EFRAG
European Financial Reporting Advisory Group

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

## General information

**In May 2011, the IASB published IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, revised IAS 27 *Separate Financial Statements*, and revised IAS 28 *Investments in Associates and Joint Ventures* .**

**In IFRS 10, the IASB introduced a single control model for consolidation. In IFRS 11, compared to the previous IAS 31 *Interests in Joint Ventures*, the IASB eliminated the accounting options and proportional consolidation, and introduced the classification of, and accounting for, joint arrangements based on rights and obligations. In IFRS 12, the IASB introduced enhanced disclosure requirements.**

**In April 2019, the IASB initiated a post-implementation review process of IFRS 10, IFRS 11, and IFRS 12 (the PIR). The Post-implementation reviews are part of the IASB's due process and help the IASB assess the effects of requirements on users of financial statements, preparers and auditors. In particular, this process aims to assess:**

1. **whether an entity applying the requirements in a Standard produces financial statements that faithfully portray the entity's financial position and performance, and whether this information helps users of financial statements to make informed economic decisions;**
2. **what are the areas of the Standard that pose challenges;**
3. **what are the areas of the Standard that could result in inconsistent application; and**
4. **whether there are any unexpected costs that arise when applying or enforcing the requirements of the Standard, or when using or auditing information the Standard requires an entity to provide.**

**On 9 December, the IASB published a Request for Information (the RFI) seeking views on the standards. The RFI is available on the IASB's web site here.**

**EFRAG is launching this questionnaire in order to collect information**

**required to respond to the questions included in this RFI.**

**About this survey:**

- **This survey contains two sets of questions - one for preparers and one for users and is intended for European constituents using/preparing IFRS based financial statements.**
- **The survey should take approximately 15-20 minutes to complete and can be completed with breaks being taken.**
- **This survey allows you to *Save and continue later*. You will see that option in the top-right corner of the survey starting from page 2 .**
- **On the final page, you will be able to see the summary of your responses where you will be also able to download them in a pdf format. Additionally, a pdf version of your response will be sent to you to the email address provided in Question 1.**
- **Please note that the results of the survey will only be published in aggregate and no individual respondent will be identified. We ask for your contact details in order to be able to ask additional clarifying questions in the process of finalising EFRAG's response to the RFI.**
- **A word version of the survey for preparers is available here, and for users is available here.**

## 1) Your contact details:

Company / Organisation:

Name:

Your email address*:

**May we contact you if we have a question about your response? (Y/N)***

- Yes
- No

**May we share your contact details with the IASB for the purpose of further outreach activities? (Y/N)***

- Yes
- No

## 2) Are you:*

- A preparer
- A user

- A regulator or auditor (you will access the version for preparers)

**Does your company have significant operations in the European Union?***

- Yes, Pan-European or global
- Yes, which country(ies)?: ______ *
- No

**Do you cover companies in the European Union?***

- Yes
- No

# Detailed questions for users

**3) What type of user are you?**

- Sell-side analyst
- Buy-side analyst
- Portfolio manager
- Private / retail investor
- Rating agency analyst
- Other:

**4) Considering all the information that you use, how important are financial statements for your analyses?**
***(1 is for not important and 5 is for very important)***

- 1
- 2
- 3
- 4
- 5

**5) What sectors do you cover?**

| | **large cap** | **mid cap** | **small cap** |
|---|---|---|---|
| All sectors | | | |
| Automotive | | | |
| Banking | | | |
| Communication | | | |

| | | | |
|---|---|---|---|
| Energy & Natural Resources | ○ | ○ | ○ |
| Food & Beverage | ○ | ○ | ○ |
| Insurance | ○ | ○ | ○ |
| Logistics & Transportation | ○ | ○ | ○ |
| Manufacturing | ○ | ○ | ○ |
| Pharmaceutical | ○ | ○ | ○ |
| Retail | ○ | ○ | ○ |
| Real Estate & Construction | ○ | ○ | ○ |
| Services | ○ | ○ | ○ |

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# IFRS 12 Disclosure of Interests in Other Entities

**IFRS 12 sets out disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities, and the risks associated with these interests.**

**A *structured entity* is 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.**

**6) Please indicate the extent to which you consider that the disclosure requirement in IFRS 12 provide useful information.**
***(1 is for lowest and 5 is for highest value)***
**If you do not consider the information to be useful (mark 1 or 2), please explain your reasons and identify what information is missing.**

| | Extent | | | | | Please explain |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interests in subsidiaries | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| Interests in unconsolidated subsidiaries | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| Interests in joint arrangements and associates | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| Interests in unconsolidated structured entities | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |

**7) Please indicate whether you consider the current granularity in the disclosures to the financial statements relating to the following subjects to be sufficient.**
***(1 is for lowest and 5 is for highest value)***
**If you do not consider the information to be sufficiently granular (1 or 2), please explain your reasons and identify what information is missing.**

| | **Extent** | | | | | **Please explain** |
|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | |
| Interests in subsidiaries | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| Interests in unconsolidated subsidiaries | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| Interests in joint arrangements and associates | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| Interests in unconsolidated structured entities | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |

**8) Can you easily find the information required by IFRS 12 in the financial statements you read?**

- Yes
- No, please explain.: ________ *

**9) Do companies apply the requirements consistently resulting in comparable disclosures between companies?**

- Yes
- No, please specify where differences are seen mostly and in which sectors.: ________ *

## 10) In your view, to what extent do you think unconsolidated structured entities are identified correctly and sufficient information about them is provided?

**11) In case you experience difficulties with identifying unconsolidated structured entities, what is the reason:**

☐ Companies apply a too high materiality threshold when identifying unconsolidated structured entities.

☐ The information provided does not allow comparability between companies as the details provided differ between them to a large extent. In this case which detailed information should be provided at a minimum in your view?

☐ Other reasons (please specify):

**Interpretation SIC-12 *Consolidation – Special Purpose Entities* addressed when a special purpose entity should be consolidated by a reporting enterprise. Under SIC-12, an entity should consolidate a special purpose entity ("SPE") when, in substance, the entity controlled the SPE. SIC-12 has been superseded by IFRS 10.**

**12) In the transition from SIC-12 to IFRS 10 and IFRS 12was information lost that you would like to have reinstated? Please specify the nature of this information and why it is important for your analysis.**

**13) To what extent do you need more granular information on the effect of non-controlling interests on the group as a whole (incorporating the real degree of ownership of the subsidiaries especially on net income and book equity)?**

○ Yes, this information is necessary to assess the impact of non-controlling interests on group level.

○ Yes, but additional and specific information is necessary relating to non-controlling interests, please specify::

○ No, the current level of disclosures already enables users to assess the impact of non-controlling interests on group level.

○ No, for other reasons

**14) Please indicate whether the information provided on the following topics is adequate for your needs.**
**Where relevant, please specify what additional information is needed.**
***(1 is for lowest and 5 is for highest value)***

| | **Extent** | | | | | **Please explain** |
|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | |
| The composition of cash-flows flowing out to non-controlling interests (such as, to which subsidiaries an non-controlling interest relates) | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| The proportionate share of profits and cash flows associated with material non-controlling interests. | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| The assets and liabilities held by subsidiaries with material non-controlling interests, as well as associates and joint ventures. | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| Restrictions on paying dividends and dividend traps. | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| The tax consequences of distributions. | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| Subordination of debt in subsidiaries. | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |
| Disclose the expected cash flows and predictions on the volume of business to enable users to identify dividend traps | ( ) | ( ) | ( ) | ( ) | ( ) | ___ |

## 15) Are there items of information currently not required by IFRS 12 that you need for your analyses. Please explain why that information is important to you and how that information should be disclosed.

## 16) Please specify whether there are topics arising from interactions with IFRS 10, IFRS 11 or other standards that you want us to consider.

**17) Please specify whether there are current disclosures that you do not use or that are obscured by being aggregated with information with different characteristics.**

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# IFRS 10 Consolidated Financial Statements

**IFRS 10 requires an investor to present consolidated financial statements when it controls one or more other entities (subsidiaries). An investor has control when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.**

**An investor has *power over the investee* if the investor has the current ability to direct the relevant activities of the investee. Having a majority of the voting rights provides power over an investee in some situations. In other situations, other rights and factors shall be considered to assess whether the investor has the current ability to direct the relevant activities of the investee.**

**IFRS 10 requires *investment entities* to measure their investments in subsidiaries at fair value and to recognise any changes in fair value in profit or loss. An investment entity consolidates a subsidiary if the subsidiary is not an investment entity itself and its main purpose and activities are to provide services that relate to the investment entity's investment activities.**

**18) What is your view on the investment entities exception?**

For this kind of entities, fair value measurement provide more useful information compared to a full consolidation.

It provides useful information. However, 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.

Generally agree that it provides for useful information. However, some information shortfalls may occur because of the lack of information regarding the financial liabilities that investment entities leverage within a bigger group to fund investments (i.e. in circumstances where an intermediate subsidiary – that is itself an investment entity – held investments or incur financial liabilities that are not presented in the parent consolidated financial statement but instead subsumed in the fair value of the subsidiary).

### 19) How do you think this information shortfall should be better addressed? *

**20) Do you the disclosed information about shareholding in other legal entities useful for the purpose of evaluating the risk-profile of the income and cash-flow streams for the parent? Please explain below.**

Yes

No

### 21) Please explain

# IFRS 11 Joint Arrangements

**IFRS 11 establishes principles for financial reporting by entities that have an interest in arrangements that are *controlled jointly*. An investor that is a party to a joint arrangement determines whether the arrangement is a *joint venture* or a *joint operation* by assessing the rights and obligations of the parties to the arrangement.**

**Collaborative arrangements are arrangements similar to joint arrangements i.e. the arrangements where two or more parties manage activities together, but do not satisfy the criterium of joint control. They are sometimes referred to as risk-sharing arrangements.**

**22) 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. A joint arrangement that does not involve a separate vehicle is a joint operation and, generally, a joint arrangement that involves a separate vehicle is a joint venture, however, may be classified as a joint operation based on 'other facts and circumstances'.**

**Do you find the financial information resulting from the assessment useful?**

○ Yes. Please explain what is relevant for the assessment::
[ ] *

○ No, but existing disclosure requirements provide relevant information about joint arrangements.

○ No

**23) IFRS Standards do not provide guidance and disclosure requirements regarding collaborative arrangements. What are your information needs related to collaborative arrangements?**

☐ Such arrangements should be presented in a similar way to joint arrangements (as joint ventures or joint operations) based on IFRS 11 assessment excluding assessment of joint control.

☐ Entities should apply the simplified criteria (e.g. whether involving separate vehicle) and recognise as either joint operations or joint ventures in accordance with IFRS 11 requirements.

☐ I'm not aware of material collaborative arrangements. Any arrangements of that type should be disclosed to provide relevant information.

☐ Other: please explain: [ ] *

**24) When a joint arrangement is classified as a joint operation, a joint operator is required to recognise its assets, liabilities, revenues, and expenses including the share of assets, liabilities, revenues, and expenses arising from the joint operation.**
**Do you find the information resulting from this accounting approach useful?**

- Yes
- No. Please explain.: *

### 81) Do you have any additional feedback: