements.

Location of the Australian additional disclosures

BC20 The AASB decided that the Australian additional disclosures being proposed in ED 233 should be located in AASB 1054 *Australian Additional Disclosures* (instead of AASB 12 *Disclosure of Interests in Other Entities* with the IASB disclosure requirements for investment entities).

BC21 Given the concerns expressed about the impact that the loss of consolidated information may have on decision-making, and therefore, the importance of the proposed disclosures, it seemed more intuitive to locate the Australian additional disclosures in AASB 12, because that is where users of the standards are most likely to refer in respect of consolidation and investment entity accounting requirements. However, AASB members agreed that, consistent with the AASB's prior decision to facilitate Australian Standards being identical to their IFRS counterparts, Australian additional disclosures should be included in AASB 1054.

Application to Tier 2

BC22 The AASB decided that the Australian additional disclosures proposed in ED 233 should be applied to both Tier 1 and Tier 2 investment entities.

BC23 The AASB noted that the way in which the IASB has defined an investment entity (that is, it does not necessarily have to have more than one investor) could result in there being Tier 2 investment entities that do not have public accountability as defined in Appendix A of AASB 1053 *Application of Tiers of Australian Accounting Standards*.

BC24 In addition, the AASB considered the entities listed in Appendix B of AASB 1053 that are deemed to have public accountability. Whilst many investment entities would fall within the list of deemed entities, there could be a number of entities that would not be captured – for example, managed investment schemes that are not registered. The AASB considers the nature of the proposed disclosures to be fundamental to the needs of users in decision-making and, accordingly that it would not be appropriate to relieve those investment entities from the Australian additional disclosures proposed in ED 233.

ALTERNATIVE VIEW 1 OF PROFESSOR JAYNE M. GODFREY MR JOHN P. O'GRADY MR BRETT A. RIX MR KEVIN M. STEVENSON

AV1.1 In our opinion the exception to consolidation for investment entities that requires controlled investees to be measured at fair value through profit or loss rather than consolidated, is a violation of the basic principle that an entity should account for all of its assets, liabilities, income and expenses.

AV1.2 At the most fundamental level we do not see the provision of fair value information for investments as a substitute for, or an alternative to, consolidated information. Without the detailed consideration of that part of the financial position and financial performance of an entity represented by its controlled entities, fair value movements mean very little and compress too much information. A corollary of the logic employed in the exception, reduced to the absurd, would be, for example, that a single company holding assets for capital appreciation or dividends should only report its share price and need not prepare financial statements.

AV1.3 For Australia, the exception to consolidation would require de-consolidation of controlled entities when Australia has been well-served by the control principle and has been relatively free of criticism of off-balance-sheet accounting.

AV1.4 Additionally, we do not believe that the approach towards defining investment entities is rigorous. This will, in our opinion, lead to uncertainty in application and inconsistency of reporting between similar entities. It may even promote structuring.

AV1.5 Therefore, if the fair values of controlled investments held by investment entities are relevant, we see no reason why they could not be provided as supplementary disclosures in financial statements, consistent with the disclosure requirements in AASB 7 *Financial Instruments: Disclosures* for financial instruments with carrying amounts that differ from their fair value, thereby embracing all of an entity's elements. This would avoid further complicating accounting through the provision of exceptions to principles.

ALTERNATIVE VIEW 2 OF MR VICTOR J. CLARKE MS ANNA V. CRAWFORD MS KRIS E. PEACH

AV2.1 Our preference is to issue the IASB's investment entity requirements unamended immediately. In our view, requiring Australian additional disclosures does not address fundamental concerns about the loss of information resulting from not consolidating controlled investees and, accordingly, only imposes significant additional costs on Australian investment entities relative to their international counterparts.

AV2.2 In addition, whilst acknowledging the concerns of the holders of Alternative View 1 that the approach toward defining investment entities is not rigorous, which may lead to judgements in application, inconsistency of reporting between similar entities and possibly structuring, we consider the following to be sufficiently mitigating factors:

(a) users have advised the IASB that they prefer fair value recognition of controlled investees rather than consolidation accounting for these entities;

(b) the number and scope of entities intended to be covered by the exception to consolidation (largely managed investment schemes, private equity funds and similar entities) is a relatively small portion of entities applying IFRSs in Australia;

(c) any ultimate parent that is not itself an investment entity must still consolidate investment entities and consequently any controlled investees; and

(d) whilst individually not agreeing with every element of every standard issued by the IASB and endorsed by the AASB, this does not detract from IFRSs or Australian Accounting Standards as a whole providing a rigorous financial reporting framework.

AV2.3 Most importantly, we do not consider the risk of exploitation by some entities is a sufficient reason to justify non-approval of an IASB issued standard, resulting in non-IFRS compliance for Australian investment entities.

AV2.4 Notwithstanding the above views, if our preferred view of issuing the IASB's investment entity requirements unamended does not receive sufficient AASB member support to ensure issue of the Standard in Australia, we can accept the Australian additional disclosures proposed in Exposure Draft ED 233 *Australian Additional Disclosures – Investment Entities* as a compromise to maintain the primacy of IFRS compliance and that the adverse consequences to Australian entities are reduced. Accordingly, we voted in favour of the issue of ED 233.

APPENDIX: IFRS *INVESTMENT ENTITIES (AMENDMENTS TO IFRS 10, IFRS 12 AND IAS 27)*

The Appendix includes IFRS *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*, but does not include any of the material in IASB Bases for Conclusions. Accordingly, there are gaps in the page numbering sequence in this Appendix.

October 2012

International Financial Reporting Standard®

Investment Entities

Amendments to IFRS 10, IFRS 12 and IAS 27

IFRS®

Investment Entities

(Amendments to IFRS 10,
IFRS 12 and IAS 27)

Investment Entities (Amendments to IFRS 10, IFRS12 and IAS 27) is issued by the International Accounting Standards Board (IASB), 30 Cannon Street, London EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
Email: iasb@ifrs.org
Web: www.ifrs.org

ISBN: 978-1-907877-71-1

IFRS Foundation Publications Department, 1st Floor, 30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

CONTENTS

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

Introduction

This document sets out amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*. These amendments result from proposals in the Exposure Draft *Investment Entities* that was published in August 2011.

