EFRAG
European Financial Reporting Advisory Group

EXPLANATORY WEBINAR POST-IMPLEMENTATION REVIEW OF IFRS 10, IFRS 11 AND IFRS 12: A USER'S PERSPECTIVE

SUMMARY REPORT

WEBINAR – 1 MARCH 2021

Background

On 1 March 2021, EFRAG and the IASB, together with the European Federation of Financial Analysts Societies (EFFAS) and the Belgian Association of Financial Analysts (ABAF/BVFA) organised an online *Explanatory Webinar Post-Implementation Review of Consolidated Financial Statements, Joint Arrangements and Disclosures – A User's Perspective*. The aim of the outreach event was to stimulate the discussion about the IASB's *Request for Information – Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities* ('the RFI') and to receive input from constituents. This report has been prepared for the convenience of European constituents to summarise the event and will be further considered by the involved organisations in the respective post-implementation review process.

The following supporting documents are available:

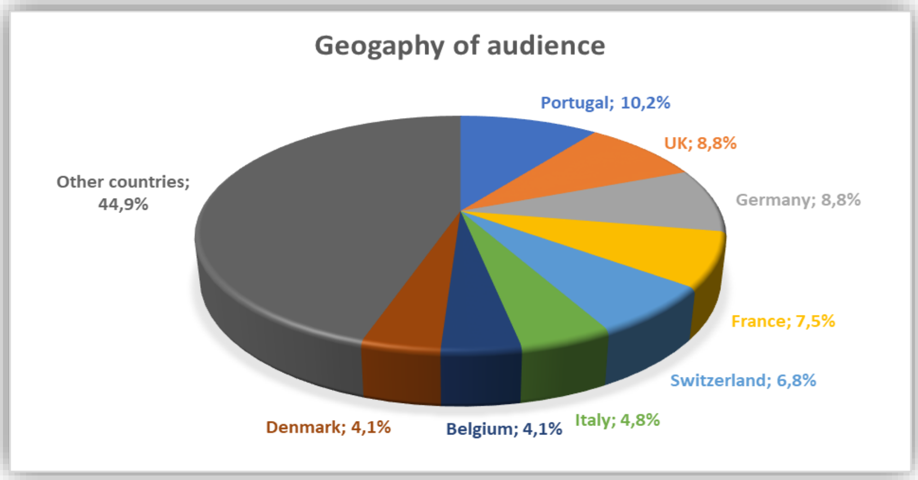
- the program of event: here
- the bios of the speakers and panellists: here
- the slide-deck, presented by the IASB's: here

The webinar started with a presentation by Ann Tarca, member of the IASB. Following the presentation, the panellists participated in the discussion and provided their views. The panel discussion was split into several subjects. Throughout the discussion, the audience could provide their views through online polling and questions to the speakers. The polling surveys' responses and the questions asked by participants are set out in this report in the relevant sections. As not all of the participants' questions could be answered during the webinar, due to time limitations, the questions are listed in the appendix to this report for information purposes.

Welcome and opening speech

Saskia Slomp, EFRAG CEO, introduced the program of the webinar and welcomed the participants and panellists. **She** summarised the first polling question results on the background of participants and welcomed the interest from all participants to the webinar.

Polling survey – The profile of participants in the outreach event and their geography is summarised below:



Jesus Lopez Zaballos, President EFFAS, provided an opening speech. He explained the importance for users of understanding the structure of a listed company since it helps to understand the profits and cash flows of the entity. He also explained that the current set of standards significantly changed practice as the previous standards were based on strict rules regarding the requirement to consolidate, for example ownership exceeding 50% would support consolidating. Another significant change is the elimination of proportionate consolidation. He emphasised the importance of the current concept of control. Furthermore, he noted that the current set of standards have been in place for some time and now is the right moment to perform a post-implementation review.

IASB presentation of request for Information

Ann Tarca, IASB Board member, presented the IASB's RFI. She briefly summarised the questions on IFRS 10 and IFRS 11 and provided more information on IFRS 12 as the IASB is seeking input on investors' information needs regarding interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. She introduced two findings of the IASB relating to the presentation of joint ventures and associates in segment information and the disclosure requirements on individually not material joint ventures and associates. The IASB has observed that some entities disclose segment information including their share of revenue, earnings, assets and liabilities of joint ventures and associates that are accounted for applying the equity method. The share of profit or loss of associates and joint ventures is presented in the income statement and the net investment is presented on the balance sheet as a single line item. IFRS 8 *Operating Segments* does not prohibit this as it has a management approach, however the IASB has observed that companies have chosen to do so. The second finding relates to companies that carry out a significant portion of their business through a number of joint ventures or associates that are not individually material. Applying IFRS 12, investments in joint ventures or associates that are not individually material are not required to be disclosed separately. Therefore, there is not much disclosure on these individually immaterial joint ventures and associates.

Audience question: Has the IASB found any research study that assesses how well IFRS 12 disclosures have been provided in practice?

Ann Tarca responded that the IASB has not found much research or academic studies on IFRS 12 and welcomed any input or references from the audience to known research or studies. She requested that information is shared with the IASB technical staff Ana Simpson by e-mail to asimpson@ifrs.org.

Panel discussion

Hans Buysse, Chairman of ABAF-BVFA and Vice-President of the EFRAG Board, the moderator of this webinar, introduced the panel members.

Topic 1: Assessment of control (IFRS 10)

Hans Buysse asked the panellists what their experience is with group accounting and whether the information is easy to understand and whether any information is missing.

Sue Harding, independent company reporting and governance analyst, member of the EFRAG User Panel, noted that it is not always easy for users to comment on the technical requirements of a single standard but rather the focus will be naturally on disclosures. She noted that this is a good opportunity to step back and look at the requirements in determining the investor's shareholding by looking at the residual value in the holding company. The holding company is the level where investors hold shares and dividends are paid from. She noted that the method applied in accounting for holdings in other entities impacts the group accounts, for example the consolidation, the equity method, or investments at fair value. It can be quite difficult for users to tell what information might be missing. She further noted that in particular within the banking sector, the equity analysis is important. She explained that concerns started with off-balance liabilities that suddenly turned up, referring to Enron and the financial crisis. Currently, the focus of investor analysts seems to be on the accessibility of cash and realisability of other assets on the balance sheet and risks in terms of obligations, as valuation metrics are important in terms of producing valuation models.

She noted that she is not aware of any need for standard-setting in relation to consolidation. Therefore, she continued with setting out the information needs in relation to the disclosures. In particular, the information needs relate to disclosing the impact of accounting judgments and considerations on the method of consolidation. She referred to slide 12 of the IASB presentation where an example of this is illustrated. In the IASB illustration the disclosure states that the entity was unable to exercise significant influence but without explaining why and how they arrived at this conclusion. She confirmed that in many cases the same situation is treated differently by companies and different situations are treated the same way. It is difficult for users to know how and when this occurs, without having insider information. The involvement of auditors and regulators in the accounting process does help the users in understanding the accounts better. She added that the disclosures are not only fundamental to the principle-based approach of the Standards, but it is absolutely fundamental to a proper understanding of the financial reports by users.

Marietta Miemietz, Director Primavenue Advisory Services Limited, member of the EFRAG Advisory Panel on Intangibles, commented that regardless of the quality of the accounting standards, complexity arises whenever an entity is not 100% owned. She highlighted that it is difficult for users to assess the group accounts especially when there is a change of the status of an entity within a group. An example is when a previously fully consolidated entity becomes a discontinued operation or an associate. Entities are in general continuously reviewing their structure and operations; therefore entities/operations are bouncing around the group. One example relates to two companies that performed an asset swap. The operation was classified as a discontinued operation and by the time the asset swap was finalised, there was not much information given to users besides a profit number. Another example relates to a company that planned to exit a certain operation, but it became clear that due to the complexity of the transaction the disinvestment would take years and needed to be done in stages. The discontinued operation however was accounted for as such very shortly as after selling the next tranche the investment became an associate. She explained that some analysts restate their models, and some do not for these accounting movements. She noted that it is not easy for investors to figure out what activities are included in which line items when these movements occur. In general, a particular standard can be followed to account for example one specific joint venture, but it becomes more challenging when the total group structure needs to be accounted for and analysed, especially when the group structure is changing. She also agreed with the complexities of the standards as set out by Sue Harding.

Audience question: Why is the rationale for holding an investment not a requirement? The example where 25% was held but there was no influence was a concern - should users not be given a commercial explanation for why the capital is being deployed into an asset without influence?

Where there are multiple immaterial associates, there is a real concern about lack of information. I would want more information - how many are loss making? Is there a common commercial strategy and what is it? We should always remember users are trying to understand economics to derive a valuation.

Audience question: The 20-50% ownership for significant influence is artificial and does not take into account what the relationship is to other owners - if there is one owning 70% and another 30%, the control is different than if one has 30% and the next biggest has 5% and the other even less. Is there any plan to address the significant influence issue in associates?

Marietta Miemietz confirmed that this is a general issue when analysing companies as there is a risk that a lot of information ends up in the 'other' line. For example, in the pharmaceutical industry where the business is fragmented, many investments might not be material individually but need to be understood on aggregate. If all these individual items were wrong, then the future expected cash flows will be wrong impacting the stock prices. Therefore, it is very important to understand how capital is deployed and what the reasons were to deploy it that way. She emphasised that the concept of control ultimately is a spectrum that depends on the assessment of influence in the investment, and it is very important that the level of influence on it is clear and understandable. She gave an example of an investor holding shares in a pharmaceutical business for a very long time and the only information given was basically referring to a financially strategic investment which is typical boilerplate information. She explained that it is important to understand management's thinking in more detail.

Hans Buysse asked the panellists whether they have a view on the definition of control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

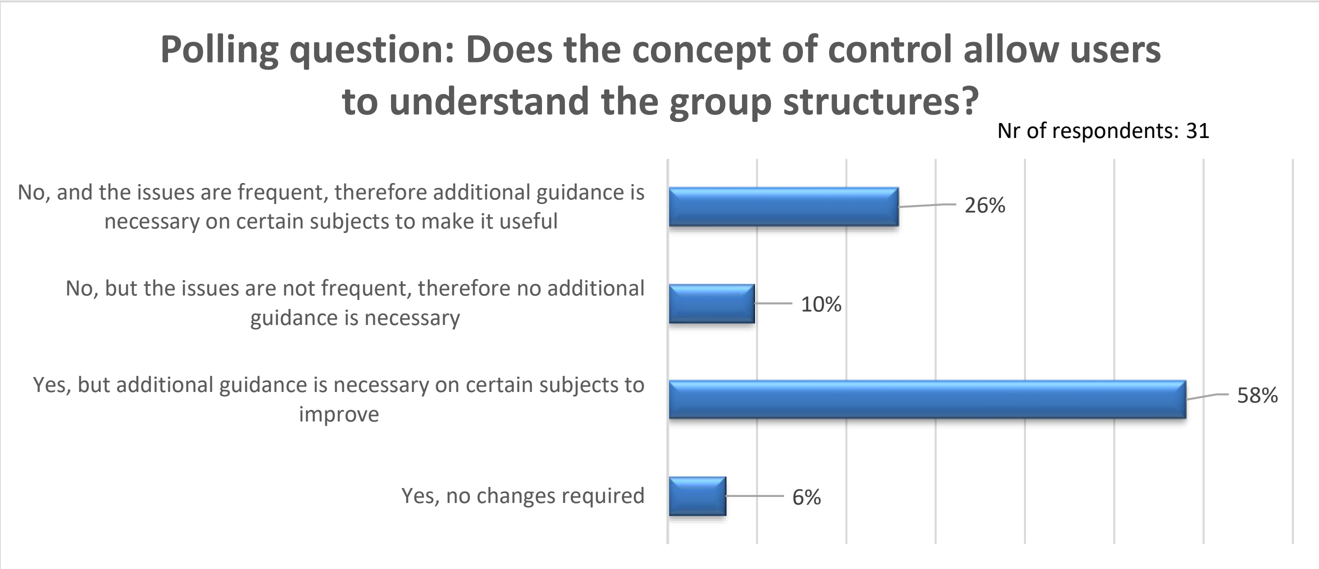
Marietta Miemietz argued that the starting point of the analysis is not necessarily the concept of control but related to the stake that the entity holds in an investment and the cash flows that are ultimately going to flow to it. This is also the reason why some users support proportionate consolidation. She noted that it is very difficult for her to forecast joint ventures as a view is necessary on the whole profit or loss and balance sheet while often the only information available is the stake and the profit. Therefore, it is difficult to perform the economic analysis. In terms of the actual control, users need to understand what decisions are taken by the Board without going into details of the Board's discussions. One important factor is to understand if the company has a de-factor veto right to block decisions that can have a potential negative impact on the company or has the power to force certain decisions that are necessary for the joint venture to succeed. She emphasised that control is not binary but rather a spectrum. Especially in the pharmaceutical industry assets are often shared in various forms where sometimes the control assessment is easy but often it is not, as casting votes or certain penalties can be applicable. She added that next to the formal contractual term where majority and minority stakeholders are visible, there is also economic compulsion if for example a minority stakeholder has a put option which might be a strong tool to put pressure on the company when the majority stakeholder has balance sheet issues. Therefore, the prescribed accounting method for situations where control is available or not is a simplified approach as the applicable contracts and situation in reality can be much more complex.

Hans Buysse asked Sue Harding what her views are on the power over an investee and assessing control without a majority of voting rights in relation to the concept of control.

Sue Harding confirmed that the concept of control represents a spectrum rather than a binary choice as explained by Marietta Miemietz. However, she noted that there is a need for clear guidance on when to consolidate and when not. She informed the audience that she heard that often auditors have a strong tendency to argue in favour of consolidation which might be a response to historical events like Enron and the financial crisis. She called for further research and review on the interpretation of control in practice. She pointed out that it is very important for users to understand why investments are consolidated and why not as it involves a lot of judgment. Inevitably the approach will be binary as guidance needs to be in place describing when control exists. If there is a significant minority interest, then the non-controlling interest issue will need to be resolved. The control assessment is a complex matter that needs simplification.

Hans Buysse asked Serge Pattyn for his views regarding when a subsidiary is not integral to the business.

Serge Pattyn, board member of ABAF/BVFA, member of the EFFAS Commission of Financial Reporting, and member of the EFRAG User Panel, noted that the notion of control is a good starting point to build the group accounting upon. He made a link with the Primary Financial Statements project of the IASB where integral and non-integral associates and joint ventures were proposed. In general, analysts have difficulty coping with this new concept. He wondered whether this new concept can be used within the concept of control by for example not consolidating a subsidiary that is not integral to the business. He argued that it might be a useful approach as the operating section of the profit or loss would only present the activities that are integral and relevant to the main business. He suggested that the IASB also considers this approach in reviewing the Standards.



Hans Buysse summarised the polling question results and asked the panellists for comments.

Sue Harding noted that she is on the same line with the 58% who agree with the statement but request additional guidance. She explained that it is apparent that transactions and structures can be accounted for differently and further guidance would help in identifying these cases to enable more consistent accounting.

Hans Buysse stated that it is surprising that 26% of the respondents do not agree that the concept of control allows users to understand the group structures.

Marietta Miemietz commented that she understands that preparers need more guidance to prepare the group accounting appropriately and it really shows how much judgment is involved in the control assessment. She added that as an analyst she would be unable to get the contracts from the companies, compare to the accounting guidance and figure out where the different contracts and activities are included in the financial statements. She mentioned that often she needs to ask the company how and under which line they have accounted for the contract. In addition, the companies often respond that the accounting for recently acquired business is still to be determined based on discussions with the auditor.

Audience question: I would support the option for proportionate consolidation for equity consolidated Joint Ventures (maybe with a minority interest for non-venturers). This may lead to better audit and reporting as well, due to 'pervasive' quality, which perhaps repels equity accounted investments.

Serge Pattyn expressed his sympathy for the question and referred again to the integral and non-integral associates and joint ventures of the Primary Financial Statements project. He explained that it would make sense to proportionally consolidate a joint venture that is integral to the parent company and operates within the same business model for example. He noted that the IASB is currently not planning to revise the Standards in relation to proportionate consolidation, but he strongly recommended it to be reconsidered especially since the IASB recently introduced, as already explained, the integral vs non-integral associates and joint ventures in the Primary Financial Statements project.

Marietta Miemietz stated that proportionate consolidation would reduce analyst forecast errors. In general, analysts are able to forecast on operating segments even if they include joint ventures since there is some information from the companies on current level of margins and expectations for the future. However, with a majority owned joint venture suddenly a whole profit or loss statement needs to be determined to figure out the minority interests. Ultimately, if the earnings per share is wrong, it can destroy the confidence in the market.

Serge Pattyn added that with the current IASB project on the equity method the relevance of the discussion around proportionate consolidation becomes more evident.

Ann Tarca confirmed that the IASB is considering all the feedback received on the integral vs non-integral associates and joint ventures as part of the Primary Financial Statements project. She advised that a lot of feedback came from the analyst community on the concept of integral and non-integral associates and joint ventures, with a lot of feedback being negative. She expected that therefore this new concept may not be further developed. On proportionate consolidation, she explained that it is not the IASB's aim to reopen the standard and rediscuss decisions taken by previous board members of the IASB, but instead the aim is to listen to stakeholder's views on the information they miss or need in relation to the PIR.

Topic 2: Investment entities exception (IFRS 10)

Hans Buysse asked the panellists whether the concept of investment entities makes sense or whether all subsidiaries need to be consolidated. An investment entity is an entity that (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

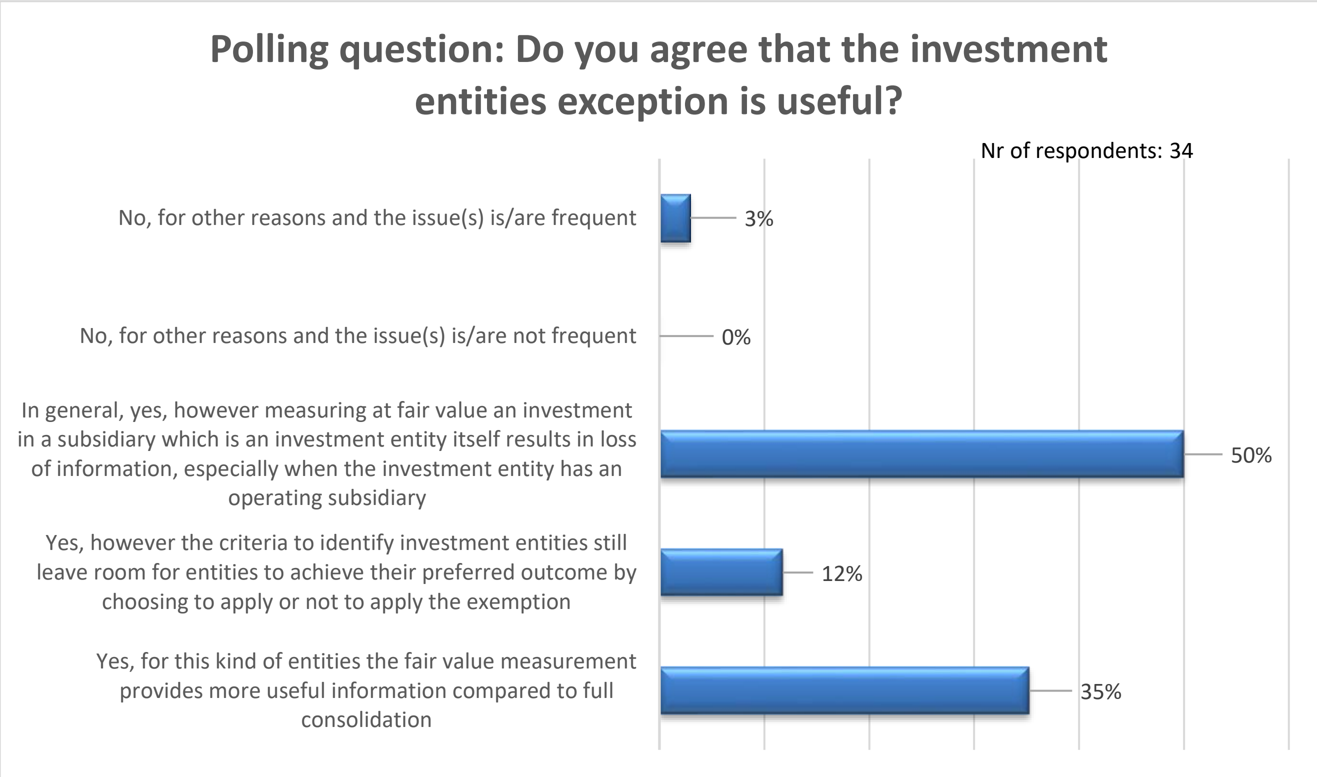
Serge Pattyn agreed with the investment entities exception since an investment entity is not managing a group that is active in e.g., a certain sector. He explained that Belgian analysts have some experience with investment entities as there are numerous (also listed) Belgian holding companies that qualify as an investment entity. He expressed his concerns about the definition which states that an investment entity obtains funds from one or more investors, as if the investment entity starts as of today. However, it is also possible that a large conglomerate decides to develop investment entity activities as of today, without obtaining any additional funds from new or existing shareholders. The subsidiaries – managed on an Investment Entity basis - should also be fair valued. Therefore, the definition should be further fine-tuned. He continued with another concern relating to investment entities where a significant portion of the profit or loss consist of fair value changes. Therefore, it is very important that the disclosures around the fair value measurement are both quantitative but also qualitative (methodologies, parameters, assumptions, etc).

Sue Harding noted that she does not have vast practical experience with the investment entities exception but confirms that on a conceptual level she agrees with the exception.

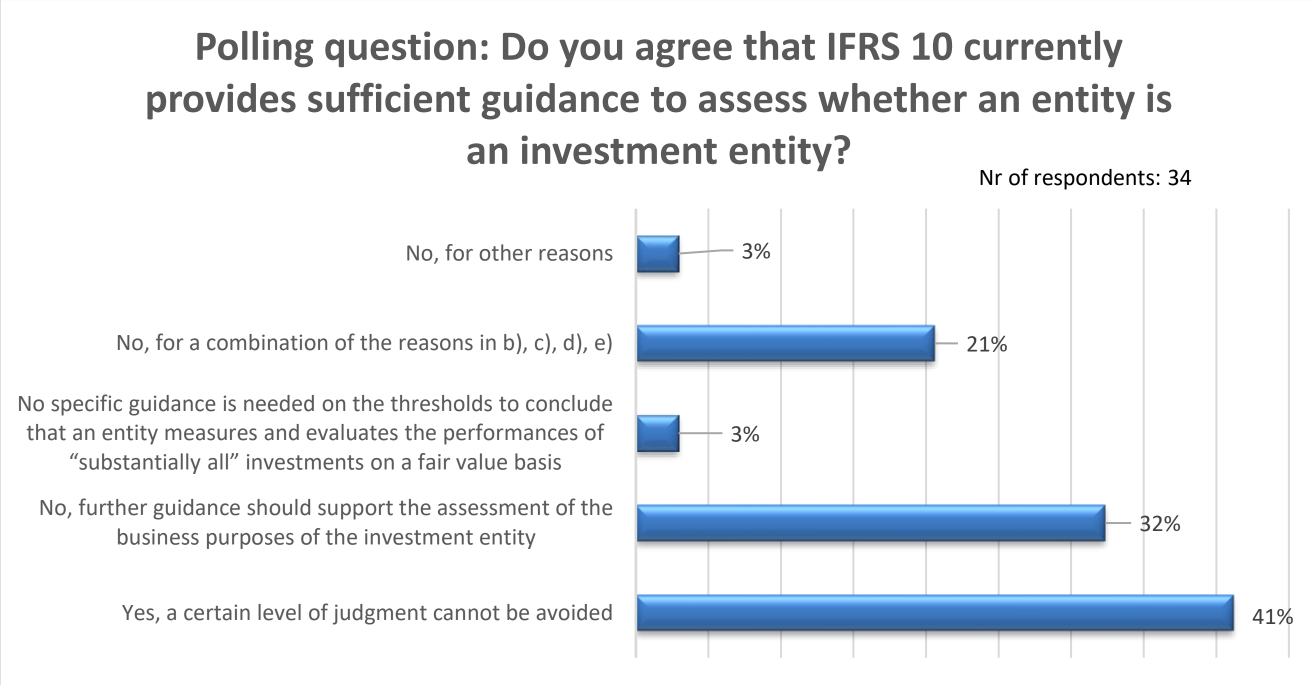
Audience question: An investment company (a subsidiary) dealing in mutual funds has a significant influence in terms of the investment in the fund itself, is this mutual fund required to be consolidated with the parent company?

