NEW INVESTMENT ENTITIES STANDARD

THE RELEASE ON 31 OCTOBER 2012 BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) OF THE NEW 'INVESTMENT ENTITIES STANDARD' MEANS THAT INVESTMENT ENTITIES WILL BE EXEMPT FROM CONSOLIDATING THEIR INVESTMENTS IN SUBSIDIARIES AND CONTROLLED ENTITIES UNDER IFRS 10 *CONSOLIDATED FINANCIAL STATEMENTS*. INSTEAD THEY WILL BE ABLE TO MEASURE THESE INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS.

The amending standard, Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), applies only to a class of business that qualifies as an 'investment entity' as defined in the amendment.

The new standard:

- Defines an investment entity
- Provides an exemption from the consolidation of subsidiaries under IFRS 10 for investment entities
- Describes alternative measurement requirements for investment entities
- Adds disclosures to IFRS 12 *Disclosure of Interest in Other Entities* for these investment entities.

Investment entity definition

The amendment defines an 'investment entity' as an entity that meets all of the following criteria:

- Obtains funds from one or more investors for the purpose of providing those investors with investment management services
- Commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation and/or investment income
- Measures and evaluates the performance of substantially all of its investments on a fair value basis.

Significant application guidance is provided in relation to the above, considering factors such as:

- Business purpose
- Exit strategies
- Earnings from investments
- Fair value measurement.

To help decide whether an entity meets the three limbs of the definition of 'investment entity', the standard provides examples of typical characteristics that an investment entity would have. These are:

- It has more than one investment
- It has more than one investor
- It has investors that are not related to the entity or other members of the group containing the entity
- Ownership interests are typically in the form of equity or similar interests (e.g. partnership interests), to which proportionate shares of the net assets of the investment entity are attributed.

The absence of one or more of these typical characteristics does not necessarily mean that the entity cannot be an 'investment entity'. However, if an entity does not meet one (or more) of the characteristics, but still applies the investment entity exemption, it must justify and disclose how its activities continue to be consistent with that of an investment entity.

The types of entities which may meet the definition of an investment entity include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

Exemption and alternative measurement

Investment entities shall not consolidate their investments in subsidiaries and controlled entities, but would instead measure these at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*.

Disclosures

IFRS 12 has been amended to include additional disclosures about investment entities, such as:

- Significant judgements and assumptions made to determine that the entity is an investment entity
- Reason that the entity is regarded as an investment entity if one or more of the typical characteristics are missing
- Details of the change in status when an entity either becomes or ceases to be an investment entity and the reason for the change
- Many additional disclosures about unconsolidated entities.

Effective date

The amendment is effective (on a modified retrospective basis) for annual periods beginning on or after 1 January 2014, but is available for early adoption.

Restrictions on application of the investment entity standard

The amended standard can only be utilised by those entities which meet the definition of an investment entity. The standard cannot be used when a parent entity has a subsidiary that is an investment entity. Therefore where a group includes an investment entity, the group consolidation must consolidate all subsidiaries that meet the definition of a subsidiary.

New amendments to investment entities not available for early adoption in Australia

At its November 2012 meeting, the Australian Accounting Standards Board (AASB) considered the concerns about the loss of consolidation information that would result from the IFRS standard Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). The AASB therefore tentatively decided to delay adoption of the IFRS standard until after it undertakes due process through an exposure draft (ED) considering additional, compensating note disclosures.

The ED is expected to propose disclosure of the three primary financial statements that would be produced under full consolidation. The AASB will seek input from constituents as to how those disclosures might be reduced without losing relevant information. The AASB aims to issue the ED before the end of this year (2012). Therefore, the IFRS amendments to IFRS 10, IFRS 12 and IAS 27 are not currently available for early adoption in Australia.