Comments of the Institute of Chartered Accountants of India on

Exposure Draft on Investment Entities: Applying the Consolidated 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? Why or why not?

Response:

We agree with the proposed amendment in IFRS 10 as the object of paragraph 4(a) will be enhanced from the perspective of intermediate parent of 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?

Response:

We agree to the proposed amendment. However, the use of the word 'and' in paragraph 32 as given below could create more than one interpretation such that if the subsidiary is non-investment entity and is not an extension of the operations of the investment entity parent then it will have to be measured at fair value.

"32 Notwithstanding the requirement in paragraph 31, if an investment entity has a subsidiary that ~~provides~~ is not itself an investment entity ***and*** whose main purpose is to provide services that relate to the investment entity's investment activities (see paragraphs B85C–B85E), it shall consolidate that subsidiary in accordance with paragraphs 19–26 of this IFRS and apply the requirements of IFRS 3 to the acquisition of any such subsidiary."

It is suggested that the IASB may amend the above paragraph to require that if the subsidiary itself is not an investment entity, the investment entity parent shall consolidate that subsidiary.

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?

Response:

We agree with the proposed amendment. We wish however to mention the following:

I. The principle of consistent measurement for control and joint control does not seem to have been applied in case of acquisition of additional interests in joint operation that constitutes a business which requires goodwill to be recognised on each additional acquition which is not the case when an entity has control over a subsidiary and acquires additional interests. Hence, if the objective of the above amendment of requiring unwinding the fair value measurement used by a joint venture is to have consistent measurement principles between control and joint control, such an objective should be followed universally in all the IFRSs.

II. The proposed amendment considers the practical difficulty for an entity in unwinding the fair value measurement used by an investment entity associate. It may be noted that as per IAS 28, a joint venture is also accounted on equity method. Thus, similar practical difficulties will be faced by a venturer in unwinding the fair value measurement used by the joint venture. Therefore, IASB may consider to have a uniform principle of providing relief from unwinding of fair value measurement to investments that are accounted as per equity method, such as associates and joint ventures.