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Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

23 January 2012

Dear Kevin

Re: ED 220 *Investment Entities*

I am enclosing a copy of the PwC response to the International Accounting Standards Board's Exposure Draft ED/2011/4 *Investment Entities* [AASB ED 220].

The letter reflects the views of the PwC network of firms and as such includes our own comments on the matters raised in the exposure draft.

AASB specific matters for comment

We generally agree that there should be no exemption for tier 2 entities from the proposed disclosures, but note our comments on some of the specific proposals in our enclosed submission to the IASB.

We are not aware of any regulatory or other issues that could affect the implementation of either of the proposals for not-for-profit and public sector entities. However, we are concerned that some superannuation funds would not be able to apply the exemption provided in the ED, as they are not unitised. As a consequence, such funds would be treated quite differently to managed investment schemes and superannuation funds which are unitised, even though both types of entities may manage their investments on the same basis. This would appear to be inconsistent with the AASB's policy of transaction neutrality. If the criteria for determining whether an entity is an investment entity remain unchanged, the AASB should therefore consider whether to include a similar exemption in the forthcoming standard for superannuation entities.

Subject to our concerns about other specific matters as expressed in our submission on ED/2011/4 to the IASB, the proposals would result in financial statements that would be useful to users. Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

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I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 8099 if you would like to discuss our comments further.

Yours sincerely,

Wayne Andrews

Wayne Andrews
Partner, PricewaterhouseCoopers

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

5 January 2012

Dear Sirs

Exposure draft: Investment entities

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the IASB's exposure draft ED/2011/04 *Investment entities* ('the proposal').

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of the member firms that commented on the proposal. "PricewaterhouseCoopers" refers to a network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the IASB's efforts to work with the FASB to develop a common definition of an investment entity. Specialised accounting has existed in US GAAP for investment companies for many years and is well understood by both preparers and users. We continue to hear from asset managers and investors in investment entities that they believe fair value accounting of investments by such entities best reflects their investment objectives and provides the most decision-useful information. Fair value accounting for the underlying investments also generally provides the basis for the net asset values at which many investors enter and exit these investments. We believe that the most relevant information for users of an investment entity's financial statements does not depend on how much of an interest the investment entity has in its investees. We welcome the IASB's approach to provide differentiated fair value reporting for qualifying investment entities.

However, we are concerned that there are significant differences between the Boards' respective proposals. Significant areas of divergence, for example the Boards' differing approaches to the treatment of a controlling financial interest in an investment entity by a non-investment entity parent, should be eliminated.

The need for judgement to determine if an entity is an investment entity

We believe that the Board has identified the appropriate factors for consideration in determining whether an entity is an investment entity. While these factors are described as specific criteria that must be met in order for an entity to be considered an investment entity, judgement will be required when assessing the criteria. We believe that the application of judgement is important to appropriately identify the population of entities that should qualify as investment entities.

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Our most significant concern with the criteria is that the pooling-of-funds criterion does not allow for the application of professional judgement. The criterion as drafted would seem to preclude all single investor entities from qualifying as an investment entity. We agree that certain types of single investor entities should not qualify as an investment entity, but we believe that entities where the single investor acts in a fiduciary capacity on behalf of others should qualify as an investment entity. This may include, for example, certain pension and sovereign wealth funds. We recommend that the Board modifies the pooling-of-funds criterion to allow for more judgement to be exercised in assessing single investor entities. We acknowledge that this would place a greater weight on management and auditors to reach appropriate judgements but believe this is necessary to achieve the appropriate financial reporting outcome for financial statement users. We also propose some modifications to other criteria – see our responses to the specific question in the Appendix. We believe that the criteria in the proposal as a whole, including our proposed changes, are sufficiently robust so that significant potential abuses will be prevented.

