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Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12 Towards Response to Request for Information Issues Paper

Objective of the session

- 1 Objective of this session is twofold:
 - (a) to provide EFRAG TEG members with an update on the IASB's project Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities* (the PIR); and
 - (b) to collect EFRAG TEG members' comments and opinions regarding whether the list of the issues identified and selected by the IASB for the Request for Information (the RFI), is complete and relevant for the European jurisdictions.
- 2 This paper is the result of discussions at the EFRAG Board, EFRAG CFSS, EFRAG TEG and Working Groups regarding the issues that have been considered by the IASB when preparing its RFI. We also based on the summary research paper presented by the IASB Staff at the April 2020 IASB meeting.

Structure of this paper

- 3 This paper includes the following sections:
 - (a) Focus areas identified by the IASB Staff and during the EFRAG meetings – split into three subsections dedicated to each of the IFRS Standards considered in the PIR;
 - (b) Appendix IFRS IC discussions and agenda decisions – for background purposes; -- includes the list of relevant IFRS IC submission with links to the discussion/agenda decisions.

EFRAG's project

- 4 In Phase 1 of the IASB's project, EFRAG discussed the issues to be considered in the PIR at the following meetings:
 - (a) EFRAG User Panel meeting in November 2019;
 - (b) EFRAG TEG & CFSS meeting in December 2019;
 - (c) EFRAG FIWG meeting in January 2020;
 - (d) EFRAG TEG meeting in January 2020;
 - (e) EFRAG Board meeting in February 2020.
- 5 The summary of, and a brief comment of EFRAG Secretariat on the list of issues, resulting from these discussions, is provided in the following section of this paper.

The comments are split into three parts, each corresponding to one of the IFRS Standards that are the subject of the PIR.

- 6 We also note, that in April 2020, the IASB tentatively decided to restrict the questions in the RFI to the following:
 - (a) in relation to IFRS 10:
 - (i) power over an investee;
 - (ii) the link between power and returns, with a focus on identifying agency relationships;
 - (iii) accounting requirements, with a focus on changes in ownership interests; and
 - (iv) the investment entity consolidation exception.
 - (b) in relation to IFRS 11:
 - (i) collaboration arrangements outside the scope of IFRS 11;
 - (ii) the classification of joint arrangements as joint operations based on other facts and circumstances; and
 - (iii) accounting requirements, with a focus on joint operations.
 - (c) in relation to IFRS 12, the quality of information an entity provides and whether and how well the disclosure objectives are met by an entity applying the requirements.
- 7 The IASB has also decided not to include other IFRS Standards from the Consolidation package in the PIR, and not to consider the interactions of IFRS 10, IFRS 11, and IFRS 12 with other IFRS Standards. At the December 2020 EFRAG TEG meeting, the EFRAG Secretariat will present a draft project plan that will include a plan for outreach activities and surveys in order to respond to the IASB's RFI.

Focus areas identified by the IASB Staff and during the EFRAG meetings

A. IFRS 10 Consolidated Financial Statements

Issue 1: Identifying the relevant activities

Current IFRS requirements

- 8 IFRS 10, paragraph 10 states that an investor has power over an investee when it has existing rights that give it the current ability to direct the relevant activities of the investee. Paragraphs B11 and B12 of the Application Guidance provide for some examples of relevant activities.
- 9 When two or more investors have existing rights to direct different relevant activities, paragraph 13 of IFRS 10 states that the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee.
- 10 Paragraph B13 of IFRS 10 Application Guidance clarifies that when activities directed by different investors occur at different times, the investors are required to determine who is able to direct the activities that most significantly affect the investee's returns consistently with the treatment of concurrent decision-making rights. This assessment should be reconsidered over-time.
- 11 IFRS 10 Application Guidance includes some examples of factors that investors would consider when assessing the activities that most significantly affect the returns generated by the investee.

Preliminary input received by the IASB

- 12 The IASB staff received feedback that the identification of the relevant activities, when two investors have right to direct different activities in different periods, is an area requiring a high level of judgement when applying IFRS 10.
- 13 Stakeholders reported that, even if the IFRS 10 Application Guidance currently provides some examples (see Paragraph 11), more guidance on how to determine the relevant activities that most significantly affect the return may help.
- 14 A few specific cases where relevant activities are difficult to assess in practice have been reported by different stakeholders. For example, the IASB Staff received some feedback that in a manufacturing agreement where one investor is responsible for manufacturing and another investor is responsible for marketing, it can be difficult to identify which activity has more effect on variable returns. Similarly, in the film industry, one investor may direct the relevant activities during the production stage and the other directs the relevant activities during the distribution stage, based on their expertise. This issue has also been reported in the banking industry.
- 15 Furthermore, the IASB Staff received feedback that, in some situations, the relevant activities may not occur until a particular event or circumstance occurs. In such cases, the assessment of the relevant activities, especially when involving the assessment of the likelihood of occurrence or non-occurrence of those events and circumstances, may be complex.
- 16 The IASB Staff also received feedback from stakeholders that the effects on an investee's variable returns from activities can change over time. Applying IFRS 10 in these circumstances requires projections over the lifetime of the investee, which involve a high level of judgement.

EFRAG Secretariat comment

- 17 EFRAG Secretariat is planning to seek views from all the parties involved through outreach events and surveys. The main aim of this process would be to collect views

about whether the issues mentioned from paragraph 12 to 16 would be better addressed through a standard setting action or whether they mainly consist of implementation issues that can be addressed through improving current guidance or need not be significantly addressed as mainly related to underlying complexities of transactions instead of to a lack of guidance.

- 18 IFRS 10 requirements rely on a certain level of judgement when an entity to assess the relevant activities that most significantly affects the return, especially when directed by two or more investors. Although the Application Guidance provides for some examples of criteria to be considered when assessing the relevant activities that most significantly affect the return, no guidance is currently provided on the concept of “significance”. It is then a matter of judgment that is likely to vary from one investment to another.
- 19 Some specific instances, in line with comments received by the IASB, have been reported by some EFRAG FIWG members, such as the case where a bank has an arrangement with a car manufacturer to finance its sales.
- 20 It is also observed in practice that no specific provisions are included among existing requirements in IFRS 10 with regards to the assessment of the likelihood of occurrence or non-occurrence of certain events and circumstances leading to contingent relevant activities. Further, there is no guidance on to the continuous assessment of control, especially in circumstances where an entity is required to use projections over the lifetime of the investee.
- 21 Some of the comments and practical issues raised by the IASB’s stakeholders can be mostly related to the underlying complexities of underlying transactions instead of lack of requirements within IFRS 10. However, even if a broad standard-setting action seems not to be needed to address these issues, further application guidance might be of help for: (i) identifying the most relevant activities when two or more investors are involved; (ii) assessing the likelihood of occurrence or non-occurrence of certain activities directed by an investor, where relevant and (iii) projecting investee’s variable returns from activities that can change over time.

Issue 2: Assessing control with less than a majority of voting rights

Current IFRS requirements

- 22 In circumstances where an investor has less than a majority of voting rights, it has to consider all facts and circumstances that give it the practical ability to direct the relevant activities unilaterally when assessing power over an investee. Guidance in IFRS 10 related to specific circumstances are discussed below.
- 23 *Potential voting rights*: based on paragraph B47 of Application Guidance, an investor should consider potential voting rights when assessing control over an investee, provided these rights are substantive. Some application examples about whether potential voting rights are substantive are given at paragraphs B23(c) and B50 of Application Guidance.
- 24 *“De-facto control”*: under paragraph B41 of Application Guidance, an investor with less than a majority of the voting rights has rights that are sufficient to give it power when it has the practical ability to direct the relevant activities unilaterally. Some examples of facts and circumstances to be considered when assessing de-facto control are provided at paragraph B42 of the Application Guidance;
- 25 *Special relationship with the investee*: other related rights sufficient to give to an entity the power over an investee may also come from special relationships. Application Guidance, at paragraph B19, provides some examples of circumstances where certain relationships may underline more than a passive interest in the investee and, in combination with other rights, may indicate power. In addition, based on paragraph B40 of Application Guidance, some rights specified in a

contractual arrangement may be sufficient, in combination with voting rights, to give an investor the current ability to direct relevant activities.

