

7 December 2011

Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007

Via email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Kevin

### ED 220 Investment Entities

CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (the Joint Accounting Bodies) are pleased to respond to the Australian Accounting Standards Board (AASB) Exposure Draft ED 220 Investment Entities.

The Joint Accounting Bodies represent over 190,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

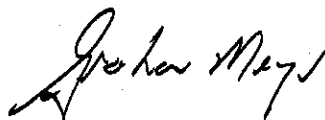
The Joint Accounting Bodies support the primary objective of the exposure draft, being to address user information needs through an exception based, fair value presentation of investments in controlled entities and we consider that investments entities are one category of entity to which these proposals should apply. However, we do not agree with the proposed narrow scope. Instead, our position is that the investment activities of entities be the scope of the finalised standard along with a consideration to extend the scope to superannuation funds. Our response to matters on which specific comment is requested is included in the attached Appendix. Also attached is our submission to the IASB, which includes our responses to the specific IASB questions for comment.

If you require further information on any of our views, please contact Mark Shying, CPA Australia by email [mark.shying@cpaaustralia.com](mailto:mark.shying@cpaaustralia.com), Kerry Hicks, the Institute of Chartered Accountants by email [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au) or Tom Ravlic, the Institute of Public Accountants by email [tom.ravlic@publicaccountants.org.au](mailto:tom.ravlic@publicaccountants.org.au)

Yours sincerely



Alex Malley  
Chief Executive Officer  
CPA Australia Ltd



Graham Meyer  
Chief Executive Officer  
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Andrew Conway  
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Representatives of the Australian Accounting Profession



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The AASB would particularly value comments on the following:

1. **if the IASB's proposals proceed, whether you agree with the AASB's proposal not to provide relief for Tier 2 entities from the proposed disclosure requirements in paragraphs 9 – 10 and B18 – B20 of this Exposure Draft.**

Yes, the Joint Accounting Bodies agree with the AASB's proposal. However please note our objection to some of the requirements in B19.

2. **whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**
  - (a) **not-for-profit entities; and**
  - (b) **public sector entities.**

The Joint Accounting Bodies are not aware of any issues, regulatory or otherwise.

3. **whether, overall, the proposals would result in financial statements that would be useful to users.**

The Joint Accounting Bodies believe the proposal to require fair value presentation of investments in controlled entities when an entity's primary objective in making an investment is to obtain capital appreciation and/or investment income (rather than to obtain benefits through control) will result in financial statements that would be useful to users. However, as highlighted in our IASB submission, we consider it appropriate to extend the scope of the exemption to cover investment activities of entities including superannuation funds.

4. **whether the proposals are in the best interests of the Australian economy.**

The proposal to require fair value presentation and not consolidation is in the best interests of the Australian economy for the type of entities/activities referred to in the proposal as well as those areas recommended in Q3.

5. **unless already provided in response to specific matters for comment 1 – 4 above:**
  - (a) **the types of entities that might be impacted by the proposals; and**
  - (b) **the costs and benefits of the proposals, whether from a user or preparer perspective, whether quantitative (financial or non-financial) or qualitative.**

Investment management and superannuation fund entities will be most impacted by the proposals. As they stand, the proposal will create a lack of comparability between similar types of entities. Hence we consider either the AASB or the IASB should extend the scope to entities such as superannuation plans in order to maintain comparability with entities of a similar nature. We consider the time and cost to be saved under the proposals will be significant without any material loss of information to users of the accounts.

7 December 2011

Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Canon Street  
London EC4M 6XH  
United Kingdom

Via "Open to comment" page at [www.iasb.org](http://www.iasb.org)

Dear Hans

**ED/2011/4 Investment Entities**

CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (the Joint Accounting Bodies) are pleased to respond to the International Accounting Standards Board (IASB) Exposure Draft ED/2011/4 Investment Entities.

