STAFF PAPER

September 2018

IASB® meeting

Project	**Primary Financial Statements**
Paper topic	Presentation of the results of integral and non-integral associates and joint ventures in the statement(s) of financial performance

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Purpose of this paper

1. The Board has tentatively decided to require separate presentation of:
   (a) the share of the profit or loss of 'integral' and 'non-integral' associates and joint ventures in the statement(s) of financial performance (January 2018); and
   (b) the cash flows of 'integral' and 'non-integral' associates and joint ventures in the investing section of the statement of cash flows (February 2018).

   The purpose of this paper is to suggest guidance to help entities determine whether associates and joint ventures are integral or non-integral, a request made by the Board to the staff in January 2018.

2. This paper also summarises recent feedback received on these tentative decisions and additional research conducted by the staff in relation to its proposals on this topic.

Structure of paper

3. This Agenda Paper:
   (a) summarises the Board's tentative decisions to date on the separate presentation of the share of the profit or loss of 'integral' and 'non-integral'

associates and joint ventures in the statement(s) of financial performance and statement of cash flows for non-financial entities (paragraphs 8─13);

(b) summarises the results of further staff research (paragraphs 14─16);

(c) provides staff comments on feedback on the tentative decisions (paragraphs 17─21);

(d) suggests an approach to the provision of indicators as guidance to entities to help them determine on a reasonably consistent basis which associates and joint ventures are integral and which are not (paragraphs 22─26);

(e) asks the Board to consider whether guidance is required on reclassification of associates and joint ventures between the integral and non-integral categories (paragraphs 27─30); and

(f) seeks the Board’s views on whether any further disclosures should be required in IFRS 12 *Disclosures of Interests in Other Entities* given the Board’s tentative decisions (paragraphs 31─33).

4. The paper also summarises (in Appendices A and B) feedback we have received from the Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) meetings in March 2018, as well as some less formal feedback from other meetings. It also reminds the Board of earlier feedback (from CMAC, GPF, the Accounting Standards Advisory Forum and others) about the position in the statement(s) of financial performance of results from associates and joint ventures.

Summary of staff recommendations

5. The staff recommends that the Board:

(a) introduces the following indicators to help preparers decide whether an associate or joint venture is ‘integral’:

(i) the size of the associate or joint venture compared to the reporting entity;

(ii) the existence of integrated lines of business across the entity and the associate or joint venture that leads to dependency on the associate or joint venture;

(iii) whether the associate or joint venture is a critical supplier or customer;

(iv) whether the reporting entity and the associate or joint venture share a name or brand;

(v) the comparative position of other investors in the associate or joint venture, i.e. whether they are active in the business or more passive investors;

(vi) whether the entity and the associate or joint venture have common sources of capital or borrowing such that their financing is interrelated.

(b) states that the classification of an associate or joint venture as integral or non-integral shall be changed if and only if the relationship between the reporting entity and the associate or joint venture changes substantively; and

(c) amends the disclosure requirements of IFRS 12 to reflect the introduction of the integral and non-integral categorisation of associates and joint ventures, including disclosure of:

(i) the basis on which the integral/non-integral categorisation has been made;

(ii) the risks arising from the associates and joint ventures split between integral and non-integral associates and joint ventures; and

(iii) what changes have arisen to cause a reclassification of any associate or joint venture between the integral and non-integral categories.

Background

6. IFRS Standards do not specify where in the statement(s) of financial performance the results of associates and joint ventures should be presented and the staff has observed diversity in practice. Some entities present the results of associates and joint ventures in operating profit, others present the results lower down the statement(s) of financial

performance. We have heard from users that this diversity in practice reduces comparability and can make it more difficult to perform their analysis.

7. In November 2017, the Board discussed whether to specify where in the statement(s) of financial performance the results of associates and joint ventures should be presented. At that meeting, some Board members suggested that the presentation of the results of associates and joint ventures should depend on the nature of the associate or joint venture. In particular, it was suggested that the results of associates and joint ventures that are integral or core to the operations of the reporting entity should be presented separately from the results of those associates and joint ventures that are non-integral or peripheral to the operations of the reporting entity.

Board's tentative decisions to date

Presentation of the share of the profit or loss of 'integral' and 'non-integral' associates and joint ventures

8. At its January 2018 Board meeting[1], the Board tentatively decided that:

    (a) entities should be required to present the results of 'integral' associates and joint ventures separately from those of 'non-integral' associates and joint ventures;

    (b) the project's first due-process document should:

        (i) use the Board's proposed definition of 'income/expenses from investments'[2] (from the November 2017 Board meeting) as the basis for the split between integral and non-integral investments in associates or joint ventures, but also include a non-exhaustive list of indicators that could be used in making this distinction.

