Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Post-implementation Review– IFRS 10, 11 and 12**	**Meeting**	AASB April 2021 (M179)
Topic:	**Analysis of submissions on ITC 43 and staff recommendations**	**Agenda Item:**	9.1
		Date:	1 April 2021
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Objective of this paper

1 The objective of this agenda item is:

(a) to **inform** the Board of the feedback received on AASB Invitation to Comment 43 *Request for Comment on IASB Request for Information on Post-implementation Review – IFRS 10, 11 and 12* (ITC 43) and other outreach activities;

(b) to **provide** staff analysis on issues raised by stakeholders, including staff recommendations on which matters to include in the submission to the IASB; and

(c) for the Board to **consider** the staff recommendations and **decide** on the content of the AASB's submission to the IASB.

Attachments

Agenda Paper 9.2	Comment letter received on ITC 43 from Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)
Agenda Paper 9.3	AASB Invitation to Comment ITC 43 *Request for Comment on IASB Request for Information on Post-implementation Review – IFRS 10, 11 and 12* [supporting documents folder]
Agenda Paper 9.4	Minutes of AASB Business Combinations/Equity Method Project Advisory Panel Meeting (February 2021) [Board only, supporting documents folder]
Agenda Paper 9.5	Minutes of AASB UAC Meeting (March 2021) [Board only, supporting documents folder]

Structure

2 This paper is structured as follows:

- (a) Background
- (b) Summary of feedback
  - (i) IFRS 10 *Consolidated Financial Statements*
  - (ii) IFRS 11 *Joint Arrangements*
  - (iii) IFRS 12 *Disclosure of Interests in Other Entities*
- (c) Next Steps

Background

3 The AASB's policy is to incorporate International Financial Reporting Standards (IFRS Standards) into Australian Accounting Standards applicable to for-profit and not-for-profit entities in the private sector or the public sector.

4 Post implementation reviews (PIRs) 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, the IASB aims to assess whether:

- (a) 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;
- (b) areas of the Standard pose challenges;
- (c) areas of the Standard could result in inconsistent application; and
- (d) unexpected costs arise when applying or enforcing the requirements of the Standard, or when using or auditing information the Standard requires an entity to provide.

5 The IASB's objectives when IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* were issued in 2015 were to:

- (a) develop a single basis for consolidation and robust guidance for applying that basis to situations in which it proved difficult for an entity to assess control;
- (b) address two features of IAS 31 *Interests in Joint Ventures* the IASB regarded as impediments to high-quality reporting on joint arrangements. Applying IAS 31:
  - (i) the structure of the joint arrangement was the sole determinant of the accounting for that arrangement; and
  - (ii) an entity could choose the accounting treatment for interests in jointly controlled entities; and
- (c) enable users of financial statements to evaluate the nature of and risks associated with an investor's interests in other entities, including joint arrangements, associates and structured entities.

6 The IASB is conducting this PIR in two phases. In the first phase, which took place from September 2019 to April 2020, the IASB identified and assessed the matters to be examined further in a request for information (RFI). The RFI was issued by the IASB in December 2020. The AASB also issued the Australian-equivalent consultation document, ITC 43 in December 2020,

IASB's main findings from the first phase of the PIR

7 Stakeholders agree with the use of control as the single basis for consolidation. Some stakeholders reported that in some situations, applying the requirements of IFRS 10 involves significant judgement and reaching a conclusion can prove challenging.

8 The IASB concluded that the use of judgement in determining if an investor controls an investee is necessary and appropriate.

9 Stakeholders do not oppose the principle that the accounting for joint arrangements should reflect the rights and obligations the parties have as a result of their interests in the arrangements in IFRS 11, but some have concerns about requirements in IFRS 11 that were the subject of submissions to the IFRS Interpretations Committee (IFRS IC)[1].

10 Stakeholders made few comments on IFRS 12 in the first phase. Some stakeholders suggested increasing the specificity of information entities are required to provide when applying the Standard, while others found some of the disclosure requirements excessive.

Respondents to ITC 43

11 The AASB received one comment letter on ITC 43 from the HoTARAC which did not address any of the specific matters as they noted the matters rarely occur in the public sector. One comment was made in reference to IFRS 12 which is noted in paragraph 18.

Outreach activities on ITC 43

12 Staff undertook various outreach activities on the matters raised in ITC 43. These include discussions with the AASB's Business Combinations/Equity Method Project Advisory Panel and User Advisory Committee, as well as individual discussions with key stakeholders. The feedback received from both the panel and committee have been summarised below in the various tables.

[1] See *Accounting by the joint operator: the accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation (IFRS 11 Joint Arrangements)* and *Liabilities in relation to a Joint Operator's Interest in a Joint Operation (IFRS 11)*.

Summary of feedback

13 Staff have summarised and analysed the feedback received from stakeholders in the below tables, including the questions included in the IASB's RFI. Staff have also included a broad outline of the points we suggest the AASB include in the submission to the IASB. Whilst individual responses to the RFI questions are yet to be properly formulated and will be refined subsequent to the April Board meeting, reflecting the decisions made at that meeting, staff are providing this outline so Board members can see the broad outline and proposed content of the submission and provide general direction to staff about any additional issues they would like incorporated in the submission.

Topic 1 - IFRS 10 Consolidated Financial Statements

14 ITC 43 addresses a number of areas of the Standards that have been identified by stakeholders as potentially unclear or open to significant judgement. For IFRS 10 these areas are:

(a) the assessment of control;

(b) the investment entity definition and consolidation exception and whether there is any loss of information when measuring a subsidiary, that is itself an investment entity, at fair value; and

(c) other accounting requirements, with a focus on changes in ownership interests.

15 AASB 10 *Consolidated Financial Statements* incorporates IFRS 10 and AASB 12 *Disclosures of Interests in Other Entities* incorporates IFRS 12. Appendix E in both AASB 10 and AASB 12 explains and illustrates the principles in AASB 10 and AASB 12 for not-for-profit entities in the private and public sectors, particularly to address circumstances where a for-profit perspective does not readily translate to a not-for-profit perspective. As both Appendix Es are Australian-specific, they have not been considered as part of the IASB's post-implementation review and has not been considered in this paper. Instead, a PIR of Appendix E may be considered separately as part of the AASB's agenda consultation process. Staff will consider the effects of the IASB PIR on Appendix E, and not-for-profit entities will be consulted as part of this process.

A. Relevant activities

Relevant RFI question

Question 2(a)

In your experience:

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

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

Feedback	**Staff analysis and recommendation – should this issue be raised with the IASB**	**Suggested AASB response**
Consistent with the feedback in the RFI, stakeholders acknowledged that identifying the relevant activities can be challenging at times. For example: • In situations where there are multiple investors that have different decision-making rights at different times, determining which relevant activities are most relevant to the control assessment can be complex. • Where an entity goes through multiple stages during its life, it is not clear whether control must be assessed by considering the relevant activities over the entire life of the entity, and therefore which party has decision-making abilities over the 'most relevant' activities. Alternatively, could control be assessed by considering each stage of life separately noting that at some stages, only certain decisions are relevant therefore control may be transitory. • There are situations where different parties reach different control conclusions. For example, one party may determine they have control, whereas another party may determine they have joint control.	*Staff analysis* The control model in IFRS 10 concludes that an investor has power over an investee where the investor has existing rights that give it the current ability to direct the relevant activities. Relevant activities are activities of the investee that significantly affect the investee's returns. IFRS 10.13 requires that if two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the **current** (emphasis added) ability to direct the activities that most significantly affect investee returns has power. This principle is supplemented application guidance and application examples. Feedback from stakeholders suggested it is not clear how to interpret the principle in paragraph 13 – that is, should the relevant activity be the activity that is most relevant at a point in time or the activity that is most relevant over the investee's life. For example, staff are aware of a view that control can change from one investor to another over time following the reassessment of an entity's relevant activities (e.g. if one investor has decision-making rights over research and development and another has decision-making over manufacture and sale, once regulatory approval is obtained this can no longer be a relevant activity, and the relevant activity must now relate to manufacture and sale). However, application example 1 in IFRS 10 states that investors need to consider which are the activities that **most** significantly affect the investee's returns (emphasis	• Identifying the relevant activities of an investee can be challenging and very judgemental, in particular determining the relevant activities of an investee with multiple stages of life. • It is not clear from the requirements and application examples in IFRS 10 what the IASB's intention was, so the AASB suggests clarifying the requirements and application examples (i.e. to clarify whether the assessment of control is performed over the life of the entity or for each stage of the entity's life). Q1. Question for Board members (a) Do Board members agree with the staff recommendation? If not, what do Board members suggest? (b) If Board members agree with the staff recommendation, do Board members agree with the suggested AASB response? If not, what do Board members suggest?

	added). This appears to imply that these are meant to be the overall returns over the whole of life of the investee. The ambiguity might arise from the use of 'current' in paragraph 13, and whether that implies that an investor would disregard the fact that they only have decision-making rights in the next stage of the project's life. The application example however doesn't appear to support an assessment per stage of the entity's life. Whilst there is not necessarily diversity in practice about how these assessments are made, there is often extensive debate due to the judgemental nature of determining which activities are the most significant. From a practical perspective an investor is unlikely to want to consolidate an investment when it is loss making, which may be the case in the research phase. However, staff suggest that it may also be nonsensical for an investor that has decision-making rights over the production phase to conclude they have control and consolidate the investment during the research phase, when there is no guarantee that the investee will progress past the research phase. Staff note that IFRS 10 requires investors to reconsider their control assessment over time if relevant facts or circumstances change. Paragraphs B80-B85 of IFRS 10 outline a number of scenarios to consider. Staff suggest that despite the principles of IFRS 10 and the application guidance and examples, it is not clear which view the IASB had in relation to this assessment (i.e. consider relevant activities in phases or for the totality of the investee's life). *Staff recommendation* For the reasons explained above, staff recommend including this matter in the AASB's submission to the IASB.	

B. Protective versus substantive rights

Relevant RFI question

Question 2(b)

In your experience:

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

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

Feedback	Staff analysis and recommendation – should this issue be raised with the IASB	Suggested AASB response
General feedback Feedback suggested that assessing whether rights are protective or substantive is an area of constant debate and that a lot of entities have difficulty applying the guidance. This is because there are no bright lines. Also, the guidance and illustrative examples tend to only have one variable and show only one aspect of the decision-making assessment. In practice, there are many aspects that need to be considered together, which can make the assessment quite complicated. While it was suggested that additional guidance is needed to assist with practical application of the principles, stakeholders were also mindful that balance is needed, to avoid IFRS Standards becoming effectively rules-based. In particular, stakeholders noted that the list of considerations in the guidance and the illustrative examples could be used as checklists by entities when making the control assessment without reference back to the principles.	*Staff analysis – general feedback* To have power over an investee, an investor must have existing rights that give it the current ability to direct the relevant activities. For the purpose of assessing power, only substantive rights and rights that are not protective shall be considered (see paragraphs B22–B28 of IFRS 10). This guidance in IFRS 10 is supplemented by application examples that intend to help investors determine whether or not they control an investee. However, feedback suggested that the guidance and application examples are not sufficient to help with this assessment in practice, particularly as it is not always clear how the principles have been applied when developing the guidance and illustrative examples. That is, there are overarching principles in the Standard and guidance that draws certain conclusions for certain isolated fact patterns, but the connection between the two is not always evident. Therefore, if it is not clear how the principles are applied it is then more difficult to combine different scenarios and apply the guidance. For example:	• It is not always clear how to identify whether rights are protective in practice and this can be challenging, particularly in franchise arrangements. For example, in practice it is not uncommon for franchisors to direct most of the franchisees activities and these rights are often not protective which is contrary to the conclusions drawn in the application guidance. The AASB suggests the IASB revisits the guidance on franchises and removes statements that imply that franchisor rights are normally protective in nature. • If the IASB intended that franchisees may be consolidated under certain circumstances the AASB suggests that it needs to be made clearer that this could occur as the concept is not clearly understood. • It is not clear from the requirements and application examples, what the IASB's intention was when drafting the examples and how the principles are applied in particular when combining different fact patterns.

Stakeholders further noted that sometimes it is not clear how the principles have been applied when developing the guidance and illustrative examples. It could also be useful if the IASB compared the actual control assessment e.g. for a number of structured entities that are similar in nature and reflected whether the outcome is consistent with what the IASB was expecting. *Franchise arrangements* Consistent with the feedback in the RFI, stakeholders agreed that assessing whether rights are substantive or protective in franchise arrangements is challenging. In particular, the Standard suggests that franchisor rights are generally protective, however stakeholders questioned whether this is true in practice and aligns with the principles of IFRS 10. For example, in the stakeholders' experience the franchisor typically sets the price, the operating hours and mandates the suppliers. They may also provide financing and can assist with recruitment too. Notwithstanding the presence of these factors, some stakeholders noted that franchisees are rarely consolidated by the franchisors whereas others thought that there are inconsistencies in how they are treated. While franchise arrangements differ from industry to industry (e.g. pharmacy versus retail chain), the overall considerations are consistent.	• IFRS 10.B23 gives examples of factors to consider when determining whether rights are substantive and B23(c) suggests that the terms and conditions of potential voting rights are more likely to be substantive when the instrument is in the money. However, in practice this judgement can be difficult to make. For example, are currently exercisable options with an exercise price based on a formula that is intended to approximate fair value considered to be in the money, or is further evidence required? • In the fund management industry, some consider that there are quasi-bright lines where a fund manager with a, say, 30% ownership interest is considered to have control but a fund manager with an ownership interest of less than 20% is not considered to have control. This leaves a judgemental area in between where it is necessary to consider 'other facts and circumstances'. These considerations are typically not disclosed in the financial statements. *Staff recommendation* As there can be many factors to consider when determining whether rights are protective or substantive, staff recommend suggesting the IASB consider providing educational guidance with a similar level of the detail to an IFRS IC Tentative Agenda Decision (i.e. examples that illustrate complex fact patterns and provide a step-by-step analysis of how the IASB intended the principles in IFRS 10 be applied). *Staff analysis – franchise arrangements* Staff appreciate that including the guidance in IFRS 10 regarding franchise arrangements was expected to help a franchisor determine whether it controls a franchisee. However, the guidance in IFRS 10 paragraphs B29 - B33 appears to be drafted on the assumption that most	• We suggest clarifying the requirements in detailed educational guidance (similar to the IFRS IC tentative agenda decisions, i.e. including complex fact patterns and step-by-step analyses). Q2. Question for Board members (a) Do Board members agree with the staff recommendations? If not, what do Board members suggest? (b) If Board members agree with the staff recommendations, do Board members agree with the suggested AASB response? If not, what do Board members suggest?

	franchisees are not controlled by the franchisor because the rights held by the franchisor are generally protective in nature. Based on stakeholder feedback, staff understand that in practice this is not necessarily the case. For example, IFRS 10.B29 outlines that a "… franchise agreement for which the investee is the franchisee often gives the franchisor rights that are designed to protect the franchise brand. Franchise agreements typically give franchisors some decision-making rights with respect to the operations of the franchisee." Further, "franchisors' rights do not restrict the ability of parties other than the franchisor to make decisions that have a significant effect on the franchisee's returns. Nor do the rights of the franchisor in franchise agreements necessarily give the franchisor the current ability to direct the activities that significantly affect the franchisee's return" (IFRS10.B30). Examples of activities that significantly affect the franchisee's returns include determining or changing operating policies, setting the selling price of goods, selecting suppliers, purchasing goods and services, selecting, acquiring and disposing of equipment, appointing, remunerating and terminating KMP and financing. If some activities are directed by the franchisor and others by the franchisee, it is necessary to determine which of the activities most significantly affect the franchisee's returns. Based on feedback received, in practice it is not uncommon for franchisors to direct most of the activities noted above and if the decision-making rights are considered substantive, this would be contrary to the conclusions drawn in the guidance. However, while a franchisor may appear to control a franchisee, it is either uncommon for franchisees to be consolidated or at best there are inconsistencies in this regard. Staff understand	

	this is because the guidance in IFRS 10 is not clear (i.e. because the Standard states that franchisor rights are normally protective). *Staff recommendation* If the IASB intended that franchisees may need to be consolidated under certain circumstances, staff recommend it needs to be made clearer that this could occur, as the concept is not clearly understood. Staff further recommend that the IASB revisits the guidance on franchises and removes statements that imply that franchisor rights are normally protective in nature.	

C. Control without a majority of the voting rights (de facto control)

Relevant RFI question

Question 2(c)

In your experience:

(i) to what extent does applying paragraphs B41–B46 of IFRS 10 to situations in which the other shareholdings are widely dispersed enable an investor that does not hold a majority of the voting rights to make an appropriate assessment of whether it has acquired (or lost) the practical ability to direct an investee's relevant activities?

(ii) how frequently does the situation in which an investor needs to make the assessment described in question 2(c)(i) arise?

(iii) is the cost of obtaining the information required to make the assessment significant?

Feedback	**Staff analysis and recommendation – should this issue be raised with the IASB**	**Suggested AASB response**
Similar to feedback in the RFI, our stakeholder feedback suggested that assessing de facto control can be challenging. It was also noted that different regulators have different views about whether/when de facto control exists. This adds an additional layer of complexity to entities with international operations.	*Staff analysis* IFRS 10.B41 outlines that an "… investor with less than a majority of the voting rights has rights that are sufficient to give it power when the investor has the practical ability to direct the relevant activities unilaterally."	N/A Q3. Question for Board members (a) Do Board members agree with the staff recommendation not to include this feedback in the

One of the factors to consider when assessing whether de facto control exists is historical voting patterns. Feedback suggested that consideration of historical voting patterns can be difficult as past behaviour is not necessarily indicative of future behaviour. This could be the case where there have been 'vanilla' matters for 'minority' shareholders to vote on versus more 'controversial' matters where they may be more compelled to exercise their right to vote. Feedback acknowledged that additional guidance may not assist with practical application due to the judgement required. It was also acknowledged that similar considerations are relevant when assessing whether an entity has significant influence, however stakeholders noted that this was beyond the scope of this project.	When assessing control with less than a majority of voting rights it is necessary for investors to consider all facts and circumstances when determining whether the voting rights they do hold are sufficient to give them power. Things to consider include the size of the investor's shareholding relative to the size and dispersion of holdings of other vote holders, potential voting rights held by other investors, rights arising from other contractual arrangements and other facts and circumstances, such as voting patterns at previous shareholder meetings (IFRS 10.B42). IFRS 10.B45 outlines that if after considering other facts and circumstances it is unclear whether an investor has power, it shall consider additional facts and circumstances, such as whether other shareholders are passive in nature as demonstrated by voting patterns at previous shareholders' meetings. IFRS 10 further states that if it is not clear that the investor has power after considering these factors, then the investor does not control the investee (IFRS 10.B46). IFRS 10 contains a number of examples that outline various shareholding patterns and examples of relevant considerations, including past voting patterns at shareholder meetings (e.g. application example 8). However, as there are no bright lines the determination of control may be very judgemental. *Staff recommendation* Staff understand that assessing whether or not de facto control exists is necessary at times, however it does not appear to happen frequently. Whilst staff appreciate that past voting patterns may not be indicative of future voting patterns, as suggested by the feedback received, the Standard is clear that this is only	AASB's submission to the IASB? If not, what do Board members suggest?

	one of many matters that investors should consider, and ultimately professional judgement will be required. Staff further understand that assessing whether or not de facto control exists is particularly difficult, especially when there is no historical voting pattern and/or significant changes are expected to occur, which makes historical voting patterns less reliable or predictive. Being required to constantly assess whether or not control is achieved/lost even when shareholdings do not change could also be costly for preparers. Whilst appreciating the judgement required, if it is not clear whether an investor has control, the Standard states that they do not. For this reason, staff do not recommend including this feedback in the submission to the IASB. Further, as assessing significant influence is beyond the scope of the project, staff also do not recommend including this feedback as a point for the IASB to consider.	

D. Principal versus agent relationships[2]

Relevant RFI question

Question 3(a)

In your experience:

(i) to what extent does applying the factors listed in paragraph B60 of IFRS 10 (and the application guidance in paragraphs B62–B72 of IFRS 10) enable an investor to determine whether a decision maker is a principal or an agent?

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[2] Some feedback was received from stakeholders in relation to the application of the principal versus agent concept in the public-sector. The feedback was related to the Australian-specific guidance included in AASB 10. As the feedback was specific to the public-sector, staff have not included this feedback in this staff paper. However, this feedback is included in Agenda Paper 9.4 for completeness.

<table>
<tr><td colspan="3">(ii) are there situations in which it is challenging to identify an agency relationship? If yes, please describe the challenges that arise in these situations.

(iii) how frequently do these situations arise?</td></tr>
<tr><th>Feedback</th><th>Staff analysis and recommendation – should this issue be raised with the IASB</th><th>Suggested AASB response</th></tr>
<tr>
<td>Consistent with the feedback in the RFI, stakeholders confirmed that determining whether an agency relationship exists can be challenging.

Funds management

Feedback suggested that this assessment is particularly challenging for fund managers in the investment management industry. As the assessment can be very judgemental this leads to diversity in outcomes.

For example, as remuneration is typically performance-based, it is difficult to distinguish remuneration-related variability from market-related variability.

Further, if an investor can remove the fund manager without cause (indication that the fund manager acts as an agent), but remuneration is not market-related (indication that the fund manager acts as a principal), how do these points correlate. Or for example, a fund manager that only holds a small investment and is being remunerated at market rates (indicating an agent role) but can't be removed without cause (indicating a principal role). In this case there is only minimal variability of returns but is there still a link between power and returns?

Feedback suggested there also appears to be an inconsistency between how the requirements are applied when determining a principal versus agent relationship and assessing whether there is a de facto agency relationship. De facto agency relationships are considered at E below.</td>
<td>Staff analysis

The third criterion for having control is that an investor must have the ability to use its power over an investee to affect the amount of the investor's returns (IFRS 10.7). An investor can only control an investee if the investor has not only power, but also the ability to use its power to affect the investors returns (IFRS 10.17). For this reason, an investor with decision-making rights considers whether it is a principal or an agent. An investor that is an agent does not control an investee when it exercises decision-making rights that are delegated to it (IFRS 10.18).

The determination of whether a decision-maker is acting as a principal or an agent is made after considering the following:

1. the scope of the decision-making authority
2. rights held by other parties
3. remuneration of the decision-maker (whether it is commensurate with the services provided and based on market terms)
4. exposure to variability of returns through other interests (IFRS10.B60).

Staff understand that of these factors, generally it is rights held by third parties to remove the decision-maker and the exposure to variable returns through other interests, that often require the most consideration.</td>
<td>• Determining whether a decision-maker is a principal, or an agent is judgemental. It can therefore be challenging in practice, especially where there are complex remuneration arrangement in place for fund managers.

• We suggest clarifying the requirements in detailed educational guidance with complex fact patterns (similar to the IFRS IC tentative agenda decisions, i.e. including complex fact patterns and step-by-step analyses).

• These situations occur frequently in the funds management industry.

Q4. Question for Board members

(a) Do Board members agree with the staff recommendation? If not, what do Board members suggest?

(b) If Board members agree with the staff recommendation, do Board members agree with the suggested AASB response? If not, what do Board members suggest?</td>
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	In most asset management scenarios involving retail investors, management will necessarily conclude that the remuneration is commensurate with service provided and based on market terms. This is because retail investors would invest elsewhere if this was not the case. IFRS 10.B68 suggests that "the greater the magnitude of, and variability associated with, the decision maker's remuneration relative to the returns expected from the activities of the investee, the more likely the decision maker is a principal." Application examples 13-15 set out three common remuneration structures and while useful in illustrating how to apply the principles and guidance in IFRS 10, these scenarios are still quite simplistic, and do not consider scenarios where there are different and less straightforward remuneration arrangements. For this reason staff suggest it would be helpful for the IASB to expand on the discussion included in the application examples to explain why/how on balance a specific conclusion was reached by referring back to the general principles of control in IFRS 10 paragraph 7 and the supporting application guidance. For example, in application example 13, there is variability of returns and no substantive removal rights (indicating a principal relationship), however the overall conclusion is that the fund manager is an agent because of restricted parameters governing the assets the fund manager can invest in and only limited exposure to variability of returns. The example does not explain why the fact that the manager was involved in the establishment – and therefore presumably – the design of the investee (paragraph B63) does not appear to be relevant in this context and why the other interests held (i.e. the 10% investment) do not result in sufficient exposure to variability of returns from other interests when considered	

	together with the remuneration received (paragraph B71 and B72). Application examples 14A to 14C all use the same basic fact pattern but then vary one or two factors, being the ownership interest and the removal rights. The examples conclude that with a 2% investment but no substantive removal rights the fund manager would be an agent, but that a 20% investment could be sufficient to conclude that there is control. Example 14B further states that control may also arise at different levels of the investment if the fact pattern is different. In example 14C, the other investors have substantive removal rights and therefore the fund manager concludes that they do not control the fund even though they have a 20% investment. While this does illustrate some common scenarios, in reality it is often not at as clear whether rights held by other parties are substantive or protective and fund managers may also have exposure to variable returns through other mechanisms (e.g. a requirement to fund losses or an entitlement to residual returns of the investee). While paragraph B72 says that it will be necessary to consider the magnitude of, and variability associated with, the economic interest and whether this is different to other investors, this obviously involves a significant amount of judgement. *Staff recommendation* To assist in the application of the principles, additional interpretative guidance may be helpful. However, instead of adding more application examples or guidance paragraphs to the Standard, which could undermine the principle-based nature of IFRS 10, staff recommend suggesting the IASB consider issuing educational guidance	

	with a similar level of the detail to the IFRS IC Tentative Agenda Decisions (i.e. examples that illustrate complex fact patterns and provide a step-by-step analysis of how the IASB intended the principles in IFRS 10 be applied).	

E. <u>De facto agency relationships</u>

Relevant RFI question

Question 3(b)

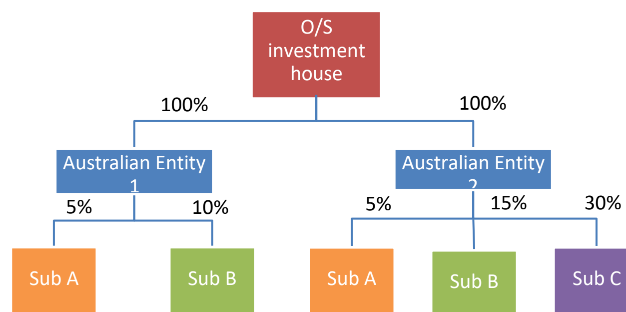
In your experience:

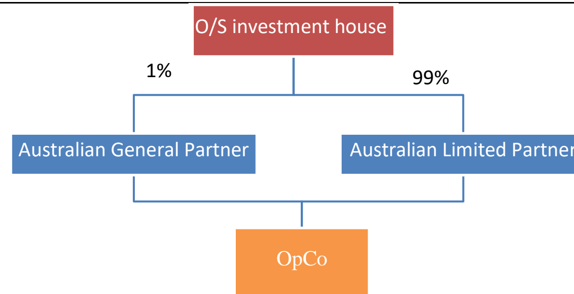
(i) to what extent does applying paragraphs B73–B75 of IFRS 10 enable an investor to assess whether control exists because another party is acting as a de facto agent (i.e. in the absence of a contractual arrangement between the parties)?

(ii) how frequently does the situation in which an investor needs to make the assessment described in question 3(b)(i) arise?

(iii) please describe the situations that give rise to such a need.

Feedback	**Staff analysis and recommendation – should this issue be raised with the IASB**	**Suggested AASB response**
Stakeholders noted that the question of de facto agency relationships comes up in Australia particularly in connection with cross-border ownership considerations. The issue may be more prevalent in Australia as we have local statutory reporting requirements (e.g. entities in Australia have to report if they are large proprietary companies), whereas in similar group structures in other countries the intermediate investors may not have separate reporting obligations. An example of a cross-border relationship could be where an overseas investment house invests into multiple entities in Australia and those Australian subsidiaries also have multiple investments, often in common investees (see example 1 on the right). As the Australian	*Staff analysis* From the feedback received it appears the difficulties in applying the requirements of IFRS 10 in these situations might be due to local statutory reporting requirements, including the requirement in AASB 10 paragraph Aus4.2 that the ultimate Australian parent entity must prepare consolidated financial statements regardless of whether the exemption in AASB 10 paragraph 4 could be applied. <u>Example 1:</u> Staff understand a (simplified) investment structure can look similar to the graph below. This example assumes ownership interest equals voting rights and that there are no other relevant facts and circumstances to consider. If	• Assessing de facto agency relationships in the scenarios illustrated in the simplified organisation structures is difficult as there are often no contractual arrangements in place. • We understand that situations like those illustrated in Example 1 and Example 2 are not uncommon. • However, this issue may only arise in Australia due to local statutory reporting requirements. If this is a concern in other jurisdictions, we suggest additional guidance may be warranted. Q5. Question for Board members

subsidiaries need to prepare financial statements, it is necessary to determine who has control of the investees. These structures can use a limited partnership arrangement (see example 2 on the right – a general partner who has all of the decision-making rights but owns 1% of the equity and a limited partner who has 99% of equity but no decision-making ability). However, often there is no contractual agreement between the investors in place. Stakeholders suggested that the guidance in IFRS 10 appears to require adding the power from one investor to the returns of the other and would conclude that the limited partner should consolidate the investee despite the lack of decision-making rights.	Australian Entity 1 and/or 2 are required by the *Corporations Act 2001* to prepare financial statements, it will be necessary to determine how Australian Entity 1 and 2 should treat their investments in Sub A and Sub B. For example, if the remaining shareholdings in Sub A and Sub B are dispersed, could the ultimate control by O/S investment house provide Australian Entities 1 and 2 with significant influence or should the investments be accounted for at fair value through the profit and loss. Alternatively, if the shareholdings in Sub A and Sub B are larger, it will be necessary to consider whether Australian Entity 1 is a de facto agent of Australian Entity 2 or vice versa such that either Australian Entity 1 or 2 may need to consolidated Sub A and Sub B. This will be difficult in particular where there are no contractual arrangements in place.  <u>Example 2:</u>	(a) Do Board members agree with the staff recommendation? If not, what do Board members suggest? (b) If Board members agree with the staff recommendation, do Board members agree with the suggested AASB response? If not, what do Board members suggest?

	 In this simplified example, presume General Partner has decision-making rights and Limited Partner has exposure to the returns of OpCo. The guidance in paragraph B74 indicates that in this situation Limited Partner may be required to consolidate OpCo notwithstanding that they do not have any decision-making rights. This is because Limited Partner has the most significant exposure to the returns. The question whether any of the Australian entities would need to consolidate the subsidiaries/OpCo may not be so relevant in other jurisdictions if the local intermediate investors are either not required to prepare and lodge financial statements or could apply the consolidation exemption in IFRS 10 paragraph 4. *Staff recommendation* Staff recommend suggesting the IASB consider whether this is an issue that is specific to Australia or whether other stakeholders have similar concerns. If this is a concern in other jurisdictions staff recommend suggesting the IASB consider whether additional guidance is warranted.	

F. Investment entities

Relevant RFI question

Question 4(a)

In your experience:

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

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

Feedback	**Staff analysis and recommendation – should this issue be raised with the IASB**	**Suggested AASB response**
General Feedback confirmed that determining whether an entity is an investment entity by its nature is very complex and that the requirements are difficult to apply. There are also inconsistencies within the Standard. For example, IFRS 10.27 contains mandatory elements when assessing whether or not an entity is an investment entity. IFRS 10.28 includes additional factors to consider, however, notes that they need not be present. Feedback suggested it is not clear how these paragraphs interact. *Disclosures* In relation to the potential loss of information, the example of a listed credit fund was given, and it was suggested that as an investor it is very difficult to understand what they are investing in when looking at the financial statements (e.g. what investments the investor is actually exposed to and any risks associated with these investments). In such cases, the feedback suggested that	*Staff analysis – general* Staff acknowledge that paragraphs 27 and 28 of IFRS 10 could be confusing as it is not clear why it is necessary to consider paragraph 28 if they are not 'required' features. Staff note that IFRS 10.B85N indicates that the absence of one of the typical characteristics outlined in paragraph 28 does not disqualify the entity from being classified as an investment entity. However, it does indicate that additional judgement is required in determining whether the entity is an investment entity. Paragraphs B85O – B85W also provide additional guidance on how to apply the mandatory requirements in paragraph 27. *Staff recommendation* While the application guidance in Appendix B provides guidance on the application of the requirements, staff acknowledge that this guidance may not be adequate. For this reason, staff recommend suggesting the IASB consider whether this matter is raised by other stakeholders, and if	• There appear to be inconsistencies between certain paragraphs in the Standard. For example, it is not clear how the mandatory elements (paragraph 27) interact with the typical characteristics (paragraph 28) if the characteristics are not necessarily required to be present. If this matter is raised by other stakeholders, the IASB may wish to consider whether additional guidance is needed. • Fair value accounting does not provide users with the information they need (i.e. they would like information about the underlying net assets of the investee). Although this feedback was considered by the IASB at the time the proposals were developed, the AASB suggest there may be merit in reconsidering the exception or even whether disclosures about the underlying net assets may be warranted. This is because users remain concerned about the lack of information provided by fair value accounting. • This concern is supported by an Australian-specific securities regulator requirement to supplement

<table>
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<td>investment entity accounting results in a loss of information.

It was noted that listed entities must provide the ASX with the financial statements of the investees and must also make those available to their shareholders on request. (i.e. ASX Listing Rule 4.8[3]). While this can compensate the loss of information from the non-consolidation, stakeholders thought investors should not need to access several financial statements to get sufficient information about the underlying investments.

Feedback suggested considering whether additional disclosures in the financial statements of the investment entity could meet users need for information.

Exit strategy

Consistent with the feedback in the RFI, stakeholders suggested that it is not entirely clear what the Standard requires in relation to a documented exit strategy. For example, is there substance to an arbitrary ‘exit’ in 50 years or a statement that the entity intends to sell its investment at the end of its useful life. Conversely, for entities that have limited lives, could this be considered an implicit exit strategy?</td>
<td>so that the IASB should consider whether additional guidance is needed.

Staff analysis – disclosures

Stakeholders expressed concerns about the investment entity exception, and staff note that at the time the amendment to IFRS 10 was issued, certain AASB Board members dissented on the proposal and stakeholders also expressed similar concerns.

In summary, dissenting AASB Board members were concerned that the exception allowing fair value accounting, rather than consolidation, ‘was in violation of the basic principle that an entity should account for all of its assets, liabilities, income and expenses’ (AASB 10.DO1). They were also concerned that fair value information was not sufficient for decision-making, that an entity’s business model should not determine the accounting treatment and that exceptions introduce unjustified complexity and reduce comparability (AASB 10.DO2 to DO4). It was suggested that consolidation could still occur, with supplementary fair value information being provided if necessary (AASB 10.DO5).

Stakeholder feedback received during outreach activities for this PIR is consistent, at least in part with this view, being that fair value accounting does not provide sufficient information for investors to understand what they are investing in and that investment entity accounting results in a loss of information. For example, two entities may appear to have consistent fair values, however without information about the underlying net assets of the entity</td>
<td>investment entity financial statements with accompanying financial statements of an investee in certain circumstances.

• Fair value accounting appears to be inconsistent with the principles of accounting in other Standards (e.g. proportionate consolidation is not appropriate for joint ventures; however, an investment entity has rights to the assets and liabilities and is required to use fair value accounting).

• If the IASB retain fair value accounting the AASB suggest the IASB consider whether the concerns of users could be addressed by requiring disclosures about the underlying assets and liabilities.

• If investment entity accounting is retained, the AASB suggest the IASB clarify the requirements for an exit strategy, including providing guidance about assessing whether a strategy is genuine.

Q6. Question for Board members

(a) Do Board members agree with the staff recommendation? If not, what do Board members suggest?

(b) If Board members agree with the staff recommendation, do Board members agree with the suggested AASB response? If not, what do Board members suggest?</td>
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[3] Listing Rules 4.8 and 4.8.1 require that if a listed entity’s main asset are securities in an unlisted entity, the listed entity is required to give the ASX the latest accounts of the unlisted entity, together with any auditor’s report or statement, when it gives the ASX its annual report. Staff understands that this information can be provided in local GAAP of the investee. The listed entity must also provide these financial statements to its security holders on request.

	the fair value may be misleading (e.g. one entity may be in the early stages of its life and may have good prospects, whereas another entity maybe in the declining phase of its life with decreasing market share and significant debt levels). This lack of information is particularly concerning for listed investment entities. Staff understand that often listed investment entities have complex group structures involving multiple layers and overseas subsidiaries. Consider the following simplified example: IE1 holds a 100% investment in SubParent1, who holds an investment in SubParent2, who holds an investment in SubParent3 who holds the underlying debt and equity investments. SubParents1-3 are often located in overseas jurisdictions and may not prepare IFRS compliant financial statements. IE1 is listed and is required to lodge financial statements with the ASX. IE1's financial statements show a single line item (its investment in SubParent 1 at fair value) which is effectively representing its investment in SubParents 1, 2 and 3 as well as the investments held by SubParent3. However, there is no detailed information about the nature of SubParent3's investments in IE1's financial statements and instead users need to refer to the accompanying financial statements (required by the ASX) of SubParent3 to understand the risks that IE1 is exposed to through SubParent3's investments. It is staffs' view that the ASX requirement to lodge accompanying financial statements supports concerns that investment entity accounting does not provide sufficient information to users. Staff further note that the fair value appears to be inconsistent with the principles of accounting in other Standards. For example, the IASB decided that	

	proportionate consolidation was not appropriate for joint ventures as the joint venture partner has rights to the net assets, and that proportionate consolidation is only appropriate where the investor has rights to the assets and liabilities of the investee. In contrast, in an investment entity scenario the investor has rights to, and controls, the assets and liabilities, however, fair value accounting was considered more appropriate than consolidation. At the time of the making the amendments, the IASB noted that users of financial statements of investment entities told the IASB that fair value and an understanding of how fair value is measured is most useful (see paragraph BC217 for example) and that the IASB expected there to be significant benefit for users of investment entity financial statements arising from fair value information (see paragraph BC305) Conversely there was some concern at the time that the exception could result in a loss of information to users, in particular where structuring is used to avoid consolidation. However, on balance the IASB decided that fair value accounting was preferred (see paragraph BC307). *Staff recommendation* Noting that stakeholder concerns are consistent at least in part with the views of those who did not support the introduction of the investment entity exception at the time, staff suggest there is merit in sharing the feedback received through this PIR with the IASB and suggesting that the IASB reconsider whether the investment entity exception is appropriate, especially in light of the fact that similar concerns were expressed by stakeholders during the development of these proposals. Further staff recommend informing the IASB about the Australian-specific ASX requirement to supplement	

	investment entity financial statements with accompanying financial statements of an investee, as this further demonstrates the lack of information provided by investment entity accounting. Alternatively, if the IASB retains investment entity accounting staff recommend suggesting the IASB consider whether the concerns of users could be addressed by requiring disclosures about the underlying assets and liabilities. *Staff analysis – exit strategy* The intention of the investment entity exception was to address an issue in the asset management and private equity industries, where consolidation of these subsidiaries is not considered to provide decision-useful information. An investment entity is an entity that: (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and (c) measures and evaluates the performance of substantially all of its investments on a fair value basis. One feature that differentiates an investment entity is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. For investments that have the potential to be held indefinitely (this would normally include equity investments and non-financial asset investments), the entity must have a documented exit strategy. This exit strategy must explain how the entity plans to realise capital appreciation from	

	substantially all of these potentially indefinite life investments. An entity may also need to have an exit strategy for any debt instruments that can be held indefinitely, such as perpetual debt instruments (IFRS 10.B85F). Staff note that IFRS 10 allows for different exit strategies for different types of investments and provides some examples (e.g. IPO, private placement, trade sale, distribution of ownership interests in investees and sales of assets followed by a liquidation). Staff also note there is no guidance in IFRS 10 regarding assessing an exit strategy for substance or the level of documentation that is required to meet the requirements. The lack of guidance is a concern and staff understand it is a common issue as it may give rise to structuring opportunities. For example, it is not clear whether there is an implied exit strategy where an entity has a limited life and must be wound up at the end of it. Staff understand that this is often accepted as meeting the requirements in IFRS 10. Similarly, is there an implied exit strategy where an investment must be redeemed after a certain period of time, which can be a long time in the future? Staff understand this is also often accepted. However, would the conclusion change if the investment entity was able to make further investments after redemption of the original investment? Staff further understand that private entities may prefer fair value accounting and may therefore structure their operations to meet the investment entity requirements in order to avoid consolidation accounting and showing the values of the underlying assets. In this context, for example, would an exit strategy that is to occur in 99 years be sufficient to conclude that the entity does not plan to	

	hold the investment indefinitely? That is, is it a genuine plan for an exit and is there substance to that plan? The lack of clarity around what constitutes an acceptable exit strategy has led to diversity. *Staff recommendation* Notwithstanding the broader concerns about the investment entity exception noted above, if investment entity accounting is retained, staff recommend the AASB suggest the IASB clarify the requirements for an exit strategy, including providing guidance about assessing whether a strategy is genuine.	

G. Changes in ownership interest

Relevant RFI question

Question 5(a)

In your experience:

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

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

(b) are not addressed in IFRS Standards?

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

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

Question 5(b)

In your experience:

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

(ii) how frequently do these transactions occur?

Feedback	Staff analysis and recommendation – should this issue be raised with the IASB	Suggested AASB response
Types of transactions Stakeholders shared feedback that they frequently see transactions in which ownership interests change and noted the following: • There is a lack of guidance holistically across all types of transactions, and in particular where the transaction is not a business combination (because there is no business involved). For example, an equity accounted investment becoming a controlled investment, however as the investment does not represent a business there is no clear guidance on the accounting treatment. • Accounting for the remeasurement of non-controlling interests (NCI) where there is no loss of control can be challenging. For example, due to the two methods of measuring an NCI it is unclear how to treat goodwill where ownership interests change and what effect that has on the impairment test. • Another example of challenging transactions are those in which two investors are contributing into a joint arrangement and one investor contributes a business but the other investor contributes assets that do not constitute a business. Stakeholders also noted that accounting for acquisitions that are not businesses is becoming more common as the revised definition of a business has resulted in more	*Staff analysis – types of transactions* The accounting treatment of changes in ownership interests depend on the type of interest held both before and after the change and whether the underlying investment meets the definition of a business. The IASB has previously considered accounting for changes in ownership interests, including the introduction of requirements to address accounting for a situation in which a parent loses control of a subsidiary and retains and interest in an associate (refer IFRS 10.25). The IFRS IC was also asked to consider whether previously held interests in the assets and liabilities of a joint operation should be remeasured in in certain transactions that do not meet the definition of a business. The IFRS IC noted that this was addressed in IFRS 3 and that they were not aware of significant diversity.[5] However, feedback from stakeholders suggests there are still gaps in the principles which make accounting for such transactions challenging and this may also lead to diversity in accounting outcomes. For example, the amendments made to IFRS 10 and IAS 28 in 2014 were deferred indefinitely due to feedback that the recognition of a partial gain or loss when a transaction involves assets that do not constitute a business even if these assets are housed in a subsidiary is inconsistent with the initial measurement requirements of IAS 28.32(b). This issue is expected to be reconsidered as part of the	• There are gaps in the principles relating to accounting for changes in ownership interests, and the IASB should consider expanding the principles in IFRS Standards to address accounting for changes in ownership interests more holistically which would increase consistency. • These principles could also include accounting for transactions that do not constitute a business. • Accounting for acquisitions that are not businesses is becoming more common as the revised definition of a business has resulted in more transactions being outside the scope of IFRS 3. Additionally, the indefinite deferral of amendments made to IFRS 10 and IAS 28 in 2014 has retained diversity in practice. Q7. Question for Board members (a) Do Board members agree with the staff recommendation? If not, what do Board members suggest? (b) If Board members agree with the staff recommendation, do Board members agree with the suggested AASB response? If not, what do Board members suggest?

