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21 May 2021

International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
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Dear Board Members,

RESPONSE TO REQUEST FOR INFORMATION:
POST-IMPLEMENTATION REVIEW – IFRS 10 *CONSOLIDATED FINANCIAL STATEMENTS*, IFRS 11 *JOINT ARRANGEMENTS* AND IFRS 12 *DISCLOSURE OF INTERESTS IN OTHER ENTITIES* ("RFI")

ISCA welcome and support IASB's initiative in subjecting various IFRSs to Post-Implementation Reviews (PIRs) and, subsequently providing improvements to the IFRSs in response to feedback gathered during the PIRs.

IFRS 10, IFRS 11 and IFRS 12 provide a single basis for consolidation with sufficient application guidance and illustrative examples, especially when assessing the existence of control in judgmental and complex scenarios. As with any principle-based standards, the lack of "bright lines", particularly for the consolidation criteria, would require management to exercise a high degree of judgement in certain situations. In addition, the industry has developed generally accepted accounting practice to address such situations. Therefore, we do not recommend the Board to make significant changes to these standards.

Our detailed comments and responses to the specific questions in the RFI are set out below.

Question 1—Your background

To understand whether groups of stakeholders share similar views, the Board would like to know:

(a) your principal role in relation to financial reporting. Are you a user or a preparer of financial statements, an auditor, a regulator, a standard-setter or an academic? Do you represent a professional accounting body? If you are a user of financial statements, what kind of user are you, for example, are you a buy-side analyst, sell-side analyst, credit rating analyst, creditor or lender, or asset or portfolio manager?

(b) your principal jurisdiction and industry. For example, if you are a user of financial statements, which regions do you follow or invest in? Please state whether your responses to questions 2–10 are unrelated to your principal jurisdiction or industry.

ISCA is the national accountancy body of Singapore. There are over 32,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

We have sought views from its members on the above PIR through a two-months public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms, preparers and other stakeholders.

Question 2(a)

In your experience:

(i) To what extent does applying paragraphs 10–14 and B11–B13 of IFRS 10 enable an investor to identify the relevant activities of an investee?

(ii) Are there situations in which identifying the relevant activities of an investee poses a challenge, and how frequently do these situations arise? In these situations, what other factors are relevant to identifying the relevant activities?

(i) In most cases, where multiple activities significantly affect an investee's returns are all directed by the same investor(s) (which is frequently the case when those activities are directed by voting rights), applying paragraphs 10-14 and B11-B13 of IFRS 10 enable an investor to identify the relevant activities of an investee. However, in some cases, the determination of relevant activities can be very judgemental; for example, where two investors have rights to unilaterally direct different relevant activities of an investee but it might not be possible to identity which activity is more relevant. This may lead to inconsistent conclusions for similar fact patterns.

(ii) There are situations where activities that occur both before and after a particular set of circumstances or events may constitute as relevant activities and two or more investors have the current ability to direct relevant activities that occur at different times. Identifying which activity most significantly affect those returns is challenging when the extent each activity affects returns may change over time. It is not clear whether the assessment should be made at a particular point in time or over the entire expected lifetime of the investee.

Further guidance or clarification would be helpful in the following complex areas or situations:

- Where relevant activities are largely pre-determined (particularly in asset-intensive operations, securitization vehicles / SPVs set up with a specific purpose);
- Different relevant activities occurring at different phases;
- Different investors have unilateral rights to make decisions over different relevant activities;
- Decisions about the relevant activities are made outside of the vehicle;
- An investor exercises control over relevant activities through a contractual agreement but only for a specified period; and
- For single-asset and single-lessee lease vehicles.

Question 2(b)

In your experience:

(i) to what extent does applying paragraphs B26–B33 of IFRS 10 enable an investor to determine if rights are protective rights?

(ii) to what extent does applying paragraphs B22–B24 of IFRS 10 enable an investor to determine if rights (including potential voting rights) are, or have ceased to be, substantive?

(i) The following are common situations where challenges are faced in the determination of substantive or protective rights.