The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2014. Earlier application is permitted.

References to IFRS 9

If an entity applies these amendments but does not yet apply IFRS 9, any reference in this document to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

Approval by the Board of *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) issued in October 2012

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) was approved for issue by the fifteen members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Martin Edelmann	
Jan Engström	
Patrick Finnegan	
Amaro Luiz de Oliveira Gomes	
Prabhakar Kalavacherla	
Patricia McConnell	
Takatsugu Ochi	
Paul Pacter	
Darrel Scott	
Chungwoo Suh	
Zhang Wei-Guo	

Amendments to IFRS 10 *Consolidated Financial Statements*

In the Introduction, paragraph IN7A is added and paragraph IN12 is amended. New text is underlined and deleted text is struck through. Paragraph IN7 is not amended but is reproduced here for clarity.

IN7 The IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. The IFRS also sets out the accounting requirements for the preparation of consolidated financial statements.

IN7A *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, introduced an exception to the principle that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*[1] instead of consolidating those subsidiaries in its consolidated and separate financial statements. In addition, the amendments introduce new disclosure requirements related to investment entities in IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*.

IN12 The disclosure requirements for interests in subsidiaries are specified in IFRS 12 ~~*Disclosure of Interests in Other Entities*~~.

Paragraphs 2 and 4 are amended. New text is underlined and deleted text is struck through.

2 To meet the objective in paragraph 1, this IFRS:

(a) ...

(c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; ~~and~~

(d) sets out the accounting requirements for the preparation of consolidated financial statements~~.~~; and

(e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

1 Paragraph C7 of IFRS 10 *Consolidated Financial Statements* states "If an entity applies this IFRS but does not yet apply IFRS 9, any reference in this IFRS to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*."

3 ...

4 An entity that is a parent shall present consolidated financial statements. This IFRS applies to all entities, except as follows:

(a) ...

(c) an investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 31 of this IFRS, to measure all of its subsidiaries at fair value through profit or loss.

After paragraph 26, headings and paragraphs 27–33 are added.

Determining whether an entity is an investment entity

27 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.

Paragraphs B85A–B85M provide related application guidance.

28 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*.

29 If facts and circumstances indicate that there are changes to one or more of the three elements that make up the definition of an investment entity, as described in paragraph 27, or the typical characteristics of an investment entity, as described in paragraph 28, a parent shall reassess whether it is an investment entity.

30 A parent that either ceases to be an investment entity or becomes an investment entity shall account for the change in its status prospectively from the date at which the change in status occurred (see paragraphs B100–B101).

Investment entities: exception to consolidation

31 Except as described in paragraph 32, an investment entity shall not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9.[2]

32 Notwithstanding the requirement in paragraph 31, if an investment entity has a subsidiary that provides services that relate to the investment entity's investment activities (see paragraphs B85C–B85E), it shall consolidate that subsidiary in accordance with paragraphs 19–26 of this IFRS and apply the requirements of IFRS 3 to the acquisition of any such subsidiary.

33 A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

2 Paragraph C7 of IFRS 10 *Consolidated Financial Statements* states "If an entity applies this IFRS but does not yet apply IFRS 9, any reference in this IFRS to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*."

In Appendix A, a new definition is added. New text is underlined.

group …

<u>**investment entity**</u> <u>An entity that:</u>

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

In Appendix B, headings and paragraphs B85A–B85W are added.

Determining whether an entity is an investment entity

B85A An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. An entity that possesses the three elements of the definition of an investment entity set out in paragraph 27 is an investment entity. Paragraphs B85B–B85M describe the elements of the definition in more detail.

Business purpose

B85B The definition of an investment entity requires that the purpose of the entity is to invest solely for capital appreciation, investment income (such as dividends, interest or rental income), or both. Documents that indicate what the entity's investment objectives are, such as the entity's offering memorandum, publications distributed by the entity and other corporate or partnership documents, will typically provide evidence of an investment entity's business purpose. Further evidence may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees); for example, an entity may present its business as providing medium-term investment for capital appreciation. In contrast, an entity that presents itself as an investor whose objective is to jointly develop, produce or market products with its investees has a business purpose that is inconsistent with the business purpose of an investment entity, because the entity will earn returns from the development, production or marketing activity as well as from its investments (see paragraph B85I).

B85C An investment entity may provide investment-related services (eg investment advisory services, investment management, investment support and administrative 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.

B85D An investment entity may also participate in the following investment-related activities, either directly or through a subsidiary, if these activities are undertaken to maximise the investment return (capital appreciation or investment income) from its investees and do not represent a separate substantial business activity or a separate substantial source of income to the investment entity:

(a) providing management services and strategic advice to an investee; and

(b) providing financial support to an investee, such as a loan, capital commitment or guarantee.

B85E If an investment entity has a subsidiary that provides investment-related services or activities, such as those described in paragraphs B85C–B85D, to the entity or other parties, it shall consolidate that subsidiary in accordance with paragraph 32.

Exit strategies

B85F An entity's investment plans also provide evidence of its business purpose. One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Because equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity shall have an exit strategy documenting how the entity plans to realise capital appreciation from substantially all of its equity investments and non-financial asset investments. An investment entity shall also have an exit strategy for any debt instruments that have the potential to be held indefinitely, for example perpetual debt investments. The entity need not document specific exit strategies for each individual investment but shall identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments. Exit mechanisms that are only put in place for default events, such as a breach of contract or non-performance, are not considered exit strategies for the purpose of this assessment.

B85G Exit strategies can vary by type of investment. For investments in private equity securities, examples of exit strategies include an initial public offering, a private placement, a trade sale of a business, distributions (to investors) of ownership interests in investees and sales of assets (including the sale of an investee's assets followed by a liquidation of the investee). For equity investments that are traded in a public market, examples of exit strategies include selling the investment in a private placement or in a public market. For real estate investments, an example of an exit strategy includes the sale of the real estate through specialised property dealers or the open market.