- 26 *“De-facto agency relationship”*: under paragraph B73 of Application Guidance, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor’s behalf. Such a relationship should not involve a contractual arrangement. Some example of circumstances where other parties may be considered as acting as de-facto agents for the investors are listed at paragraph B75 of Application Guidance.

Preliminary input received by the IASB

- 27 The IASB Staff received feedback that assessing whether potential voting rights are substantive often require significant judgement. For instance, investors should evaluate whether the exercise price of an option might represent a barrier to exercise the instruments based on market condition, the option formula, and the financial capacity to exercise it. The IASB Staff received further questions from stakeholders about whether market conditions assessment implies that the investor should consider if any change in the current price is attributable to events specific to the investee rather than to general changes in financial markets.

- 28 The IASB Staff reported that some stakeholders believed that the assessment of “de-facto control” is difficult. Main concerns reported are related to:

- (a) the significant judgement involved in the assessment of several factors, such as the size of its holding of voting rights relative to the size and dispersion of other votes holders. An investor should also consider any potential voting rights held by the investor or by other investors, as well as any rights arising from other contractual arrangements;
- (b) the risk of potential inconsistent outcomes arising from the de-facto assessment. Among others, views diverged on whether there is a minimum level of voting rights required to establish de facto control, and therefore different minimum level thresholds may have been set in similar cases with inconsistent outcome.
- (c) the difficulties in assessing de-facto control on a continuous basis because it requires an investor to continuously monitor transactions between third parties to reassess if initial circumstances have changed (i.e. gaining or losing de-facto control). Such circumstance also affects how to determine the exact date control is obtained or lost.

- 29 Furthermore, stakeholders reported some difficulties on how to apply paragraphs B18- B19 of Application Guidance related to special relationships. It was noted that those indicators arising from the shareholders’ agreements often provide conflicting evidence that need to be weighted in concluding on whether control exists.

- 30 The IASB Staff also received feedback from stakeholders that non-contractual agency relationships are generally difficult to assess as involving a significant judgement.

EFRAG Secretariat comment

- 31 EFRAG Secretariat is planning to seek views from all the parties involved through outreach events and surveys. The main aim of this process would be to collect views about whether the issues mentioned from paragraph 27 to 30 would be better addressed through a standard setting action or whether they mainly consist of implementation issues that can be addressed through improving current guidance or need not be significantly addressed as mainly related to underlying complexities of transactions instead of to a lack of guidance.

- 32 At this preliminary stage, it is recognised that some of the assessment required to companies imply a significant level of judgement and subjectivity. In particular:
- (a) Assessing whether potential voting rights are substantive involves consideration of factors such as the purpose and the design of the rights, the presence of any market barriers that prevent the holder exercising these rights and any other reasons.
 - (b) De-facto control assessment implies the use of judgement in the analysis of facts and circumstances, such as the relative dimension of investor's interest compared to others, the dispersion of other interests, past voting patterns, the presence of any other agreements between shareholders. No current bright-lines (i.e. minimum level of voting rights) are provided within current principle-based requirements. No specific guidance is provided on how to continuously monitor de-facto control, and on the extent to which an entity needs to monitor transactions between third parties to reassess if initial circumstances have changed.
 - (c) Current guidance on special relationships provides for a list of indicators that, in case of conflicting evidence within the shareholders' agreement, do not provide criteria to weight them.
- 33 Application issues related to "de-facto control" are also confirmed by some instances reported by regulators, where entities failed to appropriately consider all facts and circumstances implying the practical ability to direct the relevant activities of the investee.
- 34 It is also recognised that the assessment of non-contractual agency relationship involves significant judgement. Some issues have been also reported by regulators, in cases where two entities under common control owned interests in an investee that, when considered together, convey control via voting rights. In the absence of a contractual agreement, it was possible to claim that either party acts as an agent for the other, or even that they both act as agents for the ultimate parent, which is the real controlling party.
- 35 Some of the comments and practical issues raised by the IASB's stakeholders can be related to the complexities of underlying transactions instead of a lack of requirements within IFRS 10. However, even if broad standard-setting action seems not to be needed to solve these issues, further application guidance might be of help.
- 36 As part of EFRAG TEG discussions, the lack of specific guidance on business combination affected by contract when there is not consideration paid has been included as a potential additional point to raise. More specifically, it would relate to how to address the variable return assessment for the investor in such specific cases. The guidance is currently absent in the standard.

Issue 3: Assessing whether investor's rights are protective or substantive

Current IFRS requirements

- 37 Paragraph B26 of IFRS 10 requires companies to assess whether its rights, and rights held by other parties, are substantive or protective. Protective rights do not provide the investor with control over the investee. Whether rights are substantive or protective depends on facts and circumstances.
- 38 As part of the above assessment, an investor should consider the overall requirements included in IFRS 10 regarding the control's continuous assessment. On that basis, it would be then required to assess whether the new facts and circumstances trigger a reassessment of control.
- 39 Paragraph B64 of the Application Guidance clarifies that the decision-maker may be subject to rights held by other parties that may affect the decision-maker's ability

to direct the relevant activities of the investee, such as rights of those parties to remove the decision-maker (the so-called “kick-out right” or “veto right”). Assessing whether a removal right is substantive can be straightforward when a single party holds substantive removal rights and can remove the decision maker without cause (paragraph B65 of the Application Guidance). However, if multiple investors hold such rights (i.e. no individual investor can remove the decision-maker without cause without the others), these rights would not, in isolation, determine whether a decision-maker is an agent or a principal. That is, all other facts and circumstances would need to be considered. The more parties must act together to remove a decision-maker and the greater the magnitude of, and variability associated with, the decision-maker’s other economic interests, the less weighting that is placed on the removal right.

- 40 To be substantive, paragraph B24 of the Application Guidance also requires rights to be exercisable when decisions about the direction of the relevant activities need to be made. In practice, a removal right may not be exercisable until a date in the future or can otherwise be exercisable only during a narrow period.

Preliminary input received by the IASB

- 41 Some stakeholders expressed concerns about the lack of guidance regarding how to reassess whether certain rights remain substantive or protective based on a change in facts and circumstances. As an example, a right might be deemed as protective where an investor has the ability to sell assets of the investee if an investee defaults on a loan, because default is considered an exceptional circumstance. However, in the event that the investee defaults on a loan (e.g. breaches a covenant), the investor holding that right will need to reassess whether that right has become a substantive right that provides it with power, based on the change in facts and circumstances. The IASB Staff noted that some stakeholders, in circumstances like this, identified the assessment of whether removal rights are substantive as an area involving a significant degree of judgement to the extent companies have to:
- (a) assess how significant the lender’s rights are in relation to the relevant activities of the investee;
 - (b) assess the effect of the lender’s economic circumstances on the investee’s relevant activities (e.g. whether the borrower may be in such financial difficulty that its existing equity holders have no reasonable prospect of a return and it is clear that the activities of the investee are now primarily being executed to ensure that the lenders maximises the recovery of its investment).
- 42 The IASB Staff also received feedback that evaluating whether a removal right is substantive involves a significant exercise of judgement. In these circumstances, entities should consider the existence of any operational barrier that would prevent the holder from exercising its rights, such as the absence of available replacements. As an example, the assessment of whether there are available replacements depends on specific facts and circumstances and requires the exercise of judgement.
- 43 Based on feedback received by the IASB, substantial judgement must also be exercised to determine whether (or when) a right becomes substantive (i.e. a removal right not exercisable until a date in the future or being exercisable only during a narrow period).

