

International Accounting Standards Board
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Correspondant	Your references	Our references	Date
Ignace Bogaert Tel. +32(0)22776174	Investment Entities	COR 2014-071	17.09.2014

Dear Sir, Madam,

Invitation to comment – IASB ED *Investment Entities - Applying the Consolidation Exception*

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft on *Investment Entities - Applying the Consolidation Exception* issued by the IASB (the “Board”) on 11 June 2014 (hereinafter the “ED”).

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 believe that the proposal to allow the exemption in paragraph 4(a) of IFRS 10 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, may result in a loss of information when the ultimate parent entity measures all investments in subsidiaries at fair value.

However, we support the proposal as we believe there are appropriate safeguards in place in paragraph 4 of IFRS 10 to ensure that users of the financial statements are able to access information, namely the requirement for all shareholders to agree; combined with the additional disclosure requirements contained in paragraphs 19A to 19G of IFRS 12 *Disclosures of Interests in Other Entities*.

Question 2 – A subsidiary that provides services that relate to the parent’s investment activities

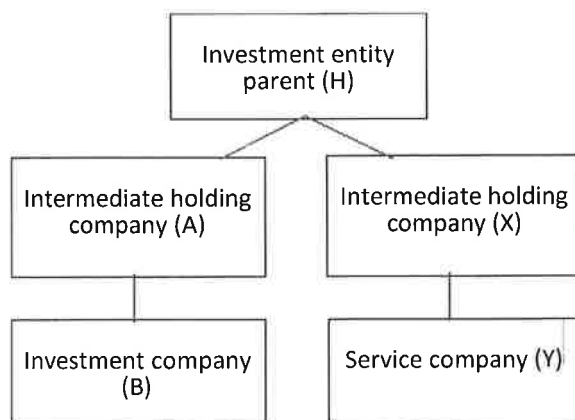
The IASB proposes to amend IFRS 10 to clarify the limited situations in which paragraph 32 applies. The IASB proposes that the requirement for an investment entity to consolidate a subsidiary, instead of measuring it at fair value, applies only to those subsidiaries that act as an extension of the operations 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?

The investment entity exception was introduced to provide the most meaningful information to users of the financial statements. In light of this, we believe the Board should reconsider the application of the exception to multiple layer structures to assess at which level in the structure consolidation or fair value information is most useful to users. We believe this level may be where there is an exit strategy for the investments, and that it may be more helpful to consolidate subsidiaries above this level.

Notwithstanding the above, we support the proposed amendment to clarify that paragraph 32 only applies to subsidiaries that act as an extension of the operations of the investment entity parent and do not themselves qualify as investment entities. We believe that the amendment will clarify the requirements and reduce diversity in practice.

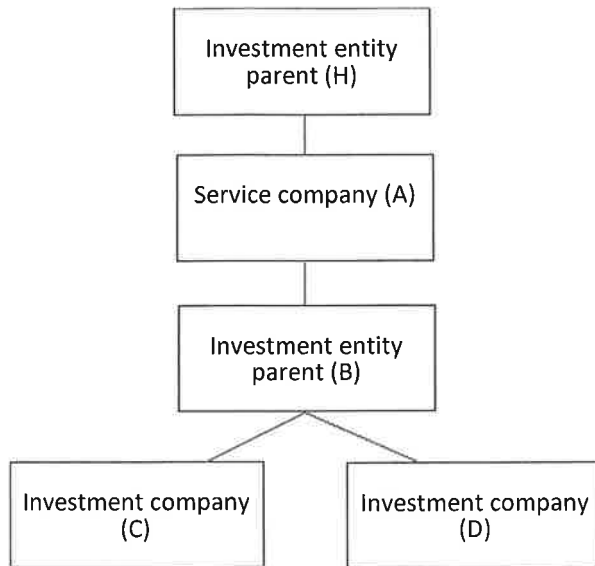
However, we note that in some cases it is still unclear as to whether subsidiaries of investment entity parents should be consolidated or accounted for at fair value. This is shown in the two examples below:

Example 1



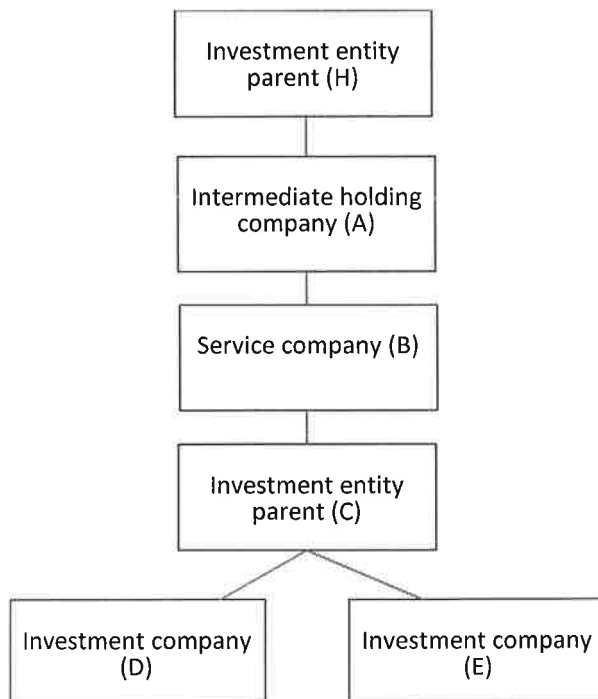
In this example, we think that IFRS 10 is clear that H will fair value entity A. Entity X is a holding company for entity Y which provides investment services but is not an investment entity itself. We believe that entity X should be consolidated by H. However, this is not clearly stated in the standard which could lead to differing interpretations. Therefore we believe the IASB should clarify this point in the amendments.

Example 2(a)



In this example, entity A provides investment services; it is not itself an investment entity. Beneath entity A is intermediate investment entity parent B, which holds investments. In this scenario we believe it is unclear whether parent H should consolidate entity A or account for it at fair value.

Example 2(b)



Similar to example 2(a) above, however now there is an intermediate holding company between parent H and service company B. We think it is unclear in this scenario whether parent H will consolidate intermediate holding company A, or account for it at fair value.

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 venture 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.

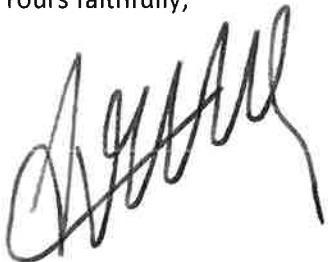
Do you agree with the proposed amendments? Why or why not?

We agree with the proposed amendment to require a non-investment entity investor to retain the fair value measurement applied by an investment entity associate to its interests in subsidiaries and we believe that unwinding this accounting to consolidate those interests would be impractical.

Although we understand the Board's view that investors in a joint venture should be able to access the information to allow it to consolidate interests in subsidiaries, we are concerned that in practice this may be difficult and that the cost incurred to do so may outweigh any benefit. We are also concerned about introducing two different accounting treatments for investments that are both accounted for under the equity method. Therefore, we encourage the Board to consider extending the exemption for associates to include joint ventures as well.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeve at jan.verhoeve@cnc-cbn.be.

Yours faithfully,



Jan Verhoeve
Chairman BASB