Exposure Draft

(Investment Entities: Applying the Consolidation Exception)
Amendments to the following Ind AS:

(i) **Ind AS 110,** ***Consolidated Financial Statements***

(ii) **Ind AS 112,** ***Disclosure of Interests in Other Entities***

(iii) Ind AS 28, ***Investments in Associates and Joint Ventures*** **)**

(Last date for Comments: October 07, 2015)

Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

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Following is the Exposure Draft of (Investment Entities: Applying the Consolidation Exception) Amendments to Ind AS 110, 112, Ind AS 28) issued by the Accounting Standards Board of The Institute of Chartered Accountants of India, for comments.

The Board invites comments on any specific aspect of the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to comment-

Comments should be submitted using one of the following methods, so as to be received not later than October 07, 2015:

1. *Electronically: Visit at the following link http://www.icai.org/comments/asb/*

2. *Email: comments can be sent to: commentsasb@icai.in or asb@icai.in*

3. *Postal: Secretary, Accounting Standards Board,*

The Institute of Chartered Accountants of India,
ICAI Bhawan, Post Box No. 7100,
Indraprastha Marg,
New Delhi 110 002

Further clarifications on this Exposure Draft may be sought by e-mail to geetanshu.bansal@icai.in or asb@icai.in

*(The Exposure Draft of the Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in **bold** type indicate the main principles. This Exposure Draft of the amendments Indian Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards)*

Amendments to
Ind AS 110, *Consolidated Financial Statements*

Paragraphs 4, and 32 are amended and paragraphs 4A–4B are added. Deleted text is struck through and new text is underlined. Paragraphs 31 and 33 are not amended, but have been included for ease of reference.

Scope

4 An entity that is a parent shall present consolidated financial statements. This Ind AS applies to all entities, except as follows:

(a) a parent need not present consolidated financial statements if it meets all the following conditions:

(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) its ultimate or any intermediate parent produces ~~consolidated~~ financial statements that are available for public use and comply with Ind ASs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this Ind AS.

(b) ~~post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, *Employee Benefits,* applies~~. [Refer Appendix 1]

(c) ~~an investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 31 of this Ind AS, to measure all of its subsidiaries at fair value through profit or loss~~. [Refer Appendix 1]

4A This Ind AS does not apply to post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, *Employee Benefits,* applies.

4B A parent that is an investment entity shall not present consolidated financial statements if it is required, in accordance with paragraph 31 of this Ind AS, to measure all of its subsidiaries at fair value through profit or loss.

...

Investment entities: exception to consolidation

31 **Except as described in paragraph 32, an investment entity shall not consolidate its subsidiaries or apply Ind AS 103 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109.**

32 Notwithstanding the requirement in paragraph 31, if an investment entity has a subsidiary that ~~provides~~ is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities (see paragraphs B85C–B85E), it shall consolidate that subsidiary in accordance with paragraphs 19–26 of this Ind AS and apply the requirements of Ind AS 103 to the acquisition of any such subsidiary.

33 A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

In Appendix B, paragraphs B85C and B85E are amended. Paragraph B99A is added. Deleted text is struck through and new text is underlined. Paragraphs B85A–B85B and B85D are not amended, but have been included for ease of reference.

Determining whether an entity is an investment entity

B85A An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. An entity that possesses the three elements of the definition of an investment entity set out in paragraph 27 is an investment entity. Paragraphs B85B–B85M describe the elements of the definition in more detail.

Business purpose

B85B The definition of an investment entity requires that the purpose of the entity is to invest solely for capital appreciation, investment income (such as dividends, interest or rental income), or both. Documents that indicate what the entity's investment objectives are, such as the entity's offering memorandum, publications distributed by the entity and other corporate or partnership documents, will typically provide evidence of an investment entity's business purpose. Further evidence may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees); for example, an entity may present its business as

providing medium-term investment for capital appreciation. In contrast, an entity that presents itself as an investor whose objective is to jointly develop, produce or market products with its investees has a business purpose that is inconsistent with the business purpose of an investment entity, because the entity will earn returns from the development, production or marketing activity as well as from its investments (see paragraph B85I).

B85C An investment entity may provide investment-related services (eg investment advisory services, investment management, investment support and administrative services), either directly or through a subsidiary, to third parties as well as to its investors, even if those activities are substantial to the entity, subject to the entity continuing to meet the definition of an investment entity.

B85D An investment entity may also participate in the following investment-related activities, either directly or through a subsidiary, if these activities are undertaken to maximise the investment return (capital appreciation or investment income) from its investees and do not represent a separate substantial business activity or a separate substantial source of income to the investment entity:

(a) providing management services and strategic advice to an investee; and

(b) providing financial support to an investee, such as a loan, capital commitment or guarantee.

B85E If an investment entity has a subsidiary that ~~provides~~ is not itself an investment entity and whose main purpose and activities are providing investment-related services or activities that relate to the investment entity's investment activities, such as those described in paragraphs B85C–B85D, to the entity or other parties, it shall consolidate that subsidiary in accordance with paragraph 32. If the subsidiary that provides the investment-related services or activities is itself an investment entity, the investment entity parent shall measure that subsidiary at fair value through profit or loss in accordance with paragraph 31.

In Appendix 1, paragraph 4 is added. New text is underlined

4. Following paragraph numbers appear as 'Deleted' in IFRS 10. In order to maintain consistency with paragraph numbers of IFRS 10, the paragraph numbers are retained in Ind AS 110:

(i) Paragraph 4(b)

(ii) Paragraph 4(c)

Amendment to
Ind AS 112, *Disclosure of Interests in Other Entities*

Paragraph 6 is amended**.** Deleted text is struck through and new text is underlined.

Scope

...

6 This Ind AS does not apply to:

(a) ...

(b) an entity's separate financial statements to which Ind AS 27, *Separate Financial Statements,* applies. However~~,~~:

(i) if an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements, it shall apply the requirements in paragraphs 24–31 when preparing those separate financial statements.

(ii) an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with paragraph 31 of Ind AS 110 shall present the disclosures relating to investment entities required by this Ind AS.

(c) ...

Amendments to
Ind AS 28, *Investments in Associates and Joint Ventures*

Paragraphs 17, 27and 36 are amended and paragraph 36A is added. Deleted text is struck through and new text is underlined. Paragraphs 26 and 35 are not amended, but have been included for ease of reference.

Exemptions from applying the equity method

17 An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a parent that is exempt from preparing consolidated financial statements by the scope exception in paragraph 4(a) of Ind AS 110 or if all the following apply:

(a) The entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

(b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

(c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.

(d) The ultimate or any intermediate parent of the entity produces ~~consolidated~~ financial statements available for public use that comply with Ind ASs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with Ind AS 110.

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Equity method procedures

26 Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in Ind AS 110. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

27 A group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 35–36A ~~and 36~~).

...

35 The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless, in case of an associate, it is impracticable to do so.

36 Except as described in paragraph 36A, ~~-I~~if an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.

36A Notwithstanding the requirement in paragraph 36, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity

method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

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