

Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12

21 April 2021

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Post-implementation Review

IFRS 10, IFRS 11 and IFRS 12



EFRAG

European Financial Reporting Advisory Group



Contents

This presentation provides an overview of the Request for Information *Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interest in Other Entities*, prepared by IASB staff. The presentation also includes feedback received by EFRAG, prepared by EFRAG staff.

	Slides
Purpose of the session	6
IFRS 10 matters (consolidation and related disclosures)	7–19
IFRS 11 matters	20–31
IFRS 12 matters	32–38
IFRS 10 matters (others)	39–46

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Purpose of this session

Project

Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*

Objective

To gather feedback on the matters examined in the Request for Information

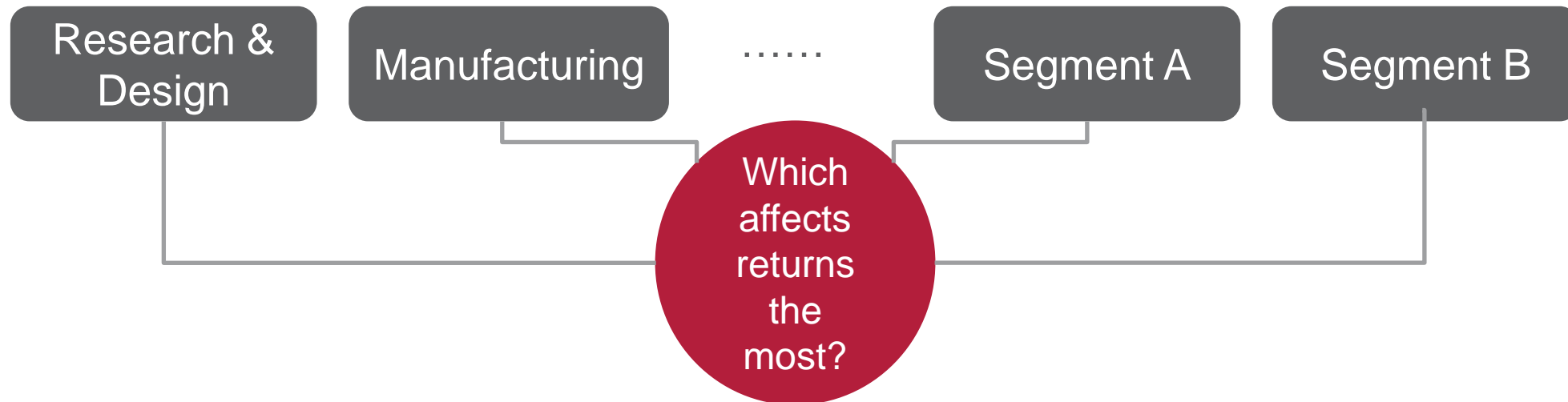
A grayscale world map is the background, with several thick, curved, overlapping lines and dotted lines overlaid on it, suggesting a globe or a network. The text is positioned on the right side of the map.

IFRS 10 matters (Consolidation and related disclosures)

Identifying relevant activities of an investee

Feedback

Identifying relevant activities is challenging when two or more investors each have rights that give them the unilateral ability to direct **different activities**, especially when those activities occur at **different times** or are **conditional** on future events



Rights that give an investor power

Feedback

Assessing whether rights give an investor power can be challenging. Can the guidance on how an investor **assesses** its own rights and rights of other parties be improved?

