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"Many commentators have long believed that consolidating the financial statements of an investment entity and its investees does not provide the most useful information. Their concern is that consolidation does not reflect the investment business model and makes it harder for investors to understand what they are most interested in – the value of the entity's investments.

We share these concerns and therefore welcome these Amendments. Although consolidation normally provides the most relevant and useful information for a group, we believe there is a class of investment entity for which fair value accounting is significantly more useful. The IASB has worked hard to identify this class appropriately – aiming for a robust definition that still allows some flexibility and scope for reasonable judgement.

The timing of publication is significant given that IFRS 10 'Consolidated Financial Statements' is effective from 1 January 2013. The consolidation exception will have a huge impact on affected entities and, if adopted early, could spare them from much time and effort on reassessing control conclusions under IFRS 10."

Andrew Watchman
Executive Director of International Financial Reporting

A consolidation exception for investment entities

The IASB has published 'Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27' (the Amendments). The Amendments introduce an exception for investment entities to the well-established principle that a parent entity must consolidate all its subsidiaries. The Amendments:

- define the term 'investment entity' and provide supporting guidance
- require investment entities to measure investments in the form of controlling interests in another entity (in other words, subsidiaries) at fair value through profit or loss in accordance with IFRS 9 'Financial Instruments' (or IAS 39 'Financial Instruments: Recognition and Measurement') instead of consolidating them
- specify disclosure requirements for entities that apply the exception.

This special edition of IFRS News explains the key features of the Amendments and provides practical insights into their application and impact.

A consolidation exception for investment entities

Many commentators have long held the view that consolidating the financial statements of an investment entity and its investees does not provide the most useful information. Consolidation makes it more difficult for investors to understand what they are most interested in – the value of the entity's investments.

The IASB has been influenced by these arguments. On 31 October 2012 it published 'Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27' (the Amendments). The Amendments define an investment entity and provide detailed application guidance on that definition. Entities that meet the definition are required to measure investments that are controlling interests in another entity (in other words, subsidiaries) at fair value through profit or loss instead of consolidating them. The Amendments also introduce new disclosure requirements for investment entities.

The following table summarises the key features of the Amendments:

The Amendments at a glance

Situation	Details
Who's affected?	Entities that: • meet the new definition of 'investment entity' • hold one or more investments that are controlling interests in another entity.
What is the impact?	Investment entities will: • no longer consolidate investments that are controlling interests in another entity • make additional disclosures about these investments.
Other key points	• a non-investment parent entity that controls an investment entity will continue to consolidate its subsidiaries (the consolidation exemption does not 'roll up') • an investment entity's service subsidiaries (subsidiaries that are not 'investments') will continue to be consolidated • if an investment entity has no non-investment subsidiaries it presents separate financial statements as its only financial statements.
When are the changes effective?	• annual periods beginning on or after 1 January 2014 • early application permitted.

Practical insights – many investment entities will not be affected

Many entities that fit the investment entity definition will nonetheless be unaffected by the Amendments because none of their investments are subsidiaries. Types of investment entity that commonly hold controlling interests include venture capital and private equity groups, along with some 'master-feeder' and 'fund-of-funds' structures. Some pension funds and sovereign wealth funds may also be affected. Unit trust and mutual fund-type entities rarely hold controlling interests and are therefore less likely to be affected.

Convergence

US GAAP has had comprehensive accounting guidance for investment companies for many years under which investment companies carry all of their investments at fair value, including controlling interests in another company. The Financial Accounting Standards Board (FASB) also has a project (ongoing at the time of writing) to enhance and update these requirements. Although the IASB and FASB discussed their respective projects jointly, and the Amendments have achieved much closer alignment between IFRS and US GAAP, it is clear that some differences will remain. For example, based on the FASB's latest decisions:

- the investment entity definition and supporting guidance will differ in some areas
- under US GAAP an investment entity's fair value accounting would be retained in the financial statements of a non-investment entity parent.

What is an ‘investment entity’?

The definition of an investment entity is fundamental. The IASB’s original proposal, published in August 2011, set out six strict conditions to be an investment entity – all of which would have to be met. In response to feedback from constituents IASB has softened this position to allow somewhat more flexibility and scope for professional judgement. The final definition has three components, but is accompanied by four ‘typical characteristics’. The definition, typical characteristics and their interaction are set out in the following table and diagram:

Definition and typical characteristics of an investment entity

Definition

An investment entity is an entity that:

(a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services (investment services condition)

(b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both (business purpose condition)

(c) measures and evaluates the performance of substantially all of its investments on a fair value basis (fair value condition).