(a) Rights by a franchisor under a franchise agreement

Such rights may significantly affect the franchisee's returns. Examples include determining or changing the franchisee's operating policies; setting prices for selling goods; selecting suppliers; purchasing goods and services; selecting, acquiring or disposing equipment; appointing, remunerating or terminating the employment of key management personnel; and financing the franchise. It may be challenging to determine whether the rights held by the franchisor are substantive or protective when the rights involve making decisions for relevant activities.

(b) Approval rights over budgets in shareholders' agreements

It is sometimes challenging to determine whether the budget approval rights held by a shareholder are substantive. Some factors that are considered in assessing whether budget approval rights are substantive or protective include: the level of detail of the budget that is required to be approved; whether the budget covers the relevant activities of the entity; whether previous budgets have been challenged and if so, the practical method of resolution; whether there are any consequences of budgets not being approved; whether the entity operates in a specialized business for which only the operator/directors have the specialized knowledge required to draw up the budget; who appoints the operator and/or key management personnel of the investee; and the nature of the counterparty with budget approval rights and their practical involvement in the business.

(ii) Paragraph B38 of IFRS 10 requires that when considering potential voting rights, an investor considers the purpose and design of the entity, including the rights associated with the instrument, as well as those arising from any involvement the investor has with the investee including the investor's apparent expectations, motives and reasons for agreeing to those terms and conditions. It is not clear to what extent the expectations and motives of the investor and the intention to exercise the option should be factored into the assessment of whether the potential voting right is substantive.

For example, in start-ups, the investors may have potential voting rights over the equity interests of the start-up via convertible bonds, but the expectation of the investors is for the founders of the start-up to continue running the business. In such cases, it may not be clear whether their potential voting rights are protective or substantive. It would be useful to include examples in IFRS 10 to illustrate such a scenario and provide clarity on whether the intention of the investors needs to be factored in.

The following are areas of complexity where further guidance or clarification would be helpful:

1) Troubled debt scenarios, where both the lender and the previous controlling entity may be actively involved in the decision making of the investee;
2) Consideration of potential voting rights through options and trigger clauses (e.g. liquidation); and
3) Legal rights versus practical ability to make certain decisions (e.g. veto rights, approval rights for budgets, other items under reserve matters). There is diversity in practice on the factors considered when determining whether the rights held are substantive. It is unclear if more weightage should be given to legal rights held by an investor or other factors such as historical behavior and depending on the approach adopted, the accounting outcome would be different.

Question 2(c)

In your experience:

(i) To what extent does applying paragraphs B41-B46 of IFRS 10 to situations in which other shareholdings are widely dispersed enable an investor that does not hold a majority of voting rights to make an appropriate assessment of whether it has acquired (or lost) the practical ability to direct an investee's relevant activities?

(ii) How frequently does the situation in which an investor needs to make the assessment described in question 2(c)(i) arise?

(iii) Is the cost of obtaining the information required to make the assessment significant?

(i) It is generally observed that the determination of whether an investor has de facto power over an investee can be judgemental. IFRS 10 prescribes a 2-step approach as follows:

- Step 1: The investor considers all facts and circumstances, including the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders, potential voting rights held by the investor, other vote holders or other parties and rights arising from other contractual arrangements; and

- Step 2: If Step 1 is not conclusive, the investor considers additional facts and circumstances, including pattern of participating in voting at previous shareholder meetings.

The application of Step 1 by itself is very judgemental and might lead to diversity in practice. Hence, the Board might want to consider combining Steps 1 and 2 as an overall assessment, especially when the conclusion seems to be dependent on Step 2.

Paragraph B42 of IFRS 10 requires that when assessing whether an investor's voting rights are sufficient to give it power, an investor considers all facts and circumstances, including the size of investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; and any additional facts and circumstances including voting patterns at previous shareholders' meeting.

We note that there is little guidance on the application of this paragraph, especially with the increased accessibility to virtual voting platform which might result in a change in voting pattern and trigger a possible re-assessment of control. Hence, further guidance would be helpful in the following areas:

(a) Assessing the point at which an investor's shareholding in an investee is sufficient and the point at which other shareholdings' interests are sufficiently dispersed. This may be difficult to apply, especially for newly listed companies.

(b) In situations where shareholders activism is not that high, it is unclear how the assessment of historical voting pattern should be performed (e.g. consider legal rights vs practical ability of other parties to exercise their voting rights).

IFRS 10.B80 – B85 also requires an investor to perform a reassessment of whether it controls an investee if there are changes to certain facts and circumstances. However, it is challenging to apply these requirements to the assessment of de facto power. For continuous monitoring, it is judgmental how long a period would be sufficient to conclude whether there is / is no control and for cases of reassessments, it is unclear whether the reassessment should be performed only upon occurrence of a trigger event (there would be a need to consider what constitutes a trigger event) or at least on an annual basis. Hence, it would be useful if the Board could provide more guidance around the principles of reassessment as well as the weightage of factors.

Question 3(a)

In your experience:

(i) To what extent does applying the factors listed in paragraph B60 of IFRS 10 (and the application guidance in paragraphs B62-B72 of IFRS 10) enable an investor to determine whether a decision maker is a principal or agent?

(ii) Are there situations in which it is challenging to identify an agency relationship? If yes, please describe the challenges that arise in these situations.

(iii) How frequently do these situations arise?

Significant judgement is required in weighting the factors set out in paragraph B60 of IFRS 10 according to the facts and circumstances of each case. The assessment of exposure to variability of returns through other interests is especially challenging as it is unclear what extent of exposure to variability of returns through other interests would tip the scale to indicate that the decision maker should be a principal. The application examples 13 to 16 in IFRS 10 provides conclusions based on different scenarios of equity holding, remuneration and removal rights. These examples have been referred to in practice as setting the boundaries for implicit threshold of exposure to variability of returns in making the assessment.

The principal versus agent assessment is commonly observed in the funds and REITs industries. Generally, the existing guidance is helpful but there appeared to be mixed practices in applying the guidance such as different ways to aggregate economic interests and varying weightage applied to factors for cases in the marginal zone.

Similar to our response in Question 2, it is difficult to identify triggers and establish a change in control, especially in reassessments where the only change may be a change in ownership interests.

Question 3(b)

In your experience:

(i) To what extent does applying paragraphs B73-B75 of IFRS 10 enable an investor to assess whether control exists because another party is acting as a de facto agent (i.e. in the absence of contractual arrangement between the parties)?

(ii)	How frequently does the situation in which an investor needs to make the assessment described in question 3(b)(i) arise?
(iii)	Please describe the situations that give rise to such a need.

IFRS 10 does not provide much explanation on how the evaluation of whether a party is a de facto agent of the investor is to be made, resulting in application challenges in the determination of de facto agent. It is noted that IFRS 10 states that the evaluation considers the nature of the relationship and how the parties interact with each other. However, the complexity in application frequently arises where power and exposures are split between two different but related entities. Hence, we propose the Board to provide additional examples to illustrate how to assess whether a party is a de facto agent of the investor for the above situations. In addition, additional guidance would be helpful to clarify how the principles of de facto agent may be applied to the relationships as described in paragraph B75 of IFRS 10.

Another area requiring de facto control assessment is in investments in Real Estate Investment Trusts ("REITs"). It is noted that significant judgment is required to evaluate whether there is de facto control by entities with investments in REITs and there is a risk of inconsistent application without further guidance. ISCA has considered the practical issues and difficulties faced by these entities, and in turn, issued two guidances to help address these issues in 2013 and 2015. We propose the Board to consider the guidances issued by ISCA as listed below in your PIR of IFRS 10.

- Application of FRS 110 Consolidated Financial Statements: Investments in Real Estate Investment Trusts (REITs)
- Application of FRS 110 Consolidated Financial Statements: Consolidation of Real Estate Investment Trusts (REITs) Managers by Sponsors

Question 4(a)

In your experience:

(i) To what extent does applying the definition and the description of the typical characteristics of an investment entity lead to consistent outcomes? If you have found that inconsistent outcomes arise, please describe these outcomes and explain the situations in which they arise.

(ii) To what extent does the definition and the description of typical characteristics result in classification outcomes that, in your view, fail to represent the nature of the entity in a relevant or faithful manner? For example, do the definition and the description of typical characteristics include entities in (or exclude entities from) the category of investment entities that in your view should be excluded (or included)? Please provide the reasons for your answer.

