International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Cc
Efrag

Stockholm May 10, 2021

Post implementation review

Comments regarding IFRS 10, 11 and 12

Thank you for the opportunity to respond to post implementation review regarding the standards IFRS 10, IFRS 11 and IFRS 12. The Swedish Enterprise Accounting Group (SEAG) have the following general remarks.

In most cases, we believe that the standards work well. There are however situations when the standards give rise to complicated and time-consuming assessments. In particular, the structure of the standards occasionally makes it difficult to locate the applicable rules. The decision hierarchy within and between the standards is not obvious and the starting point from where an analysis of a specific situation shall begin is not always easy to locate. A preparer may end up altering between different parts of the standards, the application guidance and the basis for conclusions.

Another problem is that the standards mix principles with rules. This makes the difference between the standard text and the situations described in the examples in the application guidance less distinct. To illustrate our point, one criterion that is frequently regarded as evidence for control on a stand-alone basis is the ability to control budgets. This is irrespective of the wording in paragraph B12 of IFRS 10 that clearly state that decisions about relevant activities include but are not limited to the decisions mentioned in the paragraph. In a potential forthcoming revision of the standards, this should be taken into account.

Our comments to the specific questions in the review are provided in the appendix below.

Kind regards,

CONFEDERATION OF SWEDISH ENTERPRISE

Sofia Bildstein-Hagberg

Svenskt Näringsliv Confederation of Swedish Enterprise
Postadress/Address: SE-114 82 Stockholm Besök/Visitors: Storgatan 19 Telefon/Phone: +46 (0)8 553 430 00
www.svensktnaringsliv.se Org. Nr: 802000-1858

Appendix

Question 2a
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?

In some cases, the relevant activities are difficult to identify by using the standard. Cross-references within the standard make it difficult to locate the applicable paragraph. We have experienced situations where it is easier to identify the relevant activities by using the Basis for Conclusions rather than the wording of the standard.

To avoid unanticipated outcomes, it is common that preparers take the wording of the Standard into consideration when drafting contracts.

Question 2b
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?

Application of the paragraphs works ok. Again, to avoid unanticipated outcomes, preparers may take the wording of the Standard into consideration when drafting contracts.

Question 2c
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?

These paragraphs work well initially but may be challenging over time if/when changes occur either in own shareholdings or among other owners. The assessments can prove to be difficult as not only legal aspects should be taken into consideration.

It is difficult to assess how frequently an investor needs to make this assessment. Currently, it appears as if assessments are performed 'when needed'. It is however unclear what triggers this situation (or what should trigger it).

Question 3a
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?

It is not obvious how these paragraphs relate to other paragraphs in the standard.

There are several factors to take into account which allow for certain freedom. Similar situations may be assessed differently by different preparers. More consistency would be desirable, but we have no specific ideas on how that could be achieved.

We believe the situations where it's a challenge to identify agency relationships are rare.

Question 3b
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.

We have no comments to these questions.

Question 4a
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.

The paragraphs in question are not fully clear and we believe it is possible to come to different conclusions when applying them. However, in our experience, there is no divergence in practice between different investment entities.

Question 4b
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?

No, in our experience there are no situations in which the measurement of a subsidiary which is an investment entity at fair value result in a loss of information.

Question 5a
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.

In our experience these situations are rare.
Revenue resulting from the measurement of retaining interest may be difficult to explain.

Question 5b
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?

It is common that real estate is acquired in form of a subsidiary that do not constitute a business. This is more of a tax issue than an accounting issue.

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?

We have very limited experience of these arrangements.

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?

It occurs that a party to a joint arrangement has to consider other facts and circumstances when classifying the arrangement. When this is the case, preparers have to go through a thorough analysis of the different criteria which often include altering between paragraphs in both IFRS 10 and IFRS 11. This may result in a rather complex and time-consuming process.

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.

In our limited experience the requirements in IFRS 11 works well for joint operators.

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.

We believe that the disclosure requirements work well in practice.

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.

Generally, the structure of the standards makes it difficult to locate the applicable rules. The decision hierarchy within and between the standards is not obvious and it is difficult to understand where to begin the assessment of a specific situation. A preparer may end up shifting back and forth between the different standards as well as the standard text and its basis for conclusions. This give rise to a complicated assessment processes and may also cause long discussions with auditors.