Angus Thomson
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

19 September 2014

Dear Angus

Re: Exposure drafts 249 and 250 and Invitation to Comment 30

I am enclosing a copy of PricewaterhouseCooopers' response to the following International Accounting Standards Board's documents:

- ED/2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)* (ED 249)
- ED/2014/2 *Investment Entities: Applying the Consolidation Exception,* and
- *Request for Information on Post-implementation review: IFRS 3 Business Combinations* (ITC 30).

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the requests for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment on ED 249 and ED 250

We are not aware of any regulatory or other issues that could affect the implementation of the proposals for not-for-profit and public sector entities.

The proposals in ED 249 are consistent with our own efforts in streamlining financial reports which we consider to be more relevant and useful for users. We therefore consider they are in the best interests of the Australian economy.

Tier 2 supplement to ED 249

We agree with the AASB's proposal to exclude paragraph 85B from the tier 2 disclosures.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely,

Margot Le Bars
Partner, PricewaterhouseCoopers

Mr Michael Stewart
Director of Implementation Activities
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

15 September 2014

Dear Sir

Exposure draft: Investment Entities: Applying the Consolidation Exception
Proposed amendments to IFRS 10 and IAS 28

We are responding to your invitation to comment on the Exposure Draft on behalf of PricewaterhouseCoopers.

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

We support the proposed amendment to allow an entity that is a parent, and whose ultimate parent produces financial statements in which the entity is measured at fair value, to be exempt from preparing consolidated financial statements where the other conditions for exemption are met.

We believe there is some confusion and inconsistency within the standards as to whether financial statements produced by an investment entity are consolidated or separate financial statements. We believe it would be helpful to separately define "investment entity financial statements" and use this definition as the basis for clarifying and resolving the inconsistency.

We agree that the proposed amendment to clarify that a subsidiary which is an investment entity and provides investment-related services to third parties should not be consolidated addresses the question put to the Interpretations Committee. However we have some concerns as to the possible consequences of the proposed amendments and suggest some alternative wording.

We do not support the proposed amendments to require that a non-investment entity investor apply a different method of equity accounting to an investment in a joint venture than it does to an investment in an associate. We believe the amendments would introduce unnecessary complexity to equity accounting and the information required to perform the proposed accounting will not always be available.

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Our responses to the specific questions posed in the invitation to comment are attached as Appendix 1 to this letter and include suggestions to clarify the wording of several of the proposed amendments.

If you have any questions in relation to this letter please do not hesitate to contact Paul Fitzsimon, PwC Global Chief Accountant (001 416 869 2322) or Mary Dolson (020 7804 2930).

Yours faithfully

PricewaterhouseCoopers

PricewaterhouseCoopers

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Appendix 1

Detailed responses to the specific questions in the Exposure Draft

Question 1: ***Exemption from preparing consolidated financial statements***

The IASB proposes to amend IFRS 10 to confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10 continues to be available to a parent entity that is a subsidiary of an investment entity, even when the investment entity measures its subsidiaries at fair value in accordance with paragraph 31 of IFRS 10. Do you agree with the proposed amendment? Why or why not?

We support the proposed amendment to allow an entity that is a parent, and whose ultimate parent produces financial statements in which the entity is measured at fair value, to be exempt from preparing consolidated financial statements. As the entity would also be required to meet the other conditions in IFRS 10 para 4(a) in order to claim the exemption, we believe the availability of the exemption would reflect the needs of both users and preparers of the financial statements.

We note that some operating companies which previously produced consolidated financial statements and which are controlled by a Private Equity or other Investment Entity parent might now qualify for the exemption. As the other conditions in IFRS 10 para 4(a) would also need to be met, including agreement by all of the owners that consolidated financial statements are not required, we do not believe this to be inappropriate.

We also support the proposed deletion of the wording that an investment entity "need not present consolidated financial statements". We are aware that in some jurisdictions, local legislation might require the preparation of consolidated financial statements. This requirement, in conjunction with the previous wording in the standard, had resulted in questions over whether investment entities could choose to also prepare consolidated financial statements and describe those financial statements as being IFRS compliant. We consider it appropriate to describe such consolidated financial statements as "special purpose" financial statements rather than "IFRS financial statements", and welcome the clarification provided by the proposed amendment.

We believe there is confusion as to whether the financial statements produced by an investment entity should be viewed as consolidated or separate financial statements:

- IFRS 10 para 32 requires that an investment entity consolidate a subsidiary which provides services relating to the investment entity's investment activities.
- However, IAS 27 para 8A requires that an investment entity present separate financial statements as its only financial statements.

The requirements of the two standards would appear inconsistent. We are also aware that there might be local regulatory requirements in some jurisdictions that traditional separate financial statements in accordance with IAS 27 be produced and some might consider the above paragraphs prevent them from doing so.

To address this concern, we suggest that the financial statements to be prepared by an investment entity be defined. We propose the following additional amendments (double-underlined):

- "IFRS 10 para 4c - an investment entity ~~need not present consolidated financial statements it~~ ~~is~~ that is required, in accordance with paragraphs 31 and 32 of this IFRS, to measure all of its subsidiaries at fair value through profit or loss other than subsidiaries which provide services that relate to the investment entity's investment activities and are consolidated. Such financial statements produced by the investment entity (regardless of whether they do consolidate subsidiaries which provide services that relate to the investment entity's investment activities) are referred to as "*investment entity financial statements*.""

- "IAS27.8A – An investment entity that is required, through 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~~ investment entity financial statements (as defined in IFRS 10.4c) as its only financial statements. An investment entity which consolidates subsidiaries in accordance with paragraph 32 of IFRS 10 may present separate financial statements in addition to its investment entity financial statements."

There are two additional areas where we suggest clarification is provided:

a) Investment entity group structures are often complex. An investment entity might have an investment entity subsidiary which in turn has a subsidiary which provides investment-related services.

   It would be helpful to clarify that IFRS 10 para 32 would not require the investment entity subsidiary in such a structure to prepare consolidated financial statements. We suggest the following amendment:

   "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, and the investment entity does not meet the conditions in paragraph 4a 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."

b) The current wording in IAS 28.17d might prevent an investment entity which consolidates a subsidiary in accordance with IFRS 10 para 32 from qualifying for the exemption from equity accounting for an associate or joint venture.

   We suggest the paragraph be clarified to more specifically reference that situation:

   "The ultimate or any intermediate parent of the entity produces ~~consolidated~~ financial statements available for public use that comply with IFRSs, including the requirements of IFRS 10 Consolidated Financial Statements to consolidate subsidiaries or measure them at fair value or both."

This is another area where providing a definition of "investment entity financial statements" as described above might help provide clarity.

Question 2: ***A subsidiary that provides services that relate to the parent's investment activities***

The IASB proposes to amend IFRS 10 to clarify the limited situations in which paragraph 32 applies. The IASB proposes that the requirement for an investment entity to consolidate a subsidiary, instead of measuring it at fair value, applies only to those subsidiaries that act as an extension of the operations of the investment entity parent, and do not themselves qualify as investment entities. The main purpose of such a subsidiary is to provide support services that relate to the investment entity's investment activities (which may include providing investment-related services to third parties). Do you agree with the proposed amendment? Why or why not?

We agree that the proposed amendments address the question raised regarding the importance of whether investment-related services are provided internally within the group or to third parties. However, we think that the wording of the proposed amendments could be improved to reduce potential abuse.

Previously, some investment entities continued to consolidate subsidiary companies which were themselves investment entities on the basis that the subsidiary was providing an investment-related service as an extension of the parent's activities. Now, if the subsidiary meets the definition of an investment entity it must be measured at fair value instead of being consolidated, even if the investment-related services performed are substantial. This could affect a number of different aspects of financial reporting. We describe two examples of this below.

Transparency of cost information

The specific entity in a group structure in which the operating costs of investment entity activity are recognised could lead to different levels of required disclosure.

For example, if the costs were incurred at a Topco level, such costs would be recognised as expenses in the Income Statement and so be disclosed on a granular basis.

However, if the costs were incurred at a subsidiary level, the costs would form part of the measurement of the subsidiary at fair value performed by Topco. There would be no required disclosure of the components of that fair value, and any detailed disclosure of underlying costs would be on a voluntary basis.

Revenue recognition

The deliberations on IFRS 15 (BC223, IE129-133) concluded that it would likely be appropriate for an entity which provides asset management services to recognise performance-based fees on an actual basis.

Therefore, where investment-related services for third parties are performed at a Topco level, revenue would likely be recognised on that actual basis.

However, if the investment-related service is performed at a subsidiary level, the associated service contracts (including performance fees and carried interests) would form part of the measurement of fair value of the subsidiary by the investment entity. This could lead to an effective acceleration of revenue recognition of performance-based fees. Such a result would appear inconsistent with the deliberations on the revenue project.

To address these concerns we propose the following amendment (double-underlined):

"Notwithstanding the requirement in paragraph 31, if an investment entity has (a) a subsidiary that ~~provides~~ is not itself an investment entity and whose main purpose is to provide services that relate to the investment entity's investment activities (see paragraphs B85C–B85E), or (b) a subsidiary which acts as an extension of the operations of the investment entity (except for those subsidiaries formed in connection with the entity only for legal, regulatory, tax or similar business reasons), 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."

The proposed additional language is based on previous Board discussions (IFRS 10 para B85H, BC240). We think it would also avoid any unintended consequence of requiring consolidation in Master-Feeder structures (IFRS 10 IE12 to 15).

Question 3: ***Application of the equity method by a non-investment entity investor to an investment entity investee***

The IASB proposes to amend IAS 28 to:

a) **Require a non-investment entity investor to retain, when applying the equity method, the fair value measurement applied by an investment entity associate to its interests in subsidiaries; and**
b) **Clarify that a non-investment entity investor that is a joint venture in a joint venture that is an investment entity cannot, when applying the equity method, retain the fair value measurement applied by the investment entity joint venture to its interests in subsidiaries.**

Do you agree with the proposed amendments? Why or why not?

We are not supportive of the proposed amendments to require that a non-investment entity investor apply a different method of equity accounting to an investment in a joint venture than it does to an investment in an associate.

We believe that having two different types of equity accounting will introduce unnecessary complexity. We do not believe it will always be possible for a joint venturer to obtain the financial information necessary to reverse the fair value accounting performed by the joint venture and instead perform a sub-consolidation at the joint venture level.

As the investor in the joint venture is ultimately investing in an investment entity rather than in the underlying investments of the investment entity, we believe it would be more appropriate in the equity accounting to reflect the investee as an investment entity. The fair value measurement performed by the investment entity would better-reflect that result.

We also note that the proposed amendments would appear to create a conflict in the existing IAS 28 for movements between an associate and joint venture.

Currently, IAS 28 para 24 states that if an investment in an associate becomes an investment in a joint venture, or an investment in a joint venture becomes an investment in an associate "*the entity continues to apply the equity method and does not remeasure the retained interest.*"

However, the proposed amendments would require a change in measurement. For example, where an investment in an associate becomes an investment in a joint venture, there would be a change from equity accounting for the fair value measurement to equity accounting for a sub-consolidation.

The requirement to remeasure the retained interest does not appear to have been considered within the proposed amendments.

Other observations

Transition requirements

We agree that the proposed amendments should be applied retrospectively.

We suggest it be clarified that the quantitative information required by paragraph 28(f) of IAS 8 is only required for the annual period immediately preceding the date of initial application of this IFRS, and that while an entity may also present this information for the current period or for earlier comparative periods it is not required to do so. This approach would be consistent with the transition requirements of IFRS 10 para 2A.

IFRS 12 Disclosure requirements

IAS 27 para 8A indicates that an investment entity presents separate financial statements. Although IFRS 12 paras 19A to 19G 12 contain disclosure requirements for investment entities, as IFRS 12 para 6 scopes out separate financial statements (unless there are any unconsolidated structured entities), this would appear to scope investment entities from the requirements of the standard.

We think that our proposal in question 1 to define investment entity financial statements as being different from separate financial statements will be an effective method of addressing this problem.