The ‘investment entity’ definition essentially requires a very remote / passive involvement of the investor, which is fundamentally disconnected with the concept of control, power and linkage in IFRS 10. We noted one of the challenges in applying the definition of investment entity would be to limited life real estate funds as it is common for such funds to be involved in the redevelopment, owning and operating the real estate properties to a steady state with a view to exit at or before the end of the fund life. Given the involvement of the investor in management of the properties prior to exit (disposal), this continues to be an area where applicability of the investment entity framework (in particular, IFRS10 paragraph B85D) is subject to significant judgement mainly because the business model considers these investments to be held for capital appreciation and investment returns and all management activities before exit are undertaken to maximise exit price.

We would like to request for the Board to provide more clarification and guidance about the above-mentioned areas, including the application of IFRS10 paragraph B85D, as well as other areas such as investment management services vs investment-related activities / activities carried out through subsidiary etc.

In March 2014, the IFRS Interpretations Committee (IFRIC) discussed a request to clarify whether intermediate holding companies created solely for tax optimization purposes should be consolidated. The IFRIC concluded that the parent should not consolidate such subsidiaries and should account for such intermediate subsidiaries at fair value because they do not provide investment-related services or activities and therefore do not meet the requirements for consolidation. However, the accounting for these entities at fair value does not always provide the most useful information to investors.

Question 4(b)

In your experience:

(i) Are there situations in which requiring an investment entity to measure at fair value its investment in a subsidiary that is an investment entity itself results in a loss of information? If so, please provide details of the useful information that is missing and explain why you think that information is useful.

(ii) Are there criteria, other than those in paragraph 32 of IFRS 10, that may be relevant to the scope of application of the consolidation exception for investment entities?

For subsidiaries that are investment entities and provide fund management services or immediate holding companies set up to hold underlying investments (but have other roles – e.g. serving tax purposes, holding cash / debt to finance underlying portfolio companies), there is a loss of information. IFRS 10 requires these intermediate holding companies to be measured at fair value, instead of “looking through” to reflect the fair values of the actual underlying investments. This would result in a loss of meaningful information such as revenue, dividend income, loans, fair value disclosures, and realised gains / losses from the underlying investments which are useful to investors.

In addition, the fair value of the investments held by the subsidiary are not disclosed in the financial statements of the parent entity. It would be helpful to require these entities to disclose more details.

Question 5(a)

In your experience:

(i) How frequently do transactions, events or circumstances arise that:
  (a) Alter the relationship between an investor and an investee; and
  (b) Are not addressed in IFRS Standards?

(ii) How do entities account for these transactions, events or circumstances that alter the relationship between an investor and an investee?

(iii) In transactions, events or circumstances that result in a loss of control, does remeasuring the retained interest at fair value provide relevant information? If not, please explain why not, and describe the relevant transactions, events or circumstances.

We note that further guidance and clarifications might be required for the following:

a) In some transactions, it is possible that an entity would lose control of a subsidiary but still retain an interest in a joint operation to be accounted for under IFRS 11. For example, a parent might contribute an existing business to a newly created joint operation and obtain joint control of the combined operation. Alternatively, it could be achieved by a parent with 100% subsidiary selling a 50% interest to another party, with the transaction resulting in the formation of a joint operation, with each party having a 50% share of the assets and liabilities of the joint operation. Such transactions are not addressed in IFRS Standards. Two views are being applied in practice. One view is that the retained interest should be remeasured at fair value. Another view is that the retained interest should not be derecognized or remeasured at fair value, but should continue to be recognised and measured at its carrying amount.

b) IFRS 11 does not specifically address the accounting for a former joint operation where it become an associate or a financial instrument. Such transactions are generally accounted for by derecognizing the assets and liabilities previously recognised in accordance with IFRS 11 and account for the new interest based on IAS 28 or IFRS 9.

c) IFRS 11 does not specifically address the accounting for a former joint operation where the rights to the assets or obligations with respect to that joint operation change (e.g. where other operators obtain rights to the assets or assume obligations for those liabilities). The joint operator would generally: derecognize the relevant portion of the assets and liabilities; recognize the fair value of any consideration received; recognize the resulting gain or loss; and recognize any rights to assets it acquires from other joint operators, and obligations it assumes from other joint operators, or from the joint arrangement itself.

d) Situations where a joint venture becomes a joint operation and vice versa are not addressed in IFRS Standards.

e) There have been mixed practices in the accounting for loss of control of subsidiaries that do not meet the definition of a business. For example, in the sale of a former subsidiary (which does not meet the definition of a business) to a third party where the retained interest is an associate / joint venture accounted for using the equity method, the different approaches in practice may result in a full gain recognition (by applying the loss of control guidance under IFRS 10) or partial gain recognition (by applying the requirements under IAS 28).

Question 5(b)

In your experience:

(i) How do entities account for transactions in which an investor acquires control of a subsidiary that does not constitute a business, as defined in IFRS 3? Does the investor recognize a non-controlling interest for equity not attributable to the parent?

(ii) How frequently do these transactions occur?

(i) Entities account for transactions in which an investor acquires control of a subsidiary that does not constitute a business, as defined in IFRS 3 in accordance with the requirements of paragraph 2(b) of IFRS 3. The investor would allocate the costs of the acquisition to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. The investor also recognizes a non-controlling interest for equity not attributable to the parent.

(ii) These transactions are common, especially in certain industries and particularly with the new definition of business.

Question 7

In your experience:

(i) How frequently does a party to a joint arrangement need to consider other facts and circumstances to determine the classification of the joint arrangement after having considered the legal form and the contractual arrangement?
(ii) To what extent does applying paragraphs B29-B32 of IFRS 11 enable an investor to determine the classification of a joint arrangement based on 'other facts and circumstances'? Are there other factors that may be relevant to the classification that are not included in paragraphs B29-B32 of IFRS 11?

(i) Many situations may result in the parties to a joint arrangement being substantially the only source of cash flows thus indicating that the parties have an obligation for the liabilities relating to the arrangement. Examples include:

- The parties make payments to third parties under previously issued guarantees on behalf of the joint arrangement.
- The parties are obligated to provide loan financing or working capital funding in the normal course of business.
- The parties commit to provide cash calls in the future.
- The parties may be obligated to purchase all the output produced by the joint arrangement, which they may or may not resell to third parties.

Such situations would trigger the need to consider other facts and circumstances to determine the classification of the joint arrangement after having considered the legal form and the contractual arrangement.

(ii) Questions have arisen as to whether parties would be considered 'substantially the only source of cash flows' if they provide cash flows at inception of a joint arrangement, but are not expected to do so thereafter, and no other parties are expected to provide cash flows until the end of an activity.

Question 9

In your experience:

(a) To what extent do the IFRS 12 disclosure requirements assist an entity to meet the objective of IFRS 12, especially the new requirements introduced by IFRS 12 (for example the requirements for summarized information for each material joint venture or associate)?
(b) Do the IFRS 12 disclosure requirements help an entity determine the level of detail necessary to satisfy the objective of IFRS 12 so that useful information is not obscured by either the inclusion of a large amount of detail or the aggregation of items that have different characteristics?
(c) What additional information that is not required by IFRS 12, if any, would be useful to meet the objective of IFRS 12? If there is such information, why and how would it be used? Please provide suggestions on how such information could be disclosed.

(d) Does IFRS 12 require information to be provided that is not useful to meet the objective of IFRS 12? If yes, please specify the information that you consider unnecessary, why it is unnecessary and what requirements in IFRS 12 give rise to the provision of this information.

Some challenges have been observed with providing information for unconsolidated structured entities, as well as with disclosing summarised information for material joint ventures / associates where investors do not have access to the required information on a timely basis.

From an auditor's perspective, the information on the subsidiaries with material NCI and material equity-accounted investees should be readily available because these entities would likely be considered material from an audit perspective. Hence, the Group auditor would require such information during the course of the audit.

Question 10

Are there topics not addressed in this Request for Information, including those arising from the interaction of IFRS 10 and IFRS 11 and other IFRS Standards, that you consider to be relevant this Post-implementation Review? If so, please explain the topic and why you think it should be addressed in the Post-implementation Review.

