UKEB UK Endorsement Board

Mr. Hans Hoogervorst
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(Date)

Dear Mr Hoogervorst

Invitation to Comment: *Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities*

Following the UK's exit from the European Union, the Department for Business, Energy and Industrial Strategy (BEIS) has set up the UK Endorsement Board (UKEB) to fulfil statutory functions of influencing the development and subsequent adoption of International Accounting Standards for use in the UK. The UKEB secretariat has begun influencing activities in preparation for the delegation of those statutory functions to the UKEB. This letter forms part of those influencing activities and is intended to contribute to the International Accounting Standards Board's (IASB) due process. The views expressed by the UKEB secretariat in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards to be provided to the Secretary of State or the UKEB, once powers have been delegated.

The UKEB secretariat welcomes the opportunity to contribute to the IASB's post-implementation review of IFRS 10, IFRS 11 and IFRS 12 (the Standards).

To develop our response, we have gathered evidence from stakeholder roundtables and interviews, desk-based reviews of annual reports from a sample of UK listed companies, and public consultation on our draft response. From this evidence, we conclude that the Standards have achieved their objectives, as follows:

1. IFRS 10 has achieved its objective of setting principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities.

2. IFRS 11 has achieved its objective of setting principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.

3. IFRS 12 has achieved its objective of disclosing information to enable users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities; and the effects of those interests in its financial position, financial performance and cash flows.

We also conclude that the Standards have achieved the IASB's over-arching objectives when the Standards were issued. These objectives were[1]:

1. To 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.

2. To address two features of IAS 31 *Interests in Joint Ventures* that IASB regarded as impediments to high-quality reporting on joint arrangements. Applying IAS 31:

    a. The structure of the joint arrangement was the sole determinant of the accounting for that arrangement, and

    b. An entity could choose the accounting treatment for interests in jointly controlled entities.

3. To 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.

We agree with the IASB's statement that 'financial reporting standards are most effective when they set out clear objectives and requirements and establish a framework for applying judgement effectively across a wide range of structures and regulatory regimes'[2]. We believe that the Standards meet these criteria and that this has allowed stakeholders to operationalise accounting treatments in a manner that best fulfils the objective of each standard.

We therefore recommend retaining the clear objectives and requirements of the Standards and requiring the application of judgment. Adding guidance for all possible fact patterns is neither practical nor desirable. Rather, we see a risk that by adding guidance for fact patterns which arise infrequently, the Standards could become cumbersome and more difficult to apply to new arrangements. Such an approach could also encourage structuring and financial engineering. Our recommendations are therefore limited to those few areas where the application of the Standards can be significantly improved.

Our conclusions and recommendations in response to the IASB's consultation are outlined below. For detailed responses to the questions in the IASB's Request for Information (RFI) please see Appendix 1.

[1] These objectives of IFRS 10, IFRS 11 and IFRS 12 are stated in the Post-Implementation Review paragraph 7.
[2] Post-Implementation Review of IFRS 10, IFRS 11 and IFRS 12 paragraph 8.

IFRS 10 and identifying and assessing factors to establish whether there is control

We conclude that IFRS 10 provides robust guidance for applying the principle of control as the basis for consolidation because, by applying the guidance in the standard, it is possible to identify relevant activities, principal or agent relationships, de facto agents, and de facto control and to determine whether rights are substantive or protective rights. This is the case even where fact patterns are complex.

To support consistent application, we recommend that where control exists because an investor has a call option on shares held by the non-controlling interest, the assessment of whether the call option substantively gives the investor an ownership interest in those shares should consider whether:

a. The parties have agreed there will be no distributions before exercise;

b. Distributions to current owner are deducted from the option strike price;

c. The strike price is fixed or offers substantially only a lender's return to current owner; and

d. The strike price does not vary with changes in the fair value of the underlying shares.

We recommend that these considerations are included in the application guidance to IFRS 10, in paragraph B90 (See Appendix 1 paragraph A12 for details).

IFRS 10 and the investment entity exception

We conclude that the investment entity exception delivers consistent outcomes and provides relevant information.

We recommend that the requirement to disclose why an investment entity is an investment entity if it does not exhibit the typical characteristics identified in IFRS 10 paragraph 28 is reviewed, as it may lead to limited value disclosures. (See Appendix 1 paragraph A20 for details).

IFRS 10 and changes in the nature of the relationship between an investor and an investee

We conclude that any circumstances where there are changes in the nature of the relationship between an investor and an investee and these are not covered by requirements in IFRS Standards, are infrequent.

