

# Adviser Alert—Exposure Draft: *Investment Entities*

November 2011

In August 2011, the International Accounting Standards Board (IASB) issued the Exposure Draft (ED) [\*Investment Entities\*](#), proposing to define them as a separate type of entity that would be exempt from the consolidation requirements of IFRS 10 *Consolidated Financial Statements* and instead would be required to measure their investments in entities that they control at fair value through profit or loss. If adopted these proposals would be integrated into IFRS 10 and would achieve the objective of providing investors with useful information to determine the value and assess the performance of their investments in these entities.

In October 2011, the Canadian Accounting Standards Board (AcSB) also issued an ED, entitled [\*Investment Entities\*](#), proposing to adopt the final version of the IASB's proposals into Part I of the *Canadian Institute of Chartered Accountant Handbook – Accounting*.

The comment period for these EDs ends on January 5, 2012 and the IASB expects to complete this project during the second half of 2012, which will complete their consolidation project.

## Summary of proposals

In order to qualify as an investment entity, the IASB proposes six criteria that an entity must meet:

- 1 Entity's only substantive activities are investing in multiple investments to achieve capital appreciation, earn investment income or both
- 2 Entity's purpose is investing to earn capital appreciation, investment income, or both, and makes an explicit commitment of this to its investors
- 3 Investors own units of investments in the entity to which proportionate shares of net assets are attributed
- 4 Entity pools funds received from investors, so investors can benefit from professional investment management. The entity has investors that are unrelated to the parent (if any), and in aggregate hold a significant ownership interest in the entity
- 5 Entity manages and evaluates performance of substantially all of its investments on a fair value basis
- 6 Entity provides financial information about its investment activities to its investors



Adopting the proposals will result in investment entities measuring all investments in entities they control at fair value through profit or loss, in accordance with IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*, if IFRS 9 has not yet been applied). However, the IASB proposes that a parent of an investment entity shall consolidate all entities it controls, including those controlled through investment entities, unless the parent itself is an investment entity.

Additionally, in order to provide investors with information about the nature of the investment activities and their financial effects, the IASB's ED proposes additional disclosure requirements. These disclosures would complement those required by IFRS 7 *Financial Instruments: Disclosures*, IFRS 12 *Disclosures of Interests in Other Entities*, and IFRS 13 *Fair Value Measurement*.

The IASB's proposals were developed jointly with the Financial Accounting Standards Board (FASB) of the United States, who in October 2011 issued their own ED entitled [\*Financial Services – Investment Companies \(Topic 946\): Amendments to the Scope, Measurement, and Disclosure Requirements\*](#), with the same comment deadline as that of both the IASB and AcSB. FASB's proposals however, differ on certain aspects from those of the IASB, such as: criteria, accounting for controlling financial interest in other investment entities and retention of fair value accounting applied by an investment entity in a non-investment entity parent's financial statements.

## Resources

[Exposure Draft \(IASB\) – \*Investment Entities\*](#)

[Exposure Draft \(AcSB\) – \*Investment Entities\*](#)

[Exposure Draft \(FASB\): \*Financial Services – Investment Companies \(Topic 946\)\*](#)

[Snapshot: \*Investment Entities\*](#)

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