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Project	Primary Financial Statements	
Paper topic	Feedback summary—Subtotals and categories—integral and non-integral associates and joint ventures	
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Objective

1. This paper analyses feedback from comment letters and outreach on the proposals relating to integral and non-integral associates and joint ventures set out in the Exposure Draft *General Presentation and Disclosures*. This paper also discusses fieldwork findings. A review of the academic literature related to this topic is included in Agenda Paper 21L—*Feedback summary—Literature Review*.

Key messages

2. Almost all respondents provided feedback on the topic. Respondents expressed diverse opinions across various aspects of the proposals in the Exposure Draft. Many respondents did not express an overall view, commenting instead on specific aspects of the proposals. However, of those that expressed an overall view, more disagreed with the proposals than agreed.

3. Most respondents highlighted concerns with the proposals. These respondents included respondents that agreed with the proposals, respondents that disagreed and respondents that did not express an overall view. Their concerns relate to:

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(a) the proposal to identify separately integral associates and joint ventures (paragraphs 10–15);

(b) the proposed definitions of integral and non-integral associates and joint ventures (paragraphs 16–25); and

(c) the separate presentation of amounts relating to these investments in the primary financial statements (paragraphs 26–33).

4. Overall, there is not much support among stakeholders for the proposals. In terms of support by geographical representation, there is relatively wider support for the proposals among African and French stakeholders, while the proposals received no support from German stakeholders. In terms of support by stakeholder type, there is relatively wider support for the proposals among accounting bodies, accounting firms, regulators, and standard setting bodies.

5. Both preparers and users generally disagreed with the proposals. However, most users agreed with one aspect of the proposal, the exclusion from operating profit of the share of profit or loss from equity-accounted associates and join ventures.

6. Feedback from fieldwork identified many practical difficulties with the proposed requirements.

Structure of the paper

7. This paper is structured as follows:

(a) proposals in the Exposure Draft (paragraph 8–9);

(b) comment letter and outreach feedback (paragraphs 10–35);

(c) fieldwork findings (paragraphs 36–55);

(d) Appendix A—Relevant questions in the Invitation to Comment

Proposals in the Exposure Draft

8. The Board proposed to define 'integral associates and joint ventures' and 'non-integral associates and joint ventures', and to require an entity to classify its equity-

accounted associates and joint ventures as either integral or non-integral to the entity's main business activities. The Board also proposed to require an entity to provide information about integral associates and joint ventures separately from that for non-integral associates and joint ventures. The Board proposed that an entity would be required to:

(a) classify, in the 'integral associates and joint ventures' category of the statement of profit or loss, income and expenses from integral associates and joint ventures, and present a subtotal for 'operating profit or loss and income and expenses from integral associates and joint ventures' (paragraphs 53 and 60(b) of the Exposure Draft);

(b) present, in each of the categories of the statement of comprehensive income, the share of other comprehensive income of integral associates and joint ventures separately from non-integral associates and joint ventures (paragraph 75(a) of the Exposure Draft);

(c) present, in the statement of financial position, investments in integral associates and joint ventures separately from investments in non-integral associates and joint ventures (paragraphs 82(g)–82(h) of the Exposure Draft); and

(d) disclose, in the notes, information required by paragraph 20 of IFRS 12 *Disclosure of Interests in Other Entities* for integral associates and joint ventures separately from non-integral associates and joint ventures (proposed new paragraph 20E of IFRS 12).

9. The proposed new paragraphs 20A–20E of IFRS 12 and 38A of IAS 7, the proposed requirements are set out in paragraphs 60(b), 53, 75(a), 82(g)–82(h) of the Exposure Draft and paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered but rejected by the Board.

Comment letter and outreach feedback

Separately identify 'integral associates and joint ventures'

10. Some respondents said that they agree with the Board's proposal to identify integral associates and joint ventures separately from non-integral associates and joint ventures.

11. Some respondents, including many users, said the split between integral and non-integral associates and joint ventures would not provide useful information. Many respondents did not specifically comment on the proposal to require separate identification of integral and non-integral associates and joint ventures, but disagreed with specific aspects of the proposed classification (see paragraphs 20–25 of this paper).

Agreement

12. Some respondents, including some users, said that the separate information about integral and non-integral associates and joint ventures could provide users of financial statements with useful information. They said that this could enable users to understand whether the activities undertaken by the associates and joint ventures relate to the main business activities of the reporting entity, especially if the entity explained in the notes to financial statements how the distinction was applied.