1) **Continuous assessment for control**: Paragraphs B80 to B85 of IFRS 10 requires assessment of control to be performed on a continuous basis. Each time a reassessment is performed, many of the issues in Question 2 (e.g. identifying relevant activities, substantive vs. protective rights, control without majority) and Question 3 (e.g. principal vs. agent, de facto agency) encountered during the initial assessment may resurface. Hence, it is crucial for the Standard to provide clear guidance on the areas mentioned above.

2) **Control assessment in situations involving independent Board members**: Based on our local laws and regulations, Board members owe a fiduciary duty towards the entity and are required to act in the best interests of the entity. Generally, an investor would retain power if it has rights to appoint or remove majority of the Board. However, we continue to hear views that the right to appoint/remove the independent directors do not give rise to power as the independent directors must maintain their independence and objectivity and act in the best interest of the entity rather than the controlling vote holder.

   In Singapore, long-serving independent directors are now subject to two-tier voting at the general meeting where minority shareholders' approval is required for such long-serving independent directors to retain its "independent" director status. As regulations are tightened to afford more protection to minority shareholders, the rights of the controlling shareholder are curtailed. We recommend the Board consider developing guidance to clarify the extent to which or whether regulatory overlay requiring strong independent element on board would affect the rights/power of the controlling shareholder. In addition, one other mechanism to protect minority shareholders' interests is when interested parties (or "related parties") have to abstain from voting in transactions or situations where these parties have vested interest in.

3) **Interaction with IFRS 15 and 16**: We have observed conflicts between the requirements of IFRS 10 and IFRS 15 and 16 (for example, the recent IFRIC discussion in February 2021 on *Sale and Leaseback of an Asset in a Single-Asset Entity* and in June 2020 on *Sale of a Subsidiary to a Customer*) that may result in different accounting outcomes. Hence, we would appreciate the Board's clarification in areas where there are conflicting requirements with IFRS 10.

4) **Accounting for funds placed with fund managers**: When an entity places funds with a fund manager, the accounting treatment will depend on whether the entity has control over the funds placed with the fund manager. We noted certain challenges arising from the application of consolidation in the separate financial statements where an entity concludes that it has control over the funds placed with the fund manager. In cases where the investments are not legally held in the name of the investor but in the name of the fund manager but effectively ringfenced, an issue arises as to whether it is appropriate to consolidate the investments in the separate financial statements, given that creditors may not have legal rights to the underlying investments. Hence, we would like to suggest for the Board to provide further guidance about the application in such situations.

5) **Sale or contribution of subsidiary**: We noted diversity in practice in terms of accounting for the loss of control and remeasurement of retained interest in a former subsidiary, depending on how the transaction is structured (e.g. whether the sale or contribution is to an existing or newly created equity-accounted investee, or to a third party). Hence, we would like to request for the Board to provide further guidance in this regard.

6) **Definition of entity**: We propose the Board to define what is meant by an 'entity' in the context of the definition of a subsidiary in IFRS 10. The definition of a subsidiary previously included in IAS 27(2008) stated explicitly that the term encompassed an unincorporated entity. This clarification has not been carried forward to IFRS 10.

7) **Consolidation exemption:** Currently, it is not clear whether the consolidation exemption criteria applies to circumstances when there is a change of ultimate or intermediate parent that produces financial statements with a different reporting period from the entity. We propose for clarifications on this.

8) **Elimination of intragroup transactions:** Currently, there is limited guidance on the treatment for allocation of the elimination of intragroup transactions between entities of the group to non-controlling interests. We propose for the Board to provide more guidance in this area.

9) **Determination of control with call/put options:** We propose the Board to consider having an illustrative example, involving call and put options between shareholders and how that affect the determination of control and accounting for non-controlling interests.

Should you require any further clarification, please feel free to contact myself, Ms Jezz Chew or Mr Marcus Chan, TECHNICAL: Financial Reporting, from ISCA via email at jumay.lim@isca.org.sg, jezz.chew@isca.org.sg or marcus.chan@isca.org.sg.

Yours faithfully,

Ms Ju May, LIM
Deputy Director
TECHNICAL: Financial & Corporate Reporting;
Ethics & Specialised Industries;
Audit & Assurance