



September 15, 2014

**International Accounting Standards Board**

30 Cannon Street  
London EC4M 6XH  
United Kingdom

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

Dear Board Members:

The “Group of Latin American Accounting Standard Setters” – GLASS<sup>1</sup> welcomes the opportunity to comment on the Exposure Draft on Investment Entities: Applying the Consolidation Exception - Proposed amendments to IFRS 10 and IAS 28 (the “ED”).

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

**Due process**

The discussions in regard to the ED were held within a specified Technical Working Group (TWG) created in July 2014. All country-members had the opportunity to designate at least one member to participate in this TWG.

Individually, all TWG members organized and decided the most effective way to get the answers and comments to the document under consideration, and subsequently, all TWG members summarized the answers from their respective countries which were presented and compared with the views of other members of the TWG. The answers were discussed and when some of the opinions and/or findings presented answers with comments or objection to the proposed improvement in the document under consideration, explanatory or alternative arguments were requested for the purpose of including it as part of our findings, in order to prepare a consensus response.

**Overall comments**

The countries participating in the TWG unanimously agree with the proposal in the ED; for the accounting treatment of the subsidiaries of an investment entity and the amendments to the paragraphs of IFRS 10, we have included suggestions to improve the wording.

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

Yours sincerely,

**Jorge José Gil**

Chairman  
Group of Latin American Accounting Standard Setters (GLASS)

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<sup>1</sup> The general objective of the 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 regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Board), Chile, Colombia (Board), Costa Rica, Ecuador, El Salvador, Guatemala (Board), Honduras, Mexico (Vice Chairman), Panama, Paraguay, Peru, Dominican Republic, Uruguay (Board) and Venezuela (Board);

**GLASS' Comment Letter on the IASB Exposure Draft on  
Investment Entities: Applying the Consolidation Exception  
Proposed amendments to IFRS 10 and IAS 28**

**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?**

We agree with the proposed amendment to IFRS 10 to confirm the availability of the exception to consolidation in accordance with paragraph 4(a), for subsidiaries of investment entities, including where such investment entity does not consolidate its subsidiaries but rather measures them at fair value in accordance with paragraph 31 of IFRS 10.

**Why or why not?**

The confirmation of the exception is justified because paragraph 4(a) does not specify that the exception is available to a controlling entity that is a subsidiary of an investment entity that does not consolidate its subsidiaries. Therefore, the amendment confirms what previously applied to other relationships between a parent and a subsidiary that is a parent of subsidiary entities. This clarifies the scope of the exception applicable for any subsidiary in its capacity as an intermediate parent entity, regardless of the nature of economic activity carried out by the ultimate parent of the economic group.

**Our additional suggestion**

Finally, we suggest expanding paragraph 4a) iv), which refers specifically to investment companies that apply the provisions of paragraph 31 of IFRS 10, as follows:

“...its ultimate or any intermediate parent produces financial statements that are available for public use and comply with IFRSs, including the requirements of this IFRS to consolidate subsidiaries or measure them at fair value, pursuant to the provisions of paragraph 31 of this IFRS for investment entities.” (Underlined is our recommended addition)

**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?**

We agree with the amendment to IFRS 10 that clarifies the limited situations in which paragraph 32 applies.

**Why or why not?**

Measuring the subsidiaries of an investment entity at fair value provides the most useful information, unless the subsidiaries act as an extension of the operations of the parent and do not themselves qualify as investment entities. It is appropriate that investment entities consolidate investments in subsidiaries that are extensions of their operations, thereby financial information of the parent is obtained with full operations as an economic group.

**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 amendment?**

We agree with 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.

We also agree with 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.

**Why or why not?**

Although the amendment to retain the fair value measurement is not consistent with the amendments made to paragraph 33 of IFRS 10 incorporated in the ED in 2011 for investment entities, we believe that the non-investment entity investor does not have the link between power and returns to require consolidation of its investment entity associate and unwind the fair value measurement of its subsidiaries in its consolidated financial statements, which would be particularly difficult for the non-investment entity investor since it only exercises significant influence over the financial and operating policies of its investment entity associate.

In our opinion, there are no limitations, however, for a non-investment entity joint venturer to unwind the fair value measurement of an investment entity joint venture of its subsidiaries pursuant to paragraph 31 of IFRS 10, and replace it with the equity method. The consolidation requirement arises from the definitions in paragraph 3 of IAS 28, in that joint control is the



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contractually agreed sharing of control by an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The requirement of unanimous consent gives any participant in a joint venture, ability to use its power over the investee to affect the amount of income of the investor, including requirements that establish the conditions to request management of the investment entity joint venture to provide consolidated financial information, in which subsidiaries measured at fair value, are included.

Finally, the proposed amendment to IAS 28 for a non-investment entity investor that is a joint venturer in a joint venture that is an investment entity is consistent and similar to the procedure applicable in cases within the scope of paragraph 33 of IFRS 10, where a parent entity consolidates its investment entity subsidiary which in ever consolidated subsidiaries measured at fair value in its separate financial statements.

### **Other comments**

One of the countries that participated in the TWG expressed its concern about the differences that are being generated between the principles applied in the consolidated and separate financial statements of an entity that trades securities in a public market, which would apply full IFRS, while an entity without public accountability would apply the IFRS for SMEs.

In the case of application of the equity method, it is allowed as an accounting policy measurement option in the separate financial statements of investments in subsidiaries under full IFRS, while an entity that applies IFRS for SMEs do cannot use such method, because that option does not exist.

In the case of accounting for investments in subsidiaries, associates and joint ventures, when the entity is not an investment entity, under the IFRS for SMEs there are no guidelines for the accounting for investments in subsidiaries of its subsidiaries, associates and joint ventures that are investment entities.

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