        (ii) propose the presentation in the statement(s) of financial performance of the share of profit or loss of integral associates or joint ventures as a line item above the 'income/expenses from investments' category and require a new subtotal above that line item.

[1] https://www.ifrs.org/-/media/feature/meetings/2018/january/iasb/ap21b-pfs-presentation-of-share-of-profit-or-loss.pdf.

[2] The definition of income/expenses from investments that the Board tentatively decided is: 'income/expenses from assets that generate a return for the entity individually and largely independently from other resources held by the entity'.

(iii) discuss the alternative approaches considered by the Board for presenting the share of the profit or loss of integral associates and joint ventures, both within and outside the 'income/expenses from investments' category, and the Board's reasons for rejecting those approaches.

9. As an aid, this paper reproduces the different presentation options considered by the Board in January 2018 in Appendix C. The option favoured by the Board at the January 2018 meeting is Approach B.

10. The main argument put forward in that meeting as to why requiring preparers to distinguish between integral and non-integral associates and joint ventures would provide useful information was that our research had indicated that some users incorporate the results of at least some associates or joint ventures into their valuation of an entity's business activities. Whether the results of an associate or joint venture are included in the valuation of an entity's business activities appears to depend on how closely aligned or integral the associate or joint venture business is to the reporting entity's business activities. Consequently, some users would like to be able to identify separately the results of integral and non-integral associates and joint ventures. The fact that the results of associates and joint ventures are treated differently in different circumstances is probably a reflection of the wide range of business activities – from major core operations to seed investments or strategic crossholdings – that are required to be accounted for using the equity method applying IFRS Standards.

Presentation of the cash flows of 'integral' and 'non-integral' associates and joint ventures

11. At the February 2018 Board meeting[3] the Board discussed the presentation of the cash flows of 'integral' associates and joint ventures and 'non-integral' associates and joint ventures. At that meeting the Board tentatively decided to propose:

(a) separate presentation of the cash flows that arise between an entity and its 'integral' associates and joint ventures and the cash flows that arise between an entity and its 'non-integral' associates and joint ventures. The split between 'integral' and 'non-integral' associates and joint ventures

[3] https://www.ifrs.org/-/media/feature/meetings/2018/february/iasb/ap21c-primary-financial-statements.pdf.

would be the same for the statement of cash flows as for the statement(s) of financial performance; and

(b) the separate presentation of the cash flows of ‘integral’ and ‘non-integral’ associates and joint ventures should be within the ‘investing activities’ section of the statement of cash flows.

12. In order to aid the Board, the alternative presentations proposed in that paper are shown in Appendix D. Approach B is the version preferred by the Board at the February 2018 meeting.

Definition of ‘integral’ associate or joint venture

13. The January 2018 Board paper proposed the introduction of a definition of ‘an integral associate or joint venture’. This would be supported by guidance in the form of a range of indicators that would help preparers in determining whether their equity accounted investments fell into the ‘integral’ or ‘non-integral’ categories. However, the Board decided that the definition of income/expense from investments should be the basis for separating non-integral associates and joint ventures from those that are integral to the reporting entity’s operations. In other words, an associate or joint venture would be non-integral if it generates a return individually and largely independently of other resources held by the entity. The staff was requested to develop a range of indicators that could be used to help preparers identify integral associates and joint venture. These indicators are discussed in paragraphs 22-26.

Further research

14. The staff have conducted further research on 85 companies across different industries to see if we could gain any additional insights into current practice about the presentation of the results of associates and joint ventures. The findings produced limited additional insights.

15. We did find one preparer which reports the results of associates or joint ventures separately based on whether that associate or joint venture is integral or core to the entity’s operations. The stated reason that income from core business associates was included in operating income was because the associates’ and joint ventures’ ‘principal activities are expanding the Group’s operational activities’.

16. Other than that, there were variations in the presentation of results from associates and joint ventures. Of the 42 preparers presenting the results of associates and joint ventures:

    (a) 27 entities presented the results of associates and joint ventures between the ‘operating profit’ and the ‘profit before income tax’ subtotal;

    (b) 10 entities presented the results of associates and joint ventures above the ‘operating profit’ subtotal; and

    (c) five entities presented the results between the ‘profit before income tax’ subtotal and the ‘profit for the year’ subtotal.

Staff comments on feedback on the tentative decisions

17. Feedback has been received on the Board proposal to split the presentation of returns on integral and non-integral associates and joint ventures, including from CMAC, GPF and ASAF. Certain comments received before the end of 2017 – i.e. before the tentative decisions above were made - were included in the January 2018 Board paper on presentation of the results in the statement of financial performance. Further feedback has been received since then. Both sets of feedback are summarised in Appendices A and B.

