IFRS in Focus
IASB proposes amendments to IFRS 10 and IAS 28 related to the implementation of the investment entities exemption

Contents

This edition of IFRS in Focus outlines the proposed amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* set out in the recent exposure draft ED/2014/2 (the "ED") which was issued in June 2014 for public comment.

The Bottom Line

- The ED proposes that:
  - the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even though the investment entity measures its subsidiaries at fair value in accordance with IFRS 10;
  - the requirement for an investment entity to consolidate a subsidiary applies only to subsidiaries that are not themselves investment entities and whose main purpose is to provide services related to the parent's investment activities;
  - in applying the equity method to an associate that is an investment entity, an investor should retain the fair value measurements that the associate used for its subsidiaries. However, for a joint venture that is an investment entity, a joint venturer is required to adjust the fair value measurements the joint venture used for its subsidiaries and instead apply the joint venturer's accounting policies, including consolidation.
- The IASB did not propose an effective date for the proposed amendments. However, early application is proposed to be permitted.
- Comments on the proposals are due by 15 September 2014.

Why are the amendments being proposed?

The amendments proposed in exposure draft ED/2014/2 *Investment Entities: Applying the Consolidation Exemption (Proposed amendments to IFRS 10 and IAS 28)* result from three issues submitted to the IFRS Interpretations Committee (the "IFRS IC").

After discussing these issues, the Committee members recommended to the IASB to address the issues in narrow-scope amendments to IFRS 10 and IAS 28. The IASB has followed this recommendation by issuing this ED.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

When would the proposed amendments apply?

The IASB did not provide an effective date for the proposed amendments. However, if finalised, earlier adoption is proposed to be permitted.

The comment period for the ED ends on 15 September 2014.

What are the changes proposed by the ED?

Exemption from preparing consolidated financial statements

IFRS 10 provides an exemption from preparing consolidated financial statements for a parent whose ultimate or any intermediate parent prepares consolidated financial statements that are in accordance with IFRSs and publicly available.

The IASB proposes to confirm that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even though the investment entity measures its subsidiaries at fair value in accordance with IFRS 10 instead of consolidating its subsidiaries. This proposal is based on cost-benefit considerations and the fact that the investment entity ultimate or intermediate parent is required to provide disclosures under IFRS 12 *Disclosure of Interests in Other Entities, IFRS 7 Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement.*

A subsidiary that provides services related to the parent's investment activities

IFRS 10 requires an investment entity to consolidate all subsidiaries that provide services that relate to the investment entity's investment activities. The IASB proposes to clarify that this exception from fair value measurement is only applicable to subsidiaries that act as an extension of the operations of the investment entity parent. This means that the requirement to consolidate does not apply to subsidiaries that are themselves investment entities. Instead, such entities should be measured at fair value.

Observation

The IASB explains in their proposed Basis for Conclusions that this clarification is consistent with the requirement for an investment entity to measure all subsidiaries at fair value, including investment entity subsidiaries.

In the IASB's view, this clarification would also be consistent with the requirement for an investment entity to consolidate those subsidiaries whose main purpose is to perform services that support the investment entity parent's investing activities. If the subsidiary meets the definition of an investment entity, investment-related services cannot be its main activity as it would otherwise not meet the definition of an investment entity.

Application of the equity method by a non-investment entity investor to an investment entity investee

When applying the equity method, IAS 28 requires an entity to adjust an associate's or joint venture's accounting policies to make them consistent with the accounting policies of the entity.

The IASB proposes to amend the requirements for consistent accounting policies to address the application by a non-investment entity investor to its investment entity associates and joint ventures. If the investee is an investment entity associate, the investor shall retain the fair value measurement applied by that investee to its subsidiaries. However, if the investee is an investment entity joint venture, the investor shall make adjustments to the fair value measurement applied by the investee to conform to the investor's accounting policies, including consolidation of the joint venture's subsidiaries.

Observation

If the proposed amendments are finalised, the equity method under IAS 28 will no longer be applied identically to associates and joint ventures. The IASB deliberately differentiated between investments in associates and joint ventures in the proposed amendments as it believes there will be fewer practical difficulties for joint venturers. In the IASB's view, it will be easier for the investor to obtain information about the investments of joint ventures than about the investments of associates. This is because a joint venturer has joint control of its joint venture whereas an investor has only significant influence over an associate.

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