Typical characteristics

In assessing whether it meets the definition an entity shall consider whether it has the following typical characteristics of an investment entity:

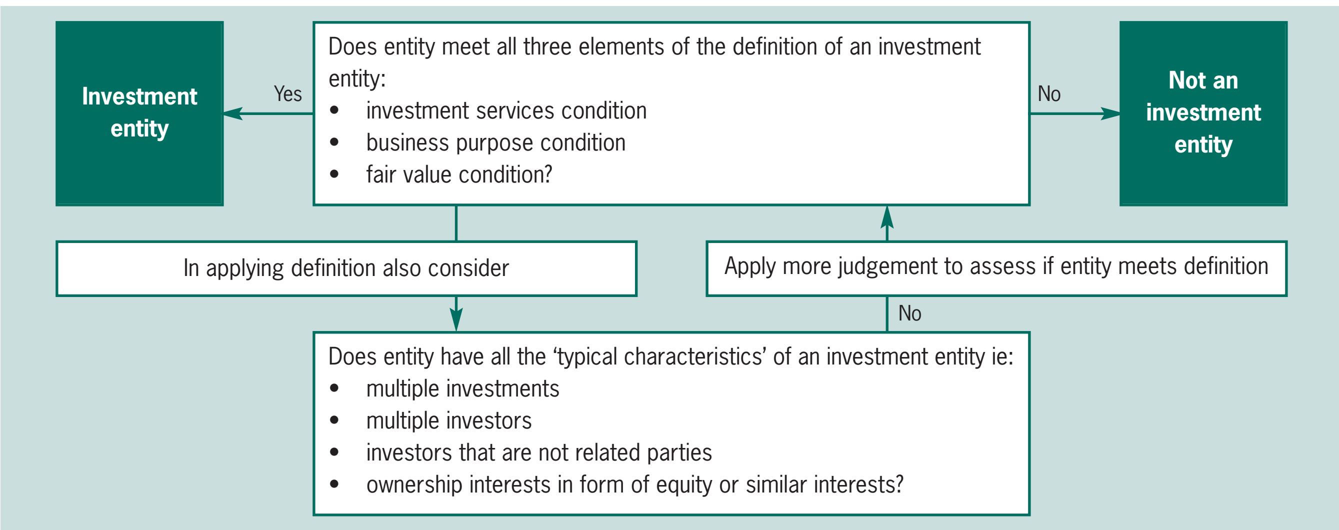
(a) it has more than one investment

(b) it has more than one investor

(c) it has investors that are not related parties of the entity

(d) it has ownership interests in the form of equity or similar interests.

Relationship between investment entity definition and typical characteristics:



Applying the definition

In assessing whether an entity meets the definition, all facts and circumstances should be considered – including the entity's purpose and design. It will often be straightforward to determine whether an entity is an investment entity. However, in view of the fundamental importance this assessment has on affected entities' financial statements, the Amendments provide extensive application guidance, along with supporting illustrative examples. This guidance is summarised in the following table:

Summary of guidance on the investment entity definition

Condition	Typical supporting evidence	Other factors
Investment services	This is a question of fact and is expected to be self-evident.	N/A.
Business purpose	Typically an entity's investment objectives will be evidenced by documents such as: • offering memorandum • publications distributed • other corporate or partnership documents. Further evidence may include how the entity presents itself to third parties. An entity that presents itself as an investor whose objective is to jointly develop, produce or market products with its investees is not an investment entity.	An investment entity may provide (directly or through a subsidiary): • investment-related services to third parties as well as to its own investors • management services and strategic advice to investees • financial support to investees. An exit strategy must be in place (see below). An investment entity does not obtain (or have the objective of obtaining) benefits from its investees that are unavailable to parties unrelated to the investee (see below).
Fair value	To meet this condition an entity: • provides investors with fair value information • measures substantially all of its investments at fair value in its financial statements when required or permitted by IFRSs (eg uses fair value alternatives in IAS 28, IAS 40, IFRS 9) • uses fair value as the primary basis for reporting internally to key management personnel.	An investment entity need not measure its non-investment assets or its liabilities at fair value.

Practical insights – regulated investment entities

In many countries investment services are subject to specific laws and regulations. Accordingly, certain entities are considered to be 'investment companies' or similar for the purpose of local law and regulation. This leads to a question as to whether these regulated entities should automatically be presumed to meet the definition in the Amendments.

The answer is no – the Amendments' definition does not refer to any local regulatory requirements. The IASB concluded that referring to local legal definitions would not be appropriate in an international standard. Accordingly, an entity is not necessarily an investment entity under the Amendments simply because it is regulated. Conversely, an entity can be an investment entity under the Amendments even if not considered as such under local requirements. This contrasts to US GAAP, which specifies that an entity regulated under the SEC's Investment Company Act of 1940 would be an investment company for accounting purposes.

Exit strategy

The definition of investment entity does not refer directly to exit strategies. However, the Application Guidance makes it clear that an investment entity does not plan to hold its investments indefinitely but instead holds them for a limited period. Accordingly, to meet the definition an investment entity needs an exit strategy documenting how it plans to realise capital appreciation. The requirements allow some flexibility as to the scope and detail of that strategy, as summarised in the table:

Summary of exit strategy requirements

Scope

The exit strategy should cover substantially all:
- equity investments
- non-financial investments
- debt investments that have the potential to be held indefinitely.

The exit strategy need not cover:
- investments that do not have the potential to be held indefinitely (eg fixed term debt investments)
- an investment in another investment entity that is formed in connection with the entity for legal, regulatory, tax or similar business reasons if that entity has an exit strategy for its investments
- non-investment assets.

Details

An exit strategy:
- need not address each individual investment but should identify potential strategies for different types/portfolios
- must include a substantive timeframe.

'Exit' could be by different mechanisms for different types of investment eg:
- for equities: via IPO, trade sale of a business, placement, distribution, liquidation or sale in an active market
- for property: sale via a dealer or on an open market.

Benefits from investee

An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income, or both. By contrast, a non-investment holding company normally seeks to obtain a wider range of benefits from its subsidiaries and typically operates more as an integrated business in order to obtain these benefits. Accordingly, a non-investment parent typically has more involvement in its subsidiaries' operations and the subsidiaries typically have more involvement with each other.

The Amendments aim to capture this distinction by stating that an entity does not meet the business purpose component of the investment entity definition if it obtains (or has the objective of obtaining) benefits from its investees that are 'unavailable to parties unrelated to the investee'.

The Amendments provide guidance on particular types of benefits from and involvement with investee entities and whether they are compatible with an investing business model. Put broadly, the more involvement the entity has with its investees (and the investees have with each other), the less likely it is that the entity will qualify as an investment entity. Conversely, it will be easier to demonstrate an entity meets the business purpose part of the definition when investees are substantially autonomous and operate independently of the investment entity and one another. The following table provides a summary of permitted and prohibited types of involvement:

Summary of permitted and prohibited involvement with investees

Permitted	Prohibited
Benefits from investees • using an investment in an investee as collateral for borrowings • intercompany trading between investees in the same industry, market or geographic area • other intercompany transactions that: – are on terms that would be available to parties unrelated to the entity, another group member or the investee – are at fair value – do not represent a substantial portion of the investee's or the entity's business activity, including business activities of other group entities.	**Benefits from investees** • the acquisition, use, exchange or exploitation of the processes, assets or technology of an investee • disproportionate, or exclusive rights to acquire assets, technology, products or services of any investee (for example, holding an option to purchase an asset from an investee if development is deemed successful) • joint or other arrangements between the investee and another group member to develop, produce, market or provide products or services • provision by investee of financial guarantees or assets to serve as collateral for another group member's borrowings • an option held by a related party of the entity to purchase an ownership interest in an investee • intercompany transactions other than those in the 'permitted' column.
Other involvement with investees • providing investees (directly or through a subsidiary) with: – management and strategic services – financial support such as a loan, capital commitment or guarantee if such activities are undertaken to maximise returns from investments rather than being a separate business activity or income stream.	**Other involvement with investees** • provision of services to investees that represent a separate business activity or income stream.

Assessing the typical characteristics

In finalising the Amendments, the IASB decided to relegate some components of the proposed definition in the 2011 ED to 'typical characteristics'. Although the investment entity definition is paramount, most entities that meet that definition are also expected to have all four of these characteristics. If an entity lacks one or more of the characteristics additional judgement is required to assess whether it meets the definition.

It is very unlikely that an entity with none of the typical characteristics of an investment entity would meet the definition of one.

The Amendments provide various examples of situations in which the absence of a typical characteristic would not necessarily preclude the entity from meeting the definition:

Assessing the typical characteristics

Characteristic	Examples of reasons why an entity without this characteristic might still be an investment entity
More than one investment	• an entity may hold a single investment because, for example, it: – is in a start-up period – has not yet made new investments to replace disposals – was established to pool investors' funds in a single investment when the investment could not be obtained by individual investors – is in the process of liquidation.
More than one investor	• the entity was formed by a single investor representing or supporting the interests of a wider group (for example a pension fund, government investment fund or family trust) • the entity has a single investor only temporarily, for example because it: – is in its initial offering period – has not yet identified suitable investors to replace ones that have redeemed their interests – is in the process of liquidation.
Investors that are not related parties	• the investment entity is a 'parallel' fund for a group of employees which mirrors the entity's main investment fund.
Ownership interests in the form of equity or similar interests	• the investment entity is not a legal entity* • different classes of investors have rights only to specific investments or different proportionate shares • the entity has significant ownership interests in the form of debt that expose the holders to variable returns from changes in the fair value of the entity's net assets.

* an investment entity is normally a legal entity but this is not an explicit requirement.

Practical insight – real estate investment entities

Real estate entities that own or lease investment property directly (ie that have no subsidiaries) will not be affected by the Amendments. However, many real estate investment entities hold properties in separate legal entities (sometimes referred to as 'corporate wrappers'). These separate entities may include borrowings used to finance the property purchase. In such cases consolidation versus fair value measurement has a significant impact on the parent entity's reported financial position, even if the IAS 40 'Investment Property' fair value model is used. Fair valuing the various separate legal entities will result in a net rather than gross balance sheet position and will also change reported net assets (due to the entities' debt being fair valued among other factors).

Determining whether a real estate entity meets the investment entity definition is therefore critical and will need to be done on a case-by-case basis. In many cases it will be readily apparent that a real estate entity fails the definition – for example because it undertakes property development activities that are distinct from its investment activities. The Illustrative Examples issued along with the Amendments include a case in which an entity is not considered an investment entity for various reasons including that it 'has a separate substantial business activity that involves the active management of its property portfolio, including lease negotiations, refurbishments and development activities, and marketing of properties to provide benefits other than capital appreciation, investment income, or both'.

Other factors to consider include:

- whether or not the real estate entity has an exit strategy for its properties or portfolios of properties, including a substantive timeframe for exit
- the extent to which the real estate entity uses fair value as its primary performance measure. Even if an entity applies the IAS 40 fair value model, it also may use other measures, such as information about expected cash flows, rental revenues

Accounting requirements for an investment entity

Accounting by an investment entity

The Amendments do not set out a comprehensive accounting framework for investment entities – they are instead limited to an exception from consolidation of investments in certain subsidiaries. The Amendments also affect the separate financial statements of an investment entity (if these are prepared). The key changes are:

Accounting requirements for investment entities

Requirement	Details
Accounting for subsidiaries held as investments	• subsidiaries held as investments are measured at fair value through profit or loss in accordance with IFRS 9 instead of being consolidated. This accounting is mandatory not optional • IFRS 3 'Business Combinations' does not apply to the obtaining of control over an exempt subsidiary • the consolidation exception also applies to controlling interests in another investment entity.
Accounting for service subsidiaries	• an investment entity is still required to consolidate subsidiaries that provide services that relate to its investment activities • IFRS 3 applies on obtaining control over a service subsidiary.
Accounting in separate financial statements	• an investment entity's fair value accounting for its controlled investees also applies in its separate financial statements (but see practical insight box) • if the consolidation exception applies to all an investment entity's subsidiaries throughout the current and all comparative periods (ie it has no services subsidiaries) its separate financial statements are its only financial statements.

Practical insights – financial statements of investment entities already exempt from consolidation

An investment entity with subsidiaries might already present only separate financial statements because it is exempt from presenting consolidated financial statements in accordance with the pre-Amendments version of IFRS 10 (paragraph 4). This would apply only if the investment entity has a higher-level parent company that prepares consolidated financial statements in accordance with IFRSs, and certain other conditions are met.

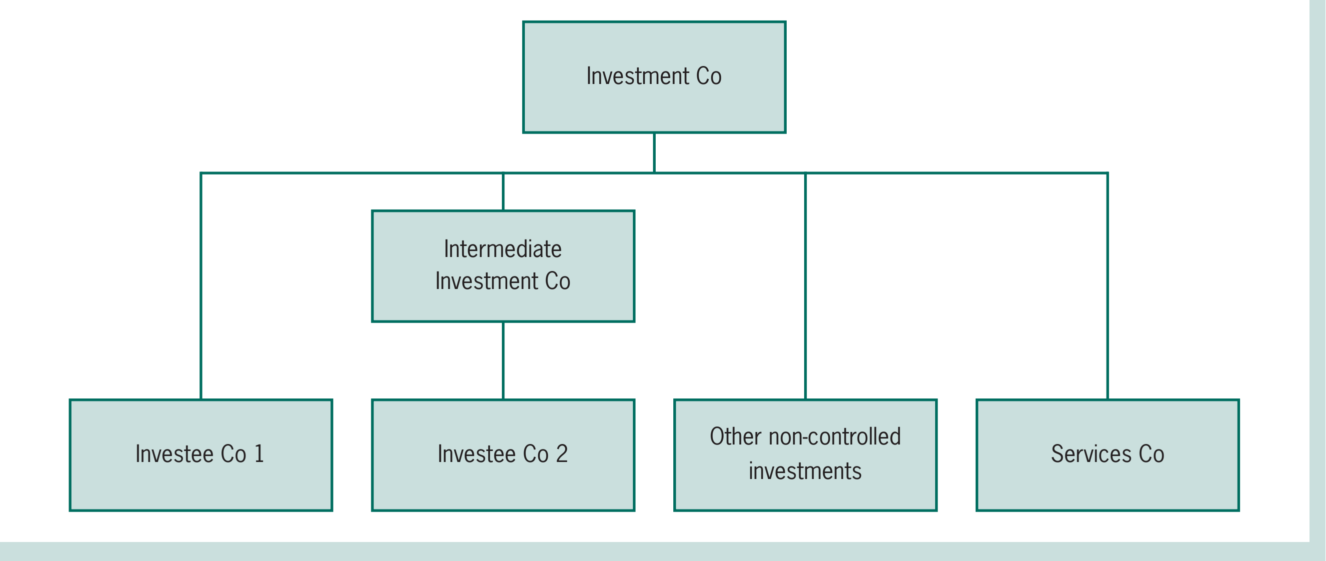
In our view those separate financial statements are not affected by the Amendments. This is because IAS 27's new requirement for an investment entity to measure subsidiaries at fair value in separate financial statements applies only to entities that apply the investment entity consolidation exception in paragraph 31 of IFRS 10. That paragraph does not seem to apply to entities that are already exempt from consolidated financial statements in accordance with the pre-Amendments version of IFRS 10. Accordingly, in these cases, an investment entity can continue to elect for cost accounting in its separate financial statements.

Example 1 below illustrates the application of these requirements.

Example 1 – application of consolidation exception

Consider the following group structure, in which:

- Investment Co and Intermediate Investment Co meet the definition of investment entities
- Investment Co has direct controlling interests in Investee Co 1, Intermediate Investment Co and Services Co (which provides permitted investment services)
- Intermediate Investment Co has a controlling interest in Investee Co 2.



Application of requirements – Investment Co

In its **consolidated** financial statements Investment Co would:

- account for its investments in Investee Co 1 and Intermediate Investment Co at fair value through profit or loss
- consolidate Services Co
- account for its other non-controlled investments in accordance with applicable IFRSs (eg IFRS 9 or IAS 39, IAS 28 and IAS 40) and would make full use of the available fair value options.

In its **separate** financial statements Investment Co would apply the same fair value accounting to Investee Co 1 and Intermediate Investment Co. Its investment in Services Co could be accounted for at either cost or fair value as an accounting policy choice.

Application of requirements – Intermediate Investment Co

Intermediate Investment Co would account for its controlling interest in Investee Co 2 at fair value through profit or loss. Its separate financial statements would be its only financial statements.

Accounting by the parent of an investment entity

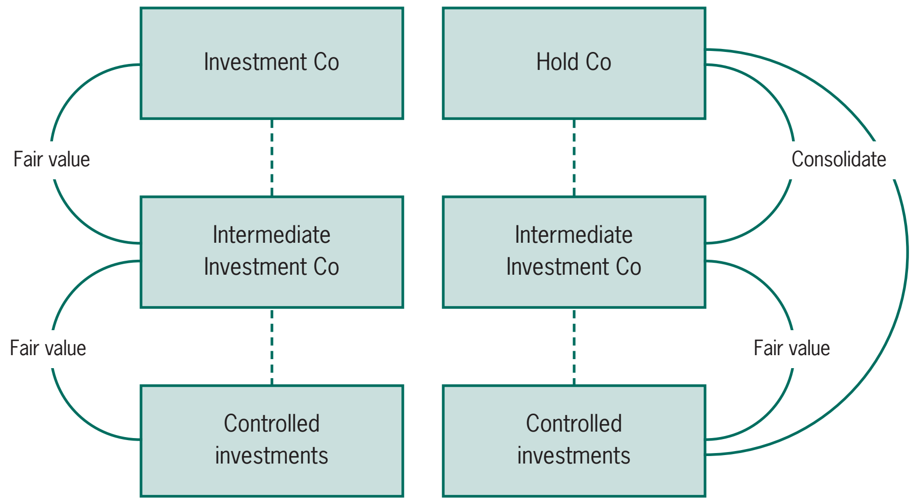
A (non-investment) parent entity of an investment entity will continue to consolidate its subsidiaries in the normal way, including any subsidiaries of the investment entity sub-parent. Put another way, the consolidation exception for an investment entity parent does not carry forward into the consolidated financial statements of its higher level parent unless that higher parent is also an investment entity.