EFRAG Secretariat comment

- 44 EFRAG Secretariat is planning to seek views from all the parties involved through outreach events and surveys. The main aim of this process would be to collect views about whether the issues mentioned from paragraph 41 to 43 would be better addressed through a standard setting action or whether they mainly consist of

implementation issues that can be addressed through improving current guidance or do not need to be addressed as they mainly relate to the underlying complexities of particular transactions instead of to a lack of guidance.

- 45 At this preliminary stage, it is recognised that some of the assessment required to companies imply a significant level of judgement and subjectivity. However:
- (a) With regards to the overall assessment of substantive rights versus protective rights, some preliminary views have been collected stating that application issues can be mostly related to an increased complexity of shareholders' agreement rather than to the lack of guidance in IFRS 10;
 - (b) With regards to the issue related to the continuous assessment based on changes in facts and circumstances, the point had also been raised in September 2013, when the IFRS Interpretations Committee received a request to clarify the guidance on the reassessment of control (the breach of a covenant in a borrowing arrangement had expressly mentioned). However, the IFRS Interpretations Committee did not add this issue to its agenda based on guidance already existing within IFRS 10 and to the fact that IFRS 10 contains no exceptions for any rights from this need for assessment.
- 46 Based on these preliminary considerations, significant standard-setting action does not seem to be needed to address these issues. However, further application guidance might be of help.

Issue 4: Principal versus agent assessment

Current IFRS requirements

- 47 Under paragraph 18 of IFRS 10 an investor with decision-making rights shall determine whether it is a principal or an agent. An investor does not control an investee if it only has power and it is exposed or has rights to variable returns from its involvement with the investee; to meet the definition of control in IFRS 10, an investor should also have the ability to use its power to affect the investor's returns from its involvement with the investee.
- 48 This assessment is particularly relevant when decision-making rights have been delegated or are being held for the benefit of others (paragraph B58 of the Application Guidance). This is because if that decision-maker has been delegated with rights that give the decision-maker power, it must be assessed whether those rights give the decision-maker power for its own benefit (i.e. it acts as a Principal), or merely power for the benefit of others (i.e. it acts as an Agent).
- 49 The terms and condition of the arrangement are considered to assess whether an entity that holds decision-making rights is an agent or a principal. The determination of whether a decision-maker is an agent or a principal is made, under paragraph B60 of the Application Guidance, based on the scope of decision-making authority, the rights held by other parties, the remuneration of the decisions-maker and its exposure to variability of returns through other interests.
- 50 With regards to the exposure to variability of returns from other interests, paragraph B72 of the Application Guidance states that the greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the decision-maker is a principal. A decision-maker should also consider whether its exposure to variability of returns is different from that of the other investors and, if so, whether this might influence its actions.

Preliminary input received by the IASB

- 51 The IASB Staff received request from some stakeholders for more specific guidance to ease the principal versus agent analysis that is required by IFRS 10. This request focuses on how to determine the magnitude and variability of the economic interests

held by the investors when the profit-sharing arrangements are complicated and subject to future changes based on market conditions.

- 52 Stakeholders also commented that, since the magnitude and variability of exposure to returns are considered together with the other factors, there is no bright line as to what level of other direct interests, on their own, would cause a decision-maker to be a principal or an agent.

EFRAG Secretariat comment

- 53 EFRAG is planning to seek views from all the parties involved through outreach events and other initiatives (i.e. survey for preparers). The main aim of this process would be to collect views about whether the issues mentioned from paragraph 51 and 52 would be better addressed through a standard setting action or whether they mainly consist of implementation issues that can be addressed through an improvement on current guidance or not significantly addressed as mainly related to underlying complexities of transactions instead of to a lack of guidance.
- 54 At this preliminary stage, it is recognised that assessing whether an investor with decision-making rights is a principal or an agent may require significant judgement. However, some preliminary feedback received by EFRAG working groups (i.e. FIWG) suggest that, in industries significantly impacted by the principal versus agent issue (such as the banking industry), it is due to the fact that shareholders' agreements include clauses that provide with dual roles, different types of remuneration and of exposure. Therefore, it can be preliminary considered that this issue does not result from the guidance itself but rather from the complexity of underlying transactions.
- 55 While principal-agency situations often occur in the asset management and banking industries, they are not limited to those industries. Entities in the construction, real estate and extractive industries also frequently delegate powers when carrying out their business.
- 56 When preliminary considering the opportunity of specifying a level of returns that would result in the determination of an agency relationship, it is worth to consider that the issue has been already considered by the IASB when developing IFRS 10. Paragraphs BC141 and BC142 of the Basis for Conclusions of IFRS 10 consider that, even if setting a quantitative threshold might lead to a more consistent application, it would create a bright line and encourage structuring.
- 57 Some EFRAG FIWG members also raised specific concerns on whether variable fees that arise on servicing rights should be included or excluded in the assessment of the exposure to variable returns. Those members thought that is not clear whether variable fees should be included in the assessment of the magnitude of the exposure to variable returns, especially considering that IFRS 12 states that "typical customer-supplier relationship" does not necessarily depict an interest in another entity.
- 58 Based on the above arguments, it could be preliminary considered that no significant standard setting actions are needed to solve these issues. Additional guidance may be of help in mitigating some application issues.

Issue 5: Investment entities exception

Current IFRS requirements

- 59 Under IFRS 10 paragraph 31, investment entities are required to measure interests in subsidiaries, including those that are investment entities themselves, at fair value with the changes recognised in profit or loss. Paragraph 32 requires an entity to consolidate a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities.

- 60 Criteria to determine whether an entity qualifies as an investment entity are included at paragraph 27 of IFRS 10. An investment entity: obtains funds from one or more investors for the purpose of providing those investors with investment management services; commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; it measures and evaluates the performance of substantially all of its investments on a fair value basis.
- 61 Paragraph 28 of IFRS 10 describes the typical characteristics that an entity should have to meet the definition of investment entity. Among those, it generally has more than one investment and more than one investor. It generally has investors that are not related parties of the entity, and its ownership interest is in general in the form of equity or similar interests. However, provided an entity possesses all three elements presented in paragraph 44 of IFRS 10, it qualifies as investment entity even if one of those typical characteristics are not met.
- 62 Provided the business purpose of an investment entity as explained at paragraph 60, an investment entity may be involved in the following activities without losing its qualification (paragraph B85C and B85D of the Application Guidance):
- (a) It may provide investment-related services (i.e. investment advisory services. Investment management, investment support and administrative services) either directly or through a subsidiary, to a third party or to its investors.
 - (b) It may provide management services, strategic advice and financial support to an investee, to the extent these activities are undertaken to maximise the investment return and do not represent a separate substantial business activity.
- 63 Under paragraph B85F of the Application Guidance, an investment entity differentiates from other entities as it does not plan to hold its investments indefinitely, but it is deemed to hold them for a limited period. For investments that have the potential to be held indefinitely (typically equity investments and non-financial asset investments), the investment entity must have a documented exit strategy. This documented exit strategy must state how the entity plans to realise capital appreciation from substantially all of these potentially indefinite life investments. An entity is not required to have an exit strategy for its investments with a set maturity (e.g. debt instruments) because these investments have a limited life.
- 64 The exit strategy should clearly document a substantive time frame for exiting the investment, which might be either an expected date or range of dates, or a time defined by specific facts and circumstances (such as achieving certain milestones, the limited life of the entity or the investment objective of the entity). Examples of documented exit strategies are at paragraph B85G of the Application Guidance.
- 65 Under paragraph B85K of the Application Guidance an investment entity, in order to demonstrate that fair value measurement is used for that purposes (see paragraph 60), should provide investors with fair value information and measure substantially all of its investments at fair value in its consolidated financial statements. The investment entity should also report fair value information internally to its key management personnel (as defined in IAS 24), who use fair value as the primary measurement attribute to evaluate the performance of substantially all its investments and to make investment decisions.

