Investment Entities (IEs)

Presented by Working Group Lead
Singapore Accounting Standards Council

Agenda

- Overall Thrust of ED

- Key Areas of Dissent
  - Criteria for IEs: Pooling of Funds
  - Accounting in Consolidated FS of Non-IE Parent

- Other Suggestions

Overall Thrust of ED

- Most WG members express strong support for exception to consolidation as FV provides more relevant & useful information to users.

- However, minority within this majority group consider that consolidation, rather than FV accounting, is appropriate if the entity ***actively*** managed controlled entities notwithstanding this is carried out to secure/maximise investment income &/or capital appreciation (e.g. venture capital funds).

→ IASB could evaluate if the explicit incorporation of exit strategies as one of the criteria of IEs would address the concerns of these members.

- A few WG members strongly oppose the consolidation exception on grounds that the concept of control is fundamental to determining the boundaries of a reporting entity & the preparation & presentation of FS.

Key Areas of Dissent – Criteria for IEs: Pooling of Funds

- No conceptual basis why a single investor entity (e.g. a sovereign fund) could not be an IE if all other criteria are met.

- Para B6 of ED would prevent a single investor from receiving benefits other than investment income &/or capital appreciation, which addresses IASB's concern that off balance sheet accounting could otherwise be achieved inappropriately.

- A few WG members appreciate the difficulties in establishing the criteria to scope in single investor entities whilst minimising abuses & are prepared to accept the exclusion of certain 'legitimate' IEs.

Recommendation to IASB:

Most WG members suggest IASB to review the appropriateness of the "pooling of funds" criterion.

Key Areas of Dissent – Accounting in Consolidated FS of Non-IE Parent

- If FV provides more useful information at subsidiary level, difficult to conceive otherwise at parent level.

- Given IE's business model, acquisition & disposal of investments are likely to be fairly frequent. As such, consolidation by parent would be for relatively short period which could impair usefulness of parent's consolidated FS.

- Some WG members suggest that IASB's concerns about potential accounting inconsistencies & abuses (e.g. when IE subsidiary holds equity interest in parent) could be better addressed by prescribing specific accounting guidance or refining the criteria for IEs.

Key Areas of Dissent – Accounting in Consolidated FS of Non-IE Parent

- Contradicts proposal in ED to flow through FV of associates/JVs to parent's consolidated FS.

Recommendation to IASB:

Most WG members suggest IASB to allow the exception to consolidation to flow through to parent's consolidated FS regardless of whether parent is an IE itself.

Other Suggestions

- Criteria for IEs:

- Some WG members consider that a key feature of IEs is the existence of exit strategies for investments held & suggest that IASB explicitly incorporate this as one of the criteria for IEs in the main standard.

- One WG member suggests that the syntax for criterion 2(c) and B12 be tightened so that it is clear that ownership refers to ***beneficial*** as opposed to legal ownership. This is to avoid any unintended consequences whereby a structure which confers proportionate shares of nets assets on the beneficial owners would be deemed as not meeting the IE criteria.

Questions?