MINUTES

Subject:	February 29, 2012, Joint Roundtable Meeting—London, United Kingdom	**Date:**	June 6, 2013

Topic: Proposed FASB Accounting Standards Update, *Financial Services—Investment Companies (Topic 946)*: *Amendments to the Scope, Measurement, and Disclosure Requirements,* and IASB Exposure Draft, *Investment Entities*

Length of Discussion: 1:00 PM to 3:00 PM (GMT)

Attendance:

Outside Participants

Andrew Buchanan	BDO
Carlo Calandrini	Organismo Italiano di Contabilità
Jo Clube	European Insurance CFO Forum
Godfrey Davies	CDC Group
Michael Gaull	PricewaterhouseCooopers LLP
Tom Hopkins	Deloitte Touche Tohmatsu Limited
Liesel Knorr	Accounting Standards Committee of Germany
Gareth Lewis	European Public Real Estate Association
Nina Mattu	The Blackstone Group
Ton Meershoek	European Securities and Markets Authority
Paul Munter	KPMG
Steve Parkinson	BVCA
Charlotte Pissaridou	Association for Financial Markets in Europe
Kazim Razvi	Augentius Funds Administration LLP
Roman Sauer	Allianz SE
Hans Schoen	European Financial Reporting Advisory Group
Mark Sherwin	Investment Management Association
Andrew Watchman	Grant Thornton International Ltd
Arne Weber	Ernst and Young
Riana Wiesner	Barclays

FASB Participants

Russ Golden	Board Member
Hal Schroeder	Board Member
Sue Cosper	Technical Director
Upaasna Laungani	Project Manager

IASB Participants

Jan Engstrom	Board Member
Paul Pacter	Board Member
Sue Lloyd	Senior Director, Technical Activities
Michael Stewart	Director of Implementation Activities
Sarah Geisman	Assistant Technical Manager

ISSUE 1: The Form of an Exception to Consolidation Guidance

Many participants supported the Boards' proposed entity level approach to providing investment company guidance. However, those participants stated that it is imperative for the Boards to have a clear set of criteria. These participants stated that an entity level approach would better respond to user requests. However, some of these participants expressed concerns that a strict criteria approach would result in unintended consequences to the scope of entities included or excluded from the guidance. One participant stated that real estate operating entities should not be included within the scope of the guidance.

Other participants recommended an asset level approach for the guidance. They stated that an asset level approach is more appropriate because it would determine measurement based on the business reasons for the investment rather than the nature of the entity holding the investment. Furthermore, those participants stated that IFRS currently does not provide industry-specific guidance and an asset level approach would avoid creating industry-specific guidance. Some of those participants recommended that the Boards provide an option to measure controlled investees at fair value rather than a requirement. Others disagreed stating that an option would result in decreased comparability and may result in entities avoiding fair value measurement for investments that are managed on a fair value basis.

Issue 2: Criteria to Be an Investment Company

Participants expressed opinions about the proposed criteria overall as well as specific criteria to be an investment company. Some participants recommended that the criteria be indicators of investment company status rather than requiring an entity to meet specific criteria. Those participants stated that the Board should allow judgment to be applied to determine whether an entity is an investment company. Those participants stated that the IASB's concerns about preventing abuse could be addressed with clear criteria that describe the business purpose of an investment company.

Many participants agreed with the exit strategy requirement for investment companies under the IASB's proposed guidance. However, some noted an inconsistency between requiring an exit strategy and permitting an investment company to invest for returns only from investment income. Those participants agreed with the FASB's proposal that would require an exit strategy for investments held for capital appreciation. Multiple participants recommended that the exit strategy requirement be another criterion rather than part of the application guidance for the ‘business purpose’ criterion.

Many participants disagreed with its proposed requirement that an investment company have multiple unrelated investors. These participants offered many examples of entities with a single investor that they stated should be investment companies. One participant stated that some investment funds with related investors, such as employee funds, should not be excluded from being investment companies. One participant stated that the pooling of funds criterion should be modified to require an investment company to be available to multiple investors but it should not necessarily be required to have multiple investors.

One participant suggested that the criteria clarify the amount of leverage that the controlled investees of an investment company can hold because the participant believed that the Boards are concerned that an exception to consolidation would conceal leverage held through controlled investees. Another participant stated that an entity with only debt ownership interests should be permitted to be an investment company.

Finally, another participant recommended that an investment company should be permitted to engage in other investing-related activities because many listed investment companies engage such activities.

Issue 3: Investment Company Accounting for Controlled Investees and Related Disclosure

Participants generally agreed with the Boards’ proposal to measure a controlling financial interest in a noninvestment company (that is, an operating company) at fair value through net income, stating that this would represent an improvement to financial reporting and would provide more useful information.

Feedback was mixed regarding how to measure an investment company’s controlling financial interest in another investment company. Some participants stated that an investment company should consolidate its investment company subsidiaries, arguing that consolidation would provide more transparency. Other participants disagreed and raised operational and conceptual concerns with such a requirement. Many participants emphasized that the IASB and FASB should reach a converged answer in this area.

There was also a discussion on whether an investment company should consolidate subsidiaries that provide services to the investment company parent. One participant argued that an investment company should consolidate any operating subsidiaries and measure investment subsidiaries at fair value. Another participant pointed out that this tension demonstrates the difficulty of an entity-based approach and argued that each controlled investee of any company should be evaluated under consolidation guidance to determine whether fair value or consolidation is appropriate.

Issue 4: Accounting by a Noninvestment Company Parent of an Investment Company Subsidiary

There were mixed views on whether or not a noninvestment company parent should retain the specialized fair value accounting applied by an investment company subsidiary in its consolidated financial statements.

The majority of participants agreed with the FASB's approach, which requires a noninvestment company parent to retain the specialized fair value accounting applied by an investment company subsidiary. Those participants argued that the business purpose for holding the investments has not changed at the parent level and that fair value still provides the more relevant and useful information. Some participants suggested that the Boards should work on further refining and strengthening the investment company criteria rather than prohibiting retention of fair value measurement at a noninvestment company parent level.

A minority of participants agreed with the IASB's approach that a noninvestment company parent should consolidate any subsidiaries held by an investment company subsidiary. They stated that they were concerned that noninvestment company parents would use the new investment company guidance to achieve off-balance sheet accounting for investments that are in a loss position or that held significant amounts of debt.

Additionally, some participants pointed out that this issue would not exist if the Boards developed investment company guidance at an asset level, rather than at an entity level.

Other Comments

In their closing remarks, participants discussed various other matters, including transition, effective date, and consequential amendments to IAS 28, *Investments in Associates and Joint Ventures*.