There are other types of entities that currently, or may wish to, report in a manner consistent with the investment entity model outlined in the proposal, but may not currently qualify because they fail the pooling criterion as defined. These might include parallel funds, funds established to carry out regulated US merchant banking activities and funds set up for an individual or a group of family members. For example, an asset manager may set up a "parallel" entity to a qualifying investment entity for a group of its employees or for a particular investor, which mirrors the activities and transactions of the qualifying fund. This parallel entity may not itself qualify as an investment entity. We recommend that the Board further considers whether additional types of single or related investor entities should be considered investment entities.

Retention of investment entity accounting on consolidation by a non-investment entity parent

We support the FASB's proposal to retain investment entity accounting on consolidation by a non-investment entity parent. Consequently we disagree with the IASB's opposing view. We agree that an investment entity is fundamentally different from other types of operating entities, and do not believe that the nature of an investment entity changes because of consolidation by a non-investment entity parent. Concerns about potential misuses of the investment entity accounting model are addressed in how an investment entity is defined. This difference between the Boards' proposals significantly undermines the ability of the Boards' standards to achieve consistency and comparability among reporting entities. We believe that the Boards should produce a converged solution.

Consolidation of an investment entity subsidiary by an investment entity parent

While the FASB has proposed that an investment entity should consolidate another investment entity in which it has a controlling financial interest, the IASB's proposal takes an alternative view by suggesting that an investment entity should fair value substantially all investees, including a subsidiary that is an investment entity. Both Boards, however, would require a subsidiary providing services related to investment activities to be consolidated.

Both proposed approaches would represent a change from current industry practice under US GAAP, which permits consolidation of another investment entity, but does not explicitly require it. In practice, investment entities generally only consolidate wholly-owned investment companies that are created for regulatory, tax, legal or other purposes and are formed in conjunction with the parent investment entity. The FASB's approach would be a more significant change for "fund-of-fund" structures. In contrast, the IASB's approach could impact the accounting outcome for certain wholly-owned investment companies used for structuring purposes, such as leverage, that are currently consolidated.

We do not believe that consolidation of controlled investee funds, where such a fund represents an investment for the purpose of obtaining returns from capital appreciation, investment income or both, results in information that is more decision-useful for investors. As a result, we prefer the IASB approach whereby all investments are accounted for at fair value.

We do, however, suggest expanding the limited circumstances where an investment entity is required to consolidate investees. In addition to situations where the entity is providing services related to investment activities, we recommend requiring consolidation of investment entity subsidiaries that were formed in conjunction with the parent investment entity for specific regulatory, tax, legal or other business reasons such as financing. We note that the FASB proposal provides exceptions to certain other of the investment entity criteria for these types of subsidiaries, namely the requirements to hold multiple investments and the pooling of funds criterion.

Fair value option for associates and joint ventures

We do not agree that the current fair value options contained in IAS 28 and IAS 31 should be narrowed so that they can only be applied by investment entities. The IASB should not limit the use of fair value and increase the use of equity accounting. Entities that would be particularly affected by the IASB's proposals are banks, insurers and asset managers, none of whom will qualify as investment entities, who use the fair value option for certain of their associate investments, primarily in pooled funds and those that back insurance liabilities.

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Attached to this letter is an Appendix that contains our responses to the Invitation to comment.

If you have any questions, please contact John Hitchins, PwC Global Chief Accountant (+44 20 7804 2497) or Mary Dolson (+44 20 7804 2930) or Michael Gaull (+44 20 7213 5671).

Yours faithfully

PricewaterhouseCoopers

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Appendix

Responses to detailed questions in the exposure Draft: Investment entities

Question 1

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?

We agree that there is a class of entities whose business objective is to acquire and hold investments for capital appreciation and income or both (rather than to manage the underlying assets and operations of the investee for an indefinite period for strategic operating purposes). These investments may be held with varying degrees of influence, from passive investments to control. However, all such investments are likely to be managed on the same, fair value, basis. We further agree, therefore, that such entities should be required to measure their investees on a fair value basis. Presenting information in such a way is consistent with their business model, how many investors enter and exit such investments and with the way management is generally remunerated.

Question 2

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?

We believe that the Board has identified the appropriate factors for consideration in determining whether an entity is an investment entity. While these factors are described as specific criterion that must be met in order for an entity to be considered an investment entity, judgement is required in assessing these criteria. We believe that the application of judgement is important in order to appropriately identify the population of entities that should qualify as investment entities.

We are concerned, however, that the Boards have articulated the pooling-of-funds criterion in a manner that does not allow sufficient scope for the application of professional judgement. See further our response to question 4 on this point. We also propose some modifications and clarifications to certain of the other criteria:

Criterion (a) Substantive activities comprise investing in multiple investments for capital appreciation and/or investment income.

We note in the FASB ED that 'the Boards concluded that an investment entity may be involved in the day to day management activities of its investees for purposes of maximising the overall value of an investment (rather than generating strategic benefits)' (para BC18). This is not in the IASB's basis for conclusions. The words in the proposal, permitting 'services that relate only to the investment entity's own investment activities (e.g. investment advisory services)' (para B 2) could be read more narrowly, and we recommend that the IASB incorporates words similar to the FASB's ED paragraph BC 18 into the application guidance of the final standard.

We agree that an investment entity should consider the services that it provides to its investees (paragraph B2). However, it is not uncommon for management or other activities to be performed by an entity outside the potential investment entity. Such activities, carried out as agent for the investment entity, should be imputed to the potential investment entity, for the purposes of determining its activities. Some text to this effect would be helpful.

Criterion (c) Ownership is represented by units of investments

We recommend that the criterion's application guidance explicitly refers to both unitized and non-unitized interests. In our view the differentiating factor for qualifying as an investment entity is the apportioning of the entity's net asset value and not the unit interests. For example, some limited partnerships do not issue units but have capital accounts that are entitled to net assets on liquidation. Although paragraphs 2(c) and B12 mention partnership interests, the criterion could be read to require "units". Similarly, where an entity is funded largely through profit-participating loans or other debt instruments that entitle the holder of such instruments to a portion of net assets, we believe that these should meet the criterion and we recommend that guidance is included to clarify.

Some have questioned whether or not listed private equity funds will qualify as investment entities under this criterion. Such funds have traded shares whose value may include elements of value related to the asset management activity of the listed fund (as opposed to, for example, puttable units at net asset value of the fund) or which otherwise do not trade at net asset value. It might be argued that such shares are not ownership units to which a proportionate share of net assets is attributed. We do not believe that the Board intended to make this criterion restrictive and we recommend that the Board clarifies this point so that the shares of listed private equity entities qualify under criterion 2(c).

Question 3

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?

Question 3 (a)

Yes. If an entity provides services that relate to its own investment activities, it should still qualify as an investment entity (subject to how such activities are defined – see our responses to question 2, criterion (a) and to question 4).

Question 3 (b)

We understand the question to mean that the entity that is 'held' to provide services is a subsidiary that is part of the investment entity's business, rather than an investee held for capital appreciation, investment income or both. We agree that if an entity provides (or holds an investment in another entity that provides) substantive services relating to investment activities of entities other than the

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reporting entity, it should not qualify as an investment entity. The entity in such a case is carrying on asset management business and is moving away from being an entity set up with the objective of carrying out investment activities.

Question 4

(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.

We believe that the Board has identified the appropriate factors for consideration in determining whether an entity is an investment entity. While these factors are described as specific criteria that must be met in order for an entity to be considered an investment entity, judgement will be required when assessing the criteria. We believe that the application of judgement is important to appropriately identify the population of entities that should qualify as investment entities.

Our most significant concern with the criteria is that the pooling-of-funds criterion does not allow for the application of professional judgement. The criterion as drafted would seem to preclude all single investor entities from qualifying as an investment entity. We agree that certain types of single investor entities should not qualify as an investment entity, but we believe that entities where the single investor acts in a fiduciary capacity on behalf of others should qualify as an investment entity. This may include, for example, certain pension and sovereign wealth funds. We recommend that the Board modify the pooling-of-funds criterion to allow for more judgement to be exercised in assessing single investor entities. We acknowledge that this would place a greater weight on management and auditors to reach appropriate judgements but believe this is necessary to achieve the appropriate financial reporting outcome for financial statement users. We also propose some modifications to other criteria – see responses to specific questions. We believe that the criteria in the proposal as a whole, including our proposed changes, are sufficiently robust so that significant potential abuses will be prevented.

There are other types of entities that currently, or may wish to, report in a manner consistent with the investment entity model outlined in the proposal, but which may not currently qualify because they fail the pooling criterion as defined. These might include parallel funds, funds established to carry out regulated US merchant banking activities and funds set up for an individual or a group of family members. For example, an asset manager may set up a "parallel" entity to a qualifying investment entity for a group of employees or for a particular investor, which mirrors the activities and transactions of the qualifying fund. This parallel entity may not itself qualify as an investment entity. We recommend that the Board further considers whether additional types of single or related investor entities should be considered investment entities.

We also recommend that the Board addresses scenarios where a fund may, at initial set-up, have a single investor, who is related to the fund manager, who has 'seeded' the fund with an initial amount of capital. The single investor would expect its interest to be diluted as more investors are found. This would also apply when the entity is in the process of liquidation and has few investors. It should not cease, in such a case, to be an investment entity. Adding guidance would be consistent with guidance on multiple investments (para B5) and is also consistent with what is included in the FASB's proposal on entities with single investors (ED para 946-10-55-3).

Question 5

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 otherwise 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?

We agree that investment entities that hold investment properties should be required to apply the fair value model in IAS 40. Fair value accounting for investment properties is consistent with fair value for controlled investees.

Question 6

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?

We support the FASB's proposal to retain investment entity accounting on consolidation by a non-investment entity parent. Consequently we disagree with the IASB's opposing view. We agree that an investment entity has fundamental differences from other types of operating entities, and do not believe that the nature of an investment entity changes because of consolidation by a non-investment entity parent.

Concerns about potential misuses of the investment entity accounting model are better addressed in how an investment entity is defined. We believe that the proposed definition of an investment entity is sufficiently narrow to limit the risk of abuse that the Board is concerned about. Our response to the Board's main concerns is as follows:

> Concern 1: Structuring by an entity setting up an investment entity within a corporate structure
>
> We believe the criteria to determine whether an entity is an investment entity or not are very tightly defined and that this should avoid potential abuses that the Board is concerned about. Specifically, the criterion on 'nature of investment activity', particularly given the additional guidance in paragraph B6, should be sufficient to prohibit the practices that concern the Board. In many cases where such an entity is formed we believe that the parent will likely have additional relationships and transactions with its subsidiary.
>
> Concern 2: An investment entity's investee owns the investment entity parent's shares, which would then be measured at fair value rather than accounted for as treasury shares in the consolidated financial statements of the investment entity if the fair value roll up were permitted.

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> We believe this can be addressed through disclosures which is the solution suggested by the FASB (ED para BC35), who also, we note, believe that the circumstances are not widespread.

We request that the Board clarifies an additional issue regarding accounting at a parent or investor level. This is the situation where a non-investment entity investor has an associate interest in an investment entity. For example, an insurer has a 25% stake in a fund. We believe that the non-investment entity investor should either be permitted to fair value its investment entity associate or should be permitted to equity account using the numbers from within the investment entity associate (i.e. including fair value movements of that investment entity associate's underlying investees). The FASB ED ASU (page 4) indicates that fair value changes within the investment entity associate are carried through to the investor's share of associate profits. It would be helpful if the IASB would make this clear when it finalises its proposal.

Question 7 (a)

Do you agree that it is appropriate to use this disclosure objective for investment entities rather than including additional specific disclosure requirements?

We agree with the Board's approach, which is that it is more appropriate to have a disclosure objective rather than to include a lengthy list of mandatory disclosures that may not be appropriate in all circumstances. We do, however, believe that the disclosure objective suggested in paragraph 9 of the exposure draft is not sufficiently specific. We are further of the view that the disclosure objective currently suggested in the exposure draft will not provide for consistency in disclosure. We suggest that the Board consider a more specific disclosure principle along the following lines:

"An investment entity shall provide information to enable users of its financial statements to evaluate the nature and financial effects of the investment activities in which it engages. It shall provide information about:

- The investment strategy of the entity;
- The types of significant investments held, including geographical and industry sector exposures and concentrations, including significant changes during the period;
- Change in the value of the investment portfolio during the period;
- A reconciliation of balances with owners of the entity (who may or may not be equity owners);
- Information on returns by unit of ownership."

Disclosures that are likely to meet this objective are:

- A description of the entity's investment strategy;
- A listing and description of the entity's significant investments and the entity's interest in those investments (e.g., percentage ownership, whether those investees are controlled, existence of the leverage in the investment structure, restrictions on disposal etc);
- A reconciliation of investments, showing movements arising from acquisitions, disposals, valuation changes and income;
- A reconciliation of ownership interests in the entity, including new capital, redemptions, distributions and recognised income or expense;
- Ratios of net income and gains per unit of ownership or by amounts of committed capital as appropriate.

Additional guidance may be required on how much detail will need to be given in respect of an entity's investment portfolio in order to ensure consistent information for users.

We also recommend that the Board carries out further outreach with users to better understand what disclosure is most meaningful to them and whether such disclosures differ across different types of investment entity. We further suggest the Board might undertake a review of the disclosures required by different stock exchanges for entities that are likely to qualify as investment entities, as these may give an indication of the disclosures that users are likely to find useful.

Question 7 (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?

Consistent with our response to question 7(a) above, we believe the proposed application guidance could lead to inconsistent disclosures. Some may read the potential disclosures in the application guidance as being in effect mandatory, while others may see it as entirely voluntary, with, for example, IFRS 7 providing sufficient disclosure about the entity's investees. We believe that a more specific disclosure objective is more likely to be effective.

We have some concerns about the disclosure required by paragraph 10(c) of information about an intention to give future support. This information will often be confidential and may be prejudicial to the interests of the entity in question. There is also lack of clarity as to how an 'intention' to give support might be interpreted. It could range from a very broad internal suggestion within the investment entity to a formal public commitment.

We also recommend that the Board may want to do an analysis to determine which disclosures required by IFRS 7 and IFRS 12 may or may not be relevant to an investment entity. For example IFRS 12 would require an investment entity to disclose summarised financial information for its controlled investees, for which the non-controlling interest is material. This disclosure would be onerous and not relevant when the investees are accounted for on fair value basis.

We further note that US GAAP sets out methodologies for certain items, including income and net asset value per share or unit information. We encourage the IASB to work with the FASB and with users to determine whether such information is seen as, for example, equivalent to earnings per share and if or to what extent the IASB might wish to standardise methodology in order to enable comparison by users.

Question 8

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?

In general, our view is that comparative periods should be adjusted when new accounting standards are applied, in order to aid comparability. We therefore believe that the proposal in the exposure draft should be applied from the beginning of the earliest period presented in an entity's financial statements in the year of adoption, subject to an impracticability test. We agree that it may be impracticable to determine fair values accurately from this point in some circumstances. This may apply, for example, when an entity has been managed on a basis that approximates fair value but which would not comply with IFRS 13, *Fair value measurement*. However, we believe, given the nature of an investment entity's business, that fair value information will often be available for comparative periods

We commented on the date of adoption of IFRSs 10-12 in our response to the IASB's exposure draft *Mandatory effective date of IFRS 9 (proposed amendment to IFRS 9 (November 2009) and IFRS 9 (October 2010))*. In that response we recommended that the effective date of these standards should be delayed by at least one year, that is, until at least periods beginning on or after 1 January 2014. We propose the same date of adoption (i.e. at least 2014) for the investment entities exposure draft.

Question 9(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?

