

Report

On the application of IFRS 10, IFRS 11 and IFRS 12



Table of Contents

1	Executive Summary	2
2	List of Acronyms	5
3	Background	6
4	Objectives	7
5	Scope and methodology	7
6	Analysis of selected subtopics.....	9
	a. The application of the single consolidation model requirements to all entities	9
	b. The application of requirements related to de facto control	15
	c. The agent/principal assessment and the role of de facto agents.....	19
	d. Investment entities and the exception to the consolidation requirement	23
	e. The application of requirements related to joint operations and joint ventures and accounting by joint operations and joint ventures.....	27
	f. The accounting for changes in ownership interests	31
	g. Accounting for the sale of a single asset entity	34
	h. Disclosures	37
7	Next steps	41

1 Executive Summary

This Report by the European Securities and Markets Authority (ESMA) provides an overview of the application of the requirements of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* by European issuers with the objective of assessing their level of compliance, transparency and comparability and to contribute to the Post Implementation Review (PIR) that the International Accounting Standards Board (IASB) is currently conducting.

The overview builds on a review of the 2017, 2018 and 2019 annual reports of a sample of European issuers and on the evidence from supervision and enforcement activities undertaken by European enforcers on financial statements relating to financial years between 2014 and 2020.

ESMA's work addressed the following key topics: (a) the application of the single consolidation model requirements to all entities; (b) the application of requirements related to de-facto control; (c) the agent/principal assessment and the role of de-facto agents; (d) definition of investment entities and the exception to the consolidation requirement; (e) the application of requirements related to joint operations and joint ventures and accounting by joint operations and joint ventures; (f) the accounting for changes in ownership interests; (g) accounting for the sale of a single asset entity; (h) the transparency of disclosures.

Overall, the results show that the requirements of the Standards have generally been well applied in the financial statements of the issuers in the sample. However, there is room for improvement in the level of compliance, comparability and transparency in the application of the requirements. In addition, some aspect of the IFRSs can be improved to bring more clarity in areas where uncertainty in practice still exists.

ESMA noted that disclosed information on the **application of the single consolidation model requirements to all entities** is not always sufficiently entity-specific and that the requirements stemming from IFRS 12 paragraph 29(d) are not always applied. ESMA also highlights to issuers that the existing guidance under IFRS 10 paragraphs B22 to B28 should be taken into account in the assessment of whether rights are protective or substantive and better disclosures on the judgements applied in these regards should be provided. In this regard, ESMA would welcome further guidance from the IASB, for example on how to assess the rights stemming from very close business relationships, the appreciation of veto rights, or deadlock clauses, since these areas raise some diversity in practice.

With regards to the **requirements related to de-facto control**, ESMA noted in a few instances where the assessment of control was complex and more transparency should have been provided over the significant judgements and assumptions and changes to those judgements and assumptions made in determining the existence (or lack) of control (IFRS 12 paragraph 7

and 9b). Furthermore, ESMA calls on issuers to provide sufficient transparency in the assessment of investors' voting rights and on how they "drew" the line between IAS 28 and IFRS 10 (for instance, how the indicators listed in paragraph B42 were assessed). ESMA encourages the IASB to provide further guidance which may address the challenges posed by the "continuous assessment" of control, such as indications about the period of the assessment and how to take into account past voting patterns. Furthermore, ESMA suggests that further guidance should be provided in the standard on the assessment of de facto control (i.e. application of the indicators provided in paragraph B42) and on how to assess control in the context of a business combination where governing bodies are not fully installed.

ESMA noted a good level of compliance with the IFRS 10 requirements about **de facto agents**, with only few cases of insufficient information about the significant judgements and assumptions made in determining whether the entity is an agent or a principal (IFRS 12 paragraph 9(c)). ESMA also reminds issuers of the provisions of IFRS 10 paragraph B60, and encourages the disclosure of the assessment of each of the factors listed therein, which is helpful information to users to understand the significant judgements made (IFRS 12 paragraph 7). ESMA invites the IASB to clarify the application of paragraph B74 in the case of an issuer holding a participation in an investee and having a sister company (i.e. belonging to the same ultimate parent) which also holds a critical number of shares in this investment.

With respect to **investment entities and the exception to the consolidation requirement** enforcers found a high level of compliance with the existing requirements, and very limited cases of boilerplate disclosures. However, ESMA encourages issuers that are investment entities to provide more information in the financial statements about their interests and their exit strategies, and to carefully consider the requirements of paragraph 27(c) when assessing whether an entity provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is permitted. In terms of the standard itself, ESMA would welcome that the IASB provide further guidance on how to assess whether an entity fulfils the criteria to be classified as "investment entity" and in particular whether the "fair value information" criteria is met, especially with regards to smaller entities. Furthermore, additional disclosures should be required about investment entities' interests to provide users with a better description of the judgements applied, for example with regards to the subsidiary structure.

ESMA noted quite a high level of compliance with the requirements of IFRS 11 **related to joint operations (JO) and joint ventures (JV)**. ESMA reminds issuers to be entity-specific when disclosing their significant accounting policy regarding joint arrangements. ESMA also encourages issuers to provide more transparent information on funding and purpose of joint arrangements, especially with regards to material joint operations, to consider all existing literature from the IASB when carrying out the challenging assessments of "other facts and circumstances" and of continuous / ongoing assessment of control.

Whilst the standard is generally clear, ESMA recommends that the IASB strengthen the disclosure requirements with regards to JOs, which are currently very limited compared to JVs, and to provide further guidance on the assessment of joint control based on the terms and conditions of specific agreements, such as deadlock provisions or call/put options.

When assessing the **accounting for changes in ownership interests**, ESMA highlights that there is currently a lack of guidance on several types of changes in ownership. In addition, further guidance would be helpful with regards to the interaction between IFRS 5 and IFRS 10 and the nature of the gains or losses that need to be recorded when a parent entity loses control of a subsidiary.

In case of **accounting for the sale of a single asset entity**, ESMA notes that the accounting treatment adopted by issuers does not correspond to discussions of the IFRS IC staff in 2019 in most cases and thinks that the IASB should ensure that the applicable treatment under IFRS 10 reflects the substance of the transactions, allowing for issuers to apply IFRS 15, IFRS 16, IAS 40 or IAS 16 (as applicable) in case of sale of single asset entities.

Finally, with regards to **disclosures**, ESMA observes that issuers do not always provide sufficient or entity-specific information about the significant judgements and assumptions (and changes to those judgements and assumptions) made in determining that they have control or joint control. ESMA urges issuers to pay due consideration to the requirements of IFRS 12 paragraph 7(a). Furthermore, ESMA recommends that issuers consistently apply the materiality principles, including (but not limited to) with regards to the criteria used to aggregate interests which are material to the entity. In addition, ESMA recommends that the IASB require disclosure of NCI by operating segment as per IFRS 8.

Next Steps

ESMA expects issuers, their auditors and audit committee to consider the findings of this Report when preparing and auditing the financial statements. ESMA expects enforcers will take or have already taken appropriate enforcement actions whenever material misstatements are identified. ESMA and enforcers will monitor the progress of those actions.

With this Report, ESMA also aims to contribute to the IASB's Request For Information (RFI) on IFRS 10, 11 and 12.

2 List of Acronyms

EBIT	Earnings before Interest and Taxes
EECS	European Enforcers Coordination Sessions
GLEFI	Guidelines on Enforcement of Financial Information
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
JO	Joint Operation
JV	Joint Venture
NAV	Net Asset Value
NCI	Non-Controlling Interests
OCI	Other Comprehensive Income
PIR	Post Implementation Review
P&L	Profit or loss
RFI	Request for Information
SPE	Special Purpose Entity

3 Background

Overview of the relevant IFRS requirements

1. In 2011, the International Accounting Standards Board (IASB) finalised IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* (hereafter, Consolidation Package).
2. The Consolidation Package became applicable for the first time in the EU for annual financial periods beginning on or after 1 January 2014.
3. IFRS 10 provides the principles for the preparation and presentation of consolidated financial statements, requiring an entity to consolidate the entities it controls. It defines the principles of control and identifies 'control' as the single basis for consolidation for all types of entities. Control requires power, exposure or rights to variable returns and the ability to affect those returns through power over an investee.
4. IFRS 11 establishes the principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. Joint control is the contractually agreed sharing of control of an arrangement and can be classified as either a joint venture (where parties to the arrangement have rights to the net assets of the arrangement, which are accounted for using the equity method) or a joint operation (where parties have rights to assets and obligations for liabilities, which are accounted for accordingly).
5. IFRS 12 is a disclosure standard requiring entities to disclose information that enable users to evaluate the nature and risks of interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.
6. Further details about the requirements addressed in this Report are provided within each sub-section of the analysis.
7. Since their finalisation, IFRS 10 and 12 have been subject to one significant amendment (effective for financial periods beginning on or after 1 January 2014), which created an exemption from the requirement to consolidate subsidiaries for eligible investment entities. IFRS 11 was amended in 2014 (effective for financial periods beginning on or after 1 January 2016) to outline accounting requirements for acquisitions of interests in joint operations. Other limited amendments did not modify the cornerstones on which these IFRSs are based.

Post Implementation Review

8. The IASB is currently undergoing a Post Implementation Review (PIR) of these standards. A first phase of this PIR was conducted between December 2019 and December 2020 and aimed at identifying the major issues that preparers have encountered in implementing IFRS 10, 11 and 12. In December 2020, the IASB decided to proceed with phase 2 of the PIR by publishing a Request for Information (RFI) to seek input from stakeholders on their experiences with the Consolidation Package.

9. In order to promote investor protection, ESMA and European enforcers have been continuously monitoring the implementation and application of the Consolidation Package by European issuers. In its [2014 European Common Enforcement Priorities](#), ESMA drew the attention of issuers to the application of IFRS 10, IFRS 11 and IFRS 12 in relation to different topics, including the application of the control principle, the disclosure of Non-Controlling Interests (NCI), the nature of risks associated with an entity's interests in structured entities and the disclosures related to joint arrangements¹. From 2014 to this date, 15 cases were included in Extracts from the EECS database which included enforcement decisions based on IFRS 10, IFRS 11 and IFRS 12².

4 Objectives

10. Consistent with its objective to promote the effective and consistent application of IFRS, ESMA remains strongly committed to contributing to the development of a single set of high quality, understandable, enforceable and globally accepted accounting standards. Therefore, this Report aims at providing an overview of the level of issuers' compliance with the existing requirements of IFRS 10, 11 and 12 and an overview of the areas where in ESMA's opinion the standards could provide further guidance in order to enhance consistent application. The Report may serve as feedback to the IASB on its ongoing RFI.