B85H An investment entity may have an investment in another investment entity that is formed in connection with the entity for legal, regulatory, tax or similar business reasons. In this case, the investment entity investor need not have an exit strategy for that investment, provided that the investment entity investee has appropriate exit strategies for its investments.

Earnings from investments

B85I An entity is not investing solely for capital appreciation, investment income, or both, if the entity or another member of the group containing the entity (ie the group that is controlled by the investment entity's ultimate parent) obtains, or has the objective of obtaining, other benefits from the entity's investments that are not available to other parties that are not related to the investee. Such benefits include:

(a) the acquisition, use, exchange or exploitation of the processes, assets or technology of an investee. This would include the entity or another group member having disproportionate, or exclusive, rights to acquire assets, technology, products or services of any investee; for example, by holding an option to purchase an asset from an investee if the asset's development is deemed successful;

(b) joint arrangements (as defined in IFRS 11) or other agreements between the entity or another group member and an investee to develop, produce, market or provide products or services;

(c) financial guarantees or assets provided by an investee to serve as collateral for borrowing arrangements of the entity or another group member (however, an investment entity would still be able to use an investment in an investee as collateral for any of its borrowings);

(d) an option held by a related party of the entity to purchase, from that entity or another group member, an ownership interest in an investee of the entity;

(e) except as described in paragraph B85J, transactions between the entity or another group member and an investee that:

  (i) are on terms that are unavailable to entities that are not related parties of either the entity, another group member or the investee;

  (ii) are not at fair value; or

  (iii) represent a substantial portion of the investee's or the entity's business activity, including business activities of other group entities.

B85J An investment entity may have a strategy to invest in more than one investee in the same industry, market or geographical area in order to benefit from synergies that increase the capital appreciation and investment income from those investees. Notwithstanding paragraph B85I(e), an entity is not disqualified from being classified as an investment entity merely because such investees trade with each other.

Fair value measurement

B85K An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a fair value basis, because using fair value results in more relevant information than, for example, consolidating its subsidiaries or using the equity method for its interests in associates or joint ventures. In order to demonstrate that it meets this element of the definition, an investment entity:

(a) provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is required or permitted in accordance with IFRSs; and

(b) reports fair value information internally to the entity's key management personnel (as defined in IAS 24), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.

B85L In order to meet the requirement in B85K(a), an investment entity would:

(a) elect to account for any investment property using the fair value model in IAS 40 *Investment Property*;

(b) elect the exemption from applying the equity method in IAS 28 for its investments in associates and joint ventures; and

(c) measure its financial assets at fair value using the requirements in IFRS 9.

B85M An investment entity may have some non-investment assets, such as a head office property and related equipment, and may also have financial liabilities. The fair value measurement element of the definition of an investment entity in paragraph 27(c) applies to an investment entity's investments. Accordingly, an investment entity need not measure its non-investment assets or its liabilities at fair value.

Typical characteristics of an investment entity

B85N In determining whether it meets the definition of an investment entity, an entity shall consider whether it displays the typical characteristics of one (see paragraph 28). The absence of one or more of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity but indicates that additional judgement is required in determining whether the entity is an investment entity.

More than one investment

B85O An investment entity typically holds several investments to diversify its risk and maximise its returns. An entity may hold a portfolio of investments directly or indirectly, for example by holding a single investment in another investment entity that itself holds several investments.

B85P There may be times when the entity holds a single investment. However, holding a single investment does not necessarily prevent an entity from meeting the definition of an investment entity. For example, an investment entity may hold only a single investment when the entity:

(a) is in its start-up period and has not yet identified suitable investments and, therefore, has not yet executed its investment plan to acquire several investments;

(b) has not yet made other investments to replace those it has disposed of;

(c) is established to pool investors' funds to invest in a single investment when that investment is unobtainable by individual investors (eg when the required minimum investment is too high for an individual investor); or

(d) is in the process of liquidation.

More than one investor

B85Q Typically, an investment entity would have several investors who pool their funds to gain access to investment management services and investment opportunities that they might not have had access to individually. Having several investors would make it less likely that the entity, or other members of the group containing the entity, would obtain benefits other than capital appreciation or investment income (see paragraph B85I).

B85R Alternatively, an investment entity may be formed by, or for, a single investor that represents or supports the interests of a wider group of investors (eg a pension fund, government investment fund or family trust).

B85S There may also be times when the entity temporarily has a single investor. For example, an investment entity may have only a single investor when the entity:

(a) is within its initial offering period, which has not expired and the entity is actively identifying suitable investors;

(b) has not yet identified suitable investors to replace ownership interests that have been redeemed; or

(c) is in the process of liquidation.

Unrelated investors

B85T Typically, an investment entity has several investors that are not related parties (as defined in IAS 24) of the entity or other members of the group containing the entity. Having unrelated investors would make it less likely that the entity, or other members of the group containing the entity, would obtain benefits other than capital appreciation or investment income (see paragraph B85I).

B85U However, an entity may still qualify as an investment entity even though its investors are related to the entity. For example, an investment entity may set up a separate 'parallel' fund for a group of its employees (such as key management personnel) or other related party investor(s), which mirrors the investments of the entity's main investment fund. This 'parallel' fund may qualify as an investment entity even though all of its investors are related parties.

Ownership interests

B85V An investment entity is typically, but is not required to be, a separate legal entity. Ownership interests in an investment entity are typically in the form of equity or similar interests (eg partnership interests), to which proportionate shares of the net assets of the investment entity are attributed. However, having different classes of investors, some of which have rights only to a specific investment or groups of investments or which have different proportionate shares of the net assets, does not preclude an entity from being an investment entity.

B85W In addition, an entity that has significant ownership interests in the form of debt that, in accordance with other applicable IFRSs, does not meet the definition of equity, may still qualify as an investment entity, provided that the debt holders are exposed to variable returns from changes in the fair value of the entity's net assets.

In Appendix B, a heading and paragraphs B100–B101 are added.

