

STAFF PAPER

15–16 July 2014

IFRS Interpretations Committee Meeting

Project	New items for initial consideration
Paper topic	IFRS 12 <i>Disclosure of Interests in Other Entities</i> —disclosure of summarised financial information about material joint ventures and associates
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

Introduction

1. The IFRS Interpretations Committee (the Interpretations Committee) received a request that seeks clarification in respect of the requirement to disclose summary financial information about material joint ventures and associates in paragraph 21(b)(ii) of IFRS 12 *Disclosure of Interests in Other Entities*.
2. We performed outreach on this topic with the International Forum of Accounting Standard-Setters (IFASS), securities regulators and the global IFRS technical teams of the international networks of the large accounting firms, in order to find out how widespread the issue raised by the submitter is and to what extent significant diversity in practice exists. The results of this outreach are included in this paper.

Purpose of the paper

3. The purpose of this paper is to:
 - (a) provide a summary of the outreach results on the issue raised;
 - (b) present an assessment of the issue against the Interpretations Committee's agenda criteria;

- (c) make a recommendation to issue a tentative agenda decision (refer to **Appendix A**); and
 - (d) ask the Interpretations Committee whether it agrees with the staff recommendation.
4. The submission is reproduced in full in **Appendix B** to this paper.

Submission received

5. The submitter observes that there are divergent views with respect to the application of the requirement to disclose summary financial information on material joint ventures and associates in paragraph 21(b)(ii) of IFRS 12. This paragraph states that (emphasis added):

21 An entity shall disclose:

(a) (...)

(i) – (iv) (...)

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

(i) (...)

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

6. The submitter refers that some think that the information required in paragraph 21(b)(ii) can be disclosed in aggregate for all material joint ventures, whereas some think that such information should be disclosed individually for each material joint venture or associate and should not be aggregated.
7. The submitter also asks the Interpretations Committee to clarify whether the information required in paragraph 21(b)(ii) should be disclosed even if local regulatory requirements prevent an entity from disclosing such information.
8. The views from the submitter on the issues explained above are summarised below.

Issue 1—whether the summarised financial information for material joint ventures/associates can be aggregated

9. The submitter has identified two views in applying paragraph 21(b)(ii):
- (a) **View A**—an entity can aggregate the information required to be disclosed for each material joint venture or associate; and
 - (b) **View B**—an entity should disclose the information required for each material joint venture or associate on an individual basis.

View A—an entity can aggregate the information for each joint venture or associate that is material

10. Proponents of this view observe that paragraph 4 of IFRS 12 (along with the application guidance in paragraphs B2–B6) provides ‘aggregation guidance’ to assist preparers in determining what level of detail is appropriate for the disclosures required in this Standard.

11. Paragraph 4 of IFRS 12 and paragraph B5 are reproduced below (emphasis added):

4 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements in this IFRS. **It shall aggregate or disaggregate disclosures so that useful information is not obscured** by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics (see paragraphs B2–B6).

B5 In determining whether to aggregate information, an entity shall consider quantitative and qualitative information about the different risk and return characteristics of each entity it is considering for aggregation and the significance of each such entity to the reporting entity. The entity shall present the disclosures in a manner that clearly explains to users of financial statements the nature and extent of its interests in those other entities.

12. Proponents of this view think that the ‘aggregation guidance’ in paragraph 4 of IFRS 12 (along with the application guidance in paragraphs B2–B6) can be applied when providing information about each material joint venture or associate on an individual basis. Consequently, they think that an entity could aggregate the information for each joint venture or associate that is material to the reporting entity, following the ‘aggregation’ guidance in IFRS 12.

View B—an entity should disclose the information required for each material joint venture or associate on an individual basis

13. Proponents of this view observe that the requirement in paragraph 21(a)(ii) of IFRS 12 to disclose summarised financial information for *each material* joint venture or associate implies that this information should be disclosed on an individual basis.
14. Furthermore, they observe that paragraph B14 of IFRS 12 requires an entity to present the summarised information required in paragraph 21(b)(ii) on a ‘one hundred per cent’ basis (and not on the entity’s share of those amounts). They note that paragraph BC50 of IFRS 12 refers that aggregating summarised information for each material joint venture or associate that is presented on a ‘one hundred per cent’ basis is not useful. Paragraph BC50 is reproduced below (emphasis added):

The Board observed that **the requirement to present the amounts on a ‘100 per cent’ basis would be appropriate only when the information is disclosed for individual joint ventures and associates. This is because presenting the financial information on a ‘100 per cent’ basis when aggregating that information for all joint ventures or associates would not result in useful information when the entity holds different percentage ownership interests in its joint ventures or associates.** In addition, some users and respondents to ED 9 recommended that the disclosures for associates should be aligned with those for joint ventures because investments in associates can be material and are often strategic to an investor with significant influence. **Accordingly, the Board decided that summarised**

financial information should also be provided for each material associate.

15. Consequently, on the basis of the guidance mentioned above, proponents of this view think that the information required in paragraph 21(b)(ii) of IFRS 12 should not be aggregated and should, instead, be presented on an individual basis.

Issue 2—Whether the summarised financial information for material joint ventures/associates must be disclosed in accordance with IFRS 12.21(b)(ii), even in the case of regulatory barriers

16. The submitter notes that in some cases the local regulatory requirements in some jurisdictions could be in conflict with the disclosure requirements in paragraph 21(b)(ii) of IFRS 12. We understand this to be the case, for example, when an investor's date of issuance of the financial statements precedes that of its individually material listed joint ventures/associates, and local regulatory requirements prevent a listed company from:
- (a) providing financial information to an individual party without disclosing the same information to all constituents; or
 - (b) disclosing confidential information before the joint venture/associate has publicly released it.
17. The submitter questions whether the summarised financial information for material joint ventures/associates must be disclosed in accordance with paragraph 21(b)(ii) of IFRS 12, even if local regulatory requirements prevent an entity from disclosing such information.

Summary of outreach conducted

18. We sent our outreach request to securities regulators, members of IFASS and the global IFRS technical teams of the international networks of the large accounting firms. We asked them to provide us with qualitative or quantitative information on the following aspects:

Information requested**Issue 1—aggregation of information about material joint ventures and associates**

We would appreciate your input to help us learn about the extent to which there is diversity in practice in respect of the first issue. It would be particularly helpful if you could provide quantitative information about the diversity you observe and the basis on which that quantitative information has been prepared.

Issue 2—regulatory barriers to disclosure of summarised information about material joint ventures and associates

With respect to the second issue, we would appreciate learning about jurisdictions in which local regulatory requirements prevent an entity from disclosing summarised financial information about material joint ventures/associates. In such cases, we would like to understand the nature of, and reason for, such regulatory barriers. We are also interested in receiving information about whether, notwithstanding such regulations, entities still provide such information, and how they achieve this. We would find it particularly helpful to receive examples from financial statements that illustrate your feedback.

Responses received

19. We received sixteen responses from the following respondents:
 - (a) the European Securities and Markets Authority (ESMA) and from the International Organization of Securities Commissions (IOSCO);
 - (b) ten national standard-setters; and
 - (c) four global IFRS technical teams of the international networks of the large accounting firms.
20. The views received represent informal opinions and do not reflect the formal views of those organisations.
21. The geographical breakdown for the responses received from national standard-setters is as follows:

Geographical region	Number of respondents
Asia & Oceania	5
Europe	2
Americas	2
Africa	1
Total respondents	<hr/> 10

22. We summarise the results of the outreach in the following paragraphs.

Summary of outreach responses

Issue 1—aggregation of information about material joint ventures and associates

23. All the respondents (except one¹) reported that they are not aware of any diversity in practice in applying the requirements in paragraph 21(b)(ii) of IFRS 12. About half of these respondents observed that their experience in applying the requirements in IFRS 12 is limited because this is a fairly recent Standard² that entities in their jurisdictions have just started to apply; some pointed out that this might be the reason why significant diversity in practice is not readily apparent.
24. Of the views described by the submitter in applying the requirements in paragraph 21(b)(ii) of IFRS 12:
- (a) the great majority of respondents support View B (ie “an entity should disclose the information required for each material joint venture or associate on an individual basis”) based on their interpretation of the current requirements in IFRS 12;
 - (b) one respondent favours View B but notes that diversity in practice could potentially emerge given the level of judgment required to determine what

¹ This respondent who noticed diversity in practice did not provide us further with quantitative information about the diversity observed.

² IFRS 12 was issued in May 2011 and amended in June and October 2012. It is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted.

is considered “material” and to determine whether the criteria for aggregation have been met and consequently, thinks that the requirements in paragraph 21(b)(ii) could be further clarified;

- (c) two respondents favour View B but would support the clarification of the requirements in paragraphs 21, B3-B5 and B14 of IFRS 12 if the Interpretations Committee considers that this clarification is necessary; and
- (d) only one respondent supports View A (“an entity can aggregate the information for each joint venture or associate that is material”) because this respondent thinks that the requirements in IFRS 12 do not specifically preclude the application of the ‘aggregation’ guidance in paragraphs B3–B6 of IFRS 12 when disclosing information about material joint ventures and associates in accordance with paragraph 21(b)(ii). Because of this possibility this respondent thinks that the requirements in paragraphs 21, B3-B5 and B14 in IFRS 12 should be clarified.

Issue 2—regulatory barriers to disclosure of summarised information about material joint ventures and associates

- 25. About two thirds of the respondents are not aware of any regulatory requirements in their jurisdictions that would prevent an entity from disclosing summarised financial information about material joint ventures or associates.
- 26. However, another third of the respondents³ noted that securities regulations in their jurisdictions preclude listed entities from disclosing material information on an individual basis about a public investee that has not already been made publicly available to all shareholders and to the market. A majority of these respondents observed that the reporting entity usually co-ordinates with its material investees to ensure the disclosure objective in IFRS 12 is achieved without compromising regulatory requirements. In this respect some of these respondents noted that it is common practice that a reporting entity that invests in a publicly listed joint venture or associate:

³ These include the securities regulators that responded to our outreach request.

- (a) waits for the joint ventures/associate's financial reports to be published before the reporting entity publishes its own financial report;
- (b) provides in its financial report estimated information about the joint venture or associate until the board of directors of the joint venture or associate approves the joint venture/associate's financial statements;
- (c) adjusts the financial reporting timetables to ensure that the associate issues the information before the investor; or changes the financial year-end of either the associate or the investor, in order to align the two; or
- (d) publishes aggregated information on associates and mentions that a particular joint venture or associate is listed and that its accounts will be soon be published and made available.

27. One respondent observed that there is no general provision in IFRS 12 that permits non-disclosure of otherwise required disclosures; consequently this respondent thinks that the information required by IFRS 12 must be disclosed regardless of local regulatory requirements.

Agenda criteria assessment

28. The staff's assessment of the Interpretations Committee's agenda criteria is as follows:⁴

Agenda criteria

<p>We should address issues (5.16):</p> <p>that have widespread effect and have, or are expected to have, a material effect on those affected.</p>	<p>Not met. The results of the outreach request showed that for a majority of these respondents the issue raised is not widespread and that diversity in practice has not been identified in applying the requirements in paragraph 21(b)(ii) of IFRS 12.</p> <p>Some of these respondents also mentioned that they have limited experience in applying the requirements in IFRS 12 because this is a fairly recent Standard and observed that diversity in practice is not immediately</p>
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⁴ These criteria can be found in the [IFRS Foundation Due Process Handbook](#) .

Agenda criteria

<p>where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and that can be resolved efficiently within the confines of existing IFRSs and the <i>Conceptual Framework for Financial Reporting</i>.</p>	<p>apparent.</p> <p>Not met. The respondents who replied to our outreach request did not report any diversity in practice in applying paragraph 21(b)(ii) of IFRS 12. Moreover a majority of the respondents who observed that securities regulations in their jurisdictions preclude listed entities from disclosing material information on an individual basis about a public investee observed that the reporting entity usually co-ordinates with its material investees to ensure the disclosure objective in IFRS 12 is achieved without compromising regulatory requirements.</p> <p>Consequently, because we observe that the application of paragraph 21(b)(ii) of IFRS 12 has not been problematic, we do not think that the Interpretations Committee should take this issue onto its agenda.</p>
<p>In addition: Can the Interpretations Committee address this issue in an efficient manner (5.17)</p>	<p>We propose that the Interpretations Committee should issue an agenda decision that would explain that the issue raised is not widespread and that there is no significant diversity in practice in respect of the issue raised.</p>
<p>Will it be effective for a reasonable time period (5.21)? Only take on the topic of a forthcoming Standard if short-term improvements are justified.</p>	<p>Not applicable.</p>

Staff recommendation

29. On the basis of the outreach results received and our assessment of the Interpretations Committee’s agenda criteria, we recommend that the Interpretations Committee should not take this issue onto its agenda.
30. We have set out proposed wording for the tentative agenda decision in **Appendix A**.

Questions to the Interpretations Committee

Questions to the Interpretations Committee

1. Does the IFRS Interpretations Committee agree with the staff recommendation?
2. Does the IFRS Interpretations Committee have any comments on the drafting of the tentative agenda decision?

Appendix A—Tentative agenda decision

A1. We propose the following wording for the tentative agenda decision.

IFRS 12 *Disclosure of Interests in Other Entities*—disclosure of summarised financial information about material joint ventures and associates

The Interpretations Committee received a request that seeks clarification in respect of the requirement to disclose summary financial information on material joint ventures and associates in paragraph 21(b)(ii) of IFRS 12 *Disclosure of Interests in Other Entities*.

The submitter asserts that there are two ways to interpret the application of that paragraph. Either the information required in paragraph 21(b)(ii) can be disclosed in aggregate for all material joint ventures or such information should be disclosed individually for each material joint venture or associate.

The submitter also asked the Interpretations Committee to clarify the requirements in paragraph 21(b)(ii) when the information relates to a listed joint venture or associate and local regulatory requirements would prevent the investor from disclosing such information until the joint venture or associate has released its own financial statements. Would the investor be excused from disclosing the information?

The Interpretations Committee analysed the results of the outreach request performed by the staff.

On the basis of the outreach results received, the Interpretations Committee determined that the issue raised is not widespread and that significant diversity in practice does not exist in applying the requirements in paragraph 21(b)(ii) of IFRS 12. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

Appendix B—submission received

IFRIC POTENTIAL AGENDA ITEM REQUEST

The IFRS Interpretations Committee (the Interpretations Committee) is requested to address the following issue related to IFRS 12 *Disclosure of Interests in Other Entities*.

Issue:

We are asking the Interpretations Committee to clarify two related issues in respect of the disclosure of summary financial information on material joint ventures and associates:

- A. Whether the information required by IFRS 12.21 (b)(ii) for material joint ventures (JVs)/associates can be aggregated by the reporting entity without disclosing summarised financial information of a material JV/associate on a stand-alone basis
- Or
- B. Whether the summarised financial information for individually material JVs/associates must be disclosed in accordance with IFRS 12.21(b)(ii), even in case of regulatory prohibition

Issue A: Aggregation

IFRS 12.21 (b)(ii) requires the reporting entity to disclose certain information for each material JV/associate, and that the financial information can be summarised.

IFRS 12.B12 and B13 require disclosure of specific financial information for each joint venture and associate that is material to the reporting entity.

IFRS 12.B3 states that the disclosures required by IFRS 12 may be aggregated for interests in similar entities if aggregation is consistent with the disclosure objective and the requirement in IFRS12.B4, and does not obscure the information provided.

IFRS 12.B5 states that, when determining whether to aggregate information or not, the reporting entity must consider ‘quantitative and qualitative information about the different risk and return characteristics of each entity it is considering for aggregation and the significance of the entity to the reporting entity.’

Current practice

This issue has arisen in practice because of what some would see as conflicting guidance in the standard between paragraphs 21(a) and (b) and B12 and B13 on the one hand and paragraphs B3 and B5 on the other. Views appear to be mixed in practice between views 1 and 2 below.

View 1

An entity may provide aggregated information, in accordance with the guidance in paragraphs B3-B5, and is not required to separately disclose information for each material JV/associate. That is, an entity may choose whether to disclose information for each material JV/associate individually, or whether to disclose the information for some or all material JVs/associates in the aggregate, provided the criteria in paragraphs B3 to B5 are met. Proponents of this view believe that the aggregation guidance in paragraphs B3-B5 applies to the entire standard and does not exclude paragraph 21.

View 2

An entity must disclose information separately for each material JV/associate as per IFRS 12.21. The guidance in paragraphs B3-B5 does not override this. Proponents of this view would point out that the standard must mean that if an individual JV/associate is material to the reporting entity, aggregation would, by definition, be inconsistent with the disclosure objective. In addition, the summarised financial information referred to in paragraph 21(b)(ii) must be provided on a 100% basis (IFRS 12 par. B14). As referred to in BC50, providing information on a 100% basis is appropriate only when the information is disclosed for individual JVs/associates.

BC50 The Board observed that the requirement to present the amounts on a '100 per cent' basis would be appropriate only when the information is disclosed for individual joint ventures and associates. This is because presenting the financial information on a '100 per cent' basis, when aggregating that information for all joint ventures or associates, would not result in useful information when the entity holds different percentage ownership interests in its joint ventures or associates. In addition, some users and respondents to ED 9 recommended that the disclosures for associates should be aligned with those for joint ventures because investments in associates can be material and are often strategic to an investor with significant influence. Accordingly, the Board decided that summarised financial information should also be provided for each material associate.

Issue B: Regulatory prohibition

In the following circumstances, a conflict arises between the disclosure requirements in IFRS 12 paragraph 21(b)(ii) and regulatory requirements. This is particularly relevant in the event that the Committee concludes for Issue A that no aggregation of summary financial information on individually material JVs/associates is allowed.

- An investor's financial reporting date precedes that of its individually material listed JV/associate, and regulatory requirements prohibit a listed company from providing financial information to an individual party without disclosing the same information to all constituents. The investor cannot force the JV/associate to provide the information.
- An investor's financial reporting date precedes that of its individually material JV/associate. It confidentially receives the information necessary to disclose summary financial information, but regulatory requirements prohibit the investor from disclosing the confidential information before the JV/associate has publicly released it.

Reasons for the IFRIC to address the issues:

(a) The issue is widespread and has practical relevance

IFRS 12 is relevant to many entities in different sectors that hold JVs and/or associates.

(b) The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice).

We have come across instances in practice in recent months where this was an issue. We have not investigated whether further diversity in practice exists.

(c) Would financial reporting be improved through the elimination of the diversity?

Yes, financial reporting would be improved; specifically with respect to comparability between entities.

(d) Is the issue a narrow implementation or application issue that can be resolved using existing IFRSs?

We consider that this issue can be resolved if the wording in IFRS 12 is clarified accordingly.

(e) If the issue is related to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project?

We are unaware of any current or planned IASB project that will address this issue.