Serge Pattyn interpreted the question as if the company is developing investment entity activities within the group. He argued that these activities need to be fair valued and not consolidated. The fair value option is particularly appropriate if the business model of the entity is to hold certain investments to collect dividends and to create value. He added that consolidating these activities within a larger group might result in mixing up various activities with different business models which could make the numbers less relevant.

Sue Harding noted that she agrees with the response of Serge Pattyn.



Sue Harding commented on the polling question result and explained that the results support the view that the investment entities exception is the right answer, but it is incomplete as it requires further disclosures that is inherent to understand the investment.



Serge Pattyn commented on the polling question results and confirmed that the answer that a certain level of judgment cannot be avoided is as expected. He gave an example of a subsidiary that was owned for 60% without being controlled. In this specific case the disclosures gave some explanation, but it was clear that a certain level of judgment cannot be avoided.

Marietta Miemietz referred to an earlier discussion in which she stated that it should be avoided that activities are moved around the financial statement due to changes in the accounting approach. She expressed her concern regarding small changes in contracts in the pharmaceutical industry. Based on the judgment of the company and the auditor this could possibly mean that an investment is suddenly not consolidated anymore or due to a next change suddenly consolidated again. Therefore, she argued that the probability of changes to the status and/or contract of the investment needs to be considered in the initial control assessment.

Serge Pattyn clarified that investment entities that consist of departments providing for example corporate finance advice or fiscal advice needs to be consolidated to the extent possible. He stated that in practice it might be a difficult exercise to separate the investment entity activities from the non-investment entity activities.

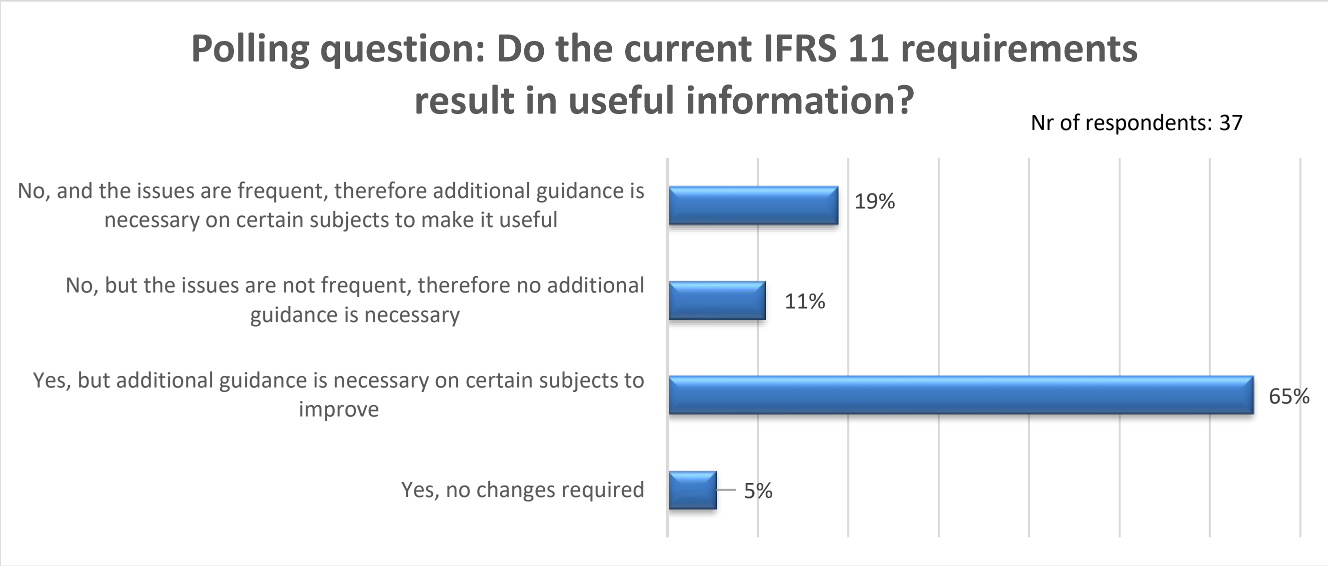
Topic 3: Accounting for joint operations (IFRS 11)

