

**Mr Hans Hoogervorst
Chairman
International Accounting
Standards Board (IASB)
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United Kingdom**

Ref: IASB's Request for Information on the Post Implementation Review of IFRS 10, IFRS 11 and IFRS 12

Dear Mr Hoogervorst,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to the IASB's Post Implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* (PIR). ESMA supports the IASB's objective to bring transparency, accountability and efficiency to financial markets by providing high-quality accounting standards.

ESMA believes that this objective can be effectively achieved when enforceability and decision usefulness of IFRSs is periodically tested. Therefore, we strongly support post implementation reviews as an opportunity to assess how issuers apply in their financial statements the IFRS requirements and how these can be further improved to address any issues that may challenge consistent application and enforceability.

Our *Report on the application of IFRS 10, IFRS 11 and IFRS 12* aims to contribute to the IASB's Request for Information (RFI) with information based on both the experience of European enforcers and the results of a review of a sample of issuers. The Report considers how the requirements have been implemented and where IFRS 10, IFRS 11 and IFRS 12 should, in ESMA's view, be clarified to address divergence in practice. The Report also provides recommendations on how issuers could improve the application of these standards and the transparency of their disclosures. The Report is included as Appendix I to this letter, whilst Annex II includes a table of references linking specific parts or sections of the report to the questions in the RFI.

Overall, the results of the Report show that the requirements of IFRS 10, IFRS 11 and IFRS 12 have been well incorporated in the financial statements of European issuers. However, ESMA identified selected areas in which it believes the IASB could intervene to improve clarity of the requirements and provide further guidance to preparers.

In particular, ESMA recommends that the IASB strengthens disclosure requirements with regards to investment entities (their interests and subsidiary structure) and joint arrangements (especially joint operations). Furthermore, ESMA calls on the IASB to provide more clarity on the accounting for those patterns of changes in ownership for which there are currently no clear requirements in the Standards and to ensure that the applicable accounting treatment for sales of single asset entities reflects the substance of the transaction. The IASB should also clarify what consideration should be given to relationships with sister companies holding a critical number of shares in an investment in the assessment of control.

In addition, ESMA recommends that the IASB provides further guidance (such as Illustrative Examples) with regards to the assessment of protective versus substantive rights, the “continuous assessment” of control and the assessment of the indicators in IFRS 10 paragraph B42. Furthermore, ESMA suggest that further clarity might be necessary on how to apply the criteria for classification of an entity as “investment entity” especially with regards to smaller entities and on the assessment of joint control based on the terms and conditions of specific agreements (e.g. deadlock clauses, put/call options, etc.).

As questions 1, 2(a) and 10 of the RFI address questions which were not directly covered by the Report, ESMA prepared separate answers on these, which are included in Appendix III.

In case you have any questions or comments please do not hesitate to contact me or Evert van Walsum, Head of the Investors and Issuers Department (Evert.vanWalsum@esma.europa.eu).

Yours sincerely,

Steven Maijor

List of Appendices

Appendix I. *ESMA Report on the application of IFRS 10, 11 and 12* (please refer to the separate document ESMA32-67-716)

Appendix II. Table of references between *ESMA Report on the application of IFRS 10, 11 and 12* and the questions in the request for information

Appendix III. ESMA's additional answers on the IASB Request for Information: Post-Implementation review of IFRS 10, 11, 12 - *Questions 1, 2(a), 10*

Appendix II. Table of references between ESMA Report on the application of IFRS 10, 11 and 12 and the questions in the request for information

Questions from the RFI	Sections/ Paragraph of the ESMA Report on IFRS 10,11 and 12
1	See Appendix III
2(a)	See Appendix III
2(b)	Subtopic A
2(c)	Subtopic B
3(a)	-
3(b)	Subtopic C
4(a)	Subtopic D
4(b)	Subtopic D
5(a)	Subtopic F
5(b)	-
6	-
7	Subtopic E
8	Subtopic E
9	Subtopic H
10	Subtopic G + Appendix III

Appendix III. ESMA's additional answers on the IASB Request for Information: Post-Implementation review of IFRS 10, 11, 12

Question 1 – background & experience

1. The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to establishing consistent application of International Financial Reporting Standards (IFRS) in the European Union and to building a common supervisory culture and consistent approaches between national competent authorities in the EU.
2. European listed companies apply IFRS for their consolidated financial statements since 2005.

Question 2(a) – relevant activities

3. In most cases, applying the existing requirements of the standard is sufficient to identify relevant activities. However, in some cases, that may be not straightforward. This is the case for example when there are multiple relevant activities managed by different parties and it is unclear which relevant activity most significantly affects the investee's return.
4. It can be difficult to assess which activity has more effects on returns and further guidance would be welcome.

Question 10

5. In addition to the topic of accounting for the sale of a single asset entity, ESMA wishes to highlight the following topic in terms of issues not addressed by the RFI and that concern the interaction of IFRS 10 with other Standards, namely IFRS 9: the initial and subsequent accounting for put options on non-controlling interest.
6. ESMA notes that the accounting for put options written on NCI has been debated for many years. No answer has been given during preliminary discussions of the FICE (Financial Instruments with Characteristics of Equity) project in 2018. In our view, and to avoid the heterogeneity observed in practice, it is important to clarify the initial accounting of the instrument, the impact on the NCI, and the subsequent measurement of the liability if any.