EFRAG

European Financial Reporting Advisory Group

FEEDBACK REPORT ON FIELD-TESTS ON IFRS 10, IFRS 11 AND IFRS 12

EFRAG

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European Financial Reporting Advisory Group

Table of contents

Executive Summary

Objective *1*

Methodology.. *1*

Level of participation... *2*

Summary of main findings

IFRS 10 field-test... *3*

IFRS 11 field-test... *4*

Detailed findings

IFRS 10 field-test... *6*

IFRS 11 field-test... *15*

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Executive summary

Objective

EFRAG conducted two separate field-tests on the requirements of IFRS 10, IFRS 11 and IFRS 12.

In May 2011, the IASB published IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* ('the Standards'). The IASB also published an effect analyses of the impacts of implementing IFRS 10, IFRS 11 and related disclosures in IFRS 12.

This feedback report summarises the findings and input received from companies which participated in the field-tests.

The field-tests were conducted by EFRAG staff in partnership with the staff from some European National Standard Setters. The purpose was to obtain feedback on issues arising from implementing the new requirements and an estimate of the expected costs and benefits for preparers. The results of these fact finding studies served as input to EFRAG's draft endorsement advices and draft effects study reports on the Standards.

This feedback report is intended to be read together with Appendix 1 of EFRAG's draft endorsement advices on the Standards, which provides a summary of the new requirements. These draft endorsement advices were published by EFRAG on 9 February 2012 and are open for comment until 11 March 2012.

Methodology

Participants applied the new requirements to a representative sample of their investees and joint arrangements.

The field-tests were conducted by way of two separate questionnaires with various participants, on a confidential basis.

Participants were requested to apply the new requirements to a representative sample of their investees and to a representative sample of their joint arrangements. Participants were asked to discuss and report the operationality and costs and benefits experienced by them in applying the new requirements to the samples selected.

The questionnaire on IFRS 10 focused on the (i) ability to direct the investee's relevant activities, (ii) de facto control, (iii) potential voting rights, (iv) agent/principal relationships, and (v) consolidation of structured entities.

While the questionnaire on IFRS 11 focused on (i) classification of joint arrangements, (ii) accounting for joint operations created using a separate vehicle (including in the separate financial statements), and (iii) accounting for joint ventures.

Participants were also asked to comment on the transition requirements and effective date of the Standards.

Level of participation

EFRAG received 53 responses from 38 companies operating in various countries and industries.

EFRAG staff received 53 responses of which 27 related to the IFRS 10 field-test and 26 to the IFRS 11 field-test. Fifteen companies participated in both the IFRS 10 and the IFRS 11 field-tests. Almost all participants were listed (or part of) European groups, with some of them also listed in the United States.

The tables below show the number of participants by country and by industry:

IFRS 10

Participants by country		*Participants by industry*	
France	1	Aerospace and Defence	1
Germany	4	Automotive	1
Italy	13	Banking	11
Netherlands	1	Construction	1
Portugal	1	Energy and oil&gas	2
Spain	5	Insurance	6
Turkey	1	Retail	1
United Kingdom	1	Telecommunications	1
	27	Transport and other services	3
			27

IFRS 11

Participants by country		*Participants by industry*	
France	4	Aerospace and Defence	1
Germany	2	Automotive	2
Italy	11	Banking	4
Netherlands	1	Construction	3
Poland	1	Energy and oil&gas	7
Portugal	1	Engineering	1
Spain	4	Insurance	2
Turkey	1	Publishing and Media	1
United Kingdom	1	Telecommunications	2
	26	Transport and other services	3
			26

Summary of main findings

IFRS 10 field-test

Benefits

One of the main benefits of IFRS 10 was that it provided a single basis for consolidation and a uniform approach for all types of entities.

A number of participants noted their support for having a single basis for consolidation and a uniform approach for all types of entities including 'special purpose entities'. In their view, this was one of the main benefits of IFRS 10. They added that IFRS 10 provided a clearer control-based model and eliminated some inconsistencies between IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. This would improve comparability of information.

Participants also expected more comprehensive information in the notes to the financial statements. In their view, this would enhance relevance and bring benefits to users.

Participants observed that applying the new requirements allowed them to gain a comprehensive understanding of the contractual arrangements and risks associated with the investees they are involved with. They thought that IFRS 10 provided more guidance on the concepts underlying control and factors that should be considered when making the assessment.

The examples in the application guidance were thought to be useful in illustrating the new requirements in a simple way.

The main benefit of the enhanced disclosure in IFRS 12 was the likely improvement in financial communication between preparers and users. The more comprehensive disclosures about the nature and source of risks associated with an entity's interests in other entities was expected to enhance user confidence in the information reported in the financial statements, and lead to a decrease in the cost of capital.

Participants observed that having the disclosure requirements for interests in all types of investees in a single standard, was likely to reduce fragmented presentation and improve the consistency and understandability of the financial information.

Operational challenges

Of the various issues tested, de facto control, agency relationships and disclosures relating to unconsolidated structured entities were found to be the most challenging to implement. This was particularly the case for banks and insurers with interests in structured entities and those involved in agent/principal relationships.

Transition and effective date

Some participants that operate in the insurance industry asked for a deferral of the effective date of IFRS 10 and IFRS 12.

These participants recommended 1 January 2014 or 1 January 2015 as the mandatory application date.

A few participants thought that the mandatory effective date of 1 January 2013 was challenging. One of the reasons given was that it would not allow them sufficient time to gather the necessary information to implement the new requirements, particularly when they needed to present two comparative periods. Participants that raised this concern operated mainly in the insurance industry.

A further concern was the potential interaction of IFRS 10 and the IASB's exposure draft on investment entities, which was unlikely to have the same effective date as IFRS 10, IFRS 11 and IFRS 12 (i.e. 1 January 2013).

Having a different effective date could possibly mean adjusting or changing current systems and internal processing, resulting in presentation and accounting changes for investments in some entities as a result of implementing IFRS 10 before knowing the impacts of the proposed accounting for investment entities. The concern was that they might be required to start consolidation of certain investments under the requirements in IFRS 10, but might need to adopt investment entity accounting (i.e. fair value through profit and loss) once the IASB finalised the proposals and amended IFRS 10.

These participants recommended postponing the mandatory effective date of IFRS 10 and IFRS 12 to 1 January 2014 or 1 January 2015.

IFRS 11 field-test

Benefits

The elimination of the accounting option currently included in IAS 31 for interests in jointly controlled entities was regarded by participants as the main benefit of IFRS 11, as it would improve comparability.

Participants noted that the main benefit of IFRS 11 was the elimination of the existing accounting option for interests in jointly controlled entities. IFRS 11 would improve comparability of information for entities with joint arrangements having the same characteristics in terms of rights and obligations of the parties. Furthermore, the focus on rights and obligations was likely to reflect the substance of the contractual arrangements relating to the joint arrangements.

Some participants observed that the new disclosure requirements would improve financial information as users could better understand the activity of the joint arrangements and their impact on the financial position of the parties. The disclosures about significant judgements and assumptions were likely to enhance the understandability and comparability of financial statements. Other participants noted that the new disclosures would compensate for

the loss of information due to elimination of proportionate consolidation.

Operational challenges

Classification of joint arrangements and accounting for joint operations created through a separate vehicle were found to be the most challenging aspects of IFRS 11.

More than half of the participants reported low or moderate difficulty with applying IFRS 11. These participants noted that they were involved in a relatively small number of joint arrangements (although their relative size might be significant to the participant) and others concluded that some or all of their existing jointly controlled entities would be classified as joint ventures when applying IFRS 11.

Classification of joint arrangements and accounting for joint operations established through a separate vehicle (such as an entity) were found to be the most challenging aspects of implementing IFRS 11.

Transition and effective date

Eight participants rated the difficulty related with the transition as 'high'. The main reasons provided, were that they would need to restate comparative periods and that they believed the guidance was not sufficiently clear in relation to classification and accounting for joint operations established through an entity. The other participants explained that they did not expect any significant difficulty with transition.

Most of the participants thought that the effective date of 1 January 2013 was appropriate and would allow them sufficient time to implement IFRS 11 and the related disclosures in IFRS 12.

Four participants argued that more time was needed to obtain clarification and understanding of the classification requirements and the accounting for joint operations and to collect the necessary data for comparative periods. Some of them expressed a similar concern in respect to the implementation of IFRS 12.

Accounting in the separate financial statements

Some participants reported concerns with the accounting for joint operations established through a separate vehicle in the separate financial statements.

Some participants expressed concern about the change in the accounting for interests in joint operations established through a separate vehicle in their separate financial statements and reported that the application of IFRS 11 in the separate accounts had several implications and should be considered carefully.

Detailed findings

IFRS 10 field-test

Ability to direct the investee's relevant activities

Determining the investee's relevant activities was not considered a widespread issue by participants.

The majority of participants that responded to the change in focus to 'relevant activities' did not have investees for which control over the operating and financial policies might not represent control over the relevant activities of that investee.

Generally participants did not experience operational challenges regarding this change to existing IAS 27. However, half of them noted that they will have to modify their existing processes or introduce new ones to comply with the new requirements.

The control definition in IFRS 10 requires an 'ability' to control; an entity must have the *ability to direct* the investee's relevant activities through its ability to use power to affect its amount of variable returns.

Ten participants reported that they have interests in structured entities or investees, in which two or more investors have the ability to direct different relevant activities. These ten participants' responses to different questions are described below:

Most participants did not encounter specific challenges with the ability to direct relevant activities or rated the operational difficulty as 'moderate'. Participants also noted the following:

- *Helpfulness of examples:* Some participants observed that the illustrative examples were helpful to understand the requirements. A few participants observed that not all issues in practice were as straightforward as the examples included in the application guidance.
- *Assessment of 'relevant activities':* A few participants observed that where the terms and conditions of arrangements between investors determine the possible range of business activities of an investee at inception, it could be difficult to identify which activities should be considered as 'relevant activities' and which features of the arrangement should be considered when assessing control.

De facto control

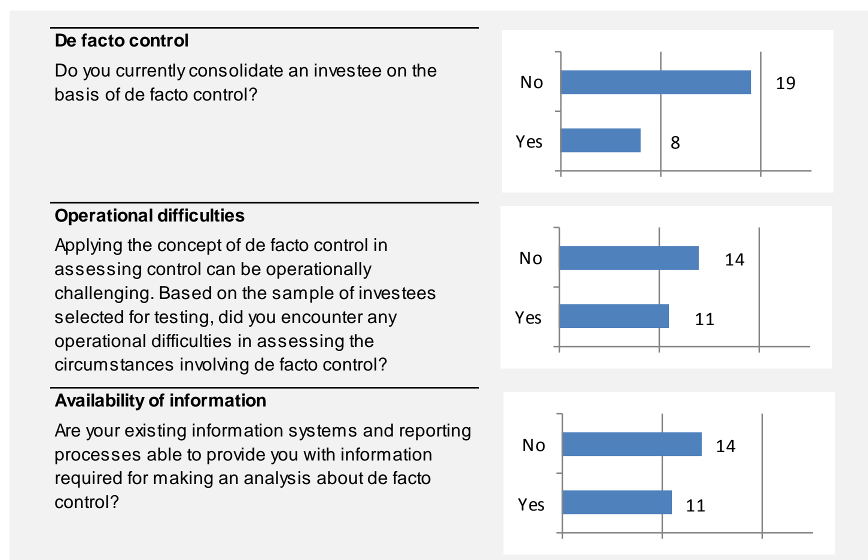
IFRS 10 foresees situations where a company can control without the majority of voting rights.

The majority of participants reported that they do not consolidate an investee on the basis of de facto control.

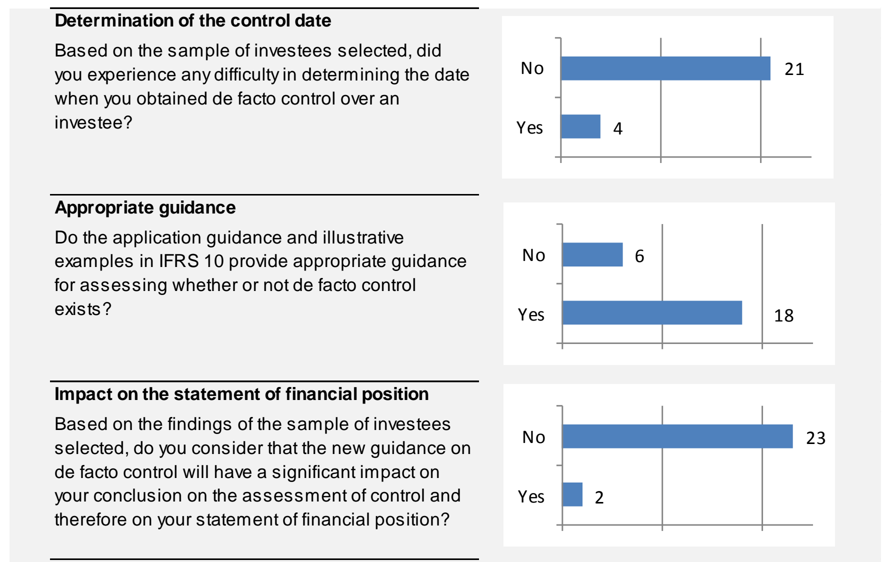
The application guidance and examples in IFRS 10 were found helpful and appropriate for assessing whether or not de facto control exists.

IFRS 10 extended the 'ability' to control approach to include situations that would result in control without a majority of voting rights. Existing IAS 27 does not include guidance on de facto control.

Participants' responses to different questions are noted below:



Only a few participants responded that the changes resulting from de facto control guidance will have significant implications on their statement of financial position.



Some participants (that are affected by this requirement) identified de facto control as an area of implementation difficulty, with four participants rating the operational difficulty as 'high' and nine participants as 'moderate'. Participants also noted the following:

- *More clarity:* Most participants observed that IFRS 10 clarifies de facto control thereby making the control assessment easier. Some participants noted that applying the concepts of de facto control provided a clearer understanding of the contractual arrangements relating to their investees.
- *Access to information and the assessment of rights:* Most participants observed that access to and availability of necessary information and the assessment of whether rights held by other shareholders were substantive, would be the most challenging aspects. These participants did not have all the required information regarding ownership interests held by other investors, in all cases, and the agreements which might exist between those shareholders. In some jurisdictions accessing such information might not be legally possible.
- *Individual assessments*: Some participants observed that control assessments should be done on a case-by-case basis. Their current information systems were not always able to provide the necessary information, including in certain cases the date when de facto control was obtained, and therefore would require modifications. This was more prevalent when participants were required to engage with many different parties to obtain the data.
- *Other operational difficulties:* A few participants observed difficulties when (i) a structure was set up by more than one

bank and administered by several banks (since strategic decisions could only be made by the majority of the participating banks), (ii) financial covenants contained substantive rights and provided de facto control, and (iii) when changes in the ownership structure were not identified on a timely basis.

Potential voting rights

Under IFRS 10, the intention of the writer or buyer of instruments with potential voting rights was considered as part of the control assessment.

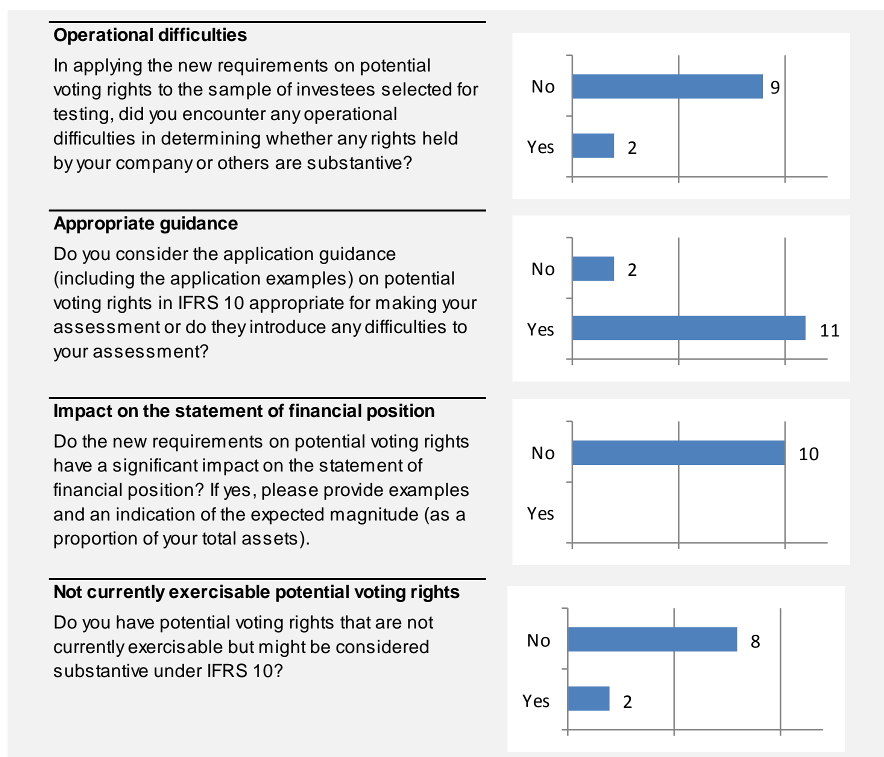
Only a few participants encountered operational difficulty in assessing whether or not removal rights held by the other parties were substantive.

The majority of participants responded that the application guidance and examples are helpful and appropriate in applying the new requirements in IFRS 10.

The existence of potential voting rights (such as options, convertible instruments or other instruments that, if exercised, would give the investor voting rights) must be considered in assessing control under IFRS 10. The standard focuses on rights that are substantive in nature and does not refer to voting rights that are 'currently exercisable' at the reporting date.

Ten participants specifically reported that they have investees in which they or other parties held potential voting rights that, if exercised or converted, would provide their holder the right to acquire shares in the investee.

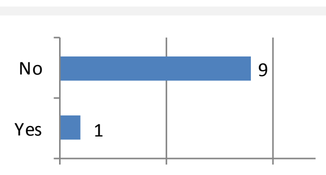
Participants' responses to different questions are noted below:



Participants did not expect significant implications on their statement of financial position resulting from the changes on potential voting rights.

"Out of the money" potential voting rights

Do you have potential voting rights that are currently "out of the money" but might be considered substantive under IFRS 10?



Most participants did not encounter specific difficulty with applying the new requirements. However, a few participants reported that they had encountered difficulty in having access to information to determine whether any rights held by them or others were 'substantive'. They observed that operational challenges might arise in monitoring the position of their potential voting rights.

Agent/principal relationships

IFRS 10 required companies to determine whether they acted as a principal or as an agent.

IAS 27 and SIC-12 were silent on situations of delegated power.

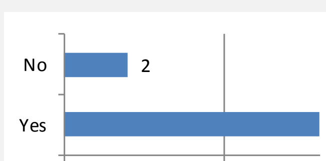
IFRS 10 introduced the concept of delegated power and provided a range of factors to consider when determining whether a decision maker uses its power as a principal or as an agent. Neither existing IAS 27 nor SIC-12 provided specific guidance in this area.

Eleven participants (mainly banks and insurers) reported that they had relationships with investees in which they had been delegated decision-making rights to direct the relevant activities of the investees on behalf of others. These participants provided the following feedback:

Half of the participants with agent/principal relationships encountered operational difficulties in assessing whether or not the removal rights held by the other parties were substantive. In their view, the application guidance in IFRS 10 was not helpful enough.

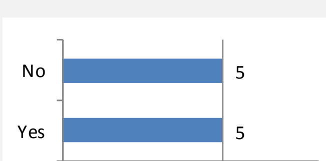
Removal rights

Based on the sample of investees selected for testing this requirement, do any other investors (either individually or collectively) have removal rights (whether with or without cause)?



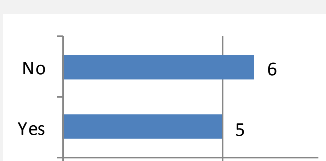
Operational difficulties

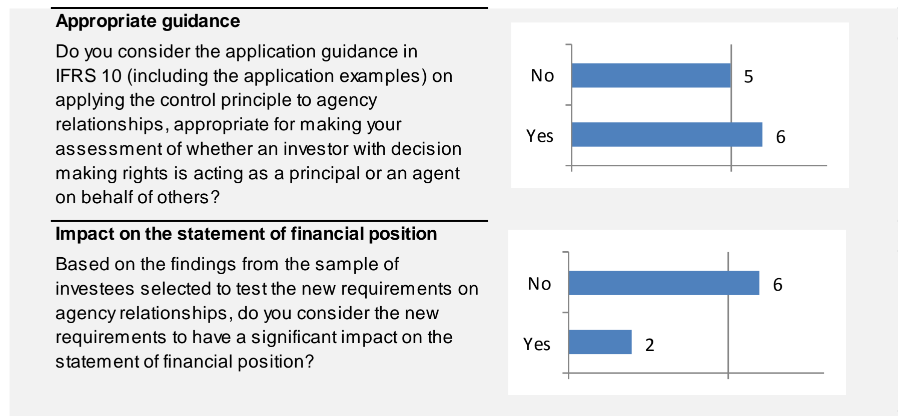
Did you encounter any operational difficulties in assessing whether these removal rights are substantive or not?



Operational difficulties

In the absence of such unilateral removal rights, did you encounter any operational difficulties in determining whether you are acting as an agent or a principal?





Fourteen participants rated the operational difficulty associated with agent/principal relationships as 'high' or 'moderate'. These participants noted the following:

- *Bright-lines and quantitative limits:* The absence of bright-lines made practical application challenging and was likely to introduce more subjectivity.
- *Access to information:* Removal rights in mutual funds and alternative funds were not held by one party or a relatively small group of investors. Obtaining information about complex ownership structures might be a challenge for them, in particular, when these vehicles were structured by third parties.
- *Dispersion of investors*: Gathering information from a widely dispersed group of investors was not always an easy task as the entity did not always have access to the ownership records of other investors and did not have access to agreements between them.
- *Use of judgement*: Assessing 'exposure to variability of returns' was highly judgemental in some cases. Often it was difficult to determine whether an entity acted as an agent or as a principal. IFRS 10 did not contain clear guidance on which factors a fund manager would need to consider in determining 'exposure to variability of returns', particularly in more complex cases when rights to remove the fund manager were held by more than one party.
- *Other matters:* Several participants noted that in their jurisdictions fund managers were required to be independent which might complicate the assessment.

These concerns were mainly expressed by banks and insurers with involvement in funds.

Structured entities

Conclusions reached on structured entities under IFRS 10 could be different from those under SIC-12.

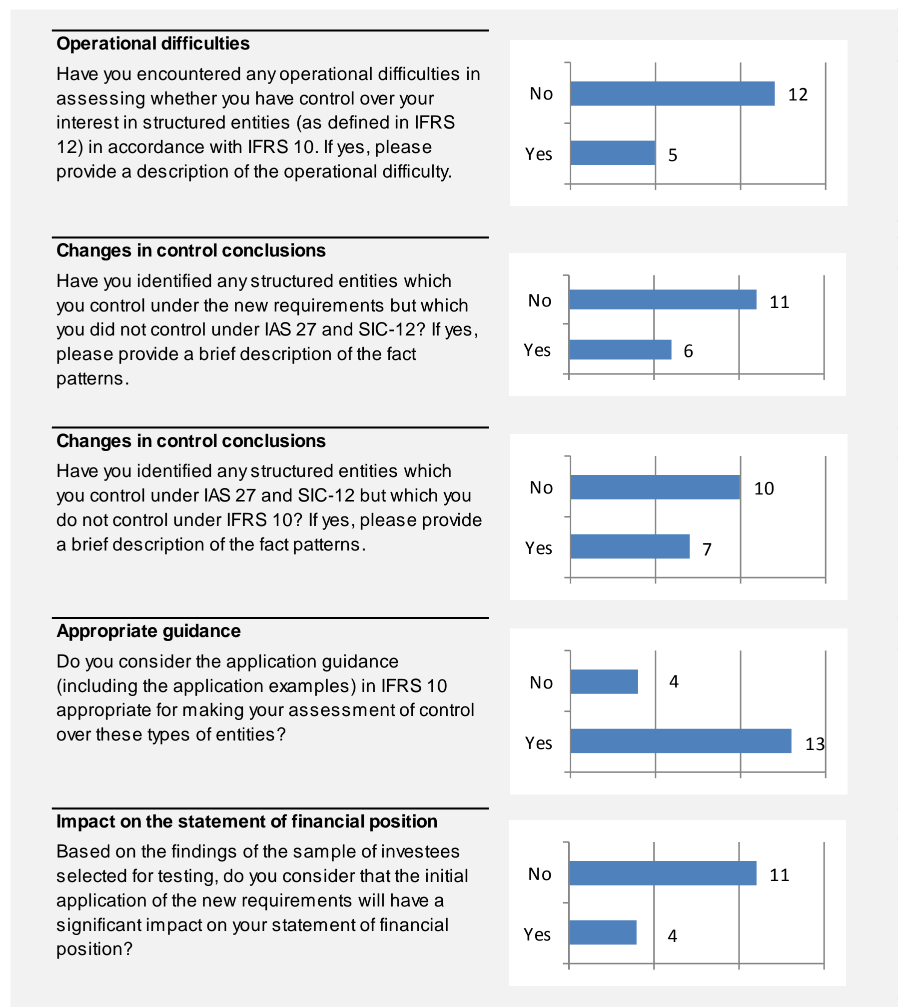
The majority of participants with interests in structured entities had not encountered operational difficulty in applying the new requirements. In their view, the application guidance was appropriate.

IFRS 10 applied to all entities, including structured entities. IFRS 12 defined a structured entity as an entity where voting rights were not necessarily dominant to the assessment of control.

IFRS 10 differed from SIC-12, which focused on which investor (if any) obtained a majority of the rewards or was exposed to a majority of the risks of the investee.

Seventeen participants (mainly banks and insurers) reported that they had an interest in structured entities.

Participants' responses to different questions are noted below:



Broadly, the accounting in IFRS 10 for structured entities was noted as an area of implementation difficulty. Participants noted the following:

- *Single control model:* Participants supported establishing one control model for all types of investees. In their view, having one principle-based control model was easier to explain and might reduce divergence in practice.
- *Lack of guidance:* A few participants observed that the application guidance in IFRS 10 should have clarified certain concepts such as 'significance of investor returns' or 'structured entity', and those circumstances where there was a change in the business purpose.

Related disclosures in IFRS 12

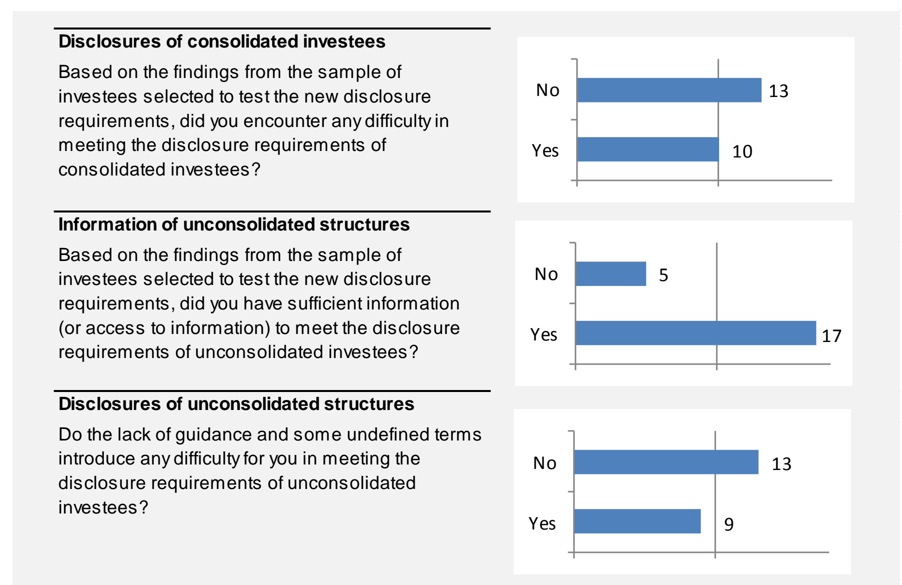
IFRS 12 aimed to provide information to users in a structured and meaningful way.

Nearly half of the participants had encountered difficulty with providing the disclosures required by IFRS 12.

The main reasons reported were the limited availability and access to information, and the lack of guidance.

IFRS 12 introduced, among others, additional disclosure requirements regarding unconsolidated structured entities, interests in subsidiaries with material non-controlling interests, and consolidated structured entities. In some cases, the standard permitted information with similar characteristics to be aggregated.

Participants' responses to different questions are noted below:



Broadly, participants noted that the increased disclosures in IFRS 12 about relationships with off-balance sheet companies and about non-controlling interests, would provide relevant information to users about an entity's risk exposures.

Some participants encountered operational challenges when

preparing disclosures, primarily concerning unconsolidated structures entities. These participants noted the following:

- *Access to information and increase in costs:* Participants (mainly banks and insurers) faced operational difficulty in situations where information was not readily available and they would need to incur costs to collect, process and aggregate the information in a meaningful and understandable way. This was expected to be the case for companies with interests in funds that were currently not consolidated but would be consolidated under IFRS 10 and for companies that would need to provide disclosures on unconsolidated structured entities.
- *Lack of guidance*: Participants observed that IFRS 12 was unclear on how to aggregate some information. In their view, the lack of guidance and undefined terms (such as 'typical customer relationships', 'sponsor' and 'interest) would create operational difficulty.

Implementation costs

Gathering information about interests in unconsolidated structured entities might give rise to additional costs.

These costs were mainly related to the modification of systems, gathering information and training of employees, which would depend on the overall impact of IFRS 10 on their operations.

One-off costs

Participants expected significant one-off costs due to updating internal guidance manuals, training of employees, consulting fees (and auditors) and system changes.

A second category of one-off costs would result from reviewing existing investees (including review of historical structures and gathering historical data), in particular for those companies who previously had not consolidated certain funds.

Regarding IFRS 12, one-off costs would involve understanding the new requirements, reviewing existing interests in other entities and system changes. Most participants noted that they would incur additional costs for gathering information in relation to the disclosure of interests in unconsolidated structured entities.

Ongoing costs

Most participants that identified ongoing costs noted that ongoing work would be required after IFRS 10 and IFRS 12 were first adopted.

These participants reported ongoing employee training costs, and costs associated with (i) the continuous collection and monitoring of relevant information, (ii) larger scope of investees for which

information needed to be recorded and maintained, and (iii) increased audit costs.

IFRS 11 field-test

Changes in current accounting – Classification into joint operations and into joint ventures under IFRS 11

Almost half of the participants applied the equity method to account for jointly controlled entities under IAS 31.

IFRS 11 replaces the term 'joint venture' in IAS 31 *Interests in Joint Ventures* with 'joint arrangement' and required the classification of a joint arrangement to be based on whether the parties to the arrangement have 'rights' to assets and 'obligations' for liabilities relating to the arrangement (i.e. joint operations) or, alternatively, whether they have rights to the net assets of the joint arrangement (i.e. joint ventures). The standard no longer uses the term 'jointly controlled entity'; instead these are considered in IFRS 11 to be joint arrangements created through a separate vehicle.

All 26 participants noted that some or all of their joint arrangements were created through a separate vehicle (e.g. legal entity, partnership or similar legal structure) and classified as jointly controlled entities under IAS 31.

Fifteen participants noted that they used proportionate consolidation to account for jointly controlled entities under IAS 31 and 11 participants used the equity method. The use of proportionate consolidation or equity method varied across countries and industries.

Some participants expected to classify their joint arrangements as joint operations based on an analysis of 'facts and circumstances' arising from the arrangement.

Some participants indicated that they expected to classify some of their interests in IAS 31 jointly controlled entities as joint operations (mainly on the grounds of 'facts and circumstances'). In some cases, these participants were using the equity method. A few of these participants explained that they had not yet finalised their classification assessment. However, in general terms participants indicated that they would need to classify only a minority of their jointly controlled entities under IAS 31 as joint operations under IFRS 11. In particular, the analysis of responses found that:

- Four participants based their classification on the fact that the legal form of the joint arrangement did not confer separation between the parties and the separate entity. An example of such a legal entity was an Economic Interest Grouping (EIC), which could be found in several European countries.

- Six participants classified their joint arrangements based on an analysis of other facts and circumstances. In certain cases the activities of the joint arrangement were contractually designed to provide substantially all output/services to the joint operators, who were also responsible for its obligations. However, some of those participants considered also other supporting facts such whether the joint arrangement operated on a break-even or cost-plus basis or the provision of financial guarantees.

The legal form and the contractual terms of the joint arrangement were the main reasons provided that would lead to changing the accounting from proportionate consolidation to the equity method.

Almost half of participants observed a need to change the accounting from proportionate consolidation to the equity method for some of their joint arrangements, mainly because the legal form and the contractual terms of their joint arrangements indicated that the parties had rights only to the net assets of the arrangement.

In particular, participants reported the following:

- The legal form of the separate entity conferred separation between the parties and the joint arrangement, and parties did not have obligations for liabilities of the arrangement.
- The contractual terms of the arrangement did not override the legal form.
- The shareholder agreements provided clear evidence that they shared control over the net assets of the arrangement.

Difficulties with classification

Participants encountered some difficulty in classifying their joint arrangements under IFRS 11. In particular, 14 participants indicated that they encountered some difficulty with the classification of IAS 31 jointly controlled entities (joint arrangements structured through a separate entity) with seven of them rating this difficulty as 'high'.

Participants that expressed difficulty with classification, expected to classify numerous interests in joint arrangements as joint operations based on 'facts and circumstances'. The majority of these participants operated in the energy and oil & gas industries.

In particular, participants noted the following:

- *Substance of the arrangement:* Some participants reported that the new classification guidance might restrict some joint arrangements from being classified as joint operations, even though such classification would reflect the substance of the arrangement. In their view, a 'gross presentation' should be used when the joint arrangement was considered an extension of the company's main operating activity. They added that the legal

form and contractual terms of the arrangement would often depend on the legal requirements in different jurisdictions and or on tax reasons.

- *More judgement:* Some participants noted that the new classification guidance required extensive judgement and could lead to diversity in practice. In their view, the classification guidance in IFRS 11 in respect to 'other facts and circumstances' was insufficient and sometimes unclear.

More than half of participants did not expect to reassess their initial classification because changes to the contractual agreements and changes in facts and circumstances would be rare.

- *Reassessment of classification:* More than half of participants indicated that they did not expect to reassess their classification in future reporting periods, because they did not expect changes to the contractual agreements and in 'facts and circumstances'. Only a few participants believed a reassessment might be necessary at a future period.
- *Access to information*: A few participants observed that gathering historical information would likely be a challenge.

Some participants indicated that they would continue using proportionate consolidation for management purposes and reporting under IFRS 8.

- *Dual reporting:* Some participants indicated that they would continue using the proportionate consolidation for management purposes and for reporting operating segment information under IFRS 8 *Operating Segments*. They also indicated that they would consider providing additional information to users.

Accounting for joint operations created using a separate vehicle

Under IFRS 11 a party to a joint operation recognised its assets, liabilities, revenues and expenses relating to the joint operation.

Twelve participants indicated that they expected to classify some of their interests in joint arrangements created using a separate vehicle as joint operations (mainly based on the 'facts and circumstances'). Of these participants some currently apply the equity method. Nearly half of the 12 participants reported 'high' operational difficulty in accounting for joint operations and four participants ranked the difficulty as 'moderate'.

