SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
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January 10, 2011

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft ED/2011/4 – Investment Entities

Dear Board Members

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to comment on the Exposure Draft ED/2011/4 – Investment entities.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

This response summarizes the views of our members, which may be supported by the opinions of external parties, sent to us for analysis and to enhance the discussion on the subject matter. We have also made efforts to encourage other external parties to send comments directly to the IASB.

If you have any questions about our comments, please contact Mr. Idésio da Silva Coelho Júnior (Idesio.S.Coelho@br.ey.com), CPC´s vice-coordinator of International Affairs, and coordinator of a working group constituted to study any proposal or stage literature issued by the IASB.

Yours sincerely,

Edison Arisa Pereira
Technical Coordinator
Comitê de Pronunciamentos Contábeis (CPC)

[1] The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

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EXPOSURE DRAFT ED/2011/4 – INVESTMENT ENTITIES

Question 1—Exclusion of investment entities from consolidation

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?

Answer to Question 1:

We agree that an investment entity should not consolidate controlled entities and instead measure them at fair value through profit or loss. First because the future economic benefit embodied in its assets (investments held by the investment entity) is the potential for capital appreciation, investment income (such as dividends or interest), or both and not to achieve operational synergies. Second because the needs of the users of financial statements would be well served if an investment entity did not consolidate the entities it controls, given that the most useful information is the fair value of the investments end how the investment entity measures the fair value of its investments.

Additionally, the presence of the control, joint control or significant influence is temporary because all the investments will be disposed of by investment entity and because most investment funds have limited term to operate.

Question 2—Criteria for determining when an entity is an investment entity

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?

Answer to Question 2:

We believe that the proposed criteria are not sufficient to identify an investment entity. In other words, we believe that the proposed criteria could be expanded in order to include:

(a) entities that have just one investee in their portfolio, since in the Private Equity industry is common to find entities structured exclusively to invest in a specific business (this type of operation is commonly known as “club deals”);

(b) entities with a single investor unrelated to the fund manager, if this entity meets the following characteristics: (i) the fund manager (or its general partner) has a discretionary management mandate and (ii) the entity´s portfolio is not composed by investees related to the single investor or the fund manager;

After considering the above suggestion, the proposed criteria in the ED are sufficient to define the appropriate population of entities that can use the exception to the principle of consolidation.

Question 3—Nature of the investment activity

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?

Answer to Question 3:

When an investment entity holds an interest in an operating entity that provides support services for the investment entity's investment activities or the investment entity provides services that relate only to the investment entity's own investment activities, we believe that such non-investing activities do not disqualify the entity from being an investment entity provided that they are performed solely to support the entity's investment activities, even if the entity's subsidiary provides services that relate to the investment activities of entities other than the investment entity (its parent). However, if the investment entity controls an investee that provides these services, the investment entity shall consolidate that investee due to its performance is not managed based on their fair value.

Question 4—Pooling of funds

(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.

Answer to Question 4:

We believe that the Board's concern expressed in paragraph BC16 is pertinent. However, we understand that an entity with a single investor unrelated to the fund manager should be qualified as an investment entity if this entity meets the following characteristics: (i) its fund manager (or its general partner) has a discretionary management mandate and (ii) its portfolio is not composed by investees related to its investors".

It is justified because, regardless of the funds are coming from a single or many investor, this investors benefit from the professional investment management.

Question 5—Measurement guidance

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?

Answer to Question 5:

An investment entity is an entity that meets all of the criteria established in paragraph 2, so substantially all of the entity's investments are managed, and their performance is evaluated, on a fair value basis. That's why we believe that an investment entity would be required to account for its investment properties at fair value according to the fair value model in IAS 40 - Investment Property. So, paragraph 30 of the IAS 40 should not be elective and the fair value model shall be mandatory applied. With this, not only financial assets would be measured at fair value, but also any other assets held by an investment entity and are related to its investment activities (business purpose of an investment entity).

<u>Question 6—Accounting in the consolidated financial statements of a non-investment entity parent</u>

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?

Answer to Question 6:

We believe that a parent of an investment entity that is not itself an investment entity should be exempt to consolidate its controlled investment entities, when the investment entities meet the criteria for determining when an entity is an investment entity, including the changes propose in our answer to question 2.

Additionally, we agree that the exemption from the consolidation requirements would be extended to the parent entity. As a result, the parent entity would recognize the fair value of the subsidiary to be included in its own financial statements.

We understand that even though the control, the main objective (substance) is to earn capital appreciation, investment income (such as dividends or interest), or both. So, the fair value of the subsidiary (investment entity) is more appropriate and represents the most useful information.

By analogy, IAS 39 permits designation of financial assets at fair value through profit or loss when a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

So, the parent of an investment entity that is not itself an investment would recognize the fair value of the subsidiary to be included in its own financial statements, in accordance with a documented risk management or investment strategy.

Question 7—Disclosure

(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?

Answer to Question 7:

We agree that (a) it is appropriate to use this disclosure objective for investment entities and (b) with the proposed application guidance, because the investment entities may have different characteristic (limited term to operate, legal form, types of assets it invests in, among others) and also there may be different local requirements of disclosure for such entities.

Question 8—Transition

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?

Answer to Question 8:

We agree with applying the proposals prospectively and the related proposed transition requirements. However, it doesn't is clear if the comparative information must be adjusted or not. We understand that when an entity applies this [draft] IFRS, it shall prepare and present an opening statement of financial position at the date of the beginning of the comparative period presented in the financial statements of the period for which this [draft] IFRS is adopted for the first time. In this way, the comparative information will be appropriately adjusted and financial statements will be prepared on the same accounting basis.

Additionally, we noted that in Appendix D - Amendments to other IFRSs there aren't amendments to IFRS 1 - First-time Adoption of International Financial Reporting Standards about how the first-time adopters should apply the requirements of this [draft] IFRS in its first IFRS financial statements.

COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

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Question 9—Scope exclusion in IAS 28

(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?

Answer to Question 9:

The Board initiated a separate joint project to develop criteria to define an investment entity for the purpose of an exemption to consolidation, so we understand that this [draft] IFRS shouldn't impact on the entities that already use the measurement exemption existing in IAS 28 (paragraph 1). So, we believe that it would be preferable to do an amendment to IAS 28 that would make the measurement exemption (i) mandatory for investment entities as defined in the exposure draft, and (ii) voluntary for other venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds.