EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

Mr. Gauzès, EFRAG Chairman

35, Square de Meeûs, B-1000 Brussels

By email

jean-paul.gauzes@efrag.org

Re: Comments on *Post-implementation review IFRS 10-11-12*

Sophienstraße 44 DE – 60487
Frankfurt am Main, Germany
Direct number: +49 69 98959519
Fax number: +49 69 98957529
E-mail: office@effas.com
Internet: www.effas.com

Contact: Ms. Raquel Zaragoza

12th May 2021

Dear Jean-Paul,

EFFAS' Commission on Financial Reporting ("Commission", "we") would like to share with you its views on IASB's PiR IFRS-10-11-12 document.

As noted in previous letters, EFFAS continues to support IASB high-quality documents. Albeit, the Commission has continued to stress the importance of preparing documents avoiding density and new terminology while emphasizing clarity and direct terminology. Also, it was noted, that reducing cross-checking references and drafting more inclusive documents would facilitate a clearer understanding of the concepts.

Question 1 – *Your background*

EFFAS: European Federation of Financial Analysts Societies.

Question 2 (a)

We think that the reference made to the "relevant activities" of an investee is not clear as "this is not a defined notion". The approach suggests that there might be situations in which:

- an investor controls an investee but not the relevant activities of that investee.
- an investor does not control an investee but does control nonetheless the relevant activities.

We can accept omitting the reference made to the relevant activities. Control in our view has to do with the impact the investor has on the long-term business strategy, the investments made, the governance structure and the short and long-term financial strategy among others and not so much with the investor's impact on (only) the relevant activities.

Questions 2 (b)

As users of financial statements answering these questions will imply specific knowledge of the shareholders' agreements between the investors and investee. We think that specific disclosures from investors about what the protective rights are, will be adequate.

Question 2 (c)

This information should be provided by the investors, and users usually do not need to assess the acquisition (or lost) of the investee relevant activity.

Question 3 (b)

We agree with the notion of control on which IFRS-10 is built. Yet how control has to be assessed - taking into account all the facts and circumstances - is a question that we do not usually have to address.

As investors, we are usually dealing with different principles that need to be taken into account. Therefore, we would suggest additional clarification that allows investors to explain better the way their group is structured (see below).

Question 4 (b)

We agree with the notion of an investment entity as defined in IFRS 10 paragraph 27 and the exception to consolidate applied to them. For users of financial statements, it is clear that subsidiaries that are held "solely for returns from capital appreciation, investment income, or both" and are evaluated "on a fair value basis", should not be consolidated.

We think that some confusion with regard to an investment entity currently exists, and that it should be based on the following:

- the investments should not be consolidated, and fair value should be considered as the relevant measurement for these investments to assess the performance of the investment entity,
- other aspects such as interim management, fiscal and legal advice, corporate financial services, investment banking and other corporate services should be consolidated in line with IFRS 10-11—12 and IAS 27-28 (full consolidation, equity method, pro rata share of assets and liabilities… depending on the precise structure including the appropriate disclosure requirements).

In fact, it could well be that IFRS-10 paragraph 32 is not compatible with this approach. If a subsidiary is responsible, for instance, for legal services and at the same time it has a majority stake in an "investment", in that case the "investment" should not be fully consolidated. The "investment" itself should be measured at fair value through profit or loss.

Question 5 (a)

Group structures change continuously. Subsidiaries become associates and vice versa. Non-controlling interests sell part of their shares to the group and/or the group sells a minority interest in a subsidiary to existing or new non-controlling shareholders. The proposed consolidation methodology, we think, deals with this appropriately.

We also agree with the fact that in case of a loss of control, the retained interest is remeasured at fair value. This is relevant information for the user at that particular time. Nonetheless, there are situations in which the entity presents the "capital gain" as a "recurrent" profit, when this is not really the case. The capital gain is more for information purposes than it is real performance.

Thus, we would support recognizing this so-called capital gain in other comprehensive income. If the so-called capital gain is recognized in profit or loss, it should be disclosed and there should be an explanation of how it is generated.

Question 5 (b)

In our experience it is difficult to find these types of transactions, as we think they are infrequent.

Question 7

We agree with the general approach in IFRS-11.

We understand that entities sometimes have difficulties assessing the nature of collaborative arrangements. As users, it is difficult to have a clear view on this as the group structure is normally disclosed "as it is", following the group's own analysis. For users it is difficult to assess how it has been defined in the group's corporate structure.

Question 8

We think that IFRS-11 is clear in terms of the principles that need to be applied. However, we consider that it is not necessarily straightforward to apply those principles as based on IFRS-11 paragraph 20.

Entities usually share assets and liabilities and in joint operations it is difficult to determine each entity share as structures can be complex, for instance, in the construction sector.

We will support the idea of disclosing and explaining better how an entity shares its assets, liabilities and even revenue and expenses.

Question 9

The commission supports the disclosure requirements requested in IFRS -12 to meet the objective of the standard. Users of financial statements should be able to understand the nature of and risks associated with the interests in other entities.

Nonetheless, in practice the objective should be applied in a more transparent and consistent manner. The standard should make it absolutely clear that a reporting entity should be transparent about and comment upon the way the group has evolved over the past reporting period.

It is in our view often more a presentation issue. The information with regard to the "group" could be disclosed in one specific place: subsidiaries, associates, joint arrangements, other structured entities.

It is also very important that changes are disclosed, especially when interests in subsidiaries are bought or sold without losing control. These transactions, which often have an impact on the financial structure and the cash flows going forward, are important to assess the direction in which the group is evolving.

Question 10

We have understood that the *Equity Method* is still on the IASB's agenda, but that this project is not part of this post-implementation review.

Javier de Frutos, Chairman
On behalf of EFFAS Commission on Financial Reporting

EFFAS was established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 15-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. CFR members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium) Luca D'Onofrio (AIAF, Italy), Dr. Carsten Zielke (DVFA, Germany) and Andreas Schenone (SFAA, Switzerland).