Accordingly, investment entity sub-parents will need to perform fair value measurements for the purpose of their own financial statements and also provide consolidation information (eg a consolidation package) for their higher-level parent's group financial statements.

Example 2 below illustrates how this would work.

Example 2 – non-investment parent entity accounting

Consider the two group structures illustrated below. Both structures include investment entity sub-parents, which have controlling interest investments in other companies. The first group is headed by Investment Co, which is an investment entity and the second by Hold Co which is not an investment entity.



Application of requirements

For the Investment Co (left-hand) group:

- Intermediate Investment Co will account for its controlled investments at fair value
- Investment Co will also account for its investment in Intermediate Investment Co at fair value.

For the Hold Co (right-hand) group:

- Intermediate Investment Co will account for its controlled investments at fair value
- Hold Co must consolidate Intermediate Investment Co and its controlled investments.

Practical insight – other investments of an investment entity

Investment entities may hold, in addition to controlling interests in other entities, investments in associates, other equity investments, debt assets and property. The Amendments do not directly affect the accounting for these other investments. However, in order to qualify as an investment entity these other investments will have to be fair-valued wherever required or permitted by the IFRSs. Accordingly, the entity would apply:

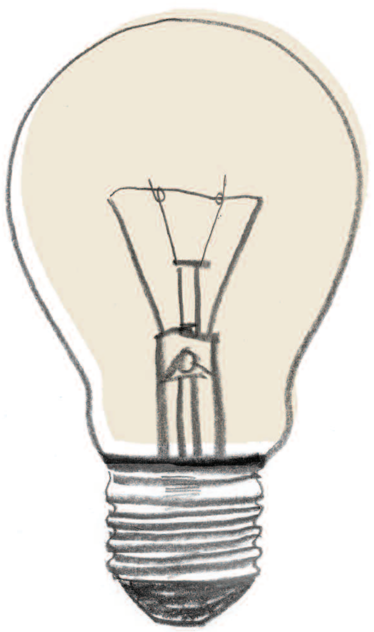
- for associates the option in paragraph 18 of IAS 28 that permits a 'venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds' to measure associates and joint ventures at fair value through profit or loss in accordance with IFRS 9
- for property, the fair value model in IAS 40.

Other equity and debt investments are covered by either IFRS 9 or IAS 39. If IFRS 9 is applied, the entity would automatically be required to measure debt investments that are managed on a fair value basis at fair value through profit or loss. It is expected that investment entities would manage their investments on a fair value basis, although they might also have some financial assets that are not 'investments'. Other equity investments would also be measured at fair value, although the entity could elect for fair value through other comprehensive income (which would not preclude investment entity status).

For entities that apply IAS 39, the fair value option would need to be elected to achieve this outcome for many debt investments. The IAS 39 fair value option is available in particular circumstances, including for assets that are managed on a fair value basis. This designation must be made on initial recognition and is then irrevocable in most circumstances. Other equity investments would be treated as available-for-sale and measured at fair value through other comprehensive income, unless the fair value option is used.

Continuous assessment and change of status

A parent entity should reassess whether it has become, or ceased to be, an investment entity if relevant facts and circumstances change. A change in status is accounted for prospectively, as follows:



Accounting for a change in status

Requirement	Details
Investment entity becoming a non-investment entity	For subsidiaries that were measured at fair value in accordance with the Amendments: • IFRS 3 is applied using the fair value of the investment on the date of the change of status as the deemed consideration transferred • subsidiaries are consolidated prospectively from that date (comparatives are not restated).
Non-investment entity becoming an investment entity	For investments that are controlling interests in another entity: • consolidation ceases prospectively from the date of change of status (comparatives are not restated) • at that date the entity applies IFRS 10's requirements on loss of control of a subsidiary: – recognises the fair value of the investment – records a gain or loss for the difference between this fair value and the carrying value of the previously recognised assets and liabilities (less non-controlling interests) – reclassifies amounts recognised in other comprehensive income where required.

Effective date and transition

The Amendments are effective for annual periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies the Amendments earlier, it must disclose that fact and apply all the Amendments at the same time.

An entity should assess whether it is an investment entity as at the 'date of initial application'. This means:

- for an entity that has already adopted the pre-Amendments version of IFRS 10, the beginning of the annual period in which the Amendments are first applied (eg 1 January 2014 for an entity whose annual reporting period ends on 31 December)
- for an entity that adopts the revised version of IFRS 10 (including the Amendments) at a single date, the beginning of the annual period in which IFRS 10 is first applied (eg 1 January 2013 for an entity whose annual reporting period ends on 31 December).