Preliminary input received by the IASB

- 66 The IASB Staff reported that stakeholders have concerns about the assessment of the business purpose of the investment entity when the entity is also providing management services and strategic advices to an investee. Stakeholders have in particular enquired as to the level of active management of the investee that is

consistent with investment entity status due to the lack of bright guidelines on this issue.

- 67 The IASB Staff received request from stakeholders to enhance guidance on the level of documentation that is needed to prove that an exit strategy exists. The existence of an exit strategy would be often proved for a limited life fund (e.g. from a fund prospectus or an entity's investment management agreement), while for an entity that is set-up for long-term capital growth through manufacturing and selling products in a particular market might have more difficulties in determining that it has exit strategies for its investments.
- 68 The IASB Staff reported that stakeholders have concerns related to the assessment of whether an investment entity measures and evaluates the performance of substantially all of its investments on a fair value basis. Like the comments on the exit strategy, the IASB Staff reported that stakeholders would welcome:
- (a) more guidance about the conditions that need to be fulfilled to prove that fair value information is used for internal reporting and decision-making purposes.
 - (b) specific guidance on the thresholds required for an entity to conclude that it measures and evaluates the performances of "substantially all" investments on a fair value basis (as a certain level of judgment is currently required).
- 69 The IASB Staff received feedback from stakeholders that they welcomed the investment entity exception and, for this kind of entities, find information provided by the fair value measurement more useful compared to full consolidation. However, some stakeholders believed that criteria to identify investment entities still leave room for some entities to achieve their preferred outcome by choosing to apply or not apply the exemption.
- 70 Furthermore, some stakeholders would welcome some guidance when a parent is an investment entity, and it holds a "multi-layer hoop". Specifically, they asked for more information about intermediate subsidiary when it is an investment entity itself and therefore, according to existing requirements, measured at fair value by its investment entity parent. In those circumstances, in fact, investments held by and financial liabilities incurred by an investment entity subsidiary are not separately presented in the financial statements of a parent investment entity but are subsumed in the fair value of the investment entity subsidiary. In these circumstances, some stakeholders said they would support requiring full consolidation of an investment entity subsidiary, at least in some circumstances. Others suggested that IFRS 12 should require disclosure of this information in the notes.

EFRAG Secretariat comment

- 71 EFRAG is planning to seek views from all the parties involved through outreach events and surveys. The main aim of this process would be to collect views about whether the issues mentioned from paragraph 66 to 70 would be better addressed through a standard setting action or whether they mainly consist of implementation issues that can be addressed through improving current guidance or need not be addressed as they mainly relate to the complexities of particular transactions instead of to a lack of guidance.
- 72 At this preliminary stage, it is recognised that the assessment of the business purposes is highly judgemental, as an entity has to focus on both the extent of an investment entity's involvement in the activities of its subsidiaries as well as the reasons why it is so involved.
- 73 The assessment of the business purposes can also involve significant judgement when an investment entity controls a subsidiary that is not an investment entity itself and whose main purpose is to provide services that relate to the investment entity's investment activities. That is, the investment entity should consolidate the subsidiary when it assesses that the main activities undertaken by the subsidiary support the

core investment activities of the parent. However, even if the guidance provides examples of investment-related services and investment-related activities (see paragraph 62), no definition of those terms is provided. Then, in some circumstances, it is recognised that it can be difficult to apply the requirements in order to determine whether a particular subsidiary should be consolidated or not.

- 74 The application issue reported by the IASB's stakeholders on the fair value measurement requirement can apply in case where an entity measures part of the investments it makes on a fair value basis, whilst other investments may be accounted for based on a cost model because fair value cannot be determined reliably. In that circumstance, the entity would have to assess whether the "substantially all" requirement is met based on the extent of investment properties accounted for under the cost model, with no bright lines included in the current guidance. In this regard, some issues have been also reported by regulators where the investment entity exception was improperly exercised as the extent of fair value measurement was not considered sufficient.
- 75 Some EFRAG TEG members considered that there is often an information shortfall resulting from the application of the investment entity exception because of the lack of information regarding the financial liabilities that investment entities leverage within a bigger group to fund investments (in line with comment reported at paragraph 70).
- 76 Based on the above arguments, it could be preliminary considered that, even if no significant standard setting actions seems to be needed to solve these issues, additional guidance and/or further disclosure requirements (i.e. regarding hidden group financing) may be of help in mitigating some of application issues raised by the IASB's stakeholders.

Issue 6: Accounting for changes in ownership interests

Current IFRS requirements

- 77 Different interests held by entities in a business are accounted for based on relevant IFRSs, such as IFRS 9, IAS 28, IFRS 10 and IFRS 11. Changes in the ownership interests held by an investor may result in a change in its relationship with the investee, including transactions in which a party loses control of a subsidiary but retains a non-controlling interest on it or becomes a joint operator. Current IFRS Standards include requirements to account for previously held interests or retained interests in certain circumstances.

Preliminary input received by the IASB

- 78 The IASB Staff received feedback from stakeholders that IFRS Standards do not provide comprehensive requirements on how to account for changes in ownership interest that modify the relationship between an investor and an investee, for example, in circumstances in which a parent loses control of a subsidiary but retains an interest in a joint operation.
- 79 The IASB also received feedback from some ASAF members (at the 17 December 2019 meeting) about the usefulness of remeasurement of the interest retained in an entity when control is lost. If a parent loses control of a subsidiary, the parent is required to recognise any investment retained in the former subsidiary at its fair value at the date when control is lost. Those members considered that remeasuring the retained interests, and recognising any gains or losses, does not provide useful information due to the lack of substantial changes in the retained interests. Furthermore, they considered that the relevance of the information in terms of profit or loss is questionable since the transactions do not involve actual exchange transactions.

EFRAG Secretariat comment

- 80 EFRAG Secretariat is planning to seek views from all the parties involved through outreach events and surveys. The main aim of this process would be to collect views about whether the issues mentioned at paragraph 78 and 79 would be better addressed through a standard setting action or whether they mainly consist of implementation issues that can be addressed through improving current guidance or need not be significantly addressed as mainly related to underlying complexities of transactions instead of to a lack of guidance.
- 81 At this preliminary stage, it is considered that current guidance within IFRS 10 does not cover all potential instances in changes of ownership interest. As such, additional specific guidelines would be of help.

Issue 7: Accounting for non-controlling interests when written put options or forward exist

Current IFRS requirements

- 82 An entity may write a put option or enter into a forward purchase agreement with the non-controlling shareholders on their equity interests in that subsidiary. In those circumstances, IAS 32 requires an entity to recognise a liability for the present value of the exercise price of the option or the forward price provided the option granted provides for settlement in cash or in another financial asset of the entity.