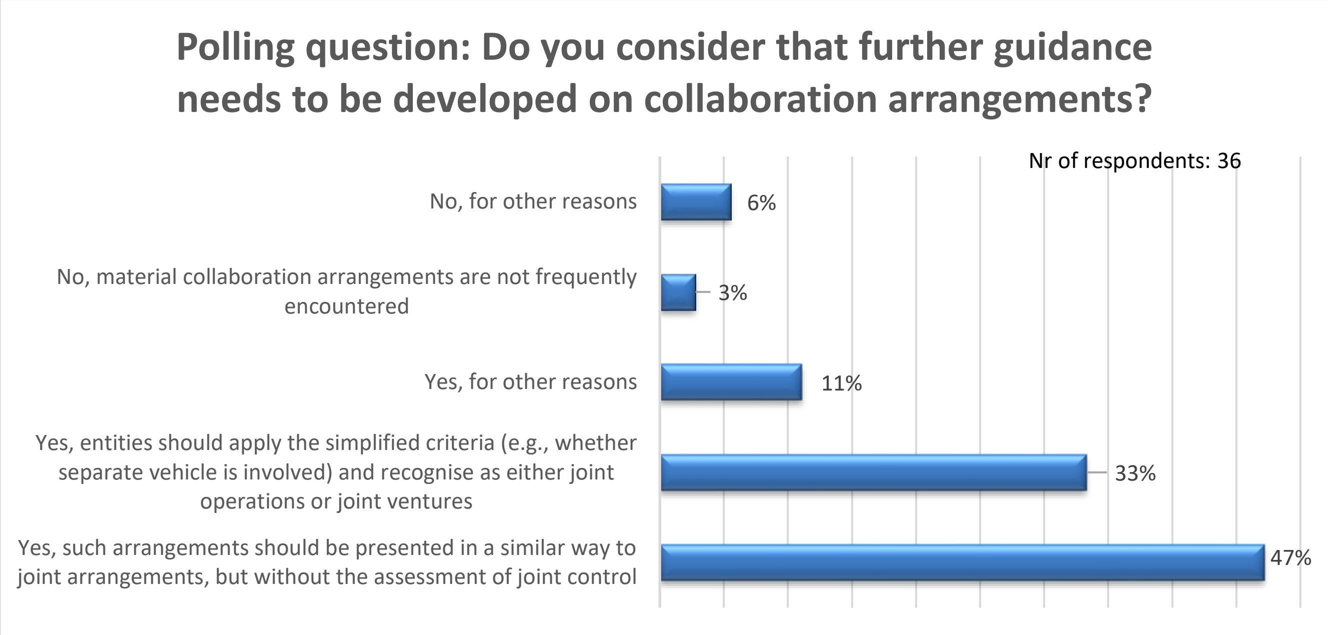
Hans Buysse explained that it can be difficult to distinguish between joint ventures (where the entity has joint control over the arrangement) and joint operations (where the entity has a direct interest in the assets and liabilities of the arrangement).

Marietta Miemietz explained that in general there is a lot of complexity around joint ventures in the pharmaceutical industry. Often it is not a straightforward allocation of shares between investors. A situation might occur for example where the outcome of any asset is highly uncertain, and nobody wants to take the full downside risk and at the same time nobody wants to miss out entirely. So, put option arrangements, preferential dividends etc, are common. She provided an example where the senior partner in a joint venture felt compelled to tweak the contract to allow to include a put option liability to recognise on the balance sheet. This is an example where the accounting requirement impacts the way business and contracts are set up. She provided further examples relating to an estimated royalty obligation that had to be recognised because it was incurred in the context of a business combination and therefore it is considered a contingent consideration. In terms of the actual contractual arrangement, it was not different from a straight licensing deal where a pharmaceutical company arranges the marketing and sells the product of a biotech company by paying a royalty. Straight licensing royalties however are not recognised on the balance sheet. This is considered a mismatch. In addition, it is generally very difficult to obtain complete information on joint ventures bringing analytical challenges as the complete profit or loss is not available. Once the arrangement falls below the joint venture level, in the pharmaceutical industry there is a wide range of contractual arrangements of which one of the simplest is the straight licensing deal. However, from the primary financial statements it is unclear if there is a potential payment for royalties and how much that is. Therefore, she argued that in relation to joint ventures there is always room for improvement on the disclosures.

Sue Harding noted that challenges may arise when combining acquisition accounting with joint ventures and jointly controlled entities. She explained that the various arrangements are going to become more and more common in practice especially where collaboration between companies is needed for future development of products. She questioned whether the accounting for such arrangements is optional, ranging from applying the equity method to applying proportionate consolidation. The information provided by the two methods will be very different therefore disclosures are again key. She argued that the disclosures should disaggregate the numbers included in the financial statements in relation to the consolidated arrangements. Equally, if the equity method is applied disclosures should explain what the underlying balance sheet, profit or loss and cash flows for the arrangements look like. She noted that ultimately investors need to be able to value the investments and assess risks, therefore the same kind of underlying information needs to be disclosed irrespective of the applied accounting.

Serge Pattyn repeated that if users are aware of any specific or complex arrangements that are not addressed well by the standards, they are encouraged to provide their input to the IASB and EFRAG.





Topic 4: Usefulness and completeness of disclosures (IFRS 12)

Hans Buysse asked the panel whether the information in the financial statements meets their needs? Is it too much, too little, or just right?

Marietta Miemietz stated that in her view in general more information should be disclosed. She noted that currently, with the Primary Financial Statements project, the IASB is working on getting more granular information for users to understand the operations of an entity, their margin structure, cost structure, etc. This works when entities are 100% owned but as soon as it relates to for example joint ventures the information will be distorted and get lost. She explained that when she needs to analyse a joint venture, information from different sources is needed for her modelling. For example, the annual report might tell the stake in a joint venture, however if you want to project future developments you may need to go back to the initial press release when the joint venture was formed. Or information on the profitability of a joint venture might be coming from your knowledge of the industry. In addition, information might be presented during a capital market day or Q&A session with analysts where the company representative might explain that the profitability is deviating from the market average due to certain reasons. Obviously, if a company is not followed closely that information will not be captured. Therefore, modelling joint ventures can be very challenging. She noted that for analysts that follow a relatively low number of companies it is already difficult to model joint ventures, but it becomes an even bigger challenge for other users like investors who usually deal with many more entities and therefore have even less time to obtain all the necessary information by reading all the disclosures and additional documents. The face of the primary financial statements does not necessarily provide all the useful information. She added that one of the reasons that users look at alternative performance measures and disregard IFRS earnings for example is because it is too complex to determine the discounting and unwinding effect of the put option liability through the profit or loss. Users therefore tend to look at a simplified metric that ignores this effect. She noted that using alternative performance measures is fine as long as they understand that these alternative performance measures strip out actual economic costs that needs to be incurred in order to run the business. Some of these complexities can be addressed to some extent by accounting but the bottom line is that if a company has many joint ventures and integrates complex structures it has to take a risk that it becomes un-analysable, resulting in an increase in the cost of capital.