Appointment of key management personnel

Disposal of significant assets

Entering or exiting new markets

Agreeing on financing arrangements

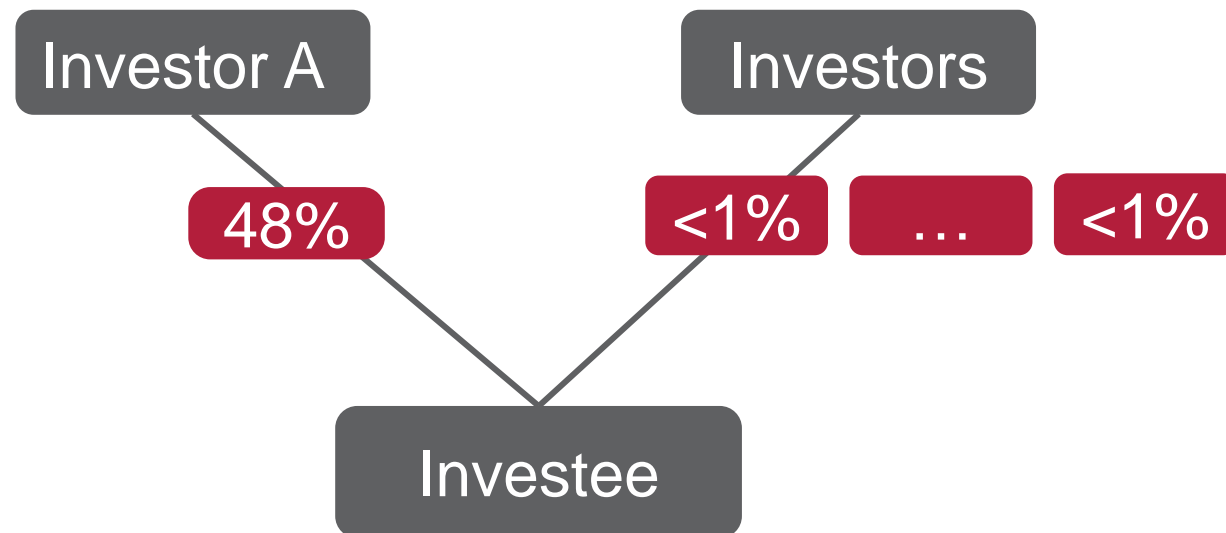
Appointment of board members, in case of breach of covenant

Approval of remuneration for key management personnel

Control without majority of the voting rights

Feedback

Judgment is required to assess whether an investor has the **practical ability** to direct an investee's relevant activities because of the **size** of the investor's voting rights relative to the size and **dispersion** of the other shareholdings



Question

Question

Power over an investee

Are you aware of situations described in slides 8 - 10 related to:

- identifying the relevant activities of an investee?
- assessing whether rights give an investor power?
- assessing whether an investor controls an investee without a majority of the voting rights when other shareholdings are widely dispersed?

How frequently do the situations arise?

EFRAG: What have we heard so far?

Aspects reported to create issues when assessing power over an investee:

- Determining which rights are protective
- Assessment of power over investee in de-facto control (particularly, when the ownership changes)
- Assessment of relevant activities
- Determining the moment when control arises in piecemeal acquisitions
- Lack of definition of returns (e.g., how to consider reimbursables)

Protective rights = rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate

Disclosure of significant judgements and assumptions

Requirements

The disclosure of information about significant judgements and assumptions an entity has used to determine:

- whether an entity has control, significant influence, or joint control; and
- whether a joint arrangement is a joint operation or a joint venture

Example 1—determining control

34. Principal operating, finance and industrial subsidiaries and investments

		Country of incorporation	% interest 2019	% interest 2018	Main activity
Principal subsidiaries					
Industrial activities					
	Sub A		50.0	50.0	Copper production

1 This investment is treated as a subsidiary as the Group is entitled to elect the chairman of the Board who has the casting vote where any vote is split equally between the four board positions.

Question

Question

Power over an investee

If you are a user of financial statements, do you receive sufficient information to understand the nature of an entity's interest in another entity or arrangement? (eg control when an entity does not have a majority of the voting rights)?

EFRAG: what have we heard so far?

