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

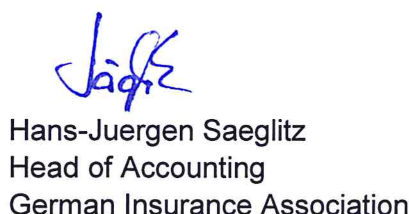
Dear Mr Hoogervorst

The German Insurance Association (GDV) takes the opportunity to comment on the Exposure Draft "Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)" (ED/2014/2), issued by IASB on the 11 June 2014 for public consultation.

In general, we support the clarifying amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* as proposed by the IASB. We also share the Board's rationale for the suggested relief for certain non-investment entities investors as they would be able to retain, when applying the equity method, the fair value measurement that is applied by an investment entity associate to its interests in subsidiaries (Question 3 (a)). We recommend however that the similar relief should also apply to the non-investment entity investor that is a joint venturer in a joint venture (Question 3 (b)). For our full responses to specific questions and our rationale we refer to the annex of our letter.

If you like to discuss our comments in more detail, we would be delighted.

With best regards



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Annex

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?

We support the proposed amendment to IFRS 10 and agree with the suggested consequential amendment to paragraph 17 of IAS 28 regarding the use of the equity method.

We share the view presented in Basis for Conclusions on the ED that in particular the combination of the existing disclosures requirements (i.e. in IFRS 12 *Disclosures of Interests in Other Entities*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 13 *Fair Value Measurement*) are providing "sufficient grounds to retain the existing exemption from presenting consolidated financial statements for subsidiaries of investment entities that are themselves parent entities" (BC4 of the ED).

Especially we share the positive cost-benefits-consideration of the suggested amendments. We do believe that a requirement for the intermediate parent to prepare consolidated financial statements would be too burdensome in relation to any potential benefits in the case under consideration.

At this occasion we would like to confirm our view that the 'roll-up' of the fair value measurement of investment entities' subsidiaries should be allowed and thus the exemption from the consolidation requirement should be allowed to be kept at the parent level when the parent of the investment entity itself is not an investment entity.

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?

We agree with the proposed amendments to IFRS 10.

Effectively, it clarifies that the investment entity parent measures all 'investment entity' subsidiaries (even when they providing investment-related services to third parties) at fair value (BC9 and BC13 (a) of the ED). In addition, the suggested extension in paragraph B85E to IFRS 10 provides additional clarity that in principle all subsidiaries of investment entities are measured at fair value through profit or loss.

Therefore, we believe that the wording as suggested by the IASB would be useful in defining more clearly when the limited exception in paragraph 32 of IFRS 10 does apply and therefore the exemption from preparing the consolidated financial statements does not apply.

We recommend however to further verify the wording suggested for paragraph 32 of IFRS 10. There might be a potential confusion if the two cumulative conditions are indeed intended by the IASB to be defined both as suggested **or** if the leading objective was only to clarify that these entities whose main purpose is to provide services that relate to investment entity's investment activities are indeed not investment entities any more per definition. We think that the following wording would better reflect the objective if the latter was intended by the IASB proposal:

"..., if an investment entity has a subsidiary whose main purpose is to provide services that relate to investment entity's investment activities (see paragraphs B85C-B85E), and **therefore** is not itself an investment entity, it shall ...."

In our view, the wording as suggested by the IASB is the right one as it reflects the conclusion drawn in the paragraph BC13 (a) of the ED.

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?

In general, we **support** the proposed amendment in (a) for paragraph 36A in IAS 28. We see the suggested simplification as a significant relief. The proposed amendment in (b) for paragraph 36B for IAS 28 is however **not supported** by us. We believe that there should be no difference made between the cases (a) and (b). In both cases the entities should be required to retain the fair value measurement that is applied by the investment entity to its interests in subsidiaries. This means that also a non-investment entity investor that is a joint venturer in a joint venture should be required, when applying the equity method, to retain the fair value measurement applied by the investment entity joint venture to its interests in subsidiaries.

Furthermore, we would recommend an explicit clarification (e.g. for Basis for Conclusions on the ED) that the suggested wording for the new paragraphs 36A und 36B does not imply that the fair value measurement must be always applied in the cases discussed, i.e. even when it is not used at the intermediate parent level. In such a case the suggested simplification would not be a relief but could than turn out to be a burdensome requirement. We believe that the requirement to retain the fair value measurement can only apply when the fair value measurement is indeed in place.

This is how we interpret the suggested wording "the fair value measurement **applied by** an investment entity ..." where the existing IFRS 10 explicitly requires investment entities to use the fair value measurement for investments in entities which it controls. This obligatory exception to the principle of consolidation however does not apply when entities do not follow IFRS for any possible reason. We would disagree with an **implicit** requirement to apply fair value measurement in other cases than prescribed by IFRS.

Our rationale

In our understanding the issue arises only because the IASB is prohibiting the so-called "roll-up" in paragraph 33 of IFRS 10 and, at the same time, there is no equivalent explicit statement in IAS 28 in relation to the application of the equity method by a non-investment entity investor for its investments in joint ventures or associates that are investment entities.

The possibility to retain the fair value measurement would be providing a relief for application of the equity method by the non-investment entity investor in cases in which the fair value measurement is actually applied at the investment entity level.

Thus, under IFRS 10 a non-investment entity parent of an investment entity is not allowed to retain the fair value measurement of subsidiaries of the investment entity. Instead, the non-investment entity parent is obliged to consolidate all entities that it controls. We understand that the suggested amendment (b) is intended to conceptually **mirror the consolidation principle of IFRS 10** when applying the equity method to joint ventures. Furthermore, we acknowledge the rationale provided by the IASB in BC21 and BC22 of the ED for differentiating between an associate and a joint venture when applying the equity method in the cases discussed.

Nevertheless, we believe that the relief suggested in (a) should also apply to joint ventures. We believe that the equity method should be applied the same way in both cases, especially because of conceptual but also for cost-benefits reasons. It would eliminate the need to consolidate the affected subsidiaries by the investment entity prior the equity method being applied by the investor. In addition, especially the **consistency regarding the application of the equity method** would be increased. We believe that the latter is important with regard to understandably of equity method when an intermediate entity qualifies as an investment entity.

Finally, we would like to note that the need to fix such issues might not be existent any more if the roll-up would be allowed. Thus, even mirroring IFRS 10-rules the application of equity method would be more understandable and creation of reliefs would not be an exception but a principle.