



30 July 2021

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United Kingdom

**Post-implementation Review IFRS 10 Consolidated Financial Statements / IFRS 11 Joint Arrangements / IFRS 12 Disclosure of Interests in Other Entities  
Comments by the Financial Analysis and Accounting Committee of the French Society of Financial Analysts (SFAF)**

Dear Sir,

The French Society of Financial Analysts, SFAF (*Société Française des Analystes Financiers*), is pleased to submit its contribution as part of the consultation undertaken by the IASB on the Request for Information “*Post-implementation Review IFRS 10 Consolidated Financial Statements / IFRS 11 Joint Arrangements / IFRS 12 Disclosure of Interests in Other Entities*”.

SFAF represents more than 1,400 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS), which comprises 18 member organizations representing more than 15,000 investment professionals. Its Accounting and Financial Analysis Committee was created to represent analysts, fund managers and professional investors in the debate on accounting standards. Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accounting standards.

## **General comments:**

We would like to make the following comments.

Consolidation of entities is an important accounting matter as it intends to provide users of financial statements with a fair view of an issuer financial situation. We stress that it may have some much more significant importance when there are call (or put) options on JVs, and we feel that some extensive additional information may be warranted in these cases. We have recently seen a new wave of JVs with these call options involving significant infrastructure, and very substantial amounts of related debt and capex.

We generally agree with IFRS 10 standard which is based on the notion of control. We consider however that a relevant explanation of how this notion is practically applied has to be disclosed in the notes (and particular in complicated / special situations), and will help to ensure a more consistent application of these judgements.

We have however a different view on IFRS 11 (consolidation of JVs). We understand indeed that the identification of JVs (vs Joint Operations) is based on rights on assets and obligations on liabilities, whereas as users, we are mainly focused on risks and rewards. The issue is that it could increase the importance of form over substance, a trend that users do not consider as a positive point. Depending on jurisdictions, the outcome of the analysis done by an entity could indeed be significantly different. In addition, we acknowledge that rights and obligations may be extremely difficult to analyze for complex contracts, thus highlighting the importance of judgment.

For these reasons, in the context of the existing IFRS 11 standard (we have not questioned as this stage the merit of the proportionate consolidation which was used before IFRS 11 became mandatory but as stated previously, this is acceptable only if adequate and complete disclosures are provided), we consider that the quality of disclosures is of very high importance, so that every user can make his/her own analysis.

## Specific comments:

In this respect, based on our experience, there are some points that in our view need to be carefully addressed:

- Consistency of information and presentation for the Statement of profit and loss, the Balance Sheet and the Statement of cash flows for JVs and Joint operations versus the Primary Financial Statements of the consolidating entity as this point is somewhat a source of frustrations for users. We expect the « General Presentation and Disclosures » (« Primary Financial Statements ») project to help in this respect, as it will provide clear guidelines in terms of presentation. Currently, disclosures are too often not granular enough: it is a considerable drawback to make our own analysis.
- Information about financial debt / cash & cash equivalent, and in particular the amount of cash that is truly available, for entities that are not consolidated. It is indeed of utmost importance to get a clear picture of the invested capital (in particular of the net financial debt, even though we know that this is not a IFRS defined measure) of the non-consolidated entities and how these entities are financed.
- Information about minority interests. There are some improvements to be made within the financial statements and in particular for the Statement of cash flows (it would indeed be useful to obtain the share of minority interests at each level of the Statement of cash flows), in order to assess what is the share of the cash flow that is related to the shareholders of the consolidating entity. We have some groups providing this kind of information, indicating that this might be feasible for other issuers. We suggest that such information should be presented in a tabular format.
- Information about the nature of JVs activities. We also need information such as: shareholding structure and partners, business of the entities, countries of activity, relation with operating segments etc. It should not however be boilerplate type information.
- At JVs' level, we also need to get cash flows type information, which are currently missing.
- We want to add that if an entity discloses some management performance measures (see our comment letter of Primary Financial Statements<sup>1</sup>), which may be important to properly understand the group performance and financial position, we believe that providing consistent measures regarding JVs should be necessary in order to avoid any misunderstanding. This is very important when these management performance measures are supposed to provide indicators that are key to understand some industries / segments. As stated above, it is of utmost importance to accurately understand the potential situation when there are call options on these JVs.

We are also, very often, frustrated by the low compliance with existing disclosure regarding JVs by a significant number of issuers. These failures should have been resolved if proper audit work had been performed. We thus expect that this area of compliance with disclosures requirements will improve in the coming years.

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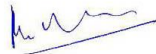
<sup>1</sup> Available at <https://www.sfaf.com/download/323/>

We thank you for the opportunity given to us to provide our view on such important aspects of financial reporting for users. If you would like to further discuss the views expressed in this letter please do not hesitate to contact us.

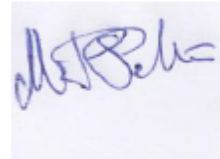
Yours faithfully,



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