If an entity meets the investment entity definition at the date of initial application, it applies the new requirements retrospectively subject to certain simplifications. In other words, an investment entity measures its investments in subsidiaries at fair value through profit or loss as if the Amendments had always been effective unless a simplification is available. The simplifications cover:

- restatement of comparatives
- fair values before the adoption of IFRS 13 'Fair Value Measurement'
- impracticability
- subsidiaries divested before the date of initial application
- IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' disclosures.

The transition simplifications are summarised in the table:

Summary of transition simplifications

Requirement	Details
Restatement of comparatives	• restatement of comparatives is limited to the annual period immediately preceding the date of initial application (simplifying the transition for entities that present more than one comparative period) • the difference on restatement is recognised in equity at the beginning of the immediately preceding comparative period • cumulative fair value adjustments previously recognised in other comprehensive income are transferred to retained earnings at the same date.
Fair values before the adoption of IFRS 13	• before the date that IFRS 13 is adopted, the entity uses fair values previously reported to investors or management – if those amounts represent the amount for which the investment could have been exchanged between knowledgeable, willing parties in an arm's length transaction.
Impracticability	• if measuring an investment in a subsidiary retrospectively in accordance with the above requirements is impracticable, the Amendments are applied from the beginning of the earliest period that is practicable (which may be the current period).
Subsidiaries divested before the date of initial application	• no adjustments are required for subsidiaries divested (or loss of control) before the date of initial application.
IAS 8 disclosures	• an entity need only present the quantitative information required by paragraph 28(f) of IAS 8 for the current period.

Practical insight – link between comparative period fair values, IFRS 13 and impracticability

IFRS 13 has an effective date of 1 January 2013 and applies prospectively. Consequently, an investment entity that adopts the Amendments early will not normally have determined fair values in accordance with IFRS 13 from the beginning of its comparative period. For example, if an investment entity adopts the Amendments for its annual period beginning on 1 January 2013, it would need fair values from 1 January 2012 – a year before IFRS 13 became effective.

The IASB decided the investment entity should use the fair value amounts previously reported to investors or to management in this situation, provided they represent the amount for which the investment could have been exchanged between knowledgeable, willing parties in an arm's length transaction at the date of the valuation. In other words, the previously-reported values need to be consistent with the pre-IFRS 13 definition of fair value. This relief is mandatory; the entity is not permitted to adjust fair values retrospectively to conform with IFRS 13 if it previously applied the pre-IFRS 13 definition.

When the investment entity adopts IFRS 13 any resulting changes in the fair values are reported as part of the fair value gain or loss in the period of adoption (eg 2013), in accordance with IFRS 13's transition provisions.

A qualifying entity is expected to have fair-value based information in order to meet that part of the investment entity definition. However, if this information was prepared as supplemental information or solely for internal use it is possible that it did not comply either with IFRS 13 or with the previous definition. In such cases the entity should:

- if practicable, without using hindsight, apply IFRS 13 retrospectively
- if impracticable, without using hindsight, use the transition relief and apply the Amendments from the beginning of the earliest period that is practicable.

Practical insight – early or on-time adoption?

We anticipate that many investment entities will decide to adopt the Amendments early (subject to applicable local endorsement procedures, if any). Early adoption will enable investment entities to report more useful information to the users of their financial statements, and avoid the cost and effort of consolidation, sooner. In deciding whether to adopt early, another factor to consider is the impact of the pre-Amendments version of IFRS 10, which comes into effect for annual periods beginning on or after 1 January 2013.

Some investment entities will find that IFRS 10's new control definition and guidance affects whether or not certain investees are deemed to be controlled (and are therefore subsidiaries). For example, IFRS 10's new guidance on principal versus agent will be relevant to many venture capital and private equity organisations that hold an interest in an investee entity directly and also within an investment fund under their management.

If an investment entity faces a change in the scope of its consolidation it will have an additional incentive to adopt the Amendments early (at the same time as the rest of IFRS 10). Early adoption would avoid the disruption and complexity associated with consolidating an investee entity for one period only.

Even for investment entities whose scope of consolidation is not affected by IFRS 10, early adoption would avoid having to compile various disclosures about subsidiaries and non-controlled interests required by IFRS 12 that will cease to apply when the Amendments become effective.

Disclosures

The Amendments introduce customised disclosure requirements relating to an investment entity's subsidiaries that are no longer consolidated in IFRS 12 'Disclosure of Interests in Other Entities'. Most existing disclosures in IFRS 12 cease to apply, either because they are specifically dis-applied or because they are not relevant to subsidiaries that are not consolidated (such as summarised financial information and information about non-controlling interests).

Practical insight – which existing IFRS 12 disclosures apply?

