Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

IASB
Columbus Building
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Canary Wharf
London
UK

May 10, 2021

Ref: PIR IFRS 10-11& 12

Dear Mr Hoogervorst,

We are pleased to comment on this post implementation review since we strongly support such step in the standard setting process.

If you require any further explanation of the above, please do not hesitate to contact us.

Yours sincerely,

ACTEO

Lise CHORQUES

IFRS 10 Consolidated Financial Statements

This standard is now well understood and applied by our constituents. It offers an appropriate balance between detailed application guidance (and illustrative examples) and room for judgement. In most cases, this standard allows entities to present relevant financial information.

We are aware, however, that in some cases the implementation is not straightforward, but this is often due to the complexity of the investment relationships rather than to the standard itself. We therefore do not think that there is a need for more guidance other than in certain cases, which are developed below.

Concerning the use of thresholds, we are generally not in favour of their introduction in the standard. This should remain principle based even though some preparers may apply thresholds as a filter internally to facilitate the processing of a large volume of investments.

Finally, we think that the most complex application issue of this standard may be the continual assessment of control and the frequent alternating consolidation / non consolidation" treatment that could result from it.

- **Control—Power over an investee**

  We agree with the difficulty as described in the consultation document when "relevant activities" occur at different times and the contribution of each activity to the investee's performance changes over time. In these situations, we wonder if we have to make a once-and-for-all determination on the first day of the taking of power by the investing entity considering the whole life of the investment (by weighting different activities within their respective lapses of time) or if we should assess power on a continuing basis for each period, with the consequence of this leading to frequent changes in the consolidation perimeter for the entity. We therefore believe that the Board could clarify this aspect of the standard.

  We also note that it might be difficult to identify, among several relevant activities, those that are the most relevant, and how to weight the decisions that are identified as the most relevant.

- **Protecting rights**

  Some of our constituents believe that some additional illustrative examples about contractual deadlock terms could be useful to help understanding of the role they should play in the overall assessment.

- **The link between power and returns—Principals and agents**

  In certain activities (Banking, for example), when the entity holds an interest and is also acting as a fund manager with variable performance fees, the assessment can be complex. Entities concerned have implemented internal procedures often based on thresholds to facilitate analysis of a large portfolio of investments. This does not mean however that the Board should introduce thresholds in the standard because at the end of the day, entities can always use judgement for specific cases. The critical issue with these cases, is more the outcome and the relevance of financial information in certain situations. Indeed, with sometimes a low ownership interest in an investment (less than 25%) and therefore a low level of exposure, the entity may conclude that it controls the investments and therefore presents all assets and liabilities of this investment as if it was 100% exposed whereas this does not reflect the asset management business model (which is to manage assets for investors) in this case. These provisions of the standard on performance exposure and agent / principal status may be taken to the extreme in certain cases.

- **Accounting requirements**

We understand that the Board has defined a core principle in developing IFRS 10 and has no obvious intention to change it: variation of an interest leading to a gain of control generates an impact in P&L, whereas a reduction of interest without loss of control does not. However, we wonder if these outcomes are relevant in all cases:

- For corporate entities in the instance of a major acquisition/disposal of interests, this principle could generate outcomes that the management considers to be non-intuitive because they are not correlated with movements in cash. Nonetheless, because such transactions are well identified and relatively infrequent, the entity can use narrative or other means to reflect its own understanding of the transaction.

  However, for other kinds of entity, such as insurance, those transactions can be very frequent and fully integrated in their whole policy of optimising benefits for customers. The current principle in IFRS 10 prevents the recognition of impacts of changes in ownership interest in P&L and therefore creates mismatches which distort performance.
  More broadly, we might also question the treatment in equity of changes in ownership interest in a controlled subsidiary that is not a business (see the discussion below about such investments).

- When an entity gains control overs an investment that was previously a joint operation, the provisions in IFRS 10 prescribe the revaluation at fair value of assets and liabilities over which the entity already has direct control as a result of its investment in the joint operation. One may question the relevance of this accounting outcome.

- We also note that sometimes an entity can lose control over an investment without any transaction, but only as a consequence of a change in circumstances. We wonder if it is always appropriate to revalue at fair value in this case.

Subsidiaries that do not constitute a business: The document points out one issue relating to such cases, but we believe that the Board should address the whole area (initial gain of control, partial acquisition, partial disposal, etc.) in a comprehensive manner.

IFRS 11 Joint Arrangements

Although we understand that the IASB does not intend to reconsider the use of proportionate consolidation, we are surprised that the IASB has not requested information on the impact of the elimination of this method from IFRS literature. At the time of the development of IFRS 11 this question was of great importance to a large number of preparers, not least among whom were French entities, who used it extensively.

We remain convinced that the new standard, as drafted and applied today, has led to a loss of much useful and relevant information. In fact, in France, almost all joint arrangements are deemed to be joint ventures with only very few arrangements that meet the criteria to be accounted as for joint operations. Despite all the possibilities provided for by the standard to analyse the facts and circumstances beyond the legal form, it is almost impossible to go beyond the legal form in the French context. We would therefore be very interested in the feedback obtained from other jurisdictions and would be in favour of discussing concrete examples with the Board to see how improve the standard.

Since our members are international companies, we also note that the qualification as a joint operation is also very complex in many other jurisdictions, leading to a lot of relevant information lacking in primary financial statements. We think that is not acceptable to fix this issue by requiring additional disclosures. We note that the IASB itself seems to conclude that some information is missing since it appears to be trying to compensate for this either by disclosures (IFRS 12) or by presentation (according to the latest proposals in the financial statements project). The introduction of the notion of “integral associates / joint ventures” in the latter project indicates that the problem of the lack of information about such activities is not just restricted to French companies. We therefore will not dwell on what information related to performance or financial position is currently missing for sectors / activities that are essentially based on this type of agreement but would just add that the provision of such additional information can be a significant burden and really do not represent anything other than a stop-gap solution pending a long-term and satisfactory approach. As a consequence, some preparers have stopped providing information on performance which is not specifically required by IFRS 12.

Finally, while we believe that today everyone is well aware of sectors strongly affected by the lack of information induced by the equity method, we would like to draw your attention to the growing importance that this phenomenon will take owing to the global movement towards sustainable development. In fact, to achieve their carbon neutrality objectives, entities will have to enter into numerous partnerships because they do not always have all the necessary technology. With a too limited scope of that application of joint operation, entire sections of investments and sustainable activities will not be visible, either in financial or in extra-financial reports. At worst, this lack of visibility could deter some companies from investing in those activities.

On the subject of the accounting requirements for joint operations, we note that it can be quite complex and challenging to implement the requirements for joint operations when there is a disconnection between the share of ownership and the share of jointly-held assets and jointly-incurred liabilities; This raises the question of the treatment of the differential but also leads to variations over time which are complicated to incorporate in the reporting systems. We therefore wonder if an accounting requirement more aligned with the previous proportionate accounting would be easier to implement with a better cost/ benefit balance.

We also note that the standard is not sufficiently clear to enable entities to determine the appropriate accounting treatment in the case of changes in ownership interest and/or direct rights and obligations.

IFRS 12 Disclosure of Interests in Other Entities

We believe that the disclosures currently required by IFRS 12 are sufficient.

We note that in some instances disclosures relating to non-controlling interests may be challenging to provide. This is particularly the case when the subsidiary is itself a listed company and publishes its own financial reporting at a later date than the reporting entity. We think that the standard should be amended to deal with this specific issue by providing relief in the disclosure required.