ASC
ACCOUNTING STANDARDS COUNCIL
SINGAPORE

5 May 2021

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

(By online submission)

Dear Hans

RESPONSE TO REQUEST FOR INFORMATION ON POST-IMPLEMENTATION REVIEW OF IFRS 10 *CONSOLIDATED FINANCIAL STATEMENTS*, IFRS 11 *JOINT ARRANGEMENTS* AND IFRS 12 *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

The Singapore Accounting Standards Council (ASC) appreciates the opportunity to comment on the Request for Information on Post-Implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* (the RfI) issued by the International Accounting Standards Board (the IASB or the Board) in December 2020.

We are supportive of the objective and timing of the Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12 (the PiR). Those Standards introduce significant changes to group reporting, ranging from how an entity determines control of subsidiaries and accounts for joint arrangements, to what information an entity discloses about its interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Standards also require the use of significant judgement for less straightforward fact patterns. In our view, the Standards have been implemented over a sufficient number of reporting periods to allow practice and experience to develop in applying and enforcing the requirements, and in analysing the financial information that entities provide applying the requirements.

Based on feedback received from our constituents, there is general support for the control model that IFRS 10 prescribes as the basis for consolidation, the principle in IFRS 11 that the accounting for joint arrangements should reflect the rights and obligations of the parties to an arrangement, and the additional disclosures required by IFRS 12. While the use of judgement in applying principles-based accounting requirements is both necessary and appropriate, there are concerns about the significant level of judgement required in applying those requirements

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in some situations and the inconsistent outcomes that may result from the different judgements applied.

This letter provides comments on specific questions in the RfI to which feedback has been received from our constituents. Those comments are formulated based on the feedback received and do not purport to represent the views of the Singapore ASC.

Question 1: Your background
To understand whether groups of stakeholders share similar views, the Board would like to know: (a) your principal role in relation to financial reporting. Are you a user or a preparer of financial statements, an auditor, a regulator, a standard-setter or an academic? Do you represent a professional accounting body? If you are a user of financial statements, what kind of user are you, for example, are you a buy-side analyst, sell-side analyst, credit rating analyst, creditor or lender, or asset or portfolio manager? (b) your principal jurisdiction and industry. For example, if you are a user of financial statements, which regions do you follow or invest in? Please state whether your responses to questions 2–10 are unrelated to your principal jurisdiction or industry.

The Singapore ASC is the independent national accounting standard-setter appointed under Statute in Singapore. Singapore has adopted the accounting requirements in IFRS 10, IFRS 11 and IFRS 12 without modification.

In formulating this letter, we have sought feedback from respondents in Singapore representing the following groups: academics, auditors, investors, preparers and regulators. The responses to the questions below do not relate to a particular industry, unless otherwise specified.

Question 2(a): Power over an investee—Relevant activities
In your experience: (i) to what extent does applying paragraphs 10–14 and B11–B13 of IFRS 10 enable an investor to identify the relevant activities of an investee? (ii) are there situations in which identifying the relevant activities of an investee poses a challenge, and how frequently do these situations arise? In these situations, what other factors are relevant to identifying the relevant activities?

An investor is able to identify the relevant activities of an investee applying paragraphs 10–14 and B11–B13 of IFRS 10 in most cases where all activities that significantly affect an investee's returns are directed by the same investor(s). This often occurs when those activities are directed through voting rights and there are no additional arrangements that alter decision making.

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However, applying those paragraphs may lead to inconsistent conclusions on the relevant activities in some cases, particularly when two or more investors each have the current ability to unilaterally direct different relevant activities of an investee. For example:

(a) In such cases, it is not always practicable to identity which activities most significantly affect the investee's returns. The assessment involves added complexity when different activities affect the investee's returns to different extent before and after a particular set of circumstances or events. The application of judgement by different investors can lead to inconsistent conclusions for similar fact patterns.

(b) In some of such cases, the relevant activities that most significantly affect the investee's returns cease after the occurrence of a particular set of circumstances or events, while another set of relevant activities remains or commences after those circumstances or events. If different investors have the current ability to unilaterally direct their respective set of relevant activities when decisions about those activities need to be made, it is unclear whether the assessment of which investor has power over the investee should take into consideration all future time periods, or only the time periods up to the occurrence of those circumstances or events and at that point a re-assessment should be made.

Significant judgement is also involved in identifying the relevant activities when assessing whether a collaborative arrangement is a joint arrangement. An identification of relevant activities can be more complex when various parties contribute to different aspects of the arrangement, and different activities of the arrangement require approvals from different parties. Determining the relevant activities, and whether decisions about those activities require the unanimous consent of a group of parties, affects the conclusion of whether the arrangement is a joint arrangement and therefore accounted for differently from other collaborative arrangements.

Our stakeholders did not comment on how frequently the situations as described in question 2(a)(ii) arise.

Question 2(b): Power over an investee—Rights that give an investor power
In your experience: (i) to what extent does applying paragraphs B26–B33 of IFRS 10 enable an investor to determine if rights are protective rights? (ii) to what extent does applying paragraphs B22–B24 of IFRS 10 enable an investor to determine if rights (including potential voting rights) are, or have ceased to be, substantive?

Applying paragraphs B22–B24 and B26–B33 of IFRS 10, an investor may have difficulty determining whether rights held by the investor and others are substantive or protective in the below cases:

(a) Shareholders often have rights under a shareholders' agreement to approve budgets of an investee. It is sometimes challenging to determine whether the shareholders' budget-approval rights are substantive. In practice, the assessment includes the following considerations: whether the budgets cover the investee's relevant activities and in sufficient level of detail; whether the shareholders have challenged previous budgets and what practical method of resolution has been taken; the consequences of budgets not being approved; whether the investee requires the specialised knowledge of its operator and/or key management personnel to draw up the budgets; which party appoints and terminates the service and/or employment of the investee's operator and/or key management personnel; and whether the shareholders have practical involvement in the investee's business and the level of involvement.

(b) An investor may be required by laws and regulations to abstain from voting on an investee's transactions that are commonly known as interested or related person transactions. In some cases, the investee's activities are significantly affected by, or dependent on, such transactions. In practice, those laws and regulations are viewed as being designed to protect other shareholders, and therefore, do not prevent the investor from having power over the investee. This is the case even if the interested or related person transactions substantially relate to the investee's relevant activities.

(c) Other parties may have rights to block decisions that are unfavourable to their interests and those decisions relate to an investee's relevant activities. In such cases, it may be challenging to distinguish protective rights that relate to fundamental changes to the investee's activities and protect the interests of their holders, from substantive rights that block decisions relating to the investee's relevant activities and prevent an investor from controlling the investee.

(d) A franchisor has rights under a franchise agreement to make decisions that may significantly affect a franchisee's returns. Examples of those decision-making rights include: determining or changing the franchisee's operating policies; setting selling prices; selecting suppliers or purchasing goods and services; selecting, acquiring or disposing equipment; appointing, remunerating or terminating the employment of key management personnel; and financing the franchise. When the franchisor's decision-making rights relate to the franchisee's relevant activities, it may be challenging to distinguish protective rights that protect the franchise brand, from substantive rights to direct activities that significantly affect the franchisee's returns.

(e) An investee that is under financial distress may go through various stages before undergoing liquidation: breach of debt covenants, entity-initiated debt renegotiation, creditor or court-directed debt restructuring and moratorium, receivership and administration. It may be difficult to determine at which point an investor loses power over the investee in accordance with the laws and regulations in different jurisdictions. Moreover, a creditor may have a range of rights arising from debt covenants that were previously determined to be protective, and it may be judgemental in determining which of those rights can provide the creditor substantive rights sufficient to give it power over the investee's relevant activities when there is a breach of debt covenants.

In addition, applying paragraphs B47–B50 of IFRS 10 relating to potential voting rights may lead to inconsistent outcomes. An investor is required to consider the purpose and design of the instrument, including an assessment of the various terms and conditions of the instrument as well as the investor's apparent expectations, motives and reasons for agreeing to those terms and conditions. For a potential voting right to be substantive, paragraph B22 of IFRS 10 requires the holder to have the practical ability to exercise that right. The holder does not need to have an expectation or intention to exercise that right. Therefore, it is unclear to what extent an investor should consider its expectations and motives, together with its intention to exercise its right, in assessing whether the potential voting rights are substantive rights that give the investor power over an investee.

Question 2(c): Power over an investee—Control without a majority of the voting rights
In your experience: (i) to what extent does applying paragraphs B41–B46 of IFRS 10 to situations in which the other shareholdings are widely dispersed enable an investor that does not hold a majority of the voting rights to make an appropriate assessment of whether it has acquired (or lost) the practical ability to direct an investee's relevant activities? (ii) how frequently does the situation in which an investor needs to make the assessment described in question 2(c)(i) arise? (iii) is the cost of obtaining the information required to make the assessment significant?

