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International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
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Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – INVESTMENT ENTITIES: APPLYING THE CONSOLIDATION EXEMPTION (PROPOSED AMENDMENTS TO IFRS 10 AND IAS 28)

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the above Exposure Draft (ED) issued by the International Accounting Standards Board (IASB) in June 2014.

To solicit meaningful feedback for this ED, ISCA sought views from its members through a one-month public consultation and the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms.

Our detailed comments and responses to the questions in the ED are set out below.

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 agree with the proposed amendment because we believe that, for investment entities, fair value information is more relevant and useful than a line-by-line consolidation of subsidiaries' assets and liabilities that are carried on a mixture of measurement bases.

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 with the proposed amendment as we believe that it will clarify the requirements and reduce diversity in practice.

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 proposed amendment 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 as we believe that the fair value information continues to be more relevant and useful to the non-investment entity investor.

Following the same line of reasoning above, we therefore do not agree that a non-investment entity investor that is a joint venturer of an investment entity joint venture cannot, when applying the equity method, retain the fair value measurement applied by the investment entity joint venture to its interests in subsidiaries. Conceptually, a non-investment entity investor would view its investment entity associates and investment entity joint ventures as investment vehicles and in such a business model, retaining fair value information would be more relevant.

We note BC20 of the ED which states that, "A joint venturer has joint control over its joint venture and, consequently, should have the ability to obtain the accounting information needed to adjust the financial statements of the investment entity joint venture to consolidate its subsidiaries in order to apply the equity method, compared with investors that only have significant influence over investment entity associates."

We are of the view that non-investment entity investors which are joint venturers do not necessarily have the ability to obtain accounting information necessary for them to perform equity accounting at their level. For example, an investment entity joint venture holding a "portfolio company" in which it has just gained control would continue to account for this investment at fair value. Because line-by-line consolidation of this subsidiary is not required, management of the investment entity joint venture would not be performing certain specific procedures such as purchase price allocation and goodwill impairment assessment.

In paragraph BC21 of the ED, IASB also notes that an investor's ability to achieve different accounting outcomes by holding investments through an investment entity investee is different depending on whether the investee is an associate or a joint venture. We are of the view that the investor's ability to achieve different accounting outcomes is not significantly different whether the investee is an associate or a joint venture. In both instances, there would be multiple investors involved and this typically requires multilateral decision making, which would mitigate the structural risks noted by IASB.

With the above arguments in mind, we believe that for the purpose of equity accounting by a non-investment entity investor, an investment entity joint venture should continue to apply fair value to its interests in subsidiaries. Furthermore, we are of the opinion that the difference in the basis of measurement of interests in subsidiaries by an investment entity associate and an investment entity joint venture for the purpose of equity accounting by a non-investment entity investor proposed by IASB is a concession based on practicality rather than a conceptual justification. Hence, based on our analysis above, we suggest that the Board considers extending the exemption for investment entity associates to include investment entity joint ventures.

Lastly, we request the Board to consider whether further clarification should be made on the distinction between an operator investor (i.e. invest to operate the business) and a financial investor (i.e. invest for a capital return) where the latter's business model is one in which fair value measurement is most appropriate as compared to a line-by-line consolidation of its subsidiaries. If a financial investor can be clearly distinguished from an operator investor, the non-investment entity investor should be required to also retain the fair value measurement applied by the investment entity subsidiary to its interests in subsidiaries. We believe that the extension of this exception to investment entity subsidiaries would benefit non-investment entity financial investors such as private equity firms that operate on business models where fair value information is more relevant.

However, we acknowledge the risks identified by IASB in BC14 of the ED, and would suggest that the Board considers including anti-abuse rebuttable presumptions that set out conditions that an operator investor must meet in order for it to switch its status to a financial investor in respect of its investments in "portfolio companies" (as opposed to operating companies) and henceforth to be eligible to apply the proposed exception to retain fair value measurement applied to its interests in investment entity subsidiaries.

Should you require any further clarification, please feel free to contact Ms Lim Ju May, Deputy Director, Technical Standards Development and Advisory, or Mr Benjamin Oh, Manager, Technical Standards Development and Advisory, from ISCA via email at jumay.lim@isca.org.sg or benjamin.oh@isca.org.sg respectively.

Yours faithfully,

Ms Lim Ai Leen
Executive Director
Technical Knowledge Centre and Quality Assurance