International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH  

Paris, January 5, 2012  

RE: Comments on IASB Exposure Draft ED/2011/4 Investment Entities  

Dear Sir / Madam,  

Mazars welcomes the opportunity to comment on the Exposure Draft on Investment Entities.  

We consider that controlled entities should generally be consolidated, since consolidated financial statements provide the most useful form of financial reporting for most types of entities.  

Consequently, any exception to the consolidation principle is only acceptable provided the information given to the users is more useful to them than consolidation, which implies among others than there is a clear definition of the characteristics of an investment company.  

Overall, we are not convinced that the proposed criteria appropriately circumscribe the population of companies to which the exception should apply. Furthermore, we would recommend that a more principle-based approach be adopted.  

Indeed we think that, the exit strategy for the investment, the way the entity conducts its business (i.e. the business model) with a view to holding investments for capital appreciation, investment income or both only, and the level of involvement of the investor should be the main guiding principles to determine what is an investment entity in the ED.  

If application of the exception at the investment entity (subsidiary) level results in fair value information that is more decision useful that consolidated information, then such fair value information should also be relevant in the financial statements of the ultimate parent company.  

We therefore consider that the consolidation exemption existing at the investment entity level should be retained at the upper level.
Our answers to the specific questions raised in this ED are presented in the attached appendix.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarification or additional information.

Yours sincerely

Michel Barbet-Massin
Head of Financial Reporting Technical Support
Appendix 1: detailed answers to the questions raised in the ED Investment Entities

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 consider that controlled entities should generally be consolidated, since consolidated financial statements provide the most useful form of financial reporting for most types of entities.

However, we agree that, in certain limited circumstances, measuring controlled entities at fair value provides a more useful information than consolidation.

This exception to the consolidation principle is acceptable provided there is a clear definition of what are the characteristics of an investment company.

In that respect, and as so called investment entities are diverse in nature, and include both:

- long-term investors, generally taking an active role in managing those entities (discussing business plans and reviewing operational results on a regular basis),

- short-term investors (e.g. definite life entities), with no significant involvement in the operations of the investee, but with a clear exit strategy,

the criteria proposed in the ED could be improved, as described further below.

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?

Although we agree that entities required to measure their investment at fair value through P&L should be strictly defined, we are not convinced that the proposed criteria appropriately circumscribe the population of companies to which the exception should apply. Furthermore, we would recommend that a more principle-based approach be adopted.

Criteria as proposed, leading an entity to fair value its investment provided it meets all the 6 criteria, are akin to an option (as it is easy to escape from those strictly defined criteria). For example, an entity would only need to account for an investment property at cost (rather than at fair value) to be excluded from the scope of the ED.
Also, we believe that there should be more emphasis on the exit strategy, as there is a direct relation between the way an entity conducts its business (sometimes called the “business model”) and the exit strategy.

The level of involvement of the investor in the investee should also be clarified. In this respect, the notion of “the only substantive activities” in paragraph 2a should be more clearly defined (i.e. does the participation in the day to day business of the investee prevents the investor from qualifying as an “investment entity” as defined in the ED?).

We consider that consolidation is appropriate (rather than fair valuing the investment) when the investor has a significant involvement in the operations of the investee, as the investor is managing the underlying assets rather than only trying to maximise his profit.

The “fair value management” criteria should also be clarified, as it is not clear how it interacts with an active involvement in the investee (as an investor would evaluate on an regular basis the investee's performance based on operational measures such as sales, results,... rather than fair value).

Also, does the fair value referred needs to be determined according to IFRS 13, or is the notion of fair value broader? (i.e. does the use of the fair value as defined by the IPEV prevents an entity from qualifying as an investment entity?).

We believe that the main characteristics of an investment entity should be a clearly defined exit strategy, a business model with a view to holding investments for capital appreciation, investment income or both only, and a strictly limited involvement of the investor in the daily operations.

**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 agree that an entity should still be eligible to qualify as an investment entity if it provides or holds an entity that provides investment related services as this does not change the underlying substance of the business.

**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 agree with the Board that a pooling of unrelated investors is a relevant condition to strictly define the scope of the consolidation exception.

**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 but, as indicated in question 2, we consider that the criteria (as proposed in the ED) are very much akin to an option.

The Board should also clarify that financial assets should be fair valued through P&L (i.e. an investment entity would not be allowed to use the AFS category).

**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?

No. We consider that the consolidation exemption existing at the investment entity level should be retained at the upper level.

If application of the exemption at the investment entity (subsidiary) level results in fair value information that is more decision useful than consolidation, then such fair value information should also be relevant in the financial statements of the ultimate parent company.

Also, since this is a common project with the FASB, we would not understand that the two Boards reach a different conclusion regarding the accounting treatment at the upper level.

**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?

We agree with the disclosure objective as stated.

However, and since investment entities are to be strictly defined, it would be sensible that the Board includes a targeted list of disclosures rather than referring to IFRS 7, IFRS 12 and IFRS 13.
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 believe that the requirements should be applied retrospectively (unless impracticable), as this would result in comparable information.

Requiring a prospective application would result in an investment entity presenting financial statements that are clearly not comparable, which would seriously impair the usefulness of the financial statements in the year in which the standard is applied.

Regarding the mandatory date of application, we believe that this proposal should be applied at the same date than other standards related to consolidation.

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 agree with the suggested alternative as the current option in IAS 28 and IAS 31 is useful and is used by entities that may not be qualified as investment entities falling in the scope of this ED.