[5] https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-ifrs-3-remeasurement-of-previously-held-interests-january-2016.pdf

transactions being outside the scope of IFRS 3 *Business Combinations*. Additionally, the indefinite deferral of amendments made to IFRS 10 and IAS 28 *Investments in Associates and Joint Ventures* in 2014 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] has retained diversity in practice. *Remeasuring the retained interest at fair value* When asked about remeasuring any retained interest at fair value, stakeholders were unsure what the 'trigger' was to revalue the retained interest. For example, in a situation where a 100% investment becomes a 50% investment in a joint operation the nature of the assets (for example) on the investors statement of financial position are the same (i.e. in substance the investor is still consolidating their share of the net assets, they are now just showing 50% of those assets rather than 100%. However, a situation where a consolidated investment becomes an equity accounted investment the nature of the investment recognised on the statement of financial position changes. Would this difference justify different accounting consequences? It was also suggested that views from preparers about the revaluation of the retained interest are mixed. Some like to recognise the gain on remeasurement in the profit or loss, whereas others prefer not to recognise an upfront profit based on a loss of control, as this does not provide useful information.	equity method research project. While entities may apply the amendments before the effective date, staff are aware of a view that until the amendments become mandatorily effective an entity has an accounting policy choice as to whether to apply AASB 10 or AASB 128 *Investments in Associates and Joint Ventures* to a transaction that constitutes a business. Staff also note that the IFRS IC received a request in 2016[6] to consider the accounting for loss of control transactions in joint operation situations. The conflicts between IFRS 10 and IFRS 11 are similar to those addressed by the IASB in the amendments to IFRS 10 and IAS 28 which were deferred indefinitely. For this reason, the IFRS IC decided not to add this issue to its agenda but, instead, to recommend that the IASB consider the issue at the same time the IASB further considers the accounting for the sale or contribution of assets to an associate or a joint venture. *Staff recommendation* Staff agree there are gaps in the principles and recommend the AASB suggest the IASB consider whether it is possible to address accounting for changes in ownership interests more holistically such that different types of changes in ownership are accounted for consistently. This could also include developing principles for accounting for transactions that do not constitute a business, noting that feedback suggests there is an	

4 The amendments require:
(a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and
(b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

6 https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-ifrs-10-accounting-for-loss-of-control-transactions-july-2016.pdf

User stakeholders provided feedback regarding the disclosure of estimates and judgements relating to control assessments. This is discussed in P below.	increase in transactions that do not constitute a business and therefore accounting requirements are also unclear. *Staff analysis – remeasuring the retained interest at fair value* The IASB's view is that the loss of control of a subsidiary is a significant economic event where the parent-subsidiary relationship ends, and a new investor-investee relationship begins. In the IASB's view when a parent loses control, they lose control over the assets and liabilities and therefore the general requirements in IFRS Standards relating to derecognition should be applied (i.e. a gain or loss on sale should be recognised) (Basis for Conclusions IFRS 10.BCZ182 and BCZ183). *Staff recommendation* Staff acknowledge the feedback from stakeholders. However, this matter has been considered by the IASB previously. For this reason, staff do not recommend the AASB include this feedback in its submission to the IASB.	

H. Stapled securities and dual listed company arrangements

Relevant RFI question

N/A

Feedback	**Staff analysis and recommendation – should this issue be raised with the IASB**	**Suggested AASB response**

Accounting for dual listed company arrangements (DLCs, for example BHP) and stapled securities can be complex, as they involve separate legal entities which are either managed under contractual arrangements as a single economic entity while retaining their separate legal identities and separate listings (DLCs), or have their equity securities stapled such that they cannot be traded or transferred independently. For financial reporting purposes it is necessary to identify one of the entities as being the parent. This may be misleading as neither has control, and it might be that the better answer is combined financial statements. It was noted however that users prefer to see consolidated financial statements and therefore didn't want further changes. It was noted that stapling can occur for both listed and unlisted entities and involve companies and unit trusts.	Staff noted that the IFRS IC discussed this matter in 2014.[7] The discussion noted that IFRS 3 requires the identification of an acquirer, and that the entity that is identified as the acquirer is identified as the parent, even in a business combination achieved by contract alone and where neither of the entities obtain control of the other combining entities. Further, at the time the IFRS IC discussed the issue they noted that there is little diversity in practice and that they did not expect diversity to emerge in the future. AASB staff are not aware of any significant diversity in practice. *Staff recommendation* Notwithstanding the interaction between IFRS 3 and IFRS 10, as the accounting outcomes under IFRS 10 are determined by the decisions made in accordance with the requirements of IFRS 3 staff do not recommend sharing this feedback with the IASB as it is beyond the scope of this project.	N/A Q8. Question for Board members (a) Do Board members agree with the staff recommendation not to include this feedback in the AASB's submission to the IASB? If not, what do Board members suggest?

I. <u>The substance of the arrangement is not always reflected in the accounting treatment</u>

Relevant RFI question

N/A

Feedback	**Staff analysis and recommendation – should this issue be raised with the IASB**	**Suggested AASB response**
Staff received some feedback that as a consequence of the revised control model in IFRS 10, there are now fewer	*Staff analysis*	N/A

[7] https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-3-identification-of-the-acquirer-ifrs-3-ifrs-10.pdf

investments being consolidated than there were previously. Prima facie, this is because the IFRS 10 model does not focus on risks and rewards, instead it focusses on power. Further, there are some scenarios where the fact pattern results in an arrangement not being consolidated, however this may not be the most appropriate accounting outcome as it does not provide the most useful information to users. For example, a 90%:10% joint venture where both parties need to sign off all invoices. If this results in joint control, the arrangement would not be consolidated, despite one venturer holding 90% of the ownership interests and therefore being exposed to the majority of the risks and rewards in relation to the joint venture. There is also an apparent difference in how the requirements are applied in a de facto control situation versus a fund management scenario. For example, where an investor holds a 45% ownership interest it may have de facto control of the Board depending on whether the other investors exercise their rights at Board meetings. However, in a fund manager situation a 30% ownership interest may be enough to give control if it is difficult to remove the manager. The differences between the apparent 'thresholds' can be challenging to explain.	Faithful representation is one of the fundamental qualitative characteristics outlined in the Conceptual Framework for Financial Reporting (the Framework). The Framework provides the foundation for IFRS Standards. The Framework states that "Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon" (paragraph 2.12). The Framework also explains that in "some cases, the substance of the rights and obligations is clear from the legal form of the contract. In other cases, the terms of the contract or a group or series of contracts require analysis to identify the substance of the rights and obligations". Staff note that control as the basis for consolidation does not mean that consideration of risks and rewards is unimportant when assessing control. However, the principles in IFRS 10 and the control model are designed to provide a single consistent basis for determining when an investor should consolidate an investee, irrespective of the nature of the investee (IFRS 35(a)).[8]	Q9. Question for Board members (a) Do Board members agree with the staff recommendation not to include this feedback in the AASB's submission to the IASB? If not, what do Board members suggest?

8 Paragraph BC32 in the Basis for Conclusions to IFRS 10 states that "the IASB noted that risks and rewards and power are not necessarily perfectly correlated … [and] … that exposure to risks and rewards (referred to in IFRS 10 as variable returns) is an indicator of control and an important factor to consider when assessing control, but an investor's exposure to risks and rewards alone does not determine that the investor has control over an investee".

Paragraph BC36 further states that "a control-based model forces an investor to consider all its rights in relation to the investee rather than relying on arbitrary bright lines that are associated with risks and rewards approaches"

	While staff acknowledge the feedback from stakeholders, if the substance of an arrangement is that an investor does not control the arrangement regardless of the level of ownership interest, it appears reasonable that the arrangement would not be consolidated. Further, while an investor with a large ownership interest may be significantly affected by the operations of the investee (e.g. they may be exposed to significant risks if they own the majority or investee net assets), this does not mean that they control the decision making of the investee and therefore can influence the returns. Instead, the investors exposure to returns is considered as part of the control conclusion. *Staff recommendation* Whilst there was some feedback that the control model may not always result in decision useful information, staff do not recommend the AASB include this feedback in its submission to the IASB, as the majority of the stakeholders did not express overall concerns with the control model and did not suggest the principles of the require of the model require re-consideration. Staff also note that the question of whether the control model results in a more faithful presentation than the previous risks and reward model goes beyond the scope of the PIR.	

Topic 2 - IFRS 11 Joint Arrangements

16 ITC 43 addresses a number of areas of the Standards that have been identified by stakeholders as potentially unclear or open to significant judgement. For IFRS 11:

(a) the existence of any collaboration arrangements that do not qualify as joint arrangements as defined in IFRS 11;

(b) the classification of joint arrangements as joint operations based on other facts and circumstances and the level of judgment required for this assessment; and

(c) the accounting requirements for joint operations.

J. Collaborative arrangements

Relevant RFI question

Question 6

In your experience:

(a) how widespread are collaborative arrangements that do not meet the IFRS 11 definition of 'joint arrangement' because the parties to the arrangement do not have joint control? Please provide a description of the features of these collaborative arrangements, including whether they are structured through a separate legal vehicle.

(b) how do entities that apply IFRS Standards account for such collaborative arrangements? Is the accounting a faithful representation of the arrangement and why?

