IFRS Global office
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IFRS in Focus

IASB issues amendments to IFRS 10, IFRS 12 and IAS 28 related to the application of the investment entities exceptions

Contents

The Bottom Line

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if that parent entity measures all of its subsidiaries at fair value. Consequential amendments have also been made to the IAS 28 exemption from applying the equity method for entities that are subsidiaries and hold interests in associates and joint ventures.

- The IASB has clarified that the requirement for an investment entity to consolidate a subsidiary providing services related to its investment activities applies only to subsidiaries that are not themselves investment entities.

- In applying the equity method to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries.

- The IASB has clarified that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by IFRS 12 *Disclosures of Interests in other entities*.

- The amendments require retrospective application and are effective for periods beginning on or after 1 January 2016, with earlier application permitted.

This edition of IFRS in Focus outlines the recent amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* which relate to the application of the consolidation exception for investment entities.

Why have the amendments been issued?

The amendments result from three issues submitted to the IFRS Interpretations Committee (the "IFRS IC"). After discussing these issues, the Committee recommended that the IASB address the issues in narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

What are the changes introduced by the amendments?

Exemption from preparing consolidated financial statements

IFRS 10 provides an exemption from preparing consolidated financial statements for a parent whose ultimate or intermediate parent prepares consolidated financial statements that are in accordance with IFRSs and publicly available.

The amendments confirm that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. This decision was based on cost-benefit considerations and the fact that the investment entity parent is required to provide disclosures under IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement.*

Consequential amendments have been made to IAS 28 to confirm that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity, even if the investment entity parent measures all its subsidiaries at fair value.

A subsidiary that provides services related to the investment activities of its investment entity parent

IFRS 10 requires an investment entity to measure its investments in subsidiaries at fair value. However, as an exception to this requirement, if a subsidiary provides investment-related services or activities, to the investment entity it should be consolidated.

The amendments clarify that this exception only applies to subsidiaries that are not themselves investment entities and whose main purpose are to provide services and activities that are related to the investment activities of the investment entity parent. All other subsidiaries of an investment entity should be measured at fair value.

> **Observation**
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> The IASB explains in the Basis for Conclusions that this clarification is consistent with the requirement for an investment entity to measure all subsidiaries at fair value, including investment entity subsidiaries.
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> In the IASB's view, the clarification is also consistent with the requirement to consolidate those subsidiaries whose main purpose is to perform services that support the core investment activities of the investment entity parent or are ancillary to them. If the subsidiary is an investment entity, it is clear that such services are not its main activity as it would otherwise not meet the definition of an investment entity.

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

When applying the equity method, IAS 28 requires an entity to adjust an associate's or a joint venture's accounting policies if those policies differ from the accounting policies of the entity.

IAS 28 has been amended to permit an entity to retain the fair value measurement applied by an investment entity associate or joint venture to its interests in subsidiaries.

Amendments to IFRS 12 *Disclosure of interests in Other Entities*

IFRS 12 states that it does not apply to an entity's separate financial statements.

The amendments to IFRS 12 clarified that an investment entity that measures all its subsidiaries at fair value should provide the IFRS 12 disclosures related to investment entities.

> **Observation**
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> The IASB noted that although IFRS 12 stated that it does not apply to separate financial statements, it did not previously state its applicability to investment entities. The IASB decided to clarify that this scope exclusion does not apply to the financial statements of an investment entity parent that measures all its subsidiaries at fair value.

When do the amended requirements apply?

The amendments apply retrospectively are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies the amendments early, it should state that fact.

An entity is only required to present the information required by IAS 8 paragraph 28(f) for the annual period immediately preceding the date of initial application of the amendments; this information is permitted but not required for the current or for earlier comparative periods.

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