

Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12 (group accounting Standards)

Capital Markets Advisory Committee

Agenda Paper [AP2]
March 2021

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Purpose of this session

Purpose

- to provide an overview of the Request for Information
- to request feedback on the matters in the Request for Information that relate to investors' information needs regarding interests in subsidiaries, joint ventures, associates and unconsolidated structured entities



Background

What is a post-implementation review?

What is a post-implementation review?

- The Board undertakes a post-implementation review of a new IFRS Standard or a major amendment after it has been implemented internationally for more than two years
- A post-implementation review is a part of the Board's due process and helps to assess the effect of new requirements on investors, preparers and auditors

Outcomes

- The Board could decide to add a standard-setting project to its agenda, consider one or more matters further as part of its research programme, or both. The Board could also decide to take no action

Scope of the Post-implementation Review

IFRS 10 *Consolidated Financial Statements*

Which companies to include in consolidated financial statements

IFRS 11 *Joint Arrangements*

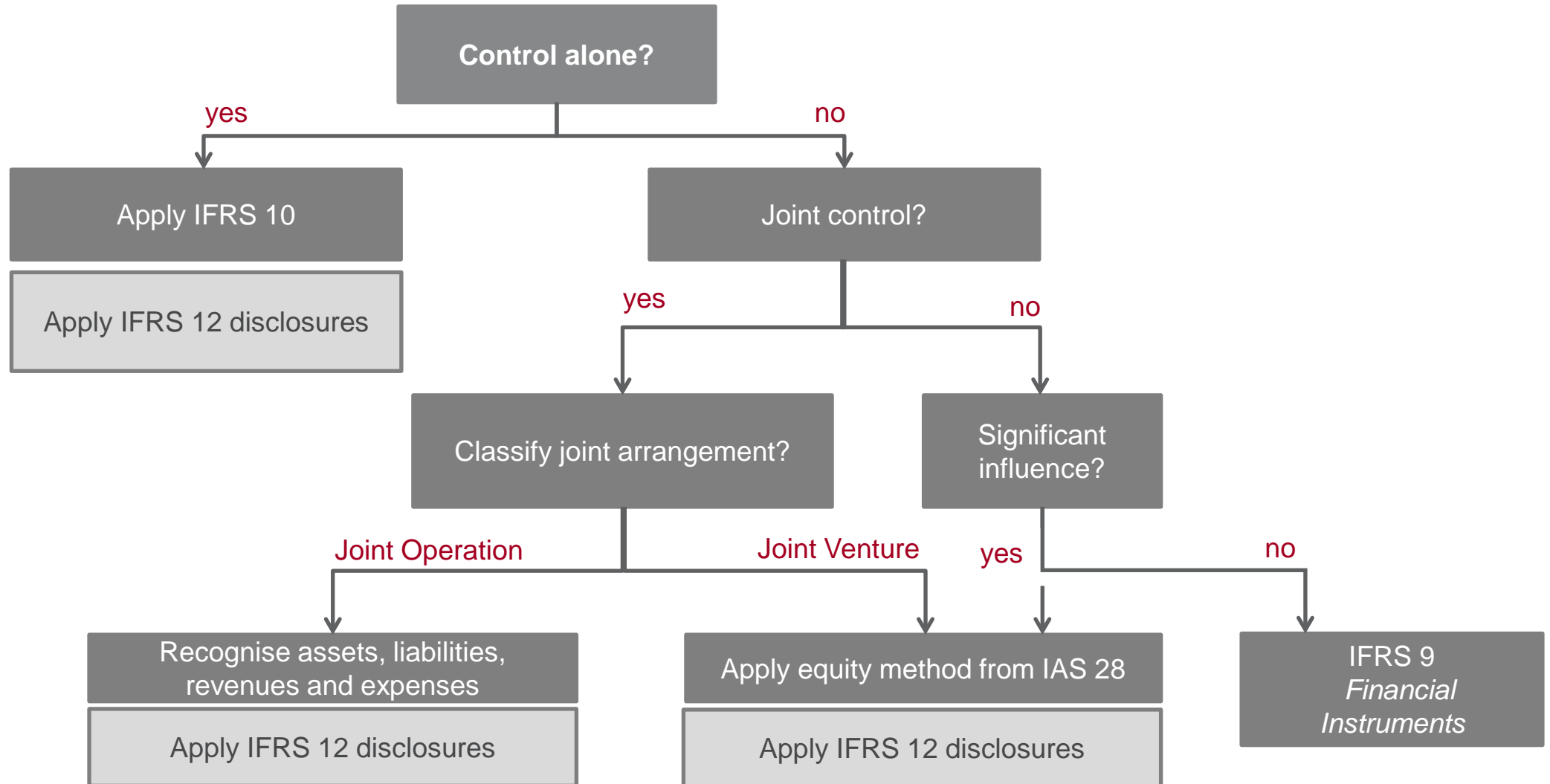
Classifying a joint arrangement and accounting for it according to that classification

IFRS 12 *Disclosure of Interests in Other Entities*

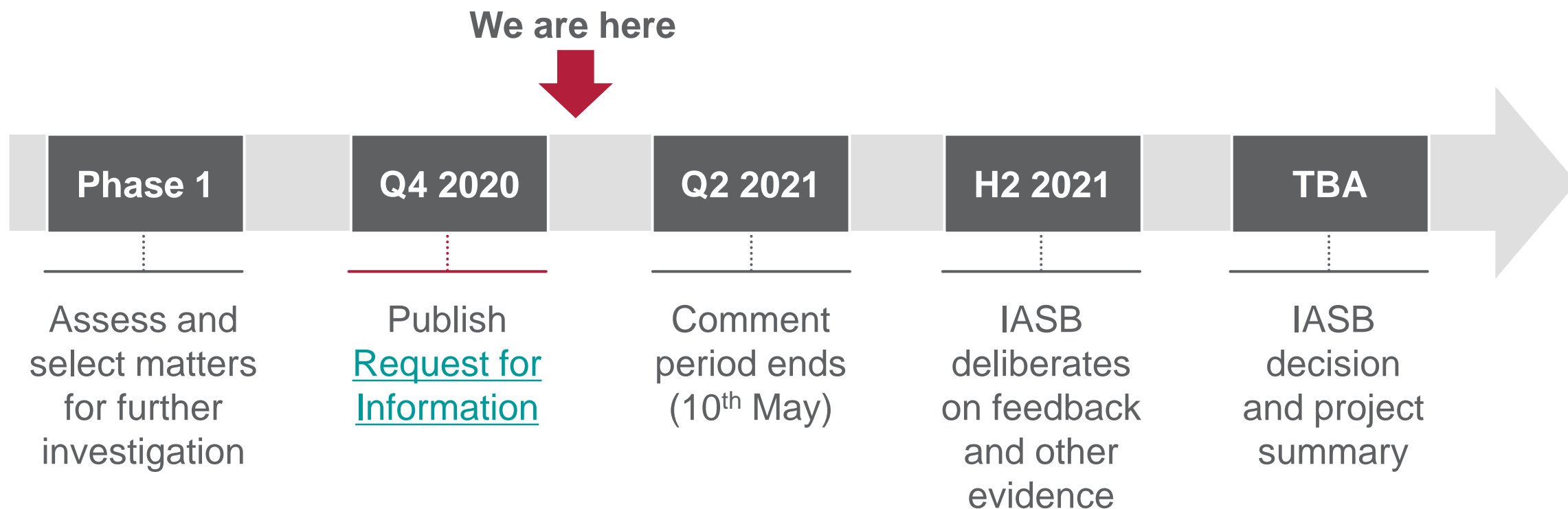
Disclosing information about a company's involvement in other entities

Relationship between IFRS 10,11,12, and IAS 28

Investments in Associates and Joint Ventures



Timeline of the Post-implementation Review





Request for Information

Matters in the Request for Information

IFRS 10 Consolidation			IFRS 11 Joint arrangements	IFRS 12 Disclosure
Control assessment <ul style="list-style-type: none">• relevant activities• rights that give an investor power• control without a majority of the voting rights• agency relationship• non-contractual agency relationship			Collaborative arrangements outside the scope of IFRS 11	Meeting the disclosure objective
			Classifying joint arrangements	
Investment entities	Change in the relationship with an investee	Partial acquisition a single asset company	Accounting requirements for joint operations	



Questions on disclosures required by IFRS 12

IFRS 12—Disclosure objective

- IFRS 12 is a disclosure-only IFRS Standard.

Objective

An entity is required to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in other entities; and
- the effects of those interests on its financial position, financial performance and cash flows

Topics

1 Disclosure of significant judgements and assumptions

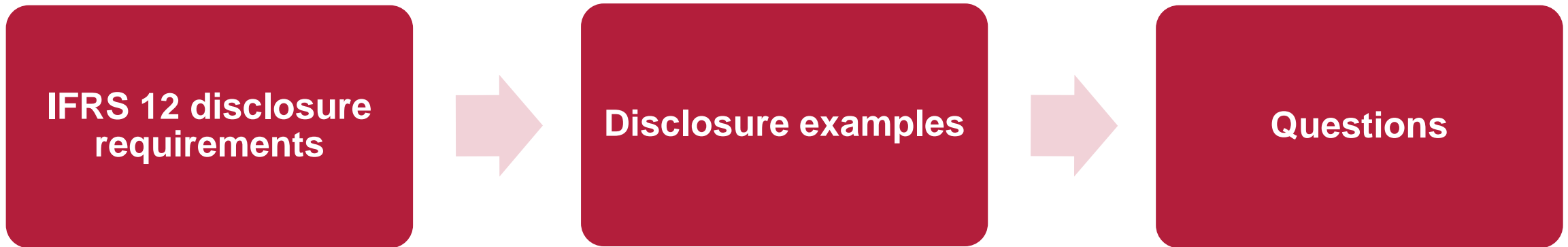
2 Disclosures—subsidiaries

3 Disclosures—joint ventures and associates

4 Disclosures—structured entities

Presentation structure

To facilitate discussion the rest of this presentation has three parts:



Disclosure of significant judgements and assumptions

Requirements

The disclosure of information about significant judgements and assumptions an entity has used to determine:

- whether an entity has control, significant influence, or joint control; and
- whether a joint arrangement is a joint operation or a joint venture

Example 1—determining control

34. Principal operating, finance and industrial subsidiaries and investments

		Country of incorporation	% interest 2019	% interest 2018	Main activity
Principal subsidiaries					
Industrial activities					
Sub A	1		50.0	50.0	Copper production

1 This investment is treated as a subsidiary as the Group is entitled to elect the chairman of the Board who has the casting vote where any vote is split equally between the four board positions.

Disclosure of significant judgements and assumptions

Example 2—determining significant influence

	Country of incorporation	% interest 2019	% interest 2018	Main activity
Other investments				
Investment X ¹³		25.0	25.0	
¹³ Although the Group holds more than 20% of the voting rights in X, it is unable to exercise significant influence over the financial and operating policy decisions of X.				

Questions

Do you receive sufficient information to understand the judgments and assumptions made in determining:

- the nature of an entity's interest in another entity? and
- if an interest is a joint arrangement, whether it is a joint operation or joint venture?

Disclosure—subsidiaries

Requirements

The disclosure of information about:

- the composition of a group
- interests that non-controlling interests have in the group's activities and cash flows
- the nature and extent of significant restrictions on ability to access or use assets, and settle liabilities
- risks associated with interests in consolidated structured entities
- the consequences of losing control or of changes that do not result in a loss of control

Disclosure of information about material non-controlling interests in groups activities and cash flows

Disclosure—subsidiaries

Example 3—subsidiaries with material non-controlling interest

						2019
	Sub A	Sub B	Sub C	Sub D	Other	Total
Underlying earnings attributable to non-controlling interests	—	118	259	686	5	1,068
Profit attributable to non-controlling interests	1	56	269	691	18	1,035
Dividends paid to non-controlling interests	(9)	(143)	(79)	(638)	(25)	(894)
Balance sheet information:						
Equity attributable to non-controlling interests	1,406	1,619	906	1,555	1,104	6,590

Disclosure—subsidiaries

Example 3—subsidiaries with material non-controlling interest (continued)

	2019			
US\$ million	Sub A	Sub B	Sub C	Sub D
Non-current assets	9,006	5,424	2,971	4,084
Current assets	3,835	3,342	1,893	1,100
Current liabilities	(694)	(2,115)	(499)	(531)
Non-current liabilities	(2,155)	(1,342)	(911)	(1,405)
Net assets	9,992	5,309	3,454	3,248
Revenue	4,599	6,866	4,445	2,287
Profit/(loss) for the financial year ⁽¹⁾	(21)	1,247	1,466	113
Total comprehensive income/(expense)	69	1,421	1,589	96
Net cash inflow from operating activities	361	1,985	1,860	437

Disclosure—subsidiaries

Example 4—significant restrictions

Restricted cash and cash equivalent analysis

Cash and cash equivalents of US\$315 million (2018: US\$186 million) are held in countries where there are restrictions on remittances. Of this balance, US\$245 million (2018: US\$142 million) could be used to repay subsidiaries' third-party borrowings.

There are also restrictions on a further US\$1,644 million (2018: US\$1,090 million) of cash and cash equivalents, the majority of which is held by partially owned subsidiaries and is not available for use in the wider Group due to legal and contractual restrictions currently in place. Of this balance US\$1,442 million (2018: US\$864 million) could be used to repay subsidiaries' third-party borrowings.

Disclosure—subsidiaries

Questions

- Do you receive sufficient information about interests in subsidiaries, including financial information about subsidiaries with non-controlling interests and significant restrictions?
- If yes, is there any information that you find irrelevant?
- If not, what information is missing and how would you use that information?

Disclosure—joint ventures and associates (equity accounted investments)

Requirements

The disclosure of the nature, extent and financial effects of an entity's interests in joint arrangements and associates:

- summarised financial information of material joint ventures and associates; and
- aggregated financial information of individually immaterial joint ventures and associates

Disclosure—joint ventures and associates (equity accounted investments)

Example 5—material joint ventures and associates

US\$ million	Associate A	Associate B	Total material associates	Joint venture C	Joint venture D	Total material joint ventures
Non-current assets	2,399	4,589	6,988	4,905	5,712	10,617
Current assets	630	1,276	1,906	1,306	7,363	8,669
Non-current liabilities	(768)	(1,170)	(1,938)	(1,207)	(3,855)	(5,062)
Current liabilities	(57)	(486)	(543)	(794)	(5,389)	(6,183)
<i>The above assets and liabilities include the following:</i>						
Cash and cash equivalents	157	55	212	163	184	347
Current financial liabilities ¹	(21)	(53)	(74)	(15)	(2,770)	(2,785)
Non-current financial liabilities ¹	(15)	(146)	(161)	(95)	(3,450)	(3,545)
Net assets 31 December 2019	2,204	4,209	6,413	4,210	3,831	8,041
Group's ownership interest	33.3%	33.8%		44.0%	49.9%	
Acquisition fair value and other adjustments	409	1,872	2,281	1,116	1,246	2,362
Carrying value	1,143	3,295	4,438	2,968	3,158	6,126

Disclosure—joint ventures and associates (equity accounted investments)

Example 5—material joint ventures and associates (continued)

US\$ million	Associate A	Associate B	Total material associates	Joint venture C	Joint venture D	Total material joint ventures
Revenue	1,483	3,038	4,521	3,147	25,057	28,204
(Loss)/income for the year	(1,440)	892	(548)	945	(29)	916
Other comprehensive loss	–	–	–	(23)	(3)	(26)
Total comprehensive (loss)/income	(1,440)	892	(548)	922	(32)	890
Group's share of dividends paid	66	243	309	467	–	467
<i>The above (loss)/income for the year includes the following:</i>						
Depreciation and amortisation	(565)	(811)	(1,376)	(640)	(524)	(1,164)
Interest income ¹	–	15	15	35	28	63
Interest expense ²	(12)	(3)	(15)	(25)	(202)	(227)
Impairment, net of tax ³	(1,305)	–	(1,305)	–	–	–
Income tax credit/(expense)	46	(489)	(443)	(437)	(40)	(477)

Disclosure—joint ventures and associates (equity accounted investments)

Example 6—individually not material joint ventures and associates

Aggregate information of associates that are not individually material:

US\$ million

	2019
The Group's share of (loss)/income	(110)
The Group's share of other comprehensive loss	(25)
The Group's share of total comprehensive loss	(135)
Aggregate carrying value of the Group's interests	2,420

Disclosure—joint ventures and associates (equity accounted investments)

Questions

- Do you receive sufficient information regarding interests in joint ventures and associates?
- If yes, is there any information that you find irrelevant?
- If not, what information is missing and how would you use that information?

Findings 1—segment information

Findings

- Some entities disclose segmental information including their share of revenue, earnings, assets and liabilities of joint ventures and associates
- Joint ventures and associates are accounted for applying the equity method. The share of profit or loss of associates and joint ventures is presented in the income statement and the net investment is presented on the balance sheet as a single line item
- IFRS 8 *Operating Segments* provides information based on the way management regards an entity

Findings 1—segment information

Example 6—Segment information associates and joint ventures

	The Company and its subsidiaries		Associates and joint ventures		Combined revenue	Consolidated results *
	Revenue	Results *	Share of revenue	Share of results *		
Property sales						
Hong Kong	36,268	15,965	605	368	36,873	16,333
Mainland China	3,497	1,667	862	367	4,359	2,034
Singapore	–	–	32	10	32	10
	39,765	17,632	1,499	745	41,264	18,377
Property rental						
Hong Kong	15,914	11,898	3,095	2,558	19,009	14,456
Mainland China	3,995	3,211	622	451	4,617	3,662
Singapore	–	–	588	447	588	447
	19,909	15,109	4,305	3,456	24,214	18,565

Questions

When information is disclosed including the share of revenue, earnings, assets and liabilities of joint ventures and associates do you use it?

If so, how do you use the information?

* In the context of this example, the term “results” refers to net profit or loss.

Findings 2—Individually not material joint ventures and associates

Findings

- We have identified companies that carry out a significant portion of their business through a number of joint ventures or associates that are not individually material
- Applying IFRS 12, investments in joint ventures or associates that are not individually material are not required to be disclosed separately

Questions

- Are you aware of any such circumstances?
- If yes, are the disclosures (see example on slide 25) sufficient?
 - If not, what information is missing and how would you use that information?

Disclosure—structured entities*

Requirements

The disclosure of the nature of risks associated with an entity's interests in consolidated structured entities

The disclosure of the nature of interests and risks associated with its interests in unconsolidated structured entities

* A structured entity is an entity designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Examples include, but are not limited to, securitisation vehicles, asset-backed financings and some investment funds.

Disclosure—structured entities

Example 7—hypothetical

One of the Group's subsidiaries, Sub X, participates in a revolving securitisation vehicle (Vehicle Y) for trade receivables. On sales of goods of the Group, Sub X receives the face value of the receivables less a premium that covers the financing costs. The Group collects the amount due from customers on behalf of Vehicle Y. In the event of default, the receivable is put back to the company at its face value.

The Group does not derecognise receivables upon transferring. The Group recognised a liability when receiving the amount from Vehicle Y.

At 31 December 20X1, the following balances related to the Group's involvement in the Vehicle Y:

CU million	31 December 20X1
Carrying amount of receivables transferred to Vehicle Y included in trade receivables	760
Carrying amount of liabilities relating to the trade receivables transferred to Vehicle Y and included in trade receivables	721
Maximum exposure to loss	760

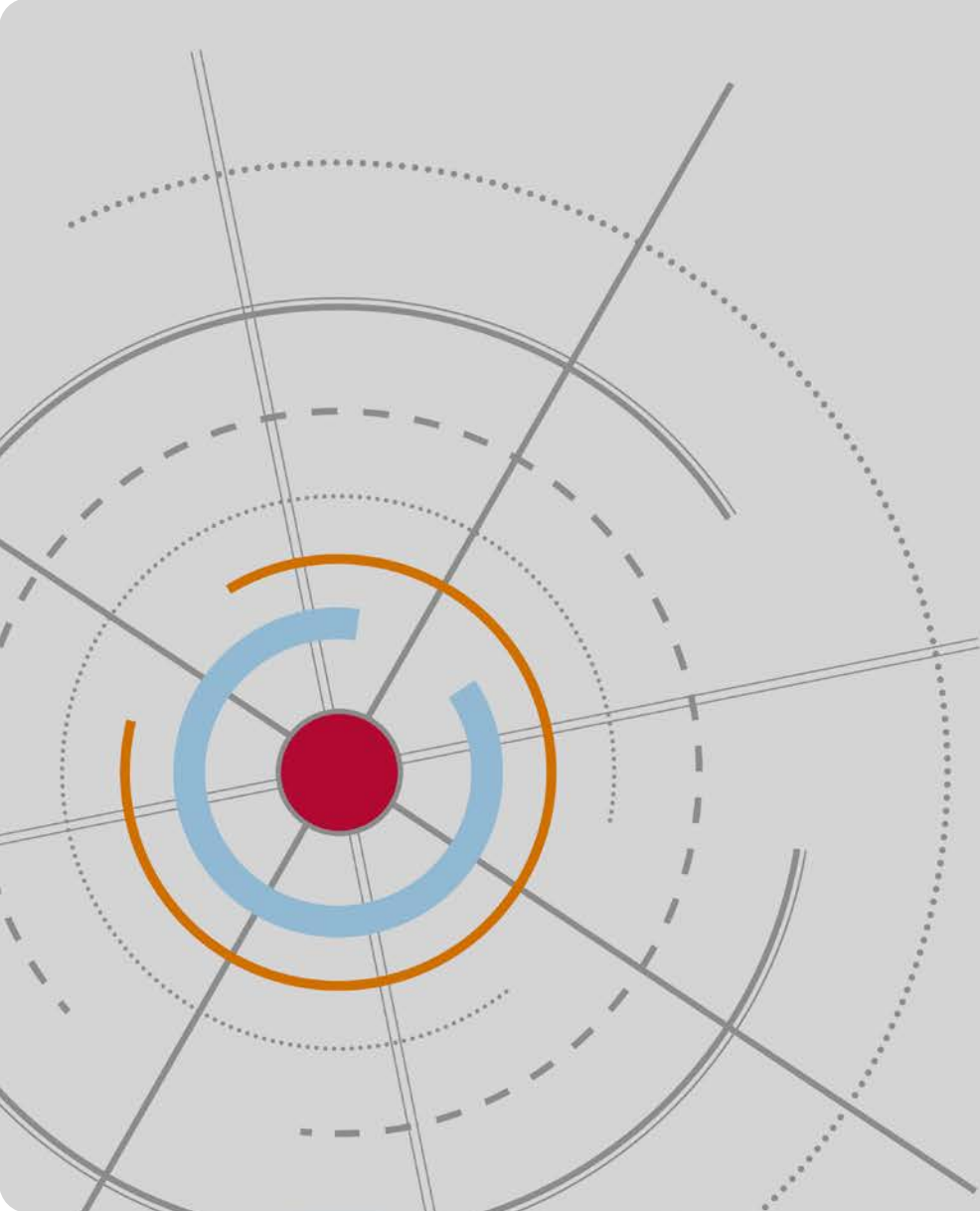
The Group does not control, and therefore does not consolidate Vehicle Y. Vehicle Y acquires trade receivables from other companies in the same industry as the Group and issues commercial paper to a variety of investors. The Group concluded that it does not have power to direct the relevant activities of Vehicle Y.

Disclosure—structured entities

Questions

Do you receive sufficient information to understand an entity's involvement with structured entities (consolidated or unconsolidated) and the risk associated with them?

- If yes, is there any information that you find irrelevant?
- If not, what is the missing information and how would you use it?



Appendix— Disclosure requirements

Disclosure of significant judgements and assumptions

Control assessment

- An entity discloses whether it:
- has control without more than half of the voting rights
 - has control with less than half of the voting rights
 - is an agent or a principal

Joint arrangements

- An entity discloses:
- the type of joint arrangement (joint venture or joint operation)

Significant influence

- An entity discloses whether it has:
- no significant influence with 20% or more of the voting rights
 - significant influence with less than 20% of the voting rights

Changes in conclusion about whether an entity has control, joint control or significant influence

These are some of the disclosure requirements in IFRS 12 or other Standards. These are not complete lists.

Disclosure requirements—subsidiaries

General and financial information

For subsidiaries with material non-controlling interest an entity discloses:

- name and principal place of business
- profit or loss allocated to non-controlling interest
- current/non-current assets/liabilities
- revenue/profit or loss/other comprehensive income

Restrictions

An entity discloses:

- significant restrictions on an entities ability to use the assets and settle the liabilities
- cash held by an entity not available for use by the group
- tax effect in relation to investments in subsidiaries

Changes in ownership

An entity discloses:

- consequences of losing control
- consequences of changes in ownership interest without losing control

These are some of the disclosure requirements in IFRS 12 or other Standards. Please do not take it as a complete list.

Disclosure requirements—joint ventures and associates

Material JVs and associates

On material joint ventures and associates, an entity discloses:

- name and principal place of business
- nature of relationship
- summarised financial information
 - dividend received
 - current/non-current assets/liabilities
 - revenue/profit or loss/other comprehensive income
 - ...

Other JVs and associates

On joint ventures and associates not individually material, an entity discloses:

- profit or loss
- other comprehensive income
- ...

Restrictions

An entity discloses:

- significant restrictions on its ability to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity

These are some of the disclosure requirements in IFRS 12 or other Standards. Please do not take it as a complete list.

Disclosure requirements—structured entities

Consolidated structured entities

An entity discloses information about:

- financial support arising from a contractual arrangement
- financial support without contractual arrangement
- ...

Unconsolidated structured entities

An entity discloses:

- the nature, purpose, size and activities of the structured entity and how it is financed
- assets and liabilities recognized relating to its interests
- maximum exposure to loss from its interests
- financial or other support
- ...

These are some of the disclosure requirements in IFRS 12 or other Standards. Please do not take it as a complete list.

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