We are aware of three situations where there is diversity in accounting treatment and we make three recommendations to improve consistency and comparability:

a. IFRS 10 does not contain guidance on how to determine the value of a non-controlling interest when a subsidiary is partly owned by an associate of the parent. Some preparers determine the value of the non-controlling interest by applying the proportion of shares in the subsidiary not owned directly by the parent to the fair value of the subsidiary's net assets. Other preparers determine the value of the non-controlling interest by applying only the proportion of shares in the subsidiary owned by third party interests in the associate to the fair value of the subsidiary's net assets. We recommend that the first method is mandated as it is a more faithful representation of the non-controlling interest. (See Appendix 1 paragraph A24a for details).

b. There is no specific guidance in IFRS 10 for incremental costs directly attributable to changes in ownership interests (i.e. costs in issuing or acquiring equity instruments, for example, regulatory fees). We recommend that to improve consistency and comparability, IFRS 10 should require that direct incremental costs attributable to changes in ownership interest should be deducted from equity. This would be consistent with the requirement in paragraph 37 of IAS 32 *Financial Instruments: Presentation* on other types of transactions in own equity. (See Appendix 1 paragraph A24b for details).

c. Some entities account for the acquisition of a controlling interest in a single-asset entity by applying IFRS 3 *Business Combinations* paragraph 2 and recording the asset at fair value. Other entities account for the same transaction by applying IFRS 10 and recognising non-controlling interest and goodwill. We recommend that the IASB undertakes a separate project to explore the divergent practice in this area with the aim of improving consistency, comparability and providing faithful representation. Our initial view is that recognising non-controlling interest and goodwill in relation to the acquisition of a single asset does not represent the substance of the transaction, and that these transactions should be accounted for in accordance with IFRS 3 paragraph 2 (See Appendix 1 paragraph A26 for details).

IFRS 11 and the consideration of other facts and circumstances

We conclude that the guidance on other facts and circumstances is considered frequently. We conclude that this frequent consideration indicates that the substance of transactions is reflected in the accounting treatment of joint arrangements (See Appendix 1 paragraph A36 for details).

We conclude that the existence of collaborative arrangements outside the scope of IFRS 11 is widespread and that such arrangements are faithfully represented by the application of other IFRS Standards (See Appendix 1 paragraph A29 for details).

IFRS 12 and the adequacy of disclosures

We conclude that IFRS 12 has achieved its objective of disclosing information to enable users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities, and the effects of those interests in its financial position, financial performance and cash flows.

We recommend that IASB considers including guidance on the level of aggregation and disaggregation of disclosures on interests in other entities as part of its Primary Financial Statements project (see Appendix 1 paragraph A43 for details).

We seek user views on the usefulness of possible improvements to existing disclosure requirements:

a. To require specific components in the reconciliation of the results of material associates and joint ventures with the amounts recognised in the financial statements in respect of those associates and joint ventures (see Appendix 1 paragraph A51 for details).

b. To require more granular information on the results of associates and joint ventures to be included in the segment disclosure note under IFRS 8 (see Appendix 1 paragraph A53 for details).

We seek user views on possible additional disclosures on:

a. Subsidiaries with material non-controlling interests (see Appendix 1 paragraph A45 for details).

b. Immaterial associates and joint ventures which are material in the aggregate (see Appendix 1 paragraph A47 for details).

c. Material associates and joint ventures (see Appendix 1 paragraphs A51 for details).

Interaction of IFRS 11 with other IFRS standards

We note that there is interaction between IFRS 11 and both IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

The interaction between IFRS 11 and IFRS 15 arises when a joint operator may also be a customer within the terms of IFRS 15. The interaction between IFRS 11 and IFRS 16 arises when a joint operator may also be the lessor of an asset to the joint operation.

We recommend that illustrative examples are provided to assist with the application of the standard in these situations (see Appendix 1, paragraph A57 – A58 for details).

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

Appendix 1 Questions on *Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities*

Appendix 1: *Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities*

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.

A1 See cover letter.

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?

A2 Our outreach indicates that investors are able to identify the relevant activities of an investee by applying IFRS 10 paragraphs 10 – 14 and B11 – B13.

A3 During our outreach activities, areas of potential difficulty in identifying relevant activities were explored with stakeholders[3] (see paragraph A4). Stakeholders concluded that the standard provides sufficient guidance to allow use of judgement in reaching valid conclusions in these areas.

A4 Areas of potential difficulty in identifying relevant activities explored in outreach were:

a. Returns are not defined in IFRS 10.

IFRS 10 defines relevant activities as 'the activities that significantly affect the investee's returns,'[4] but 'returns' are not defined in the Standard. However, IFRS 10 application example 1 specifies that profit margin, revenue and value of the investee

[3] Stakeholders consulted include preparers, auditors, users and regulators.
[4] IFRS 10, paragraph 10.

should be considered when determining whether an investor has power, and this is considered sufficient guidance.

b. Identifying relevant activities in special purpose entities

Special purpose entities may have a narrowly defined purpose and design, making the identification of relevant activities difficult. However, stakeholders concluded that relevant activities can be identified even in such circumstances. Stakeholders noted that the requirement to consider the purpose and design of the entity and the guidance in IFRS 10 paragraph B23 can be helpful in identifying its relevant activities.

c. Where there are two or more investors and rights change over time, it may be difficult to identify the investor with the current ability to direct relevant activities (and therefore the controlling investor).However, our stakeholders confirmed that IFRS 10 paragraph B13 provides sufficient guidance as it requires an assessment to determine which investor has the current ability to direct the relevant activities that *most* significantly affect the investee's returns and it clarifies that those activities (and therefore the controlling investor) may change over the lifecycle of the investee. For example, research and development activities may most significantly affect returns in the early stages of the investee's life cycle whereas marketing and distribution activities may most significantly affect returns later in the investee's life cycle.

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?

A5 Our outreach indicates that IFRS 10 paragraphs B26 – B33 enable an investor to determine whether rights are protective rights.

A6 Our outreach identified circumstances where assessing whether rights are protective or substantive is complex, but concluded that despite these complexities, judgement can be applied to reach a valid conclusion. The circumstances identified were:

a. Some investors have the right to appoint certain members of the investee's key management personnel and other investors have the right to appoint others.

b. Veto powers apply.

c. Rights under a franchise agreement substantially restrict the ability of other parties to direct relevant activities.

d. Deadlock clauses affect the nature of the rights held by the investor.

A7 We understand that some preparers use quantitative thresholds to establish whether rights are protective or substantive. We do not think that quantitative thresholds should be provided in IFRS 10 as they would create bright lines and risk of structuring and financial engineering.

A8 Our outreach indicates that IFRS 10 paragraphs B22 – B24 are effective in enabling investors to determine whether rights, including potential voting rights, are, or have ceased to be substantive. Some stakeholders were concerned that if the requirement to consider whether there are any barriers that prevent the holder from exercising rights[5] were considered in isolation, it could lead to frequent changes in the assessment of control due to changes in market prices of equity instruments. However, stakeholders concluded that the requirement in IFRS 10 paragraph B23 to take into account all facts and circumstances meant that a change in market conditions alone would not typically lead to a change in control.

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?

A9 Our outreach indicates that applying IFRS 10 paragraphs B41 - B46 enables investors that do not hold majority voting rights to make an appropriate assessment of their practical ability to direct an investee's relevant activities.

A10 We further identified from outreach and from financial statement reviews that investors need to make this assessment in only a small minority of cases.[6]

A11 Our outreach activities indicated that the cost of obtaining the information required to make the assessment is not disproportionate.

A12 We recommend that the guidance is developed in the following area:

a. Where an investor has an option to buy shares held by the non-controlling interest, IFRS 10[7] requires that the investor assess whether the option gives access to the returns associated with an ownership interest. If it does, in substance the investor

[5] IFRS 10 paragraph B23 (a) requires investors to consider 'Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights. Examples of such barriers include … ii) an exercise price or conversion price that creates a financial barrier that would prevent (or deter) the holder from exercising its rights.'

[6] In a review of annual reports from 16 FTSE 250 entities, none were identified as having de facto control over a subsidiary.

[7] IFRS 10 paragraph B90.

has an existing ownership interest which may confer control. We understand that when stakeholders make this assessment in practice, they consider the option price formula and assess whether:

i. The parties have agreed there will be no distributions before exercise;

ii. Distributions to current owner are deducted from the option strike price;

iii. The strike price is fixed or offers substantially only a lender's return to current owner; and

iv. The strike price does not vary with changes in the fair value of the underlying shares.

b. We recommend that these considerations are included in the application guidance to IFRS 10, in paragraph B90.

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?

A13 Our outreach indicates that IFRS 10 paragraph B60, the application guidance in paragraphs B62 – B72, and the application examples are effective in enabling investors to determine whether a decision maker is a principal or an agent. This is the case even where there are complex fact patterns and significant judgement is required.

A14 Significant judgement is required to assess whether a relationship is a principal or agency relationship where remuneration agreements include a high level of variability of returns and depend on assumptions about future events. Such agreements feature in the fund management, property and construction, hospitality and leisure, and outsourcing sectors.