Feedback	**Staff analysis and recommendation – should this issue be raised with the IASB**	**Suggested AASB response**
Feedback confirmed that collaborative arrangements are common in Australia. For example, there are many instances where there are multiple investors and the agreement does not state which investors must agree and therefore which investors control the arrangement as decisions are made based on majority votes. In these situations, the agreement does not require unanimous consent or gives one investor the ability to direct the decision-making (i.e. control). When IFRS 11 was introduced, preparers and auditors spent a lot of time assessing agreements which did not require unanimous consent and determining how to account for them. In most cases despite the lack of joint control the investors have the same underlying rights to the assets and liabilities as they would if unanimous consent was required, so often the accounting treatment is analogised to the accounting for joint operations in IFRS 11. This treatment has continued in Australia and feedback indicated Canada also adopted this approach.	*Staff analysis* Staff note that IFRS 11.7 states "that joint control is the contractually agreed sharing of control of an arrangement, **which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control**." (emphasis added) Therefore, many collaborative arrangements are outside of the scope of IFRS 11, as they have multiple investors and adopt a 'majority' approach to decision making, rather than requiring unanimous consent. Paragraphs 10 and 11 of IAS 8 state: "In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is: (a) relevant to the economic decision-making needs of users; and (b) reliable, in that the financial statements: i. represent faithfully the financial position, financial performance and cash flows of the entity;	• Collaborative arrangements are common in Australia. They have multiple investors, do not involve a separate legal vehicle and decisions are made by a majority vote and do not require unanimous consent. • Commonly, the accounting treatment is analogised to accounting for joint operations in IFRS 11 as the key difference between a collaborative arrangement and a joint operation is typically the lack of joint control. This is therefore considered to provide a faithful representation of the arrangement and is consistent with the principles in IFRS 11.23 for investors that participate in a joint arrangement without having joint control. Q10. Question for Board members

Feedback further confirmed that this treatment is very common in the extractives industry as this approach reflects the substance of the arrangement (e.g. to recognise the investors share of the assets and liabilities as that is what the investor has rights to). Ultimately, often the only difference between a collaborative arrangement and a joint arrangement is the lack of joint control.	ii. reflect the economic substance of transactions, other events and conditions, and not merely the legal form; iii. are neutral, i.e. free from bias; iv. are prudent; and v. are complete in all material respects." "In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order: (a) the requirements in IFRS dealing with similar and related issues; and (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*" Staff understand that in practice, other than having an agreement requiring a majority decision consent, these arrangements are often consistent with joint operations in all other respects. For this reason, they are typically accounted for using the principles of IFRS 11 (e.g. to recognise the investors share of assets and liabilities). This would also be consistent with the accounting by an investor that participates in a joint arrangement but does not have joint control, per IFRS 11.23. *Staff recommendation* Although staff acknowledge there appears to be a gap in the accounting requirements for collaborative arrangements. The objective of IFRS 11 is to establish **principles** for financial reporting by entities that have an interest in arrangements that are controlled jointly. The concept of joint control is based on the control model in IFRS 10 and joint control requires unanimous consent. For this reason, staff recommend noting to the IASB that collaborative arrangements, that do not meet the definition of joint arrangement typically only due to a lack of unanimous consent, are	(a) Do Board members agree with the staff recommendation? If not, what do Board members suggest? (b) If Board members agree with the staff recommendation, do Board members agree with the suggested AASB response? If not, what do Board members suggest?

	common in Australia. Further, the accounting for these arrangements would typically be analogised to IFRS 11 to provide a faithful representation of the arrangement, consistent with the principles in IFRS 11.23 for investors that participate in a joint arrangement without having joint control.	

<table>
<tr><td colspan="3">K. <u>When is an arrangement a separate vehicle</u>

Relevant RFI question

N/A</td></tr>
<tr><td>Feedback</td><td>Staff analysis and recommendation – should this issue be raised with the IASB</td><td>Suggested AASB response</td></tr>
<tr><td>Assessing how to account for partnerships can be challenging. While decisions typically require unanimous consent, there is some debate over what is an entity and what isn't and therefore whether a partnership should always be considered a joint operation or whether it could potentially also be a joint venture.

For example, a partner could conclude that a partnership is not a separate entity and therefore account for it as a joint operation and recognise their share of the assets, liabilities, revenue and expenses. Alternatively, they could take the view that the partnership is a separate entity and then after considering the partners rights and obligations conclude (potentially) that it is a joint venture and apply equity accounting.</td><td>Staff analysis

The issue is whether the guidance on what constitutes a separate vehicle is sufficient and whether the conclusion that all arrangements that are not separate vehicles must be accounted for as joint operations is appropriate. Specifically, in Australia partnerships can be classified as either:

• joint operations (which are accounted for in a manner similar to proportionate consolidation – refer paragraphs B16-B18 of IFRS 11); or

• a separate vehicle, in which case it is necessary to also consider the factors in IFRS 11.B15(b) to determine whether rights and obligations are over net assets or whether the investor has rights to assets and obligations for liabilities. If the rights and obligations are over the net assets the partnership would be considered a joint venture and it would be accounted for using the equity method (refer B19-B21 of IFRS 11).

For this reason, the legal form of a partnership is relevant to determining its accounting treatment. The first factor in classifying a</td><td>N/A

Q11. Question for Board members

(a) Do Board members agree with the staff recommendation not to include this feedback in the AASB's submission to the IASB? If not, what do Board members suggest?</td></tr>
</table>

	joint arrangement is the assessment of whether a separate vehicle exists. A separate vehicle is defined in IFRS 11 as "A separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality" (IFRS 11 Appendix A). Staff note that apart from the definition of a separate vehicle, IFRS 11 does not provide any examples of what might constitute a separate vehicle and there is no clear definition of what constitutes a 'separately identifiable financial structure'. Staff are aware of the view that many common arrangements including partnerships are likely to be considered separate vehicles. However, it is ultimately necessary to refer to Australian law to determine whether this is the case for Australian partnerships. The determination of whether a partnership could be considered a separate vehicle is beyond the remit of Standard-Setters and it may be reasonable to expect that this could vary by jurisdiction. It is therefore possible that there is diversity in practice and accounting outcomes between jurisdictions (i.e. partnerships may be treated differently in different jurisdictions). However, the substance of the arrangement should be the determining factor, not the 'label' given to an arrangement. The IASB concluded in paragraph of BC11 of IFRS 11: • that proportionate consolidation is not an appropriate method to account for interests in joint arrangements when the parties have neither rights to the assets, nor obligations for the liabilities, relating to the arrangement; and • the equity method is not an appropriate method to account for interests in joint arrangements when parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. Staff note that the IFRS IC discussed a circumstance in which two joint arrangements would be classified differently when they have similar features, apart from the fact that one is structured through a separate vehicle and the other is not (in circumstances in which the	

	legal form confers separation between the parties and the separate vehicle).[9] The IFRS IC concluded sufficient guidance exists and neither an interpretation nor an amendment was necessary as the requirements of IFRS 11 provide the principles necessary for determining the classification of joint arrangements, including assessing the impact of a separate vehicle. The assessment of the classification would depend on specific contractual terms and conditions and requires a full analysis of features involving the joint arrangement. *Staff recommendation* As the assessment of whether or not a partnership is considered a separate vehicle is a jurisdiction specific assessment, staff do not recommend the AASB includes this feedback in its submission to the IASB.	

L. Considering other facts and circumstances when classifying a joint arrangement

Relevant RFI question

Question 7

In your experience:

(a) how frequently does a party to a joint arrangement need to consider other facts and circumstances to determine the classification of the joint arrangement after having considered the legal form and the contractual arrangement?

(b) to what extent does applying paragraphs B29–B32 of IFRS 11 enable an investor to determine the classification of a joint arrangement based on 'other facts and circumstances'? Are there other factors that may be relevant to the classification that are not included in paragraphs B29–B32 of IFRS 11?

Feedback	**Staff analysis and recommendation – should this issue be raised with the IASB**	**Suggested AASB response**

[9] https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-classification-of-joint-arrangements-consideration.pdf

Feedback acknowledged that one of the challenges for preparers when considering other facts and circumstances are the potential changes in rights/obligations that can arise through the lifecycle of the joint arrangement. For example, an arrangement may be designed such that for an initial period the joint venture partners are required to take all the output. However, after a period of time the joint venture can begin selling its output to others. Another example might be a joint arrangement where the rights and obligations change over time where the arrangement moves through different phases (e.g. the research phase moves to the production phase). The consequential changes in the accounting for the arrangement can also cause confusion for users.	*Staff analysis* IFRS 11.B31 and application example 5 contemplate situations where the activities of an arrangement are primarily designed for the provision of output to the parties to the joint arrangement. Taking substantially all of the output of the joint arrangement indicates that the parties have rights to substantially all the economic benefits of the assets of the arrangements and this indicates the arrangement would be classified as a joint arrangement. If the rights and obligations change over time due to a change in the terms of an agreement, IFRS 11.13 would require the parties to the joint arrangement to reconsider the classification of the arrangement at that time. Staff also understand that while situations may arise where a joint operator's share of the output is not taken in proportion to ownership this is not expected to occur frequently. The IFRS IC considered this issue and noted that it is important to understand why the share of the output differs from the ownership interest and that judgment would be needed to determine the appropriate accounting. The IFRS IC expressed concern at the time about the sufficiency of the guidance in IFRS 11 in these circumstances.[10] Staff consider that this issue is similar to issue A above. If the agreement contemplates changes in the rights and obligations over time, staff expect that the parties to the joint arrangement would consider those facts and circumstances and changes thereof on initial recognition, when determining the classification of the arrangement. However, staff agree that this assessment may be challenging. Based on follow-up feedback, staff understand that these situations may not be occurring frequently *Staff recommendation*	N/A Q12. Question for Board members (a) Do Board members agree with the staff recommendation not to include this feedback in the AASB's submission to the IASB? If not, what do Board members suggest?

[10] https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs11-accounting-by-the-joint-operator-the-accounting-treatment.pdf

	While staff acknowledge the concerns expressed by the IFRS IC in relation to the sufficiency of guidance, as these situations may not occur frequently, staff do not recommend the AASB include this feedback in its submission to the IASB.	

M. <u>IFRS 16 *Leases*</u>

Relevant RFI question

Question 8

In your experience:

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

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

Feedback	**Staff analysis and recommendation – should this issue be raised with the IASB**	**Suggested AASB response**
Stakeholders shared feedback about the accounting that applied on the adoption of IFRS 16 *Leases* by joint arrangements. For example, if an investment is classified as a joint operation and the investors therefore have the rights to the underlying assets and obligations for the underlying liabilities, the adoption of IFRS 16 raised some concerns. Applying a 'legal form' approach to the accounting, a joint operator is required to recognise the right-of-use assets and lease liabilities at the operator level (i.e. on their statement of financial position).	*Staff analysis* Staff are aware of the concerns regarding recognising the full amount of the right-of-use asset and lease liability on the statement of financial position of the operator. In March 2019, the IFRS IC published an agenda decision addressing the recognition by a joint operator of lease liabilities relating to its interest in a joint operation.[11] 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	N/A Q13. Question for Board members (a) Do Board members agree with the staff recommendation not to include this feedback in the AASB's submission to the IASB? If not, what do Board members suggest?

[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

Feedback suggests that requiring joint operators to recognise the full amount of the right-of-use asset and lease liability on their statement of financial position, when they have an arrangement allowing them to recover costs from other joint operators is unreasonable and does not reflect the substance of the arrangement.	share of the lease costs from the other joint operators. The joint arrangement is not structured through a legal vehicle. The agenda decision states 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 a joint operator recognises include those for which it has primary responsibility. Paragraph 20(b) of IFRS 11 requires a joint operator to recognise 'its liabilities, including its share of any liabilities incurred jointly'. Accordingly, a joint operator identifies and recognises both (a) liabilities it incurs in relation to its interest in the joint operation; and (b) its share of any liabilities incurred jointly with other parties to the joint arrangement. The IFRS IC highlighted the importance of disclosing information about joint operations that is sufficient for a user of the financial statements to understand the activities of the joint operation and a joint operator's interest in that operation. The IFRS IC noted that, applying paragraph 20(a) of IFRS 12, a joint operator is required to disclose information that enables users of its financial statements to evaluate the nature, extent and financial effects of its interests in a joint operation, including the nature and effects of its contractual relationship with the other investors with joint control of that joint operation. While the agenda decision does not comment on the recognition of the right-of-use asset by the operator, this will follow from the recognition of the lease liability under IFRS 16. Whether this reflects the substance of the arrangement would depend on whether the operator does in fact control the leased asset, or whether control has been transferred to the joint arrangement. In the latter case, staff understand that there could be an argument to account for the transfer of the right-of-use asset as a sublease under IFRS 16 – i.e. either a finance or an operating lease.	

