



20 Aljunied Road, #06-02,
CPA House, Singapore 389805
Tel 65 6749 8060 Fax 65 6749 8061
cpasingapore@icpas.org.sg
www.icpas.org.sg

17 February 2012

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – INVESTMENT ENTITIES

The Institute of Certified Public Accountants of Singapore (ICPAS) appreciates the opportunity to comment on the above exposure draft (ED) issued by the International Accounting Standards Board (IASB) in August 2011.

Our comments on the specific questions in the ED are as follows:

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?

We agree that there is a class of entities which are by nature, investment entities, that should measure their investments at fair value through profit or loss. For typical investment entities, the investments they carry are one of the most significant, if not the most significant, assets on the balance sheet and they should be appropriately measured and accounted for. This will better reflect the value of these investment entities and their investments and hence provide more relevant and useful information to meet the needs of investors which is critical in any financial capital market.

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?

We are of the view that the approach used for the identification of investment entities does not seem to follow any particular principles and appear to be more rule-based. As per our response to question 1, the objective of the ED should be to provide investors with more relevant and useful financial information for their investment decision-making or analysis process. However, from the proposed criteria used to identify the investment entities, no such consideration appears to have been given to the usefulness of information generated.

In addition to the principle-based approach that we are proposing above, we are also of the view that there should be safeguards in place such as the application of substance over form and faithful representation principles, to mitigate the risk of potential abuse by companies in using the measurement exemption to exempt from consolidation.

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 maintain our stance as per our response to question 2, i.e. primary consideration should be given to the relevance of financial information to investors in assessing the eligibility of entities to qualify as investment entities. Whether the entity provides (or holds an investment that provides) services that relate to its own investment activities or the investment activities of entities other than the reporting entity, is in our view, not the key consideration.

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.

We are of the view that the number of unrelated investors to the fund manager or parent may be an indicator of the entity being an investment entity. However, it should not be used as one of the defining criteria for investment entity. There are instances of investment funds with single investors unrelated to the fund manager, as further explained below.

A common structure in the market in which there is a single investor who is unrelated to the fund manager is the Sovereign Wealth Fund (SWF). SWF is an investment fund which is usually held by the government and hence should qualify as an investment entity. However upon strict application of the proposed criteria, SWF will not be exempted from consolidation.

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 agree with the proposal to measure investment properties using the fair value model in IAS 40 and the measurement guidance to be applied only to financial assets as defined in IFRS 9 and IAS 39. This will ensure consistency in the application of fair value accounting principles to the investments in the investment entities.

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?

If a principle-based approach is adopted for the determination of an investment entity, we are of the view that a non-investment entity parent should be required to consolidate all of its controlled entities.

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 objective? If not, why not and what would you propose instead?

(a) We are supportive of the Board's approach to use a disclosure objective so as to allow the investment entities to exercise their judgement in the provision of relevant and useful information to the users of the financial statements. This would allow entities to tailor their financial statements to suit the needs of the users.

(b) We agree with the proposed application guidance on information that could satisfy the disclosure objective. However, we propose the Board to consider performing post-implementation review of the usefulness of the disclosures to solicit feedback from investors whether they may require any specific voluntary disclosures by the investment entities to be made.

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 are agreeable with the proposed prospective treatment and the related transition requirements for a one-time adjustment to be made to the opening retained earnings.

We would also propose for the effective date of this standard to be aligned to that for IFRS 10, 11 and 12 as well as the revised IAS 28.

Question 9:

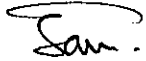
(a) Do you agree that IAS 28 should be amended so that the mandatory measurement exemption would apply only to investment entities as defined in the exposure draft? If not, why not?

(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?

We are of the view that the alternative approach in (b) is preferred if the proposed criteria for the determination of an investment entity remains as it is.

Should you require any further clarification, please feel free to contact Ms Jezz Chew, Technical Manager, from ICPAS via email at jezz.chew@icpas.org.sg.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Janet Tan", with a decorative flourish above the name.

Janet Tan
Executive Director (Corporate Services)