Concerns

13. Some respondents, including many users, said the separate identification of integral associates and joint ventures would not provide useful information. Of these respondents, many suggested that existing disclosure requirements in IFRS 12 are sufficient to provide users with the information they need. In contrast, some users requested better disclosure of information about associates and joint ventures, saying such improved disclosure would be more useful than a split between integral and non-integral.

14. Some respondents, including some users, said that any proposed classification would require arbitrary judgements that would not capture the sometimes complex relationships between an entity and its associates and joint ventures. Some

respondents also said that the idea of 'integral' is not conceptually robust, and that it is unclear how the notion of 'integral' interacts with 'control' as defined in IFRS 3 *Business Combinations* and 'significant influence' as defined in IAS 28 *Investments in Associates and Joint Ventures*. They said that the resulting reporting would not be meaningful, would lack comparability, and could confuse users.

15. A few respondents commented that management took conscious decisions to obtain significant influence or joint control in the investee to support the main business activities of the reporting entity. In their view, non-integral associates and joint ventures rarely exist in practice, and therefore there is no need to provide information about income and expenses from integral associates and joint ventures separately from non-integral ones.

Definitions of integral and non-integral associates and joint ventures

16. The Exposure Draft defined 'integral associates and joint ventures' as 'associates and joint ventures accounted for using the equity method that are integral to the main business activities of an entity and hence do not generate a return individually and largely independently of the other assets of the entity'. In addition, paragraph 20D of the proposed amendment to IFRS 12 gives 'significant interdependence' as the only indicator of whether the associate or joint venture is integral to the main business activities of the reporting entity.

17. Most respondents, including some of those who agreed with the proposals to identify separately integral associates and joint ventures, have concerns over the definition of, or indicator for, integral associates and joint ventures. Some of these concerns are conceptual and others relate to practical concerns.

18. A few respondents agreed with the proposed definition and guidance and expressed no concerns.

Agreement

19. The respondents who agreed with the definition did not provide specific reasons for their agreement. The respondents that supported the overall proposals said the

proposals helped to provide information on how the associates and joint ventures are related to the main business activities of the entity.

Concerns

20. Some respondents pointed out that that the definition consists of two separate parts, which may lead to different conclusions depending on whether the associate or joint venture is regarded as ‘integral to the main business activities of an entity’ or regarded as ‘not generating a return individually and largely independently of the other assets of the entity’. In their view the defining feature for integral associates and joint ventures is whether the investment in the associate or joint venture was made in the course of the reporting entity’s main business activities. In their view, the individuality and independence of the return generated is not necessarily always relevant. Respondents provided the following examples of where there could be a conflict:
    - (a) in the real estate industry, where associates or joint ventures can generate individual and largely independent returns, but are still considered to be integral for executing the strategy of the reporting entity.
    - (b) in the insurance industry, where investments in associates and joint ventures could generate individual and largely independent returns. Nevertheless, these associates and joint ventures are, in the eyes of the management, made in the course of the entity’ main business activities, and therefore considered to be integral associates and joint ventures.

21. A few respondents said that it is unclear how the definition of ‘non-integral’, which requires the equity-accounted associate or joint venture to ‘generate a return individually and largely independently of other assets of the entity’ differs from a ‘cash-generating unit’ that ‘generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets’. They sought clarification from the Board on how the concept of integral associates and joint ventures interacts with the concept of ‘cash-generating unit’ in IAS 36 *Impairment of Assets*.

22. A few respondents said it may seem rule-based and arbitrary that the distinction applies only to associates and joint ventures, but not to other types of investments. Similarly, it is unclear why the distinction applies only to associates and joint ventures

accounted for using the equity method, but not to associates and joint ventures accounted for using other methods (for example associates or passive equity investments carried at fair value or at cost).

23. Some respondents disagreed with the indicator of integral associates and joint ventures included in paragraph 20D of the proposed amendment to IFRS 12. In their view:

    (a) the term 'significant interdependence' is not well-defined; and

    (b) the indicator does not always accurately capture what management would consider to be integral associates and joint ventures.

24. On the practical aspects of the proposals, many respondents asked for more guidance and/or more examples to help identify integral and non-integral associates and joint ventures. Some respondents commented that the classification would require management to exercise significant judgement and could leave room for opportunistic classification. The resulting classification may also not be consistent across different entities, raising doubts about the usefulness of the information provided (see paragraph 14). Such judgements could be complex and result in additional costs for preparers. Examples raised by respondents where they said that the proposed guidance was unclear included:

    (a) when the three examples of significant interdependence in paragraph 20D of the proposed amendment to IFRS 12 (integrated line of business, sharing a name and significant supplier/customer relationship) lead to contradictory outcomes.

    (b) when the investor has significant influence over the investee by virtue of a contract (for example a franchise agreement).

    (c) when the classification of the investment differs between the perspective of the reporting entity and that of the ultimate holding company.

25. Respondents also said it may be difficult to judge whether returns arise individually and largely independently, especially for conglomerates that engage in many different business activities.

Separately presenting amounts relating to integral associates and joint ventures in primary financial statements

26. The Board proposed to require an entity to present in the primary financial statements amounts relating to integral associates and joint ventures separately from those relating to non-integral associates and joint ventures. The Board also proposed creating a new subtotal 'operating profit or loss and income and expenses from integral associates and joint ventures' in the statement of financial performance.

27. Respondent's views were mixed:

    (a) some respondents agreed with the proposal to both present amounts relating to integral associates and joint ventures separately from non-integral associates and joint ventures and to create a new subtotal.

    (b) some respondents disagreed with the proposal to present amounts relating to integral associates and joint ventures separately from non-integral associates and joint ventures and the creation of the new subtotal in the statement of financial performance. These respondents include those who did not support separately defining integral and non-integral associates and joint ventures (see paragraphs 10–15) and a few respondents who supported a separate definition but said that the information should be disclosed in the notes to financial statements, rather than be presented in the primary financial statements.

    (c) in addition, a few respondents who agreed with separate presentation in the statement of financial performance disagreed with the proposals for the new subtotal.

Agreement

28. Some respondents said that there is currently diversity in practice in how entities present income and expenses from associates and joint ventures. Some entities include such income and expenses within the operating profit while others do not. These respondents expect comparability of financial statements across different entities to be enhanced by the proposal to require income and expenses from equity-accounted associates and joint ventures to be presented in specific locations within the statement of financial performance.

29. A few respondents said that presenting separately income and expenses from integral associates and joint ventures helps to convey management's view on how closely related the investment is to the main business activities of the reporting entity, and how management see its businesses. They said that a separate category and subtotal could also help users identify the results of such investments by presenting them closer to operating profit.

Concerns

30. Some respondents, including some of those who agreed with the proposal to identify separately integral associates and joint ventures, disagreed with the proposal to present amounts relating to these investments separately in the primary financial statements. In their view:

    (a) companies could provide the information that users need through disclosures in the notes to financial statements; and

    (b) requiring separate presentation in the statements of financial position and profit or loss and the creation of an additional subtotal in the statement of financial performance could bring undue prominence to amounts that are not important enough to warrant such treatment.

31. Most users commented that the new subtotal in the statement of financial performance is not useful because the new subtotal includes both pre-tax and post-tax amounts, as well as the effects of financing in the associates and joint venture (but not the effects of financing for the rest of the entity). Those users said they would not use the subtotal in their analysis and that, in their view, the subtotal adds clutter to the statement of financial performance.

32. However, these users supported the exclusion of all equity-accounted associates and joint ventures from operating profit, again because of the potential effect of these post-tax, post- financing measures, and the effect on any margin analysis, if they were included in operating profit. In contrast, some other respondents said that requiring companies to present results of integral associates and joint ventures below the operating category could reduce entities' ability to accurately reflect their operating results.

33. A few respondents commented that the name of the subtotal is complex, and what the subtotal signifies is unclear.

Alternative approaches

34. Many respondents who disagreed with the proposals suggested alternative approaches. These alternative approaches included:

    (a) some respondents suggested retaining the existing approach in IAS 1 *Presentation of Financial Statements* to present all income and expenses from associates and joint ventures accounted for using the equity method in a single line item. Of these respondents:

        (i) some suggested presenting the line item below the operating category. All users who suggested presenting such income and expenses in a single line suggested to do so below the operating category. A few respondents specifically suggested presenting the line item within the investing category.

        (ii) a few respondents (a few accounting bodies and a preparer group) suggested presenting the line item in the operating category.

    (b) some respondents commented that the Board should consider introducing a rebuttable presumption for classifying integral and non-integral associates and joint ventures. A few of these respondents specifically suggested having a rebuttable presumption that joint ventures are integral and that associates are non-integral.

    (c) many users commented that while they do not agree with the proposed classification or additional subtotal, they would like to see better disclosures in the notes about associates and joint ventures. They commented that good disclosures about equity-accounted joint ventures and associates were generally more important than the identification of integral and non-integral associates and joint ventures or their separate presentation in the statement of financial performance.

(d) a few respondents commented that the Board should consider requiring amounts relating to associates be presented separately from amounts relating to joint ventures, instead of creating a new classification of integral and non-integral.

(e) a few respondents suggested that income and expenses from both integral and non-integral associates and joint ventures should be presented in the investing category, with separate amounts for integral associates and joint ventures, non-integral associates and joint ventures and other investments.

(f) a few respondents suggested allowing management to decide where and how income and expenses relating to associates and joint ventures should be presented.

Other comments

35. Many respondents made other comments related to the topic. These comments included:

(a) investments in subsidiaries, joint ventures and associates can be carried at either cost, in accordance with IFRS 9 *Financial Instruments*, or using the equity method in separate financial statements (paragraph 10 of IAS 27 *Separate Financial Statements*). Some respondents suggested the Board provide additional guidance on how an entity should classify these investments in separate financial statements.

(b) some respondents sought additional guidance from the Board on how entities should reclassify their investments, including when there are changes in the group structure.

(c) a few respondents commented that the Board should only consider requiring the separate identification and presentation of integral and non-integral associates and joint ventures after it has completed its Post-implementation Review for IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12, or when it has completed its research project on the equity method. A few respondents suggested the Board reconsider proportionate consolidation for equity accounted investments.

(d) a few respondents commented that the Board should seek to align its classification of income and expenses and cash flows from associates and joint ventures between the statement of financial performance and the statement of cash flows.

Fieldwork findings

36. The following section discusses the fieldwork findings related to integral and non-integral associates and joint ventures in the statement of financial performance. The findings are organised by the following categories corresponding to the objectives of the fieldwork:

    (a) observations on how the requirements were applied (paragraphs 38–41);

    (b) aspects of the Exposure Draft that participants identified as being unclear (paragraphs 42–49);

    (c) process or systems changes that may be required to apply the requirements (paragraphs 50–53); and

    (d) other observations made by participants (paragraphs 54 and 55).

37. The methodology of the fieldwork is described in Agenda Paper 21A *Feedback summary—Overview*.

Observations on how the requirements are applied

38. Of the 39 participants with equity accounted associates and joint ventures, 18 reported both integral associates and joint ventures and non-integral associates and joint ventures, 14 participants classified all equity accounted associates and joint ventures as integral and 7 classified all as non-integral.

39. Some participants made different judgements regarding the classification of equity accounted associates and joint ventures even in similar fact patterns. For example, two participants in the same industry made similar types of investments for the purposes of research and development. However, one participant classified the investments as integral and the other participant classified them as non-integral.

40. Many fieldwork participants said that they judged whether an investment was integral or non-integral based on reasons that stemmed from their interpretation of the words 'integral' or 'non-integral' and not specifically using the guidance provided in the Exposure Draft. For example, one participant said that it classified all equity accounted associates and joint ventures that it judged to be 'essential to its business' as integral. even when the investment could generate returns independently.

41. Many participants said that they used factors other than those in the Exposure Draft to help determine whether their associates or joint ventures were integral or non-integral. These participants suggested these factors as additional or alternative indicators to those proposed in the Exposure Draft. Examples of such factors are management intention, cooperation for a specific business purpose such as research and development, or shared risks.

Aspects of the Exposure Draft that participants identified as being unclear

42. Participants had mixed views on whether the guidance for integral and non-integral associates and joint ventures was clear. Some participants said the guidance was clear and some participants said it was not.

43. Some participants appeared to be unclear on how to assess whether an associate or joint venture generated returns individually and largely independently of the entity. Participants often identified independent cash flows rather than independent returns as the reason for classification of an associate or joint venture as non-integral. For example, one participant had associates and joint ventures that were significant suppliers. However, the entity judged these associates and joint ventures to be non-integral because the product being supplied could be sold to other customers and therefore the associate or joint venture did not rely on the entity to generate cash flows.

