Warsaw, 15 September 2014

Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst,

RE: Exposure draft: Investment Entities: Applying the Consolidation Exception Proposed amendments to IFRS 10 and IAS 28 – a comment from Polish Accounting Standards Committee (Komitet Standardów Rachunkowości; PASC).

In response to the IASB proposals for amendments to IFRS10 and IAS28 on applying the consolidation exception for investment entities and the application of the equity method, the PASC is pleased to present its position on the proposed amendments.

PASC would like to share its concern about the necessity for proposed changes to investment entity accounting very shortly after the initial proposals have been adopted. PASC would welcome an IASB operating model with less frequent but more researched changes to standards prior to their adoption.

Detailed responses to the specific questions in the Exposure Draft;

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?

The views of PASC members are not unanimous on the matter, however the majority of PASC members oppose the proposed changes. In their opinion, a subsidiary of an investment entity shall not be exempt from consolidation requirements, unless it is an investment entity itself or unless it meets all requirements of IFRS10.4 including the requirement to present a set of consolidated financial statements where that entity's assets, liabilities, revenues and expenses were fully consolidated. These members of PASC were unconvinced that the presentation of financial statements of the parent investment entity with IFRS12 disclosures can provide sufficient, useful information for the users of financial statements of the subsidiary controlled by the investment entity, as advocated in the basis of conclusions for the proposed amendments (BC4). PASC notes that the original exception from consolidation has some practical merits. Users of the financial statements of a subsidiary exempt from consolidation, for example a local subsidiary of a major international corporation, are less interested in the consolidated financial position and performance of that subsidiary's subgroup. They are rather interested in the financial position and performance of the entire corporation to which such a subsidiary belongs. Hence, the exemption from consolidation of the subgroup, coupled with the requirement for presentation of the consolidated financial statements at the ultimate parent level is a reasonable, practical, cost-benefit balanced solution. The situation is different with a subsidiary group controlled by an investment entity. Such an investment entity, for example a private equity fund, may have several or several dozen or even several hundred controlled investments having form of subsidiary groups, each of them managed and financed separately and ringfenced organizationally. Hence, the potential users would rather be interested in the consolidated financial statements of the entity or its corporate parent (which is organizationally and financially linked with that subsidiary) than in the information relevant to equity holders of the fund, such as a subjective assessment of the fair value of the subsidiary group.

A minority of PASC members were supportive of the IASB proposals but shared concerns whether entities will apply IFRS12 disclosure regime in an appropriate manner to enable users to identify the relevant information.

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?

PASC agrees to the proposed changes in IFRS 10.32 in relation to the consolidation of a subsidiary that is not an investment entity but which performs investment related services for the investment entity. PASC suggests a clarification that such services may also be performed for other entities of the group which are consolidated (for example other investment entities controlled by the investment entity parent). Furthermore PASC sees merit in additional criteria concerning the determination of "main purpose is to provide support….", whether in the form of an expanded definition, application guidance or illustrative examples.

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?

PASC does not support a solution in which the application of equity method differs for accounting for investment entities being associates from accounting for investment entities being joint ventures. PASC believes that there should only be one permissible application of the equity method, but members could not unanimously agree which of the two methods presented is preferable. The majority of PASC members supported the method used for associates (3a) and advocated that the same method shall be used for accounting for investment entities which are jointly controlled. A few members however expressed the view, that similar for the consolidation rules for a non-investment entity parent, the application of the equity method at the non-investment entity investor shall disregard the fair value accounted for at the intermediary investment entity level (i.e. the method described in 3b shall be used for both investment in associates and joint ventures investment entities).

Yours sincerely,

Joanna Dadacz
Chairman
Polish Accounting Standards Committee

Cc: EFRAG