

10 May 2021

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**Our Response to the Request for Information -**  
**Post-Implementation Review: IFRS 10 Consolidated Financial Statements, IFRS 11**  
**Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities**

The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to provide our response to the Request for Information (RFI) - Post Implementation Review (PIR): IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. This comment letter is based on the feedback that the ASBJ staff received through its outreach with stakeholders in our jurisdiction, and does not represent only the views of the ASBJ on the questions in the RFI.

**(Overview of the outreach)**

The ASBJ staff reached out to stakeholders in our jurisdiction to obtain specific feedback on their experience with applying IFRS 10, IFRS 11 and IFRS 12. Specifically, the ASBJ staff held separate meetings or made written enquiries with three financial statement users (hereinafter referred to as ‘users’), eight financial statement preparers (hereinafter referred to as ‘preparers’) and the Japanese Institute of Certified Public Accountants (JICPA; hereinafter referred to as ‘auditors’), using a customised questionnaire based on the questions set out in the RFI. Additionally, the ASBJ and its related Technical Committee, both consisting of users, preparers, auditors, and academics, discussed the abovementioned feedback.

**(Key messages from the outreach)**

The key messages the ASBJ staff received from the outreach can be summarised as follows:

**(1) IFRS 10 Consolidated Financial Statements**

Most preparers to whom the ASBJ staff reached out stated that, over all, they did not identify any issues related to the assessment of control in existing IFRS 10 that warrant

amendments to the standard.

However, users stated that remeasuring the retained interests in transactions that result in a loss of control at fair value and remeasuring the existing interests in step acquisitions at fair value do not provide relevant information, because such accounting does not represent the economic substance of the transaction. Preparers held diverse views, mainly due to the different perspectives on their involvement with their subsidiaries and associates:

- Investments in associates and subsidiaries are not simply investments held for the purposes of expecting increases in value of such investments (financial investments). Rather, investments in associates and subsidiaries are held for the purposes of conducting business activities through the involvement in the investees and to achieve results from such involvement (business investments). The nature of the investment does not change when control is lost and a subsidiary becomes an associate and, therefore, measuring the retained interests at fair value as if the nature of the investment had changed, does not provide relevant information.
- Involvement in subsidiaries and involvement in associates are different, and remeasuring the retained interest as a result of the change in involvement due to the loss of control provides relevant information.

Regardless of the view taken above, preparers stated that the gain or loss resulting from the remeasurement is treated separately from profit or loss from ordinary activities as a one-off gain or loss.

Please refer to paragraphs 2 to 23 of this comment letter for details.

## **(2) IFRS 11 *Joint Arrangements***

Most preparers to whom the ASBJ staff reached out stated that, over all, they did not identify any issues related to the classification of joint arrangements or the accounting requirements for joint operations in existing IFRS 11 that warrant amendments to the standard.

Please refer to paragraphs 24 to 28 of this comment letter for details.

## **(3) IFRS 12 *Disclosure of Interests in Other Entities***

Users to whom the ASBJ staff reached out requested information in addition to the existing disclosure requirements, such as the total amount of dividends received from the equity method investees.

Most preparers to whom the ASBJ staff reached out questioned the usefulness of the

information compared to the costs they incur to comply with existing disclosure requirements, for example, the disclosures of interests in unconsolidated structured entities.

Please refer to paragraphs 29 to 36 of this comment letter for details.

#### **(4) Equity method of accounting**

The ASBJ is aware that the equity method of accounting is not included in the scope of the RFI. However, when an investee is classified as a joint venture in accordance with IFRS 11, which is the subject of the RFI, the equity method of accounting is applied. Accordingly, in our outreach we obtained views on the equity method accounting.

Most of those we reached out to did not ask for significant changes from existing guidance, but highlighted the practical issues that cannot be resolved under existing guidance because such guidance did not provide a conceptual basis regarding the nature of the equity method accounting, that is, whether it is a one-line consolidation or a measurement basis. Such practical issues included the accounting for impairment of equity method investments.

Given that most constituents did not ask for significant changes from existing guidance, we do not think a fundamental reconsideration of the equity method of accounting is needed. In addition, we do not think that the equity method of accounting is purely a one-line consolidation nor purely a measurement basis. Rather, we think that even though the equity method of accounting has both aspects, existing guidance is unclear as to when to focus on which aspect and thus has resulted in a number of practical issues. Accordingly, we think by clarifying when to focus on which aspect, many, if not all, of the specific practical issues can be resolved.

Constituents in our jurisdictions are concerned with the IASB addressing individual issues without having conceptual discussions. One example would be the IASB's proposal in the Exposure Draft *General Presentation and Disclosures* to present the profit or loss from “integral associates and joint ventures” and from “non-integral associates and joint ventures” separately.

Based on the above, we suggest that the IASB maintain the major requirements related to the equity method of accounting. At the same time, we suggest that the IASB undertake a project to develop principles that would clarify when to focus on the one-line consolidation aspect and when to focus on the measurement basis aspect, in order to resolve the practical issues that were identified by constituents in our jurisdiction, such as the accounting for impairment.

Please refer to paragraphs 37 to 44 of this comment letter for details.

In our outreach, we received useful information regarding the various experiences from auditors. However, in light of avoiding duplication, we decided not to include specific comments from auditors to the extent that similar views have been expressed by preparers.

We hope our response is helpful for the IASB to assess whether the IFRS Standards for group accounting have been implemented effectively and efficiently, and what changes could be helpful to improve the quality of financial information prepared in accordance with IFRS Standards. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Kogasaka', written in a cursive style.

Atsushi Kogasaka  
Chair

Accounting Standards Board of Japan

## **Comments on Specific Questions in the RFI**

### **Information about the respondent**

#### **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.

1. Our responses to the above questions are as follows:

(a): Accounting standard setter (As stated in the cover letter, it should be noted that this comment letter does not represent only the views of the ASBJ on the questions, but includes the feedback the ASBJ staff received through its outreach with stakeholders in our jurisdiction.)

(b): Japan

The following table represents the outreach conducted by the ASBJ staff in preparing this comment letter.

Interviewees	Number of groups or individuals
Users	3
Preparers	8
Auditors	1

- The three users consist of two sell-side equity analysts and one credit analyst. All of these users use financial statements prepared in accordance with IFRS Standards for their analyses.
- 8 preparers consist of trading companies, chemical companies, telecommunications companies and financial institutions that apply IFRS standards.
- Auditors we interviewed were representatives of the Japanese Institute of Certified

Public Accountants (JICPA), which is an organisation of auditors in Japan.

## **IFRS 10 Consolidated Financial Statements**

### **Question 2(a) — Relevant activities**

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?

### **(Identification of the relevant activities)**

- 2. Preparers commented that identifying the relevant activities in determining the scope of the consolidation has not been an issue or that such situations were rare.
- 3. One preparer and auditors commented that difficulties in identifying the relevant activities may arise in the following cases, but the difficulties are not significant enough to warrant amendments to the standard:
  - (1) There is more than one relevant activity.
  - (2) A special-purpose entity (SPE) holds only bonds held to maturity.
  - (3) In assessing whether an arrangement is a joint arrangement and who control the entity, two parties to an arrangement identify different activities as the relevant activities.
- 4. On the other hand, other preparers suggested adding new examples and improving existing examples:
  - (1) Identifying the relevant activities (a) when an arrangement is considered to have no relevant activities (index-linked funds and auto pilot SPEs) and (b) when the activities that affect only limited returns relative to the overall returns are identified as the relevant activities may be challenging and thus new examples should be added.
  - (2) When there is more than one activity (the approval of the business plan, the approval of dividend payment, or the approval of the investment or loan), determining which activities most significantly affect the investee's returns may be challenging and thus new examples should be added to illustrate how to make that

determination. In addition, existing examples should be improved to illustrate how the determination was made.

**Question 2(b) — Rights that give an investor power**

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?

**(Determining whether an investor's rights are protective and substantive)**

5. Regarding the determination of whether an investor's rights are protective and substantive, preparers noted the following:

- (1) Whether the rights are protective is not questioned in most cases because protective rights arise only in limited circumstances. The requirements in IFRS 10 provide guidance for assessing whether a right is substantive.
- (2) The meaning of 'fundamental changes to the activities of an investee' in the assessment of protective rights in paragraph B26 of IFRS 10 is unclear, which may lead to diversity in judgment among the investors. Protective rights are viewed as those that contribute to protecting the interests of the investors.

**Question 2(c) — Control without a majority of the voting rights**

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?

6. Preparers commented on the assessment of control when the entity does not hold a majority of the voting rights as follows:

- (1) In situations where the other shareholdings are widely dispersed, the ratio of voting

rights at shareholders' meetings is used to determine whether the entity has effective control. However, this has not been an issue when assessing the power over the investee.

- (2) The factors set out in paragraphs B42(a) to (c) of IFRS 10 and the examples alone may lead to inconsistent judgments because the specific assessment guidelines are unclear. For example, it is unclear how widely the other holders of voting rights need to be dispersed to be sufficient to determine that the entity has power, and it is unclear at what point in time or for what period the entity should refer to the historical voting patterns.
- (3) Monitoring for the reassessment is quite costly as it requires the assessment of the relative size of the holding for each investment.

Question 3(a) — Principals and agents
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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?

7. Preparers commented that whether an investor is a principal or an agent has not been an issue or that such situations were rare. On the other hand, one preparer noted the following:

- (1) When the asset manager and the investors in the fund belong to the same entity and, based on the size of the return, the decision-maker would be determined to be the principal but other parties have the right to remove the asset manager in proportion to their interests, paragraph B65 of IFRS 10 alone is not clear to determine whether the size of the return or the removal rights should be given priority.
- (2) Fixed and performance-based remuneration as an asset manager is difficult to consider in determining whether a party is a principal or an agent because the fund manager's proportion of economic involvement would vary.



Question 3(b) — Non-contractual agency relationships

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.

- 8. Preparers did not express any specific comments on the assessment of control based on the determination of the de facto agent.
- 9. Auditors stated that paragraph B75 of IFRS 10 provides examples of parties that might act as de facto agents, but paragraphs B73 and B74 of IFRS 10 do not provide principles for determining when a party is considered to be a de facto agent, and the guidance is insufficient compared to other issues. Adding principles and specific guidance may reduce diversity in practice.

Question 4(a) — Criteria for identifying an investment entity

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.

- 10. No specific comments were received on the criteria for identifying an investment entity.

Question 4(b) — Subsidiaries that are investment entities

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?

11. No specific comments were received on the usefulness of the information on requiring an investment entity to measure its investments in a subsidiary at fair value. However, a user and a preparer requested the following amendments to IFRS 10 when a parent entity that is not an investment entity has a subsidiary that is an investment entity.

- (1) When a non-investment entity parent holds an investment entity subsidiary who also has subsidiaries (sub-subsidiaries), and if the investment in the sub-subsidiary is held for trading, fair value measurement of the sub-subsidiary, rather than consolidation, reflects economic substance.
- (2) When an investment entity subsidiary invests in a manufacturing entity to earn capital gains and the investee is determined to be a subsidiary (sub-subsidiary), the consolidated financial statements of the non-investment entity parent may be misleading because they would be presented as if the parent company operated a manufacturing business. Therefore, the requirement not to retain fair value measurement of an investment entity subsidiary impairs the usefulness of information. The optional application of IFRS 9 *Financial Instruments* should be considered as in the exemption from the application of the equity method to an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities (including investment-linked insurance funds) in IAS 28 *Investments in Associates and Joint Ventures*.

Question 5(a) — Change in the relationship between an investor and an investee

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.

**(Transactions that change the relationship between an investor and an investee that are not addressed in IFRS Standards)**

12. Preparers noted the following:

- (1) There have been no transactions that change the relationship between an investor and an investee that are not addressed in IFRS Standards.
- (2) Accounting for a change from a parent company to a joint operator is not addressed in IFRS Standards, but in this case, the retained interest is considered to be remeasured at fair value.
- (3) Although they have not occurred frequently, transactions that are not addressed in IFRS Standards have occurred, such as changes between a parent company and a joint operator and between a joint operator and a party to a joint operation.
- (4) The retained interest would be remeasured when the change was between a parent company and a joint operator if it constituted a business and the retained interest would not be remeasured if it did not constitute a business. A change between a joint operator and a party to a joint operation would not be remeasured. It would be desirable to develop accounting requirements in IFRS Standards systematically, including the clarification of whether remeasurement would depend on whether the investee constitutes a business.

13. Auditors commented that there is no fixed effective date for the amendment to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), which sets out the accounting for the loss of control over a subsidiary that does not contain a business as a result of a transaction with an entity accounted for using the equity method of accounting. Auditors suggested that the status of these amendments be re-examined.

**(Usefulness of the information on gains or losses arising from interests retained on the loss of control and arising from previously held interests on step acquisitions)**

14. One user noted that the user was comfortable with fair value measurement because the

acquisition of control changes the degree of management involvement, but the information would not be useful unless the assumptions used to determine fair value were disclosed.

15. Other users commented that remeasurement at fair value would not provide relevant information:

- (1) The construct of the transaction, treating it as if all interests were sold at fair value and reacquired departs from the actual economic activity. The construct of the transaction, which is inconsistent with the views of the investors, reduces the usefulness of the profit or loss information.
- (2) Investors consider that the amount of investment required to acquire control through a step acquisition would be the cumulative amount of expenditure. The existing accounting requirement is to remeasure the existing interests when control is obtained. When a gain is recognised from remeasurement and goodwill is recognised, the amount of investment required to acquire control would include amounts that were not actually invested. Accordingly, such information would not contribute to forecasting future performance and is not useful for analysis.
- (3) When an entity elects, at the time of loss of control, to present subsequent changes in fair value in other comprehensive income under IFRS 9 for the retained interest, the gain or loss arising from the remeasurement of that interest to fair value at the time of the loss of control would be recognised in profit or loss rather than in other comprehensive income.

16. On the other hand, preparers held diverse views on the usefulness of the information in remeasuring the retained interest at fair value at the time of loss of control, mainly due to the different perspectives on their involvement with their subsidiaries and associates. Similarly, although it is not the subject of this RFI, preparer held diverse views step acquisitions under IFRS 3.

17. The views of preparers who commented that remeasurement at fair value does not provide relevant information were as follows:

- (1) An investment held through the exercise of significant influence over an associate and an investment held through control of a subsidiary do not differ in the nature of an investment in that the investor holds these interests for the purposes of conducting business activities through the involvement in the investees and to achieve results from such involvement. The nature of the investment does not change when control is lost and a subsidiary becomes an associate and, therefore, measuring the retained interests at fair value as if the nature of the investment had

changed, does not provide relevant information.

- (2) When an entity continues to retain significant influence as an equity method associate after the loss of control, and there is no intention to sell the entity, it would be difficult to say that the remeasurement gain represents the company's performance, and it would also prevent presenting the inherent performance of the entity. For the same reason, remeasurement at fair value of the previously held equity interests in a step acquisition when the associate becomes a subsidiary would not provide the relevant information.
  - (3) As a result of recognising remeasurement gains, the carrying amount of the equity method investment would be increased. That unintentionally exposes the entity to impairment risk after the loss of control, and the profit or loss on equity method investments would not represent the economic substance.
  - (4) It is difficult to appropriately assess the fair value of the retained interests.
18. The views of preparers who commented that remeasurement at fair value provides relevant information were as follows:
- (1) Involvement in subsidiaries and involvement in associates are different. There is a difference between managing the subsidiary as a controlling shareholder in an integrated manner and managing an associate in such a way that an associate contributes to the group's business by exercising significant influence.
  - (2) Therefore, when an involvement in an associate changes to an involvement in a subsidiary, quantitatively confirming the investment outcome resulting from the previous involvement by remeasuring at fair value makes certain sense.
  - (3) Also, the concept of treating the previously held interest as sold and re-acquired at fair value is not uncomfortable.
  - (4) If the previously held interest is not remeasured in a step acquisition, the information would be misleading for the users because the accounting outcome for a one-step acquisition and a multi-step acquisition would be different even though the economic effect of the acquisition (that is, the entity obtaining control) is the same.
19. Regardless of the views taken above, preparers stated that the gain or loss resulting from the remeasurement is treated separately from profit and loss from ordinary activities as a one-off gain or loss.

**Question 5(b) — Partial acquisition of a subsidiary that does not constitute a business**

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?

**(Partial acquisition of a subsidiary that does not constitute a business)**

- 20. One preparer stated that transactions to acquire control of a subsidiary that does not constitute a business occur only rarely, but when they do, non-controlling interests are recognised.
- 21. Another preparer stated that although non-controlling interests are recognised in transactions that acquire control of a subsidiary that does not constitute a business, reconsideration may be needed as to whether it is relevant to require the same accounting treatment for a subsidiary that constitutes a business and a subsidiary that does not constitute a business.

**(Accounting for a single asset entity)**

- 22. One preparer commented on the accounting treatment of a single asset entity as follows:
  - (1) Although such transactions have not been frequent, when a real estate is held through a trust to which IFRS 10 is applied, and a portion of the entity is sold to a third party and control is maintained, any difference between the consideration and the carrying amount would be recognised in equity rather than in profit or loss. This accounting does not represent the economic substance of the transaction, which is a partial sale of the real estate. This implies that the scope of IFRS 10 may be too biased towards the form of the transaction.
- 23. Auditors commented as follows:
  - (1) Whether assets held by a subsidiary should be accounted for as assets held directly by the parent or as an entity that is a subsidiary under IFRS 10 is not systematically addressed in IFRS Standards. Therefore, there are practical issues in many contexts (for example, the measurement of variable consideration and partial sale of an interest without loss of control). It is necessary to provide guidance in IFRS Standards rather than providing guidance in the form of agenda decisions, which do not constitute IFRS Standards.

## IFRS 11 *Joint Arrangements*

### Question 6 — Collaborative arrangements outside the scope of IFRS 11

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?

24. Preparers noted the following related to collaborative arrangements outside the scope of IFRS 11:

- (1) There are arrangements with third parties, such as general business partnerships, which are entered into for the purposes of exchanging information, the engaging in commercial activities and pursuing synergies. However, these arrangements are not subject to special accounting treatments.
- (2) When the entity is considered to have joint rights to the assets and joint obligations for the liabilities through a vehicle that is not a legal entity, the assets and liabilities are recognised in proportion to the interests, by analogy to the accounting requirements for joint operations in IFRS 11.

25. On the other hand, some preparers commented on the scope of joint operations as follows:

- (1) There are concerns about the scope of joint operations – the determination can be different depending on whether the investment is made directly or through an entity.
- (2) There are concerns about the scope of joint operations – the determination is too dependent on the legal form of the investment and the existence of explicit contractual arrangements.

#### Question 7 — Classifying joint arrangements

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?

26. One preparer commented that the guidance on 'other facts and circumstances' in IFRS 11 is helpful, for the classification of joint arrangements, but only to a limited extent, because it is intended to cover specific cases. None of the preparers we interviewed, including this preparer, identified issues that warrant amendments to IFRS Standards.

#### Question 8 — Accounting requirements for joint operations

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.

27. Preparers commented that they had not identified any issues with the accounting requirements for joint operations.
28. Auditors stated that agenda decisions provide guidance on a number of practical issues, but the guidance should be included in IFRS Standards, not in agenda decisions.

### **IFRS 12 *Disclosure of Interests in Other Entities***

#### Question 9 — Disclosure of interests in other entities

In your experience:

- (a) to what extent do the IFRS 12 disclosure requirements assist an entity to meet the objective of IFRS 12, especially the new requirements introduced by IFRS 12 (for example the requirements for summarised information for each material joint venture



or associate)?

- (b) do the IFRS 12 disclosure requirements help an entity determine the level of detail necessary to satisfy the objective of IFRS 12 so that useful information is not obscured by either the inclusion of a large amount of detail or the aggregation of items that have different characteristics?
- (c) what additional information that is not required by IFRS 12, if any, would be useful to meet the objective of IFRS 12? If there is such information, why and how would it be used? Please provide suggestions on how such information could be disclosed.
- (d) does IFRS 12 require information to be provided that is not useful to meet the objective of IFRS 12? If yes, please specify the information that you consider unnecessary, why it is unnecessary and what requirements in IFRS 12 give rise to the provision of this information.

**(Disclosures of subsidiaries with material non-controlling interests)**

29. Users commented on the disclosures of subsidiaries with material non-controlling interests as follows:

- (1) The current disclosures for subsidiaries with material non-controlling interests are useful in that they provide the information about the dividends flowing outside the group. However, detailed cash flow information is needed to analyse cash flows excluding the cash flow attributable to non-controlling interests.
- (2) Disclosures are provided only when the preparer considers the non-controlling interests to be material. Requiring disclosure of the criteria for determining materiality would be useful.

30. Preparers commented on the disclosures relating to subsidiaries with material non-controlling interests as follows:

- (1) We do not understand how the information is used by users and the usefulness of the information is questionable.

**(Disclosures of associates and joint ventures)**

31. One user commented on the disclosures of associates and joint ventures as follows:

- (1) The disclosure of the total amount of dividends received from equity method investments is needed to analyse the cash contribution from all equity method investments, not only from joint ventures or associates that are material to the entity (paragraph B12(a) of IFRS 12).

32. Preparers made the following comments on the disclosures of joint ventures and associates that is material:

- (1) There have been no discussions with users, including investors, related to the disclosure of material associates and joint ventures. However, there is a cost for determining the materiality threshold, and the usefulness of the information compared to such costs is questionable.
- (2) The information to be disclosed and the usefulness of the information is limited when there are regulatory restrictions on disclosures of a listed company (as discussed in the agenda decision in January 2015 of the IFRS Interpretations Committee), or when the consent of the other partners to the disclosures cannot be obtained.

33. Preparers also made the following comment on the disclosures of immaterial associates and joint ventures:

- (1) There is no material information value in disclosing the aggregate carrying amount of interests in associates and joint ventures, and disclosing separately the aggregate amount of interests in associates and joint ventures that are individually immaterial.

**(Disclosures of interests in unconsolidated structured entities)**

34. Some preparers made the following comments on the disclosures of interests in unconsolidated structured entities:

- (1) The definitions of ‘structured entity’, ‘maximum exposure’ (paragraph 29 of IFRS 12) and ‘sponsor’ (paragraph 27 of IFRS 12) in the IFRS Standards are not clear.
- (2) It is practically impossible to identify all unconsolidated structured entities.
- (3) Relating to the disclosures of interests in unconsolidated structured entities (paragraphs 24 to 31 of IFRS 12), it would be useful to provide information only for those depending on the level of involvement and the materiality of the risk, rather than for all interests in unconsolidated structured entities.
- (4) The interests in unconsolidated structured entities may be recognised in the consolidated balance sheet in accordance with other IFRS Standards. In addition, there is some overlap with the disclosure requirements for contingent liabilities and for the risks arising from the financial instruments under IFRS 7 *Financial Instruments: Disclosures*, which increases costs.
- (5) The disclosure of sponsorship in interests in unconsolidated structured entities (paragraph 27 of IFRS 12) needs to be revised. It is questionable that the

objective of this disclosure, which is to provide a sense of the extent of the entity's reliance on unconsolidated structured entities (paragraph BC90 of IFRS 12), is achieved by disclosing information about income from structured entities and assets transferred to structured entities.

### **(Other disclosures)**

35. One user commented that the scope of consolidation involves significant judgement and, therefore, the materiality thresholds for consolidation should be disclosed when there are subsidiaries that are not consolidated.
36. Auditors noted that the extent of the disclosure is determined based on the disclosure objective of IFRS 12, but the disclosure objective is not sufficiently clear to encourage proactive disclosures. Improvement is needed in light of the disclosure projects currently undertaken by the IASB.

### **Other topics**

Question 10 — Other topics
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.

### **(Equity method of accounting)**

37. The equity method of accounting is not included in the scope of the RFI. However, when an investee is classified as a joint venture in accordance with IFRS 11, the equity method of accounting is applied and, therefore, in our outreach we obtained views on the equity method of accounting.

#### Issues in equity method of accounting — impairment

38. Most preparers commented on the issue of impairment accounting for equity method investments:
  - (1) As is the case with the investments in the consolidated subsidiaries, goodwill recognised in an equity method investment may involve the expectation of the synergies with the investee's business. However, accounting for impairment of the equity method investments differs from that for goodwill where control is held because the nature of the equity method of accounting is not determined be one-

line consolidation. As a result, there are practical issues about the recognition of impairment losses.

- (2) Regarding the recognition of impairment losses on investments in associates and joint ventures, IAS 28 only requires that such investments shall be tested for impairment as a single asset. The steps for impairment testing of the identifiable assets and goodwill which comprise the investment are not clear.
- (3) The lack of clarity in existing accounting standards on the nature of the equity method of accounting has led to fundamental problems about the impairment of equity method investments. Impairment may be double counted when the investor recognises the impairment on the carrying amount of the entire equity method investment followed by the impairment on individual assets or groups of assets in the investee's financial statements.
- (4) Based on paragraph 14A of IAS 28, the losses from the expected credit loss model under IFRS 9 and the losses from the equity method under IAS 28 could be double counted, which is problematic. Re-consideration including a fundamental review of the equity method of accounting is needed
- (5) When there is a minority discount in investing in a joint venture or an associate, a conflict may arise between the measurement of the 'inside' assets (including intangible assets recognised on acquisition of the investment) of the equity method investee as one-line consolidation, which does not take into account the minority discount, and the measurement of the equity method investment as a whole (the 'outside') which takes into account the minority discount.

#### Issues in equity method of accounting — other issues

39. One preparer commented that, when the transaction price of an investment accounted for using the equity method is determined at its present value based on a budget to lose cash initial years but generate cash in future years, and the investee recognises losses as initially planned, it would be counterintuitive to recognise losses if the nature of the equity method of accounting is considered to be a measurement basis.

#### Comments on the equity method of accounting

40. Regarding the current equity method of accounting, users and some preparers raised concerns about the scope of the equity method of accounting. Furthermore, some users and preparers noted that dividend income information supplements the assessment of the investments in addition to the information provided by the equity

method of accounting. Moreover, one preparer noted that the application of the equity method accounting to investments held for the purposes of expecting increases in value of such investments (financial investments) does not provide useful information.

41. However, most preparers stated that the equity method of accounting provides useful information for investments that are more in the nature of an investment as an extension of consolidation and reflect the performance of the investee, because they consider that these investments are held for the purposes of conducting business activities through the involvement in the investees and to achieve results from such involvement.
42. Most of those we reached out to did not ask for significant changes from the existing guidance, but highlighted the practical issues that cannot be resolved under existing guidance because such guidance did not provide a conceptual basis regarding the nature of the equity method of accounting, that is, whether it is a one-line consolidation or a measurement basis. This is consistent with the comments we have received from preparers on impairment accounting for equity method investments and other issues. In addition, other preparers held the view that clarifying that the equity method of accounting is either a one-line consolidation or a measurement basis would not solve all of the issues that exist today.
43. Constituents in our jurisdictions are concerned with the IASB addressing individual issues without having conceptual discussions. One example would be the IASB's proposal in the Exposure Draft *General Presentation and Disclosures* to present the profit or loss from “integral associates and joint ventures” and from “non-integral associates and joint ventures” separately.
44. Based on the above, we suggest that the IASB maintain the major requirements related to the equity method of accounting. At the same time, we suggest that the IASB undertake a project to develop principles that would clarify when to focus on the one-line consolidation aspect and when to focus on the measurement basis aspect, in order to resolve the practical issues that were identified by constituents in our jurisdiction, such as the accounting for impairment. In addition, we think that addressing individual issues separately would not only be inefficient but could also lead to unintended consequences.