44. Similarly, some participants said many of the equity accounted associates and joint ventures that in their opinion were integral to the operations of the business would be classified as non-integral because these associates and joint ventures were capable of generating income or cash flows individually and largely independently of the consolidated group. For example, some participants had joint ventures in the same

lines of business and that were managed in the same way as the main business activities but were judged to be non-integral because the nature of the joint ventures meant they were capable of earning independent cash flows.

45. Some participants said that it was unclear how to assess whether there was a significant interdependency between the entity and the associate or joint venture. Aspects of the guidance for making the assessment of a significant interdependency that participants said were unclear included:

    (a) whether the indicators of a significant interdependency between the entity and the investee should be evaluated from the entity's point of view or the investee's point of view.

    (b) how to evaluate interrelationships between different associates and joint ventures and other entities within the group when identifying integral and non-integral associates and joint ventures. For example, one participant asked whether a supplier relationship between two associates could be an indicator that there is a significant interdependency.

    (c) how to draw conclusions when the indicators of a significant interdependency between the entity and the investee resulted in contradictory or inconclusive outcomes. For example, one participant said that based on the indicators of brand name and replacement without disruption all associates and joint ventures would be classified as non-integral. However, based on the indicator of integrated lines of business all associates and joint ventures would be classified as integral.

46. Some participants said they were unclear on the scope of the proposals including:

    (a) application of the proposals to stand alone subsidiary accounts. For example, a few participants asked whether an associate or joint venture that is integral to a subsidiary would also be required to be identified as integral to the consolidated group;

    (b) when an entity would be required to evaluate whether an investee's classification had changed between integral and non-integral and how to make the assessment; and

(c) whether the definitions of integral and non-integral associates and joint ventures applied to associates and joint ventures carried at cost or fair value, or to non-consolidated subsidiaries.

47. A few participants said that the Exposure Draft does not include guidance on classifying income and expenses on loans to associates and joint ventures. These participants asked how they would classify interest income, impairment losses, or reversals of impairment losses on loans to integral associates.

48. A few participants said that it was unclear which cash flows from associates and joint ventures required separate presentation in the statement of cash flows.

49. Many of the participants that said the guidance was unclear also raised concerns that the lack of clarity would result in diversity in practice. For example, one participant said that in their opinion the definition of integral associates and joint ventures was so judgemental as to allow a free choice between integral and non-integral.

Process or systems changes that may be required to apply the requirements

50. All fieldwork participants indicated that they would require one-time changes to their general ledgers to include new accounts for integral and non-integral associates and joint ventures in the statement of financial performance, the statement of financial position and the statement of cash flows.

51. Most participants stated that new processes would be required to evaluate, on an ongoing basis, whether new associates and joint ventures were integral or non-integral.

52. Most participants said that the required information was available or easily obtained. However, a few participants said that sometimes it would be difficult to obtain the necessary information to make the evaluation of integral and non-integral because they did not control the investees.

53. Some participants stated that it would be a time-consuming process to evaluate a large number of associates and joint ventures. For example, one participant said they would need to evaluate over 400 associates. This participant acknowledged that this would be a one-time change.

Other observations made by participants

54. A few participants raised concerns that companies may arrange their relationships with investees in accordance with the indicators provided in the Exposure Draft to achieve a specific outcome according to whether users viewed integral or non-integral more favourably.

55. A few participants said that they did not agree with the requirement to separately identify associates and joint ventures accounted for using the equity method while not requiring the same separate identification for other types of investments. Some of these participants said that the same separate identification of integral and non-integral should apply to associates and joint ventures carried at cost or fair value, or to non-consolidated subsidiaries.

Question for the Board
Does the Board have any comments or questions on the feedback discussed in this paper? Specifically: a) Is there any feedback or fieldwork evidence that is unclear? b) Are there any points, or fieldwork evidence, you think the Board did not consider in developing the Exposure Draft but should consider in the re-deliberations? c) Are there any points, or fieldwork evidence, you would like staff to research further for the redeliberations?

Appendix A—Question in the Invitation to Comment

Question 7—integral and non-integral associates and joint ventures
The proposed new paragraphs 20A–20D of IFRS 12 would define ‘integral associates and joint ventures’ and ‘non-integral associates and joint ventures’; and require an entity to identify them. Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures. Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures. Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board’s reasons for these proposals and discuss approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?