The fair value measurement exemption of IAS 28 is currently being used by funds, banks, insurers and other financial services entities and we believe that the exemption is used appropriately where fair value is likely to provide better information than equity accounting. It is used, for example, in the following circumstances:

- By an insurance entity with an associate interest that is held to back policyholder liabilities which themselves are measured at a current value. These interests are usually investments in funds.
- By investment managers holding associate interests in funds that they manage.
- By some banks for their associate interests in funds.

We believe that the options in IAS 28 and IAS 31 should not be narrowed.

Question 9 (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?

Consistent with our response to question 9(a) above, we would agree with the Board's alternative proposal to make the fair value measurement exemption under IAS 28 mandatory for investment entities and voluntary for other venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds.

Other issues

Consolidation of an investment entity subsidiary by an investment entity parent

The IASB and FASB proposals are different regarding the scope of consolidation by an investment entity. Under the IASB proposal, an investment entity measures all entities that it controls, other than those providing services related to its own investment activities, at fair value. However, under the FASB proposal, an investment entity consolidates another investment entity as well as an entity that provides services to the investment entity (ED para 946-810-45-3 (a) & (b)).

The FASB proposal would result in the consolidation of a subsidiary investment in another fund. Consolidation of the fund subsidiary by the reporting fund generally does not reflect the true economic relationship between the investment entity and the underlying investee fund. For example, a sixty percent ownership interest of the underlying fund may only represent a two per cent of the total investments of the reporting fund; accordingly, consolidation of the underlying investee fund may result in assets, liabilities and operating activity in the aggregate that are not reflective of the impact of the investee fund to the reporting entity's overall investment performance. Disaggregation of such activity by consolidation would not improve the understandability, transparency or usefulness of such information.

Further, in a fund of funds structure, investment companies generally purchase interests in underlying funds for similar reasons that they purchase investments directly – for capital appreciation or investment income, or both, in an efficient and cost effective manner. Consistent with the view that it is most appropriate to present non-investment entity interests at fair value, we believe the same principle should be applied to investments in other investment entities. Therefore we propose that both Boards adopt an approach that is consistent with the IASB exposure draft, whereby all investments are accounted for at fair value.

We do, however, suggest expanding the limited circumstances where an investment entity is required to consolidate investees. In addition to situations where the entity is providing investment related services we recommend requiring consolidation of investment entity subsidiaries that were formed in conjunction with the parent investment entity to achieve specific regulatory, tax, legal or other business reasons such as financing.

We believe that this change would result in better and more transparent accounting in the situation where, for example, an intermediate holding company is set up by an investment entity to issue debt in order to acquire interests in investees. Under the IASB proposal the intermediate holding company is measured at fair value, along with the underlying investee and there is no visibility of the investment entity's debt. We believe that such an entity should be consolidated by the investment entity.

We recommend that B2, as referenced from paragraph 7(a), is amended as follows:

> "...services that relate only to the investment entity's own investment activities (e.g. **entities providing** investment advisory services **or entities that are created to facilitate investment strategies for regulatory, tax, legal or other business purposes, such as financing**), even if those activities were substantive..."

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Reassessment

The exposure draft requires an investment entity to reassess whether it meets the criteria for an investment entity if the facts and circumstances indicate that there are changes to one or more criteria set out in the exposure draft (para 3). We note that the FASB ED (para 946-10-25-1), requires an entity to reassess its investment entity status only if there is a subsequent change in the purpose and design of the entity.

The IASB and FASB proposals take a different in approach to reassessment. It appears that the IASB sets a potentially significantly lower threshold, which could result in more entities entering and leaving investment entity accounting than would be required by entities reporting under US GAAP. We believe that a consistent approach should be taken by both Boards, and therefore, recommend both Boards to work together to resolve this.

First-time adoption

The exposure draft does not contain any provisions for first-time adopters of IFRS. Accordingly, we recommend that the Board considers whether first-time adopters require any relief from full retrospective application and propose amendments to IFRS 1 as appropriate.