EFRAG Secretariat comment

- 83 It can be preliminary considered that it is unclear under IFRS Standards how the debit side of the transaction should be accounted for and it generally requires judgement to the extent an entity has to determine who has present access to returns associated with the underlying ownership interest.
- 84 Diversity in practice has been noted in accounting the subsequent changes in the put liability's carrying amount due to conflicting guidance in IFRS 9 *Financial Instruments* and IFRS 10. The predominant approach observed in practice has been that finance charges are recognised in the income statement which is in line with the guidance of paragraph B5.4.6 of IFRS 9 (paragraph AG8 of IAS 39 *Financial Instruments: Recognition and Measurement*). Another approach is to recognise adjustments to the redemption liability in equity. Those who have taken this approach argue that it is supported by the guidance of paragraph 23 of IFRS 10 to recognise any adjustments related to changes in the parent's ownership interest that do not result in the parent losing control over a subsidiary as ownership transactions.
- 85 EFRAG is planning to seek views from all the parties involved through outreach events and surveys. The main aim of this process would be to collect views about whether the issues mentioned at paragraph 83 could be addressed through additional guidance. A standard-setting action could be instead of help in removing application diversity stated at paragraph 84.

Questions for EFRAG TEG

- 86 The IASB Staff proposed in April 2020 that the Request for Information on IFRS 10 should contain questions relating to:
- (a) power over an investee
 - (b) the link between power and returns, with a focus on identifying agency relationships
 - (c) accounting requirements in IFRS 10, with a focus on changes in ownership interests
 - (d) the investment entity consolidation exception
- Do you agree that these issues are the most important?
- 87 Do you consider that the issue of accounting for non-controlling interests when written put options or forward exist is significant in European jurisdiction? If so, how do you consider that they should be addressed e.g. through a standard-setting process or improving application guidance?
- 88 Do you consider the issues reported to be mostly transition issues or are they still affecting financial reporting?
- 89 Are you aware of any additional issues that should be considered during the forthcoming outreach?

B. IFRS 11 Joint Arrangements

Issue 8: Accounting for collaborative arrangements without joint control, risk sharing arrangements

Current IFRS requirements

- 90 Paragraph 4 of IFRS 11 defines a joint arrangement as an arrangement in which two or more parties have joint control. Paragraph 5 of IFRS 11 indicates that in a joint arrangement:
- (a) the parties are bound by a contractual arrangement; and
 - (b) the contractual arrangement gives two or more parties joint control of the arrangement.
- 91 However, there are arrangements where two or more parties manage activities together, but that these arrangements do not qualify as joint arrangements as defined in IFRS 11 because they do not satisfy the criterium of joint control.
- 92 IFRS Standards do not provide specific guidance on how to account for such arrangements.

Preliminary input received by the IASB

- 93 In Phase 1 of the PIR, the IASB staff received requests to provide guidance on accounting for collaborative arrangements that fall outside the scope of IFRS 11. Some constituents further noted that US GAAP in Accounting Standards Codification 808 addresses this category of arrangements. Namely, ASC 808 defines a collaborative arrangement as a contractual arrangement that involves a joint operating activity. These arrangements involve two (or more) parties that:
- (a) are active participants in the activity; and
 - (b) are exposed to significant risks and rewards depending on the commercial success of the activity.
- 94 The preliminary proposal of the IASB Staff for the accounting approach for such arrangements is:
- (a) For participants that hold an equity interest, to account for that interest using either IAS 28 *Investments in Associates and Joint Ventures* or IFRS 9.
 - (b) For participants that do not hold an equity interest, to apply the relevant IFRS Standards to assets and liabilities. For example, if a participant provides an item of equipment, it assesses whether the arrangement is or includes a lease as defined in IFRS 16 *Leases*.

EFRAG Secretariat comment

- 95 The EFRAG Secretariat notes that the issue related to lack of guidance on accounting for such arrangements has been recognised and raised by the National Standard Setters at the CFSS meeting in December 2020 and that it was also repeated during the December 2019 ASAF meeting.
- 96 The EFRAG Secretariat plans to collect further views and comments from constituents through outreach events and surveys. The main aim of this process would be to collect views on whether collaborative arrangements that do not fall into the scope of IFRS 11 are common in European jurisdictions (and in which in particular), what the types of arrangements are, and what the information needs of users regarding such arrangements are, and whether the issue should / could be addressed through a standard-setting.
- 97 The EFRAG Secretariat would also seek information on whether the lack of guidance resulted in diversity in practice and whether there is a prevailing practice.

- 98 The EFRAG Secretariat also notes that, for the collaborative arrangements that are not separate vehicles, the guidance related to the accounting for interest of parties that participate in, but do not have joint control of, a joint operation could be applied.

Issue 9: Classification of joint arrangements according to 'other facts and circumstances'

Current IFRS requirements

- 99 IFRS 11 requires an entity to classify interests in joint arrangements as either joint operations or joint ventures. The classification is based on the rights held and obligations incurred by the parties sharing joint control.
- 100 A joint arrangement that does not involve a separate vehicle is a joint operation. A joint arrangement that involves a separate vehicle may be classified as a joint operation based on 'other facts and circumstances', such as when the activities of the joint arrangement are designed primarily to provide output to the parties. Paragraphs B29–B32 of IFRS 11 and Example 3 of the Application Guidance on IFRS 11 illustrate how an entity considers other facts and circumstances in the assessment.

Preliminary input received by the IASB

- 101 The IASB Staff received comments from several preparers that the assessment of other facts and circumstances is too complex and burdensome; in their view, the requirements should be simpler.

EFRAG Secretariat comments

- 102 The EFRAG Secretariat notes that our constituents raised comments about complexity of assessment of 'other facts and circumstances' and their effect on classification of joint arrangements.

- 103 For example, we heard that:

- (a) there were merits in considering whether the fact that the investor had made guarantees for the joint operation was critical; some believed that if joint operation's liability was covered by guarantees from investors, then it was closer to a joint operation than a joint venture what is not in line with the guidance provided in IFRS 11;
- (b) the contracts were very long and very difficult to read and, consequently, application of IFRS 11 was problematic; the identification and assessment of other facts and circumstances highly depended on how the contracts were drafted and that the actual contracts resulted from some parties wanting to portray joint control and other parties to portray control; furthermore, there was not clear cut when it concerned protective rights or substantive rights;
- (c) due to complexity in application, IFRS 11 became rule-driven instead of reflecting the economic substance (e.g. auditors' checklists).

- 104 Moreover, in relation to facts and circumstances, users were in doubt about how to apply judgement in practice.

- 105 The EFRAG Secretariat plans to collect constituents' views through outreach events and surveys. The main aim of this process would be to collect preparers views regarding which, and what patterns of, 'facts and circumstances' create implementation issues when classifying a joint arrangement.

- 106 We also plan to collect users views regarding their information needs and whether a simplified approach (and what type of approach) would result in relevant and reliable information.

Issue 10: Accounting for interests in joint operations

Current IFRS requirements

- 107 When a joint arrangement is classified as a joint operation, paragraph 20 of IFRS 11 requires a joint operator to recognise its assets, liabilities, revenues, and expenses including the share of assets, liabilities, revenues, and expenses arising from the joint operation.
- 108 IAS 27 *Separate Financial Statements*, paragraph 10 recognises joint ventures as an investment similarly to the recognition of subsidiaries and associates. However, investments in joint operations are recognised in accordance with IFRS 11 by recognising separately the associated asset, liabilities etc.