- Disclosure or more information requested on:
 - Factors used and their weight for judgments needed to classify an investment as a subsidiary, associate, or joint venture
 - Economic compulsion
 - Risks and cash flows at a more granular level
 - Unconsolidated structured entities

Assessing if a decision maker acts as a principal or an agent

Feedback

Judgment is required to assess whether a decision maker's exposure to **variability of returns** is consistent with being an agent

Scope of investor's decision-making authority over the investee

Rights held by other parties

Remuneration agreement(s)

Decision maker's exposure to variability of returns from other interests it holds in the investee

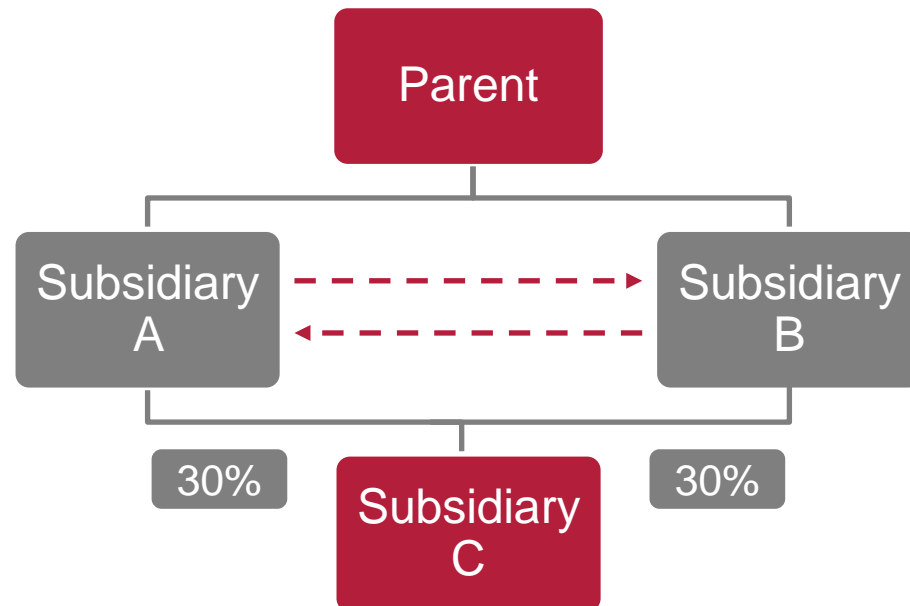
Weightings shall be applied to each factor based on facts and circumstances

Identifying non-contractual agency relationships

Feedback

Proving or disproving an **agency relationship** can be challenging when there is **no** contractual arrangement (a de facto agency relationship)

Does Subsidiary A or Subsidiary B have control of Subsidiary C?



Question

Question

Agency relationships

Are you aware of situations in which:

- it is challenging to identify an agency relationship?
- an investor needs to assess whether it has an agency relationship with other parties but there is no contractual arrangement?


If so, how frequently do these situations arise?

EFRAG: What have we heard so far?

In regard to agency relationship:

- Assessment of variable returns in transactions without consideration paid
- Principle vs agent assessment (e.g., SPE in fund management)

Protective rights = rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate

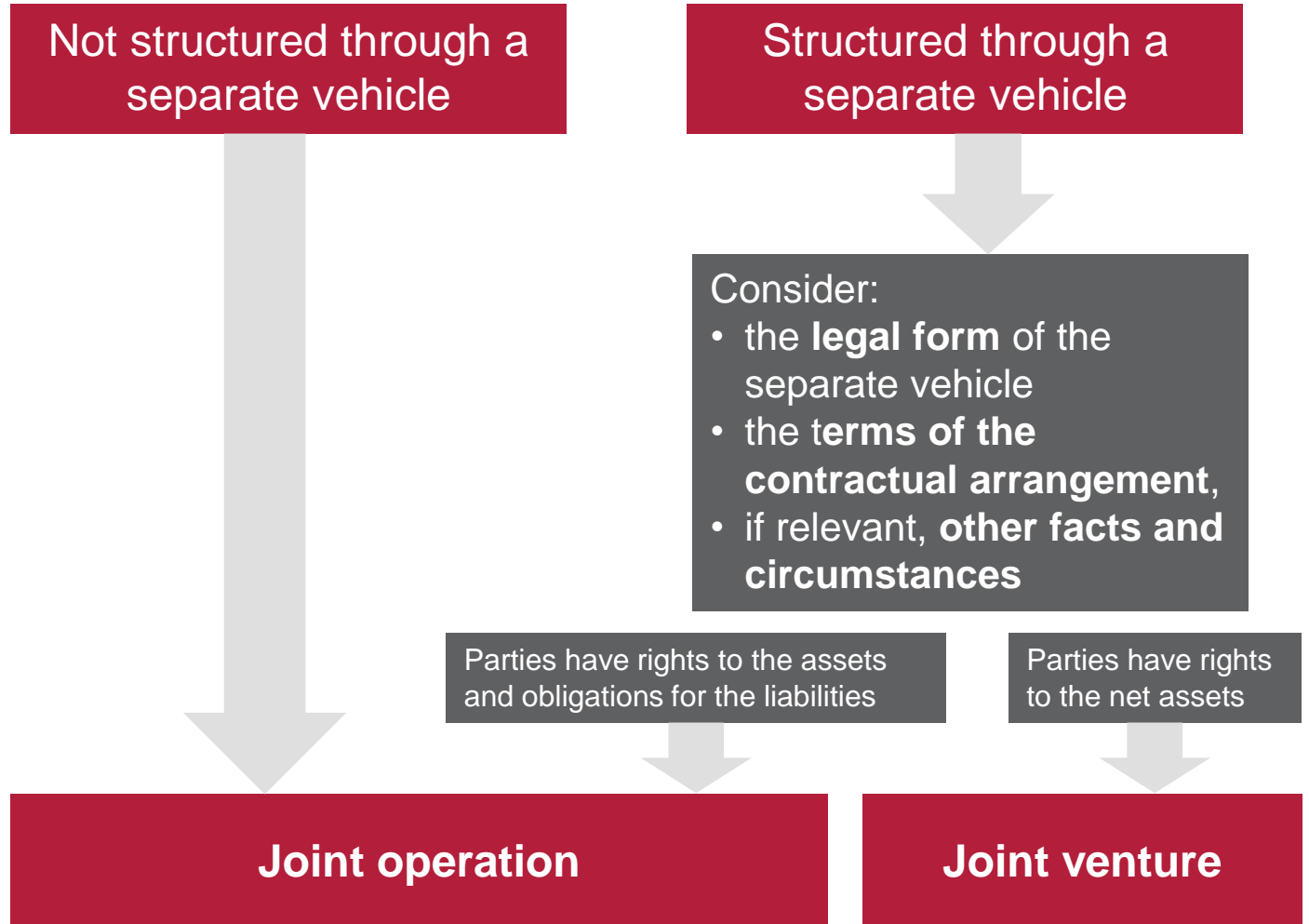
A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are dotted lines forming a grid-like pattern across the map, suggesting a global or interconnected theme.

IFRS 11 matters

Classifying joint arrangements

Feedback

Classifying some joint arrangements requires significant judgement



Question

Question

Classifying joint arrangements

- how frequently does a party need to consider other facts and circumstances to determine the classification of a joint arrangement after having considered the legal form and the contractual arrangement?
- Are you aware of other factors that may be relevant to the classification that are not included in IFRS 11?

Finding —segment information

Finding

- Some entities disclose segmental information including their share of revenue, earnings, assets and liabilities of joint ventures and associates
- Joint ventures and associates 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* provides information based on the way management regards an entity

Finding —segment information

Example 1—Segment information associates and joint ventures

	The Company and its subsidiaries		Associates and joint ventures		Combined revenue*	Consolidated results
	Revenue*	Results	Share of revenue*	Share of results		
Property sales						
Hong Kong	36,268	15,965	605	368	36,873	16,333
Mainland China	3,497	1,667	862	367	4,359	2,034
Singapore	–	–	32	10	32	10
	39,765	17,632	1,499	745	41,264	18,377
Property rental						
Hong Kong	15,914	11,898	3,095	2,558	19,009	14,456
Mainland China	3,995	3,211	622	451	4,617	3,662
Singapore	–	–	588	447	588	447
	19,909	15,109	4,305	3,456	24,214	18,565

* In the context of this example, the term “results” refers to net profit or loss.

Question

Question

- Are you aware of a situation in which segment information is disclosed including the share of revenue, earnings, assets and liabilities of joint ventures and associates?
- If so, how is this information useful to you as a user of financial statements?

EFRAG: What have we heard so far?

- In general, analysts are able to forecast on operating segments even if they include joint ventures as 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 EPS is wrong, it can destroy the confidence in the market.
- Sufficient disclosure needs to be made by going down the spectrum of consolidation, segment information, insight on restrictions, ... More clarity is needed on the non-controlling interest claim on assets, liabilities, earnings and cash flows.
 - Example provided related to a net presentation of individually not material equity method investees where a portfolio issue is hidden due to netting.

EFRAG: What have we heard so far?

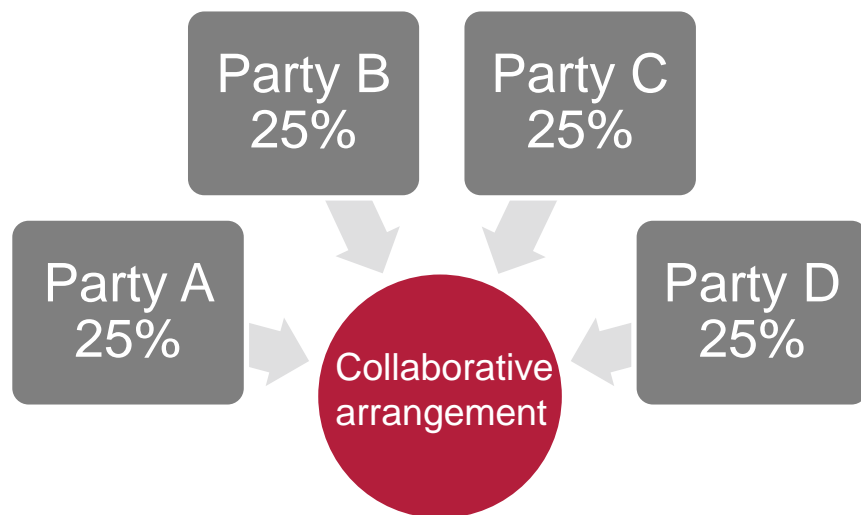
A re-iterated request to reconsider proportional consolidation

- To provide information about coverage of fixed obligations
- To reduce the level of forecasting errors for analysts
- Measures based on proportionally consolidated financial information in management reports of Real Estate industry

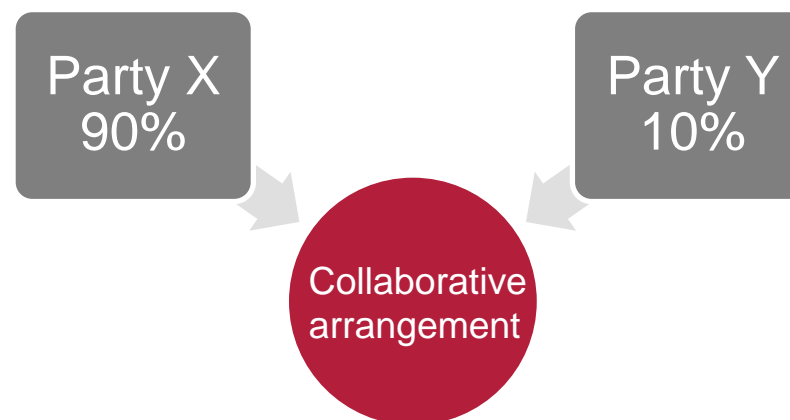
Collaborative arrangements outside the scope of IFRS 11

Feedback

IFRS Standards do not provide sufficient requirements for all types of collaborative arrangements, such as arrangements in which two or more parties manage activities together but do not have **joint control**



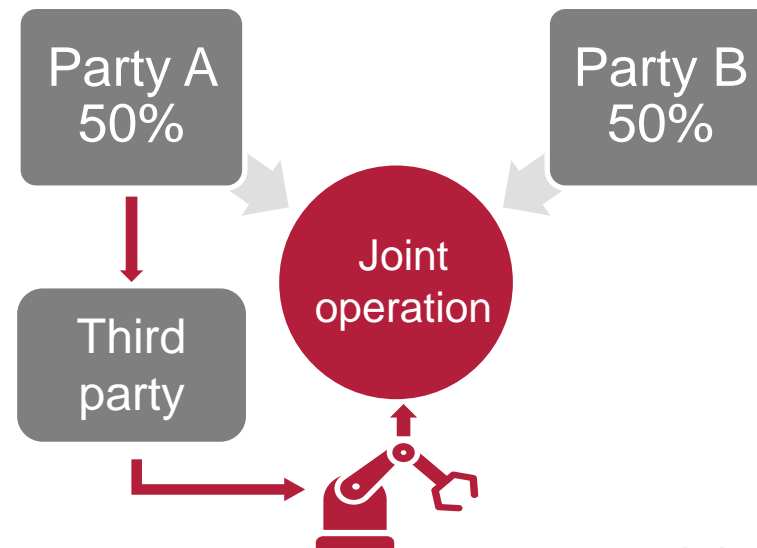
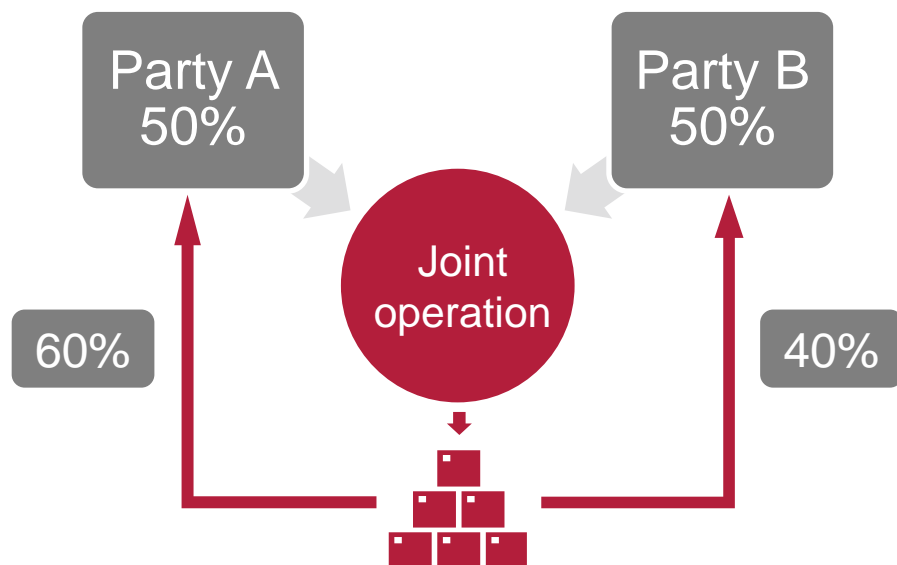
or



Accounting requirements for joint operations

Feedback

Further guidance is requested on accounting for joint operations in some situations, for example, when joint operators are committed to buying a share of output that differs from their share of ownership in the joint operation



Question

Question

Collaborative arrangements

- How widespread are collaborative arrangements that do not meet the IFRS 11 definition of a joint arrangement?
- What are the typical features of collaborative arrangements?
- How are these arrangements accounted for?

Joint operations

- Are you aware of a situation in which IFRS Standards do not provide sufficient guidance on how to account for joint operations?

EFRAG: What have we heard so far?

Requests to provide guidance on accounting and disclosures of arrangements without joint control or a corporate wrapper:

- collaborative arrangements
- risk sharing arrangements

Joint operation accounting in separate financial statements

- A request to treat the investments in the same way as investments in subsidiaries, JVs etc., ie. to eliminate accounting for assets/liabilities.

Collaborative arrangement: a contractual arrangement that involves a joint operating activity. These arrangements involve two (or more) parties that: i) are active participants in the activity; and ii) are exposed to significant risks and rewards depending on the commercial success of the activity.