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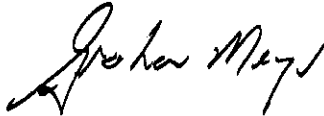
The primary purpose of financial statements is to meet user information needs. Typically, consolidated financial statements will meet user information needs as they faithfully represent the financial and operational interactions between a parent entity and the entities it controls. However the Joint Accounting Bodies consider that when an entity's primary objective in making an investment in an entity is to obtain capital appreciation and/or investment income (such as dividends or interest) rather than to obtain benefits through control, the information needs of users are not best met by the presentation of consolidated financial statements. Accordingly, we support the primary objective of the exposure draft, being to address user information needs through an exception based, fair value presentation of investments in controlled entities and we consider that investments entities are one category of entity to which these proposals should apply. However, we do not agree with the proposed narrow scope. Instead, our position is that the investment activities of entities be the scope of the finalised standard along with a consideration to extend the scope to entities such as superannuation funds (also referred to as pension plans). Attached to this letter is our response to the specific questions for comment.

If you require further information on any of our views, please contact Mark Shying, CPA Australia by email [mark.shying@cpaaustralia.com](mailto:mark.shying@cpaaustralia.com), Kerry Hicks, the Institute of Chartered Accountants by email [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au) or Tom Ravlic, the Institute of Public Accountants by email [tom.ravlic@publicaccountants.org.au](mailto:tom.ravlic@publicaccountants.org.au)

Yours sincerely



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**Q1. Do you agree that there is a class of entities, commonly thought of as an investment entity in nature, that should not consolidate controlled entities and instead measure them at fair value through profit or loss? Why or Why not?**

Yes, the Joint Accounting Bodies agree that an 'investment entity' as well as some superannuation entities are entities that should not consolidate controlled entities and instead measure them at fair value through profit or loss. When an entity's primary objective in making an investment is to obtain capital appreciation and/or investment income (such as dividends or income) rather than to obtain benefits through control, the information needs of users are not best met by the presentation of consolidated financial statements. Moreover, these investors are primarily interested in the fair value of those investments. Therefore, whilst the presentation of consolidated financial statements in such circumstances may faithfully represent acquired control, it will not satisfy the other principal qualitative characteristic of relevance.

However, we do not agree with the proposed narrow scope. Instead, our position is that investment activities of entities be the scope of the finalised standard (see our response to Question 2 below). Further we consider that entities such as superannuation entities (also known as pension plans) should also be scoped within the exemption as they operate under the same rationale as 'investment entities'.

**Q2. Do you agree that the criteria in this exposure draft are appropriate to identify entities that should be required to measure their investments in controlled entities at fair value through profit or loss? If not, what alternative criteria would you propose, and why are those criteria more appropriate?**

The Joint Accounting Bodies support the need for an alternative, fair value presentation principle in favour of consolidated financial statements, for the reasons expressed in our response to Question 1 above. However, we do not believe the rules-based approach adopted in the exposure draft sufficiently addresses this need. We believe the current approach adopted to define an investment entity should be altered in favour of an approach that would define investment activities of an entity as 'investments held for the purpose of capital appreciation and/or investment income'.

Therefore, an entity holding an investment in a controlled entity will, on meeting the definition of investment activities, present its controlled entities at fair value and not consolidate. We suggest that preparers might find Application Guidance and/or Illustrative Examples useful and they could be developed using some of the material that appears in this Exposure Draft. For example material might be developed to illustrate:

- an investment activity cannot result in the entity and its affiliates obtaining benefits from its investees that would be unavailable to others;
- an investment activity entry and exit strategy documenting how the investment activity will deliver capital appreciation from the investment; and
- the management and performance evaluation of an investment activity on a fair value basis.

**Q3. Should an entity still be eligible to qualify as an investment entity if it provides (or holds an investment in an entity that provides) services that relate to:**

- (a) Its own investment activities?**
- (b) The investment activities of entities other than the reporting entity?**

**Why or why not?**

Yes, the Joint Accounting Bodies agree that an entity should still be eligible to qualify, if it provides services that relate to its own investment activities and these are ancillary to the investment activities that the entity undertakes. However, consistent with our views expressed in our answers to Questions 1 and 2 above we do not believe eligibility should be restricted in the way that is proposed. Instead, we believe an entity should always be eligible to adopt fair value presentation, for those investment activities that qualify.

**Q4.**

- (a) Should an entity with a single investor unrelated to the fund manager be eligible to qualify as an investment entity? Why or why not?**
- (b) If yes, please describe any structures/examples that in your view should meet this criterion and how you would propose to address the concerns raised by the Board in paragraph BC16.**

As stated in our response to Question 2 above, the Joint Accounting Bodies consider that the investment activities of entities should be the scope of the finalised standard. Accordingly, we believe that the investment activities of an entity with a single investor unrelated to the fund manager would be within the scope of the finalised standard and we consider that by making use of this principle, addresses the concerns raised by the Board. We also question the use of sovereign wealth funds as an example of a single investor. Sovereign wealth funds are commonly owned by governments who represent the nation's citizenry, and it is arguable that these citizens are the ultimate investors in a sovereign wealth fund and the ultimate investment entity. This example reinforces the argument that the focus needs to be on defining an investment activity rather than an investment entity.