Preliminary input received by the IASB

- 109 Before the commencement of Phase 1 of PIR, the IFRS Interpretations Committee (the IFRS IC) had received several submissions relating to the following topics in regard to accounting for interests in joint operations:
- (a) the disproportion between the share of output and the share of economic interest (see Issue 11 below);
 - (b) the recognition of revenue from sales to the joint operation;
 - (c) the sale of output by a joint operator; and
 - (d) liabilities in relation to a joint operator's interest in a joint operation.
- 110 The IFRS IC finalised agenda decisions in relation to all these issues.
- 111 Nevertheless, some IASB's constituents do not share the IFRS IC opinion that sufficient guidance exists in IFRS Standards for accounting for joint operations. They encouraged the IASB to add requirements to comprehensively address the issues raised with the IFRS IC.

EFRAG Secretariat Comment

- 112 The EFRAG Secretariat notes the comments heard from our constituents that the guidance on accounting for interests in joint operations creates implementation issues. We also note the number of related requests submitted to the IFRS IC.
- 113 We also heard that in some jurisdictions:
- (a) stakeholders opposed the removal of proportional consolidation and believed the change resulted in loss of relevant information in economies based on partnership;
 - (b) some of the performance measures still base on the proportionally consolidated financial information;
 - (c) in separate financial statements, accounting for interests in investees being classified as joint operations created unexpected consequences; this also includes expected implementation issues regarding the proposals for *Primary Financial Statements* project; our constituents argued therefore that IAS 27 should be amended so that joint operations are recognised as investments in separate financial statements, in the same way as joint ventures.
- 114 EFRAG Secretariat notes, that amending IAS 27 to treat joint operations as investments may not reflect the contractual arrangements embedded in a joint operation where the entity has direct rights to the assets and obligations for the liabilities. Further, changing IAS 27 to recognise joint operations as investments would create additional work when preparing the consolidated financial statements.
- 115 The EFRAG Secretariat plans to clarify the constituents' views through outreach events and surveys to whether the implementation of the guidance still creates the

issues and whether the issues mainly consist of implementation issues that can be addressed through improving current guidance or need not be significantly addressed as mainly related to underlying complexities of transactions instead of to a lack of guidance.

- 116 We also plan to make a desk research regarding the performance measure that use proportionally consolidated information and collect constituents views related to the withdrawn proportional consolidation and accounting for joint operations in separate financial statements.

Issue 11: Disproportion between the share of economic output obtained by the joint operators and their share of economic interest

Current IFRS requirements

- 117 Paragraph B20 of IFRS 11 states that when the joint arrangement is structured via a separate vehicle, the joint arrangement between the parties may confer rights to the assets and obligations to the liabilities of the arrangement. This could be the case when the parties have a contractual arrangement to purchase all the output produced.

Preliminary input received by the IASB

- 118 The stakeholders of the IASB are concerned that the existing IFRS 11 guidance does not cover the cases where the share of output the parties are committed to buy differs from their share of ownership in the vehicle. For example, the guidance does not address the following questions:
- (a) On which basis do the parties determine their share of jointly held assets and jointly incurred liabilities?
 - (b) If there is a difference between the amount of assets and liabilities initially recognised and the initially contributed equity, how is this difference accounted for?

- 119 The agenda decision of the IFRS IC noted that judgement is needed to understand what the reason is for the difference and determine the appropriate accounting.

EFRAG Secretariat comments

- 120 The EFRAG Secretariat shares the opinion of some ASAF members that IFRS 11 lacks sufficient guidance on how to account for situations and arrangements where there are disproportion between the share of economic output obtained by the joint operators and their share of economic interest.
- 121 We also heard comments that accounting for a change in the interests due to joint operators' decisions, other circumstances e.g. bankruptcy process of one of the joint operators, or change in the phase of the project realised through a joint operation, creates implementation issues. In our opinion, providing guidance to clarify how to account for any disproportions in share would also provide the guidance on how to account for the changes in the share of ownership interests.
- 122 Therefore, the EFRAG Secretariat plans to seek views from EFRAG constituents through outreach events and surveys. The main aim of this process would be to collect views about whether accounting for the mentioned disproportions still creates issues and whether they would be better addressed through a standard setting action or whether they mainly consist of implementation issues that can be addressed through improving current guidance or need not be addressed as they mainly relate to the complexities of particular transactions instead of to a lack of guidance. We also plan to seek views on whether a prevailing practice has emerged.

Issue 12: Interaction with IFRS 16 Leases

Current IFRS requirements

- 123 Neither IFRS 11 nor IFRS 16 provide specific guidance on accounting for leases in context of joint operations.
- 124 In March 2019, the IFRS IC published an agenda decision addressing the recognition of lease liabilities by a joint operator when the lease relates to a joint operator's interest in a joint operation.
- 125 In the fact pattern, the joint operator enters into a lease, as sole signatory, for an item of property, plant and equipment to be used by the joint operation. The joint operator has the right to recover a share of the lease costs from the other joint operators. The joint arrangement is not structured through a legal vehicle.
- 126 The agenda decision stated that identifying the liabilities that a joint operator incurs and those incurred jointly requires an assessment of the terms and conditions in all contractual agreements that relate to the joint operation, including consideration of the laws pertaining to those agreements. The IFRS IC observed that the liabilities, recognised by a joint operator, include lease liabilities for which it has primary responsibility.

Preliminary input received by the IASB

- 127 IASB stakeholders expressed mixed views and raised concerns related to the recognition of liabilities in a joint operation (including lease liabilities) on several occasions.

EFRAG Secretariat Comments

- 128 The EFRAG Secretariat notes that the IASB tentatively decided not to include the issues related to interactions between IFRS 11 and other IFRS Standards into the PIR. We understand that this decision also relates to the interaction between IFRS 11 and IFRS 16.
- 129 However, The EFRAG Secretariat notes that despite of the agenda decision of the IFRS IC, EFRAG constituents still raise issues related to applying IFRS 16 *Leases* guidance to joint operations. We heard that:
- (a) there were issues with IFRS 16 where the lead operator was asked to present the full liability of a lease as if it was for own use;
 - (b) the recent discussion at IFRS IC on IFRS 16 and IFRS 11 only dealt with the liability and not with the asset side of the lease and, therefore, there were issues on the way to portray some activities.
- 130 Consequently, the EFRAG Secretariat plans to seek views from EFRAG constituents through outreach events and surveys. The main aim of this process would be to understand whether this is an issue for IFRS 16 and to collect views about whether accounting for leases in joint operations still creates issues and whether these issues would be better addressed through a standard setting action, whether they mainly consist of implementation issues that can be addressed through improving current guidance, or rather need not be addressed as they mainly relate to the complexities of particular transactions instead of to a lack of guidance.

Issue 13: Measurement of retained interest in a joint operation after loss of joint control

Issue 14: Remeasurement after loss of joint control over some assets

Current IFRS requirements

- 131 IFRS 11 provides no specific requirements because an entity accounts for assets and liabilities and should apply a relevant IFRS Standard.

Preliminary input received from CFSS

- 132 During Phase 1 of PIR we heard from constituents that more guidance would be useful to clarify accounting for loss of joint control.

EFRAG Secretariat comments

- 133 As a party to a joint operation, the entity already measures its interest in the assets and liabilities directly. After the loss of joint control, the entity will need to assess whether and how the loss of joint control has affected the recognition or measurement of each interest by applying the relevant standard such as IAS 16 *Property, Plant and Equipment*. It is not clear what additional guidance would be useful, given that the specific facts and circumstances of each case will affect the appropriate recognition and measurement.

Other issues

- 134 The EFRAG Secretariat has not received feedback on some of the issues that we may look into during the PIR. These issues include:
- (a) recognising assets from oil fields by field operators; and
 - (b) accounting of up- and down-stream transactions between the joint operator and its joint operation.