5 Scope and methodology

11. This Report focuses on eight key areas, selected on the basis of the issues observed during enforcement activities of European enforcers.
12. The areas of focus considered were:
- a) the application of the single consolidation model requirements to all entities;
 - b) the application of requirements related to de facto control;
 - c) the agent/principal assessment and the role of de facto agents;
 - d) investment entities and the exception to the consolidation requirement;
 - e) the application of requirements related to joint operations and joint ventures and accounting by joint operations and joint ventures;
 - f) the accounting for changes in ownership interests;
 - g) accounting for the sale of a single asset entity;
 - h) disclosures.
13. Such areas were explored by means of: (i) the reviews of the 2017, 2018 and 2019 IFRS consolidated financial statements of a selection of European issuers; and (ii) evidence from enforcement activity by European enforcers on IFRS consolidated financial statements

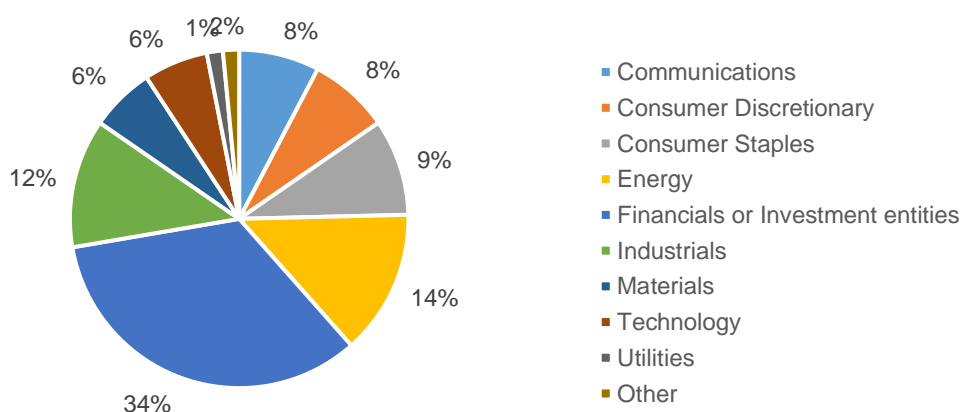
¹ ESMA/2014/1309 European Common Enforcement Priorities for 2014 financial statements, 28 October 2014

² A list of all extracts from the EECS Database is available at the following link: https://www.esma.europa.eu/sites/default/files/library/esma32-63-213_list_of_decisions_-_including_20th_extract.pdf

relating to financial years between 2014 and 2019 as discussed within the European Enforcers Coordination Sessions (EECS).

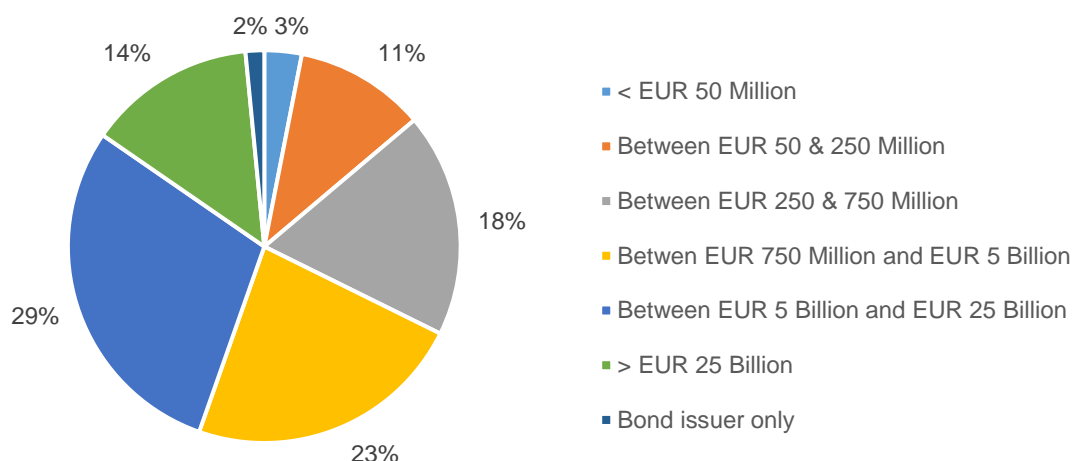
14. The reviews were based on a mix of interactive and desktop examinations.³ In some limited cases, information from interaction with the issuer stemmed from past reviews (only in cases where background information had not materially changed and the issue at stake was still relevant) – these cases were classified as interactive reviews.
15. The reviews were carried out on a sample of 65 issuers from 8 jurisdictions (Denmark, Spain, Finland, France, Germany, Italy, Netherlands and Poland). These issuers were selected on the basis of whether the specific accounting question was relevant to them. The need to ensure a geographical and sector balance was also taken into account. It should be highlighted that the number of issuers reviewed per subtopic varies considerably (from 5 for subtopic c) up to 54 for subtopic h)). This is because it was not possible to identify the same number of issuers given that the different subtopics are not applied by an equal number of issuers and are in some cases rather specific. ESMA is aware of the limitations of its findings due to the sometimes very small sample size for certain subtopics. However, the recommendations included rely also on evidence stemming from enforcement activities/ action of the other / earlier cases as discussed at EECS.
16. The overall composition of the sample in terms of sector and market capitalisation is described in the graphs below:

Figure 1: Composition of the sample of issuers for reviews by sectors



³ Please refer to ESMA's 2020 update to the [Guidelines on enforcement of financial information](#), or GLEFI, for further information about the classification of examinations. Please note that whilst this update to the GLEFI was published in 2020, it will only become applicable to NCAs in 2022.

Figure 2: Composition of the sample of issuers for reviews by market capitalisation



17. With regards to evidence from enforcement activity, it is relevant to note that IFRS 10, IFRS 11 and IFRS 12 have been a topic of much interest to enforcers for financial years between 2014 and 2019, whose application enforcers have regularly discussed and enforced over the years. This study only takes into account the issues raised and the discussions held at the EECS on the cases which were relevant for the key areas identified.

6 Analysis of selected subtopics

18. This section is structured into eight different sub-sections. Each starts with a description of the relevant accounting requirements on which ESMA's assessment focused and is then followed by an analysis of the findings, which takes into consideration, as indicated in the methodology, both the reviews of financial statements and the cases discussed at the EECS. Each section is followed by recommendations for issuers and recommendations for the IASB.

a. The application of the single consolidation model requirements to all entities

Relevant requirements

19. IFRS 10 superseded IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*; it introduced one single control model for all entities and established that control (and therefore power over the investee) arises from rights. Such rights, and therefore the assessment of control, can be straightforward (as established through voting rights, i.e. "unstructured entities") or be complex (as embedded in contractual arrangements, i.e. "structured entities") (IFRS 10 paragraph 11) but applies to all entities (with the sole exception of investment entities, see sub-section d below).

20. Entities are required to assess whether they control the investee regardless of the nature of their involvement with the investee (IFRS 10 paragraph 5) and control is established when an investor is exposed or has rights to variable returns from its investment in the investee and has the ability to affect those returns through its power over the investee (IFRS 10 paragraph 6). The Standard also clarifies that an investor that only holds protective rights does not have power over an investee and consequently does not control the investee (IFRS 10 paragraph 14).
21. Entities are required to disclose information about the significant judgements and assumptions made (and changes to those judgements and assumptions) in determining that they have control over another entity (IFRS 12 paragraph 7(a)) and which may enable users to understand and evaluate the interest in and the risks associated with material subsidiaries (IFRS 12 paragraph 10).
22. ESMA has investigated the level of effectiveness of the single consolidation model and the related disclosure requirements in depicting the economic circumstances of the entity at stake and the transparency of the disclosures provided by issuers in the sample, especially with regards to structured entities where voting rights are not the determining factor in establishing control.

Evidence from reviews

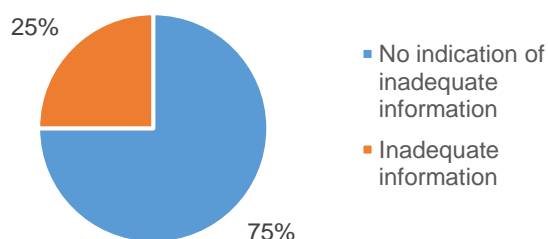
23. Fourteen of the financial statements in the sample had interests in material structured entities and were therefore reviewed for this subtopic. Ten of them also had significant interest in *unconsolidated* structured entities. 35% of the reviews were interactive examinations and 65% were desktop only.
24. It should be noted that 86% of the financial statements for this subtopic, because they had material structured entities, were financials or investment entities, whilst the remaining were either in the communications or in the consumer discretionary sector

Interests in consolidated and unconsolidated structured entities

25. All but one of the issuers reviewed had interests in more than one material structured entity (assets, project financing, outsourcing, structured financing operations). 86% consolidated at least some such structured entities.

26. European enforcers found that in 25% of cases issuers did not provide sufficient information about the significant judgements and assumptions (and changes to those judgements and assumptions) made in determining that they have control of structured entities because the information disclosed was boilerplate or not specific enough to the issuer's circumstances. This could be explained for example in light of the number of structured entities or of their materiality. For the majority of issuers (75%), however, there was no indication that the

Figure 2: Quality of information provided about significant



judgements and assumptions) made in determining that they have control of structured entities because the information disclosed was boilerplate or not specific enough to the issuer's circumstances. This could be explained for example in light of the number of structured entities or of their materiality. For the majority of issuers (75%), however, there was no indication that the

information was inadequate or insufficient. Issuers provided information about the assessment of the power over the investee, about the relevant activities of the investee and the purpose and design of the investee and about the exposure or rights to variable returns from their involvement with the investee.

27. ESMA notes that the use of a threshold as a percentage of exposure to variability is often used as a practical expedient: 42% of issuers applied a threshold in assessing the exposure to variable returns (for example, “*exposure to variability is relevant if the Group has at least x% of the exposure*”), although in a minority of such cases the threshold was not specific. For example, we observed an issuer referring to a “high exposure” but not explaining what constitutes a “high exposure”.
28. 42% of issuers provided details about the contractual arrangements (call rights, put rights, liquidation rights established at the investee’s inception) which are considered relevant activities when determining power over the investee and information about the ability for the issuer to use its power to affect investor’s returns. 58% instead provided implicit or explicit information about commitments which ensure that an investee continues to operate as designed and about how this is an indicator that the investor has power over the investee.
29. Almost all issuers reviewed provided sufficient disclosure of the terms of contractual relations that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity or disclosed that they did not grant any financial support to consolidated or unconsolidated structured entities. In one case, the issuer also disclosed details of the events or circumstances that could expose it to a loss. A minority of issuers (8%) provided information which was deemed boilerplate by enforcers because in some cases it provided excessively general terms of such contractual relations.
30. Enforcers found that none of the entities reviewed disclosed that they provided financial or other support to a consolidated structured entity during the reporting period without having a contractual obligation to do so. Two entities explicitly disclosed this fact. In addition, none of the entities reviewed disclosed any current intentions to provide financial or other support to a consolidated structured entity.

