

Straight away

IFRS bulletin from PwC

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IASB proposes to require ‘investment entities’ to record investments at FVTPL

What’s the issue?

IASB has published an [exposure draft \(ED\) on ‘Investment entities’](#). The ED requires entities that meet the definition of an investment entity to record, with very limited exceptions, all investments at fair value through profit or loss (‘FVTPL’). This includes investments in subsidiaries, associates and joint ventures.

Definition of investment entities

An investment entity is one that:

- has no substantive activities other than investing in multiple investments;
- explicitly commits to investors that its sole purpose is to invest for investment income, capital appreciation, or both;
- issues units of investments that represent ownership in itself and are entitled to proportionate shares of its net assets;
- has significant ownership interests that are held by unrelated investors;
- manages substantially all of its investments and evaluates their performance on a fair value basis; and
- provides financial information about its investment activities to investors.

Measurement

The ED requires an investment entity to measure its investments at FVTPL with very limited exceptions. This accounting does not extend to its parent (if any),

which is still required to consolidate (rather than FVTPL) the subsidiaries of the investment entity.

Disclosures

The ED requires disclosures relating to:

- information on investments controlled (e.g. name, country of incorporation);
- changes in the status of an investment entity (i.e. when the entity becomes an investment entity and vice versa);
- financial or other support provided by investment entities to their investees that they were not previously contractually required to provide, or intentions to provide such support;
- restrictions on ability to transfer funds between investment entities and their investments; and
- financial highlights such as per-share information, ratios, total return and capital commitments.

Am I affected?

Entities that are set up for investment purposes will be affected if these entities meet the definition of ‘investment entities’.

What do I need to do?

Management should read the ED in its entirety to determine the impact and consider commenting on the ED. The comment period ends 5 January 2012.