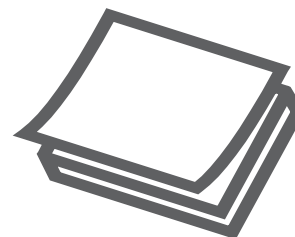
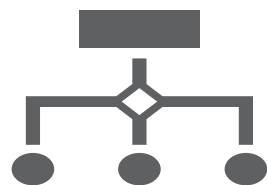
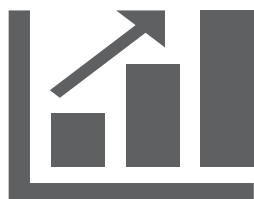
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IFRS 12 matters

IFRS 12 Disclosures

Feedback

Only a few stakeholders commented on IFRS 12 requirements and feedback was mixed—some stakeholders called for additional disclosures while others argued that the disclosure requirements are excessive.



Question

Question

IFRS 12

Are you aware of:

- information that is not required by IFRS 12 you consider useful?
- information required by IFRS 12 you consider unnecessary?

EFRAG: what have we heard so far?

Generally, IFRS 12 provides useful information

Several requests to provide more information on:

- Non-controlling interest:
 - No information on the NCI effects on the group as a whole
 - Information needed on revenues, cash flows, assets, liabilities, and other performance measures split per each NCI
 - Cash flow statements do not present information split between the majority owned and NCI
 - Proportionate EBITDA - as a good example of voluntary disclosure to present information on NCI

EFRAG: what have we heard so far?

Other requests regarding more disclosures on:

- Unconsolidated structured entities
- Factors used and their weight for judgments needed to classify an investment as a subsidiary, associate, or joint venture
- Economic compulsion
- Risks and cash flows at a more granular level

Finding—Individually not material joint ventures and associates

Finding

- We have identified 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

Disclosure—joint ventures and associates (equity accounted investments)

Example 2—individually not material joint ventures and associates

Aggregate information of associates that are not individually material:

US\$ million	2019
The Group's share of (loss)/income	(110)
The Group's share of other comprehensive loss	(25)
The Group's share of total comprehensive loss	(135)
Aggregate carrying value of the Group's interests	2,420

Questions

Are you aware of any such circumstances?

If yes, what are your views on the sufficiency of the information?



IFRS 10 matters (others)