**Q5. Do you agree that investment entities that hold investment properties should be required to apply the fair value model in IAS 40, and do you agree that the measurement guidance proposed in the exposure draft need apply only to financial assets, as defined in IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement*? Why or why not?**

The Joint Accounting Bodies support the proposals that investments in controlled entities be measured at fair value in profit or loss in accordance with IFRS 9 *Financial Instruments* and IAS 39 or the fair value model in IAS 40 *Investment Property*. We believe requiring the fair value of investments in controlled entities provides users of the financial statements of entities that have investment activities that give rise to controlled entities with important information and insights into prevailing market values thereby ensuring the usefulness of the entity's financial statements. On reading the IASC's version of IAS 40 paragraph B4 we are of the opinion that at that time there was significant support for requiring a fair value model for investment properties held for capital appreciation. Accordingly, we consider it appropriate to require this now.

**Q6. Do you agree that the parent of an investment entity that is not itself an investment entity should be required to consolidate all of its controlled entities including those it holds through subsidiaries that are investment entities? If not, why not and how would you propose to address the Board's concerns?**

In our response to Questions 1 and 2 above the Joint Accounting Bodies have expressed our position that the focus should be on the investment activity of the entity rather than the investment entity itself. Accordingly, we do not support the requirement for a non-investment parent entity to consolidate all controlled entities, including those controlled through an investment entity.

Possibilities of abuse are one of the reasons stated by the exposure draft for a continued requirement non-investment parent entities to prepare consolidated financial statements. We believe the criteria used to determine an investment entity can be equally susceptible to structures engineered specifically to achieve desired outcomes.

**Q7.**

- (a) Do you agree that it is appropriate to use this disclosure objective for investment entities rather than including additional specific disclosure requirements?**
- (b) Do you agree with the proposed application guidance on information that could satisfy the disclosure objective? If not, why not and what would you propose instead?**

The Joint Accounting Bodies support the disclosure objective for investment entities. However we are concerned about some of the detailed requirements outlined in B19. In particular parts (b) and (c) concern us greatly. The calculation of expense ratios and investment returns are not covered by accounting standards and differing methodologies are applied. Disclosing such information would not assist users understanding of the financial statements in a comparable and consistent manner. Therefore we recommend that such disclosures are removed from the guidance.

**Q8. Do you agree with applying the proposals prospectively and the related proposed transition requirements? If not, why not? What transition requirements would you propose instead and why?**

We agree with applying proposals prospectively and the related proposed transition requirements.

**Q9.**

- (a) **Do you agree that IAS 28 should be amended so that the mandatory measurement exemption would apply only to investment entities as defined in the exposure draft? If not, why not?**
- (b) **As an alternative, would you agree with an amendment to IAS 28 that would make the measurement exemption mandatory for investment entities as defined in the exposure draft and voluntary for other venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds? Why or why not?**

The impact of the proposed changes on entities applying IAS 28 *Investments in Associates* and Joint Venturers need to be assessed carefully. The current scope excludes venture capital trusts, mutual funds, unit trusts and other similar entities including investment-linked insurance funds. Proposals to replace these with an investment entity are likely to cause some entities that were excluded from the scope to be included, and vice-versa, requiring what is likely to be an unwelcome change in accounting by those affected entities.

Hence, we do not support (a) above and would prefer the alternative outlined in (b) above except that, consistent with our position articulated in response to Question 1 above, we would propose that the IASB make the measurement exemption mandatory for entities that have investment activities and are within the scope of IAS 28.

#### **Other comments**

In addition, the Joint Accounting Bodies believe that in respect of the proposed criteria to identify an investment entity, the ownership criterion may not be easily met as presently defined in some instances, especially within quasi-government entities such as sovereign wealth funds. We recommend a broadening of this particular criterion to accommodate such instances.

We also encourage the IASB to closely monitor implementation to ensure the spirit in which the amendments were made is upheld in practice.