

June 2010

IFRS Consolidations Investment Companies

The International Accounting Standards Board met in London on 17-21 May 2010. The US Financial Accounting Standards Board (FASB) joined the IASB for some sessions. The boards discussed:

Consolidations Investment companies

The IASB and the FASB decided:

- a decision-maker should assess whether it controls regulated funds that it manages. It should make this assessment by using the agency guidance that applies to all decision-makers that have been delegated decision-making authority. Consequently, there is no need to include specific guidance for regulated funds.
- when preparing its consolidated financial statements, the parent of an investment company (if it is not an investment company itself) shall be prohibited from retaining the fair value accounting that is applied by an investment company subsidiary to that investment company's controlled investees.

Accordingly, a parent of an investment company is required to consolidate all entities that it controls, including those that are controlled by an investment company subsidiary, unless that parent is an investment company itself. The boards confirmed their previous tentative decision that an investment company should be required to measure investment in entities that it controls at fair value through profit or loss. Refer to IASB Update 19-23 April 2010 regarding the criteria to be considered an investment company. The boards will discuss separate presentation and transition at future meetings.

The IASB tentatively decided:

- to replace the list of entities referred to in paragraph 1 of IAS 28 *Investments in Associates* and paragraph 1 of IAS 31 *Interests in Joint Ventures* with the proposed criteria for an investment company that have been developed within the consolidation project. An investment company would be required to measure investments in associates and joint ventures at fair value through profit or loss.
- that it would not address the timing issue faced by investment companies that are first-time adopters of IFRS in 2011. The timing issue is set out in agenda paper 12B which was also discussed at this meeting.

The IASB asked the staff to conduct further research to identify whether the decision to replace the list of entities referred to in paragraph 1 of IAS 28 and paragraph 1 of IAS 31 would restrict the number of entities currently applying the scope exemption set out in those paragraphs. The Board also tentatively decided that:

- a parent of an investment company, on consolidating that investment company subsidiary, would be required to retain the fair value accounting applied by the investment company subsidiary to investments that it does not control, including investments in associates and joint ventures.

Transition (revised consolidation requirements)

The IASB discussed the transition guidance for situations in which applying the revised consolidation requirements results in a reporting entity consolidating an entity that was previously not consolidated. The Board tentatively decided that a reporting entity should measure the assets, liabilities and non-controlling interests of a previously unconsolidated subsidiary as if that subsidiary had been consolidated from the date when the reporting entity obtained control of the subsidiary, on the basis of the revised consolidation requirements. Alternatively, if this was impracticable, the reporting entity should apply the acquisition method in IFRS 3 *Business Combinations* at the beginning of the earliest period for which application of those requirements is practicable.

The Board also discussed the transition guidance for situations in which applying the revised consolidation requirements results in a reporting entity no longer consolidating an entity that was previously-consolidated. The Board tentatively decided that a reporting entity should measure the interest in a previously-consolidated entity as if the reporting entity had accounted for that interest from when it first became involved with, or no longer had control of, the entity. Alternatively, if this was impracticable, the reporting entity should derecognise the assets, liabilities and non-controlling interests of the previously-consolidated entity, and recognise any interest in the entity at fair value at the beginning of the earliest period for which application of those requirements is practicable.

The Board tentatively decided to permit early application of the revised consolidation requirements.

Separate presentation of consolidated assets and liabilities

US GAAP currently requires a reporting entity to present those assets of a consolidated variable interest entity (VIE) that can only be used to settle obligations of the consolidated VIE on the statement of financial position separately from those liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the reporting entity.

The Board tentatively decided not to require such separate presentation of consolidated assets and liabilities. The Board asked the staff to investigate whether it would be useful to require disclosure of restrictions on the reporting entity's ability to access the cash flows of consolidated assets that can be used only to settle particular liabilities. This will be discussed at the next joint board meeting.

Source: www.iasb.org

Disclaimer:

These materials and the information ("this information") contained herein are provided by KNAV and are intended to provide general information on a particular subject or subjects and are not an exhaustive treatment of such subject(s). This information is not intended to constitute accounting, tax, legal, investment, consulting, or other professional advice or services and should not be relied upon as the sole basis for any decision which may affect you or your business. . No reader should act on the basis of any information contained in this publication without considering and, if necessary, taking appropriate advice upon their own particular circumstances. None of KNAV, its member firms, or its and their respective affiliates shall be responsible for any loss and any special, indirect, incidental, consequential, or punitive damages or any other damages whatsoever whether in an action of contract, statute, tort (including, without limitation, negligence), or otherwise, sustained by any person who relies on this information. If any of the foregoing is not fully enforceable for any reason, the remainder shall nonetheless continue to apply.

About KNAV

KNAV is an International Business Advisory Firm having presence in India, USA, UK, France and Netherlands providing Assurance, Taxation and Business Advisory Services to Indian Multinational Companies. Our partners and professionals are qualified in various countries including India, US, Canada, UK and Ireland allowing us to provide you with seamless service across Asia, North America and Europe.

KNAV provides advisory services to companies for their reporting requirements under US GAAP, IFRS and other international generally accepted accounting standards. KNAV specializes in providing business advisory services with specific emphasis in the areas of Taxation, Transfer Pricing, Mergers and Acquisitions, Due Diligence and Valuation Services