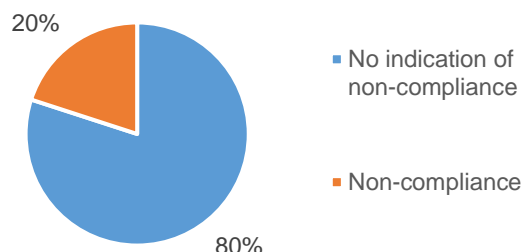
Nature and risks associated with the interests in unconsolidated structured entities

31. As already mentioned, ten of the issuers reviewed for this sub-topic also had significant interests in *unconsolidated* structured entities. European enforcers deemed that there was no indication that any issuer provided insufficient qualitative or quantitative information about such interests, including the nature, purpose, size, activity and finance structure of the structured entity. All except for one issuer explicitly explained why these entities were not consolidated, detailing how they do not have the ability to direct the relevant activities (IFRS 10 paragraph 10). In the one remaining case, the issuer did not provide an explicit explanation but disclosed that it is only an investor and does not act as sponsor or originator.
32. All issuers disclosed the carrying amounts of the assets and liabilities recognised in the financial statements in relation to the interests in unconsolidated structured entities, the

line items in the statement of financial position in which those assets and liabilities are recognised and the entity's maximum exposure to loss from such interests as required by IFRS 12 paragraph 29(a),(b) and (c). In only one case the entity could not quantify its maximum exposure to loss from its interests in unconsolidated structured entities, and did not disclose that fact and the reasons, as is required in IFRS 12 paragraph 29(c).

33. 20% of the issuers in the sample did not provide a comparison of the carrying amounts of the assets and liabilities of the entity that relate to their interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities.

Figure 4: Issuers' compliance with requirements of IFRS 12 paragraph 29(d).



34. ESMA reminds issuers of the requirement to disclose such information as per IFRS 12 paragraph 29(d) if such information is material.

35. All except for one issuer disclosed the information required by IFRS 12 paragraph 29 in a tabular format. One issuer disclosed information in a text format only, which was deemed acceptable given the simplicity of the information described.

36. 60% of issuers disclosed additional information that was considered necessary to meet the disclosure objectives in IFRS 12 paragraph 24, including but not limited to the examples of additional information provided in IFRS 12 paragraph B26 with regards to the entity's unconsolidated structured entity. For example, some issuers also provided information on the relation with unconsolidated structured entities in past years, their size, a description of the strategies adopted for managing risks etc. ESMA welcomes such additional disclosures which help the investor obtain a better picture of the issuer's interest in unconsolidated structured entities.

37. Only one issuer in the sample sponsored an unconsolidated structured entity in which it did not have an interest at the reporting date (and on which therefore it did not provide the information required by IFRS 12 paragraph 29). The issuer sponsored mutual funds in which it held no stake or any other interest. Reported income includes management and incentive fees received by the issuer as well as profits and losses resulting from ongoing transactions with these funds. All disclosures required by IFRS 12 paragraph 27 were provided.

38. None of the issuers included in the sample provided financial or other support to an unconsolidated structured entity during the reporting period without having a contractual obligation to do so. Three issuers explicitly disclosed this fact.

39. Only one issuer disclosed that it has the obligation to provide financial or other support to an unconsolidated structured entity (liquidity) as per IFRS 12 paragraph 31. Two other issuers disclose they do not have this obligation. No information is provided for the rest of the sample.

Evidence from enforcement activity

40. European enforcers discussed several cases over the years within the EECS with regards to the application of the consolidation model. In ESMA's opinion the most relevant for the purpose of the PIR are those cases with regards to the assessment of whether rights are protective or substantive.
41. ESMA notes that which rights are protective, because they constitute "fundamental changes to the activities of an investee or apply in exceptional circumstances" (IFRS 10 paragraph B26) is not always easy to assess.
42. For example, in one case discussed at the EECS, an issuer held 50% plus one share of the entity A, which contributed significantly to its performance, and the issuer held the majority in the Board of Directors. The remaining 50% minus one share were held by an investment fund. The relevant activities for the issuer were the management of a government concession and the management of the financing of the entity, which were both fully performed by the issuer. However, the shareholders' agreement required that some decisions be taken jointly by the two shareholders, such as the approval of a five-year contract plan with the government and the five-year business plan deriving from this contract plan. The issue at stake was whether the rights stemming from the shareholders' agreement were substantive or protective. Following an assessment of the governance of entity A of the rights stemming from the shareholders' agreement and of other facts and circumstances, the issuer concluded that the rights held by the other shareholders were not substantive, as they applied only to specific circumstances: in particular the signature of the five-year contract plan and the five-year business plan in this case only provided general guidance, and were not an obligation (the relevant activities could be operated even without such plan) and in practice it was the issuer which held negotiations with the government, prepared the business plan, approved the annual budget and was in charge of the operational management and the execution of the budget. Therefore the enforcer concluded that the issuer controlled entity A and the rights held by the other shareholders were only protective.
43. ESMA highlights to issuers that an analysis of the power to direct relevant activities implies first to determine the relevant activities, then to consider whether the issuer has the current ability to direct these relevant activities, and thereafter to analyse the rights held by the other shareholder due to the shareholders' agreement and all other facts and circumstances.
44. Some other fact patterns, however, may warrant further guidance from the IASB. For example, another case discussed at the EECS related to the assessment of rights as substantive or protective in the situation in which a veto power applies. In the case at hand the issuer held around 40% of shares of an investee (and all other stakeholders held less than 15% of shares, with no shareholder agreement in place) as well as a veto right on the decisions related to the relevant activities of the investee. Most of the decisions related to the relevant activities required a qualified majority of two thirds; thus, the other investors could have acted together to outvote the issuer. The veto right could block the adoption of any strategic decisions, including approval of the budget and annual review of the business plan. The enforcer found that the veto right did not give the issuer power over the relevant

activities of the investee, as the issuer could not direct these activities but only block them. The veto right could also not be considered a protective right, since it applied in all circumstances and related to changes which are not only fundamental. Therefore, the issuer did not control the investee but only had significant influence. ESMA recommends that the IASB provides further guidance on the assessment of veto rights in the Standards through, for example, Illustrative Examples.

45. In addition, in some cases, ESMA noted that the assessment of whether rights are protective or substantive in nature can be very judgemental; for example, in the assessment of rights stemming from very close business relationships, such as an issuer's right to decide if the acquired entity can conduct business with other parties, of the impact of veto rights, enabling an issuer to block some decisions, or about deadlock clauses which limit the power of the majority, and their interaction with call and put options (e.g. when a call option becomes exercisable in the event of deadlock).
46. Further guidance with regards to such fact patterns would be helpful to reduce diversity in practice.

Conclusions for issuers

47. The reviews indicated a high level of compliance with the relevant requirements in the standards. Compliance was especially high for the accounting for structured entities.
48. ESMA would welcome additional disclosures to meet the disclosure objectives beyond those specifically required by the standard (such as those referred to in paragraph 36), which help the investor obtain a better picture of the nature of the issuer's interest in consolidated and unconsolidated structured entities, as well as the risks and effects of such interests on the financial position, financial performance and cash flows of the issuer.
49. ESMA also reminds issuers that IFRS 12 paragraph 29(d) requires them to provide a comparison of the carrying amounts of the assets and liabilities of the entity that relate to their interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities.
50. Last, but not least, ESMA reminds issuers that the assessment of whether rights are protective or substantive should take into consideration the existing guidance under IFRS 10 paragraphs B22 to B28 and that the significant judgements and assumptions made in these regards should be disclosed as per IFRS 12 paragraph 7.

Conclusions for the IASB

51. ESMA thinks that the applicable parts / paragraphs of the Standards related to interests in consolidated and unconsolidated structured entities are generally clear and that the accounting outcome provides for an appropriate depiction of the economic circumstances of the entity's structure.
52. ESMA would welcome further guidance, however, with regards to the assessment of protective versus substantive rights, for example on how to assess the rights stemming

from very close business relationships, veto rights or deadlock clauses, since this area raises some diversity in practice.

b. The application of requirements related to de facto control

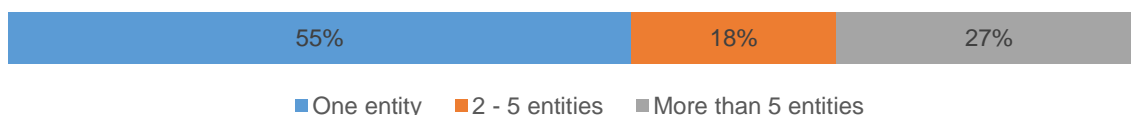
Relevant requirements

53. The concept of de facto control was already applied under IAS 27. IFRS 10 however provides significantly more guidance to carry out the related assessment.
54. IFRS 10 establishes that an investor can have power even if it holds less than a majority of the voting rights of an investee (IFRS 10 paragraph B38). In that case, the investor can have power due to other arrangements, such as contractual or other types of arrangements between the investor and other vote holders, potential voting rights, or the investor's practical ability to direct the relevant activities unilaterally due to the voting rights that it holds. This is called "de facto control".
55. ESMA has investigated the effectiveness of the requirements and of the related application guidance linked to de facto control (IFRS 10 paragraphs B39 to B46) in depicting the economic circumstances of the entity concerned and the transparency of the disclosures provided by issuers in the sample.

Evidence from the reviews

56. In order to review this subtopic, ESMA analysed the financial statements of 11 issuers with consolidated material subsidiaries in which they hold 50% or less of the voting rights. This analysis builds on 6 desktop and 5 interactive examinations.
57. Around half of the issuers (55%) that consolidate material subsidiaries in which they hold less than 50% of voting rights consolidate only one such entity. 18% consolidate between 2 and 5 entities and 27% consolidate more than 5 entities (between 30 and 60 entities).

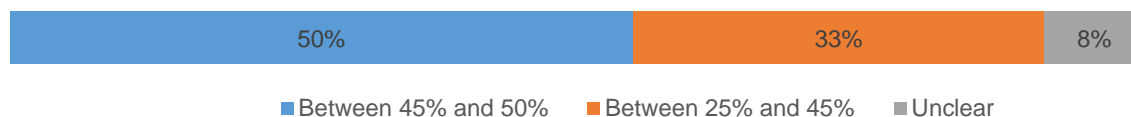
Figure 5: Number of material subsidiaries consolidated by issuers holding less than 50% of voting rights



58. The percentage of voting rights held in relation to the largest five consolidated subsidiaries is between 45% and 50% for half of issuers in the sample; between 25% and 45% for 33%

of issuers; in another case it is not clear from the accounts since control is not based on voting rights.

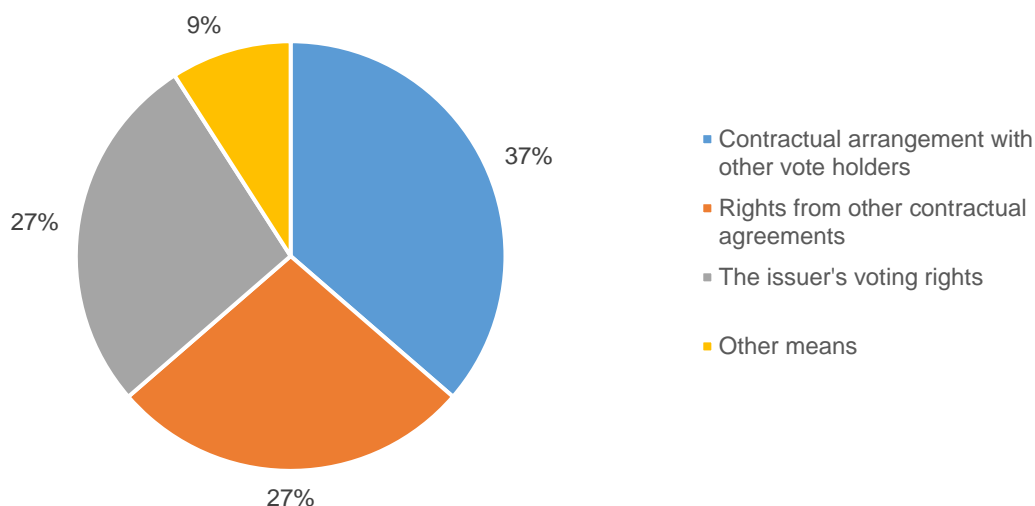
Figure 6: Percentage of voting rights concerning the largest consolidated subsidiary



59. In 75% of the issuers analysed, there was no indication that the disclosed information about the significant judgements and assumptions (and changes to those judgements and assumptions) in relation to the control of their subsidiaries was insufficient. In the remaining 25% of the cases, information was insufficient (for instance, only mentioning the existence of a contractual arrangement with other vote holders but no details). ESMA reminds issuers of the requirements of IFRS 12 paragraph 7 and 9b in particular, which require a high level of transparency over the significant judgements and assumptions, and changes to those judgements and assumptions, made in determining the existence of control (or lack thereof).
60. 36% of the issuers exercised control over some or all of their subsidiaries via a contractual arrangement with other vote holders (IFRS 10 paragraph B39). In all but one case, issuers disclosed sufficient information about the relevant contractual arrangements with other vote holders (for instance, when relevant, the features of the escalation process in case of disagreement between the vote holders).
61. 27% of the issuers reviewed held control due to rights arising from *other* contractual arrangements which give decision-making rights in combination with voting rights (IFRS 10 paragraph B40) and all of them provided relevant disclosures about such contractual arrangements.

62. Another 27% of the issuers held control via the issuers' voting rights (IFRS 10 paragraphs B41-B46) which give the investor the practical ability to direct the relevant activities unilaterally. In most of these cases, there was no indication that the information provided was not sufficient. Only in two cases enforcers deemed the information provided about the ability to direct the relevant activities unilaterally unsatisfactory, either because it was poorly developed or because it was boilerplate.

Figure 7: Means of control over consolidated subsidiaries without majority of voting rights (IFRS 10 paragraph B38)



63. Finally, a minority of issuers held control via a combination of the factors referred to in the previous paragraphs. In most cases this was because of a high dispersion of other voting rights, which gave the issuers de facto control.

64. Enforcers were satisfied with the quality of the disclosures provided by these issuers.

65. For all issuers reviewed, enforcers deemed that there was no indication that the accounting outcome based on the depiction of the entity's structure and circumstances (and of the entities' control over the consolidated entities) was inadequate.

Evidence from enforcement activity

66. European enforcers discussed several cases over the years within the EECS with regards to the application of de facto control. In ESMA's opinion it is noteworthy that a number of these cases highlighted the necessity to exercise a very high level of judgement, which makes it doubtful whether entities would arrive at the same conclusion under identical fact patterns.

67. ESMA highlights that this is particularly difficult to conclude with regards to "other facts and circumstances" when the control assessment is performed at the creation of the entity.

68. ESMA noted that it was difficult, for example, to make the assessment in a timely manner because the factors to consider are sometimes outside of the control of the entity and it is challenging to conduct a "continuous assessment". The usefulness of the resulting information is questionable when the situation at the time of the assessment is only

temporary or volatile. This can be the case for issuers which initially held de facto control but whose holdings have decreased (for example, from 49% to 33%) and whose voting powers have not been put to test in practice following the change in holdings. The question therefore is whether such entities still have de facto control. ESMA believes that the standard could provide some guidance about the period analysed for the assessment of control (e.g. regarding the attendance at the previous shareholder meetings, in recent years, etc.) and how to take into account past voting patterns, so to facilitate the analysis.

69. Similarly, significant judgement is required to assess investors' voting rights (paragraphs B41 and B42), especially when an investor owns a small proportion (for example, 20%) of voting rights. For example, in one case discussed at the EECS it was deemed that an issuer had control of another entity based on (i) voting rights (which doubled to over 45% at the general assembly thanks to the exercise of double voting rights) and a highly diversified shareholder base, and (ii) the ability to define the entity's strategy as well as to direct the relevant activities, notably designating a very significant number of managers at key positions. The issuer in this case designated the majority of Board members not because it had the "right" to do so, but because no one else disagreed. ESMA acknowledges that judgement is an inherent aspect of principle-based standards. In order to provide sufficient transparency to users of financial information about the judgements made (as per IFRS 12 paragraph 7), ESMA urges issuers to ensure that they provide sufficient disclosure on how they draw "the border" between IAS 28 and IFRS 10 (for example, how the indicators listed in paragraph B42 were weighted in determining control versus significant influence) and how they concluded that they have (or do not have) control when they own less than a majority of voting rights in order to provide adequate transparency on their judgements to end users.
70. ESMA acknowledges that judgement is an inherent aspect of principle-based standards. ESMA noted some diversity in practice in the application of the assessment of "who is in control" / "who appoints the decision makers to the relevant bodies". In these regards ESMA highlights to issuers the provisions of IFRS 10 paragraph B67 which clarify that the Standard is open to the possibility that another governing body other than the Board of Directors might be in some circumstances the key decision-making authority. For instance, in some cases, it could be justified to consider that an issuer does not control an investee because taking control of the Board of Directors would result in major negative consequences which could act as economic barriers to the exercise of control. For example, it might trigger clauses forcing the investee to terminate profitable operations. In these particular circumstances it is important to understand the role of the Board. Furthermore, in some situations, issuers might need to consider the role and the composition of the nomination committee of Board members.
71. ESMA notes that guidance in IFRS 10 may not be sufficient to assess control in the context of a business combination where governing bodies are not fully stabilised, e.g. if senior management and the key management personnel nominations and decision-making processes are not yet established and the attendance of the general assembly is not yet known. ESMA considers that more guidance should be provided on this aspect in the standard.

72. The reviews indicated a high level of compliance with the relevant requirements in the standards.
73. However, ESMA reminds issuers of the requirements of IFRS 12 paragraph 7 and 9b in particular, which require appropriate transparency over the significant judgements and assumptions, and changes to those judgements and assumptions, made in determining the existence of control (or lack thereof).
74. In addition, ESMA urges issuers to provide sufficient transparency on how they assessed investors' voting rights, especially when an investor owns a small proportion of voting rights, and explain how they drew "the border" between IAS 28 and IFRS 10 (for instance, how the indicators listed in paragraph B42 were weighted in determining control versus significant influence).

Conclusions for the IASB

75. In the course of their reviews, enforcers concluded that the relevant provisions of IFRS 10 are mostly sufficient. Nevertheless, ESMA notes that although IFRS 10 provides more guidance than its predecessor IAS 27, many aspects of the assessment of de facto control are highly judgemental and, therefore, even if the circumstances are similar, in some cases different entities may end up drawing different conclusions, which impairs comparability. ESMA considers that further guidance should therefore be provided to assess de facto control.
76. For instance, in light of the challenges posed by the "continuous assessment" of control, ESMA suggests that the standard could provide further guidance such as Illustrative Examples, including indications about the period which should be analysed for the assessment of control (e.g. regarding the attendance at the previous shareholder meetings, in recent years, etc.) and how to take into account past voting patterns.
77. In addition, ESMA suggests that further guidance should be provided in the form of Illustrative examples on the application of IFRS 10 paragraph B42 and how to assess control in the context of a business combination where governing bodies are not fully stabilised.

c. The agent/principal assessment and the role of de facto agents

Relevant requirements

78. IFRS 10 paragraph B73 states that, "when assessing control, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf (de facto agents)". Paragraph B74 further describes a de facto agent as a party where "the investor has, or those that direct the activities of the investor have, the ability to direct that party to act on the investor's behalf" and notes that such a relationship need not involve a contractual arrangement.

79. ESMA has investigated the effectiveness of the requirements linked to de facto agents and the transparency of the disclosures provided by issuers and whether the existing requirements allow to properly reflect the circumstances of the issuer.

Evidence from the reviews

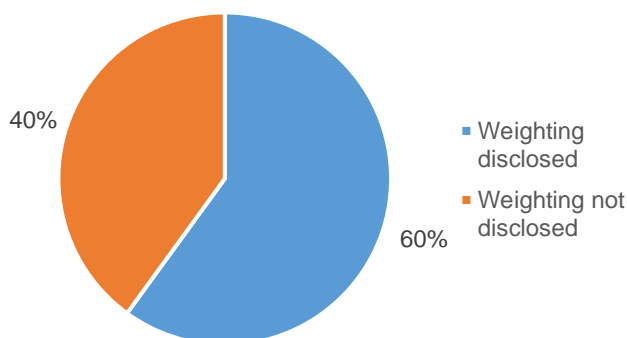
80. In order to analyse this subtopic, ESMA has reviewed five financial statements where the issuer disclosed that it acts as a de facto agent. All were desktop reviews.

81. In three cases, there was no indication that issuers did not provide sufficient information about the significant judgements and assumptions made in assessing whether they act as an agent. In two cases, however, the issuer only provided boilerplate disclosures, not describing which factors were deemed most relevant in the assessment taken into consideration and, in one case, not clearly disclosing whether it considers itself to be an agent or a principal. ESMA reminds issuers that this information is required by IFRS 12 paragraph 7(a).

82. In three cases, issuers indicated that they were agents even if they had decision-making rights, either because the issuer can be removed by other investors (for example a fund manager), or because the decision-making powers the issuer has are pre-determined by a management agreement and thus only delegated. One issuer considered itself a principal due to another entity (with decision-making rights) acting as agent on its behalf. Enforcers found the issuers' assessments justified.

83. Three issuers disclosed their weighting of the four factors indicated in IFRS 10 paragraph B60 in determining whether the decision-maker is an agent, with the factor weighting most being generally the decision-maker's exposure to variability of returns from other interests that it holds in the investee. Enforcers generally agreed with the issuers' weighting.

Figure 8: Disclosure of weighting of IFRS 10 paragraph B60 factors



84. Two issuers in the sample did not disclose their weighting of the four factors in determining whether the decision-maker is an agent. ESMA encourages issuers to disclose their weighting of the four factors indicated in paragraph B60 as this is helpful information for users.

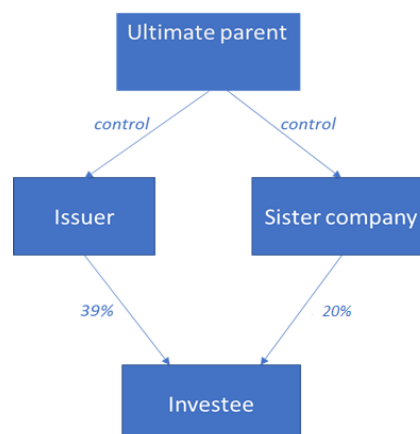
85. In all cases reviewed, enforcers had no indications that issuers disregarded the requirements of IFRS 10 paragraphs B69 and B70, i.e. that if the decision-maker considers itself to be an agent, the remuneration agreement included only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis.

86. Two issuers identified that their exposure to variability of returns is different from that of the other investors. In one case, due to provision of other forms of credit enhancement (such as a liquidity facility); in another case, because it received management fees.

Evidence from enforcement activity

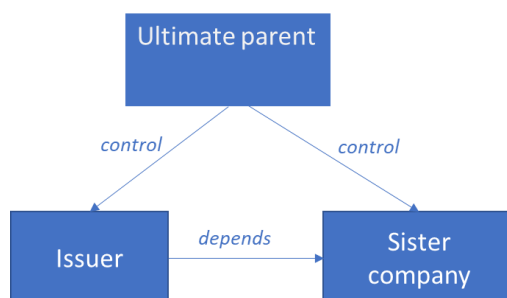
87. EECS discussed on a number of occasions provisions related to de facto agents. In a few cases, questions came up as to how to take into account the relationship with other parties in assessing delegated power which challenged the way enforcers understand the concept of control and its implication to consolidation. The conceptual issues discussed in this section arose from such cases.
88. In one case, enforcers discussed the case of a sister company to an issuer (i.e. belonging to the same ultimate parent), which holds a critical number of shares in an investment, as illustrated in the figure below.

Figure 9. Example of fact pattern



89. Since they have the same ultimate controlling shareholder, the question arose as to whether the ultimate parent had the ability to direct the sister company to act on the issuer's behalf and whether it can be expected that the ultimate parent will vote in the same way with the shares of the investee it controls through the issuer as with the shares of the investee it controls through the sister company.
90. ESMA therefore discussed whether the rights of the sister company can be taken into account in assessing whether the issuer controls the investee or not and if the sister company is a de facto agent of the issuer. If so, this would mean that potentially consolidation could be necessary at the same time at the subsidiary level (the issuer at hand) and at a higher level (the ultimate controlling shareholder).
91. In another case, ESMA discussed whether a controlling parent, directly holding a participation in the investee of the issuer, could act on the issuer's behalf and be considered as an agent of the issuer (Figure 10).

Figure 10. Example of fact pattern



92. ESMA notes that IFRS 10 paragraph B74 states that the investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee. IFRS 10 paragraph B59 states that in situations where there is more than one principal, each of the principals shall assess whether it has power over the investee. This depends on the specific facts and circumstances.
93. ESMA thinks that a top-down approach should apply to assess control and consequently that it should not be possible to consider the ultimate parent as an agent for an issuer. In ESMA's view this may not be clear in the existing standards. IFRS 10 paragraph B74 in particular may not provide sufficient guidance in assessing how to take into account the sister company's shareholdings in an assessment of control.
94. Finally, in another case the issuer and the sister company (similar to the issuer illustrated in Figure 9) entered into a joint arrangement classified as a joint venture. Based on this arrangement the issuer and the sister company jointly controlled the investee because they must act together to direct the relevant activities. According to IFRS 10 paragraph 9 both the issuer and sister company have to account for their interests in the investee "in accordance with the relevant IFRSs, such as IFRS 11, IAS 28 or IFRS 9". In ESMA's view, the fact pattern would suggest that IFRS 10 paragraph B74 should be applicable. However, because of the joint venture arrangement, the application of IFRS 10 B74 is overruled. It is therefore not clear whether the sister company can be considered a de facto agent. ESMA notes that this may result in issuers opportunistically avoiding (or falling into) consolidation due to the way they structure the investee (i.e. as a joint venture or not).

Conclusions for issuers

95. ESMA notes that the sample of issuers suggested that there was generally a good level of compliance with the IFRS 10 requirements about de facto agent.
96. However, ESMA found that some issuers provided insufficient disclosures about the significant judgements and assumptions they have made (IFRS 12 paragraph 7(a)), which should include judgements and assumptions made in determining that it is an agent or a principal (IFRS 12 paragraph 9(c)).

97. ESMA reminds issuers of the provisions contained in IFRS 10 paragraph B60, which require consideration of the overall relationship between the issuer itself, the investee being managed and other parties involved with the investee and requires different weighting of each of the factors listed (the scope of its decision-making authority over the investee, the rights held by other parties, the remuneration to which it is entitled in accordance with the remuneration agreement(s) and the decision-maker's exposure to variability of returns from other interests that it holds in the investee) on the basis of particular facts and circumstances. ESMA also encourages issuers to disclose such weighting, as this is helpful information for users.

Conclusions for the IASB

98. ESMA finds that the provisions of IFRS 10 with regards to de facto agent are mostly adequate. However, ESMA thinks that it may not be clear in the existing Standards how to consider relationships with some other parties such as sister companies belonging to the same ultimate parent in assessing control in the absence of a contractual agreement. IFRS 10 paragraph B74 in particular could be expanded to provide additional guidance on specific fact patterns, such as whether the parent company can act as a de facto agent for the issuer. Furthermore, consideration could be given as to whether IFRS 10 paragraph B74 should be applicable in the context of sister companies jointly controlling an investee via a joint venture.
99. In ESMA's view only a top-down approach is possible and this should be clarified in the existing Standard.

d. Investment entities and the exception to the consolidation requirement

Relevant requirements

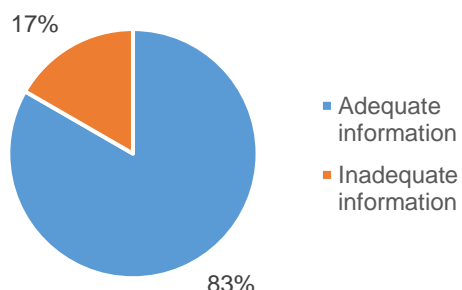
100. IFRS 10 paragraph 27 provides the definition of investment entity as an entity "that obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services, commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and measures and evaluates the performance of substantially all of its investments on a fair value basis."
101. Paragraph 31 provides that investment entities shall normally not consolidate its subsidiaries or apply IFRS 3 when they obtain control of another entity. Instead, they shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9.
102. ESMA investigated the effectiveness of the requirements linked to investment entities and the exception to consolidation in order to assess the transparency of the disclosures provided by issuers in the sample and whether the existing requirements allow the proper reflection of the circumstances of the issuer.

Evidence from the reviews

103. To analyse this subtopic, ESMA identified six issuers which are investment entities. Of the six reviews performed, two were interactive examinations and four were desktop.

104. All issuers reviewed were assessed to be an investment entity in accordance with IFRS 10 paragraph 27. In all cases except for one, there was no indication that the issuer had not disclosed sufficient information about the significant judgements and assumptions made in determining that it is an investment entity.

Figure 11: Adequacy of information on determination as investment entity



In one case the disclosure was boilerplate (only restating the requirements contained in the standard).

105. All issuers had the typical characteristics of an investment entity described in IFRS 10 paragraph 28 (they had more than one investment, more than one investor, had investors besides related parties of the entities and ownership interests in the form of equity or similar interests).

106. Half of the issuers in the sample disclosed (either in the Notes or in their Management Report) their exit strategies documenting how the entity plans to realise capital appreciation for its investments (IFRS 10 paragraph B85F). The other half did not provide any information in these regards.

107. All six issuers in the sample have subsidiaries that are valued at fair value through profit or loss based on the fair valuation requirement in IFRS 10 paragraph 31 (unconsolidated subsidiaries). Out of these, all except for one issuer disclosed for each significant unconsolidated subsidiary the subsidiary's name, its principal place of business, the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held (IFRS 12 paragraph 19B). The remaining issuer instead did not provide disclosures that allowed a clear understanding of which subsidiaries were consolidated or not.

108. 50% of issuers in the sample had subsidiaries that are not themselves an investment entity and whose main purpose and activities is providing services that relate to the investment entity's investments. All consolidated such entities based on the requirements of IFRS 10 paragraph 32 and provided disclosures that were deemed sufficient in order to allow users to understand to which subsidiaries the issuer applies the consolidation requirement (IFRS10 paragraph 32) and to which it applied fair value accounting (IFRS 10 paragraph 31).

109. Four issuers were also parent to another investment entity; all four disclosed this fact and all information required by IFRS 12 paragraph 19B (see paragraph 107). The information was always provided in the financial statements of the parent entity.

110. Only one issuer disclosed information on the nature and extent of significant restrictions on the ability of an unconsolidated subsidiary to transfer funds to the investment entity. The

enforcer deemed this disclosure sufficiently thorough and entity-specific to comply with IFRS 12 paragraph 19 D to G.

111. Overall, however, ESMA found that IFRS 12 requires investment companies to provide very little information about their interests. For example, in one of the cases reviewed, the subsidiary of the investment entity is mentioned, but its structure is not described in the financial statements (but only in the Management Report).

112. ESMA notes that some of the requirements in IFRS 12 overlap with those in IFRS 7 *Financial Instruments: Disclosures*, but doubts whether this is adequate for investment entities. This is because the investments of an investment entity may be quite specific and may benefit from specific IFRS 12 disclosures, especially if large equity stakes are held.

Evidence from enforcement activity

113. EECS discussed several cases with regards to investment entities and the exemption to consolidate. ESMA notes that judgement is necessary to establish whether an entity is an investment entity and thinks that the IASB could provide further guidance to issuers making those judgements.

114. According to IFRS 10 paragraph 27(c), an investment entity is an entity that measures and evaluates the performance of substantially all of its investments on a fair value basis. According to IFRS 10 paragraph B85K, this would be demonstrated if an entity provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is permitted. Furthermore, an investment entity would report fair value information internally to the entity's key management personnel, who would use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments as well as to make investment decisions.

115. However, as discussed at EECS on several occasions, issuers do not always consistently apply the existing guidance with regards to the conditions that need to be fulfilled to prove that fair value information is used for internal reporting and decision-making purposes were met. For example, one issuer shared the estimate of the portfolio's fair value only with the Board of Directors but not with the investors that were not represented in the Board of Directors. In addition, the enforcer's investigations showed that periodical updates on operational and financial performance had been the primary measurement for management and the Board of Directors to evaluate performance rather than considering the investments' fair values. The enforcer, therefore, concluded that the entity did not meet the requirements in paragraph 27(c) of IFRS 10 and hence, it was not an investment entity.

116. ESMA encourages entities to carefully consider the requirements of paragraph 27(c) when assessing whether an entity provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements, whenever fair value is permitted.

117. In addition, however, ESMA thinks that the existing guidance may not always be sufficient. The following, for instance, are not clear:
118. what is the distinction between “exercising shareholders rights” and the “active management of the investee”?
119. do indicators like EBIT multiples or NAV constitute ‘fair value information’?
120. if the fair value of investments in a non-listed entity (level 3 fair value measurements) is determined once or twice a year and the management of the investment entity assesses whether the entity is meeting the budgets during the year, does this mean the investment entity is measuring and evaluating the performance of the investment on a fair value basis?
121. ESMA thinks that these aspects should be clarified by the IASB in order to better support issuers in their assessment of whether their investments fulfil the “fair value information” criteria. This would be especially relevant for smaller entities.

Conclusions for issuers

122. In conclusion, enforcers found a very high level of compliance with the existing requirements relating to investment entities and the exception to consolidation (in relation both to satisfaction of the criteria for investment entities and in relation to disclosures). Only in limited cases enforcers observed boilerplate disclosures.
123. ESMA encourages issuers which are investment companies to provide more information in the financial statements about their interests, especially if large equity stakes are held (for example about the subsidiary structure), and about their exit strategies.
124. ESMA also encourages issuers to carefully consider the requirements of paragraph 27(c) when assessing whether an entity provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is permitted.

Conclusions for the IASB

125. ESMA finds that the definition of investment entities requires a high degree of judgement. ESMA recommends that the IASB provides further guidance, such as illustrative examples, on how to assess whether an entity fulfils the criteria to be classified as “investment entity” and in particular whether the “fair value information” criteria is met, especially with regards to smaller entities.
126. Furthermore ESMA suggests that the IASB should require investment entities to provide more disclosures about their interests in order to enable users to better understand the judgements applied, for example with regards to the subsidiary structure.
127. ESMA also suggests that reference to IFRS 7 only may not be sufficient for investment entities, since the investments of an investment entity are likely to be quite specific. ESMA suggests that further disclosure requirements for investment entities could be based on

those already required for other types of entities under IFRS 12, thereby capitalising on existing types of disclosures, without creating new ones.

e. The application of requirements related to joint operations and joint ventures and accounting by joint operations and joint ventures

Relevant requirements

128. IFRS 11 establishes principles for reporting by entities that have an interest in arrangements that are controlled jointly (joint arrangements). The standard distinguishes in particular between two types of joint arrangements: joint operations (whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liability relating to the arrangements) and joint ventures (whereby the parties that have control of the arrangement have rights to the net assets of the arrangement). The former arrangements are accounted for using line by line accounting (IFRS 11 paragraph 20); the latter using equity accounting (IFRS 11 paragraph 24).

129. In addition, ESMA notes that several agenda decisions were finalised by the IFRS IC in March 2015 with regards to the definition of JO and JV.

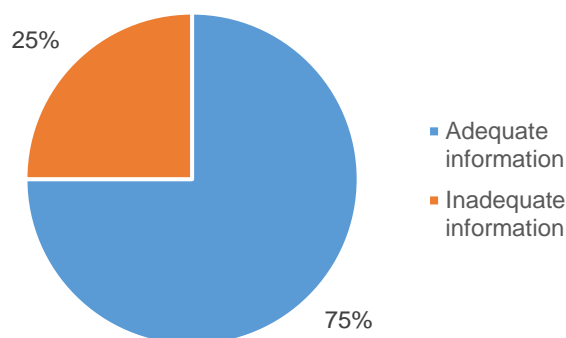
130. ESMA has investigated the effectiveness of the requirements linked to joint arrangements in order to assess the transparency of the disclosures provided by issuers in the sample and whether the existing requirements allow to properly reflect the arrangements in place.

Evidence from the reviews

131. 17 issuers in the sample had significant joint arrangements. Three of these had only joint operations, nine had only joint ventures, five had both joint ventures and joint operations. Over 50% of the issuers in the sample had more than five joint arrangements (up to a maximum of 150 joint ventures); 35% had between two and five; only 12% had only one. Over 75% of the issuers in the sample structured their joint arrangements via separate legal entities.

132. 25% of the issuers in the sample did not provide sufficient information about the assumptions and judgements made in determining the type of joint arrangement when the arrangement was made through a separate vehicle. Such disclosures were either boilerplate (for example merely describing the difference between JOs and JVs) or not sufficient (for example not explaining the reasons why consideration of a joint arrangement changed from being a JV to being a JO). ESMA reminds issuers that this information is required by IFRS 12 paragraph 7(c) and is very relevant for users to understand the specific circumstances of the issuer.

Figure 12: Adequacy of information on determination of the type of joint arrangement



133. Over 40% of issuers did not disclose entity-specific information with regards to their significant accounting policy regarding joint arrangements (measurement basis used, reasons for qualification as JO or JV or other relevant accounting policies) but only general accounting policies. ESMA reminds issuers that IAS 1 paragraph 117 requires disclosure of the measurement bases used in preparing the financial statements and therefore such information should also be disclosed specifically with regards to significant joint arrangements.

134. All issuers disclosed the name of the main joint arrangement, and over 85% of issuers disclosed the nature of their relationship with the main joint arrangement, the principal place of business and the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (IFRS 12 paragraph 21 (a)).

Focus on Joint Operations

135. All issuers which underwent an acquisition of a JO in the period of reference, applied the relevant accounting in accordance with IFRS 11 paragraph 20 and 21a.

136. All issuers accounted for sales and contributions to the JO only to the extent of the other parties' interests in the JO and only when the issuer has sold the assets to third parties, as per IFRS 11 paragraph B34.

137. Furthermore, all issuers accounted for gains and losses on purchases on assets from the joint operation only to the extent of the other parties' interests in the joint operation (IFRS 11 paragraph B36).

138. Information on funding and purpose of material JOs was absent (33%) or boilerplate (22%) in a majority of cases, with only 45% providing information. In some cases, issuers disclosed information about funding but not about purposes, in some cases vice versa.

139. In relation to interests in joint operations, all except for one issuer recognised their assets, liabilities, revenues from sale of their share of output, share of revenue from sale of output, expenses and any share of these held or incurred jointly, as required by IFRS 11 paragraph 20. Two issuers for which that was relevant also recognised in full the leases under IFRS 16 *Leases* which the issuer had taken upon itself on behalf of the joint operation.

Focus on Joint Ventures

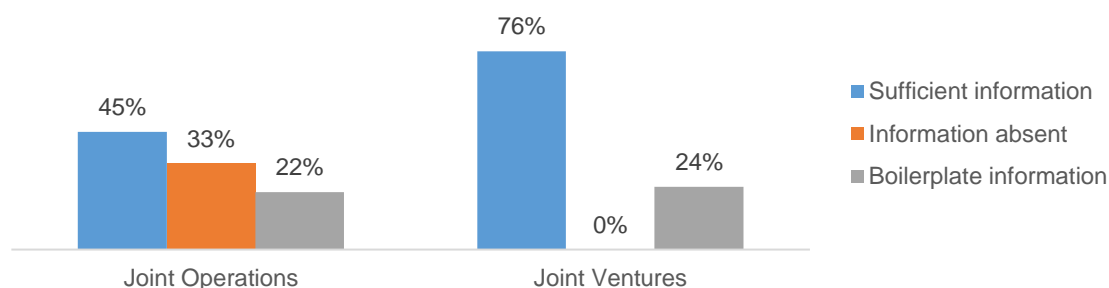
140. All issuers applied the equity method in accounting for their interests in the JVs, as required by IFRS 11 paragraph 24. Only one issuer disclosed the fair value of its investment as per IFRS 12 paragraph 21 b iii. The rest disclosed that there is no quoted market price for the investment and, therefore, the fair value of the investment cannot be determined and disclosed.

141. 80% of issuers disclosed for each material joint venture summarised financial information about the joint venture as required by IFRS 12 paragraph 21(b)(ii), whilst the remaining issuers did not disclose all of the required information.

142. 25% of issuers did not disclose whether they have commitments to their joint ventures as required by IFRS 12 paragraph 23(a). However, enforcers found a very high level of compliance with the requirements contained in IFRS 12 paragraph 22, with all relevant disclosures being provided whenever relevant, except for one issuer not disclosing the unrecognised share of losses of a joint venture.

143. Enforcers determined that the majority (76%) of issuers provided information that was deemed sufficient about how each of their material JV is funded and what is its purpose; the rest provided only boilerplate information.

Figure 13: Sufficiency of information on funding of joint arrangements



144. Finally, regarding investments that are not individually material, only a minority (20%) of issuers do not disclose in aggregate all the financial information specified in paragraph B16.

Evidence from enforcement activity

145. EECS discussed several cases with regards to IFRS 11 over the years. Such discussions highlighted in particular the high degree of judgement required to classify a joint arrangement as JO or JV.
146. One area on which ESMA thinks the IASB could provide further guidance such as Illustrative Examples is with regards to the assessment of joint control based on the terms and conditions of specific agreements (such as call/put options or deadlock provisions), where a significant level of judgement is observed.
147. In one case, for instance, enforcers challenged the assessment of the call options and in particular the formula of the call options' exercise price (which were not substantive because they were not "in the money"). In these circumstances, in accordance with IFRS 10, a reassessment of these clauses needs to be undertaken over time as the options will become exercisable and, thus, in the future, the issuer may control the investee.
148. ESMA also notes that another area of significant judgement is that of deadlock clauses, whereby the terms of a shareholders' agreement between two parties include deadlock provisions designed to limit the power of majority. Lack of specific guidance on deadlock provisions, their interaction with call and put options (e.g. when a call option becomes exercisable in the event of deadlock), and the high level of judgement required to assess effect from exercising the call/put options in IFRS 10 and IFRS 11 may result in different accounting treatments by different issuers.
149. In addition, ESMA acknowledges that existing provisions and guidance on "other facts and circumstances" provisions (IFRS 11 paragraphs B29 - B33) is indeed complex to apply. ESMA encourages issuers to take into consideration the existing literature from the IASB such as the March 2015 Agenda Decisions when assessing their specific circumstances.

Conclusions for issuers

150. The reviews highlighted quite high levels of compliance with the requirements in IFRS 11 and the corresponding disclosures in IFRS 12, with relatively few issuers not disclosing all information which is required by the standard.
151. ESMA reminds issuers in particular of the requirement to disclose entity-specific information with regards to their significant accounting policy regarding joint arrangements (measurement basis used, reasons for qualification as JV or JO, or other relevant accounting policies). In fact, IAS 1 paragraph 117 requires disclosure of the measurement bases used in preparing the financial statements and therefore such information should also be disclosed specifically with regards to significant joint arrangements. In addition, disclosures on the assumptions and judgements made in determining the type of joint arrangement when the arrangement was made through a separate vehicle should be specific to the issuers' circumstances, as required by IFRS 12 paragraph 7(c).
152. ESMA also encourages issuers to provide better and more transparent information on funding and purpose of joint arrangements, especially with regards to material JOs, which is an area for which disclosures were not always satisfactory.

153. Furthermore, ESMA acknowledges that the guidance on the assessment of “other facts and circumstances” is challenging for issuers and encourages issuers to consider all existing literature from the IASB when assessing their specific circumstances.
154. ESMA also notes that disclosures only need to be provided in case they are “material to the reporting entity” (IFRS 12 paragraph 12 or IFRS 12 paragraph 21) and urges issuers to apply the overarching materiality principle consistently.
155. Finally, ESMA reminds issuers the importance of a continuous / ongoing assessment of control.

Conclusions for the IASB

156. ESMA finds that IFRS 11 and the corresponding disclosure requirements in IFRS 12 are generally clear, albeit not always adequate to ensure that issuers disclose sufficient information to users.
157. ESMA notes that preparers face difficulties in practice due to the level of judgement required, for example, on deadlock provisions and in the assessment of call/put options. ESMA recommends that the IASB provide further guidance in the form of Illustrative Examples on these aspects.
158. Furthermore, ESMA encourages the IASB to strengthen the disclosure requirements with regards to JOs, which are currently very limited when compared to JVs.

f. The accounting for changes in ownership interests

Relevant requirements

159. Where an interest in an entity is built up over a period of time and ultimately becomes significant influence or a controlling interest, entities transition from one accounting method for their investee to another. Similarly, the transition happens in the opposite direction where significant influence, joint control, or control is lost (disposals where control or significant influence is lost, or step disposal).
160. ESMA investigated how the existing requirements relating to step acquisitions or step disposals are effectively applied by European issuers, in order to assess the transparency of the disclosures provided by issuers in the sample and whether the existing requirements allow proper reflection of the arrangements in place

Evidence from the reviews

161. In order to analyse this subtopic, ESMA assessed 10 financial statements of issuers where the ownership interest in an investee changed over the reporting period in a way that it required remeasurement of such interest. Half of these reviews were desktop reviews, the other half were interactive examinations and involved contact with the issuer during an examination.

162. The issuers (A to J) which were reviewed presented the following patterns of change in ownership interests and were accounted for as indicated:

To: From:	Financial instrument	Equity accounted investee (significant influence or JV)	Control
Financial instrument	-	C.1 acquisition of additional interest	
Equity accounted investee (significant influence or JV)		-	F/G/H/I. 4 acquisitions of additional interests <i>IFRS 3:41-42</i> (in one case due to exercise of a put option)
Joint Operations			J. 1 acquisitions of additional interests (termination of JV agreement) <i>IFRS 11.21A</i>
Control	A. 1 capital increase <i>IFRS 10.25 in relation 10.B98(b)(iii)</i> B. 1 disposal of interests in common control transaction <i>IFRS 10.25</i>	D.1 disposal of interest <i>IFRS 10.25</i> E. 1 dilution (JV) <i>IFRS 10.25</i>	-

163. In all cases, the change of ownership happened in one transaction only. However, ESMA suggests that the Standards could explicitly clarify that in some cases a parent might also acquire control in two or more arrangements since this principle currently applies only for loss of control (IFRS 10 paragraph B97).

164. In four cases under review the issuer lost control of the subsidiary. In two cases, the subsidiary became an associate or a joint venture. In all cases, the transaction resulted in a gain in P&L. In one case (issuer B) the change of ownership resulting from disposal of interests in a common control transaction had no impact on goodwill because the remaining interest in the entity was recognised at book value. In the remaining three cases (A, D and E), it resulted in a derecognition of goodwill as required by IFRS 10 paragraph 25.

165. In two cases (issuer A and E), components of OCI were recycled into P&L due to the change of interest. There was no recycling in case D because there was no amount of OCI previously recognised that could be recycled.
166. ESMA deems that for cases of change from control to financial asset, the requirements of the standard (IFRS 10 paragraph 25) are generally sufficiently clear.
167. In one case, the transaction resulted in a change from financial instruments to equity accounted investee (issuer C) accounted for under IAS 28.
168. In four cases, the transaction resulted in equity accounted investees acquiring control of the investee (issuers F/G/H/I). ESMA believes that IFRS 3 paragraph 41 and 42 provide sufficient guidance for the remeasurement of interests where the increase in interest results from business combinations (issuers F/G/H). In all four cases the issuers applied the required accounting treatment. In ESMA's view the Standards provide sufficient guidance for the changes in ownership observed in these circumstances too (from control to JV and from JV to control).
169. In one case the transaction resulted in the issuer acquiring control of a previous interest in a joint operation (issuer J). A gain and an increase in goodwill resulted from the change in ownership. In addition, additional assets and liabilities were recognised. Enforcers determined that the information provided by the issuer about the change in ownership interest and its impact was boilerplate and more information about the termination of the joint operation agreement would have been appropriate. Enforcers also note that IFRS 11 paragraph 21A refers to acquiring interest in a joint operation assuming that acquirer will continue to account for a joint operation (additional interests); however, there is no guidance in cases such as the one at hand where the issuer has acquired additional interests which result in control of a subsidiary.

Evidence from enforcement activity

170. ESMA noted in the course of enforcement activities that, whilst guidance is clear with regards to some fact patterns, there is a lack of guidance with regards to others, such as:
- a parent losing control of an entity and obtaining joint control of this entity, when the joint arrangement is a joint operation (how to measure the retained interests),
 - a joint operation becoming an associate,
 - a financial instrument becoming an equity accounted investee.
171. ESMA recommends that the IASB provides further guidance on all possible fact patterns, the lack of which currently creates divergence in issuer's accounting treatment and lack of comparability for users.
172. ESMA also suggests that the interaction between IFRS 5 *Non-Current Assets held for sale* and IFRS 10 could be further explored. ESMA noted in one case discussed at EECS that there is uncertainty on the accounting treatment of loss of control due to unexercised call options that trigger a deconsolidation of subsidiaries. In particular ESMA noted that the

loss of control resulting from the expiration of call options is not explicitly foreseen in IFRS 5, and some additional guidance about “deemed disposal” could contribute to the consistent application of these requirements. In addition, further guidance could be provided on the presentation of NCI related to a disposal group/discontinued operation.

173. In addition, ESMA notes that the requirements in IFRS 10 paragraph B97 stating that 'a parent might lose control in two or more arrangements (transactions)' is not a general principle. The standard indicates that 'sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction', but this is only referenced with respect to loss of control. It is not referenced (for instance) for gaining control. ESMA suggests that the IASB considers whether the same principle could be relevant also for acquisition of additional interests.

174. Finally, the standard is not clear about the nature of the gains or losses that need to be recorded when a parent entity loses control of a subsidiary, so that entities could account for these transactions in different ways, losing consistency and comparability among issuers (net operating income, financial results, net income from investments accounted for using the equity method...).

Conclusions for issuers

175. Relating to those transactions clearly covered by IFRS, enforcers found a high level of compliance with the requirements for accounting for changes in ownership interests.

176. ESMA also welcomes the fact that sufficient disclosures are provided by issuers with regards to the accounting treatment applied when the standards are not clear or contain limited or no guidance.

Conclusions for the IASB

177. ESMA found that further guidance should be provided to clarify the accounting treatment for several patterns of changes in ownership. ESMA notes that at the moment that the current lack of guidance results in diversity in practice.

178. In addition, further guidance would be helpful with regards to the interaction between IFRS 5 and IFRS 10 and the nature of the gains or losses that need to be recorded when a parent entity loses control of a subsidiary.

179. Furthermore, ESMA suggests that the IASB considers whether it would be relevant to expand the principle that the multiple arrangements should be accounted for as a single transaction also to the acquisition of additional interests.

g. Accounting for the sale of a single asset entity

Relevant requirements

180. In 2019, the IFRS Interpretation Committee received a submission about whether an entity shall apply requirements in IFRS 15 or IFRS 10 paragraph B98 if an entity, as part of its ordinary activities, enters into a contract with a customer to sell real estate through selling the equity interest in a single asset entity that is a subsidiary and how the resulting gain or loss should be presented.
181. The IFRS IC staff analysed that IFRS 15 scopes out contracts with customers that fall within the scope of IFRS 9 or IFRS 10 and as such the entity shall account for the transaction under IFRS 10 — i.e. loss of control of a subsidiary. Based on the analysis of consistency with similar requirements in other Standards, the staff analysed that the resulting gain or loss from the transaction shall be presented as net in one line item in the statement of profit or loss instead of component parts of the gain or loss in separate lines.
182. However, ESMA observed that in practice many companies are not following the same treatment as in the staff analysis since preparers of financial statements tend to “see through” the corporate wrapper and focus on the substance of the transaction – i.e. disposal of the real estate in the ordinary course of business. Furthermore, the different accounting outcomes for acquisition of these subsidiaries with real estate (treated as asset acquisition) and disposal may not reflect the economic substance of the transaction or provide useful information to users.
183. ESMA investigated how in practice European issuers apply the existing provisions and whether those allow to properly reflect the arrangements in place and therefore the effectiveness of the existing requirements.

Evidence from the reviews

184. For this subtopic, ESMA reviewed the financial statements of six issuers whose ordinary activities involve the construction of large single assets held in entities (SPEs, or corporate wrappers) with the purpose of selling these SPEs to customers. All six reviews were based on interactive examinations.
185. In all six cases the SPEs were consolidated. The type of assets being constructed or resold were residential estate, solar parks or wind parks. In four cases, the entities also contained other assets or liabilities and were considered businesses as defined in IFRS 3. In the remaining two cases, the entities only contained a single asset which was not considered a business as per IFRS 3 (and this fact was disclosed).
186. Assets were transferred to the entity (i.e. the SPE) sometimes at the commencement of construction (two issuers), sometimes immediately before completion of the underlying asset (one third of issuers) and sometimes it was not clear from the accounts (one third of issuers). Therefore ESMA observed that the transfer of asset happened at different points in time.
187. One issuer applied IFRS 10 and presented the amount received from the sale as gross. Five issuers applied IFRS 15 to the transaction which transferred the assets to the customer. Two of them presented the gain/loss from selling the SPEs gross; the other 3 as either gross or net, depending on the transactions. A gross amount was used for instance

when the asset was classified as inventory (then the amount received for the sale was registered as revenue and the change in inventories as an expense) or when the sale occurred at an initial stage of construction and the issuer recognised revenue according to the "input-based method" (recognising ordinary revenue based on the efforts or costs that the group has allocated to meet the performance obligation in relation to the total costs planned to meet the performance obligation). A net amount was used when the asset was classified as property, plant and equipment (the difference between the amount of the sale and the asset's book value was recorded as "gains or losses on disposal of non-current assets" within the operating result).

188. The reasons for presenting the gain/loss gross or net cited by issuers was substance over form, application of IFRS 15 or a mixture of IAS 8 and IFRS 15.
189. Whenever the gross presentation was chosen, the proceeds from selling the SPE were presented in revenue. Furthermore, assets in unsold entities were, in all cases, presented in inventories in the consolidated financial statements. Half of the issuers retained interest in the SPE after the sale.
190. Enforcers note that the gross presentations provide more useful information than the net presentations (sale of shares) and that net presentation generally entails that more detail be provided in the notes. However, the issuer needs to carefully disclose the judgement it has made with regards to measuring the revenue from the transactions.

Evidence from enforcement activity

191. Evidence from enforcement activity was consistent with the findings of the reviews. In the case of issuers which develop and sell single asset entities to investors/customers and where the substance of the transaction is a sale of property, ESMA agrees with issuers that a faithful representation of the effects of transactions means that the turnover should include the entire turnover generated by the sales of controlled projects irrespective of the legal form of the transaction. In ESMA's view the accounting treatment in accordance with IFRS 10 for single-asset entities often does not reflect the economic reality of these transactions.
192. In addition, ESMA notes that the interaction between IFRS 10 and IFRS 16 with respect to corporate wrappers (the sale of an entity containing a fixed asset and the subsequent leaseback) warrants further clarification and welcomes the conclusions of the IFRS IC February 2021 in these regards.

Conclusions for issuers

193. ESMA believes that there were no indications that the accounting treatment adopted by issuers is not adequate to reflect the business model of the entity and that disclosures are sufficient to explain the choice made.

Conclusions for the IASB

194. ESMA notes that the accounting treatment adopted by issuers in most cases did not correspond to discussions of the IFRS IC staff in 2019.

195. ESMA thinks that the IASB should ensure that the applicable treatment under IFRS 10 reflects the substance of the transactions and allows issuers to apply IFRS 15, IFRS 16, IAS 40 or IAS 16 in the case of a sale of single asset entities. This would promote more consistency, also with regards to the net or gross presentation of the sale of subsidiaries which are single asset entities through selling their equity interest and with regards to the timing of revenue recognition.

h. Disclosures

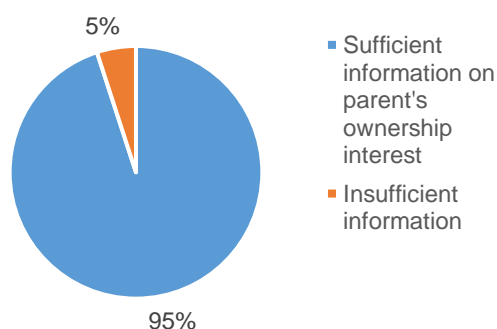
Relevant requirements

196. IFRS 12 paragraphs 4 and B2 to B6 require that issuers strike a balance between providing detail and not obscuring information - issuers shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of large amount of insignificant detail or the aggregation of items that have different characteristics.
197. IFRS 12 paragraphs 10 and 12 furthermore require that the issuer provide the information in a way that allows the user to understand the composition of the group and the interest that non-controlling interests have in the group's activities and cash flows.
198. The IFRS IC January 2015 Agenda Decision clarified that this judgement should also be made separately for each subsidiary or subgroup that has a material non-controlling interest.

Evidence from the reviews

199. In order to look into this subtopic, ESMA reviewed 54 financial statements, of which 42 had already been reviewed under subtopics a to g and 12 were additional financial statements not reviewed for other subtopics. Of these, 29 were desktop reviews and 25 were interactive examinations.

Figure 14: Sufficiency of information on variations in the parent's ownership interest



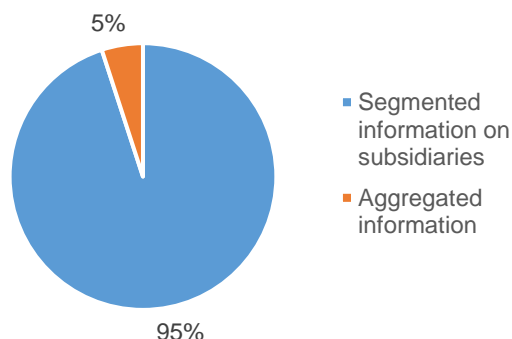
all.

200. In the sample under review, 44 issuers had material interests in subsidiaries, 28 in joint ventures, 11 in joint operations, 28 in associates, 11 in consolidated structured entities, 10 in unconsolidated structured entities.

201. With regards to variations in the parent's ownership interest occurred over the reporting year, over 90% of issuers disclosed sufficient information, with only a small minority (2 issuers in total) disclosing boilerplate information or no information at

202. Similarly, all except for 2 issuers present information separately for material interests in subsidiaries, joint ventures, joint operations, associates and/or unconsolidated structured entities.

Figure 15: Presentation of information on interests in subsidiaries

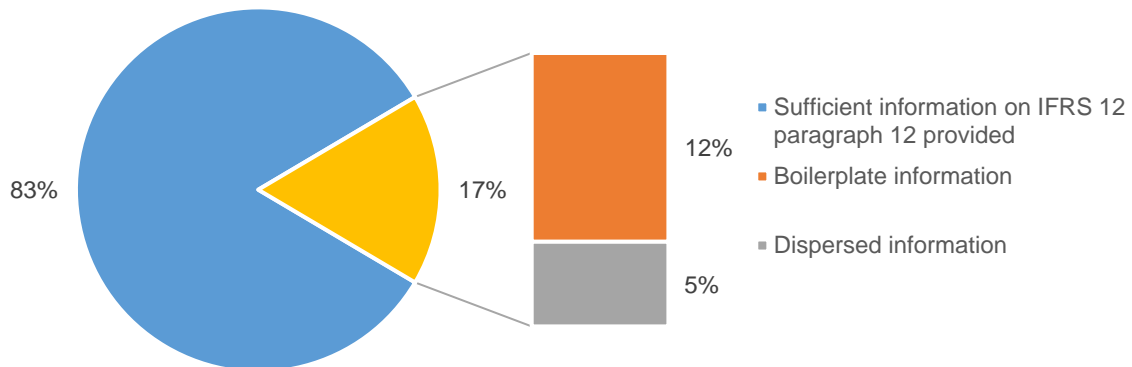


203. Whilst the large majority (87%) of issuers disclosed summarised financial information for subsidiaries that have non-controlling interest as defined in IFRS 12 paragraph 12(g), joint ventures and associates (IFRS 12 paragraph 21) that are material on an individual basis, a few (13%) omitted some or all of the required information. In addition, 31% of issuers aggregate other information on the basis of classes of interest defined in IFRS 12 paragraph B4, 57% only present information on an individual basis, whilst 12% have a mixed approach thus aggregating individually immaterial interests and disclosing those material on an individual basis.

204. Only a small minority of issuers (between 10% and 20%) disclosed the aggregation criteria they used (such as those indicated by paragraph B6) for their materiality assessment for subsidiaries, joint ventures or associates and only one entity disclosed the materiality assessment made to determine that an entity (a subsidiary) was not significant to the reporting entity on an individual basis and therefore its information was presented in aggregate. Only a small minority (11%) of the issuers disclosed the judgements made in determining the level of disaggregation of the information provided in order to best meet the disclosure objective of IFRS 12 paragraph 10. ESMA had no indications that the disclosures provided were not adequate or insufficient. ESMA reminds issuers of the need to consistently apply the overarching materiality principle, with regards to both quantitative and qualitative disclosures.

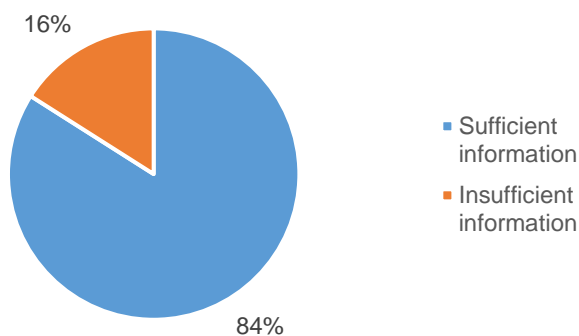
205. Of the 19 entities under review which have subsidiaries with non-controlling interests that are material to the entity, 17% do not disclose all information required by IFRS 12 paragraph 12 or provide information in a way that does not allow users to understand the composition of the group and the interest that non-controlling interests have in the group's activities and cash flows. In some cases, the information was dispersed within different notes and annexes which makes it difficult to use.

Figure 16: Disclosure on IFRS 12 paragraph 12



206. Half of the issuers disclosed that the amounts are presented before inter-company eliminations (IFRS 12 paragraph B11).

Figure 17: Disclosure on nature and extent of significant restrictions on ability to access or use the assets and settle the liabilities of the group as required in IFRS 12 paragraph 13



207. European enforcers did not identify any instances of issuers not disclosing the nature and extent of significant restrictions (statutory, contractual, regulatory) on their ability to access or use the assets and settle the liabilities of the group (IFRS 12 paragraph 13). In a few cases (16%), the disclosure provided was deemed to be insufficient / boilerplate.

208. Finally, around 20% of issuers provided additional information not required by IFRS 12 paragraph 3, in most cases with regards to the allocation of NCI by operating segment as defined by IFRS 8. ESMA welcomes such additional disclosures which is helpful for providing a better picture of the issuers' interests in other entities, enabling users to evaluate the nature of risks associated with these interests and the effects of those interest on its financial position, financial performance and cash flows. ESMA thinks that the IASB should specifically require such disclosure from issuers.

Evidence from enforcement activity

209. Evidence from enforcement activity highlights that a number of disclosures required by IFRS 12 need to be provided only when they are "material to the reporting entity" (IFRS 12 paragraph 12 and IFRS 12 paragraph 21).

210. ESMA noted that materiality principles are sometimes not applied consistently, which means that financial statements fall short of providing adequate transparency to users. ESMA urges issuers to apply the materiality principle consistently, disclosing the quantitative and qualitative criteria considered by the issuer in order to understand those situations where a part of the information is provided on an individual basis, in an aggregate amount or not provided.

Conclusions for issuers

211. ESMA notes that the sample of issuers suggested that there was a high level of compliance with the existing IFRS 12 disclosure requirements.

212. However, ESMA observes that issuers do not always provide sufficient or entity-specific information about the significant judgements and assumptions (and changes to those judgements and assumptions) made in determining that they have control or joint control. ESMA urges issuers to pay due consideration to the requirements of IFRS 12 paragraph 7(a).

213. ESMA recommends that issuers apply consistently the materiality principles, including (but not limited to) the criteria used to aggregate interests which are material to the entity on an aggregate basis.

214. Furthermore, ESMA reminds issuers that boilerplate disclosures which are not specific to the circumstances of the issuer do not meet the requirements of IFRS 12 paragraph 10 to provide information in a way that allows users to understand the composition of the group and the interest that non-controlling interests have in the group's activities and cash flows.

Conclusions for the IASB

215. As discussed in previous sections of the report, ESMA thinks that the applicable paragraphs of IFRS 12 related to disclosures regarding subsidiaries, joint arrangements and associates are generally clear and that the accounting outcome provides an appropriate depiction of the group's structure.

216. However, as noted in paragraph 158, ESMA encourages the IASB to strengthen the disclosure requirements with regards to JOs, which are currently very limited compared to those for JVs.

217. Furthermore, as noted in paragraph 127, ESMA recommends that the IASB proposes improvements to IFRS 12 to require investment companies to provide more information about their interests.

218. Finally, ESMA recommends that the IASB consider requiring the disclosure of the allocation of NCI by operating segment by all issuers.

7 Next steps

219. ESMA expects issuers and their auditors to consider the findings of this review when preparing and auditing the financial statements. ESMA expects European enforcers to take or to have already taken appropriate enforcement actions whenever material misstatements are identified. ESMA and European enforcers will monitor the progress of those actions.

220. ESMA also aims with this Report to contribute to the IASB's outreach activities in the context of the PIR on IFRS 10, 11 and 12. The findings of this Report are shared with the IASB as part of ESMA's input to the RFI.