Centre for
Financial
Market
Integrity

22 October 2009

Sir David Tweedie
Chair, International Accounting Standards Board
International Accounting Standard Board
30 Cannon Street
EC4M 6XH
United Kingdom

Re: ED 10 *Consolidated Financial Statements*-Additional Comments Regarding Investment Companies

Dear Sir David;

The CFA Institute Centre for Financial Market Integrity (CFA Institute Centre),[1] in consultation with its Corporate Disclosure Policy Council (CDPC)[2], appreciates the opportunity to supplement its 1 April comment letter on the IASB Exposure Draft 10 *Consolidated Financial Statements* with respect to the accounting for investment companies.

The CFA Institute Centre represents the views of its members, including portfolio managers, investment analysts, and advisors, worldwide. Central tenets of the CFA Institute Centre mission are to promote fair and transparent global capital markets, and to advocate for investor protection. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality. The CFA Institute Centre also develops, promulgates, and maintains guidelines encouraging the highest ethical standards for the global investment community through standards such as the *CFA Institute Code of Ethics and Standards of Professional Conduct.*

Implications of ED 10 Consolidations for Investment Companies

- ED 10 assumes that consolidation provides the most decision useful information to users. While we agree with that assumption in general, it may not be true in all cases.

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[1] The CFA Institute Centre for Financial Market Integrity is part of CFA Institute. With offices in Charlottesville, VA, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of 100,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom 86,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 136 member societies in 57 countries and territories.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The Council is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the Council provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

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- An investment company's primary business activity is buying, holding, and selling investments. ED 10 would require investment companies to consolidate many of their investments because of either control or significant influence.
- In some countries, investment companies are not required to consolidate but instead report investments on a fair value basis:
    - In the United States, investment companies are regulated primarily under the Investment Company Act of 1940 and the rules and registration forms adopted under that Act. Investment companies are also subject to the Securities Act of 1933 and the Securities Exchange Act of 1934.
    - In Canada, investment companies are defined according to "accounting guideline AcG-18" instead of through a legal framework and are also required to use "fair value" instead of consolidation.
    - In other jurisdictions investment companies may not be required to follow IFRS but instead use a range of national requirements.

CFA Institute Positions

- CFA Institute is in favor of fair value accounting since it provides more decision useful information for investors and creditors.
- Consolidated financial statements for investment companies, however, do not provide decision useful information. On the contrary, consolidation would make evaluating the performance of investment companies more difficult.
- The practicality argument often advanced against using fair value, either because of cost or the difficulty of estimating fair value for illiquid assets, does not apply in this case because investment companies use fair value accounting to report to their shareholders. Net asset value and the change in net asset value (often in comparison with a benchmark) is the primary metric that shareholders use to evaluate the performance of investment companies and to make buy and sell decisions.
- We believe that the boundary issue of what is or is not an investment companies is not significant. Investment companies are entities that issue shares and use the proceeds to make investments in other companies. Other than incidental operating assets, all of their assets are invested and those investments are reported at fair value.
- We disagree with the statement that a scope exemption for investment companies would represent accounting based on management intent (see Basis for Conclusion 24). It would, rather, represent accounting based on shareholder intent. We have frequently argued that financial statements should be prepared from the point of view of the common shareholder as the bearer of residual risk.
- We are not concerned that a scope exemption would enable managements to report investments at fair value rather than having to consolidate controlled affiliates. As fair value is our preferred accounting measurement system, we would be happy with that trade off.

- We do agree that fair value may not fully meet user needs in some cases. When the entity bears legal responsibility (as general partner or guarantor, for example) for some or all of the liabilities of an investee, then supplementary disclosures should be required to inform shareholders of the additional risk.

By copy of this letter we also urge the Financial Accounting Standards Board (FASB) to similarly exempt investment companies from the scope of its own revised consolidation standard. In that regard, we strongly encourage the two standard setting bodies to closely coordinate the design and wording of their final consolidation standards as we believe that investor interests are best served when both U.S. and IFRS GAAP have common high quality standards.

In closing we would like to thank the Board for the opportunity to comment on this issue. If you, other Board members or your staff have questions or seek further elaboration of our views, please contact Matthew M. Waldron, CPA, by phone at +1.434.951.5321, or by e-mail at matthew.waldron@cfainstitute.org,

Sincerely,

/s/Kurt N. Schacht

Kurt N. Schacht, CFA
Managing Director

/s/ Gerald I. White

Gerald I. White, CFA
Chair, Corporate Disclosure Policy Council

cc: Robert Herz; Chairman Financial Accounting Standards Board
Corporate Disclosure Policy Council