Applying paragraphs B41–B46 of IFRS 10, an investor may have difficulty determining whether it has the practical ability to direct an investee's relevant activities unilaterally for various reasons, for example:

(a) There is little guidance on the relative size and dispersion of holdings of the other vote holders that can prove or disprove that an investor has the practical ability to direct an investee's relevant activities unilaterally. Therefore, it can be judgemental determining the point at which an investor's shareholding is sufficient or other shareholders' interests are sufficiently dispersed to conclude that the investor has power, or other shareholders' interests are sufficiently concentrated to conclude that the investor does not have power. Moreover, it can be difficult to determine whether there are any arrangements between vote holders to consult one another or make decisions collectively. In practice, an investor often applies paragraph B46 of IFRS 10 to conclude that it does not have that practical ability, unless the contrary is clear from the relative size and dispersion of holdings of the other vote holders and their past voting patterns (or other facts and circumstances).

(b) An assessment of voting patterns at previous shareholders' meetings may not lead to appropriate conclusions when there are changes in facts and circumstances, for example, when the instruments that confer voting rights are newly traded in a public market, there are changes in vote holders with more than non-substantial shareholdings, or the voting mode or platform changes to broaden access by vote holders. It may be

judgemental to determine at which point changes to the relative size and dispersion of shareholdings significantly reduce the relevance of past voting patterns, or how changes in past voting patterns that were volatile and inconsistent affect the assessment. It may also be judgemental to determine the date on which an investor has acquired or lost control of an investee, if the investor does not know how the vote holders are likely to behave following those changes until it gains experience from shareholders' meetings as time passes.

There is also a view that an investor should not conclude that it has power over an investee solely on the basis of past voting patterns as an evidence of its practical ability to direct the investee's relevant activities unilaterally, when other facts and circumstances are inconclusive of the investor having that power, or not. Past voting patterns are not representative of future voting patterns, and therefore, cannot provide conclusive evidence that the investor has the continuing ability to exercise dominant votes at shareholders' meetings when decisions about the investee's relevant activities need to be made in the future.

Our stakeholders observe that situations are not uncommon in which an investor needs to assess whether it has acquired or lost the practical ability to direct an investee's relevant activities unilaterally. The cost of obtaining the information required to make the assessment can be significant depending on facts and circumstances, as the investor needs to monitor on an ongoing basis the shareholdings and voting patterns of other shareholders, and the interactions between other shareholders.

Question 3(a): The link between power and returns—Principals and agents

In your experience:

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

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

(iii) how frequently do these situations arise?

Applying paragraphs B60 and B62–B72 of IFRS 10 may lead to inconsistent conclusions on whether a decision maker is a principal or an agent. In particular, significant judgement is required in determining the weightings that should be applied to each of the factors on the basis of the facts and circumstances of each case.

Amongst those factors, an assessment of a decision maker's exposure to variability of returns from other interests held in an investee is particularly challenging. Specifically, it is unclear what extent of exposure to variability of returns from other interests would tip the scale to indicate that the decision maker is a principal. IFRS 10 contains application examples that provide conclusions based on different levels of investment, remuneration and removal rights. In practice, those examples have been used to construct various implicit thresholds for

the decision maker's exposure to variability of returns associated with its aggregate economic interest, and the boundary of those thresholds within which the principal-agent assessment would require significant judgement.

Our stakeholders did not comment on how frequently the situations as described in question 3(a)(ii) arise.

Question 3(b): The link between power and returns—Non-contractual agency relationships
In your experience: (i) to what extent does applying paragraphs B73–B75 of IFRS 10 enable an investor to assess whether control exists because another party is acting as a de facto agent (i.e. in the absence of a contractual arrangement between the parties)? (ii) how frequently does the situation in which an investor needs to make the assessment described in question 3(b)(i) arise? (iii) please describe the situations that give rise to such a need.

Paragraphs B73–B75 of IFRS 10 provide little guidance on how an assessment of whether a party is a de facto agent of an investor should be made.

The key guidance is that the assessment considers the nature of the investor's relationship with other parties, and how the parties interact with each other and the investor. The assessment can be particularly challenging for the following types of relationships:

(a) Related parties, for example: (i) When two investors under common control each hold an interest in an investee, it is unclear what factors should be considered in determining which investor acts on the other investor's behalf; (ii) when a parent and its subsidiary each hold an interest in an investee, it is unclear whether the subsidiary is necessarily acting on its parent's behalf, and when it is not; and (iii) when a key management personnel of an investor holds an interest in an investee of that investor, it is unclear what factors should be considered in determining when the key management personnel is acting on behalf of that investor, rather than in the capacity as an investor.

(b) Close business relationships: When two investors having close business relationships each hold an interest in an investee, it may be judgemental to determine when and which one of the investors acts on the other investor's behalf. The assessment may require the consideration of those investors' relationships and interactions beyond their interests in the investee.

Our stakeholders did not comment on how frequently the situations as described in question 3(b)(ii) arise.

Question 4(a): Investment entities—Criteria for identifying an investment entity
In your experience: (i) to what extent does applying the definition (paragraph 27 of IFRS 10) and the description of the typical characteristics of an investment entity (paragraph 28 of IFRS 10) lead to consistent outcomes? If you have found that inconsistent outcomes arise, please describe these outcomes and explain the situations in which they arise. (ii) to what extent does the definition and the description of typical characteristics result in classification outcomes that, in your view, fail to represent the nature of the entity in a relevant or faithful manner? For example, do the definition and the description of typical characteristics include entities in (or exclude entities from) the category of investment entities that in your view should be excluded (or included)? Please provide the reasons for your answer.

Applying the definition of an investment entity in paragraph 27 of IFRS 10 does not always capture entities that ought to be included in the category of investment entities. An entity is an investment entity only if it possesses all three elements of the definition. In effect, an entity that is reasonably considered to be an investment entity has a choice of avoiding the accounting requirements for investment entities in IFRS 10, by electing not to measure some investments on a fair value basis in accordance with IFRS Standards, and instead to disclose the fair value information in the financial statements. In doing so, the entity continues to provide fair value information to users of the financial statements, as it does internally to key management personnel to evaluate performance and make investment decisions.

Question 4(b): Investment entities—Subsidiaries that are investment entities
In your experience: (i) are there situations in which requiring an investment entity to measure at fair value its investment in a subsidiary that is an investment entity itself results in a loss of information? If so, please provide details of the useful information that is missing and explain why you think that information is useful. (ii) are there criteria, other than those in paragraph 32 of IFRS 10, that may be relevant to the scope of application of the consolidation exception for investment entities?

For an investment entity parent, applying the fair value measurement does not always provide the most useful information about its investments in the following types of subsidiaries:

(a) Subsidiaries that are not investment entities, but are established solely for legal, tax or regulatory purposes.

(b) Subsidiaries that are investment entities and established as a special purpose vehicle to facilitate the disposal of investments and ease the repatriation of funds, and for risk mitigation purposes.

Similar to subsidiaries as described in paragraph 32 of IFRS 10, such subsidiaries may be seen as an extension of the investment entity parent.

Even if the fair value measurement provides more useful information than consolidation, it may still result in a loss of useful information. This is the case, for example, when investments are held through one or more levels of investment entity subsidiaries, and in particular, when those investment entity subsidiaries incur liabilities to finance their investments, or provide substantial investment-related services to the investment entity or third parties, or both.

In particular, the financial statements of the investment entity parent would provide no visibility about the nature and fair value of the investments held by those subsidiaries, and any liabilities of those subsidiaries, including the information required to be disclosed by IFRS 7 *Financial Instruments: Disclosures*. Similarly, investment income and divestment gains or losses, revenue from investment-related services and the related costs would be reflected as part of a change in the fair value of the investments in the subsidiaries.

There are different views on how the loss of information should be addressed:

(a) The first view is to require the investment entity parent to disclose additional information similar to disclosures that it would have provided applying the disclosure requirements in IFRS Standards on a look-through basis.

(b) The second view is to require consolidation of subsidiaries that are in effect an extension of the investment entity parent, which would be consistent with the concept of a single economic entity.

While an identification of an investment entity on the basis of its business model should be made at the entity level, determining whether the investment entity should consolidate an investee that is an extension of the investment entity could be made at the investment level.

There are different views on whether consolidation should be limited to subsidiaries that are not investment entities, and what criteria should be applied to determine whether a subsidiary is an extension of an investment entity parent, for example:

(a) The purpose and design of the investee. Specifically, whether the investee is established solely for legal, tax or regulatory purposes, or to achieve synergies or economies of scale in the provision of investment-related services that are ancillary to the parent's core investing activities.

(b) Whether the investee is managed by members of the governing body and key management personnel that are substantially the same as those of the investment entity parent. Such an investee differs from the underlying operating entities that are managed by their respective governing body and key management personnel.

Question 5(a): Accounting requirements—Change in the relationship between an investor and an investee
In your experience: (i) how frequently do transactions, events or circumstances arise that: (a) alter the relationship between an investor and an investee (for example, a change from being a parent to being a joint operator); and (b) are not addressed in IFRS Standards? (ii) how do entities account for these transactions, events or circumstances that alter the relationship between an investor and an investee? (iii) in transactions, events or circumstances that result in a loss of control, does remeasuring the retained interest at fair value provide relevant information? If not, please explain why not, and describe the relevant transactions, events or circumstances.

An entity may lose control of a subsidiary, but become a party to a joint operation that is accounted for applying IFRS 11. The entity may, or may not, obtain joint control of the joint operation. For example, a parent may contribute an existing subsidiary that constitutes a business to a joint operation on its formation, and in return obtain joint control of the joint operation. Alternatively, the parent may partially sell its interests in a subsidiary, and enter into a joint arrangement for the former subsidiary that gives the parties to the arrangement rights to the assets and obligations for the liabilities of the joint operation.

IFRS Standards do not specifically address the accounting for transactions in which an entity loses control, and becomes a joint operator or a party that participates in, but does not have joint control of, a joint operation. Two views are being applied in practice: one view is that the retained interest should be remeasured at fair value, while another view is that the retained interest should continue to be recognised and measured at its carrying amount immediately preceding the loss of control.

There is further complication when the entity loses control of a subsidiary through a sale or contribution to a joint operation. The remeasurement requirement in IFRS 10 for a loss of control is viewed as conflicting with the principle in IFRS 11 to recognises a gain or loss on the sale or contribution of assets to a joint operation only to the extent of the other parties' interests in the joint operation. Similar issue is observed for a sale or contribution of a subsidiary to a joint venture or an associate in accordance with IAS 28 *Investments in Associates and Joint Ventures*.

The IASB has decided to consider various issues relating to a sale or contribution of assets between an investor and its joint venture or associate as part of its research project on equity method. The equity method project is in its early stage, and there is uncertainty about whether and when those issues would be resolved by the project. Depending on the feedback received on the PiR, the IASB may instead consider requiring the application of *Sale or Contribution*

of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28), and introducing similar requirements in IFRS 11, as part of a separate standard-setting project to be taken as a result of the PiR.

Our stakeholders did not comment on how frequently the transactions, events or circumstances as described in question 5(a)(i) arise.

Question 5(b): Accounting requirements—Partial acquisition of a subsidiary that does not constitute a business
In your experience: (i) how do entities account for transactions in which an investor acquires control of a subsidiary that does not constitute a business, as defined in IFRS 3? Does the investor recognise a non-controlling interest for equity not attributable to the parent? (ii) how frequently do these transactions occur?

For transactions in which an investor acquires control of a subsidiary that does not constitute a business as defined in IFRS 3 *Business Combinations*, the predominant practice is to apply the requirement in paragraph 2(b) of IFRS 3 and to recognise non-controlling interests for the equity in the subsidiary that is not attributable to the investor/parent. The investor/parent allocates the cost of the group of assets, inclusive of the amount of non-controlling interests recognised, to the individual identifiable assets acquired and liabilities assumed on the basis of their relative fair values at the date of purchase. The non-controlling interests are initially measured on a basis similar to the requirements in IFRS 3 relating to non-controlling interests in a business combination.

Our stakeholders observe that such transactions are not uncommon.

Question 9: Disclosure of interests in other entities
In your experience: (a) to what extent do the IFRS 12 disclosure requirements assist an entity to meet the objective of IFRS 12, especially the new requirements introduced by IFRS 12 (for example the requirements for summarised information for each material joint venture or associate)? (b) do the IFRS 12 disclosure requirements help an entity determine the level of detail necessary to satisfy the objective of IFRS 12 so that useful information is not obscured by either the inclusion of a large amount of detail or the aggregation of items that have different characteristics? (c) what additional information that is not required by IFRS 12, if any, would be useful to meet the objective of IFRS 12? If there is such information, why and how would it be used? Please provide suggestions on how such information could be disclosed.

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

IFRS 12 does not require a joint operator to disclose summarised financial information about each material joint operation, significant restrictions on the ability of its joint operations to transfer funds to the entity, commitments that it has relating to its joint operations, or contingent liabilities incurred relating to its interests in joint operations.

The joint operator's rights and obligations relating to assets, liabilities (including contingent liabilities), outputs and expenses of the joint operation that are held, shared or incurred jointly are different from other rights and obligations. Separate disclosures of those assets, liabilities, profit or loss relating to joint operations, together with the associated restrictions and risks including the joint operator's contingent liabilities relating to other parties' share of liabilities that are incurred jointly, would provide useful information about the financial effects of, and risks associated with, a joint operator's interests in joint operations.

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

Accounting for potential voting rights

An entity may, in substance, have an existing ownership interest as a result of potential voting rights that currently give the entity access to returns associated with an ownership interest.

IFRS 10 does not contain guidance on what types and extent of returns are required to determine that a potential voting right gives the holder access to returns associated with an ownership interest. For example, it is not uncommon for a sale and purchase agreement to contain a forward purchase contract, or either purchased call option or written put option, or both, for the remaining ownership interests in an investee. In some cases, an investor holds convertible debt instruments issued by an investee instead of shares, for the purpose of easing repatriation of funds or tax structuring. In practice, the factors that individually or collectively may evidence access to returns associated with an ownership interest include: the investor's right to receive dividends paid by the investee (including an adjustment to the purchase or exercise price), or prevent dividends from being paid by the investee, either unconditionally or subject to the investor receiving a return at the same rate, until the investor exercises the potential voting right; substantially all variations of the fair value of the ownership interest

accrue to the investor; and the instrument that confers the potential voting right is currently exercisable and deeply in the money.

An additional guidance would help investors to reach more consistent conclusions. Its benefits would outweigh the costs of potential accounting changes as a result of an interaction with the accounting issues associated with derivatives on own equity, which the IASB has decided to address as part of the financial instruments with characteristics of equity project.

Accounting for non-controlling interests

IFRS 10 does not contain requirements on whether a subsidiary's profit or loss and changes in equity should be attributed to the non-controlling interests before or after intragroup eliminations. Both views are applied in practice.

Interaction with different notions of control in IFRS 3

IFRS 3 uses the same notion of control as that in IFRS 10 in the definition of a business combination and in identifying business combinations under common control by another entity. However, for the purpose of determining whether a group of individuals collectively controls an entity as a result of contractual arrangements, IFRS 3 describes control using the definition in the superseded IAS 27 *Consolidated and Separate Financial Statements*, being the power to govern that entity's financial and operating policies so as to obtain benefits from its activities. The different notions of control in IFRS 3 may lead to inconsistent outcomes in determining whether a business combination is outside the scope of IFRS 3, when the power to direct the activities of the combining entities is not obtained by governing the financial and operating policies of those entities.

Accounting for changes in the investor-investee relationship with, or an interest in, a joint operation

IFRS 11 and other IFRS Standards do not specifically address the accounting for the following changes in an investor-investee relationship with a joint operation, or a party's interest in a joint operation:

(a) When a party's new interest is an investment in an associate or a joint venture. In practice, the party generally accounts for the change by: derecognising assets and liabilities previously recognised in accordance with IFRS 11; and recognising an investment in an associate or a joint venture in accordance with IAS 28. However, there are different views on whether the previously held interest in the joint operation should be remeasured in determining the cost of that investment on initial recognition.

(b) When a party loses joint control of a joint operation, but continues to participate in the joint operation and have rights to the assets and obligations for the liabilities relating to the joint operation. It is unclear whether the party should apply the requirements in paragraph B33CA of IFRS 11 by analogy.

(c) When a party reduces its interest in a joint operation without a change in the investor-investee relationship, and retains its rights to the assets and obligations for the liabilities relating to the joint operation. In practice, the party generally accounts for the change by: derecognising the relevant portion of the assets and liabilities relating to the joint operation; measuring any consideration received at fair value; and recognising the resulting gain or loss, without remeasuring the retained interest in the joint operation.

Similarly, IFRS 11 and other IFRS Standards do not specifically address whether any previously held interest should be remeasured when an investor becomes a party to a joint operation, and has rights to the assets and obligations for the liabilities relating to the joint operation.

We hope that our comments will contribute to the IASB's deliberation on the PiR. Should you require any further clarification, please contact our project managers Siok Mun Leong at Leong_Siok_Mun@asc.gov.sg or Yat Hwa Guan at Guan_Yat_Hwa@asc.gov.sg.

Yours faithfully

Suat Cheng Goh
Technical Director
Singapore Accounting Standards Council