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Australian Accounting Standards Board

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International Accounting Standards Board
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UNITED KINGDOM

06 May 2021

Dear Hans,

Request for Information—Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*

The Australian Accounting Standards Board (AASB) is pleased to have the opportunity to provide comments on the Request for Information—Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* (RFI).

In formulating these comments, the views of our Australian stakeholders were sought and considered. This included:

- consultation with the AASB's User Advisory Committee, comprising a range of primary users of financial statements;
- consultation with the AASB's Business Combinations/Equity Method Project Advisory Panel, which comprises subject matter experts across a range of stakeholder groups; and
- other targeted consultation with key stakeholders, such as professional bodies, auditors and preparers in Australia.

A summary of the specific feedback obtained from Australian stakeholders and our recommendations is detailed in Appendix A. They relate in particular to the following:

In relation to IFRS 10, we recommend the IASB:

- consider including additional illustrative examples and detailed educational guidance to assist with the application of certain complex and judgemental requirements. For example, to:
    - clarify how to identify an investee's relevant activities where it has multiple phases during it's life and different investors have decision-making rights in different phases; and
    - clarify how the requirements for determining whether a decision-maker is a principal or an agent apply to fund managers;
- revisit the guidance on determining whether decision-making rights are protective or substantive, in particular for franchise arrangements. We also recommend the IASB remove

statements that imply franchisor rights are normally protective. This is because, in practice, it is not uncommon for franchisors to direct most of their franchisees' activities, so that the franchisor's decision-making rights are often substantive rather than protective;

- consider whether additional guidance on applying the IFRS 10 requirements to de-facto agency relationships is warranted, subject to this issue being prevalent in other jurisdictions;
- expand the principles in IFRS Standards to address accounting for changes in ownership interests more holistically, which would increase consistency; and
- consider whether there is merit in reconsidering the investment entity exception to consolidation. This is because fair value accounting, in this case, appears to be inconsistent with the accounting principles in other IFRS Standards and users have expressed concerns about the potential loss of information arising from investment entity accounting. We also recommend the IASB clarify the requirements for an exit strategy, including guidance about assessing whether an exit strategy is genuine.

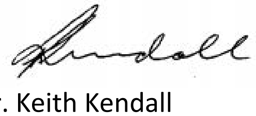
In relation to IFRS 11:

- we have shared feedback from Australian stakeholders about how entities account for collaborative arrangements, noting that collaborative arrangements are not within the scope of IFRS 11 typically due only to the lack of a requirement for the unanimous consent of the parties;
- we recommend the IASB consider providing principles to assist with determining when a separate vehicle exists, in order to reduce diversity in practice; and
- we have shared feedback from Australian stakeholder, predominantly from the user community, that proportionate consolidation provides them with more useful information than the equity method of accounting. This includes feedback that financial statements do not provide sufficient information about the assets and liabilities of investees. Finally, while acknowledging that the IASB considered the withdrawal of proportionate consolidation at length, we suggest the IASB consider the benefits and disadvantages of the equity method of accounting versus proportionate consolidation as part of the IASB project on the equity method of accounting.

In relation to IFRS 12, we recommend the IASB revisit certain disclosures to improve the information disclosed in financial statements. For example, we recommend the IASB consider requiring additional disclosures about subsidiaries with material non-controlling interests, the potential dilution of ownership interests due to outstanding shares and individually immaterial equity-accounted investments that are of significance.

If you have any questions regarding this letter, please contact me or Kim Carney, Senior Manager (kcarney@aasb.gov.au).

Yours sincerely,



Dr. Keith Kendall
AASB Chair

APPENDIX A – Responses to questions raised in the Request for Information

Question 1—Your background
To understand whether groups of stakeholders share similar views, the Board would like to know: (a) your principal role in relation to financial reporting. Are you a user or a preparer of financial statements, an auditor, a regulator, a standard-setter or an academic? Do you represent a professional accounting body? If you are a user of financial statements, what kind of user are you, for example, are you a buy-side analyst, sell-side analyst, credit rating analyst, creditor or lender, or asset or portfolio manager? (b) your principal jurisdiction and industry. For example, if you are a user of financial statements, which regions do you follow or invest in? Please state whether your responses to questions 2–10 are unrelated to your principal jurisdiction or industry.

The AASB is an independent accounting standard-setter based in Australia. The AASB is committed to developing, in the public interest, a single set of high-quality, understandable accounting standards that require transparent and comparable information in general purpose financial statements.

In formulating our responses to questions 2–10, the views of our Australian stakeholders were sought and considered.

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?

Consistent with the feedback noted in the RFI, Australian stakeholders also consider identifying the relevant activities of an investee to, at times, be challenging and very judgmental.

Our stakeholders noted that determining which activities are most relevant to the control assessment can be complex in situations where an investee has multiple stages during its life and various investors have decision-making rights in different stages. For example, stakeholders suggested that the requirements of IFRS 10 are not clear whether control is assessed by considering the relevant activities over the entire life of the entity even though the entity has multiple stages, and therefore which party has decision-making abilities over the 'most relevant' activities. Alternatively, whether should control be assessed by considering each stage of life separately, noting that only certain decisions are relevant at some stages, the control may be transitory.

We 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, including regulatory approval and another has decision-making rights over manufacture and sale, once regulatory approval is obtained, research and development can no longer be a relevant activity. The relevant activity now relates to manufacture and sale). It was noted that IFRS

10 Application Example 1 states that investors need to consider the activities that **most** significantly affect the investee's returns (emphasis added). This appears to imply that these are meant to be the overall returns over the whole 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. However, the application example doesn't appear to support an assessment per stage of the entity's life.

We understand there is often extensive debate due to the judgement required to determine which activities are the most significant.

Despite the principles of IFRS 10 and the application guidance and examples, feedback received from stakeholders suggests that the IASB's intention is not clear in relation to assessing the relevant activities in phases or for the totality of the investee's life. Therefore, we recommend that the IASB consider including additional illustrative examples and detailed educational guidance to clarify how to identify an investee's relevant activities where the entity has multiple stages during it's life and different investors have decision-making rights in different phases.

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?

General feedback

Stakeholder feedback identified that assessing whether rights are protective or substantive is an area of significant debate, and many entities have difficulty applying the IFRS 10 guidance.

In general, stakeholders suggested that making the assessment is difficult because there are no bright lines. It was noted that while the guidance in IFRS 10 is supplemented by application examples that are intended to help investors determine whether or not they control an investee, they are not sufficient as they tend only to have one variable and show only one aspect of the decision-making assessment. Further, stakeholders noted that it is not always clear how the IFRS 10 principles have been applied when developing the guidance and illustrative examples. There are overarching principles in the Standard and guidance that draw certain conclusions for certain isolated fact patterns, but the connection between the two is not always evident. Accordingly, if it is not clear how the principles are applied, it is more difficult to combine different scenarios and apply the guidance.

As in practice, there can be many factors to consider when determining whether rights are protective or substantive, we recommend that the IASB consider providing detailed educational guidance with a similar level of detail to an IFRS Interpretations Committee (IFRS IC) Tentative Agenda Decision. That is, examples that illustrate complex fact patterns and provide a step-by-step analysis of how the IASB intended the principles in IFRS 10 to be applied.

The AASB prefer principles-based standard-setting but acknowledge that, in practice, additional guidance is sometimes necessary to assist in decision making.

Franchise arrangements

In relation to franchise arrangements, consistent with the feedback in the RFI, Australian stakeholders confirmed 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. Franchisors may also provide financing and can assist with recruitment too. As these activities are examples of activities that typically significantly affect franchisee's returns, if some of these 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. We understand that 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, stakeholders suggested it is either uncommon for franchisees to be consolidated or at best there are inconsistencies in this regard. This is because the guidance in IFRS 10 is not clear as it states that franchisor rights are normally protective.

Therefore, if the IASB intended that franchisees may need to be consolidated under certain circumstances, we recommend it needs to be made clearer that this could occur, as the concept is not clearly understood. We also recommend the IASB revisit the guidance on franchises and consider removing statements that imply that franchisor rights are normally protective in nature.

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?

The AASB does not have comments in response to this 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?

(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?

Consistent with the feedback in the RFI, stakeholders also confirmed that determining whether an agency relationship exists can be challenging as the assessment can require a significant amount of judgement, particularly in the funds management industry where there are often complex remuneration arrangements in place. This leads to diversity in outcomes for similar arrangements and structures.

When assessing whether a decision-maker is acting as an agent or a principal, stakeholders suggested that generally, it is the 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.

For example, stakeholders were unsure how the requirements correlate in a situation where an investor can remove the fund manager without cause (an indication that the fund manager acts as an agent), but remuneration is not market-related (an indication that the fund manager acts as a principal). A further example is a fund manager that only holds a small investment and is being remunerated at market rates (an indication that the fund manager acts as an agent) but can't be removed without cause (an indication that the fund manager acts as a principal). In this case, there is only minimal variability of returns, however, it was unclear whether there is still a link between power and returns.

The AASB acknowledges that in most asset management scenarios involving retail investors, management will necessarily conclude that the remuneration is commensurate with the service provided and based on market terms. This is because retail investors would invest elsewhere if this were not the case. However, we note that 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" and therefore judgement is required.

IFRS 10 Application Examples

IFRS 10 Application Examples 13-15 set out three common remuneration structures. Whilst these examples are useful in illustrating how to apply the principles and guidance in IFRS 10, stakeholders regard the scenarios as too simplistic. The simplistic nature of the examples is particularly evident in that they do not consider scenarios where there are different and less straightforward remuneration arrangements. For this reason, we 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 the 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 (paragraphs B71 and B72).

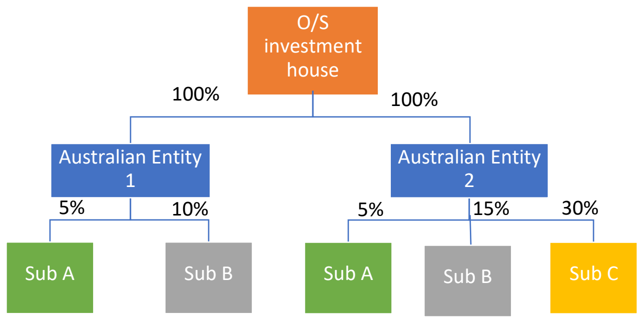
Further, application examples 14A to 14C all use the same basic fact pattern but then vary one or two factors, being the ownership interest and the removal rights. The examples conclude that with a 2% investment but no substantive removal rights, the fund manager would be an agent, but that a 20% investment 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 these examples do illustrate some common scenarios, in practice, it is often not 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 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. Further, there may be situations with contradictive indicators, such as when the fund manager can be removed without the cause, but the remuneration is not market-related (or vice versa).

In summary, while additional interpretive guidance may be helpful to assist with applying the principles, this could undermine the principle-based nature of IFRS 10. For this reason, instead of adding more application examples or guidance paragraphs to the Standard, we recommend the IASB consider providing detailed educational guidance with a similar level of detail to an IFRS Interpretations Committee (IFRS IC) Tentative Agenda Decision. That is examples that illustrate complex fact patterns and provide a step-by-step analysis of how the IASB intended the principles in IFRS 10 to be applied.

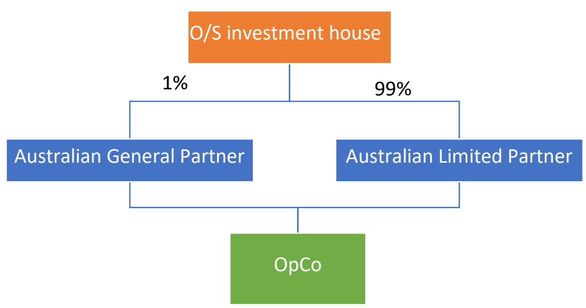
Question 3(b)
In your experience: (i) to what extent does applying paragraphs B73–B75 of IFRS 10 enable an investor to assess whether control exists because another party is acting as a de facto agent (ie in the absence of a contractual arrangement between the parties)? (ii) how frequently does the situation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

The feedback received from stakeholders highlighted that the question of de facto agency relationships is common in Australia, particularly in connection with cross-border ownership considerations. A common example for an Australian entity is where an overseas investment house invests in multiple entities in Australia and those Australian subsidiaries also have multiple investments, often in common investees (see example below).



As Australian Entity 1 and Australian Entity 2 are often required by local legislation 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 I/S investment house provide Australian Entities 1 and 2 with significant influence or should the investment be accounted for at fair value through the profit and loss. Alternatively, suppose the shareholdings in Sub A and Sub B are larger. In that case, 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 consolidate Sub A and Sub B. This will be difficult in particular, where there are no contractual arrangements in place.

We also understand that these arrangements can be structured using a limited partnership arrangement (see example below). In this simplified example, presume General Partner has all of the decision-making rights and Limited Partner has no decision-making ability).