Accounting for a change in investment entity status

B100 When an entity ceases to be an investment entity, it shall apply IFRS 3 to any subsidiary that was previously measured at fair value through profit or loss in accordance with paragraph 31. The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from the deemed acquisition. All subsidiaries shall be consolidated in accordance with paragraphs 19–24 of this IFRS from the date of change of status.

B101 When an entity becomes an investment entity, it shall cease to consolidate its subsidiaries at the date of the change in status, except for any subsidiary that shall continue to be consolidated in accordance with paragraph 32. The investment entity shall apply the requirements of paragraphs 25 and 26 to those subsidiaries that it ceases to consolidate as though the investment entity had lost control of those subsidiaries at that date.

In Appendix C, new paragraph C1B is added.

C1B *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 2, 4, C2A, C6A and Appendix A and added paragraphs 27–33, B85A–B85W, B100–B101 and C3A–C3F. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early application is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.

In Appendix C, paragraph C2A is amended. New text is underlined.

C2A Notwithstanding the requirements of paragraph 28 of IAS 8, when this IFRS is first applied, <u>and, if later, when the *Investment Entities* amendments to this IFRS are first applied,</u> an entity need only present the quantitative information required by paragraph 28(f) of IAS 8 for the annual period immediately preceding the date of initial application of this IFRS (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

In Appendix C, new paragraphs C3A–C3F are added.

C3A At the date of initial application, an entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at that date. If, at the date of initial application, an entity concludes that it is an investment entity, it shall apply the requirements of paragraphs C3B–C3F instead of paragraphs C5–C5A.

C3B Except for any subsidiary that is consolidated in accordance with paragraph 32 (to which paragraphs C3 and C6 or paragraphs C4–C4C, whichever is relevant, apply), an investment entity shall measure its investment in each subsidiary at fair value through profit or loss as if the requirements of this IFRS had always been effective. The investment entity shall retrospectively adjust both the annual period that immediately precedes the date of initial application and equity at the beginning of the immediately preceding period for any difference between:

(a) the previous carrying amount of the subsidiary; and

(b) the fair value of the investment entity's investment in the subsidiary.

The cumulative amount of any fair value adjustments previously recognised in other comprehensive income shall be transferred to retained earnings at the beginning of the annual period immediately preceding the date of initial application.

C3C Before the date that IFRS 13 *Fair Value Measurement* is adopted, an investment entity shall use the fair value amounts that were previously reported to investors or to management, if those amounts represent the amount for which the investment could have been exchanged between knowledgeable, willing parties in an arm's length transaction at the date of the valuation.

C3D If measuring an investment in a subsidiary in accordance with paragraphs C3B–C3C is impracticable (as defined in IAS 8), an investment entity shall apply the requirements of this IFRS at the beginning of the earliest period for which application of paragraphs C3B–C3C is practicable, which may be the current period. The investor shall retrospectively adjust the annual period that immediately precedes the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. If this is the case, the adjustment to equity shall be recognised at the beginning of the current period.

C3E If an investment entity has disposed of, or has lost control of, an investment in a subsidiary before the date of initial application of this IFRS, the investment entity is not required to make adjustments to the previous accounting for that subsidiary.

C3F If an entity applies the *Investment Entities* amendments for a period later than when it applies IFRS 10 for the first time, references to 'the date of initial application' in paragraphs C3A–C3E shall be read as 'the beginning of the annual reporting period for which the amendments in *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, are applied for the first time.'

In Appendix C, paragraph C6A is amended. New text is underlined and deleted text is struck through.

C6A Notwithstanding the references to the annual period immediately preceding the date of initial application (the 'immediately preceding period') in paragraphs C3B~~C4~~–C5A, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs C3B~~C4~~–C5A shall be read as the 'earliest adjusted comparative period presented'.

Appendix
Consequential amendments to other Standards

This appendix sets out amendments to other Standards that are a consequence of the IASB issuing Investment Entities *(Amendments to IFRS 10, IFRS 12 and IAS 27). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of* Investment Entities *is permitted. If an entity applies those amendments earlier it shall apply all amendments included in* Investment Entities *at the same time. Amended paragraphs are shown with new text underlined and deleted text struck through.*

IFRS 3 *Business Combinations*

In the Introduction, paragraph IN6 is amended. New text is underlined.

IN6 A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control <u>or the acquiree is a subsidiary of an investment entity, as defined in IFRS 10 *Consolidated Financial Statements*, which is required to be measured at fair value through profit or loss</u>. ...

IAS 7 *Statement of Cash Flows*

In the rubric 'paragraphs 1–57' is amended to 'paragraphs 1–58'.

IAS 34 *Interim Financial Reporting*

In the rubric 'paragraphs 1–53' is amended to 'paragraphs 1–54'.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph 39T is added.

39T *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs D16, D17 and Appendix C and added a heading and paragraphs E6–E7. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

Appendix C is amended. New text is underlined.

This appendix is an integral part of the IFRS. An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to IFRSs. <u>*This Appendix should only be applied to business combinations within the scope of IFRS 3* Business Combinations.</u>

In Appendix D, paragraphs D16–D17 are amended. New text is underlined.

D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary <u>(this election is not available to a subsidiary of an investment entity, as defined in IFRS 10, that is required to be measured at fair value through profit or loss)</u>; or

(b) ...

D17 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Notwithstanding this requirement, a non-investment entity parent shall not apply the exception to consolidation that is used by any investment entity subsidiaries.

In Appendix E, after paragraph E5, a heading and paragraphs E6–E7 are added.

Investment entities

E6 A first-time adopter that is a parent shall assess whether it is an investment entity, as defined in IFRS 10, on the basis of the facts and circumstances that exist at the date of transition to IFRSs.

E7 A first-time adopter that is an investment entity, as defined in IFRS 10, may apply the transition provisions in paragraphs C3C–C3D of IFRS 10 and paragraphs 18C–18G of IAS 27 if its first IFRS financial statements are for an annual period ending on or before 31 December 2014. The references in those paragraphs to the annual period that immediately precedes the date of initial application shall be read as the earliest annual period presented. Consequently, the references in those paragraphs shall be read as the date of transition to IFRSs.

IFRS 3 *Business Combinations*

Paragraph 7 is amended and paragraphs 2A and 64G are added. New text is underlined and deleted text is struck through.

2A The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in IFRS 10 *Consolidated Financial Statements*, of an investment in a subsidiary that is required to be measured at fair value through profit or loss.

7 The guidance in IFRS 10 ~~*Consolidated Financial Statements*~~ shall be used to identify the acquirer ...

64G *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraph 7 and added paragraph 2A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies these amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

IFRS 7 *Financial Instruments: Disclosures*

Paragraph 3 is amended and paragraph 44X is added. New text is underlined and deleted text is struck through.

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IFRS 10, IAS 27 or IAS 28 require or permit~~s~~ an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9; in those cases, entities shall apply the requirements of this IFRS and, for those measured at fair value, the requirements of IFRS 13 *Fair Value Measurement*. Entities shall also apply this IFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in IAS 32.

44X *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraph 3. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

IAS 7 *Statement of Cash Flows*

Paragraphs 42A and 42B are amended and paragraphs 40A and 58 are added. New text is underlined and deleted text is struck through.

40A An investment entity, as defined in IFRS 10 *Consolidated Financial Statements*, need not apply paragraphs 40(c) or 40(d) to an investment in a subsidiary that is required to be measured at fair value through profit or loss.

42A Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in IFRS 10, and is required to be measured at fair value through profit or loss.

42B Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see IFRS 10 ~~*Consolidated Financial Statements*~~), unless the subsidiary is held by an investment entity and is required to be measured at fair value through profit or loss. Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17.

58 *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 42A and 42B and added paragraph 40A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

IAS 12 *Income Taxes*

Paragraphs 58 and 68C are amended and paragraph 98C is added. New text is underlined.

58 Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

(a) ...

(b) a business combination (other than the acquisition by an investment entity, as defined in IFRS 10 *Consolidated Financial Statements*, of a subsidiary that is required to be measured at fair value through profit or loss) (see paragraphs 66 to 68).

68C As noted in paragraph 68A, the amount of the tax deduction (or estimated future tax deduction, measured in accordance with paragraph 68B) may differ from the related cumulative remuneration expense. Paragraph 58 of the Standard requires that current and deferred tax should be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from (a) a transaction or event that is recognised, in the same or a different period, outside profit or loss, or (b) a business combination (other than the acquisition by an investment entity of a subsidiary that is required to be measured at fair value through profit or loss). If the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, the excess of the associated current or deferred tax should be recognised directly in equity.

98C *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 58 and 68C. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

IAS 24 *Related Party Disclosures*

Paragraphs 4 and 9 are amended and paragraph 28B is added. New text is underlined.

4 Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intragroup related party transactions and outstanding balances are eliminated, except for those between an investment entity and its subsidiaries measured at fair value through profit or loss, in the preparation of consolidated financial statements of the group.

9 The terms 'control' and 'investment entity', 'joint control', and 'significant influence' are defined in IFRS 10, IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures* respectively and are used in this Standard with the meanings specified in those IFRSs.

28B *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 4 and 9. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

IAS 32 *Financial Instruments: Presentation*

Paragraph 4 is amended and paragraph 97N is added. New text is underlined and deleted text is struck through.

4 This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IFRS 10, IAS 27 or IAS 28 require or permit~~s~~ an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.

97N *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraph 4. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

IAS 34 *Interim Financial Reporting*

Paragraph 16A is amended and paragraph 54 is added. New text is underlined.

16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.

(a) ...

(k) for entities becoming, or ceasing to be, investment entities, as defined in IFRS 10 *Consolidated Financial Statements*, the disclosures in IFRS 12 *Disclosure of Interests in Other Entities* paragraph 9B.

54 *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, added paragraph 16A. An entity shall apply that amendment for annual periods beginning 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

IAS 39 *Financial Instruments: Recognition and Measurement*

Paragraphs 2 and 80 are amended and paragraph 103R is added. New text is underlined and deleted text is struck through.

2 This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IFRS 10, IAS 27 or IAS 28 require or permit an entity to account for ~~entities shall apply this Standard to~~ an interest in a subsidiary, associate or joint venture ~~that according to IAS 27 or IAS 28 is accounted for under~~ in accordance with some or all of the requirements of this Standard. Entities shall also apply this Standard to derivatives on an interest in a subsidiary, associate or joint venture unless the derivative meets the definition of an equity instrument of the entity in IAS 32 *Financial Instruments: Presentation*.

(b) ...

(g) any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of IFRS 3 *Business Combinations* at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.

80 ... It follows that hedge accounting can be applied to transactions between entities in the same group only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group, except for the consolidated financial statements of an investment entity, as defined in IFRS 10, where transactions between an investment entity and its subsidiaries measured at fair value through profit or loss will not be eliminated in the consolidated financial statements. ...

103R *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 2 and 80. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

The following section, Illustrative Examples, is inserted into IFRS 10.

Illustrative Examples

These examples accompany, but are not part of, the IFRS.

Example 1

IE1 An entity, Limited Partnership, is formed in 20X1 as a limited partnership with a 10-year life. The offering memorandum states that Limited Partnership's purpose is to invest in entities with rapid growth potential, with the objective of realising capital appreciation over their life. Entity GP (the general partner of Limited Partnership) provides 1 per cent of the capital to Limited Partnership and has the responsibility of identifying suitable investments for the partnership. Approximately 75 limited partners, who are unrelated to Entity GP, provide 99 per cent of the capital to the partnership.

IE2 Limited Partnership begins its investment activities in 20X1. However, no suitable investments are identified by the end of 20X1. In 20X2 Limited Partnership acquires a controlling interest in one entity, ABC Corporation. Limited Partnership is unable to close another investment transaction until 20X3, at which time it acquires equity interests in five additional operating companies. Other than acquiring these equity interests, Limited Partnership conducts no other activities. Limited Partnership measures and evaluates its investments on a fair value basis and this information is provided to Entity GP and the external investors.