Questions for EFRAG TEG

- 135 The IASB Staff proposed in April 2020 that the Request for Information on IFRS 11 should contain questions relating to:

- (a) collaboration arrangements outside the scope of IFRS 11;
- (b) the classification of joint arrangements as joint operations based on other facts and circumstances; and
- (c) accounting requirements, with a focus on joint operations.

Do you agree that these issues are the most important?

- 136 Do you consider that the other issues identified in relation to IFRS 11 (accounting for leases in joint operations, accounting for loss of joint control, assets of field operators, up- and down-stream transactions in joint arrangements) are significant in European jurisdiction? If so, how do you consider that they should be addressed e.g. through a standard-setting process or improving application guidance?

- 137 Do you consider the issues reported to be mostly transition issues or are they still affecting financial reporting?

- 138 Are you aware of any additional issues that should be considered during the forthcoming outreach?

C. IFRS 12 Disclosure of Interests in Other Entities

Issue 15: Identification of unconsolidated structured entities – applying the definition of structured entities

Current IFRS requirements

- 139 IFRS 12 Appendix a defines a structured entity as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Preliminary input received by IASB

- 140 It was noted that entities may experience difficulties:
- (a) applying the definition of structured entities and identifying unconsolidated structured entities; or
 - (b) obtaining timely information needed to provide the disclosure required.
- 141 The resulting outcome being that some users note a lack of information [not further specified] and there is difficulty in determining information that is individually material.

EFRAG Secretariat comments

- 142 The EFRAG Secretariat notes that the materiality concept can be applied as defined in the Conceptual Framework. While this requires judgement, it is a principle that is applied throughout the IFRS framework.
- 143 In order to document the information shortage that is identified by users, the EFRAG Secretariat proposes to organise a survey amongst users to identify the most critical missing information points as well as the sectors where these occur most frequently.

Issue 16: More information on the impact of significant NCI on results and cash flows

Preliminary Input received from EFRAG User panel

- 144 The following issues have been identified:
- (a) IFRS 12 only required information per individual non-controlling interest and investors would be interested in receiving aggregated information on the effect of NCIs on the group as a whole (incorporating the real degree of ownership of the subsidiaries especially on net income and book equity);
 - (b) Even where NCI was just a small number, it could hide a massive impact. The book equity might be small, but what was behind it could be very material.
 - (c) The cash flow statement was the only area where there was no NCI and, therefore, the cash flow statement could be very misleading if there was no separation between majority owned entities and NCIs.

EFRAG Secretariat comments

- 145 In order to document the information shortage that is identified by users, the EFRAG Secretariat proposes to organise a survey amongst users to identify the most missing information points as well as the sectors where these occur the most frequent.

Issue 17: More granular disclosures for subsidiaries with significant NCI

- 146 The following issues have been identified:
- (a) Users called for additional information on material NCIs and their proportionate share of profits and cash flows and sought:

- (i) information on the composition of NCIs (such as, to which subsidiaries an NCI relates);
 - (ii) information on the proportionate share of operating cash flows associated with material NCIs; and
 - (iii) more detailed information on the assets and liabilities held by subsidiaries with material NCIs, as well as associates and joint ventures.
- (b) Users also called for more information on restrictions on paying dividends, dividend traps, the tax consequences of distributions and subordination of debt in subsidiaries.

EFRAG Secretariat comments

- 147 In order to document the information shortage that is identified by users, the EFRAG Secretariat proposes to organise a query amongst users to identify the most critical missing information points as well as the sectors where these occur most frequently.

Issue 18: More granular disclosures for joint ventures and associates

Current IFRS requirements

- 148 IFRS 12 paragraph 20 requires entities to disclose information that enables users of its financial statements to evaluate the nature of its interests in and nature of its risks associated with its interests in joint arrangements and associates. This paragraph also requires the disclosure of information relating to the nature and effects of the entity's contractual relationship with other investors with joint control, or significant influence over, joint arrangements and associates.
- 149 Paragraph 21-23 of IFRS 12 sets out the specific disclosure requirements, which are summarised as follows:
- a) Descriptive information;
 - b) Summarised financial information;
 - c) Immaterial investees;
 - d) Significant restrictions;
 - e) Commitments;
 - f) Contingencies.
- 150 According to paragraph 21(b)(ii) of IFRS 12 the summarised financial information is required to be disclosed for each individually material joint venture and associate separately. Paragraph 21(c) of IFRS 12 states that for individually immaterial joint ventures and associates the information can be presented on aggregated basis.
- 151 Paragraph B12 of IFRS 12 sets out the granularity that is expected to be disclosed for each joint venture an associate, not limited to: dividends received from the joint venture or associate, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss from continuing operations, post-tax profit or loss from discontinued operations, other comprehensive income and total income.
- 152 Paragraph B13 of IFRS 12 sets out additional disclosure requirements for each material joint venture: cash and cash equivalents, current financial liabilities (excluding trade and other payables and provisions), non-current financial liabilities (excluding trade and other payables and provisions), depreciation and amortisation, interest income, interest expense and income tax expense or income.
- 153 Paragraph B14 of IFRS 12 also requires the disclosure of a reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture or associate.

EFRAG Secretariat comments

- 154 The EFRAG Secretariat recalls that the IASB has considered the request of some stakeholders to require the summarised financial information on a proportionate basis. The IASB explains in IFRS 12 paragraph BC49 that it would be confusing to present only the entity's share in the assets, liabilities and revenue of the joint venture or associate when the entity has neither rights to nor obligations for these assets and liabilities. The entity only has an interest in the net assets of the joint ventures or associates. Consequently, the IASB concluded that an entity should present the summarised financial information for each material joint venture on a '100 per cent' basis and reconcile that to the carrying amount of its investment in the joint venture or associate.
- 155 The EFRAG Secretariat emphasises that the combination of the following requirements enables users to determine the proportion of the interest and risk the entity has in the joint venture and associate:
- (a) The requirement to disclose the summary financial information per individual joint venture or associate instead of aggregating. As also explained in IFRS 12 paragraph BC50, presenting the information on a '100 per cent' basis would only be appropriate when disclosed for individual joint ventures or associates. If aggregated, the information becomes less useful when the entity holds different percentage ownership interests in its joint ventures or associates.
 - (b) The requirement to disclose the proportion of ownership interests or participating shares held by the entity in the joint venture or associate and the proportion of voting rights (if different), conform IFRS 12.21(a)(iv).
 - (c) The requirement to disclose a reconciliation of the summarised financial information to the carrying amount of the interest in the joint venture or associate, conform IFRS 12.B14.
- 156 Based on the above, the EFRAG Secretariat suggests organising a survey research to identify on which points and why the current disclosure requirements fail their information needs.

Issue 19: Assessment whether the disclosures required by IFRS 12 are useful for users

Preliminary input received from the EFRAG FIWG and User Panel members

- 157 IFRS 12 disclosure requirements provide relevant information, particularly to the banking sector. However, its application is considered complex.
- 158 During the FIWG meeting in January 2020 it is proposed to assess whether users find the current practices of IFRS 12 useful. A benchmarking exercise is proposed on the disclosures of banks relating to IFRS 12.
- 159 Some stakeholders (both preparers and users) consider that the elimination of proportionate consolidation gives rise to the questions about the usefulness of information about some joint ventures. The reason for this view being that the equity method of accounting is not considered to represent economic reality. Hence, users are seeking the reintroduction of proportional consolidation.