IFRS 12 does not normally apply to separate financial statements. However, if an investment entity presents only separate financial statements (because all its subsidiaries qualify for the consolidation exception), the Amendments to IAS 27 require it to disclose the information specified by IFRS 12 for investment entities. The generic requirements of IFRS 12 will not apply and the entity provides the specified investment entity disclosures instead.

If the entity has services subsidiaries, and therefore continues to present consolidated financial statements, the generic IFRS 12 requirements continue to apply to the extent they are relevant. For example, an investment entity would need to disclose information about non-controlling interests in accordance with paragraph 12 of IFRS 12 for its consolidated services subsidiaries if applicable.

The following table summarises IFRS 12's specific disclosure requirements for investment entities:

Summary of IFRS 12 disclosures for an investment entity

Disclosure area	Summary of new requirements
Investment entity status	• significant judgements and assumptions in determining investment entity status • reasons for concluding it is an investment entity despite lacking one or more of the 'typical characteristics' • reasons for and effects of a change in status, including – fair value of subsidiaries affected – total gain or loss arising and line item where presented.
Unconsolidated subsidiaries – general matters	• name, place of business, country of incorporation if different, and ownership interest (including controlled investees of an investment entity subsidiary).
Unconsolidated subsidiaries – restrictions	• significant restrictions on payment of dividends or repayment of loans and advances.
Unconsolidated subsidiaries – support arrangements	• commitments or intentions to provide financial or other support • actual provision of support (to or between subsidiaries) in the absence of a contractual obligation.
Unconsolidated structured entities	• contractual arrangements that could require financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss • information about support provided, to a non-controlled structured entity in the absence of a contractual obligation, that resulted in control being obtained • an investment entity need not provide the other disclosures normally required about unconsolidated structured entities that it controls.
Joint arrangements and associates	• disclosures are limited to matters such as name of investee, place of business, nature of relationship, place of business and ownership/voting interest proportion(s) • an investment entity is not required to disclose much of the information provided by non-investment entities.

In addition, an investment entity's disclosures will change extensively as a result of:

- other disclosures becoming necessary, particularly in relation to IFRS 13 'Fair Value Measurement', IFRS 7 'Financial Instruments: Disclosures' and IAS 24 'Related Party Disclosures'
- disclosures in various IFRSs about the results, assets and liabilities of subsidiaries ceasing to apply as an indirect consequence of those subsidiaries no longer being consolidated.

The table summarises how the requirements of these standards may apply:

Other disclosures

Disclosure area	Summary of impact
IFRS 13	• investment entities will need to provide disclosures about fair value measurements of subsidiaries (in addition to other investments at fair value) • relevant IFRS 13 disclosures include those about: – the level in the fair value hierarchy (1, 2 or 3) – for levels 2 and 3, information about valuation technique(s) – additional information about level 3 measurements (see below).
IFRS 7	• the Amendments bring subsidiaries measured at fair value by an investment entity within IFRS 7's scope • IFRS 7's risk disclosures are likely to be relevant.
IAS 24	• IAS 24 does not require disclosure in consolidated financial statements about intragroup transactions that are eliminated on consolidation. Additional disclosures may therefore be required for transactions with subsidiaries that cease to be consolidated.

Practical insight – level 3 fair values

For investments in unquoted (private) company subsidiaries, the fair value measurement will usually fall into 'Level 3' in the IFRS 13 fair value hierarchy (because many of the required assumptions and inputs are not observable). IFRS 13 requires additional disclosures for recurring Level 3 measurements, including:

- quantitative information about significant unobservable inputs
- a reconciliation of the opening and closing total fair value, disclosing separately changes attributable to:
  - total gains or losses recognised in profit or loss and the line item
  - total gains or losses recognised in other comprehensive income and the line item (although this would not apply to investment entities)
  - purchases, sales, issues and settlements
  - transfers
- total gains or losses included in profit or loss attributable to the change in unrealised gains or losses for measurements within Level 3
- a description of the valuation processes used for Level 3 measurements
- a narrative description of sensitivity analysis for Level 3 measurements
- the effect of altering an unobservable input where to do so would change the fair value significantly.

Practical insight – disclosure in condensed interim financial statements

The Amendments add a new requirement into IAS 34 'Interim Financial Reporting' to disclose the information specified in IFRS 12 when an entity becomes, or ceases to be, an investment entity. IAS 34 also cross-refers to some of the disclosures about fair value set out in IFRS 7 and IFRS 13. These disclosures will become relevant to investments in subsidiaries that are measured at fair value in accordance with the Amendments.

In addition:

- disclosures about the effect of the Amendments will be necessary in interim reports in the first year the Amendments are adopted (see paragraph 16A of IAS 34)
- the change in the scope of consolidation will have a wide-reaching consequential impact on the form and content of interim reports.

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