

Rådet **för** *finansiell rapportering*

The Swedish Financial Reporting Board

RFR-rs 2011:12

International Accounting Standards Board
30 Cannon Street
London EC4M 6 XH
United Kingdom

Dear Sirs,

Re: IASB Exposure Draft ED/2011/4 Investment Entities

The Swedish Financial Reporting Board is responding to your invitation to comment on the Exposure Draft Investment Entities.

Our overall position is that there should be a principle based approach based on the business model of the investment entity. Consequently, if the business model is to manage investments at fair value, they should be required to be measured at that value.

In summary we have the following views:

- We agree that there is a class of entities (investment entities) that should measure its investments at fair value.
- We find the criteria for determining when an entity is an investment difficult to interpret. As described above a principle based approach should apply.
- We do not support that the parent of an investment entity that is not itself an investment entity, should be required to consolidate controlled entities it holds through subsidiaries, that are investment entities.
- We do not agree with the requirements of applying the proposals prospectively. The requirements should be applied retrospectively.
- We think that venture capital organizations and similar entities, that manage investments in associates at fair value, should have the opportunity to continue to measure such investments at fair value in accordance with IAS 39.

Below you find our detailed comments:

Investment entities as a new class of entities in IFRS 10

For investment entities a line-by-line consolidation will result in a less informative financial report than accounting for the investments at fair value. Accounting at such value will result in information that better reflects the way these investments are managed.



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The criteria to identify investment entities

We have concerns about the criteria. We think that the concept of control is fundamental to the preparation and presentation of financial statements and those financial reporting requirements should be principle based and contain few exceptions. If there are exceptions, the criteria to be used must be robust and clear. We think that the criteria presented in the draft are open to wide interpretation and to a certain extent unnecessary. For example, why should there be multiple investments? Why should not an entity, for instance for market reasons, be able to deviate from this requirement and be fully invested in one security or cash? Also, the criteria about provision of financial information appears unnecessary. Would any investor accept anything else? A similar comment can be made about the criteria to invest for appreciation or income. Anything else would in our view be exceptional.

We are also concerned about B8, which appears to say that an investment entity should not involve itself in the activities of an investee. This issue must be related to the relevant corporate governance structure

Accounting in the consolidated financial statements of a non-investment entity parent

We are not supporting the requirement that the parent of an investment entity that is not itself an investment entity should be required to consolidate controlled entities including those it holds through subsidiaries that are investment entities. If the way they are managed serves as guidance for the accounting then, in our view, the way they are managed has not changed as a result of the consolidation. In our view we would expect fair value information to be relevant even in the financial statements of the ultimate parent entity.

Transition

We do not agree with the requirements of applying the proposals prospectively. We see no reason why the requirements should not be applied retrospectively according to IAS 8, unless that is impracticable.

Venture capital organisations and similar entities

We think that the accounting policy choice for this kind of entities should be retained unchanged in IAS 28. Venture capital organizations and similar entities that manage investments in associates at fair value should be given the opportunity to continue to measure such investments at fair value in accordance with IAS 39.



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If you have any questions concerning our comments please address our Executive member Carl-Eric Bohlin by e-mail to: carl-eric.bohlin@radetforfinansiellrapportering.se

Stockholm, 19 December 2011

Yours sincerely


Anders Ullberg,
Chairman