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IFRS Developments

IASB issues amendments to the investment entities consolidation exception

What you need to know

- In December 2014, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 28.
- The amendments address three issues arising in practice in the application of the investment entities consolidation exception.
- The amendments are applied retrospectively for annual periods beginning on or after 1 January 2016.

Highlights

The IASB has addressed three significant practice issues.

On 18 December 2014, the International Accounting Standards Board (IASB) issued *Investment Entities: Applying the Consolidation Exception* (amendments to IFRS 10, IFRS 12 and IAS 28). The amendments address the following issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*:

- Exemption from preparing consolidated financial statements: the amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.
- Subsidiary that provides services that support the investment entity's investment activities: the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.
- Application of the equity method by a non-investment entity that has an interest in an associate or joint venture that is an investment entity: the amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

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Exemption from preparing consolidated financial statements

The IASB amended IFRS 10 to clarify that the exemption from preparing consolidated financial statements contained in paragraph 4(a) of IFRS 10 is available to a parent entity that is a subsidiary of an investment entity (provided all other conditions in paragraph 4(a) are met) even when the investment entity measures all of its subsidiaries at fair value.

The IASB noted that the exemption for intermediate parent entities was provided because of the cost of requiring each intermediate parent to prepare consolidated financial statements would outweigh the benefits when the conditions of paragraph 4(a) are met. The IASB also observed that, when an entity measures its interest in a subsidiary at fair value, the disclosures required by IFRS 12 *Disclosure of Interests in Other Entities* are supplemented by those required in IFRS 7 *Financial Instruments: Disclosures* and by IFRS 13 Fair *Value Measurement*. Therefore, the IASB decided this combination of information provides sufficient grounds to retain the exemption from preparing consolidated financial statements for a subsidiary of an investment entity that is itself a parent entity.

The IASB also amended paragraph 17 of IAS 28 (which uses the same criteria as paragraph 4(a) of IFRS 10) to provide a similar exemption from applying the equity method for entities that are subsidiaries of an investment entity and hold interests in associates and joint ventures.

Consequential amendment to IFRS 12

The IASB made a consequential amendment to IFRS 12 to clarify the application of the standard to investment entities. Paragraph 6(b) was amended to require an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 9, to present the disclosures in respect of investment entities required by IFRS 12.

Subsidiary that provides services that support the investment entity's investment activities

Paragraph 31 of IFRS 10 requires an investment entity to measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. The IASB clarified that, as an exception to this, an investment entity would consolidate a subsidiary only if it is not an investment entity itself, and it acts as an extension of the investment entity by providing services that support the investment entity's activities. All subsidiaries that are themselves investment entities are measured at fair value through profit and loss.

Application of the equity method by a non-investment entity that has an interest in an associate or joint venture that is an investment entity

The IFRS Interpretations Committee (the Committee) received a request to clarify what a non-investment entity parent would do when equity accounting for its investment in an associate or joint venture that is an investment entity. The investment entity associate or joint venture would apply fair value measurement to its subsidiaries, but it was not clear whether the non-investment entity parent would then need to unwind the fair value accounting and apply consolidation procedures, in order to equity account for its associate or joint venture. The situation was further complicated by the requirement of IAS 28 to use uniform accounting policies, which some interpreted to mean that subsidiaries of investment entity associates and joint ventures would be consolidated by those associates or joint ventures before the equity method is applied. The Committee referred the issue to the IASB. In discussing the issue, the IASB had concerns about the practical ability and associated costs of unwinding the fair value accounting of the investment entity associate or joint venture.

IAS 28 was amended to allow an entity that is not itself an investment entity, and that has an interest in an investment entity associate or joint venture, to retain the fair value measurement applied by the investment entity associate or joint venture to the interests in its subsidiaries.

Effective date and transition

The amendments are applicable for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

The amendments are applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, the first time the amendments to IFRS 10 are applied, the quantitative information required by paragraph 28(f) of IAS 8 need only be presented for the annual period immediately preceding the date of initial application.

How we see it

The amendments to IFRS 10 and IAS 28 in respect of the investment entities exception provide helpful clarifications that will assist preparers in applying the standards more consistently. However, we believe that it may still be difficult to identify investment entities in practice when they are part of a multi-layered group structure. Therefore, preparers will need to continue to apply judgement to determine the appropriate treatment.

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