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Chairman
JH
n°15

Paris, the 10th January 2012

Hans HOOGERVORST
Chairman
IASB
30 Cannon Street
LONDON EC4M 6XH

UNITED KINGDOM

Re : ED/2011/4 Investment entities

Dear Mr Hoogervorst,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned exposure draft (ED).

The IASB has decided to propose (jointly with the FASB) an amendment to consolidation standards (IFRS 10 and 12) leading to exclude investment entities from applying the principle of consolidation in IFRS 10.

As a preliminary remark, let me highlight again that the new consolidation standards (IFRS 10, 11 and 12 -not adopted in the EU-) will raise several difficulties in practice, notably to determine which entities are controlled according to the new IFRS 10 definition (see our comment letter to ED 10 in March 2009). These difficulties may interact with the new proposal made by the IASB concerning “investment entities”.

With respect to the ED about “investment entities”, and as a general principle, the ANC considers that a controlled entity must be consolidated by the parent and that requiring “fair valuation” through profit or loss is relevant only in rare cases to be strictly defined and limited to entities whose business model is the management of investments on a fair value basis.

We therefore welcome the fact that this ED is based on the business model of entities. And we agree that a consolidation exception is relevant for some investment entities, but only when it is strictly consistent with their business model , i.e. for those entities that primarily manage their investments on a fair value basis and with pre-defined exit strategies. We are thus strongly concerned that some investment entities (as commonly thought) may be affected by this ED although their business model is based on an active participation to the development of the investee and on the capacity to hold investments over an indefinite horizon. In other words, “fair value” through profit or loss is not achieving a fair representation of the performance of such “investment entities”. In this context, we would like to remind the IASB of the requests made by the G20 and the ECOFIN Council to “improve standards for the valuation of financial instruments based on their liquidity and **investors’ holding horizons**”. This request must be applied notably to the present ED.

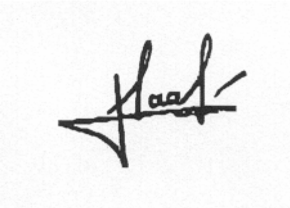
Hence, the Board must clarify and more strictly define the criteria for determining when an entity is an investment entity falling into the scope of this ED. These clarifications are essential to ensure that the requirements proposed by this ED will only be applied by entities having a business model that strictly fits a fair value measurement attribute.

The same exception should be provided in the consolidated accounts of the parent of an investment entity that is not itself an investment entity, unless the business model of the investment entity is no longer relevant at the group level.

Our detailed comments on the ED are set out in the Appendix I to this letter.

If you have any questions concerning our comments, we would be pleased to discuss them.

Yours sincerely,



Jérôme HAAS

Appendix I
Detailed comments

Question 1

Do you agree that there is a class of entities, commonly thought of as an investment entity in nature, that should not consolidate controlled entities and instead measure them at fair value through profit or loss? Why or why not?

With respect to the ED about "investment entities", and as a principle, the ANC considers that a controlled entity must be consolidated by the parent and that requiring fair valuation through profit or loss is relevant only in rare cases to be strictly defined and limited to entities whose business model is the management of investments on a fair value basis.
We therefore welcome the fact that this ED is based on the business model of entities. And we agree that , in some instances, consolidating investments may be less useful than using fair value but only when it is consistent with the business model of the entity, mainly driven by a pre-defined exit strategy.

We disagree with the IASB's assertion that, by nature, an investment entity should not consolidate controlled entities. Investment entities, as commonly thought, may have two different business models:

1) the investor's involvement in the investee is based on an active participation to the strategic development (including the decision-making process) of the investee and on a capacity to hold investments over an indefinite horizon.
2) the investor purchases a share in the investee initially with pre-defined exit strategies. For instance, entities with a definite life have a holding time horizon that constrains them to plan exit strategies at inception.

The first business model is not consistent with a fair value or instantaneous value through profit or loss which would not reflect the way performance is assessed by management and users. We note that the financial analysts of these types of investment entities are most interested in information on the controlled entity's activity rather than on the fair value of this entity. The second business model is more consistent with fair value measurement.
Therefore, we agree that a consolidation exception is relevant for some investment entities but this exception must be strictly limited (see Question 2) to entities that primarily manage their investments on a fair value basis and with pre-defined exit strategies.

Question 2

Do you agree that the criteria in this exposure draft are appropriate to identify entities that should be required to measure their investments in controlled entities at fair value through profit or loss? If not, what alternative criteria would you propose, and why are those criteria more appropriate?

First of all, we consider that the criteria in this exposure draft do not enable us to have a clear view of the scope of the ED. Some criteria seem to be based on formal conditions rather than on the way these entities are actually running their business.

As expressed in Question 1, the ANC considers that requiring investment entities to measure their investments at fair value through profit or loss is relevant only in limited circomstances. Then, the criteria for determining when an entity is an investment entity within the scope of this ED must be carefully and strictly defined.

In order to strictly distinguish between the two business models of investment companies (as described in Q1) and to demonstrate that an entity strictly meets all the conditions to benefit from the consolidation exception, we consider that the proposed criteria must be modified and/or clarified on the following matters :

- Investments entities that follow a business model (see Q1) that would be consistent with fair value measurement clearly have an exit intention at inception. The notion of "exit strategy" is mentionned in the application guidance of the ED but we believe that this notion must be explicitely added to the other criteria in paragraph 2.

- The investors' holding horizon is one indicator, among others, that must be taken into account in order todistinguish between the two different business models of investment companies described in Q1. We would like to remind the IASB the requests made by the G20 and ECOFIN to "improve standards for the valuation of financial instruments based on their liquidity and investors' holding horizons". As previously expressed, the ANC considers that fair value through profit or loss is not suitable for a fair representation of the performance of the first model investors (as described in Q1).

- The involvement in the decision-making process within the investee must be taken into account to determine the scope of the consolidation exception. The more the investor is involved in the management of the investee, the more full consolidation is relevant. We further note that this kind of condition was proposed by the SOP 07-1 in the US before it was indefinitely deferred by the FASB.

- Fair value management : some may view that the first business model investors (as described in Q1) may not meet this condition because they do not manage and evaluate the performance of their investments based on the day-to-day fair value. However, we believe that the "internally and externally" notion is not clearly defined and could be subject to interpretation. The Board should therefore clarify this crucial criterion, notably by stating in paragraph 2(e) that fair value is the primary driver for investors' decisions rather than an additional one. For instance, the simple fact that an entity provides a Net Asset Value to external investors does not mecanically mean that its performance is evaluated on a fair value basis. We also note an inconsistency between paragraph 2(e) using the words "substantially all..." and paragraph B17 beginning by "<u>all</u> controlled investments".

- Definition of "Fair value": the IASB should clarify if the fair value notion used in the criteria of the ED is referring to the IFRS 13 definition or not. For instance, we note that investment entities may use a valuation methodology which is consistent with the recommendations of the International Private Equity Valuation Board (IPEV) but not fully with IFRS 13 requirements. Hence, according to IPEV, the fair value is " the price at which an orderly transaction would take place between Market Participants at the Reporting Date", which is not subject to a "seller bias" created by the "exit price" notion. Besides, the IVSC, which issues guidance for the valuation profession, defines the fair value as "the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties". The IVSC considers "that the IFRS definition is generally consistent with a market value" whereas "fair value (as defined by the IVSC) requires the assessment of the price that is *fair* between two identified parties taking into account the respective advantages and disadvantages that each will gain from the transaction" (IVS 2011).

Other detailled comments on the proposed criteria are also expressed in questions 3 to 5.

Question 3

Should an entity still be eligible to qualify as an investment entity if it provides (or holds an investment in an entity that provides) services that relate to:

(a) its own investment activities?

(b) the investment activities of entities other than the reporting entity?

Why or why not?

We agree with the IASB that an entity should still be eligible to qualify as an investment entity if it provides or holds an entity that provides investment-related services.

Question 4

a) Should an entity with a single investor unrelated to the fund manager be eligible to qualify as an investment entity? Why or why not?

(b) If yes, please describe any structures/examples that in your view should meet this criterion and how you would propose to address the concerns raised by the Board in paragraph BC16.

Some entities may hold fully-owned subsidiaries dedicated to private equity activities (e.g. a corporate venture subsidiary). These entities would be precluded from the consolidation exception allowed by the ED.

However, we agree that it is very difficult to distinguish between purely financial investments and strategic investments when the investment entity has a unique shareholder. Moreover, a consolidation exception may raise several concerns for dedicated funds, notably regarding transparency.

Therefore, on balance, we agree with the Board that a pooling of unrelated investors is a relevant presumption to strictly define the scope of the consolidation exception. Hence, an entity with a single investor should not be eligible to qualifiy as an investment entity regardless of whether the fund manager is unrelated or not.

Question 5

Do you agree that investment entities that hold investment properties should be required to apply the fair value model in IAS 40, and do you agree that the measurement guidance otherwise proposed in the exposure draft need apply only to financial assets, as defined in IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement? Why or why not?

We are not sure to have a clear understanding of the interraction between this ED dealing with the treatment of controlled investees, associates and joint ventures by investment entities and the requirements (including accounting options) of IAS 39/IFRS 9 for financial instruments and IAS 40 for investment properties.

We note that IAS 40 allows a free option for entities to measure their investment properties at fair value or amortised cost. The Board should clarify that this ED does not preclude entities that currently use amortised cost to retain this accounting treatment in the future, simply because they look like an investment entity. The ANC considers that, choosing the amortised cost measurement under IAS 40, is an indication that the entity may not fall into the scope of this ED (notably because the 2(e) criterion may not be met).

Similarly, the Board should clarify that entities falling into the scope of this ED should be prevented from using the AFS category under IAS 39 (or the FV through OCI option under IFRS 9) for financial instruments not directly addressed by the measurement requirements of the ED, in order to be consistent with the business model.

Question 6

Do you agree that the parent of an investment entity that is not itself an investment entity should be required to consolidate all of its controlled entities including those it holds through subsidiaries that are investment entities? If not, why not and how would you propose to address the Board's concerns?

When the consolidation exception is consistent with the business model of the investment entity (strictly defined as expressed in Q1 and Q2), we consider that this is true at each level of reporting (the investment entity itself and its parent).

Therefore, we disagree with the IASB proposal to forbid the consolidation exception at a non investment parent company level, unless the business model of the investment entity is no longer relevant at the group level.

We acknowledge that some may be concerned about potential accounting inconsistencies and possibilities for abuse when accounting for an investment entity in the consolidated financial statements of a group. However, we believe that these circumstances should be rare (notably because of the criteria listed in paragraph 2 such as "pooling of funds") and could be dealt with by adding specific requirements in the consolidation standard. For instance, the holding of own shares by a parent entity through an investment entity could be addressed by the Board by including specific requirements regarding the treatment of intercompany transactions in the consolidation statements or by requiring a "look-through" analysis.

Question 7

a) Do you agree that it is appropriate to use this disclosure objective for investment entities rather than including additional specific disclosure requirements?

(b) Do you agree with the proposed application guidance on information that could satisfy the disclosure

The ANC considers that a disclosure objective or principle is better than a "check-list" in order to provide relevant information that suits the specific situation of the reporting entity.

However, we do not have a clear understanding of the type of information that the Board has in mind on controlled investments that fall within the scope of this ED. The IASB asks preparers to "avoid unnecessary duplication of disclosures if other IFRSs require disclosure of the same information (§B20)" without explaining the type of information expected to be provided. Does the Board expect entities to provide all information requested by IFRS 12 for controlled entities? At the same time, is it relevant to disclose valuation assumptions such as forecasts or business plan figures whereas this information is not required for consolidated entities?

The Board should therefore clarify the kind of information that is needed for controlled investments that are not consolidated according to the proposals.

Moreover, the Board should avoid mentioning disclosures, such as B19(b) and (c), that may be viewed as "financial performance measures and indicators" for management commentary reporting purposes. We reaffirm that the form and content of management commentary-type information should continue to be governed by regional and/or national legislation or regulations (see our comment letter to the ED *management commentary* in Febuary 2010).

Question 8

Do you agree with applying the proposals prospectively and the related proposed transition requirements? If not, why not? What transition requirements would you propose instead and why?

We note that IFRS 10 will be applied retrospectively whereas this proposed exception to IFRS 10 would be applied prospectively. Therefore, we consider that a retrospective application will be more relevant, notably for users.

Regarding the mandatory date of application, we believe that this proposal should be applied at the same date as other standards related to consolidation. Moreover, the ANC has already expressed that we are in favour of a single date approach for all major future standards, including consolidation standards. The ANC considers that in view of the changes needed regarding, among other standards, consolidation requirements, the earliest effective date possible would be for annual periods beginning on or after 1st January 2015, which, in other words, means that a sufficient implementation period is necessary for implementation purposes.

Question 9

(a) Do you agree that IAS 28 should be amended so that the mandatory measurement exemption would apply only to investment entities as defined in the exposure draft? If not, why not?

(b) As an alternative, would you agree with an amendment to IAS 28 that would make the measurement exemption mandatory for investment entities as defined in the exposure draft and voluntary for other venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds? Why or why not?

The exemption option in IAS 28 and IAS 31 is currently used by entities that may not be qualified as investment entities falling in the scope of this ED. The current option is useful and did not raise any concerns in the previous years.

As a consequence, we are in favour of alternative b, i.e. an amendment to IAS 28 that would make the measurement exemption mandatory for investment entities as defined in the ED and voluntary for other venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds.