

3 October 2012

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

Dear Sirs

### **IASB ED/2011/4 – Investment Entities**

I am writing on behalf of AFME (the Association for Financial Markets in Europe) in response to the IASB's recent tentative decisions (as reported in the July edition of IASB Update) in respect of accounting for Investment Entities. AFME is, as you know, the leading European trade association for firms active in investment banking and securities trading, and thus represents the shared interests of a broad range of participants in the wholesale financial markets.

We have a number of concerns over the decisions made by the IASB in respect of this project, particularly the decision not to retain investment company accounting at parent level for non-investment company parents. We understand the IASB is concerned about the possibility of abuse in this area: we are keen to understand the nature of those concerns and would be very happy to provide suggestions on how to minimise the possibility of any such abuse while still providing the most useful information to users of financial statements.

As stated in our 4 January comment letter on ED/2011/4 (a copy of which is attached for reference), we believe that the most appropriate conceptual approach is to retain fair value accounting at parent company level. The underlying business model for an investment entity is to manage and evaluate the performance of investments on a fair value basis. Accordingly, we believe that measuring investments held by such entities at fair value provides users of financial statements with the most useful information about those investments. That business model does not change depending on whether it is viewed from the perspective of the investment entity itself or from that of its parent company: the fact that the parent company does not qualify as an investment company in its entirety does not render consolidation appropriate for those investments held through its investment company subsidiaries.

We note that the IASB is aware that this creates/prolongs a difference with US GAAP when investment company accounting is maintained at parent level. This is the case both under the US's current investment company accounting model and under the proposed changed model. We understand from your staff that the Board believes that the US position is different given the link between the GAAP framework and legal framework but we do not believe this is significant: firstly, neither the IASB nor the FASB bases their definition of an investment entity solely on its legal characterisation and, secondly, entities in jurisdictions other than the US apply US GAAP, including the investment company accounting model and hence the legal framework is not determinative.

The disparity would create a lack of comparability between entities reporting under the different frameworks and we are concerned that this could lead to a deemed lack of equivalence with the EU Seventh Directive, creating additional local reporting requirements. Further, the requirement creates additional burdens on IFRS filers as they will need to report investments on two measurement bases – fair value and consolidation.

We understand that the IASB is concerned that a reporting entity may in some way abuse the exception to consolidation. We believe, however, that access by users to the most relevant information should not be limited solely because of concerns that a minority might abuse that exception. Indeed, we believe that not requiring fair value and consolidating affected investments could itself be construed as abusive.

We are not aware of significant abusive practice in the US, nor of any significant examples of abusive practices that were highlighted during the recent public roundtable meetings. We do believe, however, that more open discussion of possible or actual abusive practice would help to identify other ways of checking such abuse - additional disclosures, for example. Accordingly, we urge the IASB to share publicly the concerns that it has in order for proper discussion of ways in which such abuse could be minimised. We would be delighted to offer our views in this area.

Finally, we note that support for retention of the consolidation exception at parent company level was consistently expressed by constituents in comment letters and at roundtables with – as far as we could see – at best very limited support for the IASB proposal. We feel it raises questions over the validity of the consultation process if the Board chooses to ignore the overwhelming view of its constituents in this manner without at least offering a full explanation for why it has taken a different view.

We would very much appreciate an opportunity to discuss these concerns with appropriate Board Members and/or IASB staff and to hear directly why the Board has taken this decision. I look forward in any case to hearing from you shortly.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Ian Harrison', with a long, sweeping flourish extending to the right.

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