The guidance in paragraph B74 indicates that in this situation, Australian Limited Partner may be required to consolidate OpCo, notwithstanding that they do not have any decision-making rights. This is because Australian Limited Partner has the most significant exposure to returns.

We acknowledge that the issue of whether any of the Australian entities would need to consolidate the subsidiaries/OpCo may not be an issue in other jurisdictions if the local intermediate investors are either not required to prepare and lodge financial statements, or could apply the consolidated exemption in paragraph 4 of IFRS 10. However, if this is a concern in other jurisdictions, we recommend that additional guidance may be warranted to make the requirements clearer.

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.
Question 4(b)
In your experience: (i) are there situations in which requiring an investment entity to measure at fair value its investment in a subsidiary that is an investment entity itself results in a loss of information? If so, please provide details of the useful information that is missing and explain why you think that information is useful. (ii) are there criteria, other than those in paragraph 32 of IFRS 10, that may be relevant to the scope of application of the consolidation exception for investment entities?

Feedback from Australian stakeholders confirmed that determining whether an entity is an investment entity by its nature is unnecessarily complex and that the requirements are difficult to apply in practice.

Stakeholders also raised the issue of potential inconsistencies within the Standard. For example, IFRS 10.27 contains mandatory elements when assessing whether or not an entity is an investment entity and IFRS 10.28 includes typical characteristics to consider. However, Appendix B notes that the typical characteristics need not be present. Stakeholders suggested that it is not clear how the mandatory elements interact with the typical characteristics, if the typical characteristics are not necessarily required to be present. For example, IFRS10.B85N indicates that the absence of one of the typical characteristics does not disqualify an entity from being classified as an investment entity. However, it does indicate that additional judgment is required.

If other stakeholders raise this matter, we recommend the IASB consider whether additional guidance is needed to clarify the interaction between the mandatory elements and the typical characteristics.

We further note that the fair value appears to be inconsistent with accounting principles 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.

Disclosures

Feedback from stakeholders expressed concern that fair value accounting does not provide users with the information they need. For example, two entities may appear to have consistent fair values, however, without information about the underlying net assets of the entities, the fair value may be misleading as one entity may be in the early stages of its life and may have good prospects. In contrast, the other entity may be 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, which we understand often have complex group structures involving multiple layers and overseas subsidiaries. Consider the following simplified example:

IE1 holds a 100% investment in SubParent1, which 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 securities regulator. IE1's financial statements show a single line item (its investment in SubParent 1 at fair value), which effectively represents 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 of SubParent3 to understand the risks that IE1 is exposed to through SubParent3's investments.

The Australian securities regulator, the Australian Securities Exchange (ASX) requires listed investment entities to provide the ASX with the financial statements of the investees and must also make those available to their shareholders on request.[1] We suggest the requirement to lodge accompanying financial statements supports concerns that investment entity accounting does not provide sufficient information to users.

While we note that the IASB considered feedback about a potential loss in information when the proposals were developed, we 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.

Exit strategy

Consistent with the feedback in the RFI, the AASB received feedback from stakeholders suggesting that the requirements of the Standard are unclear in relation to a documented exit strategy. We understand that the lack of guidance is a concern in practice and we 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. It is our understanding 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? We 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?

Feedback from stakeholders suggested that private entities may prefer fair value accounting and may therefore structure their operations to meet the investment entity requirements to avoid consolidation accounting and showing the values of the underlying net assets. For example, in this context, 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?

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[1] 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. We understand 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.

We 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).

We 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.

Further, we understand that the lack of clarity around what constitutes an acceptable exit strategy has led to diversity in practice.

Therefore, we recommend that if the investment entity exception is retained, the IASB clarifies the requirements for an exit strategy, including providing guidance about assessing whether a strategy is genuine.

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?

Stakeholders provided feedback that they frequently see transactions in which ownership interests change and they 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.

  Stakeholders noted that 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 *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 has retained diversity in practice.

- 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.

  We acknowledge that 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 Interpretations Committee was also asked to consider whether previously held interests in the assets and liabilities of a joint operation should be remeasured in certain transactions that do not meet the definition of a business.

  However, feedback from stakeholders suggests that gaps remain in the principles that make accounting for such transactions challenging, which may also lead to diversity in accounting outcomes. For this reason, we recommend the IASB consider expanding the principles in IFRS Standards to address accounting for changes in ownership interests more holistically which would increase consistency. We also think it would be useful for these principles to include accounting for transactions that do not constitute a business as transactions as these types of transactions are becoming more common for the reasons outlined above.

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?

The AASB received feedback 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, as the agreement does not require unanimous consent or gives one investor the ability to direct the decision-making (i.e., control) many collaborative arrangements are outside of the scope of IFRS 11.

We understand that 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. We understand that this treatment is very common in Australia, particularly in the extractives industry, as this approach reflects the substance of the arrangement (e.g., to recognise the investor's share of the assets and liabilities as that is what the investor has rights to). This treatment is also consistent with the accounting by an investor who participates in a joint arrangement but does not have joint control per IFRS 11.23.

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 from Australian stakeholders suggested that there may not be sufficient guidance on what constitutes a separate vehicle. For example, in practice, feedback suggested that a significant amount of time is spent assessing whether partnerships and unincorporated joint venture arrangements are considered separate legal vehicles.

While determining whether a partnership is a separate vehicle is beyond the remit of Standard-Setters and may vary by jurisdiction, we understand that the guidance to determine what constitutes a separate vehicle is insufficient in practice. For example, if an unincorporated joint venture keeps its own books and records, would it be considered a separate vehicle.

We acknowledge that divergence exists in accounting for such arrangements as each arrangement is assessed based on its own individual facts and circumstances. However, because determining whether a separate legal vehicle exists can be complex, we recommend that the IASB considers providing principles regarding what factors should be considered. This may reduce diversity in practice and therefore, there may be a practical benefit in the IASB considering this.

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.

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 than the equity-accounting approach. This is the case, even if the proportionately consolidated information is aggregated. In their view, the presentation of information in a single line as is required for the equity method of accounting is a concern because it does not provide a complete picture of the investee.

We understand that some of these concerns arise from applying the equity method of accounting, for example, that losses are not always recognised even when it is likely that an investor may be required to fund these losses at least in part. However, we recognise that addressing concerns about the equity method of accounting is beyond the scope of this project and may be better considered as part of the IASB's research project on the equity method of accounting.

We also acknowledge the IASB's comprehensive deliberations on the issue of proportionate consolidates versus the equity method of accounting, including the IASB's previous view that eliminating proportionate consolidation would not cause a loss of information for financial statement users. This was because the IASB expected the disclosures required by IFRS 12 when compared with what was required by IAS 31 *Interests In Joint Ventures* would improve the quality of the information provided to users relating to an entity's interest in joint ventures.

However, while paragraphs B12 and B13 of IFRS 12 require the disclosure of summarised financial information for each joint venture and associate that is material to the reporting entity, feedback from users indicated that they need more detailed information about the underlying assets and liabilities of the investee to allow them to estimate their market value. Specifically, users indicated that they would like to see more granular information about the performance, cash flows and debt position of significant equity-accounted investments. We note that this was previously raised by respondents to ED 9 *Joint Arrangements* and dismissed by the IASB at the time.

Therefore, we suggest that if similar feedback about the proportionate consolidation method is received from other jurisdictions, the IASB may wish to consider a research project on the benefits and disadvantages of the equity method versus the proportionate consolidation method as it may provide useful insights as to whether the IASB's previous decisions may need to be ultimately revisited.

We also recommend that if the IASB decides not to revisit allowing the proportionate consolidation method, the IASB revisit the disclosures under IFRS 12 to consider whether users should be provided with more detailed information about an entity's interests in equity-accounted investments.

Question 9
In your experience: (a) to what extent do the IFRS 12 disclosure requirements assist an entity to meet the objective of IFRS 12, especially the new requirements introduced by IFRS 12 (for example the requirements for summarised information for each material joint venture or associate)? (b) do the IFRS 12 disclosure requirements help an entity determine the level of detail necessary to satisfy the objective of IFRS 12 so that useful information is not obscured by either the inclusion of a large amount of detail or the aggregation of items that have different characteristics? (c) what additional information that is not required by IFRS 12, if any, would be useful to meet the objective of IFRS 12? If there is such information, why and how would it be used? Please provide suggestions on how such information could be disclosed. (d) does IFRS 12 require information to be provided that is not useful to meet the objective of IFRS 12? If yes, please specify the information that you consider unnecessary, why it is unnecessary and what requirements in IFRS 12 give rise to the provision of this information.

Stakeholder feedback, predominantly from the user community, suggested that additional disclosures are required in certain areas (see below). We do, however, recommend that the IASB fully test any proposed increases in disclosures to ensure that they are useful to a significant number of users and are not the request of a very small number of constituents.

Subsidiaries and non-controlling interests

Feedback from users suggested that there is often not enough information about subsidiaries with non-controlling interests (NCI) and whether there are any significant restrictions. For example, suppose a significant portion of a company's value is tied up in its controlling stake in an overseas company. In that case, it is often unclear how much of the subsidiary's cash could actually be distributed to the parent. While we acknowledge that IFRS 12 does require disclosures about significant restrictions, this disclosure relates only to statutory, contractual and regulatory restrictions. Users indicated they would also like to see information about other forms of restrictions that could prevent accessing the subsidiary's assets. For this reason, the AASB recommends the IASB consider broadening the scope of the disclosures required by paragraph 13 of IFRS 12 regarding the nature and extent of significant restrictions to include other forms of restrictions such as economic restrictions.

Users also highlighted that disclosures of ownership interests and the profit contribution of subsidiaries in paragraph 12 of IFRS 12 without information on cashflows, can be of limited value. This is because profit information alone doesn't always give a complete picture of the subsidiary's operations. For this reason, subject to other jurisdictions providing consistent feedback, we recommend the IASB consider requiring disclosure of a subsidiary's cash flows contribution in addition to the subsidiary's profit contribution.

Dilution of ownership interests due to outstanding shares

Users expressed concerns that they are not getting sufficient information about the possible dilution of an entity's ownership interest due to outstanding shares. That is, users wanted disclosures to help them understand whether an NCI or another investor could exercise outstanding options that would reduce the entity's ownership interest in a subsidiary, associate or joint venture. For example, where the financial statements disclose a 25% ownership interest in an investee, however there may be significant rights over shares outstanding that, if exercised, can materially change (dilute) the investor's ownership interest in the investee.

We note that paragraph 79 of IAS 1 *Presentation of Financial Statements* requires the disclosure of shares reserved for issue under options and contracts. However, this disclosure only applies to shares of the entity preparing the financial report, not to shares of its investees. As there are no requirements in IFRS 12 to provide similar information in relation to subsidiaries, associates and joint ventures, we recommend the IASB consider whether this disclosure should be required to provide users with the information they require.

Individually immaterial equity accounted investments

Feedback from users indicated that they do not always receive sufficient information about individually immaterial equity-accounted investments. They suggested it could be helpful to disclose:

- aggregated information about the financial performance and financial position of individually immaterial equity-accounted investments;

- the number of immaterial equity-accounted investments included in the aggregated disclosure; and
- the names of any individually immaterial equity-accounted investments that represent more than 10% of the aggregate of the individually immaterial total (e.g., if the revenue or total assets of any of the individually immaterial equity-accounted investments represents more than 10% of the aggregated total of all individually immaterial equity-accounted investments the name of the investee should be disclosed)

We recommend the IASB consider aligning the disclosure of individually immaterial equity-accounted investments (in aggregate) with those required for individually material equity-accounted investments. Users suggested that requiring disclosures about individually immaterial equity-accounted investments representing more than 10% of the aggregate of the individually immaterial total may be helpful. We note that disclosure of this is consistent with the quantitative threshold used in paragraph 34 of IFRS 8 *Operating Segments* regarding reliance on major customers, however the cost versus benefit of this disclosure should be considered.

We acknowledge the importance of balancing the user need for information with disclosure overload, especially as these investments are judged to be individually immaterial by the entity. However, we suggest there may be situations where quantitatively investments may be individually immaterial, however, they may be material by nature. For example, a newly acquired investment in a previously unestablished jurisdiction could signal a change in an entity's future strategic direction. An interest in a long-term contract that is in the early stages may also be immaterial, however, it may provide meaningful information as it highlights a future capital commitment. In each of these examples, an investment in the early stages is likely to be quantitatively immaterial. However, the substance and the potential future commitment and cash flows may be quite material by nature to an investor's understanding of the arrangement. We understand that often the disclosures required by paragraph B16 of IFRS 12 focus on quantitatively individually immaterial investments. However, we suggest it is important to clarify how an assessment of material by nature corresponds with this assessment.

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

The AASB does not have any further comments.