Brussels, 10th May 2021

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**EACB comments on IASB Post-implementation Review**
**IFRS 10 Consolidated Financial Statements**
**IFRS 11 Joint Arrangements**
**IFRS 12 Disclosure of Interests in Other Entities**

## General comments

The EACB welcomes the opportunity to comment on the IASB Request for Information (RFI) on the Post Implementation Review (PIR) for IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities.

While we understand that there is a need to have some experience with the standards before setting out a PIR, we would like to express our regret as to the RFI being launched seven years after the implementation of the standards in question (in the EU). From our perspective, this is far too late as institutions, since the implementation, had to adjust to the standards, even though they still can be improved in many ways.

## Need to reconsider the reintegration of proportional consolidation (IFRS 11)

For members concerned by the application of IFRS 11, one of the main consequences of the implementation of the standard resulted in most of the investments, formerly integrated proportionally, to be currently accounted using the equity method (IAS 28).

In fact, the application of the proportional consolidation is today too restrictive as very few investments actually satisfy the definition of a joint operation. On top of this, it has caused an increase in use of IAS 28 where different practices are observed in the application of this standard. In this regard, we wonder whether the Board expressly and fully intends restricting the use of the proportional consolidation and whether it had anticipated such consequences.

For financial institutions the application of the proportional consolidation leads to a more meaningful financial information. Especially for jointly owned investments that operate within the same sector. For instance, jointly owned retail banks do not satisfy the definition of a joint operation. These investments are accounted for using the equity method. The key question is how their recognition on a single line represents valuable and pertinent information for stakeholders. We would find more appropriate to take into account the share of assets and liabilities on the books and to recognize the performance and the cost of risk within the P&L. We would also highlight that these indicators (i.e. performance and cost of risk) are sensitive information that is thoroughly monitored by stakeholders, especially in the context of COVID-19.

In addition, the factual end of the proportional consolidation creates a burdensome divergence with the banks' regulatory framework. Indeed, the Capital requirements regulation (CRR) requires for the purpose of prudential consolidation the application of the proportional consolidation according to the share of capital held in institutions and financial institutions.

All things considered, we are absolutely convinced that proportional consolidation is a virtuous way to enhance the transparency and the accuracy of banks' financial statements. Furthermore, we do not believe that, to enhance the transparency and the accuracy of financial statements in this regard, additional information needs to be disclosed. Since the approach chosen was to limit the use of the proportional


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consolidation, and were such choice to be retained in the future, this should not be compensated by disclosures on amounts that would be in the consolidated financial statements had the proportionate consolidation been applied. Requiring more disclosures cannot make up for unsatisfactory recognition or measurement principles.

**Control – the link between power and returns (IFRS 10)**

We believe that the guidance in IFRS 10 to assess whether a decision maker acts as an agent or a principal is relevant and works well overall. Institutions have by now developed their own internal guidance in accordance with it.

The main concern thus relates to the accounting implications of the control of the funds they manage. Where the control is established, there is no half-measure. Financial institutions recognize fund's shares on a 100% basis at fair value with an offsetting entry for the minority interests in liabilities. This accounting outcome is maintained in regulatory accounts with penalising impacts on solvency and leverage ratios.

Because of the analysis of the aggregate economic interest, there are situations where fund managers are sometimes presumed to act as a principal even though financial institutions own a low share of interest in it (for instance between 20-25%). In these situations, we do not feel confident with this accounting outcome leading to recognize the fund's shares at 100%.

In para. 19 we note how the Board rightly concluded that "*the use of judgement in determining if an investor controls an investee is necessary and appropriate.*" This approach should be properly reflected, even though at the same time and on a more general basis, we have doubts about the overall treatment of these vehicles under IFRS 10.

**IFRS 12 Disclosure of Interests in Other Entities**

We believe that IFRS 12 provides useful information. We have not identified concerns regarding the way IFRS 12 is implemented. Our members have not flagged issues regarding missing information, or information provided that is not useful at all.

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