	Staff recommendation Consistent with the IFRS IC conclusion, staff consider that the existing requirements are adequate to ensure the accounting reflects the substance of the arrangements. For example, staff agree with the conclusion that where an operator is a sole signatory on a lease agreement, that it would recognise the full lease liability and right-of-use asset on its statement of financial position. The operator would then need to assess the contractual arrangements with the other parties to the joint operation to determine whether a sub-lease is present and, if yes, whether it is a finance or operating lease. Depending on the classification of the sub-lease IFRS 16 outlines the required accounting. Staff are of the view that this accounting reflects the substance of the arrangement and therefore do not recommend the AASB include this feedback in its submission to the IASB.	

N. Proportionate consolidation versus the equity-method of accounting

Relevant RFI question

Question 8(a)

In your experience:

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

Question 9

In your experience:

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

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

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

Feedback	Staff analysis and recommendation – should this issue be raised with the IASB	Suggested AASB response
Many users suggested that in their view proportionate consolidation provides more useful information, at the statement of financial position, cash flow and income statement levels. This is the case, even if the information is aggregated. The presentation of information in a single line as is required for the equity-method is a concern for users. Another stakeholder confirmed that they supported the reintroduction of proportionate consolidation. They also suggested that in a 90%:10% ownership scenario consolidation with an NCI may even be appropriate. This would result in the full operations, assets and liabilities being included in the consolidated financial statements, rather than shown in net equity accounted line items. Further feedback from users expressed strong concerns that the disclosure of information about equity-accounted investments can be quite variable depending on management's interpretation of materiality (i.e. if management views that the information is not material to the financial statements, it is often not disclosed). The equity-accounting approach also does not provide users a complete picture of the investee. This is because there is no breakdown of the investee's total assets and total liabilities. Users suggested that at a minimum, it would be good to know the debt position of associates and joint ventures. Users further explained that it is not uncommon for the nature of investments to change (e.g. an associate becomes a subsidiary) and that this has an effect on the	*Staff analysis* <u>Proportionate consolidation</u> IFRS 11's predecessor, IAS 31 permitted an entity with an interest in a joint venture to choose between proportionate consolidation and the equity-method of accounting. IFRS 11 however does not allow proportionate consolidation and instead specifies that the accounting is based on the nature of the rights and obligations of the parties to the arrangement. Paragraph BC41 of the Basis for Conclusions of IFRS 11 states that "the equity method is the most appropriate method to account for joint ventures because it is a method that accounts for an entity's interest in the net assets of an investee." As noted in paragraph BC42 of the Basis for Conclusions of IFRS 11, respondents to ED 9 *Joint Arrangements* believed that proportionate consolidation more faithfully represented the economic substance of joint ventures because it is a method that accounts for an entity's interest in the net assets of an investee. The IASB acknowledged these concerns, but observed that the approach in the IFRS is consistent with its view of what constitutes the economic substance of an entity's interests in joint arrangements, a view that it concedes may differ from that of those respondents. <u>IFRS 12 disclosures</u> Paragraph BC45 of IFRS 11 notes that the IASB did not believe that the elimination of proportionate consolidation would cause a loss of information for users of financial statements. This is because the disclosure requirements in IFRS 12, when compared with IAS 31, were	• User feedback suggests proportionate consolidation provides more useful information, at both the statement of financial position and cash flow/income statement levels. • The equity-method approach is not providing users with useful information about the investee's assets and liabilities and the additional disclosures currently required are not sufficient to resolve this deficiency. • The AASB suggests the IASB revisit the disclosures in IFRS 12 and consider a research project on the benefits and disadvantages of the equity method vs the proportionate consolidation method. Q14. Question for Board members (a) Do Board members agree with the staff recommendation? If not, what do Board members suggest? (b) If Board members agree with the staff recommendation, do Board members agree with the suggested AASB response? If not, what do Board members suggest?

information being disclosed and makes year-on-year comparisons difficult. Overall, information about equity accounted investments is not consistent and therefore comparability is a concern.	expected to improve the quality of the information provided to users relating to an entity's interest in joint ventures. IFRS 12 requires the disclosure of summarised financial information for each joint venture and associate that is material to the reporting entity. This includes disclosure of current and non-current assets and liabilities, revenue, profit from continuing operations, post-tax profit from discontinued operations, other comprehensive income and total comprehensive income. In addition to this information for each material joint venture, the entity shall also disclose cash and cash equivalents, current and non-current liabilities (excluding trade and other payables and provisions), depreciation and amortisation, interest income and expense and income tax expense or income. However, staff have heard that users need more detailed information about the underlying assets and liabilities to allow them to estimate their market value. It was also noted the disclosures are often aggregated with other associates. BC48 of IFRS 12 notes that respondents to ED 9 stated that there was a need for a detailed breakdown of current assets and current and non-current liabilities (in particular, cash and financial liabilities excluding trade payables and provisions), which would help users understand the net debt position of joint ventures. However, as stated in BC49 of IFRS 12 the IASB reconsidered the proposal, noting that it would be confusing to present the entity's share of the assets, liabilities and revenue of a joint venture or associate when the entity has neither rights to, nor obligations for, the assets and liabilities of the joint venture or associate. Rather, the entity has an interest in the net assets of the joint venture or associate. 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. Staff acknowledge however that there is likely to be a mismatch between what is considered material by the entity and the information users would like to see.	

	Staff recommendation Staff recommend that if the IASB should get similar feedback about the proportionate consolidation method from other jurisdictions, a research project on the benefits and disadvantages of the equity method vs the proportionate consolidation method may provide useful insights as to whether the decisions made in paragraph BC41 of IFRS 11 may need to be ultimately revisited. Staff further acknowledge the feedback from users that they do not receive sufficient information about equity-accounted investments and would like to see more granular information about the performance, cash flows and debt position of significant equity-accounted investments. Therefore, staff recommend that if the IASB decides not to revisit the equity vs proportionate consolidation method, the IASB revisit the disclosures under IFRS 12 to assess whether users should be provided with more detailed information about an entity's interests in equity accounted investments. However, if users aren't receiving sufficient information because of the inappropriate application of materiality that would be an issue for the regulator rather than the standard-setter to address.	

O. Joint ventures interaction with IFRS 11 and IAS 28

Relevant RFI question

N/A

Feedback	**Staff analysis and recommendation – should this issue be raised with the IASB**	**Suggested AASB response**
While it was acknowledged that equity accounting is beyond the scope of this project, stakeholders shared feedback that it is common for arrangements to be structured as joint ventures, where the rights to profits	*Staff analysis* Where a joint venturer's entitlement to returns is disproportionate with its ownership interest staff agree that accounting may be challenging.	N/A Q15. Question for Board members (a) Do Board members agree with the staff recommendation not to include this

(for example) are not always equal to the ownership interest. For example, in the property sector returns often aren't shared based on ownership interest. Instead two parties might come together to form a joint arrangement, where one venturer will contribute the land and the other will contribute the development expertise. In this situation the returns may be structured so that the venturer that contributed the land is entitled to the initial returns, until the cost of the land has been recovered. The other venturer is then entitled to the returns until their costs have been covered. Once this occurs, both venturers then share the remaining returns. Noting that these arrangements are usually structured as joint arrangements that are therefore subject to equity accounting, the interaction between IFRS 11 and IAS 28 is important.	For example, applying the equity method of accounting, an investor generally recognises its share of the investee's earnings and losses based on the percentage of the equity interest owned by the investor. However, agreements may stipulate that an investor's right to returns is not consistent with its equity investment. Staff acknowledge that accounting similar situations that arise in joint operations was discussed by the IFRS IC in March 2019.[12] *Staff recommendation* Staff consider that this issue is beyond the scope of project, however, have brought it to Board members' attention as in staffs' view it is an important issue which staff recommend noting for future consideration within the equity-accounting project.	feedback in the AASB's submission to the IASB? If not, what do Board members suggest??

Topic 3 - IFRS 12 Disclosure of Interests in Other Entities

17 ITC 43 addresses a number of areas of the Standards that have been identified by stakeholders as potentially unclear or open to significant judgement. For 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 in this Standard.

P. <u>Disclosures about subsidiaries and non-controlling interests (NCI)</u> **Relevant RFI question** *Question 9* In your experience:

[12] https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-11-sale-of-output-by-a-joint-operator-mar-19.pdf

<table>
<tr><td colspan="3">(a) to what extent do the IFRS 12 disclosure requirements assist an entity to meet the objective of IFRS 12, especially the new requirements introduced by IFRS 12 (for example the requirements for summarised information for each material joint venture or associate)?
(b) do the IFRS 12 disclosure requirements help an entity determine the level of detail necessary to satisfy the objective of IFRS 12 so that useful information is not obscured by either the inclusion of a large amount of detail or the aggregation of items that have different characteristics?
(c) what additional information that is not required by IFRS 12, if any, would be useful to meet the objective of IFRS 12? If there is such information, why and how would it be used? Please provide suggestions on how such information could be disclosed.
(d) does IFRS 12 require information to be provided that is not useful to meet the objective of IFRS 12? If yes, please specify the information that you consider unnecessary, why it is unnecessary and what requirements in IFRS 12 give rise to the provision of this information.</td></tr>
<tr><th>Feedback</th><th>Staff analysis and recommendation – should this issue be raised with the IASB</th><th>Suggested AASB response</th></tr>
<tr><td>Users provided feedback that there is often not enough information about subsidiaries with NCI and whether there are any significant restrictions. For example, a significant portion of a company’s value was tied up in its controlling stake in an overseas company and it was not clear how much of the cash of the subsidiary could actually be distributed to the parent.
Users also suggested that more disclosures about NCIs would be useful, for example, the NCI’s share of the amortisation of acquired intangible assets, as this amortisation is usually added back by analysts.
The disclosure of ownership interests and the profit contribution of subsidiaries also often does not provide enough information about the subsidiaries’ operations and cash flows.
A preparer raised the point that it wasn’t clear whether the summarised financial information to be provided under paragraph B10 should be made pre-or post-elimination of intercompany transactions & purchase price adjustments etc.</td><td>Staff analysis
IFRS 12.10 requires that an entity disclose information that enables users of its consolidated financial statements to understand the interest that NCIs have in the group’s activities and cash flows.
Per IFRS 12.12 “An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:
(a) the name of the subsidiary.
(b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.
(c) the proportion of ownership interests held by non-controlling interests.
(d) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.
(e) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.
(f) accumulated non-controlling interests of the subsidiary at the end of the reporting period.</td><td>• Broaden the scope of the disclosures regarding the nature and extent of significant restrictions.
• Disclosures of ownership interests and the profit contribution of subsidiaries alone can be of limited value as it doesn’t always give a complete picture of the subsidiary’s operations.
• If this is consistent with other jurisdictions feedback, the AASB suggest the IASB consider requiring disclosure of more granular information.
Q16. Question for Board members
(a) Do Board members agree with the staff recommendation? If not, what do Board members suggest?
(b) If Board members agree with the staff recommendation, do Board members agree with the suggested AASB response? If not, what do Board members suggest?</td></tr>
</table>