Sue Harding noted that the disclosure requirements are principle-based therefore some of the disclosure requirements is inevitable. Sufficient disclosure needs to be made by going down the spectrum of consolidation, segment information, insight on restrictions, etcetera. She added that disclosures on restrictions are often based on legal restrictions, but users are not only interested in legal restrictions. Users also need to understand the disaggregation to assess where the cash and the debt sits. She noted that the impact of non-controlling interests is not touched upon yet. She explained that more clarity is needed on the NCI claim on assets, liabilities, earnings, and cash flows. She considered this a disaggregation issue. She provided an example of a net presentation of individually not material equity method investees where a portfolio composition is hidden due to netting. The company itself is heavily dependent R&D and needs to meet climate obligations that they have committed to. There are no R&D expenses in the consolidated entities and therefore might be hidden in the net presentation of individually not material equity method investees. She explained that if these expenses are therefore not visible this would be material information.

Serge Pattyn confirmed that he agrees with the objective of IFRS 12 but stated that users are not satisfied in practice. He provided an example of an entity that lists its investments in subsidiaries, associates, and joint ventures, but where it is unclear what these consist of and there is no information on the shares held. He also mentioned an example of a disclosure table where transactions with minority shareholders are presented. However, this also means that since other companies are not providing the same table, this information becomes less useful. Furthermore, he agreed with Sue Harding that information on NCIs is complex but important to understand. He noted another example where an entity listed subsidiaries where a stake of 50% is held and which are consolidated while a list with joint ventures also shows a stake of 50%. The entity did not explain their consideration to account for one as a subsidiary and for the other as a joint venture. He expected that companies will probably argue that the investments are not material and therefore will not impact the decisions of users, but nonetheless it does not meet the objective of IFRS 12. Therefore, he noted that IFRS 12 currently does not allow users to assess the nature of and risks associated with its interests in other entities and the effect of those interests on its financial position, financial performance, and cash flows, as stated in paragraph 1 as it is not applied properly in practice.

Audience question: Have you considered including industry specific accounting principles like what was done for the Oil & Gas industry?

Serge Pattyn commented that the IASB does not aim to have industry specific exceptions. The current IFRS Standards are principle-based, and exceptions would result in too many since there would be requests from various sectors and industries.

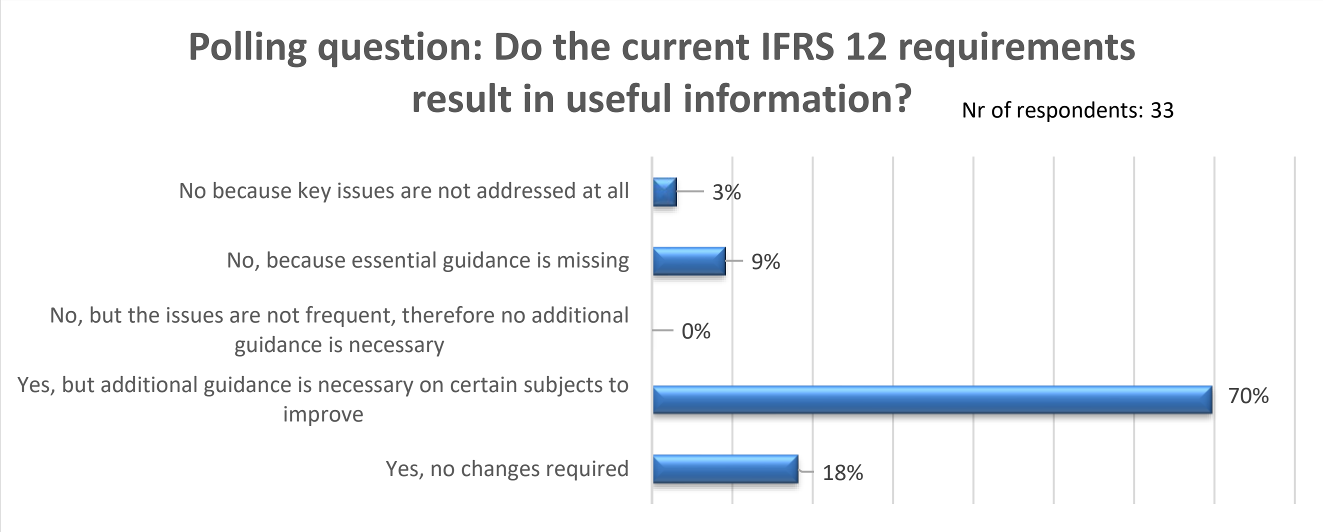
Ann Tarca confirmed that the IFRS Standards will remain principle-based and noted that there are a lot of industry-specific requirements in the US and a lot of it needed to be rationalised. She noted that a lot of stakeholders asked the IASB not to develop industry-specific guidance. She mentioned that the IASB is currently looking at IFRS 6 for exploration and evaluation activities to determine whether the Standard needs development and recommended following that discussion if interested.

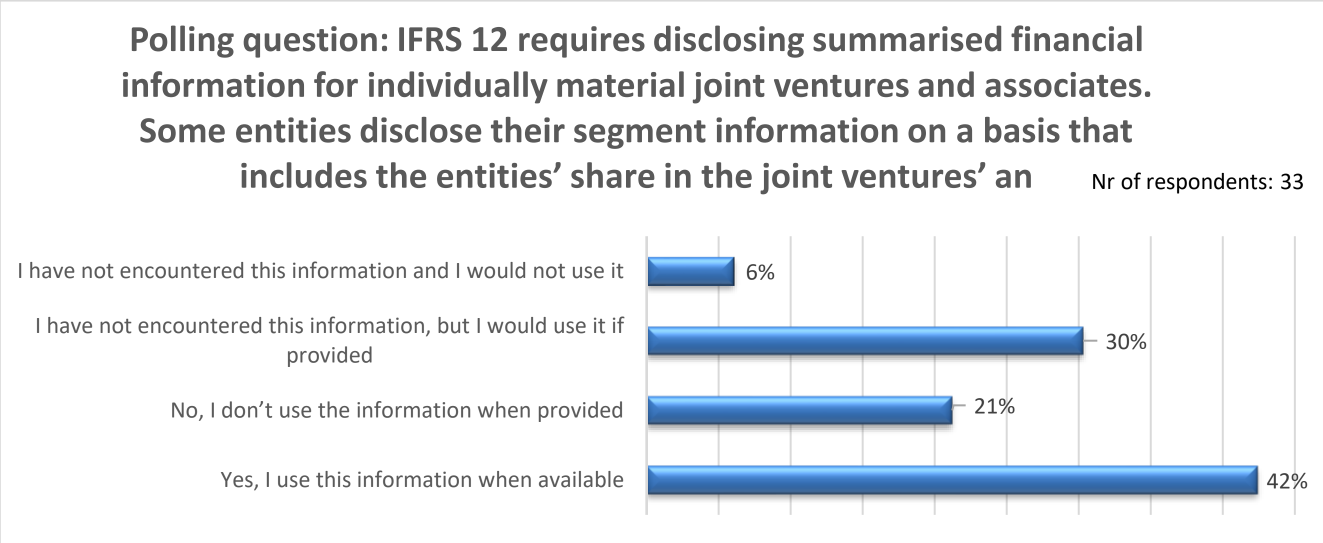
Audience question: It has always appeared to me that IFRS 12 requires significant information regarding the impact of Joint Ventures and Associates which is useful, but I believe that it would also be very useful to know the cumulative impact these entities have had on the separate components of equity. This would clearly show the extent to which components of equity are within the control of the company and the extent to which they are in Joint Ventures which are jointly controlled and associates over which the entity only has significant influence.

Serge Pattyn commented that this question relates to the equity method and needs to be discussed in that sense.

Marietta Miemietz confirmed that it would be nice to have this information but in practice users seem to be interested in just understanding shareholder's equity, minority interest, investment in associates, etc. She noted that probably not many users will be interested and able to digest this level of granular information, but it might be interesting for credit investors.

Serge Pattyn added that presenting information in the other comprehensive income might trigger uncertainty and is expected to be immaterial.





Audience question: In respect of the consolidation of SPE/SPVs in which there is no shareholding (0% interest in the SPV), does the consolidation assessment need to be done at the level at the entity that has provided funding and exercises control through the lending agreement?

Marietta Miemietz commented that in general the control assessment needs to be performed as best as you can. If the influence in an entity is asserted through the lending agreement and lending covenants than that could determine significant control, but it depends on how the operations are structured. She added that if the entity is far from breaching any covenants, then in actual practice the day-to-day decisions could be made without the involvement of any party. She suggested to check with credit analysts and companies that entered into those structures how control is assessed.

Hans Buysse added that if step-in rights of lenders are applicable on those contracts that could change the assessment. He confirmed an additional comment of Serge Pattyn that for the control assessment all facts and circumstances need to be considered. He thanked the panellists and introduced Patricia McBride.

Closing of the event

Patricia McBride.

Patricia McBride, EFRAG Director, thanked the panellists to not only ask for more information requirements in IFRS Standards, but also to explain why more information is needed. She summarised the discussion of the panel and highlighted important issues and requests. She requested the audience to complete the EFRAG questionnaire and welcomed volunteers from Europe to participate in interviews to discuss specific user comments and issues. The link to the questionnaire and the contact details are sent by e-mail to all the registered participants to the webinar.

The takeaways from the webinar were as follows:

- The users believed that IFRS 12 provides good disclosures, however, more information on investments in other entities is needed.
- Where judgment is required to classify an investment as a subsidiary, associate, or joint venture, it is important to provide information not only about the result of the assessment, but also what factors were considered, and how those factors were weighted in undertaking the assessment.
- The panellists noted that investments in other entities form a continuum and, consequently, there is a lot of concern about finding the information when the status of an investment changes along the continuum, for instance when the activities move from consolidation to joint venture accounting.
- Nevertheless, there was no request for re-introducing bright lines e.g., 50% to meet control, and 25% for significant influence.
- The users requested more information regarding economic compulsion.
- The notion of integral and non-integral investments, proposed by the IASB to be introduced in *Primary Financial Statements*, could be brought into the group accounting, and applied to subsidiaries. This would imply, for instance, that a non-integral subsidiary would not need to be consolidated.
- There was a request to reconsider proportionate consolidation because it would reduce the forecasting errors from analysts if they got such more direct information.
- There was a strong request for more information on risks and cash flows at a more granular level, as that is critical to an investor's analysis
- There was strong recognition of the complexity and that investments do not fit tidily into boxes. Generally, there were requests that comparing risks and cash flows between different types of investments is necessary and appropriate information is needed.
- There was a comment that when a subsidiary, joint venture, or associate moves into discontinued operations under IFRS 5 *Discontinued Operations*, the information about the operations is lost.
- The panellists supported investment entity accounting and, again, requested more granular information.
- The most important messages to the IASB, during the review were that users agree with the objectives, however, more granular information about risks and cash flows is required and moreover more information is needed on situations where a status of investment changes between specific entities.

Appendix – Other audience questions/comments not discussed during the outreach

Are there going to be any revisions of presentation (disclosure) of the various types of investment entities (fund managers, UCITS, pension funds)? Whether these need to be consolidated or unconsolidated in the consolidated balance sheet? Or will be presented as off-balance sheet?
Collaborative arrangements have a lot of diversity in practice. Some fall into the new revenue recognition standard and others are more cash basis driven. But mostly cash basis.
Lines between industries are blurring.
User's fundamental need is to value joint ventures, joint arrangements, associates, and non-controlling interests - for a user there is no difference in methodology or materiality when trying to value the equity of the holding company. What information should reasonably be required to be disclosed recognising that current disclosure is inadequate (particularly individually immaterial)? Purpose of holding? Nature of relationship if there is operational activity involved including scale? More financial info of the entity?
After IFRS converged with Indian Accounting Standards in India, a lot of the former subsidiaries were accounted for as joint ventures.
In India restatement is not easy and a legal approval is needed.

Contributions may have been edited for length or clarity.