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IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: ED/2014/2- Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the ED/2014/2-Investment Entities: Applying the Consolidation Exception.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,

Idésio da Silva Coelho Júnior
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

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[1] The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS
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ED/2014/2 - Investment Entities: Applying the Consolidation Exception
Proposed amendments to IFRS 10 and IAS 28

Our comments:

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?

ANSWER:
We agree with the amendment proposed. In fact, the previous wording of paragraph 4(a) of IFRS 10 raised doubts as to the extent of the exception to the consolidated financial statements. The new wording clearly states that this exception is also available for a controlling entity controlled by an investment entity, even if the investment entity values its subsidiaries at fair value in accordance with paragraph 31 of IFRS 10.

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?

ANSWER:
The amendments proposed in the wording of paragraphs 32 and B85E are pertinent, therefore we agree with them. With the new wording of the mentioned paragraphs, only subsidiaries that do not qualify as investment entity and whose business purpose is to provide services related to investment activities of the investment entity will be consolidated by the investment entity. This is because under IFRS 10, services provided related to investments to third parties do not preclude an entity from qualifying as an investment entity.

In this regard, we agree with the rationale presented in paragraph BC9(b), which clearly states that when an entity qualifies as an investment entity, its business purpose is to invest funds solely for returns for capital appreciation, investment income or both and this means that performing investment-related services that support the investment entity parent's investment activities cannot be its main activity.

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?

ANSWER:

In relation to item (a), we agree with the proposal to amend IAS 28, to the extent that such amendment permits that the investor use the equity method for its associate, which qualifies as investment entity, considering the associate's accounting policy to measure subsidiaries at fair value, pursuant to paragraph 31 of IFRS 10.

However, in connection with item (b), we do not agree that the accounting treatment be different based on the investee that qualifies as an investment entity being an associate or a joint venture.

Our disagreement is based on the following:

1. The accounting treatment for associates and joint ventures is the same, i.e., the equity method. Furthermore, a change in classification from associate to joint venture (and vice versa) does not impact the accounting treatment of the asset (and is not a reason to measure the remaining interest at fair value upon loss of influence resulting from shared control). As such, we understand that the accounting treatment for an investor that holds an investment in an associate that qualifies as an investment entity should not differ from the accounting for an investor holds an investment in a joint venture that qualifies as an investment entity.

2. We do not agree with the assumption set out in paragraph BC20 whereby, as an investor in a joint venture holds joint control, this entitle it to obtain the information required to adjust the financial statements of its joint venture that qualifies as an investment entity to perform the consolidation of its subsidiaries before applying the equity method. There are various cases in which the difficulty to obtain information is the same as if it were an investment in an associate.

3. We do not agree that there are different levels of risk involved in obtaining different accounting results through investments in investees that qualify as investment entities. Moreover, we understand that the costs do not outweigh the benefits of adjusting the financial statements of joint ventures before applying the equity method (changing fair value for consolidation of subsidiaries of the joint venture that qualifies as investment entity).