18. As can be seen from the feedback summary, views are mixed and arguably have become more negative since the tentative decisions were made earlier this year. However, the underlying problem of a lack of agreement on where results of equity accounted investments should be placed in the statement(s) of financial performance is still present: there is no real consensus on the issue. This is also reflected in variations in practice by preparers, as noted in the further research above.

19. In the staff’s view, this lack of consensus is probably driven by the fact that a wide range of business activities are accounted for using the equity method applying IFRS Standards. The location of the results of associates and joint ventures in the statement of financial performance is one way in which preparers can use to indicate how close or otherwise the activities of the associate or joint venture are to the core operations of the entity (although they could also or instead make additional disclosures).

20. Individual viewpoints may also be affected by particular industry practices. For example, in the staff's view, the views expressed by the real estate industry, as outlined in the feedback, may be indicative of a fairly homogenous approach to the use of joint ventures (and possibly associates) within the real estate industry: preparers apparently manage the activities of at least joint ventures in a similar way to consolidated entities. The prevailing view was that it would look strange to have a joint venture that was not integral. Elsewhere, however, equity-accounted investments include very different activities from the reporting entity's activities with very different strategic relationships to the reporting entity.

21. All of this seems to indicate that separately presenting integral and non-integral associates and joint ventures may benefit users and preparers, but possibly only to a limited extent. The main benefit may be that the split gives flexibility for different business models across different industries. For example, in some industries there may be a tendency for all joint ventures to be, in effect, 'integral'; in others the opposite may be the case. In contrast, there is not much of an indication that many entities in any industry are likely to hold both integral and non-integral joint ventures; it is possible, however, that they might hold integral joint ventures and non-integral associates.

Indicators of integral status

22. As noted above, in the January 2018 Board paper, the staff suggested some potential indicators that could be provided to guide preparers when determining whether an equity-accounted investment should be presented above the investing category in the statement of financial performance. In order to compile these indicators, the staff referred to factors already used by some analysts to determine the relationship between an equity-accounted investment and the reporting entity.

23. The staff proposes that any list of indicators should be non-exhaustive as it will not be possible to consider all possible issues that might affect the approach of preparers and users to the classification of equity accounted investments. However, the staff believes that the list we are proposing below will cover most factors of importance across most entities and industries.

24. Many of the indictors previously presented were overly brief and in the staff's view require some expansion. The staff has considered them further and has refined the list as follows:

    (a) the size of the associate or joint venture compared to the reporting entity. This may be in terms of net assets, revenues, profits or a combination of these;

    (b) the existence of integrated lines of business across the entity and the associate or joint venture that creates a dependency of the entity on the associate or joint venture;

    (c) whether the associate or joint venture is a critical supplier or customer such that if the associate or joint venture did not exist, the entity would have difficulty replacing that supplier or customer resulting in significant business disruption;

    (d) whether the entity shares a name or a brand with the associate or joint venture so that externally it may appear as one and the same business in relation to the activities of the associate or joint venture (although the reporting entity may have other, separate businesses);

    (e) the contrasting position of the other investors in the joint venture or associate, for example whether they have a more passive role, perhaps only holding the investment for its financial returns (although this is more likely in the case of an associate rather than a joint venture because of the nature of joint control); and

    (f) common sources of capital and lending relationships such that the financing of the associate or joint venture is dependent on or related to the financing of the entity.

25. The staff has not found any further factors that might be used as indicators but suggest that a due process document may be useful in encouraging other suggestions from respondents.

Questions to the Board

Does the Board agree with the proposed list of indicators? Should any be deleted or added?

26. It has been suggested that the list of indicators might be structured in some way to suggest that some indicators are more important than others. The staff view is that this is unlikely to be feasible in a way that would be appropriate across all entities and industries. In other words, the comparative importance of any indicators in the list – which is in any case proposed to be non-exhaustive – will vary from entity to entity and potentially from industry to industry. However, preparers will be required to assess all relevant circumstances in making classification decisions.

Question to the Board

Does the Board agree that the proposed list of indicators should not be prioritised in any way?

Reclassification of equity accounted investments

27. A further issue that has been raised is whether equity accounted investments can be reclassified between integral and non-integral after initial recognition. It was suggested in the January 2018 Board paper that reclassification would only be permitted if the relationship between the entity and the associate or joint venture had substantively changed such that the application of the definition of income/expenses from investments, supported by the indicators used by the reporting entity produced a different result. Such changes may be quite rare, but they could happen. For example, an investment in an equity accounted entity that operates a different line of business which is tangential to the main business activity of the reporting entity may be treated as non-integral, but then if this becomes a main business activity of the reporting entity, leading to closer cooperation as supported by the indicators (say the associate or joint venture becomes a key supplier), the classification could change to integral.

28. A further example is that a substantive change in the relationship may lead to a continuation of the requirement for equity accounting under IFRS Standards, but an investment could change from one of significant influence (associate) to joint control (joint venture), or vice versa, and this on its own should lead to a reconsideration of the classification of the results of the investment as integral or non-integral using the definition of income/expenses from investments supported by the indicators.

29. The staff believes that in such circumstances – i.e. where there has been a substantive change in the relationship between the reporting entity and the equity-accounted investment that would have an impact on the application of the indicators such that a different outcome is reached - reclassification should be required, but it should not be permitted in any other circumstance. This would potentially require the categorisation of all associates and joint ventures to be reviewed each period. The cost of this may be alleviated, however, by indicating that a full exercise need only be considered if there have been any substantive changes in the relationship that would have a likely impact on the application of the indicators used by the reporting entity.

30. The staff proposes that in subsequent accounting periods after recognition, reclassification between the integral/non-integral categories must be performed if the nature of the relationship between the reporting entity and its investee has changed substantively. The reclassification would not be a change in accounting policy as it reflects a change in circumstances, so there would be no restatement of prior period presentation. In paragraph 31–33 we suggest that disclosures about any change in classification should be required.

Question to the Board

Does the Board agree that an associate or joint arrangement can be reclassified only when the relationship with the reporting entity has changed substantively such that the application of the definition of income/expenses from investments, supported by the indicators, leads to a different integral/non-integral result, but in such circumstances reclassification should be required?

Disclosure requirements

31. IFRS 12 requires disclosure of the significant judgements and assumptions involved when entities determine the accounting treatment of subsidiaries, associates and joint arrangements (IFRS 12 paragraph 7). Disclosure is also required of information to allow users to understand the nature, extent and financial effects of the entity's investments in associates and joint arrangements and the nature of and changes in the risks associated with those investments (IFRS 12, paragraphs 20-23). These paragraphs are reproduced in Appendix D.

32. The staff view is that these disclosures are already very extensive and would implicitly require the entity to discuss the factors which had been considered when classifying equity accounted investments as 'integral' or 'non-integral'. However, for the sake of clarity, this could be made explicit for example by adding a sub-paragraph to IFRS 12 paragraph 7 along the following lines:

'(d) the factors considered when determining whether associates and joint arrangements are integral or non-integral, as required by IAS 1, paragraph xx.'

33. In relation to IFRS 12 paragraphs 20-23, the staff suggest:

a. Requiring the disclosures in IFRS 12 paragraph 20 to be split between 'integral' and 'non-integral' associates and joint ventures; and

b. Requiring additional disclosures where an equity accounted investment has been reclassified in the period, to indicate how its relationship with the reporting entity has changed.

Question to the Board

Does the Board agree with the proposals above to amend the disclosure requirements in IFRS 12 to reflect the introduction of 'integral' and 'non-integral' associates and joint arrangements?

Appendix A ─ Summary of feedback on the January 2018 tentative decision by the Board

A1. The January 2018 Board Paper summarised feedback from various constituents on the subject, to the extent it had been discussed with them, particularly CMAC and GPF. At their January 2018 meeting, the Board tentatively decided to require entities to present the share of the profit or loss of 'integral' and 'non-integral' associates and joint ventures. Paragraphs A2─A15 summarise the feedback on the Board's tentative decision.

Feedback from CMAC members

A2. At its March 2018 meeting, the CMAC discussed the Board's tentative decision to improve the presentation of the share of profit or loss of associates and joint ventures in the statement(s) of financial performance. The staff sought CMAC members' views on:

(a) the usefulness of the distinction between the share of profit or loss of integral and non-integral associates or joint ventures;

(b) distinguishing integral associates and joint ventures from non-integral associates and joint ventures; and

(c) alternatives for presenting the share of profit or loss of integral associates and joint ventures.

A3. Most CMAC members did not support an entity separately presenting the share of profit of integral and non-integral associates and joint ventures for the following reasons:

(a) any definition of 'integral' and 'non-integral' the Board develops would require high levels of judgement and entities might use this flexibility to obtain the most favourable presentation.

(b) entities are constantly revisiting their business models, so they are frequently required to think about ways to rearrange their relationships with joint ventures or associates. (The likelihood of movement between categories seems to be a comment on the lack of stability of classification of the investment.)

(c) if the classification of investments by an entity as 'integral' or 'non-integral' changed frequently, users would have difficulty analysing the performance of an investment over time.

(d) developing a distinction between 'integral' and 'non-integral' may be beyond the scope of the Primary Financial Statements project, which should only address presentation issues. If such a distinction is to be made, it should be done during the Post-implementation Reviews of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities.*

A4. A few CMAC members said distinguishing integral from non-integral associates and joint ventures could provide useful information to investors, but those members also had concerns about the practicability of making such a distinction.

A5. A few members suggested that instead, entities could include the share of profit or loss of some associates and joint ventures in the calculation of their management performance measure. That way, if they wish to do so, they can provide this information in a way that makes it clear to users that it represents a management view.

A6. A few CMAC members did not support presenting the share of profit or loss of associates and joint ventures near the beginning of the statement(s) of financial performance (for example, as part of an 'operating' or similar section) because:

(a) post-tax and post-NCI amounts would be mixed with pre-tax and pre-NCI amounts; and

(b) this might confuse some users and lead to double-counting of associates and joint ventures in valuations, for example when enterprise value methodologies are used.

A7. A few CMAC members added that to perform margin calculations on a like-for-like basis (for example, comparing consolidated revenues to a profit subtotal from consolidated activities), users need a 'clean' subtotal that excludes the share of all equity-accounted investments.

A8. A few CMAC members expressed interest in increasing disclosures about the financial performance, financial position and cash flows (including segmental information) of ‘integral’ associates and joint ventures, for example about their indebtedness. A Board member suggested the Board could explore linking the requirements for ‘integral’ associates and joint ventures to the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* for associates and joint ventures that are material to the reporting entity (IFRS 12 paragraphs 21 and B12–B13).

Feedback from GPF members

A9. At its March 2018 meeting, the staff asked GPF members about the same topics discussed in the March 2018 CMAC meeting.

A10. Many GPF members said they did not support the suggested distinction between the share of profit or loss of integral and non-integral associates and joint ventures in the statement(s) of financial performance because, in their view:

(a) any definition of ‘integral’ and ‘non-integral’ would require significant judgement and would be difficult to audit. Some GPF members noted specific cases where such a definition would be difficult to apply, such as cases involving conglomerates with various businesses and entities investing in associates and joint ventures that are start-ups.

(b) required disclosures—such as those required by IFRS 12 *Disclosure of Interest in Other Entities*—already provide information to investors about the significance and nature of the activities of an entity’s associates and joint ventures. A few GPF members also said the allocation of the associates and joint ventures to an entity’s reporting segments already provides information about whether the associates and joint ventures are ‘integral’.

(c) it is unlikely that an entity would invest in associates or joint ventures that are not part of their core business—in other words, they did not expect to have any non-integral associates or joint ventures.

A11. Some of these GPF members said they preferred a single location in the statement(s) of financial performance for the share of profit or loss of all associates and joint ventures. However, these members suggested different locations and there was no overall agreement as to which location was preferable. For example, one member suggested it should be presented within ‘income/expenses from investments’, whereas another member suggested it should be presented in an ‘operating’ section together with results from consolidated entities.

Other feedback

A12. Meetings with preparers and users from the real estate industry have also been undertaken. They expressed frustrations with equity accounting itself, rather than with the location of the presentation of the equity-accounted result within the statement(s) of financial performance. In particular, they expressed the view that joint ventures should be included in the financial statements using proportional consolidation rather than equity accounting. There was no support for the integral/non-integral split.

A13. In a meeting with Japanese investors, there was very strong resistance from almost all preparers to the integral/non-integral split. The definition was deemed too loose and difficult to audit (however, the list of indicators is still being developed). The majority of preparers could not foresee circumstances where they would want to present any investment in associates or joint ventures as non-integral. Only one preparer spoke in support of the proposal.

A14. Although the proposals were viewed quite negatively in meetings with Japanese constituents, in a meeting with ACTEO, a French industry group, there was considerable support for the proposal.

A15. While not necessarily adverse to the proposal, comments by certain regulators indicate uneasiness with the extent to which the proposal gives preparers too much of a free choice and/or would be unenforceable. There was some positive support at the Frankfurt conference.

Appendix B ─ Summary of feedback prior to the Board's tentative decision

B1 Before the January 2018 tentative decision by the Board, the staff received general feedback rather than feedback focusing on presenting integral and non-integral associates and joint ventures separately. Paragraphs B2─B13 summarise the feedback on improving the presentation of the share of profit or loss of associates and joint ventures.

Feedback from CMAC members

B2 At its February 2016 meeting, the Capital Markets Advisory Committee (CMAC) discussed whether particular items should be included in the calculation of EBIT. Some CMAC members said that any share of profit of associates should be presented below the EBIT subtotal, for the following reasons:

(a) one CMAC member observed that including share of profit of associates in EBIT distorts the EBIT margin; and

(b) another CMAC member thought that including share of profit of associates in EBIT distorts future cash flow projections, because cash is received from associates through dividends.

B3 At its November 2016 meeting, CMAC members discussed possible approaches for improving the structure and content of the primary financial statements. CMAC members expressed mixed views about where the share of results of associates and joint ventures should be presented in the statement of financial performance. One member argued that it should be presented below EBIT, because these results are unrelated to the operating assets controlled by the company. Another CMAC member disagreed, arguing that companies—particularly in the pharmaceutical industry—increasingly conduct their operations through associates and joint ventures. In this member's view, the Board should develop principles clarifying which associates or joint ventures qualify as 'operating' and which do not. One CMAC member said that when he valued a company, he stripped out the share of results of important associates and joint ventures and reviewed these separately.

B4 At its October 2017 meeting, CMAC members debated the implications of the staff proposal for presenting the share of profit or loss of associates and joint ventures and had different views on whether the share of profit or loss of all associates and joint ventures should be excluded from EBIT.

Feedback from CMAC and GPF meeting

B5 At the June 2016 meeting, some CMAC and GPF members noted that when defining EBIT, the Board would have to address the issue of presenting the share of the profit or loss of associates and joint ventures. Some CMAC members supported presenting the share of the profit or loss of associates and joint ventures outside EBIT, because investors value investments in associates and joint ventures separately from other operations. However, some CMAC and GPF members said the Board should consider including in EBIT the results of associates and joint ventures that are integral to the entity’s strategy.

Views from ASAF members

B6 At its July 2017 meeting, the Accounting Standards Advisory Forum (ASAF) discussed the staff proposal for presenting the share of profit or loss of associates and joint ventures. The AcSB and ASBJ representatives expressed support for using a single location for this purpose. In contrast, most other ASAF members expressed support for the Board considering whether the location should depend on whether the associate or joint venture is integral to the entity’s operations. The AASB/NZASB representative cautioned that for determining the presentation of associates and joint ventures, but also more generally, the Board should not confuse comparability with uniformity. The AOSSG and SAFRC expressed the view that the presentation of the share of profit or loss of associates and joint ventures should be treated similarly to the presentation of fair value changes in other investments over which the entity has no control.

B7 At its December 2017 meeting, ASAF members discussed the staff proposal to include the share of profit or loss of associates and joint ventures in the ‘income/expenses from investments’ category. ASAF members had mixed views on the presentation of the share of profit or loss of associates and joint ventures. For example:

(a) some members said that the share of profit or loss of associates and joint ventures that are integral to an entity’s operations should be presented above the ‘profit before investing, financing and income tax’ subtotal, whereas the share of profit or loss of non-integral associates and joint ventures should be presented as 'income/expenses from investments'; and

(b) others said the share of all associates and joint ventures should be presented in a single location.

Some ASAF members said the Board should explore different approaches and propose guidance for distinguishing between integral and non-integral associates and joint ventures in a Discussion Paper.

Other early feedback

B8 In April 2017, the staff asked User Advisory Council (UAC) members where in the statement(s) of financial performance the share of results of associates and joint ventures should be presented and whether the location should be changed according to the nature of the associates (for example, based on their relation to core activities or on the degree of significance of an entity's operations through such associates and joint ventures). UAC members agreed that requiring the share of the results of associates and joint ventures to be presented in a single location in the statement of financial performance was preferable to management having the ability to choose the location.

B9 At the June 2017 meeting of the EFRAG Consultative Forum of Standard Setters, members expressed mixed views on whether to require a single location. Several members said that the location should be depend on the business model (that is, on the extent to which the associate or joint ventures is integral to the entity's operation).

B10 At the September 2017 EFRAG user panel meeting, one member said that presenting associates and joint ventures above EBIT would distort the entity's EBIT margin because associates and joint ventures are not controlled by the entity.

B11 At the November 2017 EFRAG Technical Expert Group meeting, members discussed the presentation of associates and joint ventures. One member thought that such holdings relate to an entity's investment activity, and therefore disagreed with introducing the principle that they could be a part of an entity's operations. The group's view was that the Board should not prescribe a single location.

B12 At the November 2017 Research Forum, some participants said that the share of profit or loss of associates and joint ventures that are integral to an entity's operations should be presented above 'profit before investing, financing and income tax', whereas the share of profit or loss of other associates and joint ventures should be presented as 'income/expenses from investments'. Some of these participants suggested the Board provide guidance to help entities assess whether an associate or joint venture is integral to its operations. Some participants said that, in their view, joint ventures are always integral to an entity's operations.

B13 The staff also conducted meetings with diverse user groups in the process of defining the scope of the Primary Financial Statement Project and heard different views on presenting the share of profit or loss of associates and joint ventures. For example:

(a) some users told us that the share of profit or loss of associates and joint ventures accounted for using the equity method should be presented below operating profit;

(b) other users thought the results of associates and joint ventures should be included in operating profit; and

(c) yet others said the Board should address the classification of associates and joint ventures that are not controlled by the entity but are part of its main business.

Appendix C – Illustration of the separate presentation of the share of the profit or loss of ‘integral’ associates or joint ventures

We illustrate in the following page the presentation of the share of the profit or loss of ‘integral’ and ‘non-integral’ associates and joint ventures under the approaches discussed in paragraph of this paper.

(a) Approach A: above the ‘income/expenses from investments’ category, as part of an entity’s business activities.

(b) Approach B: above the ‘income/expenses from investments’ category, but placed immediately after the entity’s business activities by requiring a subtotal to be inserted above it.

(c) Approach C: separating the results from ’integral’ and ‘non-integral’ associates and joint ventures within the ‘income/expenses from investments’ category, i.e. so there are separate line items for each but the total returns on equity-accounted investments are all included in this category.

Illustrations of the separate presentation of the share of the profit or loss of ‘integral’ associates or joint ventures

Approach A

Statement of Financial Performance	2017
Revenue	
Cost of products sold	X
SG&A expense	X
Service cost	X
Share of profit of associates and JVs ***integral to operations***	X
Profit before investments, financing and income tax	X
Income/expenses from investments	
Share of profit of ***other*** associates and JVs	X
Fair value changes in the value of investment property	X
Dividends received on equity investments	X
Interest income on long-term debt investments	X
Gain on the disposal of real estate investment	X
Rental income	X
Profit before financing and income tax	X
Interest income from cash and cash equivalents calculated using the effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	X
Other finance income	X
Other finance expense	X
Profit before tax	X
Income tax expense	X
Profit for the year from continuing operations	X
Loss from discontinued operations	X
Profit for the year	X

Approach B

Statement of Financial Performance	2017
Revenue	X
Cost of products sold	X
SG&A expense	X
Service cost	X
Operating profit from consolidated entities	X
Share of profit of associates and JVs ***integral to operations***	X
Profit before investments, financing and income tax	X
Income/expenses from investments	
Share of profit of ***other*** associates and JVs	X
Fair value changes in the value of investment property	X
Dividends received on equity investments	X
Interest income on long-term debt investments	X
Gain on the disposal of real estate investment	X
Rental income	X
Profit before financing and income tax	X
Interest income from cash and cash equivalents calculated using the effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	X
Other finance income	X
Other finance expense	X
Profit before tax	X
Income tax expense	X
Profit for the year from continuing operations	X
Loss from discontinued operations	X
Profit for the year	X

Approach C

Statement of Financial Performance	2017
Revenue	
Cost of products sold	X
SG&A expense	X
Service cost	X
Profit before investments, financing and income tax	X
Income/expenses from investments	
Share of profit of associates and JVs ***integral to operations***	X
Share of profit of ***other*** associates and JVs	X
Fair value changes in the value of investment property	X
Dividends received on equity investments	X
Interest income on long-term debt investments	X
Gain on the disposal of real estate investment	X
Rental income	X
Profit before financing and income tax	X
Interest income from cash and cash equivalents calculated using the effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	X
Other finance income	X
Other finance expense	X
Profit before tax	X
Income tax expense	X
Profit for the year from continuing operations	X
Loss from discontinued operations	X
Profit for the year	X

Appendix D — Illustration of the separate presentation of the cash flows of 'integral' associates or joint ventures

We illustrate on the following page the presentation of the cash flows of 'integral' and 'non-integral' associates and joint ventures under the approaches in paragraph 22 of this paper. We use the 'profit before investing, financing and income tax' subtotal as the starting point for the indirect reconciliation of cash flows. These approaches present cash flows from 'integral' associates and joint ventures as follows:

(a) Approach A: in the operating activities section.

(b) Approach B: in the investing activities section separately from the cash flows from 'non-integral' associates and joint ventures.

(c) Approach C: in a separate section, above the entity's 'investing activities' but placed immediately after the entity's operating activities (in line with the presentation proposed in the statement(s) of financial performance).