EFRAG Secretariat comments

- 160 The EFRAG Secretariat has undertaken a limited benchmarking of selected IFRS^o12 disclosures in order to document the issue. The sample used consisted of 10 European banks, each of a different EU Member State and all of them member of the STOXX 600. The benchmarking is performed on the 2019 Financial Statements of the selected companies.
- 161 The percentage of non-controlling interest in the entity's total net profit for the year varies between a minimum of 0% and a maximum of 22%. The average of the non-controlling interest for the population is 8% and the median is 6%.

- 162 In general, the selected banks disclose the required information, but there is divergence between the level of detail provided and the quantity of the information.
- 163 Disclosures on non-controlling interests in subsidiaries. Almost all banks disclose their subsidiaries with material non-controlling interest. However, disclosure of the summarised financial information can be enhanced. Most banks provide information on the individual subsidiaries assets/liabilities and results.
- 164 Disclosures on consolidated structured entities. Almost all banks disclose information on the consolidated structured entities explaining the nature of the risks associated with an entity's interests in consolidated structured entities.
- 165 Disclosures on interest in joint ventures and associates. The summarised financial information provided for joint ventures and associates can be further enhanced and completed. There is divergence in the level of disclosures on the following items:
- (a) Disclosure is mostly based on the assets, liabilities and income, proportion of ownership interest and voting power and changes in these.
 - (b) Disclosure on reconciliation of the summarised financial information with the carrying amount of the investee is provided by some;
 - (c) Disclosure on nature and extent of significant restrictions on the ability of the joint venture or associate to transfer funds to the entity is provided by only a few.
- 166 Disclosures on unconsolidated structured entities. Most of the banks have an interest in unconsolidated structured entities. These banks provide both qualitative as well as quantitative information on the unconsolidated structured entities. The qualitative information mostly relates to the purpose and the activities of the structured entities. The quantitative information mostly relates to the entity's exposure to the activities of the structured entity.
- 167 The EFRAG Secretariat acknowledges that further implementation guidance can be considered in relation to disclosures on unconsolidated structured entities:
- (a) IFRS 12 paragraph 6(b) is unclear about the population of structured entities that are considered 'unconsolidated' in the separate financial statements: all structured entities, because none are consolidated in the separate financial statements. Alternatively, only those structured entities that are not consolidated because they are not controlled by the reporting entity.
 - (b) IFRS 12 paragraph 26 requires the disclosure of the size of the unconsolidated structured entity without specifying how to measure the size of the structured entity. Judgment needs to be applied to determine the appropriate measure that provides sufficient and meaningful information, possibly leading to divergence in practice.
- 168 The EFRAG Secretariat proposes to further explore and enlarge the scope of the benchmarking analysis as described in paragraphs 160 to 167. The EFRAG Secretariat also proposes to seek more input from all stakeholders, in particular from users, by organising outreach events and surveys with the purpose to assess whether the disclosures required by IFRS 12 are useful.

Issue 20: Disclosures about an associate which is a public entity

Current IFRS requirements

- 169 IFRS 12 requires entities to disclose summarised financial information of material subsidiaries, joint ventures and associates.

Preliminary input received during the FIWG meeting in January 2020

- 170 One member advised that in situations where an investor was investing in an associate that was listed, disclosure may force a release of information not yet given

to the market by the associate. This situation is particularly challenging when both, the investor and the associate, are listed.

- 171 The member proposed the following amendments to IFRS 12:
- (a) Permit the omission of information that is required by IFRS 12 if that information relates to a listed entity which has not yet published the information itself;
 - (b) Require the disclosure of information based on the most recent publication of the listed entity.
- 172 The stakeholder stated that this issue has been observed in several instances.

EFRAG Secretariat comments

- 173 The EFRAG Secretariat notes that the IFRS Interpretations Committee also noted in its January 2015 meeting that the summarised financial information needs to be disclosed even if the investee is listed and the local regulator prevents the investor from disclosing this information until the investee has released its own financial statements. This is because there is no exception in IFRS 12 that permits the omission of this information.
- 174 The EFRAG Secretariat acknowledges the practical implications of the IFRS 12 requirement to disclose information of listed investees. The EFRAG Secretariat therefore proposes to seek more input from stakeholders, in particular from preparers, by organising outreach events and surveys with the purpose to assess their view whether standard setting is required.

Questions for EFRAG TEG

- 175 The IASB Staff proposed in April 2020 that the Request for Information on IFRS 12 will focus on the quality of information an entity provides and whether and how well the disclosure objectives are met by an entity applying the requirements. Do you agree that these issues are the most important?
- 176 Do you agree with the identification and formulation of the individual issues in section C. IFRS 12 *Disclosure of Interests in Other Entities* in this paper? If so, how do you consider that they should be addressed e.g. through a standard-setting process or improving application guidance?
- 177 Do you consider the issues reported to be mostly transition issues or are they still affecting financial reporting?
- 178 Are you aware of any additional issues that should be considered during the forthcoming outreach?

Appendix: IFRS IC discussions and agenda decisions

IFRS IC agenda decisions regarding application of IFRS 11 guidance

- 179 Sale of output by a joint operator (IFRS 11)
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-sale-of-output-by-a-joint-operator-mar-19.pdf>
- 180 Liabilities in relation to a joint operator's interest in a joint operation (IFRS 11)
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-liabilities-in-relation-to-a-joint-operators-interest-in-a-joint-operation-mar-19.pdf>
- 181 Investment entity consolidation (IFRS 10)
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-10-investment-entities-and-subsidiaries-march-2017.pdf>
- 182 Accounting for loss of control transactions (IFRS 10 and IFRS 11)
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-ifrs-10-accounting-for-loss-of-control-transactions-july-2016.pdf>
- 183 Remeasurement of previously held interests (IFRS 11 and IFRS 3)
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-ifrs-3-remeasurement-of-previously-held-interests-january-2016.pdf>
- 184 Single-asset, single lessee lease vehicles (IFRS 10)
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs10-single-asset-single-lessee-lease-vehicles-may-2015.pdf>
- 185 Accounting by the joint operator in its separate financial statements (IFRS 11 and IAS 27)
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-ias-27-accounting-by-the-joint-operator-in-its-separate-financial-statements-march-2015.pdf>
- 186 Recognition of revenue by a joint operator (IFRS 11)
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-recognition-of-revenue-by-a-joint-operator-march-15.pdf>
- 187 Joint operator's share of output purchased differs from its share of ownership interest (IFRS 11)
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- 188 Joint arrangements with similar features that are classified differently (IFRS 11)
[https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-march-2015-\(3\).pdf](https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-march-2015-(3).pdf)
- 189 Joint operation that is a separate vehicle in its financial statements (IFRS 11)
[https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-march-2015-\(4\).pdf](https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-march-2015-(4).pdf)
- 190 Classification—other facts and circumstances—specific fact patterns (IFRS 11)
[https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-march-2015-\(2\).pdf](https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-march-2015-(2).pdf)
- 191 Classification—other facts and circumstances (IFRS 11)
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- 192 Identification of the acquirer in accordance with IFRS 3 and the parent in accordance with IFRS 10 - Consolidated Financial Statements in a stapling arrangement (IFRS

- 3 and IFRS 10)
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-3-ifrs-10-may-2014.pdf>
- 193 Investment entity – the definition of investment-related services or activities
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- 194 Transition—impairment, foreign exchange and borrowing costs (IFRS 10 and IFRS 11)
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-10-ifrs-11-november-2013.pdf>
- 195 Classification of puttable instruments that are noncontrolling interests (IFRS 10)
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- 196 Effect of protective rights on an assessment of control (IFRS 10)
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