In particular, participants noted the following difficulties:

Most participants with interests in joint operations structured through a separate vehicle reported some type of difficulty. In particular, some participants noted that IFRS 11 did not provide sufficient guidance on the accounting for joint operations.

- *Insufficient guidance:* A few participants considered the guidance on accounting for joint operations structured through a separate vehicle as insufficient, particularly when the classification depended solely on 'facts and circumstances'. In their view, IFRS 11 was not sufficiently clear about the basis on which a joint operator should recognise its share of assets and liabilities (i.e. based on its' ownership interest or based on the percentage of output). They noted that if the accounting was to be based on the percentage of output/reserved capacity, the standard was silent about how to account for the difference between a right to assets and ownership rights, which could lead

to diversity in practice.

Participants currently using the equity method noted that colleting additional information on the assets, liabilities, costs and revenues of joint operations would be challenging.

- *Data collection and recognising the individual transactions:* The need to collect additional information and recognise the individual transactions of joint operations would likely be a challenge for participants currently applying the equity method.
- *Changes in systems:* A few participants currently using the equity method noted they might need to modify their systems to be able to account for the interest in joint operations structured through a separate entity.

For the above reasons some participants indicated that they expected difficulty when changing from the equity method to recognition of assets and liabilities, costs and revenues for joint operations.

Accounting for joint operations in the separate financial statements

IFRS 11 required interests in joint operations to be accounted for in the separate financial statements in the same manner as in the consolidated financial statements.

Some participants were concerned about the change in the accounting for interests in joint operations structured through a separate entity in their separate financial statements, and reported that this change would have several implications that needed to be considered carefully.

Accounting for joint ventures

Most of participants reported low operational difficulty in applying the equity method to their interests in joint ventures currently accounted by using proportionate consolidation.

Approximately half of participants with joint ventures would need to modify their systems and processes to apply the equity method.

In order to provide relevant information to users, some participants expected to use

Fifteen participants that used proportionate consolidation for their interests in joint arrangements created using a separate vehicle, reported that they would need to classify some or all of these as joint ventures. Most of these participants reported 'low' or 'moderate' operational difficulty with having to change the accounting, as they had the necessary information to apply the equity method. Some of these participants noted that would also report management information and operating segments under IFRS 8 using the equity method.

Three participants rated the difficulty as 'high' mainly because they would continue using proportionate consolidation for management reporting purposes and to report operating segment information on the basis that the information would be more relevant. These participants reported that they would need to modify their systems and processes to maintain a 'dual' reporting approach. They further observed that they were concerned about the potential 'disconnect' between internal and external reporting and questioned the

non-GAAP measures.

relevance of having a 'dual' reporting system for users of financial statements.

Disclosure of interests in other entities

IFRS 12 extended the disclosure requirements in relation to an entity's interests in joint arrangements.

Most participants did not report significant difficulty with the new requirements in IFRS 12 and explained that they had sufficient information (or access to information) to provide the disclosures. They also observed that the aggregation guidance in IFRS 12 was useful and provided some relief.

Four participants rated the operational difficulty as 'high' for the following reasons:

- *Reconciliations*: They would need to reconcile the summarised financial information for each material joint venture, based on the joint venture's financial statements, and the carrying amount of the joint venture accounted for using the equity method.
- *Data collection:* The financial statements of non-listed joint arrangements (created using a separate vehicle) classified as IFRS 11 joint ventures did not necessarily provide all the information required to comply with IFRS 12. These companies might need to implement new procedures to produce the disclosures.

Transition

Eight participants rated the difficulty related to the transition requirements as 'high'. In particular, they noted two issues: (i) restatement of comparative periods, and (ii) unclear guidance in relation to classification and accounting for joint operations structured through a separate entity.

However, more than half of participants explained that they do not expect any significant difficulties to arise on transition. Their contracts and the legal form of their joint arrangements were easy to assess or their interests in joint operations structured through a separate entity were very limited.

Implementation costs

Most of the participants reported that they had not completed the assessment associated with implementing IFRS 11 and were unable to provide an estimate of the implementation costs. The feedback

below represents the feedback provided by those participants that were able to provide some degree of estimation.

One-off costs

Most participants reported that they would need to reassess all their interests in IAS 31 jointly controlled entities when adopting IFRS 11 and document the conclusions.

Several participants expected some one-off costs to be incurred on transition to IFRS 11 including (i) modification of the financial systems, (ii) understanding the new requirements and training of personnel, (iii) assessment of the classification of joint arrangements to proceed with implementing the necessary accounting procedures and systems changes and (iv) additional fees for external advisors and auditors.

Eleven participants indicated that the implementation costs would be insignificant. Most of these participants had only a limited number of joint arrangements. Three participants expected the one-off costs on transition to be significant.

Ongoing costs

A number of participants reported that ongoing costs would include (i) ongoing monitoring of the key clauses in their joint arrangements for possible reassessment, (ii) classification of joint arrangements entered into in future years, (iii) maintenance of a 'dual' reporting system (for management and external reporting purposes) and (iv) external fees.

Three participants expected that complying with the requirements of IFRS 11 would result in significant recurring costs.

Most participants did not expect significant one-off and ongoing costs associated with implementing and applying IFRS 12 on an ongoing basis.