IE3 Limited Partnership has plans to dispose of its interests in each of its investees during the 10-year stated life of the partnership. Such disposals include the outright sale for cash, the distribution of marketable equity securities to investors following the successful public offering of the investees' securities and the disposal of investments to the public or other unrelated entities.

Conclusion

IE4 From the information provided, Limited Partnership meets the definition of an investment entity from formation in 20X1 to 31 December 20X3 because the following conditions exist:

(a) Limited Partnership has obtained funds from the limited partners and is providing those limited partners with investment management services;

(b) Limited Partnership's only activity is acquiring equity interests in operating companies with the purpose of realising capital appreciation over the life of the investments. Limited Partnership has identified and documented exit strategies for its investments, all of which are equity investments; and

(c) Limited Partnership measures and evaluates its investments on a fair value basis and reports this financial information to its investors.

IE5 In addition, Limited Partnership displays the following typical characteristics of an investment entity:

(a) Limited Partnership is funded by many investors;

(b) its limited partners are unrelated to Limited Partnership; and

(c) ownership in Limited Partnership is represented by units of partnership interests acquired through a capital contribution.

IE6 Limited Partnership does not hold more than one investment throughout the period. However, this is because it was still in its start-up period and had not identified suitable investment opportunities.

Example 2

IE7 High Technology Fund was formed by Technology Corporation to invest in technology start-up companies for capital appreciation. Technology Corporation holds a 70 per cent interest in High Technology Fund and controls High Technology Fund; the other 30 per cent ownership interest in High Technology Fund is owned by 10 unrelated investors. Technology Corporation holds options to acquire investments held by High Technology Fund, at their fair value, which would be exercised if the technology developed by the investees would benefit the operations of Technology Corporation. No plans for exiting the investments have been identified by High Technology Fund. High Technology Fund is managed by an investment adviser that acts as agent for the investors in High Technology Fund.

Conclusion

IE8 Even though High Technology Fund's business purpose is investing for capital appreciation and it provides investment management services to its investors, High Technology Fund is not an investment entity because of the following arrangements and circumstances:

(a) Technology Corporation, the parent of High Technology Fund, holds options to acquire investments in investees held by High Technology Fund if the assets developed by the investees would benefit the operations of Technology Corporation. This provides a benefit in addition to capital appreciation or investment income; and

(b) the investment plans of High Technology Fund do not include exit strategies for its investments, which are equity investments. The options held by Technology Corporation are not controlled by High Technology Fund and do not constitute an exit strategy.

Example 3

IE9 Real Estate Entity was formed to develop, own and operate retail, office and other commercial properties. Real Estate Entity typically holds its property in separate wholly-owned subsidiaries, which have no other substantial assets or liabilities other than borrowings used to finance the related investment property. Real Estate Entity and each of its subsidiaries report their investment properties at fair value in accordance with IAS 40 *Investment Property*. Real Estate Entity does not have a set time frame for disposing of its property investments, but uses fair value to help identify the optimal time for disposal. Although fair value is one performance indicator, Real Estate Entity and its investors use other measures, including information about expected cash flows, rental revenues and expenses, to assess performance and to make investment decisions. The key management personnel of Real Estate Entity do not consider fair value information to be the primary measurement attribute to evaluate the performance of its investments but rather a part of a group of equally relevant key performance indicators.

IE10 Real Estate Entity undertakes extensive property and asset management activities, including property maintenance, capital expenditure, redevelopment, marketing and tenant selection, some of which it outsources to third parties. This includes the selection of properties for refurbishment, development and the negotiation with suppliers for the design and construction work to be done to develop such properties. This development activity forms a separate substantial part of Real Estate Entity's business activities.

Conclusion

IE11 Real Estate Entity does not meet the definition of an investment entity because:

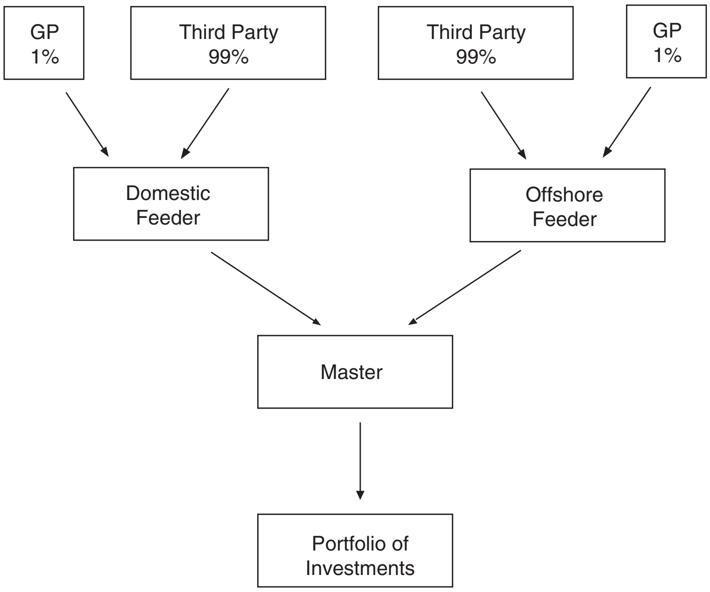
(a) Real Estate Entity has a separate substantial business activity that involves the active management of its property portfolio, including lease negotiations, refurbishments and development activities, and marketing of properties to provide benefits other than capital appreciation, investment income, or both;

(b) the investment plans of Real Estate Entity do not include specified exit strategies for its investments. As a result, Real Estate Entity plans to hold those property investments indefinitely; and

(c) although Real Estate Entity reports its investment properties at fair value in accordance with IAS 40, fair value is not the primary measurement attribute used by management to evaluate the performance of its investments. Other performance indicators are used to evaluate performance and make investment decisions.

Example 4

IE12 An entity, Master Fund, is formed in 20X1 with a 10-year life. The equity of Master Fund is held by two related feeder funds. The feeder funds are established in connection with each other to meet legal, regulatory, tax or similar requirements. The feeder funds are capitalised with a 1 per cent investment from the general partner and 99 per cent from equity investors that are unrelated to the general partner (with no party holding a controlling financial interest).



IE13 The purpose of Master Fund is to hold a portfolio of investments in order to generate capital appreciation and investment income (such as dividends, interest or rental income). The investment objective communicated to investors is that the sole purpose of the Master-Feeder structure is to provide investment opportunities for investors in separate market niches to invest in a large pool of assets. Master Fund has identified and documented exit strategies for the equity and non-financial investments that it holds. Master Fund holds a portfolio of short- and medium-term debt investments, some of which will be held until maturity and some of which will be traded but Master Fund has not specifically identified which investments will be held and which will be traded. Master Fund measures and evaluates substantially all of its investments, including its debt investments, on a fair value basis. In addition, investors receive periodic financial information, on a fair value basis, from the feeder funds. Ownership in both Master Fund and the feeder funds is represented through units of equity.

Conclusion

IE14 Master Fund and the feeder funds each meet the definition of an investment entity. The following conditions exist:

(a) both Master Fund and the feeder funds have obtained funds for the purpose of providing investors with investment management services;

(b) the Master-Feeder structure's business purpose, which was communicated directly to investors of the feeder funds, is investing solely for capital appreciation and investment income and Master Fund has identified and documented potential exit strategies for its equity and non-financial investments.

(c) although the feeder funds do not have an exit strategy for their interests in Master Fund, the feeder funds can nevertheless be considered to have an exit strategy for their investments because Master Fund was formed in connection with the feeder funds and holds investments on behalf of the feeder funds; and

(d) the investments held by Master Fund are measured and evaluated on a fair value basis and information about the investments made by Master Fund is provided to investors on a fair value basis through the feeder funds.

IE15 Master Fund and the feeder funds were formed in connection with each other for legal, regulatory, tax or similar requirements. When considered together, they display the following typical characteristics of an investment entity:

(a) the feeder funds indirectly hold more than one investment because Master Fund holds a portfolio of investments;

(b) although Master Fund is wholly capitalised by the feeder funds, the feeder funds are funded by many investors who are unrelated to the feeder funds (and to the general partner); and

(c) ownership in the feeder funds is represented by units of equity interests acquired through a capital contribution.

Appendix
Consequential amendment to the guidance on implementing another Standard

This appendix contains an amendment to the guidance on implementing another Standard that is necessary in order to ensure consistency with Investment Entities *(Amendments to IFRS 10, IFRS 12 and IAS 27) and the related amendments to other IFRSs. Amended paragraphs are shown with the new text underlined.*

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

The paragraph above 'Example 13' is amended. New text is underlined.

A subsidiary acquired with a view to sale is not exempt from consolidation in accordance with IFRS 10 *Consolidated Financial Statements*, unless the acquirer is an investment entity, as defined in IFRS 10, and is required to measure the investment in that subsidiary at fair value through profit or loss. However, if it meets the criteria in paragraph 11, it is presented as a disposal group classified as held for sale. Example 13 illustrates these requirements.

Example 13

...

Amendments to IFRS 12 *Disclosure of Interests in Other Entities*

In the Introduction, paragraph IN12 is added.

IN12 *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, introduced an exception to the principle in IFRS 10 *Consolidated Financial Statements* that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investment in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*, if IFRS 9 has not yet been adopted) instead of consolidating those subsidiaries in its consolidated and separate financial statements. Consequently, the amendments also introduced new disclosure requirements for investment entities in this IFRS and IAS 27 *Separate Financial Statements*.

Paragraph 2 is amended. New text is underlined and deleted text is struck through.

2 To meet the objective in paragraph 1, an entity shall disclose:

(a) the significant judgements and assumptions it has made in determining<u>:</u>

  <u>(i)</u> the nature of its interest in another entity or arrangement<u>;</u>~~, and in determining~~

  <u>(ii)</u> the type of joint arrangement in which it has an interest (paragraphs 7–9)<u>;</u>

  <u>(iii)</u> <u>that it meets the definition of an investment entity, if applicable (paragraph 9A);</u> and

(b) ...

After paragraph 9, a heading and paragraphs 9A–9B are added.

Investment entity status

9A **When a parent determines that it is an investment entity in accordance with paragraph 27 of IFRS 10, the investment entity shall disclose information about significant judgements and assumptions it has made in determining that it is an investment entity. If the investment entity does not have one or more of the typical characteristics of an investment entity (see paragraph 28 of IFRS 10), it shall disclose its reasons for concluding that it is nevertheless an investment entity.**

9B When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including:

(a) the total fair value, as of the date of change of status, of the subsidiaries that cease to be consolidated;

(b) the total gain or loss, if any, calculated in accordance with paragraph B101 of IFRS 10; and

(c) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

After paragraph 19, a heading and paragraphs 19A–19G are added.

Interests in unconsolidated subsidiaries (investment entities)

19A An investment entity that, in accordance with IFRS 10, is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss shall disclose that fact.

19B For each unconsolidated subsidiary, an investment entity shall disclose:

(a) the subsidiary's name;

(b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary; and

(c) the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.

19C If an investment entity is the parent of another investment entity, the parent shall also provide the disclosures in 19B(a)–(c) for investments that are controlled by its investment entity subsidiary. The disclosure may be provided by including, in the financial statements of the parent, the financial statements of the subsidiary (or subsidiaries) that contain the above information.

19D An investment entity shall disclose:

(a) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity; and

(b) any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, including commitments or intentions to assist the subsidiary in obtaining financial support.

19E If, during the reporting period, an investment entity or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated subsidiary (eg purchasing assets of, or instruments issued by, the subsidiary or assisting the subsidiary in obtaining financial support), the entity shall disclose:

(a) the type and amount of support provided to each unconsolidated subsidiary; and

(b) the reasons for providing the support.

19F An investment entity shall disclose the terms of any contractual arrangements that could require the entity or its unconsolidated subsidiaries to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).

19G If during the reporting period an investment entity or any of its unconsolidated subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated, structured entity that the investment entity did not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity shall disclose an explanation of the relevant factors in reaching the decision to provide that support.

After paragraph 21, paragraph 21A is added.

21A An investment entity need not provide the disclosures required by paragraphs 21(b)–21(c).

After paragraph 25, paragraph 25A is added.

25A An investment entity need not provide the disclosures required by paragraph 24 for an unconsolidated structured entity that it controls and for which it presents the disclosures required by paragraphs 19A–19G.

In Appendix A, a term is added. New text is underlined.

The following terms are defined in IAS 27 (as amended in 2011), IAS 28 (as amended in 2011), IFRS 10 and IFRS 11 *Joint Arrangements* and are used in this IFRS with the meanings specified in those IFRSs:

- associate
- consolidated financial statements
- control of an entity
- equity method
- group
- <u>investment entity</u>
- joint arrangement
- ...

In Appendix C, paragraph C1B is added.

C1B *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraph 2 and Appendix A, and added paragraphs 9A–9B, 19A–19G, 21A and 25A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.

Amendments to IAS 27 *Separate Financial Statements*

In the Introduction, paragraph IN3 is added.

IN3 *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, introduced an exception to the principle in IFRS 10 *Consolidated Financial Statements* that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 (or IAS 39 *Financial Instruments: Recognition and Measurement*, if IFRS 9 has not yet been adopted) instead of consolidating those subsidiaries in its consolidated and separate financial statements. Consequently, the amendments also introduced new disclosure requirements for investment entities in IFRS 12 *Disclosure of Interests in Other Entities*, with related disclosures introduced in this IFRS.

Paragraphs 5–6 are amended. New text is underlined.

5 The following terms are defined in Appendix A of IFRS 10 *Consolidated Financial Statements*, Appendix A of IFRS 11 *Joint Arrangements* and paragraph 3 of IAS 28 *Investments in Associates and Joint Ventures*:

- associate
- control of an investee
- group
- <u>investment entity</u>
- joint control
- ...

6 Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method, other than in the circumstances set out in paragraph<u>s</u> 8<u>–8A</u>. Separate financial statements need not be appended to, or accompany, those statements.

After paragraph 8, paragraph 8A is added.

8A An investment entity that is required, throughout the current period and all comparative periods presented, to apply the exception to consolidation for all of its subsidiaries in accordance with paragraph 31 of IFRS 10 presents separate financial statements as its only financial statements.

After paragraph 11, paragraphs 11A–11B are added.

11A If a parent is required, in accordance with paragraph 31 of IFRS 10, to measure its investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.

11B When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:

(a) when an entity ceases to be an investment entity, the entity shall, in accordance with paragraph 10, either:

  (i) account for an investment in a subsidiary at cost. The fair value of the subsidiary at the date of the change of status shall be used as the deemed cost at that date; or

  (ii) continue to account for an investment in a subsidiary in accordance with IFRS 9.

(b) when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9. The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.

After paragraph 16, paragraph 16A is added.

16A When an investment entity that is a parent (other than a parent covered by paragraph 16) prepares, in accordance with paragraph 8A, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by IFRS 12 *Disclosure of Interests in Other Entities*.

Paragraph 17 is amended. New text is underlined.

17 When a parent (other than a parent covered by paragraph<u>s</u> 16<u>–16A</u>) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall identify the financial statements prepared in accordance with IFRS 10, IFRS 11 or IAS 28 (as amended in 2011) to which they relate. The parent or investor shall also disclose in its separate financial statements:

(a) ...

Paragraph 18 is amended. Deleted text is struck through.

18 ... If an entity applies this Standard earlier, it shall disclose that fact and apply IFRS 10, IFRS 11, IFRS 12 ~~*Disclosure of Interests in Other Entities*~~ and IAS 28 (as amended in 2011) at the same time.

After paragraph 18, paragraphs 18A–18I are added.

18A *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 5, 6, 17 and 18, and added paragraphs 8A, 11A–11B, 16A and 18B–18I. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.

18B If, at the date of initial application of the *Investment Entities* amendments (which, for the purposes of this IFRS, is the beginning of the annual reporting period for which those amendments are applied for the first time), a parent concludes that it is an investment entity, it shall apply paragraphs 18C–18I to its investment in a subsidiary.

18C At the date of initial application, an investment entity that previously measured its investment in a subsidiary at cost shall instead measure that investment at fair value through profit or loss as if the requirements of this IFRS had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust retained earnings at the beginning of the immediately preceding period for any difference between:

(a) the previous carrying amount of the investment; and

(b) the fair value of the investor's investment in the subsidiary.

18D At the date of initial application, an investment entity that previously measured its investment in a subsidiary at fair value through other comprehensive income shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income shall be transferred to retained earnings at the beginning of the annual period immediately preceding the date of initial application.

18E At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a subsidiary that it had previously elected to measure at fair value through profit or loss in accordance with IFRS 9, as permitted in paragraph 10.

18F Before the date that IFRS 13 *Fair Value Measurement* is adopted, an investment entity shall use the fair value amounts previously reported to investors or to management, if those amounts represent the amount for which the investment could have been exchanged between knowledgeable, willing parties in an arm's length transaction at the date of the valuation.

18G If measuring the investment in the subsidiary in accordance with paragraphs 18C–18F is impracticable (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this IFRS at the beginning of the earliest period for which application of paragraphs 18C–18F is practicable, which may be the current period. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the subsidiary is earlier than the beginning of the immediately preceding period, the investor shall adjust equity at the beginning of the immediately preceding period for any difference between:

(a) the previous carrying amount of the investment; and

(b) the fair value of the investor's investment in the subsidiary.

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to equity shall be recognised at the beginning of the current period.

18H If an investment entity has disposed of, or lost control of, an investment in a subsidiary before the date of initial application of the *Investment Entities* amendments, the investment entity is not required to make adjustments to the previous accounting for that investment.

18I Notwithstanding the references to the annual period immediately preceding the date of initial application (the 'immediately preceding period') in paragraphs 18C–18G, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs 18C–18G shall be read as the 'earliest adjusted comparative period presented'. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

