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Accounting Standards Committee of Germany

® IFRS-Fachausschuss

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Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
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Berlin, 11 September 2014

Dear Hans,

IASB Exposure Draft ED/2014/2 *Investment Entities: Applying the Consolidation Exception* - Proposed amendments to IFRS 10 and IAS 28

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB's Exposure Draft ED/2014/2 (hereafter referred to as the 'ED'). We appreciate the opportunity to comment on the ED and provide our answers to the specific questions set out in the ED in the Appendix to this letter.

We support the IASB´s proposals regarding the 'exemption from preparing consolidated financial statements' and regarding 'a subsidiary that provides services that relate to the parent´s investment activities'. However, we do not support the proposed amendments to IAS 28 regarding the differentiation in the basis for the 'application of the equity method by a non-investment entity investor to an investment entity investee'.

If you would like to discuss our comments and views further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

Appendix – Answers to the questions of 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 think that decision-useful information is provided by an investment entity parent that prepares financial statements in which its subsidiaries are measured at fair value in accordance with paragraph 31 of IFRS 10 and disclosures pursuant to IFRS 12, IFRS 7 and IFRS 13 are made. Therefore, this information should enable a parent entity, which is a subsidiary of an investment entity, to apply the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10. Additionally, we support the notion that requiring each intermediate parent entity within a group to present consolidated financial statements could result in significant additional costs, without commensurate benefit. Consequently, we agree with the proposed amendment. Furthermore, we support the proposed consequential amendment to paragraph 17 of IAS 28 and the intended alignment of the criteria.

When considering the Basis for Conclusions on the suggested amendment, we believe the IASB's reasoning to be equally valid for the consolidated financial statements of a non-investment entity parent of an investment entity. As previously noted in our comment letter on the IASB´s Exposure Draft ED/2011/4 *Investment Entities*, we reiterate our belief that retaining the investment entity's accounting would be a more decision-useful and, hence, a more appropriate accounting treatment also on the parent entity level and regardless of whether or not the parent entity was an investment entity. Retaining the investment entity's accounting ('roll-up') provides more decision-useful information on the parent entity's level, because the characteristics of the (controlled) investment remain the same. To our understanding, the IASB acknowledges in ED/2014/2.BC4 that the fair value measurement of a subsidiary in conjunction with the related disclosures provides sufficient information and that there is no loss of information compared to the consolidation of a subsidiary. This leads us to the conclusion, that a roll-up of the investment entity´s accounting (i.e. fair value measurement in conjunction with the related disclosures) would also not result in a loss of information, but would avoid undue burden and undue costs of consolidating the investment that is not consolidated on the investment entity-subsidiary level.

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 support the proposed clarification, but suggest a different wording of the amendment.

The requirement for an investment entity to consolidate a subsidiary should only apply to subsidiaries that are not held for returns from capital appreciation, investment income, or both. This would typically apply to subsidiaries, whose main business purpose is to act as an extension of the operations of the investment entity by providing support services that relate to the investment entity´s investment activities.

We think that a subsidiary, which is performing investment-related services that support the investment entity parent´s investment activities, does not meet the definition of an investment entity. Therefore, we think that the amended wording of paragraph 32 of IFRS 10 could be improved and suggest the following phrasing:

´Notwithstanding the requirements in paragraph 31, if an investment entity has a subsidiary whose main purpose is to provide services that relate to the investment entity´s investment activities (see paragraphs B85C-B85E) and therefore is not itself an investment entity, 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.´

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 venturer 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 agree with the first suggested amendment but disagree with the second proposal. We support the proposal to 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, even though this support is based on a different reason than the IASB´s.

As noted by the IASB in IFRS 10.BC227, the fair value measurement applied by an investment entity to its interests in subsidiaries provides the most relevant information to users of the financial statements, as this appropriately depicts the investment purpose and the performance of the investment. We think that a non-investment entity investor should, when preparing its financial statements, be allowed to retain what is considered the most relevant information. Therefore, when determining the basis for the application the equity method, the fair value measurement applied by an investment entity investee to its interests in subsidiaries should be retained.

Additionally, we see no conceptual reasons to have a differing basis for the application of the equity method to interests in associates and to interests in joint ventures. As the unit of account for interests in joint ventures is the joint venture itself and not the individual assets and liabilities, the intended consistency with IFRS 10 does not seem convincing and should not be the main driver when considering the appropriate accounting treatments. Further, IFRS 11.BC41 acknowledges the difference between joint control and significant influence, which is the key reason for the proposed differing basis for the application of the equity method, but concludes that the equity method is the most appropriate method to account for an entity´s interest in a joint venture and an associate.

Consequently, we do not support the clarification that a non-investment entity investor that is a joint venturer 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.