Dear Sir / Madam,

Mazars welcomes the opportunity to answer to the Exposure Draft on Investment Entities: Applying the Consolidation Exception.

We agree with the Board that an exemption from preparing consolidated financial statements should exist for a parent entity that is a subsidiary of an investment entity.

We also agree with the Board that investment entities should generally only consolidate entities that provide investment related services and that do not themselves qualify as investment entities.

However, we do not believe that the introduction of a difference between an investor in an investment entity associate and a joint venture in an investment entity joint venture is justified, as both those investments are equity accounted. Moreover, we believe that this proposed amendment does not meet the cost/benefit criteria.

Our answers to the specific questions raised in this Exposure Draft 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 Exposure Draft.**

**Question 1—Exemption from preparing consolidated financial statements**

The IASB proposes to amend IFRS 10 to confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10 continues to be available to a parent entity that is a subsidiary of an investment entity, even when the investment entity measures its subsidiaries at fair value in accordance with paragraph 31 of IFRS 10. Do you agree with the proposed amendment? Why or why not?

We agree with the Board that an exemption from preparing consolidated financial statements should exist for a parent entity that is a subsidiary of an investment entity.

**Question 2—A subsidiary that provides services that relate to the parent’s investment activities**

The IASB proposes to amend IFRS 10 to clarify the limited situations in which paragraph 32 applies. The IASB proposes that the requirement for an investment entity to consolidate a subsidiary, instead of measuring it at fair value, applies only to those subsidiaries that act as an extension of the operations of the investment entity parent, and do not themselves qualify as investment entities. The main purpose of such subsidiary is to provide support services that relate to the investment entity’s investment activities (which may include providing investment-related services to third parties). Do you agree with the proposed amendment? Why or why not?

We agree with the Board that investment entities should generally only consolidate entities that provide investment related services and that do not themselves qualify as investment entities.

However, the proposed accounting treatment for a subsidiary that is both an investment entity and provides investment-related services is debatable. The dual nature of the entity makes it difficult to determine an appropriate accounting treatment as some holdings can be used as a tool, for a variety of reasons such as specific legal, tax or regulatory purpose.

In practice, measuring those entities at fair value can be seen as providing some relief.

However, we are not convinced that systematically fair valuing intermediary holdings that do not provide services (or entities providing services that also qualify as investment entities) is always appropriate. We believe that a parent should be able to determine whether those entities should be consolidated or measured at fair value based upon the specific facts and circumstances.
Question 3—Application of the equity method by a non-investment entity investor to an investment entity investee

The IASB proposes to amend IAS 28 to:

(a) require a non-investment entity investor to retain, when applying the equity method, the fair value measurement applied by an investment entity associate to its interests in subsidiaries; and

(b) clarify that a non-investment entity investor that is a joint venturer in a joint venture that is an investment entity cannot, when applying the equity method, retain the fair value measurement applied by the investment entity joint venture to its interests in subsidiaries.

Do you agree with the proposed amendments? Why or why not?

We do not believe that the introduction of a difference between an investor in an associate and an investor in a joint venture is justified, as both those investments are accounted for using the equity method.

The Board justifies this difference by stating that a joint venturer is capable of obtaining the required information as it has joint control. We understand this rationale, but we believe that this would involve significant costs. Indeed, the joint venture will prepare its financial statements not using consolidation procedures for its subsidiaries. It will not account for its acquisition of subsidiaries according to IFRS 3 either. Preparing a second set of financial statements using all the consolidation procedures, including those related to business combination accounting, for the sole needs of the consolidated financial statements of the joint venture, would imply additional costs that far outweigh the benefits provided by these additional details to the line items related to equity accounting.

Moreover, and as stated in our answer to ED 2011/4 on investment entities, we believe that the consolidation exemption existing at the investment entity level should have been retained at the upper level.

As a consequence, we believe that this different accounting treatment is not justified, not only from a practical and cost/benefit point of view, but also because we believe that the underlying rationale for measuring at fair value is relevant at the different levels involved.