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CREATING LASTING VALUE

12 September 2014

EFRAG
Square de Meeûs 35
B-1000 Brussels
Belgium

Dear Sir or Madam,

ED/2014/2 Investment Entities: Applying the Consolidation Exception

We were pleased to see your draft response to the IASB in relation to the Investment Entity Exception, in IFRS 10. IFRS 10 has had a significant effect on the financial statements of many Private Equity and Venture Capital groups and this number is expected to increase in the coming year. With this in mind, and given our interactions to date with our member firms, we have provided our views below, which we hope will be of use to you when finalising your response to the IASB.

Question 1 – Exemption from preparing consolidated financial statements

*We **agree** with EFRAG's response but there is an important aspect not considered by EFRAG.*

It is pleasing that the sub-group consolidation exemption is being re-visited, and we agree with the intention of the proposed change.

However, we have been made aware that, in some countries, such as the UK, the requirement will remain as company law will take precedence over IFRS. This highlights a very important consideration, in that while the IASB's proposal makes sense, any such change would need to be accompanied by a change in local law. It would be helpful for the IASB to consider whether this issue arises in other countries where IFRS is used.

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

*We **disagree** with EFRAG's response. The impact of implementing a rules-based standard could result in obscured financial reporting for Groups.*

The underlying principle discussed by the IASB at the beginning of the consultation back in 2011 as to why the exemption to consolidate exists is being lost. The principle is simple and was articulated in a recent IASB Board meeting: Investments should be held at fair value and other activities should be consolidated.

IFRS 10 requires that subsidiaries which are investment entities but which also provide investment-related services should be held at fair value. This means that the detail of the underlying performance of such entities is aggregated and disclosed in a single fair value

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movement line, thus significantly reducing the transparency and usability of financial statements. In addition given the wide range of structures that are used by investment entity groups, as currently proposed, the standard can result in different outcomes for the same transaction. Both issues clearly compromise the transparency and consistency of financial statements. We attach a diagram showing how the structure of investment entity groups may vary and the implications this has on the financial statements (see Appendix I).

The exposure draft does little to solve the problems caused by IFRS and we understand that across the Private Equity/Venture Capital/Investment Management industry most, if not all firms, reporting a range of investment activities in consolidated group accounts under IFRS or considering doing so, face similar issues. It is our view that any attempt to cater for the many and varied group structures used by investment entities using the IASB's current rule-based approach would require significant additions to the existing standard. We therefore wish to encourage the IASB to allow a principle-based approach under which investments are held at fair value, while entities which act as an extension of the group and provide services to third parties or the group should be consolidated. This would ensure that all investments are shown at fair value while income from investment services can be shown on the face of the primary statements (rather than being included within a subsidiary held at fair value). We believe these proposals would encourage some firms not currently doing so to adopt IFRS.

Question 3 - Application of the equity method by a non-investment entity investor to an investment entity investee

*We **agree** with EFRAG's response.*

The equity method is best suited for both an investor to account for its interests in an associate as well as for a joint venturer to account for their interest in a joint venture. Therefore introducing a different method of application of equity accounting for an investment entity associate or joint venture does not make sense and therefore we would urge the IASB to preserve the investee's accounting in the books of investors of both associates and joint ventures.

As always, the EVCA stands ready to provide whatever further contribution to this work EFRAG might find helpful and remains at your disposal to discuss this in further detail at your convenience.

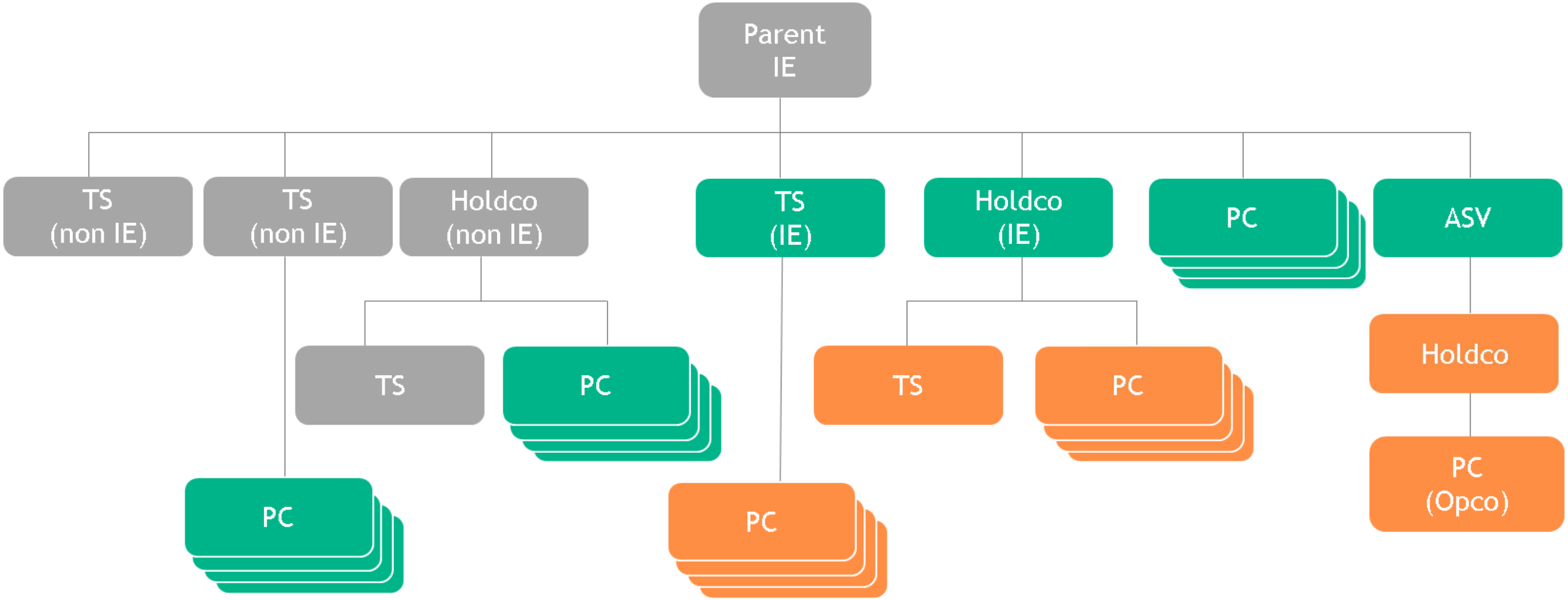
Yours faithfully,

Dörte Höppner
Chief Executive
EVCA

Attachments:

1. Appendix 1: Investment entities - Treatment of Group entities

Investment Entities: Treatment of Group entities



Key	
PC	Portfolio company
TS	Trading subsidiary, providing investment related services
IE	Investment Entity
Holdco	Intermediate holding company
ASV	Acquisition structuring vehicle
(grey)	Consolidated
(green)	Included at FVTPL
(orange)	Entity not separately included in the accounts (incorporated in FV of intermediate parent)

This diagram illustrates the treatment of different structures which include/exclude IEs. Where structures include IEs which are held at fair value through profit and loss, there is a significant amount of information lost about the performance of entities held by IEs.