IFRS® Foundation

# Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12 (group accounting Standards)

EFRAG/EFFAS/IFRS Foundation Joint Webinar

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| | | | |
|---|---|---|---|
| **Project** | **Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12** | | |
| **Topic** | Request for preliminary feedback on matters in the Request for Information | | |
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# Timeline of the Post-implementation Review

**We are here**

| Phase 1 | Q4 2020 | Q2 2021 | H2 2021 | TBA |
|---|---|---|---|---|
| Assess and select matters for further investigation | Publish Request for Information | Comment period ends (10th May) | IASB deliberates on feedback and other evidence | IASB decision and project summary |

# Contents

# Purpose of this session

| | |
|---|---|
| Purpose | • to provide an overview of the Request for Information<br>• to obtain feedback on the matters in the Request for Information that relate to investors' information needs regarding interests in subsidiaries, joint ventures, associates and unconsolidated structured entities |

# Request for Information

# Matters in the Request for Information

| IFRS 10<br>Consolidation | | | IFRS 11<br>Joint arrangements | IFRS 12<br>Disclosure |
|---|---|---|---|---|
| **Control assessment**<br>• relevant activities<br>• rights that give an investor power<br>• control without a majority of the voting rights<br>• agency relationship<br>• non-contractual agency relationship | | | Collaborative arrangements outside the scope of IFRS 11<br><br>Classifying joint arrangements | Meeting the disclosure objective |
| Investment entities | Change in the relationship with an investee | Partial acquisition a single asset company | Accounting requirements for joint operations | |

# Disclosures required by IFRS 12

# IFRS 12—Disclosure objective

- IFRS 12 includes only disclosure requirements

| Objective | An entity is required to disclose information that enables users of its financial statements to evaluate:<br>• the nature of, and risks associated with, its interests in other entities; and<br>• the effects of those interests on its financial position, financial performance and cash flows |
|---|---|

# Disclosure requirements and examples

1 Disclosure of significant judgements and assumptions

2 Disclosures—subsidiaries

3 Disclosures—joint ventures and associates (including two research findings)

4 Disclosures—structured entities

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# Disclosures of significant judgements and assumptions

| Requirements | The disclosure of information about significant judgements and assumptions an entity has used to determine:<br>• whether an entity has control, significant influence, or joint control; and<br>• whether a joint arrangement is a joint operation or a joint venture |
|---|---|

## Example 1—determining control

### 34. Principal operating, finance and industrial subsidiaries and investments

| | Country of incorporation | % interest 2019 | % interest 2018 | Main activity |
|---|---|---|---|---|
| **Principal subsidiaries** | | | | |
| **Industrial activities** | | | | |
| Sub A [1] | | 50.0 | 50.0 | Copper production |

1 This investment is treated as a subsidiary as the Group is entitled to elect the chairman of the Board who has the casting vote where any vote is split equally between the four board positions.

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# Disclosures of significant judgements and assumptions

## Example 2—determining significant influence

| | Country of incorporation | **% interest 2019** | % interest 2018 | Main activity |
|---|---|---|---|---|
| **Other investments** | | | | |
| Investment X 13 | | 25.0 | 25.0 | |

13 Although the Group holds more than 20% of the voting rights in X, it is unable to exercise significant influence over the financial and operating policy decisions of X.



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# Disclosures—subsidiaries

| Requirements | The disclosure of information about:<br>• the composition of a group<br>• interests that non-controlling interests have in the group's activities and cash flows<br>• the nature and extent of significant restrictions on ability to access or use assets, and settle liabilities<br>• risks associated with interests in consolidated structured entities<br>• the consequences of losing control or of changes that do not result in a loss of control |
| --- | --- |
| | Disclosure of information about material non-controlling interests in the group's activities and cash flows |

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# Disclosures—subsidiaries

## Example 3—subsidiaries with material non-controlling interest

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Sub A | Sub B | Sub C | Sub D | Other | Total |
| Profit attributable to non-controlling interests | 1 | 56 | 269 | 691 | 18 | 1,035 |
| Dividends paid to non-controlling interests | (9) | (143) | (79) | (638) | (25) | (894) |
| **Balance sheet information:** | | | | | | |
| Equity attributable to non-controlling interests | 1,406 | 1,619 | 906 | 1,555 | 1,104 | 6,590 |

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# Disclosures—subsidiaries

## Example 3—subsidiaries with material non-controlling interest (continued)

| | 2019 | | | |
|---|---|---|---|---|
| | Sub A | Sub B | Sub C | Sub D |
| Non-current assets | 9,006 | 5,424 | 2,971 | 4,084 |
| Current assets | 3,835 | 3,342 | 1,893 | 1,100 |
| Current liabilities | (694) | (2,115) | (499) | (531) |
| Non-current liabilities | (2,155) | (1,342) | (911) | (1,405) |
| **Net assets** | 9,992 | 5,309 | 3,454 | 3,248 |
| | | | | |
| Revenue | 4,599 | 6,866 | 4,445 | 2,287 |
| Profit/(loss) for the financial year[1] | (21) | 1,247 | 1,466 | 113 |
| Total comprehensive income/(expense) | 69 | 1,421 | 1,589 | 96 |
| Net cash inflow from operating activities | 361 | 1,985 | 1,860 | 437 |

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# Disclosures—subsidiaries

## Example 4—significant restrictions

**Restricted cash and cash equivalent analysis**

Cash and cash equivalents of US$315 million (2018: US$186 million) are held in countries where there are restrictions on remittances. Of this balance, US$245 million (2018: US$142 million) could be used to repay subsidiaries' third-party borrowings.

There are also restrictions on a further US$1,644 million (2018: US$1,090 million) of cash and cash equivalents, the majority of which is held by partially owned subsidiaries and is not available for use in the wider Group due to legal and contractual restrictions currently in place. Of this balance US$1,442 million (2018: US$864 million) could be used to repay subsidiaries' third-party borrowings.

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## Disclosures—joint ventures and associates (equity accounted investments)

| Requirements | The disclosure of the nature, extent and financial effects of an entity's interests in joint arrangements and associates:<br>• summarised financial information of material joint ventures and associates; and<br>• aggregated financial information of individually immaterial joint ventures and associates |
|---|---|

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## Disclosures—joint ventures and associates (equity accounted investments)

### Example 5—material joint ventures and associates

| | Associate A | Associate B | Total material associates | Joint venture C | Joint venture D | Total material joint ventures |
|---|---|---|---|---|---|---|
| Non-current assets | 2,399 | 4,589 | **6,988** | 4,905 | 5,712 | **10,617** |
| Current assets | 630 | 1,276 | **1,906** | 1,306 | 7,363 | **8,669** |
| Non-current liabilities | (768) | (1,170) | **(1,938)** | (1,207) | (3,855) | **(5,062)** |
| Current liabilities | (57) | (486) | **(543)** | (794) | (5,389) | **(6,183)** |
| *The above assets and liabilities include the following:* | | | | | | |
| Cash and cash equivalents | 157 | 55 | **212** | 163 | 184 | **347** |
| Current financial liabilities[1] | (21) | (53) | **(74)** | (15) | (2,770) | **(2,785)** |
| Non-current financial liabilities[1] | (15) | (146) | **(161)** | (95) | (3,450) | **(3,545)** |
| **Net assets 31 December 2019** | **2,204** | **4,209** | **6,413** | **4,210** | **3,831** | **8,041** |
| Group's ownership interest | 33.3% | 33.8% | | 44.0% | 49.9% | |
| Acquisition fair value and other adjustments | 409 | 1,872 | **2,281** | 1,116 | 1,246 | **2,362** |
| Carrying value | 1,143 | 3,295 | **4,438** | 2,968 | 3,158 | **6,126** |

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# Disclosures—joint ventures and associates (equity accounted investments)

## Example 5—material joint ventures and associates (continued)

| | Associate A | Associate B | Total material associates | Joint venture C | Joint venture D | Total material joint ventures |
|---|---|---|---|---|---|---|
| Revenue | 1,483 | 3,038 | **4,521** | 3,147 | 25,057 | **28,204** |
| (Loss)/income for the year | (1,440) | 892 | **(548)** | 945 | (29) | **916** |
| Other comprehensive loss | – | – | **–** | (23) | (3) | **(26)** |
| Total comprehensive (loss)/income | (1,440) | 892 | **(548)** | 922 | (32) | **890** |
| Group's share of dividends paid | 66 | 243 | **309** | 467 | – | **467** |
| *The above (loss)/income for the year includes the following:* | | | | | | |
| Depreciation and amortisation | (565) | (811) | **(1,376)** | (640) | (524) | **(1,164)** |
| Interest income[1] | – | 15 | **15** | 35 | 28 | **63** |
| Interest expense[2] | (12) | (3) | **(15)** | (25) | (202) | **(227)** |
| Impairment, net of tax[3] | (1,305) | – | **(1,305)** | – | – | **–** |
| Income tax credit/(expense) | 46 | (489) | **(443)** | (437) | (40) | **(477)** |



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# Disclosures—joint ventures and associates (equity accounted investments)

## Example 6—individually not material joint ventures and associates

Aggregate information of associates that are not individually material:

| | 2019 |
|---|---|
| The Group's share of (loss)/income | (110) |
| The Group's share of other comprehensive loss | (25) |
| The Group's share of total comprehensive loss | (135) |
| Aggregate carrying value of the Group's interests | 2,420 |

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# Findings 1—segment information

**Findings**

- Some entities disclose segment information including their share of revenue, earnings, assets and liabilities of joint ventures and associates
- Joint ventures and associates are accounted for applying the equity method.  The share of profit or loss of associates and joint ventures is presented in the income statement and the net investment is presented on the balance sheet as a single line item
- In IFRS 8 *Operating Segments* information is to be reported on the same basis as is used internally by management for evaluating performance and allocating resources to segments

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# Findings 1—segment information

## Example 6—Segment information associates and joint ventures

| | The Company and its subsidiaries | | Associates and joint ventures | | | |
|---|---|---|---|---|---|---|
| | Revenue | Results * | Share of revenue | Share of results * | Combined revenue | Consolidated results * |
| Property sales | | | | | | |
| Hong Kong | 36,268 | 15,965 | 605 | 368 | 36,873 | 16,333 |
| Mainland China | 3,497 | 1,667 | 862 | 367 | 4,359 | 2,034 |
| Singapore | – | – | 32 | 10 | 32 | 10 |
| | 39,765 | 17,632 | 1,499 | 745 | 41,264 | 18,377 |
| Property rental | | | | | | |
| Hong Kong | 15,914 | 11,898 | 3,095 | 2,558 | 19,009 | 14,456 |
| Mainland China | 3,995 | 3,211 | 622 | 451 | 4,617 | 3,662 |
| Singapore | – | – | 588 | 447 | 588 | 447 |
| | 19,909 | 15,109 | 4,305 | 3,456 | 24,214 | 18,565 |

* In the context of this example, the term “results” refers to net profit or loss.

3

## Findings 2—Individually not material joint ventures and associates

| Findings | |
|---|---|
| | • We have identified companies that carry out a significant portion of their business through a number of joint ventures or associates that are not individually material<br>• Applying IFRS 12, investments in joint ventures or associates that are not individually material are not required to be disclosed separately |

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# Disclosures—structured entities*

| | |
|---|---|
| Requirements | The disclosure of the nature of risks associated with an entity's interests in consolidated structured entities<br><br>The disclosure of the nature of interests and risks associated with its interests in unconsolidated structured entities |

* A structured entity is an entity designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Examples include, but are not limited to, securitisation vehicles, asset-backed financings and some investment funds.

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# Disclosures—structured entities

## Example 7—hypothetical disclosure

One of the Group's subsidiaries, Sub X, participates in a revolving securitisation vehicle (Vehicle Y) for trade receivables. On sales of goods of the Group, Sub X receives the face value of the receivables less a premium that covers the financing costs. The Group collects the amount due from customers on behalf of Vehicle Y. In the event of default, the receivable is put back to the company at its face value.

The Group does not derecognise receivables upon transferring. The Group recognised a liability when receiving the amount from Vehicle Y.

At 31 December 20X1, the following balances related to the Group's involvement in the Vehicle Y:

| CU million | 31 December 20X1 |
|---|---|
| Carrying amount of receivables transferred to Vehicle Y included in trade receivables | 760 |
| Carrying amount of liabilities relating to the trade receivables transferred to Vehicle Y and included in trade receivables | 721 |
| Maximum exposure to loss | 760 |

The Group does not control, and therefore does not consolidate Vehicle Y. Vehicle Y acquires trade receivables from other companies in the same industry as the Group and issues commercial paper to a variety of investors. The Group concluded that it does not have power to direct the relevant activities of Vehicle Y.

# Topics for discussion

Topics for discussion

Do you receive sufficient information in each of the areas in IFRS 12? If yes, is there any information that you find irrelevant? If not, what information is missing and how would you use that information?

Have you observed the issues on slides 21 to 23? If so:

- how you use the segment information provided?
- what information do you use when investments in joint ventures or associates that are not individually material are not disclosed separately?

# Appendix 1—Background

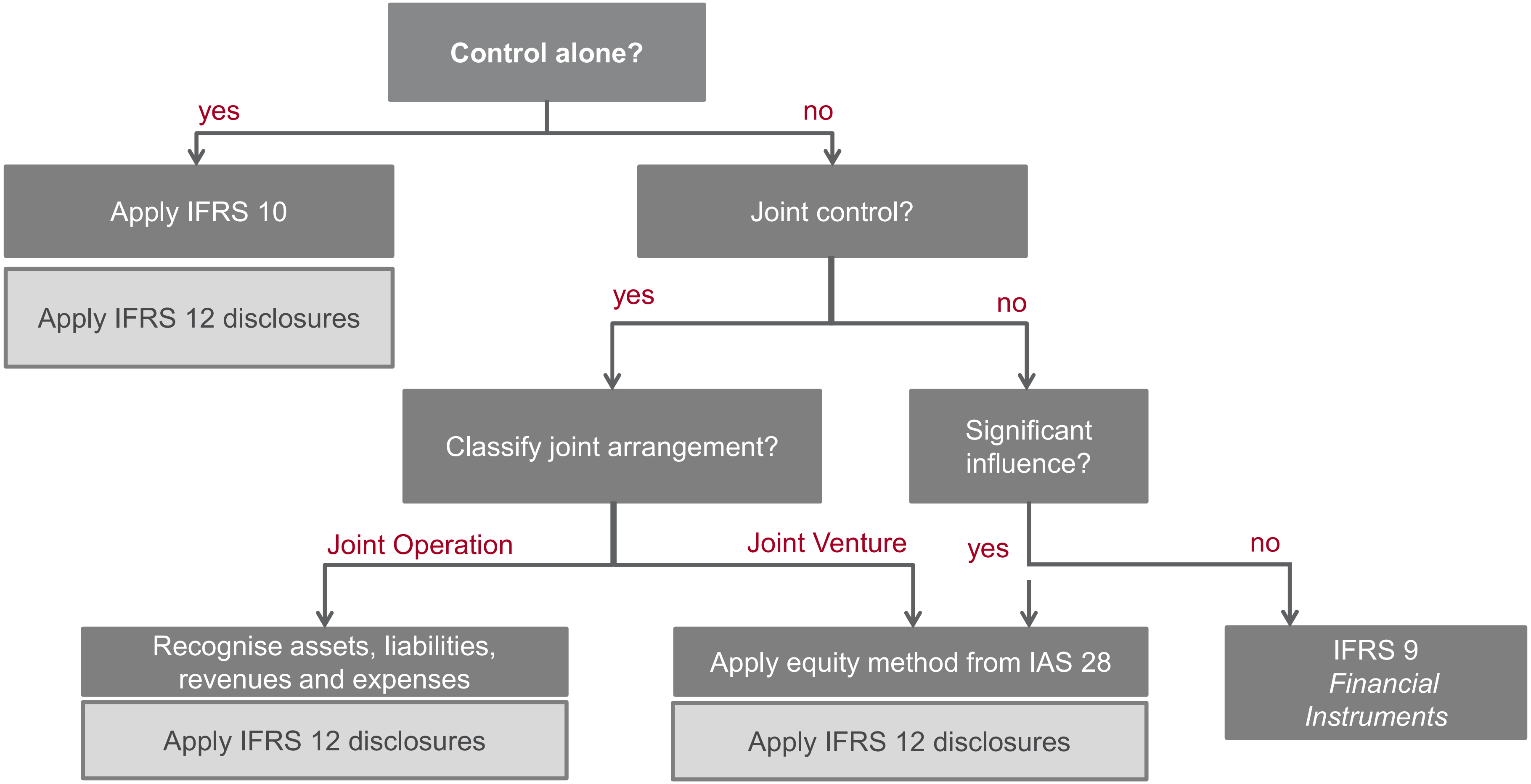
# What is a post-implementation review?

| | |
|---|---|
| **What is a post-implementation review?** | • The Board undertakes a post-implementation review of a new IFRS Standard or a major amendment after it has been implemented internationally for more than two years<br>• A post-implementation review is a part of the Board’s due process and helps to assess the effect of new requirements on investors, preparers and auditors |
| **Outcomes** | • The Board could decide to add a standard-setting project to its agenda, consider one or more matters further as part of its research programme, or both. The Board could also decide to take no action |

# Scope of the Post-implementation Review

| | |
|---|---|
| IFRS 10 *Consolidated Financial Statements* | Which companies to include in consolidated financial statements |
| IFRS 11 *Joint Arrangements* | Classifying a joint arrangement and accounting for it according to that classification |
| IFRS 12 *Disclosure of Interests in Other Entities* | Disclosing information about a company’s involvement in other entities |

# Relationship between IFRS 10,11,12, and IAS 28 *Investments in Associates and Joint Ventures*



# Appendix 2— Disclosure requirements

1

# Disclosure of significant judgements and assumptions

**Control assessment**

An entity discloses whether it:
- has control without more than half of the voting rights
- has control with less than half of the voting rights
- is an agent or a principal

**Joint arrangements**

An entity discloses:
- the type of joint arrangement (joint venture or joint operation)

**Significant influence**

An entity discloses whether it has:
- no significant influence with 20% or more of the voting rights
- significant influence with less than 20% of the voting rights

Changes in conclusions about whether an entity has control, joint control or significant influence

These are some of the disclosure requirements in IFRS 12 or other Standards. They are not complete lists.

2

# Disclosure requirements—subsidiaries

## General and financial information

For subsidiaries with material non-controlling interest an entity discloses:

- name and principal place of business
- profit or loss allocated to non-controlling interest
- current/non-current assets/liabilities
- revenue/profit or loss/other comprehensive income

## Restrictions

An entity discloses:

- significant restrictions on an entities ability to use the assets and settle the liabilities
- cash held by an entity not available for use by the group
- tax effect in relation to investments in subsidiaries

## Changes in ownership

An entity discloses:

- consequences of losing control
- consequences of changes in ownership interest without losing control

These are some of the disclosure requirements in IFRS 12 or other Standards. They are not complete lists.

3

# Disclosure requirements—joint ventures and associates

| Material JVs and associates | Other JVs and associates | Restrictions |
| --- | --- | --- |
| For material joint ventures and associates, an entity discloses:<br>• name and principal place of business<br>• nature of relationship<br>• summarised financial information<br>    • dividends received<br>    • current/non-current assets/liabilities<br>    • revenue/profit or loss/other comprehensive income<br>    • … | For joint ventures and associates not individually material, an entity discloses:<br>• profit or loss<br>• other comprehensive income<br>• … | An entity discloses:<br>• significant restrictions on its ability to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity |

These are some of the disclosure requirements in IFRS 12 or other Standards. They are not complete lists.

4

# Disclosure requirements—structured entities

**Consolidated structured entities**

An entity discloses information about:

- financial support arising from a contractual arrangement
- financial support without contractual arrangement
- …

**Unconsolidated structured entities**

An entity discloses:

- the nature, purpose, size and activities of the structured entity and how it is financed
- assets and liabilities recognised relating to its interests
- maximum exposure to loss from its interests
- financial or other support
- …

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