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IFRS Foundation
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Comments on “Post-Implementation Review of IFRS 10, IFRS 11, and IFRS 12”

Dear Sir/Madam,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the “Post-Implementation Review of IFRS 10, IFRS 11, and IFRS 12”. Principal authors of this comment letter were Leopold Fischl, Christian Groß, and Gerhard Prachner. In order to ensure a balanced Austrian view on the consultation, the professional background of these authors is diverse.

Best regards,
Romuald Bertl
Chairman

GENERAL COMMENTS

In general, we think that the requirements in IFRS 10, 11 and 12 provide a sound conceptual basis and do not lead to major application problems in practice. From our perspective, the issues, where we occasionally identified potential for improvement, could be solved by adding more specific examples/guidance to the standards. We also think that the current disclosure requirements strike a good balance between the costs and efforts of the preparers and the information demand of the users. More detailed remarks can be found below.

SPECIFIC COMMENTS

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.

AFRAC acts as the Austrian accounting standard setter. In order to assure a balanced Austrian view on the consultation, the professional background of the authors for each comment letter is diverse. In this case, the comment letter was prepared by two auditors and one preparer. Following the standard due process, it was then approved by the whole committee.

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?**

We agree with the comments of some stakeholders that it can be difficult to identify the relevant activities, i.e. the activities that significantly affect the investee's returns. From our point of view, this is particularly true for (admittedly rare) cases, in which two or more shareholders have the ability to direct different activities and where those activities can become the relevant activities under different circumstances. If one shareholder, e.g., has the authority concerning financing and investment decisions, while another shareholder directs operating decisions, once the major financing and investment decisions were made, it may be difficult to determine the shareholder, who directs the "most relevant activities". We think that it could be useful to add some examples to the standard in which the fact patterns are more ambiguous concerning these matters (compared to the examples that are already included).

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?**

Again, we agree with those stakeholders that at times found it difficult to differentiate between protective rights and substantive rights. We observed such problems particularly in cases including an extended period between the signing and the closing date of a business combination. In such cases, it may be possible that neither party has the ability to direct, since the acquiring party holds rights that could be classified either as substantive or as protective rights and the selling party's rights are already restricted.

Concerning the question, whether and to what extent, rights can be deemed substantive, we find that the examples in IFRS 10 are often too straight and too narrow in scope. In particular, we find that these examples are better suitable for assessing control over listed firms of a considerable size, while they sometimes do not fit well to cases of smaller firms.

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?**

Similar to our answer to question 2 (b), we find that examples with more ambiguous fact patterns should be added to IFRS 10 to assess whether or not an investor, which does not hold a majority of the voting rights, may have control over an investee.

In practice cases with uncertain outcomes are not occurring frequently, however, they exist.

For us another question is more relevant than the cost of obtaining information. This is, whether or not the past practice of voting outcomes at shareholders' meetings is a relevant indicator for assessing control over the investee prospectively. From our point of view, this focus on empirical data from the past is diametrically opposed to the general idea in IFRS 10 that control is based on the *ability to direct*, not on the past history of relevant decisions. For example, it is not guaranteed that several shareholders holding smaller shares, that had not organized themselves in the history, will or will not organize themselves in the future, particularly, if critical decisions that have not occurred in the past will have to be made.

We think that a rebuttable presumption could be introduced to ease the practical assessment of control being present or not.

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?**

In our experience, situations where agency relationships are relevant for the assessment of power over an investee are rare. We are not aware of any problems that occur frequently in this context.

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.**

Again, similar to our answer to question 3 (a), we are not aware of any problems that would occur frequently in this context. However, we think that assessing control in the case described in IFRS 10.B75 (e) may be relevant and difficult in practice, i.e. an investee where the majority of the members of its governing body or where its key management personnel is the same as those of the investor.

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.**

Concerning the definition of investment entities we are not aware of any problems that would occur frequently in practice.

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?**

From our point of view, requiring an investment entity to measure at fair value its investment in a subsidiary that is an investment entity itself may result in a loss of information, if there are major compensating effects regarding the fair value of sub-subsidiaries. In such cases, we think that a more faithful representation could be achieved, if the overall parent company presents the fair value of sub-subsidiaries separately and, hence, looks through the investment in the subsidiary that is an investment entity itself. However, we have not seen many cases in

practice, where such questions arise.

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.**

From our point of view, transactions that alter the relationship between an investor and investee (e.g., changes from being a parent to being a joint operator or to holding a share that is to be accounted for using the equity-method) do occur relatively frequently in practice. Since there is a difference between controlling an investee (also in its accounting methods) and acting as a joint operator or only having significant influence over an investee, we think that the current requirement to remeasure the retained interest at fair value can be seen as an appropriate method of accounting for the change. However, we also understand the alternative view that a remeasurement is not needed or even is not appropriate, because, considered in isolation, retained interest did not change.

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?**

With respect to this question, we think that – even though we would solve the discrepancies as described below – the requirements (IFRS 3 combined with IFRS 10) could be clearer.

From our point of view, the requirement to recognise non-controlling interest stems from IFRS 10.22 ff. Thus, even though a purchase of shares may not be within the scope of IFRS 3 and may be classified as an acquisition of an asset or a group of assets that does not constitute a business, we are convinced that a non-controlling interest should be presented. If a non-controlling interest were not presented, this would, from our perspective, disguise the origins of the underlying transaction and would lead to values for identified assets that are inconsistent with the measurement of identical assets that are not linked to minority shareholders.

Question 6

In your experience:

- (i) 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.**

- (ii) **how do entities that apply IFRS Standards account for such collaborative arrangements? Is the accounting a faithful representation of the arrangement and why?**

In practice, we do not see many cases, where the application of requirements in IFRS 11 causes major problems. However, we acknowledge that in cases where some parties are participating in an arrangement similar to a joint operation, however, with no joint control, a more widespread application of the methods linked to joint operations could lead to a more faithful representation.

Question 7

In your experience:

- (i) **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?**
- (ii) **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?**

In assessing whether a joint arrangement is a joint operation or a joint venture, the corporate form (e.g. whether the joint arrangement has the legal structure of a limited liability company) in combination with the shareholder agreements frequently determine the outcome. Hence, in general, other facts and circumstances need to be considered mainly, if the joint arrangement has the legal structure of a private unlimited liability entity. However, in our experience, such cases are the exception, when determining the nature of the joint arrangement. For such cases, we think that the guidance in IFRS 11.B29–B32 is sufficient.

Question 8

In your experience:

- (i) **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?**
- (ii) **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.**

From our point of view, applying the requirements in IFRS 11 leads to a faithful representation.

Question 9

In your experience:

- (i) **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)?**
- (ii) **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?**
- (iii) **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.**

- (iv) **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.**

In general, we think that the disclosure requirements in IFRS 12 provide useful information. If the IASB considers to add other disclosure requirements, we think that it is important to keep the balance between the costs and efforts of the preparers and the information demand of users.

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.

No, we think that all relevant questions have been addressed in the Request for Information.