CUSCS
香港中文大學專業進修學院
School of Continuing and Professional Studies
The Chinese University of Hong Kong

15 August 2014

Mr. Simon Riley
Acting Director
Standard Setting
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

Dear Mr. Riley,

Comment on IASB Exposure Draft ED/2014/2 Investment Entities: Applying the Consolidation Exception (Proposed Amendments to IFRS 10 and IAS 28)

In response to your letter as of 10 July 2014, we are pleased to provide our views on the captioned Exposure Draft as shown in the attached document.

If you need further information, please feel free to contact our Programme Leader, Ms. Maggie Tsong at 3943-9123 or by email at mtsong@cuhk.edu.hk. Thank you.

Yours faithfully,

Ella Chan
Director

Encl.
cc: Maggie Tsong
Programme Leader, Business & Management Division

Comment on IASB Exposure Draft ED/2014/2 Investment Entities: Applying the Consolidation Exception (Proposed Amendments to IFRS 10 and IAS 28)

In response to the questions proposed in the Exposure Draft, the following comments are given for the Committee's consideration:

Question 1— Exemption from preparing consolidated financial statements

We agree at the proposed amendment on IFRS 10 that the exemption from preparing consolidated financial statements should also 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 such cases, additional disclosure requirements are already existed under IFRS 12, IFRS 7 and 13, and all this information provided should be sufficient for users of the intermediate parent's financial statements. The significant additional costs incurred in preparing consolidated financial statements will not commensurate with the benefit received and it also violate the intention in providing the consolidation exception.

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

We support the clarification being made on IFRS 10 so as to allow the investment entity to consolidate a subsidiary instead of measuring it at fair value if the subsidiaries act as an extension of the operations of the investment entity parent and do not themselves qualify as investment entities. The proposed amendment is reasonable and also aligns with the deliberations on the original investment entities exception to consolidation. It is agreed that the fair value method is the most relevant measurement for all of an investment entity's subsidiaries and therefore the exception from this rule should be very limited. It should only capture those subsidiaries that support the investment entity parent's activities as an extension of the parents' operations.

Question 3— Application of the equity method by a non-investment entity investor to an investment entity investee

We agree at the proposed amendment on IAS 28 to require a non-investment entity investor to retain the fair value measurement in using equity method to account for an investment entity investee. While a non-investment entity investor that is a joint venturer in a joint venture cannot retain the fair value measurement in using equity method to account for an investment entity investee. We support the argument of IASB that there are different practical difficulties and different levels of risk relating to achieving different accounting outcomes by holding investments through an associate and joint venture, it therefore provides a good basis for the proposed different treatment when applying the equity method.