Identifying an Investment Entity

Feedback

Definition of an investment entity—stakeholders asked for clarification

Criteria

- business purpose
- exit strategy
- fair value measurement

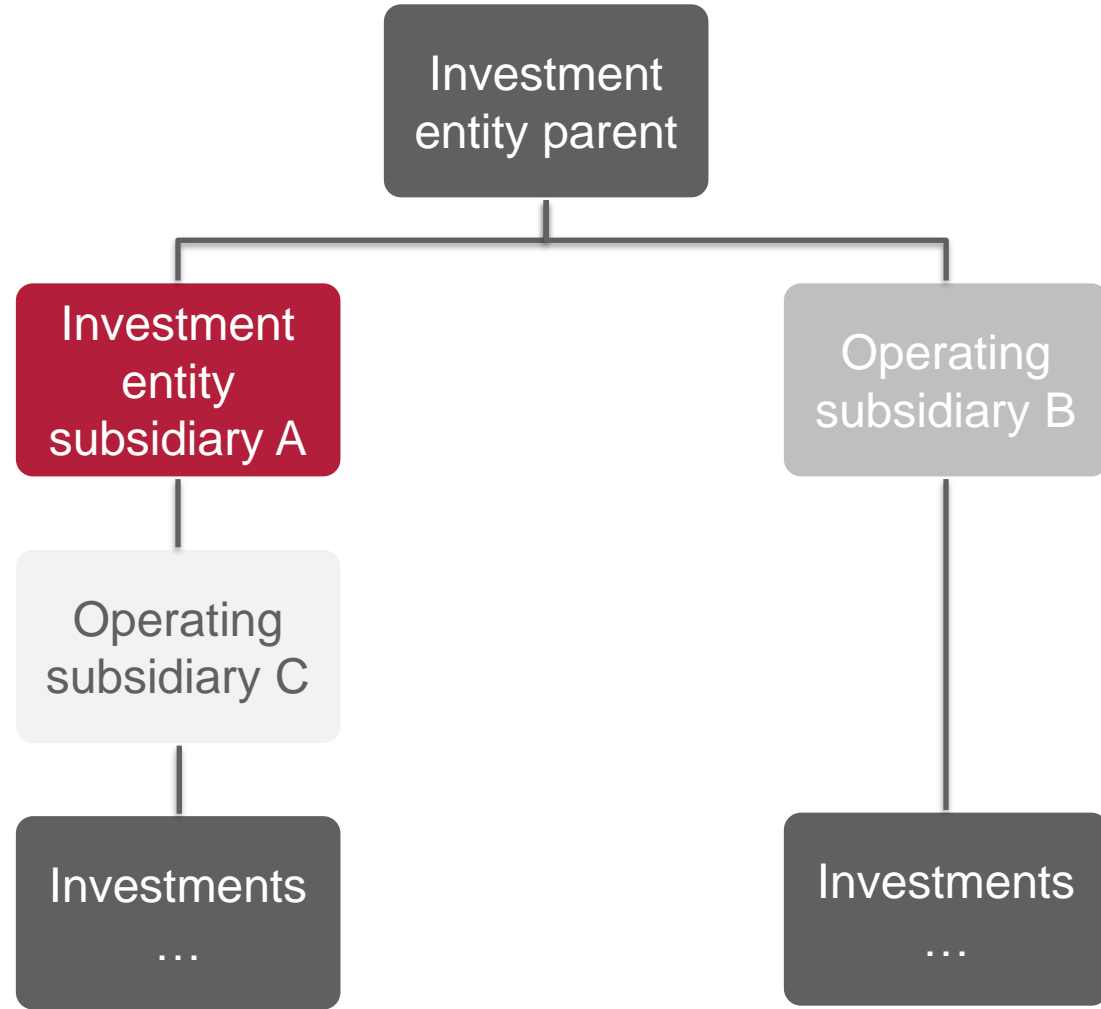
Characteristics

- more than one investment
- more than one investor
- investors that are not related parties of the entity
- ownership interests in the form of equity or similar interests

Accounting for a subsidiary of an investment entity that is also an investment entity

Feedback

Measuring at fair value an **investment in a subsidiary** which is an investment entity itself (rather than consolidating the assets and liabilities of the subsidiary) results in loss of information



Question

Question

Investment entities

- Have you had experience in applying the definition of an investment entity?
 - If so, does the definition lead to consistent outcomes?
 - If not, please explain the situations.
- Are you aware of situations in which measuring at fair value an investment in a subsidiary that is an investment entity itself results in loss of information?

EFRAG: What have we heard so far?

- General support for IE accounting
- Request for more information on group financing and leveraging, which is perceived to be lost in fair valuation
- Definition of IE needs further fine-tuning

Accounting requirements in IFRS 10

Gaps in change in the relationship between an investor and an investee

Partial acquisition of a subsidiary that does not constitute a business

Question

- How frequently do transactions arise that change the relationship between an investor and an investee and are not addressed by the Standard?
- How do entities account for a partial acquisition of a subsidiary that does not constitute a business?

EFRAG : What have we heard so far?

On other aspects of IFRS 10:

- Practical guidance on consolidation techniques
 - Accounting for cross ownership in groups with financial investments (e.g., pensions)
 - Consolidating different types of investments
- Lacks the overarching principle in IFRS 10 which would explain the reason for consolidated financial statements
- Accounting for NCI resulting from written put options or forward contracts
- Integral and non-integral investments (this notion could be brought into the group accounting and applied to subsidiaries; i.e., a non-integral subsidiary would not need to be consolidated)
- Providing a proof that nobody requested to present consolidated financial statements in a sub-group is difficult

EFRAG: What have we heard so far?

Other aspects related to the interaction with other Standards

- **IFRS 16 *Leases* vs IFRS 11**
 - Accounting for lease liabilities in the context of joint operations
 - Presenting information by operators on leased field assets in extractive industries (e.g., oilfields)
- **IFRS 5 *Discontinued Operations***
 - When a subsidiary, joint venture, or associate moves into discontinued operations, the information about the operations is lost.
- A re-iterated request to include IAS 27 and IAS 28 in the PIR due to many close links between these Standards and IFRS 10/11/12



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