	(g) summarised financial information about the subsidiary.” Paragraph 13 (a) of IFRS 12 requires an entity disclose significant restrictions (e.g. statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle liabilities such as those that restrict the ability of a parent or its subsidiaries to transfer cash (assets) to or from other entities within the group; and guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made/repaid to/from other entities within the group. Paragraph 13 (b) further requires disclosure of the nature and extent to which protective rights of NCIs can significantly restrict the entity’s ability to access or use the assets and settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary). Finally, for each subsidiary that has non-controlling interests that are material to the reporting entity, an entity shall disclose (IFRS 10.B10): (a) dividends paid to non-controlling interests. (b) summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group’s activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income. Paragraph B11 states the summarised financial information required by paragraph B10(b) shall be the amounts before intercompany eliminations. Further, the IFRS IC observed that “in order to meet the disclosure objective in paragraph B10(b), that information would need to be prepared on a basis that was consistent with the information included in the consolidated financial statements of the reporting entity. The IFRS IC understood this to mean that the	

	information would be prepared from the perspective of the reporting entity."[13] *Staff recommendation* As noted above, IFRS 12 does require disclosures about significant restrictions in paragraph 13. However, paragraph 13(a) refers to statutory, contractual and regulatory restrictions and 13(b) to protective rights. Users would also like to see information about other forms of restrictions that could prevent accessing the assets of the subsidiary. Staff therefore recommend the IASB consider broadening the scope of the disclosures regarding the nature and extent of significant restrictions to cover other forms of restrictions such as economic restrictions. Staff also recommend noting to the IASB that the disclosures regarding ownership interests and the profit contribution of subsidiaries alone can be of limited value to users and, if this is consistent with feedback from other jurisdictions, to potentially consider requiring more granular information.	

Q. <u>Dilution of ownership interests due to outstanding shares</u> **Relevant RFI question** *Question 9* In your experience: (a) to what extent do the IFRS 12 disclosure requirements assist an entity to meet the objective of IFRS 12, especially the new requirements introduced by IFRS 12 (for example the requirements for summarised information for each material joint venture or associate)? (b) do the IFRS 12 disclosure requirements help an entity determine the level of detail necessary to satisfy the objective of IFRS 12 so that useful information is not obscured by either the inclusion of a large amount of detail or the aggregation of items that have different characteristics?

[13] https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-12-disclosures-for-a-subsidary-with-a-material-non-controlling-interest-jan-15.pdf

<table>
<tr><th>Feedback</th><th>Staff analysis and recommendation – should this issue be raised with the IASB</th><th>Suggested AASB response</th></tr>
<tr>
<td>Users were concerned that they are not getting enough information about the possible dilution of an entity’s ownership interest due to outstanding shares. For example, where the notes disclose a 25% ownership interest, however there may be significant rights over shares outstanding, that if exercised have the ability to materially change (dilute) the investor’s ownership interests.

They noted that often there is insufficient disclosure to alert users of the financial statements to the existence of these rights.</td>
<td>Staff analysis

While Paragraph 79 of IAS 1 requires the disclosure of shares reserved for issue under options and contracts etc, this disclosure only applies to shares of the entity that is preparing the financial report, and not to shares of its subsidiaries. There is no requirement in IFRS 12 to provide similar information in relation to subsidiaries, associates and joint ventures.

Users wanted to know whether another investor could exercise an outstanding option, which would effectively change the entity’s ownership interest.

Staff recommendation

Staff recommend that the IASB consider whether this disclosure should be required, given that users do not seem to be getting the information they need.</td>
<td>• Users were concerned about the possible dilution of an entity’s ownership interest due to outstanding shares.

• Users wanted to know whether an NCI or another investor could exercise outstanding options which would reduce the entity’s ownership interest in the subsidiary, associate or joint venture.

• The AASB suggest the IASB consider whether this disclosure should be required by IFRS Standards.

Q17. Question for Board members

(a) Do Board members agree with the staff recommendation? If not, what do Board members suggest?

(b) If Board members agree with the staff recommendation, do Board members agree with the suggested AASB response? If not, what do Board members suggest?</td>
</tr>
</table>

R. <u>Liabilities of structured entities</u>

Relevant RFI question

Question 9

In your experience:

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

Feedback	Staff analysis and recommendation – should this issue be raised with the IASB	Suggested AASB response
In relation to structured entities, users suggested that they would like more information about the nature of liabilities to which the entity is exposed, even if they are contingent or remote. Users also want to know what rights the entity has over investments in structured entities.	*Staff analysis* IFRS 12 introduces the term 'structured entity'. The IASB decided to define a structured entity as an entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity. Paragraphs 14 to 17 of IFRS 12 require a number of disclosures in relation to consolidated structured entities, including the terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support, the provision of financial support during the reporting period without having a contractual obligation to do so and any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support. For unconsolidated structured entities, paragraph 29 of IFRS 12 requires an entity to disclose in tabular format, unless another format is more appropriate, a summary of: (a) the carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities. (b) the line items in the statement of financial position in which those assets and liabilities are recognised. (c) the amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons. (d) a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated	N/A Q18. Question for Board members (a) Do Board members agree with the staff recommendation not to include this feedback in the AASB's submission to the IASB? If not, what do Board members suggest??

	structured entities and the entity's maximum exposure to loss from those entities. Paragraph B26 provides examples of additional information that, depending on the circumstances, might be relevant to an assessment of the risks to which an entity is exposed when it has an interest in an unconsolidated structured entity. *Staff recommendation* Staff consider that the information being requested by users is already required by IFRS 12. However, if this information is not being disclosed it could be because of the entity's application of materiality. If this is the case this would be an issue for the regulator rather than the standard-setting to address. Therefore, staff do not recommend the AASB include this feedback in its comment letter to the IASB.	

S. Individually immaterial equity accounted investments

Relevant RFI question

Question 9

In your experience:

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

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

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

Feedback	**Staff analysis and recommendation – should this issue be raised with the IASB**	**Suggested AASB response**

Users indicated that they do not always receive sufficient information about individually immaterial equity-accounted investments. However, they also acknowledged that it is important to balance the need for information with disclosure overload. Users suggested that aggregated information about the financial performance and financial position of the immaterial associates (similar to the information required for individually material associates), including the number of immaterial equity accounted investments included in the disclosure could be helpful. They also suggested perhaps disclosing whether any of the individually immaterial associates represent more than 10% of the aggregate amounts (e.g. by revenue or total assets) and the names of those associates.	*Staff analysis* IFRS 12 requires disclosure of the following information in aggregate, for all individually immaterial joint ventures and, separately, for all individually immaterial associates: "… the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates': (a) profit or loss from continuing operations. (b) post-tax profit or loss from discontinued operations. (c) other comprehensive income. (d) total comprehensive income. An entity provides the disclosures separately for joint ventures and associates." (IFRS 12.B16) In contrast, for individually material joint ventures and associates, entities must also disclose current and non-current assets and liabilities and revenue, and for individually material joint ventures additionally also cash and cash equivalents, current and non-current financial liabilities, depreciation and amortisation, interest income/expense and income tax expense/income (IFRS 10.B13). Unlike the disclosures in paragraph B16, the amounts disclosed for individually material joint ventures and associates are the amounts included in the financial statements of the joint venture or associate, i.e. not the entity's share of those amounts. Users suggested a potential outcome could be to disclose whether any of the individually immaterial associates or joint ventures represent more than 10% of the aggregate amounts (e.g. by revenue or total assets) and the names of those associates. Staff consider option consistent with the quantitative threshold in IFRS 8 *Operating Segments*.	• Sufficient information about individually immaterial equity accounted investments is not always received. • Aggregated information that is the same as for individually material equity accounted investments, including the number of immaterial equity accounted investments included in the disclosure could be helpful. • Consider requiring disclosure of whether any of the individually immaterial associates represent more than 10% of the aggregate amounts (e.g. by revenue or total assets) and the names of those associates. Q19. Question for Board members (a) Do Board members agree with the staff recommendation? If not, what do Board members suggest? (b) If Board members agree with the staff recommendation, do Board members agree with the suggested AASB response? If not, what do Board members suggest?

	This suggestion was based on the requirement in paragraph 34 of IFRS 8 where "An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues …". *Staff recommendation* Staff recommend that if similar feedback is received by the IASB from users in other jurisdictions and there is significant support for such a change, that the IASB consider aligning the disclosure of individually immaterial investments (in aggregate) with those required for individually material equity accounted associates and joint ventures. Staff recommend the AASB also suggest the IASB consider requiring disclosures about individually immaterial associates or joint ventures represent more than 10% of the aggregate amount (e.g. by revenue or total assets) and the names of those associates.	

18 The majority of the issues with IFRS 12 disclosures noted above, were raised by members of the AASB's User Advisory Committee. In contrast, one respondent to ITC 43 commented on the potential for increased disclosure discussed in ITC 43 under IFRS 12. They suggested that any proposed increases in disclosure be fully tested by the IASB to ensure that they are useful to a significant number of users, and are not the request of a very small number of constituents. In their view, doing this will balance the objective of providing information that is relevant to users, with the objectives of preventing information overload and keeping preparation costs to a reasonable level.

Next Steps

19 Staff have provided a broad outline of the points we suggest the AASB include in the submission to the IASB so Board Members can see the proposed content of the submission and provide general direction to staff about any additional issues they would like incorporated in the submission.

20 Staff are not seeking the Board's approval of a draft comment letter at this meeting, as it is not due to the IASB until 10 May 2021 and the AASB's ITC 43 comment period only recently (15 March 2021). However, due to the tight deadline to finalise the comment letter, staff recommend finalising and approving the comment letter out-of-session via the Chair. Should the Board prefer, staff also consider the formation of a sub-committee of Board members would also be appropriate.

21 Assuming the Board agree with staff's recommendations above, staff propose the following timeline:

Task	**Timing**
Staff to draft submission to the IASB Request for Information	By 29th April
Approve submission out of session via the chair or subcommittee (inclusive of time for staff to redraft in response to feedback)	By 7th May
Submit final submission to IASB	By 10th May
IASB Request for Information closes	10th May

Questions to Board members

Q20. Do Board members agree with the staff recommendation to approve the final comment letter to the IASB out-of-session via the Chair? If not, do Board members prefer to form a subcommittee to approve the final comment letter to the IASB?

Q21. Do Board members agree with the suggested next steps and timeline? If not, what do Board members suggest?