

International Accounting Standards
Board (IASB)
30 Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

7 May 2021

Dear Board Member,

Re: Post-implementation Review IFRS 10, IFRS 11 and IFRS 12

BUSINESSEUROPE is pleased to provide input to the post-implementation review (PIR) of IFRS 10, IFRS 11 and IFRS 12.

We have consulted with our members to provide feedback on the application of the standards covered by the PIR. Our comments to the questions are provided in the Appendix.

If you require any further information upon these matters, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren
Senior Adviser



Appendix

Question 2a

In your experience:

(i) to what extent does applying paragraphs 10–14 and B11–B13 of IFRS 10 enable an investor to identify the relevant activities of an investee?

(ii) are there situations in which identifying the relevant activities of an investee poses a challenge, and how frequently do these situations arise? In these situations, what other factors are relevant to identifying the relevant activities?

In some cases, the relevant activities are difficult to identify by using the standard. Cross-references within the standard make it difficult to locate the applicable paragraph. We have experienced situations where it is easier to identify the relevant activities by using the Basis for Conclusions rather than the wording of the standard.

To avoid unanticipated outcomes, it is common that preparers take the wording of the Standard into consideration when drafting contracts.

Question 2b

In your experience:

(i) to what extent does applying paragraphs B26–B33 of IFRS 10 enable an investor to determine if rights are protective rights?

(ii) to what extent does applying paragraphs B22–B24 of IFRS 10 enable an investor to determine if rights (including potential voting rights) are, or have ceased to be, substantive?

IFRS 10 requires investors to take into account substantive potential voting rights. One of the criteria for such potential voting rights to be substantial is that they are currently exercisable. The guidance of IFRS 10.B24 leaves room for interpretation. Therefore, it should be clarified whether:

a. Potential voting rights are only currently exercisable if they can be exercised in the nearest possible decision-making process (e.g. a Shareholder Meeting) as indicated by IFRS 10.B24 Example 3B. Which in turn would mean that any option exercise period exceeding the period in which a decision could be made would not be substantive.

b. The relevant criteria is decision making or implementation of such decisions. In practice, decisions taken but not implemented may be overruled by the exercise of potential voting rights that occurs after the decision was taken. (Example: shareholder A holds an option to call the majority of voting rights that can be exercised in 5 months from the date A has given Notice to the Shareholder Meeting. Any Shareholder has the right to call for a Shareholder Meeting within 30 days where a major decision can be taken. However, it has proven that the implementation of such decisions takes at least 9 months. Hence, A has the ability to overrule any decision taken before any adverse effect occurs.) When following this view, a 'pain period' for the investor holding potential voting rights would need to be defined to assess whether he has control, i.e. decisions taken



will have to be implemented before he is able to exercise its voting rights to overrule. Example 3D could be interpreted that way.

Question 2c

In your experience:

- (i) to what extent does applying paragraphs B41–B46 of IFRS 10 to situations in which the other shareholdings are widely dispersed enable an investor that does not hold a majority of the voting rights to make an appropriate assessment of whether it has acquired (or lost) the practical ability to direct an investee’s relevant activities?*
- (ii) how frequently does the situation in which an investor needs to make the assessment described in question 2(c)(i) arise?*
- (iii) is the cost of obtaining the information required to make the assessment significant?*

These paragraphs work well initially but may be challenging over time if/when changes occur either in own shareholdings or among other owners. This can prove difficult as not only legal aspects should be taken into consideration.

It is difficult to assess how frequently an investor needs to make this assessment. Currently, assessment seem to be performed ‘when needed’, however unclear what triggers (or should trigger) it.

Question 3a

In your experience:

- (i) to what extent does applying the factors listed in paragraph B60 of IFRS 10 (and the application guidance in paragraphs B62–B72 of IFRS 10) enable an investor to determine whether a decision maker is a principal or an agent?*
- (ii) are there situations in which it is challenging to identify an agency relationship? If yes, please describe the challenges that arise in these situations.*
- (iii) how frequently do these situations arise?*

We consider the assessment whether a decision maker is a principle or an agent as difficult. In cases of delegated power, the control assessment is more complex than in other scenarios and in assessing the principle guidance of IFRS 10.B60 there is a lot of room for judgement. We observe that accounting literature often refers to the thresholds given in the application examples 13-16.

Question 3b

In your experience:

- (i) to what extent does applying paragraphs B73–B75 of IFRS 10 enable an investor to assess whether control exists because another party is acting as a de facto agent (ie in the absence of a contractual arrangement between the parties)?*
- (ii) how frequently does the situation in which an investor needs to make the assessment described in question 3(b)(i) arise?*
- (iii) please describe the situations that give rise to such a need.*

We have no comments to these questions.

**Question 4a**

In your experience:

(i) to what extent does applying the definition (paragraph 27 of IFRS 10) and the description of the typical characteristics of an investment entity (paragraph 28 of IFRS 10) lead to consistent outcomes? If you have found that inconsistent outcomes arise, please describe these outcomes and explain the situations in which they arise.

(ii) to what extent does the definition and the description of typical characteristics result in classification outcomes that, in your view, fail to represent the nature of the entity in a relevant or faithful manner? For example, do the definition and the description of typical characteristics include entities in (or exclude entities from) the category of investment entities that in your view should be excluded (or included)? Please provide the reasons for your answer.

The applicable paragraphs are not entirely clear, and we believe it is possible to come to different conclusions. However, in our experience, there is convergence in practice between different investment entities.

Question 4b

In your experience:

(i) are there situations in which requiring an investment entity to measure at fair value its investment in a subsidiary that is an investment entity itself results in a loss of information? If so, please provide details of the useful information that is missing and explain why you think that information is useful.

(ii) are there criteria, other than those in paragraph 32 of IFRS 10, that may be relevant to the scope of application of the consolidation exception for investment entities?

No, in our experience there are no situations in which the measurement of a subsidiary which is an investment entity at fair value result in a loss of information.

Question 5a

In your experience:

(i) how frequently do transactions, events or circumstances arise that:

(a) alter the relationship between an investor and an investee (for example, a change from being a parent to being a joint operator); and

(b) are not addressed in IFRS Standards?

(ii) how do entities account for these transactions, events or circumstances that alter the relationship between an investor and an investee?

(iii) in transactions, events or circumstances that result in a loss of control, does remeasuring the retained interest at fair value provide relevant information? If not, please explain why not, and describe the relevant transactions, events or circumstances.

We have no comments to these questions.

**Question 5b**

In your experience:

- (i) how do entities account for transactions in which an investor acquires control of a subsidiary that does not constitute a business, as defined in IFRS 3? Does the investor recognise a non-controlling interest for equity not attributable to the parent?*
- (ii) how frequently do these transactions occur?*

An issue identified regards the accounting for a transaction in which an investor acquires control of a subsidiary that is not a business as defined in IFRS 3, particularly when it acquires less than 100 % of the shares. Some interpret the exclusion as resulting in allocation of the price only to assets and liabilities with no GW, no deferred tax and no minority interests for such partial acquisition. Others do account for minority interests. It would be useful to add more guidance for such acquisitions and to clarify whether the investor should recognize any non-controlling interest as equity not attributable to the parent company.

Question 6

In your experience:

- (a) how widespread are collaborative arrangements that do not meet the IFRS 11 definition of 'joint arrangement' because the parties to the arrangement do not have joint control? Please provide a description of the features of these collaborative arrangements, including whether they are structured through a separate legal vehicle.*
- (b) how do entities that apply IFRS Standards account for such collaborative arrangements? Is the accounting a faithful representation of the arrangement and why?*

We have very limited experience of these arrangements.

Question 7

In your experience:

- (a) how frequently does a party to a joint arrangement need to consider other facts and circumstances to determine the classification of the joint arrangement after having considered the legal form and the contractual arrangement?*
- (b) to what extent does applying paragraphs B29–B32 of IFRS 11 enable an investor to determine the classification of a joint arrangement based on 'other facts and circumstances'? Are there other factors that may be relevant to the classification that are not included in paragraphs B29–B32 of IFRS 11?*

In practice it is very difficult to determine if a Joint Operation (JO) exists when a separate vehicle has been set up for the joint arrangement. The "other facts and circumstances" justification of the existence of a JO seems to be interpreted differently in different jurisdictions in Europe by different stakeholders. This is considered to be detrimental to the representation of the entities' activities. BUSINESSEUROPE thus would like the IASB to reconsider its guidance on project-specific entities and, in particular, bring the business purpose and model of the operation into the analysis of the structure.

**Question 8**

In your experience:

(a) to what extent does applying the requirements in IFRS 11 enable a joint operator to report its assets, liabilities, revenue and expenses in a relevant and faithful manner?

(b) are there situations in which a joint operator cannot so report? If so, please describe these situations and explain why the report fails to constitute a relevant and faithful representation of the joint operator's assets, liabilities, revenue and expenses.

In our limited experience the requirements in IFRS 11 works well for joint operators.

Question 9

In your experience:

(a) to what extent do the IFRS 12 disclosure requirements assist an entity to meet the objective of IFRS 12, especially the new requirements introduced by IFRS 12 (for example the requirements for summarised information for each material joint venture or associate)?

(b) do the IFRS 12 disclosure requirements help an entity determine the level of detail necessary to satisfy the objective of IFRS 12 so that useful information is not obscured by either the inclusion of a large amount of detail or the aggregation of items that have different characteristics?

(c) what additional information that is not required by IFRS 12, if any, would be useful to meet the objective of IFRS 12? If there is such information, why and how would it be used? Please provide suggestions on how such information could be disclosed.

(d) does IFRS 12 require information to be provided that is not useful to meet the objective of IFRS 12? If yes, please specify the information that you consider unnecessary, why it is unnecessary and what requirements in IFRS 12 give rise to the provision of this information.

Our assessment of IFRS 12 is generally positive. In our experience the disclosure requirements are sufficient to meet the objective of IFRS 12.

The following requirements of IFRS 12 are in our view under cost/benefit considerations however not useful when they relate to publicly listed subsidiaries and associated companies.

We doubt that the requirement of IFRS 12.12 g) and IFRS 12.B10 to provide summarized financial information for subsidiaries with substantial non-controlling interests as well as the similar requirement of IFRS 12.21 b) ii) and IFRS 12.B12 for associated companies provide much added value to users of financial statements that outweighs the additional cost to preparers to provide this information in the specific case of publicly listed subsidiaries and associated companies.

Regarding associated companies, it can be challenging for preparers to obtain the required information at all and in time to meet their own publication timelines. The preparer does not own an interest in the assets and liabilities of the associate but only in its net assets. Therefore, we doubt that for investors, the information provided by a



preparer in accordance with IFRS 12.B12 is more useful for their analysis than the information publicly available from the financial statements of the associated company itself. Further, for both publicly listed subsidiaries and associated companies the alignment of the release of potentially market relevant data between the respective entity and the preparer can be challenging in practice.

Question 10

Are there topics not addressed in this Request for Information, including those arising from the interaction of IFRS 10 and IFRS 11 and other IFRS Standards, that you consider to be relevant to this Post-implementation Review? If so, please explain the topic and why you think it should be addressed in the Post-implementation Review.

An issue related to the review of IFRS 10-12 regards the application of IAS 28 in the context of loss of control. We understand that under IAS 28, incidental acquisition costs (directly attributable expenditures) should be capitalized (see also IFRIC clarification, IFRIC Update July 2009) at the acquisition of an investment accounted for applying the equity method of accounting. However, when an investor loses control of a former subsidiary and accounts for the retained investment applying the equity method, such directly attributable expenditures should not be capitalized according to IFRS 10.B98 (c) (iii). To us, this appears to be contradictory guidance without a clear rationale.
