



Grupo Latinoamericano  
de Emisores de Normas  
de Información Financiera

Group of Latin-american  
Accounting Standard Setters

January 5, 2012

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**RE: Exposure Draft Investment Entities**

Dear Board Members,

The “Group of Latin American Accounting Standard Setters” – GLASS<sup>1</sup> welcomes the opportunity to comment on the Exposure Draft ED/2011/4 - Investment Entities (the *ED*) issued in August 2011.

This response summarizes the views of our country-members, in accordance with the following due process.

**Due-process**

The discussions of the ED were held within a specified Technical Working Group (*TWG*) for Investment Entities (*IE*), hereafter the *TWG-IE*), created on October 15, 2011. All country-members had the opportunity to designate at least one member to participate in this *TWG*, and the following countries did so: Argentina (coordinator of the *TWG-IE*), Brazil, Bolivia, Colombia, Ecuador, Mexico, Panama and Venezuela.

The *TWG-IE* developed a questionnaire in three languages that was made available to specified interest groups in all the countries represented in the *TWG-IE*, which was also used by the *TWG-IE* members during various outreach sessions hosted in the eight countries represented in the *TWG-IE*.

Individually, four *TWG-IE* members (Argentina, Ecuador, Mexico and Venezuela) summarised the answers from their respective countries. As a second step, the summaries presented by each country were compared and discussed, with the answers grouped as follows:

- Unanimity: When all countries gave the same answer.
- High level of coincidence: When the majority of the answers were in agreement.
- Low level of coincidence: When the answers were generally not in agreement.

If you have any questions about our comments, please contact [glenif@glenif.org](mailto:glenif@glenif.org).

Yours sincerely,

A handwritten signature in black ink, appearing to read "Juarez Domingues Carneiro", written over a circular stamp or seal.

**Juarez Domingues Carneiro**

Chairman

Group of Latin American Accounting Standard Setters (GLASS)

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<sup>1</sup> The general objective Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in respect to all documents issued by the IASB. Therefore, GLASS aims to have a single voice before the IASB. GLASS is constituted by: Brazil (Chairman), Argentina (Vice Chairman), Chile (Board), Mexico (Board), Uruguay (Board), Venezuela (Board), Bolivia, Colombia, Ecuador, Panama, Paraguay and Peru.

## GLASS's Comment letter on the IASB Exposure Draft for Investment Entities

### Question 1

**Do you agree that there is a class of entities, commonly thought of as an investment entity in nature, that should not consolidate controlled entities and instead measure them at fair value through profit or loss? Why or why not?**

***High level of coincidence:***

*The majority of the respondents to this question agree with the existence of Investment Entities (IE) and agree with the proposal to not consolidate controlled entities and instead measure them at fair value through profit or loss, based on the objective of the aforementioned class of entities, whose strategy is to obtain cash flows from dividends or interest and speculate with capital appreciation instead of controlling the financial and operating policies. Some of the respondents in favor of the proposal mentioned the probable legal difficulties in applying the exception in the Latin American environment because most local legislation requires entities to consolidate all controlled entities.*

*Some of the respondents in Argentina and all respondents in Mexico are opposed to the proposal because they consider it to be a violation of the Conceptual Framework, thereby agreeing with the dissenting opinion of board members Mc Gregor, Tweedy and Tamada. They consider that the fair value measurement of the controlled entities (including investment entities) is inappropriate because they aren't investments for trading purposes and therefore means a significant and unfavorable change to the consolidated information. The proposal of those with dissenting opinions is to provide the fair value information needed by users via disclosure of the relevant information and not by creating an exception to the general principle of consolidation as the proper presentation of controlled entities.*

*Some of the respondents in Venezuela accept IE's not consolidating controlled entities, but their proposal is to measure the participation in the entities in accordance with the equity method.*

### Question 2

**Do you agree that the criteria in this exposure draft are appropriate to identify entities that should be required to measure their investments in controlled entities at fair value through profit or loss? If not, what alternative criteria would you propose, and why are those criteria more appropriate?**

***High level of coincidence:***

*The great majority of the respondents to this question agree with the criteria to identify IE, but some of them made certain comments in relationship with some of the requirements.*

*Respondents from Mexico consider that the criteria are not sufficiently clear and can lead to a divergent application of the rules. As mentioned in the response to question 1, they disagree with the exception of consolidation and therefore do not suggest alternative criteria for non-consolidation.*

*A few comments were made about criterion f) related to the condition of a legal entity. In their opinion, the criterion needs to be clarified because, in certain jurisdictions, a non-legal entity is interpreted as an informal entity with high risks for investors.*

*Other comments were about the “explicit commitment” criterion in b), because they consider that in certain circumstances the economic reality can be that the purpose of the entity is to invest to earn capital appreciation, investment income, or both but the commitment may not be explicit.*

*Other respondents require a detailed guide of application of the criteria to facilitate consistent application of the concepts.*

### **Question 3**

**Should an entity still be eligible to qualify as an investment entity if it provides (or holds an investment in an entity that provides) services that relate to:**

**(a) its own investment activities?**

**(b) the investment activities of entities other than the reporting entity?**

**Why or why not?**

***High level of coincidence:***

*Almost all of the respondents in the four countries that summarized their responses agree with the idea that providing services that relate to its own investing activities does not preclude the entities to be eligible to qualify as an IE, as long as the services are not substantive to the activity of the entity but are complementary to its own investing activities.*

*Respondents opposed mentioned that all activities must be investing activities to qualify as an IE.*



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#### Question 4

**(a) Should an entity with a single investor unrelated to the fund manager be eligible to qualify as an investment entity? Why or why not?**

**(b) If yes, please describe any structures/examples that in your view should meet this criterion and how you would propose to address the concerns raised by the Board in paragraph BC16.**

#### ***Low level of coincidence:***

*Opinions were divided among respondents to this question during the outreach sessions.*

*The arguments for not qualifying as an investment entity if a single investor exists were related to the probable existence of financial and operating control by the investor in the aforementioned entities.*

*Arguments in favor of the proposal mentioned that otherwise an arbitrary minimum number of investors has to be determined. They prefer to place emphasis on the strict condition that the investor, the management of the entity and the entity must be unrelated.*

*Respondents from Mexico consider that the question is not relevant because they disagree with the consolidation exception.*

#### Question 5

**Do you agree that investment entities that hold investment properties should be required to apply the fair value model in IAS 40, and do you agree that the measurement guidance otherwise proposed in the exposure draft need apply only to financial assets, as defined in IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement*? Why or why not?**

#### ***High level of coincidence:***

*The majority of the respondents agree with the requirement that IE measure their investment properties applying the fair value model in IAS 40. Those who are opposed to the exception for consolidation consider that both measurement options in IAS 40 should be maintained.*

*Some of the respondents do not agree with applying the guidance in the exposure draft only to financial assets as defined in IFRS 9 and IAS 39.*



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## Question 6

**Do you agree that the parent of an investment entity that is not itself an investment entity should be required to consolidate all of its controlled entities including those it holds through subsidiaries that are investment entities? If not, why not and how would you propose to address the Board's concerns?**

### ***Unanimity:***

*All agree with the condition that a parent of an IE with the conditions mentioned in question 6 should consolidate all of its controlled entities.*

## Question 7

**(a) Do you agree that it is appropriate to use this disclosure objective for investment entities rather than including additional specific disclosure requirements?**

### ***Unanimity:***

*All of the participants in the outreach sessions agree with the proposed disclosure objective, but some of them require additional specific requirements as the disclosure of the functional currency and the nature and extent of relevant restrictions to transfer funds of controlled entities to the IE.*

*Those who are opposed to the consolidation exception would require disclosure of the fair value of the investments of IE.*

**(b) Do you agree with the proposed application guidance on information that could satisfy the disclosure objective? If not, why not and what would you propose instead?**

### ***Unanimity:***

*All participants in the outreach sessions agree with the application guidance in the draft standard.*

*Respondents in Venezuela require additional clarification about the conditions for not being a related party of the investor and the entity.*



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### Question 8

**Do you agree with applying the proposals prospectively and the related proposed transition requirements? If not, why not? What transition requirements would you propose instead and why?**

***High level of coincidence:***

*All participants in the outreach sessions agree that the proposals should be applied prospectively and agree with the transition requirements.*

*Those who are opposed to the consolidation exception did not give an opinion about the prospective application of the changes.*

### Question 9

**(a) Do you agree that IAS 28 should be amended so that the mandatory measurement exemption would apply only to investment entities as defined in the exposure draft? If not, why not?**

***High level of coincidence:***

*The majority of the participants in the outreach sessions agree with the needed modification of IAS 28.*

*Those who are opposed to the consolidation exception disagree with the modification of IAS 28 in the sense of the proposal. They would require application of the equity method for the measurement of interests in associates and disclosure of fair value.*

**(b) As an alternative, would you agree with an amendment to IAS 28 that would make the measurement exemption mandatory for investment entities as defined in the exposure draft and voluntary for other venture capital organizations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds? Why or why not?**

***Low level of coincidence:***

*Opinions were divided among respondents to this question during the outreach sessions.*

*Respondents not agreeing with the alternative consider it unclear as to which entities the additional exception will apply.*

\*\* End of the document. \*\*