Illustration of the separate presentation of the cash flows of ‘integral’ associates or joint ventures

Alternative A: presentation in operating activities		
Cash flows from operating activities		
Profit before investing, financing and income tax		4,090
Income/expense adjustments for:		
Share of profit from 'integral' joint venture A	(1,090)	
Dividends received from 'integral' joint venture A	290	
Profit of joint venture less dividends received		(800)
Depreciation		450
		3,740
Movements in working capital		
Increase in trade and other receivables		(500)
Decrease in inventories		1,050
Decrease in trade payables		(1,000)
Cash generated from operations		3,290
Income taxes paid		(900)
Acquisition of 'integral' associate X		(740)
Net cash from operating activities		1,650
Cash flows from investing activities		
Acquisition of non-integral associate Y		(550)
Purchase of property, plant and equipment		(350)
Proceeds from sale of equipment		20
Interest received		200
Dividends received from 'non-integral' joint venture B		200
Net cash from investing activities		(480)
Cash flows from financing activities		
Proceeds from issue of share capital		250
Proceeds from long-term borrowings		250
Payment of lease liabilities		(90)
Dividends paid		(1,200)
Interest paid		(270)
Net cash from financing activities		(1,060)
Net increase cash and cash equivalents		110
Opening balance		120
Closing balance		230

Alternative B: presentation in investing activities	
Cash flows from operating activities	
Profit before investing, financing and income tax	4,090
Income/expense adjustments for:	
Share of profit from 'integral' joint venture A	(1,090)
Depreciation	450
	3,450
Movements in working capital	
Increase in trade and other receivables	(500)
Decrease in inventories	1,050
Decrease in trade payables	(1,000)
Cash generated from operations	3,000
Income taxes paid	(900)
Net cash from operating activities	2,100
Cash flows from investing activities	
Acquisition of 'integral' associate X	(740)
Acquisition of non-integral associate Y	(550)
Purchase of property, plant and equipment	(350)
Proceeds from sale of equipment	20
Interest received	200
Dividends received from 'integral' joint venture A	290
Dividends received from 'non-integral' joint venture B	200
Net cash from investing activities	(930)
Cash flows from financing activities	
Proceeds from issue of share capital	250
Proceeds from long-term borrowings	250
Payment of lease liabilities	(90)
Dividends paid	(1,200)
Interest paid	(270)
Net cash from financing activities	(1,060)
Net increase cash and cash equivalents	110
Opening balance	120
Closing balance	230

Alternative C: presentation in a separate section	
Cash flows from operating activities	
Profit before investing, financing and income tax	4,090
Income/expense adjustments for:	
Share of profit from 'integral' joint venture A	(1,090)
Depreciation	450
	3,450
Movements in working capital	
Increase in trade and other receivables	(500)
Decrease in inventories	1,050
Decrease in trade payables	(1,000)
Cash generated from operations	3,000
Income taxes paid	(900)
Net cash from operating activities	2,100
Dividends received from 'integral' joint venture A	290
Acquisition of 'integral' associate X	(740)
	1,650
Cash flows from investing activities	
Acquisition of non-integral associate Y	(550)
Purchase of property, plant and equipment	(350)
Proceeds from sale of equipment	20
Interest received	200
Dividends received from 'non-integral' joint venture B	200
Net cash from investing activities	(480)
Cash flows from financing activities	
Proceeds from issue of share capital	250
Proceeds from long-term borrowings	250
Payment of lease liabilities	(90)
Dividends paid	(1,200)
Interest paid	(270)
Net cash from financing activities	(1,060)
Net increase cash and cash equivalents	110
Opening balance	120
Closing balance	230

Appendix E – Extracts from IFRS 12 Disclosure of Interests in Other Entities

Significant judgements and assumptions

7 An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

(a) that it has control of another entity, ie an investee as described in paragraphs 5 and 6 of IFRS 10 *Consolidated Financial Statements*;

(b) that it has joint control of an arrangement or significant influence over another entity; and

(c) the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

Interests in joint arrangements and associates

20 An entity shall disclose information that enables users of its financial statements to evaluate:

(a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22); and

(b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 23).

Nature, extent and financial effects of an entity's interests in joint arrangements and associates

21 An entity shall disclose:

(a) for each joint arrangement and associate that is material to the reporting entity:

(i) the name of the joint arrangement or associate.

(ii) the nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities).

(iii) the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate.

(iv) the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

(b) for each joint venture and associate that is material to the reporting entity:

(i) whether the investment in the joint venture or associate is measured using the equity method or at fair value.

(ii) summarised financial information about the joint venture or associate as specified in paragraphs B12 and B13.

(iii) if the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.

(c) financial information as specified in paragraph B16 about the entity's investments in joint ventures and associates that are not individually material:

(i) in aggregate for all individually immaterial joint ventures and, separately,

(ii) in aggregate for all individually immaterial associates.

21A. An investment entity need not provide the disclosures required by paragraphs 21(b)–21(c).

22 An entity shall also disclose:

(a) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of or significant influence over a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity.

(b) when the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:

(i) the date of the end of the reporting period of the financial statements of that joint venture or associate; and

(ii) the reason for using a different date or period.

(c) the unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method.

Risks associated with an entity's interests in joint ventures and associates

23 An entity shall disclose:

(a) commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs B18–B20.

(b) in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.