

5 January 2012

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Dear Ms Flores

Re: Draft Comment Letter on IASB Exposure Draft on Investment Entities

The European Banking Authority (EBA), which has come into being as of 1 January 2011 as per Regulation (EU) 1093/2010, welcomes the opportunity to comment on EFRAG's draft comment letter on the IASB's Exposure Draft on Investment entities.

The EBA has a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline.

The EBA supports the IASB's position outlined in the Exposure Draft (ED) that in its consolidated financial statements, a parent of an investment entity should not retain the fair value accounting that is applied by its investment entity subsidiary to controlled entities, unless the parent qualifies as an investment entity itself.

The EBA supports the IASB's position for the following reasons:

- (a) The principles outlined in the Exposure Draft are an exemption to the IASB's consolidation principle and as such, the scope of its application should be restricted to specific, narrowly defined criteria. The EBA is of the view that application of this exemption, as every exception, should remain strictly limited. Moreover, according to paragraph BC20, the materiality of the issue is not significant (i.e. only a minority of investment entities parent company are not investment entities themselves) and therefore the expected benefit could not outweigh the drawbacks identified in the paragraphs below.
- (b) The EBA is concerned that extending the scope of the ED to include parents of investment entities who are themselves non-investment entities could also reduce the comparability of financial statements and/or increase the possibilities of abuse. For example, comparability would be reduced if entities were able to apply different accounting rules for the holding of own shares by a subsidiary based on whether or not that subsidiary holding was controlled through an investment entity (as outlined in BC20). The EBA believes that because extending the scope of the ED would give rise to such possibility this increases the risk that some entities will be able to devise structures in order to avoid consolidation.

Such an outcome would not be consistent with the purpose of the exemption introduced by the ED.

- (c) The EBA is also concerned that extending the scope of the ED to parents of investment entities that are non-investment entities themselves may open opportunities to blur the assessment of the risk exposures generated by the assets of the group.

While the exemption may be appropriate at the reporting level of the individual investment entity meeting all the conditions for benefiting from this exemption - including in relation with the business model-, it does not automatically follow that it would also be appropriate one level up, at the group level if these conditions are not all met by the parent entity itself.

Extending the scope could open arbitrage opportunities by allowing a group to choose whether to control a given subsidiary through an investment entity or through another entity; in the first case, the balance sheet of the group would show the assets and liabilities of the subsidiary "condensed" as a single exposure whereas, in the second case, the assets of this subsidiary would be recognised "asset-by-asset" in the consolidated balance sheet.

- (d) The IASB has not defined the accounting treatment for a direct stake of a parent company in a subsidiary of a controlled investment entity if the consolidation exemption was extended to the parent company. EFRAG does not propose any solution to address this issue. As long as it is not clarified, requiring an extension of the consolidation exemption may create an additional complexity in accounting and potentially diversity in practices.

In summary, the EBA does not believe that there is a strong enough argument for extending the exemption as outlined in EFRAG's Draft comment letter and in fact, by increasing the scope of the ED it could potentially adversely affect the comparability of financial statements and increase the potential for accounting manipulation/arbitrage.

If you have any questions regarding our comments, please feel free to contact Mr. Colinet (+ 32.2.220.5247) in his capacity as Chairman of the technical group that coordinated this comment letter.

Yours sincerely,



Andrea Enria

Chair, European Banking Authority