A15 Significant judgement is also required where there are contradictory indications regarding principal or agent status. For example, in the fund management industry, a fund manager may only have authority to make decisions within narrowly defined parameters, which is an indicator of agent status. However, controlling investment decisions gives control over the activity that most affects future returns for the fund, and this is an indicator of principal status.

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A16 Despite significant judgement being required, our outreach indicates that judgement can be applied to reach a satisfactory conclusion, so we do not recommend any changes. Our research also indicates that such scenarios do not occur frequently.[8]

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.

A17 Our outreach indicates that applying paragraphs B73 to B75 of IFRS 10 enables an investor to assess whether control exists because another party is acting as a de facto agent. Our research indicates that such assessments are infrequent.[9]

A18 The most common situation in the UK where an assessment of de facto control is needed is where a parent has two subsidiaries, both of which have an ownership interest in a sub-subsidiary.

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.

A19 Based on our outreach applying the investment entity definition in IFRS 10 paragraph 27 and the typical characteristics of an investment entity in IFRS paragraph 28 leads to consistent outcomes. IFRS 10 B85A's requirement to consider all facts and circumstances when assessing whether an entity is an investment entity supports consistent application. IFRS 10 paragraph B85I further provides specific guidance on prohibited activities of an investment entity and IFRS 10 paragraph B85J provides specific guidance on permitted activities of an investment entity. This guidance further helps consistent outcomes.

[8] In a sample of 16 annual reports for FTSE 250 entities selected from sectors where we understand the assessment of a relationship to decide whether the investor is acting as a principal or an agent is likely to be more common, we identified 1 entity that had undertaken such an assessment.
[9] In a sample of 16 annual reports for FTSE 250 entities selected from sectors where control arising from another party acting as a de facto agent might be expected to exist, we did not identify entities where this was the case.

A20 In outreach, stakeholders indicated that applying the investment entity criteria[10] and typical characteristics[11] leads to faithful representation. However, some stakeholders observed that it is not unusual for an entity to meet the investment entity criteria but not exhibit the typical characteristics. Some stakeholders observe that limited value disclosures result, since an entity is required to disclose its rationale for concluding that it is an investment entity if it does not exhibit the typical characteristics. We recommend that the IASB reviews the requirement to disclose the rationale for concluding it is an investment entity in the absence of the typical characteristics, even though the criteria are met.

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?

A21 The IASB's rationale for the investment entity consolidation exception was that it is more relevant for investment entities to report fair value performance. Some stakeholders observe that by not consolidating investment entity subsidiaries, there is a loss of information because the extent of the liabilities in subsidiaries is not seen. However, we do not concur with this view as fair value information is more relevant for investment entities. In addition, the disclosure requirements in IFRS 12 paragraph 19A – 19G provide additional relevant information.

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.

A22 Our understanding is that transactions, events or circumstances which alter the relationship between an investor and an investee and which are not addressed in IFRS standards arise infrequently.

[10] IFRS 10 paragraph 27.
[11] IFRS 10 paragraph 28.

A23 Where there is loss of control, carrying the retained interest at fair value provides relevant information because:

a. It facilitates comparison by maintaining consistency with the requirements in IAS 28 *Investments in Associates and Joint Ventures* or IFRS 9 *Financial Instruments*; and

b. The profit or loss recorded on disposal will be more faithfully presented.

A24 We also note the following divergent treatments and recommend that IASB develops principles for a consistent approach:

a. IFRS 10 does not contain guidance on how to determine the value of a non-controlling interest when a subsidiary is partly owned by an associate of the parent. Some preparers determine the value of the non-controlling interest by applying the proportion of shares in the subsidiary not owned directly by the parent to the fair value of the subsidiary's net assets. Other preparers determine the value of the non-controlling interest by applying only the proportion of shares in the subsidiary owned by third party interests in the associate to the fair value of the subsidiary's net assets. We recommend that the first method is mandated as it is a more faithful representation of the non-controlling interest.

b. There is no specific guidance in IFRS 10 for incremental costs directly attributable to changes in ownership interests (i.e. costs in issuing or acquiring equity instruments, for example, regulatory fees). We recommend that to improve consistency and comparability, IFRS 10 should require that direct incremental costs attributable to changes in ownership interest should be deducted from equity. This would be consistent with the requirement in paragraph 37 of IAS 32 *Financial Instruments: Presentation* on other types of transactions in own equity.

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?

A25 Our research and outreach with stakeholders highlighted that there is divergent practice when an investor acquires a controlling interest in an entity that does not constitute a business. Single-asset entities do not meet the definition of a business in IFRS 3 and are frequent in the property, pharmaceutical and wealth management sectors. Our research also indicates that single-asset entities are becoming more common in these sectors.

A26 Divergent practice arises because IFRS 3 paragraph 2 requires acquisitions which do not constitute a business to be accounted for by allocating the consideration paid to identifiable assets and liabilities based on their relative fair values. For an investor applying this approach to a single-asset subsidiary, the consideration would therefore be equal to the fair value of the asset acquired and there would be no goodwill and no non-controlling interest.

A27 However, IFRS 10 requires all subsidiaries to be consolidated. Preparers applying this approach consolidate the single-asset subsidiary, thereby recognising non-controlling interest and recognising goodwill if the consideration exceeds the fair value of the single asset.

A28 We recommend that IASB undertakes a separate project to explore the divergent practice in this area with the aim of improving consistency and comparability and providing faithful representation to these arrangements provides a faithful representation of them.

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?

A29 We observe that collaborative arrangements outside the scope of IFRS 11 are widespread in some sectors. From our initial desk-based review of annual reports we conclude that applying other relevant IFRS standards to these arrangements provides a faithful representation of them.

A30 Our review of a selected sample[12] of six annual reports of FTSE 100 companies in the extractives, utilities, aerospace, oil and gas and beverages sectors, revealed that all had some form of collaborative arrangement outside the scope of IFRS 11. These were predominantly equity holdings where participants exercise significant influence or no significant influence (thereby, no joint control as defined in IFRS 11[13]). Our tentative conclusion is that such collaborative arrangements are widespread within those sectors in the UK.

A31 We are seeking further input from stakeholders on:

a. Whether collaborative arrangements outside the scope of IFRS 11 are widespread.

b. What the common features of any such arrangements are.

A32 Our desk-based review of annual reports suggests that collaborative arrangements that do not meet the definition of joint control and that are structured using a separate vehicle

[12] We chose some of the largest UK companies based on their market capitalisation.
[13] "Joint control" is defined in paragraph 7 of IFRS 11 as: "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".

are common in the mining and extractives industries. For example, we identified examples of collaborative arrangements where no joint control was present which had the following features:

a. Legal structure of a joint venture, but decisions over financial and operating decisions are made by 'simple majority' rather than by unanimous agreement between the parties; and

b. Parties have collective control, but decisions are determined on an aggregate voting interest that could be achieved by several combinations of the parties (thus making difficult the identification of a single combination of parties jointly controlling the arrangement).

A33 From our review of annual reports we were unable to identify specific features of collaborative arrangements structured in separate vehicles (apart from the fact that these arrangements do not meet the definition of joint control). However, our outreach suggests that the objective of these arrangements is similar to that of other joint arrangements. For instance, parties in the collaborative arrangements:

a. Share the risks and costs associated with a particular project or to bring in specialist skills, expertise or knowledge;

b. Share responsibility for the activities of a collaborative arrangement, or even a primary (or shared) responsibility for certain activities (i.e. to operate a facility or a piece of equipment); and

c. May either have an active participation (for example by directing and carrying out the activities included in the arrangement) or a more passive role. For example, a local government may act as an active participant when local regulations require the government to hold a share in the collaboration agreement[14].

A34 Our review of annual reports revealed that interests in collaborative arrangements outside the scope of IFRS 11 are accounted for by applying the relevant IFRS Standards. Consequently, if participants in an arrangement:

a. Hold an equity interest, they may account for that interest using equity accounting in accordance with IAS 28 *Investments in Associates and Joint Ventures* or fair value accounting in accordance with IFRS 9 *Financial Instruments*.

b. Do not hold an equity interest or are participating in a joint operation but do not have joint control they would apply the relevant IFRS Standards to account for their share or interest.

[14] Our review of one UK aerospace company's annual report showed that the UK government has held alliances or partnerships with the private sector, for example, in building vessels.

A35 We observe that applying relevant IFRS Standards faithfully represents the economic substance of collaborative arrangements. This is because the requirements in those Standards prompt entities to analyse the rights and obligations arising from each collaborative arrangement and apply the principles of each IFRS Standard to each one of its arrangements. For example:

a. Applying IAS 28 provides a faithful representation of an interest in a collaborative arrangement structured through a separate vehicle where a party has no control or joint control over the financial and operating policies of the separate vehicle, by showing that an entity has only the power to participate in those policies.

b. Applying IAS 16 *Property, Plant and Equipment* provides a faithful representation of share in a commonly-owned asset where the contractual arrangement does not specify that unanimous consent is required by the parties for using the asset.

c. Applying IFRS 3 *Business Combinations* provides a faithful representation of an interest in an arrangement that is a business where one of the parties has control over the rights to the net assets[15].

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??

A36 Our stakeholder outreach indicated that the assessment of 'other facts and circumstances' using the guidance in IFRS 11 paragraphs B31[16] and B32[17] occurs frequently where there are complex joint arrangements structured through separate vehicles. Such arrangements are commonplace in the extractives, telecoms, and pharmaceuticals sectors. Companies consider this guidance useful:

[15] IFRS 11paragraph B33A states that 'When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in this IFRS and disclose the information required by those IFRSs in relation to business combinations.'

[16] Paragraph B31 states that "when the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the economic benefits of the assets of the arrangement. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties".

[17] Paragraph B32 states that "the effect of an arrangement with such a design and purpose is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their purchases of the output. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangements".

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a. In situations where the terms of the contractual arrangements do not specify the parties' rights to the assets and obligations; and

b. To identify whether, despite the legal form and contractual terms suggesting that a joint arrangement may be a joint venture, other facts and circumstances may indicate that the arrangement is in fact a joint operation.

A37 This was further confirmed by our review of a selected sample of six annual reports for FTSE 100 entities.[18] . From the six annual reports, two referred to the guidance in IFRS 11 on 'other facts and circumstances' when determining the classification of their joint arrangements; one of these companies also referred to the evaluation of particular facts and circumstances derived from their own contractual relationships with other entities.

A38 Some stakeholders are concerned that the guidance in IFRS 11 paragraphs B31– B32 is not detailed enough, resulting in extensive discussions amongst auditors and preparers to agree on the facts and circumstances to be considered when assessing joint arrangements. This has led them to seek additional explanatory material from different sources[19].

A39 These stakeholders suggest that the guidance in IFRS 11 paragraphs B31–B32 is supplemented with:

a. Some of the explanatory material issued by the IFRS Interpretations Committee. For example, explaining that:

   i. the assessment of other facts and circumstances should consider whether those facts and circumstances create enforceable rights to assets and obligations for liabilities;

   ii. the sale of output from the joint arrangement to the parties at market price, on its own, is not a determinative factor for the classification of a joint arrangement;

   iii. third-party financing alone would not affect the classification of the joint arrangement;

   iv. the nature of the output (i.e. fungible or bespoke) does not determine the classification of a joint arrangement; and

   v. the basis for determining whether the parties to the joint arrangement are taking 'substantially all of the output' is the monetary value of the output, instead of physical quantities.

[18] The annual reports were from the extractives, utilities, aerospace and beverages sectors.

[19] For example: a) Application/illustrative examples in IFRS 11; b) March 2015 agenda decision issued by the IFRS Interpretations Committee on the assessment of 'other facts and circumstances' 3; and c) Additional views from accounting firm manuals

b. The analysis of additional fact patterns addressing for example:

    i. the provision of guarantees (or commitments to provide a guarantee) to third parties to joint arrangements;

    ii. the provision of cash flows through a series of cash calls throughout the arrangement; or

    iii. situations where a party has a call option (for example if the party is contributing an asset) and how this fact should be considered in evaluating whether a party has rights to the assets and obligations to the liabilities.

A40 However, we do not support adding more guidance to IFRS 11 for the following reasons:

a. First, we observe that the guidance in IFRS 11 paragraphs B31– B32 is principles-based and establishes a key requirement: to consider the 'purpose and design' of a joint arrangement. This requires entities to consider whether the joint arrangement:

    i. gives parties rights to substantially all of the economic benefits of the assets; and

    ii. depends on the parties on a continuous basis for settling its liabilities.

    In addition, IFRS 11 paragraphs B31– B32 mention some indicators that would lead an entity to conclude that both criteria (above) are met. These are that:

    i. the activities are primarily designed for the provision of output to the parties; and

    ii. the parties are substantially the only source of cash flows.

b. Second, the conclusions reached by the IFRS Interpretations Committee merely confirm the application of the criteria in IFRS 11 paragraphs B31– B32, and, while they address different fact patterns, no new principles or criteria are added.

c. Third, adding more explanatory material would reduce the use of judgement required by IFRS 11.

d. Fourth, in our view the guidance in IFRS 11 paragraphs B31– B32 is not meant to be exhaustive and consequently judgement is needed to conclude that a joint arrangement should be classified as a joint operation.

e. Fifth, it would not be practical for the IASB to identify all possible indicators that a joint arrangement is a joint operation. In our view, if accounting standards become more prescriptive and detailed, applying them to the to the specific features associated with complex joint arrangements will be less likely to provide a faithful representation.

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.

A41 Applying the requirements in IFRS 11 enables a joint operator to report in a relevant and faithful manner its assets, liabilities, revenue and expenses. This is because the accounting for joint arrangements reflects the substance of the rights and obligations that parties have in the arrangement as a result of their interests in the arrangements, regardless of those arrangements' structure or legal form[20].

a. However, some of our stakeholders observe that when accounting for a joint operator's interest in a joint operation, the meaning of 'share' in IFRS 11 paragraph 20[21] is unclear. This is the case, for example, in situations where:

i. the rights and obligations of a joint operator, as specified in the contractual arrangement, differ from its ownership interest in the joint operation; or

ii. when a joint operator, acting as the manager of a joint operation has a direct legal liability for the *entire* balance of specific liabilities in a joint operation (and not just for its 'share').

b. However we disagree that the term 'share' is unclear in the situations observed, because IFRS 11 paragraph BC38 makes it clear that the contractual arrangement is the basis for recognition and measurement, rather than basing this recognition on the ownership interest that the entity has in the joint operation. Furthermore, IFRS 11 paragraph B26 states that when there is a conflict or inconsistency between rights and obligations in contractual arrangements and those conferred by the legal form, 'the parties use the contractual arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured an entity.'

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)?

20 However, we note that when the legal form of the separate vehicle does not confer separation between the parties and the vehicle, the joint arrangement is a joint operation in accordance with IFRS 11 paragraph B24.

21 IFRS 11 paragraph 20 requires (emphasis added) the recognition of a joint operator's assets, liabilities and expenses including its *share* of any assets, liabilities and expenses incurred jointly. It also requires the recognition of its revenue from the sale of its *share* of the output arising from the joint operation and from its *share* of the revenue from the sale of the output by the joint operation.

(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.

(a)

A42 Our outreach indicated that that the IFRS 12 disclosure requirements assist an entity to meet the objective of IFRS 12.

(b)

Additional guidance on aggregation/disaggregation

A43 We agree with the principle in paragraph B2 of IFRS 12 that allows entities to judge the level of detail required in the disclosures to satisfy the needs of users. However, users observe that the level of detail varies amongst entities. Whilst some entities provide highly aggregated information others provide highly detailed information that is irrelevant. We recommend that the IASB develops further guidance that would help entities disclose information at the level of detail that would meet users' needs. This guidance could be developed in the form of principles of aggregation and disaggregation as part of the IASB's Primary Financial Statements project.

(c)

A44 We are seeking stakeholder input on some areas identified by users where additional disclosures would be useful for their analysis. These areas are described below.

Additional disclosures about subsidiaries with material non-controlling interests

A45 Users agree with the requirement in IFRS 12 paragraph B10 to disclose specific information for each subsidiary that has material non-controlling interests (NCIs). However, they think that more information is needed in this respect, particularly to explain the composition of the material NCIs. For example, users think that it would be useful if the IASB requires the reporting entity to:

a. Indicate which subsidiaries the material NCI relates to.

b. Disclose the proportionate share of operating cash flows attributable to material NCIs.

c. Provide more disaggregated information of assets and liabilities held by subsidiaries with material NCIs.

d. Provide more information on significant restrictions on paying dividends, dividend traps, the tax consequences of distributions and the subordination of debt in subsidiaries.

Additional information for immaterial associates and joint ventures (which are material in the aggregate)

A46 IFRS 12 paragraphs B12–B13 requires an entity to disclose information for material joint ventures and associates. IFRS 12 paragraph B16 requires an entity to disclose, in the aggregate, more simplified information for immaterial joint ventures and associates.

A47 Some users note that some individually immaterial joint ventures and associates could be material in the aggregate and think that in these cases the disclosures for these immaterial associates and joint ventures should be as detailed as those required for material associates and joint ventures. Consequently, they believe the IASB could consider developing additional disclosure requirements that could be based on the information required for material joint ventures and associates[22].

Require specific components in the reconciliation for material joint ventures and associates

A48 IFRS 12 paragraph B14(b) requires a reconciliation between the summarised financial information (of each joint venture and associate that is material to the reporting entity) and the carrying amount of a reporting entity's interest in the joint venture or associate.

A49 Users observe that IFRS 12 does not specify the components that should be included in this reconciliation, and as a consequence, entities may not provide enough information in this reconciliation and may disclose only selected components that are not meaningful or material to users of financial statements.

A50 Some users think that to overcome this problem, the IASB could require, for example, the disclosure of any particular adjustments made by the entity at the time of acquisition or of any adjustments for differences in accounting policies when using the equity method[23], such as goodwill and other fair value adjustments.

Additional information for material associates and joint ventures

A51 Users agree with the requirements in IFRS 12 paragraphs B12 and B13 to disclose specific information for material associates and joint ventures as this information is useful. However, they think that the IASB could require in addition, the disclosure of:

a. contingent liabilities;

b. information about loss-making associates;

[22] As described in IFRS 12 paragraphs B12–B14.
[23] In accordance with IFRS 12 paragraph B14(a).

c. debts owed by associates or joint ventures;

d. information to enable analysts to forecast dividend cash flow from the equity-accounted investees;

e. more disaggregated information on assets and liabilities; and

f. information on put options held by parties in a joint venture.

Interaction of joint ventures and associates with IFRS 8 Operating Segments

A52 IFRS 8 requires the disclosure of specific items for each reportable segment (if such amounts are regularly provided to or reviewed by the chief operating decision maker)[24] and the reconciliation of segment disclosures to the financial statements[25]. Some of the items required to be disclosed for each reportable segment are:

a. The entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;[26] and

b. The amount of investment in associates and joint ventures accounted for by the equity method[27].

A53 Some users observe that some reporting entities combine in a segment disclosure note, information about the entity's consolidated results (i.e. revenue and net profit or loss) along with information about the reporting entity's share in their material joint ventures and associates (i.e. the entity's share in the revenue and results of its material joint ventures and associates[28]). They think that this disclosure would be helpful to identify joint ventures and associates that are material for segment information purposes. Consequently, they think that the IASB could consider requiring this segment disclosure note.

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.

A54 Initial feedback received indicates that:

a. There is significant interaction between both IFRS 16 *Leases* and IFRS 15 *Revenue from Contracts with Customers* and IFRS 11 *Joint Arrangements*.

[24] As described in IFRS 8 paragraph 23.
[25] As described in IFRS 8 paragraph 28.
[26] As required by IFRS 8 paragraph 23(g).
[27] As required by IFRS 8 paragraph 24(a).
[28] This information is derived from the summarised information disclosed for material joint ventures and associates required in IFRS 12 paragraph B12. For example, paragraph B12(vi) requires the reporting entity to disclose for each material joint venture, the joint venture's profit or loss from continuing operations.

b. Further guidance and/or illustrative examples may be needed to clarify that interaction.

A55 Stakeholders observe that the contractual terms of joint operations often provide a joint operator with a right-of-use asset as defined in IFRS 16[29], rather than a right to share the asset itself. For example, this occurs where a joint operator enters into a lease contract for an asset that will be operated jointly as part the joint operation's activities.

A56 Since IFRS 11 illustrates the recognition of the joint operator's share of assets[30] rather than the recognition of its share of its right to use an asset, stakeholders have sought:

a. Additional guidance in IFRS 11 (for example derived from paragraph B11 of IFRS 16[31])

b. Additional explanatory material. For example, the IFRS Interpretations Committee March 2019 agenda decision analysed a submission about the recognition of lease liabilities by a party to an unincorporated joint operation when applying IFRS 11.

A57 Stakeholders observe that understanding the interaction between IFRS 11 and IFRS 16 involves several considerations before joint operators can recognise their share of lease assets or lease liabilities in accordance with IFRS 11 paragraph 20. These considerations include, for example, identifying the customer and identifying who obtains the right to control or the right to use the asset. Further guidance and/or illustrative examples in IFRS 11 would be helpful to better understand this interaction.

A58 Initial feedback received also suggests a close interaction between IFRS 11 and IFRS 15, because a joint arrangement as defined in IFRS 11 could also be within the scope of IFRS 15 if the collaborator or partner meets the definition of a customer under the terms of the arrangement. Accordingly, further guidance and/or illustrative examples would be useful to clarify this interaction.

A59 We would like to seek further stakeholder input to identify any significant interactions of IFRS 10 and IFRS 11 and other IFRS Standards that are relevant to this post-implementation review.

[29] A right-of-use asset is an asset that represents a lessee's right to use an underlying asset for the lease term (Appendix A – Defined terms - IFRS 16).

[30] Paragraph 21 of IFRS 11 requires a joint operator to "account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses". IFRS 11 Example 5 (Illustrative Examples section) provides an example where the parties recognise their own share of assets, liabilities, revenue and expenses resulting from the arrangement.

[31] Paragraph B11 of IFRS 16 states that in certain circumstances "…the joint arrangement is considered to be the customer in the contract" and the assessment of whether the arrangement contains a lease depends on "whether the joint arrangement has the right to control the use of an identified asset throughout the period of use".